

ALASKA LEGISLATURE SPECIAL COMMITTEE / SUBJECT FILES 8672

536 SCOMM16: JOINT SPEC. COMM. ROYALTY OIL & GAS 1977-78

Commission still believe these
increases to be accurate in
light of the added 20¢?
Where are the figures and
computation to arrive at
the 2-5¢/14¢/month charge?

P10

The Order requires that if the
royalty clause was not used
to reflect an average cost
on or before August 1, 1976
(as, of course, it wasn't),
the Commission would commence
an investigation to determine
"... whether the (royalty) clause
should be deleted from the
tariff of ASHS." This apparently
never happened. The APCU was
approved by ASHS of the
"difficulties" they were having
getting the gas to shore (Sept.
29, 1976) with Phillips asking
that ASHS fund the first
phase of a compressor station
on Phillips' platform at a
cost of \$5M as a condition

to delivering the royalty go to shore. AGHS counked with a pro-rated share of compression costs based on volume and a couple of other concessions (when and as available delivery, and "molding" excess royalty go back to Phillips). Since the APUC apparently did not pursue the matter it is not known to what extent they were aware of the added costs which were required to get the gas to shore. AGHS discouraged the APUC "to develop 'a complete record' of the negotiations (between AGHS and Phillips) for the Commission's files...". AGHS was agreeable to informal discussions with the APUC. In that same context AGHS does state that they "... (clearly need to preserve the flow through provision in order to continue ... negotiations (with Phillips). It looks as if APUC dropped the ball somewhere along the line

to stay on top of fluid as it developed.

- 1 Phillips has a contract with Tokyo Gas and Tokyo Electric which expires 6/1/84 which is supplied from the North Cook Inlet gas field (including the State's 1/8 royalty share).
- 2 Fackler suggest in his November 19 draft memo that the contract term for the State should not exceed the Phillips contract terms above (which, I guess, means that the commitment of our royalty gas should not run beyond 6/1/84), and that contract terms for the State should also include a provision to protect the State if Phillips' production is terminated for any reason.
- 3 Fackler's memo of November 19 indicates that APC expected to pay its proportionate share of additional transportation or compression costs either in the form of contributing capital or paying higher transportation charges per Mcf or month (or terminating the taking of royalty gas within one year - draft of proposed sales agreement, dated 12/7/75).
- 4 November 19 memo mentions that Phillips had raised the issue of the APUC classifying their pipeline (from platform to LNG plant) as a utility (if it transports gas for a third party (APC), and that Phillips would not transport the gas if they came under APUC jurisdiction.
- 5 The draft for a proposed North Cook Inlet royalty gas sales agreement, dated 12/7/75, stipulates that neither Phillips (nor Union) shall come under APUC or any other regulatory authority as a result of the sale of royalty gas to APC. If regulatory jurisdiction were ever asserted or implemented the agreement would be terminated.
- 6 The "Memorandum of Understanding" draft (12/7/75) states that "APC will receive the State royalty gas only to the extent it may be available without additional investment for transmission (or compression) by Phillips..." This is subsequently qualified by providing that if any investments were necessary to allow for continued delivery of the State's royalty gas APC would have the option
 - a to participate equitably in such an investment, or
 - b to pay a mutually acceptable price per Mcf or per month, or

c. to terminate the agreement to take the State's royalty gas.

(See Fackler's November 19th memo which also covers this).

7 Phillips (John Horn) stated the following "complicating matters" in this letter of January 9, 1976 to APC.

a. That while a 5.55¢/Mcf figure has been used to establish the wellhead value for purposes of paying royalty and taxes, it did not represent the appropriate differential (transportation and compression). They did not say what the appropriate figure was or should be.

b. That neither Phillips nor any of its facilities could be subjected to the possibility of being classified as a public utility by the APUC, and that without an assurance to that effect no agreement would be entered into.

c. That the "exchange" of gas from the North Cook Inlet field with gas from the Kenai gas field, suggested by APC, would have to be worked out between APC and Marathon, and Phillips would not be a party to such an arrangement.

8 APC advised Union, Marathon and Phillips on December 12, 1975 that the Royalty Board at their December 10 meeting had authorized the Commissioner of NR to negotiate the sale of North Cook Inlet gas field royalty gas to APC.

9 The December 10 Royalty Board vote on the above was unanimous, although Arlon Tussing raised the question whether APC had tried hard enough to get gas elsewhere. As a result APC then asked Union and Marathon (their December 12, 1975 letters) if they were willing to offer APC like "deals" as the royalty gas they were negotiating for; ie.,

50 Bcf to June 1, 1984

15 MMcf/day; take or pay at 10MMcf/day

55.8¢/Mcf (50.25¢/Mcf + 5.55¢/Mcf for transportation)

10 Marathon declined (December 19, 1975), but came up with a proposal for a short-term contract similar to their existing contract for an additional supply of gas (up to 5 Bcf) for one year/ ^{or} to May 1, 1978 whichever occurred first at a price

of 55.8¢/Mcf.

- 11 APC's letter of 2/3/76 indicates that they now felt that they would have to build their own pipeline from the LNG plant to their pipeline rather than to rely on "paper exchanges" as suggested earlier.
- 12 This they argued would ~~required~~ a longer term though (the Royalty Board had proposed a seven year period to June 1, 1984) since it would be impractical for APC to amortize a pipeline over such a short time. They asked to receive a contract for royalty gas for the life of production from the North Cook Inlet gas field. (2/3/76).
- 13 Homer Electric Association also applied for the North Cook Inlet gas field royalty gas (February 23 Royalty Board meeting - APC letter to Homer Electric Association of 2/25/76, letters from APC to Guy Martin of 2/27/76 and 3/9/76 - Also see Homer Electric File on this). Phillips also applied for the North Cook Inlet field royalty gas, as did Pacific Alaska LNG. (Letter of Guy Martin to APC dated 3/17/76).
- 14 Homer Electric Association was subsequently made an offer by K.U.S.Co for needed gas at a considerably lower price than the royalty gas price being then considered. 48.24¢/Mcf vs. 55.8¢/Mcf. However, HEA did re-enter the picture later. (See File).
- 15 An undated memo entitled "Commissioner's Proposal in Concept" states that APC would be responsible for measurement costs, and any compression or dehydration costs if or when necessary.
- 16 As of APC's letter dated 4/9/76 they intended to build a pipeline from the P-M LNG plant to their existing Anchorage line.
- 17 A contract (76-1) was executed between the Royalty Board and APC on 6/4/76 with provisions shown in Appendix "A".
- 18 Since under the above contract APC would have to take the royalty gas at the wellhead, a suggested gas gathering agreement between APC and Phillips provides that unless the contract between the State and APC is amended to accommodate Phillips, the "agreement" between APC and Phillips could be terminated. (Page 11 of the Gas

Gathering Agreement between APC and Phillips; last paragraph).

19 The Gas Gathering Agreement between APC and Phillips provides for and states among other things that

- a. APC will accept delivery of the royalty gas at or near the wellhead.
- b. Phillips is willing to gather the royalty gas for APC and deliver it at a mutually agreeable point near the Kenai LNG plant.
- c. Phillips will need to provide additional compression capacity to handle the added royalty gas in kind production through its gathering system.
- d. Since APC can't justify participation in the installation of additional compression capacity which is required to delivery the State's royalty gas, APC agrees to accept delivery of royalty gas as it becomes available from time to time.
- e. The added supply of royalty gas would be used to service existing and potential new customers in the vicinity of the Kenai LNG plant only for the above stated reason (amount of gas not sufficient to allow for participation in adding additional compression capacity).
- f. Point of delivery shall be at or near the existing pipeline tap now used to deliver gas from the Phillips pipeline to the Tesoro refinery in the general vicinity of the Kenai LNG plant on the North Kenai Road. (This would seem to indicate that Phillips sells gas to the Tesoro refinery from the North Cook Inlet field--I thought all that gas went to Japan--check this out). In a different portion of the "agreement" the point of delivery is to be "...at the juncture of APC's facilities and Phillips' facilities located near the pipeline tap service the Tesoro refinery..." (Check out if necessary. It is inconsistent it seems to me).
- g. Odorization of gas shall be APC's responsibility, and Phillips shall be held harmless.
- h. APC shall pay Phillips 10¢/Mcf for delivery from platform to delivery point

and for dehydration (what is involved in dehydration?). This 10¢ charge is to increase by 6 percent annually.

- i. APC shall pay Phillips in addition to the above gathering charge a compression charge of 10¢/Mcf. This, too, would increase by 6 percent annually.
- j. APC shall pay Phillips (in addition to the above) a mutually agreeable charge for added compression when and if it is necessary, based on APC's share of added volume.
- k. In addition, APC shall reimburse Phillips in the proportion of deliveries made to APC by Phillips for any new or increased fees, charges, taxes, etc. applicable to gathering of the gas (including compression) which would be imposed on Phillips prior to delivery of royalty gas to APC.
- l. Phillips by delivering royalty gas to APC does not "...render any service to or for the public;" ie., will not become a utility subject to regulation.

APC makes the material representation to Phillips that Phillips will not be subject to regulation by the FPC or APUC.

- 20 In a letter to Don Wold dated 2/2/77 APC first mentions the "desirability" to to have the State take deliverability of its royalty gas onshore so as to avoid the necessity for APC to negotiate a separate agreement with Phillips.
- 21 The letter also indicates that they would not be committed to install a pipeline connecting to their Anchorage line; that they would accept only such gas as they can readily re-sell up to 100 percent of royalty gas which is available with the rest to be royalty gas in value to Phillips. (The reason for this is cited as the shortness of the contract; ie., July 1, 1984 vs. life of production, which is what APC wants).
- 22 The same letter also indicates that they would pay the proportionate share of additional compression facilities Phillips' were to install at a future time.

- 23 APC in a memo to file dated 3/10/77 made a very interesting point, I think, by stating that the 10¢ transportation/gathering charge Phillips would charge is still much cheaper than any alternative which exists to them or to the State for that matter, other than possibly bad publicity within the state for Phillips.
- 24 The APUC in its order No. 3, Docket U-75-68 (12/17/75) (p. 10) states that they believe the commingling of cheaper gas with more expensive North Cook Inlet royalty gas and averaging the cost will generally amount to 2 - 5¢/Mcf/month for the customers of APC.
- 25 The same order also states that if the provisions allowing flow through of costs was not used by August 1, 1976 the APUC would commence an investigation to determine the non-use and to determine whether the provision should be deleted from the tariff of APC. (See Sept. 29, 1976 letter to APUC).
- 26 A letter of APC to APUC dated September 29, 1976 states that the contract with the State (76-1) could not be carried out because --
- a. APC would have to pay State the highest price within a 100 km/radius^(62 miles) (they had hoped no more than the price of gas liquefied for export).
 - b. APC would have to take 100 percent of royalty gas produced;
They do not have sufficient sales on the North Kenai Road for the full amount;
On the other hand, they do not have facilities to interconnect with their Anchorage line; and
They have been unable to work out an agreement for an exchange with Kenai gas.
 - c. The contract expires July 1, 1984 (instead of the life of production as APC would desire) which APC claims is too short to invest in the facilities which are required.
- 27 The September 29, 1976 letter also indicates that Phillips wanted to have APC fund the first phase of a compressor station on the platform (approximately

\$5,000,000) in return for their delivering the royalty gas to shore. APC countered with an offer that they would

- a. Pay a pro-rata share for compression (volume) with a right to discontinue after a year's notice; and
- b. Resell any "excess" royalty gas back to Phillips for the same price they would have paid to the state; and
- c. Forego taking royalty gas if and when the pipeline capacity throughput was limited (a standby gas supply to make the above possible had not been found, and it was mentioned that APC might have to build a pipeline from their Anchorage line to the delivery point on shore to guarantee such standby volumes as are necessary).

(This should be looked at more closely because (1) having APC pay for the compression facilities necessary to deliver royalty gas is an interesting idea since it could reasonably be expected that certainly those costs would be subject to APUC scrutiny in setting a rate for the APC royalty gas, and (2) because now APC talks about building a pipeline from their Anchorage line to the delivery point to provide for standby volumes when in the past they had talked of building the pipeline from the delivery point to the Anchorage line to take such royalty gas as could not be consumed on the North Kenai Road. It would seem to me that since a pipeline is being considered between the two points, then APC could take all royalty gas instead of reselling any "excess" gas back to Phillips as proposed in b. above).

*pay
supplies
less*
(As it stands now APC does not even pay a pro-rata share for the added compression, but 10¢ (20¢) or 20¢/Mcf (depending on which document one looks at--Appendix "B", the "New" contract or Phillips' letter to Don Wold dated 3/3/77). The pro-rated ^{would} cost/ be applicable only after the initial installation of the first compression unit).

28 The AG (Will Condon) in a memo to Guy Martin, dated 3/7/77, determined that the APUC would not have jurisdiction over Phillips pipeline because Phillips does not fall into the category of "...a 'utility' nor 'public utility' within the meaning of the Public Utilities statute, because it will not be furnishing transmission service to the 'public' or the 'Alaska public' Phillips would be furnishing transmission service to the State." *which is certainly not a utility* (That is not so, since the current contract provides for APC to take delivery at the platform. Check with Will Condon).

(Is language necessary to change the current law??)

29 The lease with the State provides that the royalty gas has to be taken in the field (Phillips March 3, 1977 letter to Don Wold).

30 The application for a right-of-way permit (2/15/68) to build two 10" gas pipelines and appurtenances from platform to shore could be "used" to demonstrate that the pipeline is for public use, since "public" was not crossed out in the application (although it could have been).

31 The Royalty Board authorized Commissioner of Natural Resources to negotiate a sale for the North Cook Inlet ^{royalty} gas on December 10, 1975.

32 Contract 76-1--ALL OF THE ROYALTY GAS AVAILABLE. The exact amount of royalty gas available each day cannot be determined since volume depends on production, over which the State has not control. However, the daily production averages approximately 15MMcf/day as determined by previous years' production.

33 The amount of royalty gas being contract for or being sought by APC to meet their requirements range all the way from life of production to 75Bcf - 50Bcf - 40Bcf (4/2/76 letter from APC to Guy Martin).

34 In the context of this issue Union-Marathon)

Union) are the same
Marathon)

APC has contract with the above, and the above own transmission line from LNG plant to Nikiski. (see point 35).

needed gas from other sources since APC claims that the Bernice Lake power plant is in APC's certificated service area); and

2. APC's proposal to return that part of the royalty gas they cannot readily use to Phillips.

HEA's reasoning--quite logically--is that

1. They are essentially the only customer APC would supply with the royalty gas (ie., who needs APC??); and
2. That while they cannot use 100% of the royalty gas either they will negotiate a sale for the surplus so as to assure the State a market for all its royalty gas from the North Cook Inlet gas field instead of returning part of it to Phillips. The only trouble is that in the 2/16/76 letter they offer to take the royalty gas in the amounts outlined in their 2/11/77 letter (see point 40 above) which would not constitute 100% of the royalty gas.

42 HEA, too, is seeking APUC assurance that the state's royalty gas they would purchase would not come under APUC jurisdiction since their use of the gas "...will be for purposes of manufacturing electrical energy for resale under tariffs directly under the control of the Commission." (Their letter 12/9/76 to APUC).

43 HEA offers to pay the State 60¢/Mcf delivered to the Bernice Lake power plant (Their letter dated 2/16/77). (The power plant is a stone's throw away from the LNG plant, probably no more than a 1/4 mile).

44 In his letter to Guy Martin (dated 2/15/77) Don Wold states that if the "new" contract were accepted (and the APUC not exercise jurisdiction over the Phillips pipeline as per Will Condon's opinion dated 3/7/77) then "...it seems that the Department of Natural Resources will in fact assume a portion of the responsibilities of the APUC in determining whether or not the pipeline tariff and compression charges are in the interest of the State." What has the DNR decided about the charges? Are they fair? What is the justification over and above the costs furnished by Phillips in their 3/3/77 letter?

APPENDIX "A"

KEY PROVISIONS

CONTRACT 76-1

Quantity: All royalty gas available, when and as available.

Delivery Point: Delivery point shall be the same for APC as it has been for State.

This appears to be the platform since a proposed gas gathering agreement between APC and Phillips states that the contract between the State and APC provides that "...APC will accept said royalty gas at or near wellhead in the North Cook Inlet Field...". Gregg's memo of May 8, 1976 to Fred Brown (p. 2) confirms this.

However, a memo from Don Wold to Guy Martin dated 2/14/77 states that APC "...must take delivery from Phillips near the terminus of the Phillips terminus of the Phillips pipeline located near the North Kenai Road..." according to the 76-1 contract. (I don't think he is correct in light of the above).

Price:

A.	1.	To July 1, 1977	55.5¢/Mcf	
	2.	July 1, 1977 - July 1, 1978 <i>the higher of</i>	60.36¢/Mcf	or
	a.	price State would have received had it continued to take its royalty gas in value		or
	b.	the highest price paid by any purchaser in the Upper Cook Inlet area (within a 100 km radius of Phillips' platform) for similar quality gas and similar conditions of delivery.		
	3.	July 1, 1978 and each succeeding 12 month period the higher of		
	a.	the previous year's price plus 2¢/Mcf		or
	b.	above		or
	c.	above.		

"NEW" CONTRACT

APC would take UP TO all of the royalty gas available. This means APC would not be required to purchase all royalty gas.

How does this jive with their previous argument that they needed new reserves and supplies to service their existing customers: The the royalty gas amount (15MM - 17MMcf/day APC "Proposal" p. 4. and 5 and "Commissioner's Proposal in Concept") available from the North Cook Inlet field was just the right amount needed to supplant their loss of Kenai gas field supplies?

Delivery point would be on shore at or near Phillips' pipeline tap which delivers gas to the Tesoro refinery.

A.	1.	To July 1, 1978	64.65¢/Mcf	
	2.	July 1, 1978 - July 1, 1979 the higher of	66.65¢/Mcf	or
	a.	price State would have received had it continued to take its royalty gas in value		or
	b.	the highest price paid by any purchaser in the Upper Cook Inlet (within a 100 km radius of Phillips' platform) for gas of similar quality gas and similar conditions of delivery.		
	3.	July 1, 1979 and each succeeding 12 month period the higher of		
	a.	the previous year's price plus 2¢/Mcf		or
	b.	above		or
	c.	above		

Term: Effective: Upon approval by the Legislature
Expiration: July 1, 1984

Termination Clause: Allows APC to terminate the contract within 30 days of written notice to State if APC is unable to make satisfactory arrangements to take delivery of the royalty gas.

Conditions Precendent: Not covered.

Miscellaneous: Not covered.

- B. 1. 10¢/Mcf for gathering costs to point of delivery to increase 6 percent per year on the anniversary date.
2. An additional 20¢/Mcf after Phillips has the first unit of added compression facilities (approximately 3500 hp) to increase 6 percent per year on anniversary date.
3. Additional charges for future compression facilities which may be required and installed in proportion to gas received. (Interestingly, the proposed contract calls for such additional costs under 8. 3. to be verified by the State, which would seem to indicate that in this instance Phillips would agree to "jurisdiction" by the State). (To be consistent with Sec. 7.2 of the "new" contract should this be removed?)

Effective: Upon approval by the Legislature
Expiration: July 1, 1984

Allows APC to terminate the contract within 30 days of written notice to State if APC is unable to make satisfactory arrangements to take delivery of the royalty gas.

This seems absurd since APC would now take delivery on shore! What is meant by "...unable to make satisfactory arrangements to take delivery of the gas."?

Provision providing that Phillips would not come under the jurisdiction of the FPC or APUC or APC (Section 7.2 of Article VII).

Assignments of interest by APC may be made "...to conform with...(APC's) various financing documents or as may be desirable to...(APC) as to...(APC's) commonly owned affiliate or subsidiary." (Who are they?)

QUESTIONS

1. What is "Rate PI"? (Power Interruptable--no longer in existence) (See letter 12/2/75 to APUC by ANG).
2. What was or where is a copy of the "special contract" with Chugach and ANG? No applicable to our inquiry according to Russ Staley of the APUC (See letter 12/2/75).
3. Was Section 708 of ANG's tariffs ever reinstated? No. If yes, what does the flow through provision provide for? Sec. 708 and 709 would have allowed AGAS to flow through--by means of a billing surcharge--any increase in its wellhead cost of gas above 41.5¢/Mcf occurring after July 1, 1975 as well as any new or increased taxes imposed by Federal, State, Borough, or local taxing authority upon production, etc.--reserves taxes--above the amounts established on January 1, 1975. (See Order No. 3, U-75-68. Also see Enclosure A and B to letter dated 4/2/76.
4. Who is Pacific Alaska LNG Company? Have they dropped out of the game trying to contract for the State's royalty share from the North Cook Inlet field? Yes. (See "Findings and Conclusions for Non-Competitive Sale", dated April 26, 1976, bottom p. 2).
5. What, if any dehydration or compression charges were assessed the State when it took its royalty gas in value? None. How can these be justified over and above the added compression necessary to produce additional quantities to make up for the royalty gas loss!?
6. The right-of-way permit application specifies two 10" pipelines; the "Gas Gathering Agreement" states one 16" pipeline. Which is correct? Does it make a difference? 2-10" from platform to shore; 1-16" on shore to LNG plant.
7. Did the APUC ever approve the flow through charges which would include the 10¢ for transportation and dehydration and the additional 10¢ (20¢) for added compression? and if so, how were these charges justified by APC to APUC? See Order No. 3, U-75-68, 12/75/75. Call APUC to see if it was applicable! Commissioner Zerbetz (4/18/77) informed me over the telephone that "it would appear that the flow through charges of 10¢ and 10¢ for gathering and compression are valid under U-75-68 (3). See Don Wold's letter to Guy Martin (p. 2 last paragraph) which suggests that APC does not have to justify these increased costs to the APUC.

Check with APUC if their Order No. 3, U-75-68 (12/17/75) ever intended to allow flow through of costs regarding gathering costs (transportation, dehydration, including compression) or whether they merely meant the price the State was receiving from its royalty gas. APC treat it as if these added costs were included in the order.

At the time the order was issued--12/17/75--the price APC was using was 45¢/Mcf price at wellhead and 5.45¢/Mcf delivery to LNG plant for a total

of 54.45¢/Mcf for the royalty gas. (It is not clear to me if the APUC is working with the 50.45¢/Mcf figure, or a figure of 74.65¢ (84.65¢) considering the added transportation (and compression charges) Phillips wants to charge for delivering the State's royalty gas to shore.

APUC was apparently apprised of some of the difficulties encountered by APC taking delivery of the royalty gas and the costs which would be involved by APC in their letter to the APUC dated September 29, 1976, but there is no indication that they ever acted or commented on these potential charges.

8. Why the difference in price of transportation and dehydration for the State and APC 5.55¢ (5.45¢) vs. 10¢/Mcf? Need a reasonable justification from Phillips, APUC, Don Wold--anyone? Don Wold explained that 5.55¢ charge is a charge Phillips assessed to arrive at the wellhead value of the gas for tax and royalty purposes (it is anyone's guess why they prefer to keep it at that rate*-- depletion allowance was mentioned). The 10¢ which Phillips plans to charge APC for transporting the gas to shore is what Phillips decided it is worth to them as a business venture, earning a return.

See Memo to File by APC in which Dale Teel writes that it is not reasonable to expect that "...the Lessee who has made the investment required for production, gathering, and compression of royalty gas can or should be held responsible to deliver the royalty gas at less cost than the Lessee determines to be necessary, fair, and reasonable." In a later letter to Don Wold Teel says that "...it would be no more logical to require Phillips to accept less than their required price than for the State to accept less than it deems to be necessary for this gas." (4/15/77).

*Why were they willing before to settle for less? Why would they give the State a break?

9. Why was the price for royalty gas raised from 60.36¢ (76-1) to 64.65¢ in the "new" contract, which is a 4.21¢ difference in less than a year? This is the new wellhead value established by Phillips. The current contract provide for 64.65¢ with various increase options annually, accepting that which is the higher of these options. Those options are favorable to the state, but not necessarily to APC, since one of them calls for APC to pay the highest price paid by any purchaser in the Upper Cook Inlet (within a 100 km radius of Phillips' platform) for gas of similar quality gas and similar conditions of delivery. In their April 15, 1977 letter to Don Wold APC mentions that Pacific Alaska LNG is paying \$1.45 in the Cook Inlet. I do not know if they would fall into the 100 km radius of Phillips' platform.
10. What led to the decision not to dispose of the North Cook Inlet royalty gas by competitive bid, but rather negotiate the sale with APC? Guy's letter of 3/17/76 states that "...the Commissioner must publish the specific findings and conclusions supporting that decision." (See Commissioner's Proposal in Concept and attachments).
11. Get deliverability cost to APC under the U-M contract for the North Kenai Road. Dale Teel advises in his 4/15/77 letter that U-M charged them 1.5¢ above the Anchorage contracts basic price (24¢), but that this did not constitute a deliverability charge! This is not the way I understood it from Bill Hickman of APC. According to Teel there is

no transportation charge charged APC by U-M on their transmission line from the Kenai gas field to the North Kenai Road.

12. What is Rate "SK-5" mentioned in APC's letter to HEA dated 11/16/76?

Rate Schedule of APC (according to Russ Staley of the APUC)

a	Schedule A	Residential
	AA	Residential with APC furnishing Equipment
	B	General Service (small commercial)
	BB	Gen. Serv. with APC furnishing Equipment
	C	Large General Service (Apartments & Industrial)
	CC	Lg. Gen. Serv. with APC furnishing Equipment
	I	Interruptible Rate
	SK	Soldotna/Kenai Rate

13. Is the Bernice Lake power plant in APC's certificated service area? Yes (Russ Staley-APUC) According to Russ Staley a certificated service area is not exclusive but normally the APUC do not allow more than one utility in one SA. This seems to be a bone of contention in the instance where HEA wants to secure gas for the Bernice Lake power plant which they hope to buy from Chugach from other sources in APC's SA if APC will not or cannot guarantee them a continuous supply of gas. See 11/30/76 letter.
14. Has any action been taken on HEA request for a waiver of jurisdiction by APUC over royalty gas? How sound is their reasoning that the gas ought to be exempted since it is used to manufacture electricity which is under APUC jurisdiction?
15. What has DNR done to ascertain whether the proposed transportation costs (10¢) and compression charges (10¢) are fair? Don Wold informed me that this was not the Royalty Board's responsibility.
16. What is "just and reasonable" in terms of a flow through provision? Commissioner Zerbetz advised me on 4/18/77 that under current statutes it would be very difficult to disallow flow through charges, which were bonafide costs incurred by the utility.
17. Under 9.1, 9.2 and 9.3 of the Phillips/State contract the state is a party to the gathering and compression charges. If we "allow" this what are the implications for setting a precedent for future similar situations?

How can the State "agree" to charges without being sure they are "just and reasonable"?

As written now State is agreeable to the 20¢ + for gathering and compression being charged by Phillips. How can we do this and be assured these charges are not excessive?

Don Wold suggested in a conversation with Gregg and myself 4/18/77 that he finally had determined why APC wanted to get the royalty gas so badly. He said it was for the purpose of setting a precedent for other situations similar to the current one; ie., where the gas is offshore, avoiding APUC or APC jurisdiction of gathering and compression costs).

18. Why should State/APC pay added taxes, fees, imposts, etc. (9.4 () and 6.1(f) imposed on Phillips? This seems unreasonable! I was told that Phillips was adamant about this provision. It has been suggested that Phillips is using this to discourage oil and gas tax hikes.

Pete Froehlich suggested that if any taxes, etc. be paid by State/APC such taxes should only be on new facilities. However, he said his suggestion was not accepted.

Telephone Conversation with

4/11/77

Russ Staley - Chief - Eng. Section - APUC

Answers to questions -

+ SK-5

- ✓ 1.) Rate PI probably refers to inter-
- ✓ 15.) ^{Russ} suitable power rate, but will check on it.
- 2.) He will furnish me with copy of special contract with Chugach Electric Association if it is applicable in any way to the business at hand, i.e., North Cook Inlet royalty gas to APC
- 3.) Yes. The "wellhead cost" referred to in Order No 3, U-75-68 applies to all of the Kawai gas field gas APC receives ^{from U-M} accdg to Russ Staley, since that is the only contract APC has for gas. He stated that he believed that the flow through provision would, however, also apply to the North Cook Inlet royalty

gas - that the APUC would consider this flow through tariff provisions ^{added} for well head and reserves tax costs as a "multiple position"; i.e., not just applying to one case. However, he really did not know, and will check with Susan Knowles who was the Commissioner who handled this order.

(An accurate answer to this is very important, it appears to me, since the intent of what ^{added} costs would be allowed to be flowed through has major significance now that Phillips wants to charge up to 30¢ for transportation and compression costs).

✓ 4.) Pacific Alaska LNG Co is a California based outfit which has been trying to build a liquefaction plant at Kenai. They are still seeking FPC approval to build the plant.

7. will get back to me. Does not know.

8. Does not really know. Believes that the APUC won't answer of the cost of production. Will check and advise.

12. See 8. above

14. Pucc Staley will send me a copy of contract between APUC and U.M. (which has delivery cost in it).

The Denver Gas firm is producing on shore

APUC wanted jurisdiction on

the "North Denver Road" transmission

line of Union's because only approx

2% of the gas goes to the

public. The rest goes to

industry, mostly to better

(a utility owned subsidiary of

Union) and the Swanton River

field. Pucc Staley referred

to it as "in-house" gas.

16.) Yes. The certificated service area, which Puro Stating called a "franchise" is not exclusive in said, but normally, APUC does not allow more than one utility in one SA.

17.) Does not know. Is only familiar with the AG's opinion which covers jurisdiction over Phillips; not aware of the apparent different reasoning applied by HEA.
Will need further info on this!!

18.) Does not know. Will attempt to find out.

General: The individuals most familiar with this matter, both among the staff and the Commissioners, are no longer here. Thus, nobody is really up on this. It may be necessary to go up to Quakewake and not

down with Commission staff
to get all the answers and
an idea of their thinking,
which we don't know what
it is.

Russ Staley said he would
call back 4/12 or 4/13 with
answers to my questions.

My overall questions were

- 1.) How is the APUC viewing
^{flow through of}
the ~~AMP~~ to 30¢/Mcf charges
for transportation and compression
of North Cook Inlet royalty
gas to APC; and
- 2.) What attitude are they taking
regarding jurisdiction over
the Phillips line.

Meeting with Will Conrad
Fred Bowers +
Pete Froehlich

- ① If the pipeline is not under 4/13/77
APUC or APC jurisdiction (as proposed
under the revised contract) how
can the state "control" the
high prices charged for
transportation + compression

last year -
12¢ - 65¢ range
for taxes or
negotiated

Transportation / gathering chgs
were previously assessed the state
at 5.45¢ (5.55¢)

- ② - Do we have a def of
common carrier? Yes!

- Does it subject itself
to regulation by virtue
of being a common
carrier? Yes!

Subject
to APC

by regulation of cc status
taken by the AG's Dept.

access to Will Conrad

Fred Bowers said
that the purchase of
the North Lake Tule
royalty gas by APC
"buying less rapid
depletion of reserves
everybody committed
to anchorage"

* This could, of course, also
be read that they are adding
to their reserves for anchorage now
at a more reasonable cost
than would be available later.

Supposedly, APC is experiencing a
shortage of dedicated reserves.
accy to Fred Boreas.

Sec. 42.06.600. Regulation by municipality. The commission's jurisdiction and authority extend to an oil or gas pipeline facility operating in a city or borough, whether home rule or otherwise. If a conflict between a certificate, order, decision or regulation of the commission and a charter, permit, franchise, ordinance, rule or regulation of such a local governmental entity occurs, the certificate, order, decision or regulation of the commission prevails. (§ 1 ch 139 SLA 1972)

Sec. 42.06.610. Expenses of investigation or hearing. After completion of a hearing or investigation held under this chapter, the commission shall allocate the costs of the hearing or investigation among the parties, including the commission, as is just under the circumstances. The costs allocated may include the costs of any time devoted to the investigation or hearing by hired consultants, whether or not the consultants appear as witnesses or participants. The commission shall provide an opportunity for any person objecting to an allocation to be heard before the allocation becomes final. (§ 1 ch 139 SLA 1972)

Sec. 42.06.620. Classification. The commission may by regulation provide for the classification of oil or gas pipeline facilities based upon differences in annual revenue, assets, nature of ownership and other appropriate distinctions and as between these classifications, by regulation, provide for different reporting, accounting and other regulatory requirements. (§ 1 ch 139 SLA 1972)

Sec. 42.06.630. Definitions. In this chapter

- (1) "commission" means the Alaska Pipeline Commission;
- (2) "commissioner" means a member of the commission;
- (3) "duties" means duties, powers, obligations and functions;
- (4) "gas" includes all natural gas and hydrocarbons produced at the wellhead and not defined as oil;
- (5) "Interstate Commerce Act" means the Interstate Commerce Act of 1906, 34 Stat. 584, as amended;
- (6) "municipality" means an organized borough or incorporated city;
- (7) "Natural Gas Act" means the Natural Gas Act of 1938, 52 Stat. 821, as amended;
- (8) "oil" includes crude oil, and other hydrocarbons regardless of gravity which are produced at the wellhead in liquid form, its products and liquid hydrocarbons, including the liquid hydrocarbons known as distillate or condensate recovered or extracted from gas, other than gas produced in association with oil and commonly known as casinghead gas;
- (9) "pipeline" or "pipeline facility" means all the facilities of a total system of pipe (whether owned or operated by a pipeline carrier under a contract, agreement, or lease) in this state used by a pipeline carrier for transportation, for hire and as a common carrier, of oil or gas for delivery, storage, or further transportation, and including all pipe, pump and compressor stations, station equipment, and all other facilities used

See
38.35.120

or necessary for an integral line of pipe to effectuate the transportation from point to point, excluding, however, gas processing plants, treaters and separators;

(10) "pipeline carrier" means the owner, including corporations organized under the laws of the United States or of other states, of any pipeline, as the term is defined in this section, or any interest in it;

(11) "regulation" includes rules;

(12) "tariff" means a rate, charge, toll, rule or regulation of an oil or gas pipeline facility relating to services furnished by the facility to the general public or other users for compensation. (§ 1 ch 139 SLA 1972; am §§ 7, 8 ch 6 FSSLA 1973)

Effect of amendment. — The 1973 amendment rewrote paragraphs (4) and (8).

Sec. 42.06.640. Short title. This chapter may be cited as the Alaska Pipeline Commission Act. (§ 1 ch 139 SLA 1972)

Chapter 07. Alaska Transportation Commission Act.

Article

1. Establishment of Transportation Commission (§§ 42.07.011 — 42.07.111)
2. Powers and Duties of Commission (§§ 42.07.121 — 42.07.161)

Repeal of former chapter. — Section 1, ch. 104, SLA 1969, repealed former Chapter 07, entitled "Alaska Transportation Commission." The former chapter consisted of §§ 42.07.010 — 42.07.150, and derived from § 1, ch. 139, SLA 1966.

Article 1. Establishment of Transportation Commission.

Section

11. Creation and composition
21. Term of office; vacancy
31. Quorum
41. Qualifications
51. Oath of office
61. Restrictions
71. Compensation of members of the Alaska Transportation Commission

Section

81. Principal office and seal
91. Legal counsel
101. Employment and compensation of personnel
111. Annual report

Sec. 42.07.011. Creation and composition. (a) There is created the Alaska Transportation Commission within the Department of Commerce and Economic Development. The commission consists of three members appointed by the governor and confirmed by the legislature in joint session.

(b) The governor shall designate one member of the commission as chairman of the commission. This member shall serve as chairman for

to comply with its terms, conditions, and obligations. Only upon proper acceptance of offered lease by the applicant within 30 days after its having been presented is the grant of the application consummated. (§ 1 ch 72 SLA 1972; am § 9 ch 3 FSSLA 1973)

Effect of amendment. — The 1973 amendment rewrote this section.

Sec. 38.35.110. Term of lease. Each lease of state land for pipeline right-of-way purposes shall contain a provision that the lease shall run for a specified term of not greater than 30 years, and shall be renewable for additional periods of up to 10 years each, so long as the lessee is in commercial operation and is in full compliance with all state law, including but not limited to state law pertaining to regulation and taxation of the pipeline facility, and is in compliance with all terms of the lease. In making this determination he shall take into consideration the cost of the proposed pipeline, its useful life, and the probable financing requirement for the proposed pipeline. (§ 1 ch 72 SLA 1972; am § 10 ch 3 FSSLA 1973)

Effect of amendment. — The 1973 amendment substituted "30 years" for "25 years" and inserted "is in commercial operation and" in the first sentence and added the second sentence.

Sec. 38.35.120. Covenants required to be included in lease. (a) A noncompetitive lease of state land for a right-of-way for an oil or natural gas pipeline valued at \$1,000,000 or more may be granted only upon the condition that the lessee expressly covenants in the lease, in consideration of the rights acquired by it under the lease, that

(1) it assumes the status of and will perform all of its functions undertaken under the lease as a common carrier and will accept, convey, and transport without discrimination crude oil or natural gas, depending on the kind of pipeline involved, delivered to it for transportation from fields in the vicinity of the pipeline subject to the lease throughout its route both on state land obtained under the lease and on other land; however, a lessee who owns or operates a natural gas pipeline subject to regulation either (A) under the Natural Gas Act (15 U.S.C. 717 et seq.) of the United States, or (B) by the state or political subdivisions with respect to rates and charges for the sale of natural gas, is, to the extent of that regulation, exempt from the common carrier requirement in this paragraph; it will accept, convey, and transport crude oil or natural gas without unjust or unreasonable discrimination in favor of one producer or person, including itself, as against another but will take the crude oil or natural gas, depending on the kind of pipeline involved, delivered or offered, without unreasonable discrimination, that the Alaska Pipeline Commission shall, after a full hearing with due notice to the interested parties and a proper finding of facts, determine to be reasonable in the performance of its duties as a common carrier;

(4) restore and revegetate during the term and at termination of the lease; and

(5) protect the interests of individuals living in the general area of the right-of-way who rely on the fish, wildlife, and biotic resources of the area for subsistence purposes.

(e) In the event the commissioner proposes to offer a lease or leases to two or more lessees for the same pipeline, the commissioner may include terms in the lease or leases which establish the limit of the obligations and liabilities of each lessee arising under this chapter or under the lease or leases.

(f) The commissioner may, at his discretion, include any or all of the terms set out in this section in leases of state land for products pipeline, right-of-way purposes. (§ 1 ch 72 SLA 1972; am § 11 ch 3 FSSLA 1973)

Effect of amendment. — The 1973 amendment rewrote this section.

Sec. 38.35.130. Right-of-way easements or leases acquired from others. (a) The lessee may, if the commissioner delegates the function to it, condemn, by declaration of taking, under AS 09.55.420 — 09.55.450, real property and acquire leases of or easements or rights-of-way on lands in the state required for right-of-way purposes for a pipeline subject to the lease on behalf of and as agent for the state in which title to or interest in the land shall vest.

(b) The lease shall contain a covenant that the land, right-of-way, or easement acquired under this section is or will form part of the land leased to the lessee. (§ 1 ch 72 SLA 1972; am § 12 ch 3 FSSLA 1973)

Effect of amendment. — The 1973 amendment rewrote subsection (a), deleting the paragraph designations and deleting the provisions of former paragraphs (1) and (2). The amendment also, in subsection (b), substituted "The lease shall contain a covenant" for "The

lease covenant required by this section shall be accompanied by a provision" and deleted "carrier" following "lessee."

Quoted in *Arco Pipeline Co. v. 3.60 Acres, More or Less*, Sup. Ct. Op. No. 1177 (File No. 2419), 539 P.2d 64 (1975).

Sec. 38.35.140. Payment of rental and costs. (a) The lease price for a right-of-way lease shall be the annual fair market rental of the state lands included in the right-of-way based on the appraised fair market value of the land. The lease price is payable annually in advance on or before the anniversary of the lease. The appraised fair market rental value shall be adjusted periodically under the provisions of AS 38.05.015. Rental may not be charged for any land acquired by the lessee under § 130(b) of this chapter and conveyed without cost to the state.

(b) The lessee shall reimburse the state for all reasonable costs incurred in monitoring the construction of the pipeline on the right-of-way. (§ 1 ch 72 SLA 1972; am § 13 ch 3 FSSLA 1973)

North Korea.

10 Bcf contract for
gas over + about the
contract APC has for
Korean gas. Fixed? Other
are details of

④

③ ✓ Copy of map to show

will it be approved?

— File for new treaty with
APUC?

② Price charged by PLUPO for
transportation + compression

① ✓ Need for gas
Korean area
audience
to ~~represent~~ audience for audience

4/14/77

Paul Robinson

Mr. Robinson
Guantanamo

Talk with Dale Hall and

✓ (c) Customers - B L P P + 285 cust ?

Used up in 1976
10 Bcf →

① 550 Bcf
400

Committed to Anchorage

Jan 1 '72 Kenai N U-M
Remaining presently

② 10 Bcf
-0-

for 10 yrs.
May 1, 1967 A Kenai Pot. Field U-M
Used up committed
Supply June/July 1976

Extended contract
for 1 yr by being
supplied out of
Kenai Anchorage
committed reserves.

4/14/77

Tel conversation with

Bill Hickman / Treasurer

AGAS

277-5551

- ① BH felt that if they don't get this royalty gas at the 75¢ (which is apparently the current price for gas to Tokyo) they would have to buy reserves at a higher price elsewhere
- ② The Bd of Directors of APC did approve the building of a "royalty line" but only after there was no chance that an "exchange" of Kenai / North Lock Inlet gas could be worked out.
- ③ Such a pipeline would apparently cost \$4,000,000
- ④ Union "charges" APC 1 1/2¢ / Mcf to carry APC's gas in its

transmission line from the Kenai gas field to the North Kenai Road area. APUC has waived jurisdiction, but to "make sure" that it continues to do so apparently Union charges the extremely low token transportation charge of APC as a public utility.

⑤ Bill Hickman states that it was apparently (at least he thought so) Phillips rather than Union which did not want to see the paper "exchange" of gas from the two fields as proposed by APC, since Phillips would stand to benefit from having APC sell back to it that portion of North Cook Inlet royalty gas they (APC) did not have a market for.

⑥ Said he would send me some or more maps tomorrow.

called Sue Knowles

4/14/77

at APUC. She was out!
talked to Gordon Zerbetz
instead.

- ① He will look at Order 3, U-75-68
to re-familiarize himself with
the matter.
- ② He will send me a complete
copy of the Order
- ③ Asked that I send him cost
breakdowns for transportation
and compression ~~costs~~ charges
Phillips is assessing APC.
- ④ Gold-streaked Duke Trial's whole
packet dated 3/10/77 this
pm.
- ⑤ Will advise me tomorrow
about initial reaction.
Indicated they would ^{very} possibly
like to comment on the
charges; and

I asked that we need advice
if APUC planned to allow
flow through of $10\phi + 10\phi$
at the time Order No 3, U-75-68
was issued when everyone
was still talking about $5.55\phi/11\phi$
for transportation

Question

What is a just and reasonable
in terms of a flow through
provision



ALASKA PIPELINE COMPANY

General Offices Located at 3000 Spenard Road
P.O. Box 6288 Anchorage, Alaska 99502 / Phone (907) 277-5551
Telex 25-187

April 2, 1976

Mr. Bill Fackler, Executive Director
State of Alaska Oil and Gas Royalty Board
Department of Natural Resources
Pouch M
Juneau, AK 99811

RECEIVED
APR 05 1976

RECEIVED
APR - 5 1976

ALASKA ROYALTY
OIL & GAS BOARD

Department of
Natural Resources

Dear Bill:

This is written to furnish you with some background information relating to our past and present "flow through" situations and why we feel that the APUC actions have served to "inhibit" our search for new and probably higher priced non-royalty reserves.

Enclosure A contains our previous "flow through" provision while Enclosure B contains the one presently in effect.

A brief description of the sequence of events leading to the change is as follows:

December 15, 1974 - AGAS agreed to a gas price increase (19.5¢/MCF) to become effective July 1, 1975 in order to obtain gas in the quantities required by its customers. The APUC and major customers were notified in advance of completion of negotiations.

December 20, 1974 - The APUC ordered an investigation and public hearing on the tariff flow through provisions.

March 21, 1975 - AGAS filed new rates giving effect to the increased cost.

April 24, 1975 - The APUC rejected AGAS newly filed rates.

May 2, 1975 - AGAS notified suppliers to not proceed with any investment in workover and/or new wells required to meet its contractual commitments.

May 6, 1975 - The APUC ordered an investigation of the anticipatory breach of contract indicating that it might for good cause shown revoke AGAS certificate of public convenience and necessity.



SUBSIDIARY OF ALASKA INTERSTATE COMPANY

AGO 801276



Mr. Bill Fackler, Executive Director
April 2, 1976
Page Two

May 8, 1975 - AGAS agreed to withdraw its tariff flow through provisions.

May 12, 1975 - The APUC accepted AGAS tariff filing of March 21, 1975 as an interim request for rate relief and set hearing date of June 19, 1975.

July 1, 1975 - The APUC granted an increase of 12.78¢/MCF.

July 9, 1975 - AGAS requested reconsideration of the July 1, 1975 order.

July 31, 1975 - The APUC denied AGAS request of July 9, 1975.

July 31, 1975 - AGAS filed proposed new cost of gas flow through tariff provisions to replace those withdrawn May 12, 1975.

August 28, 1975 - The APUC suspended the filing of July 31, 1975 and set hearing date of October 30, 1975.

December 17, 1975 - The APUC issued its order modifying the flow through provisions filed July 31, 1975.

AGAS subsequently petitioned for reconsideration of the order of December 17, 1975 and the APUC denied the petition. In addition to the above mentioned actions there have been a series of requests, hearings, and orders relating to AGAS further attempts to recoup its increased costs.

In concept, the idea that a full rate hearing for each fuel cost change is an appropriate means of consumer protection, appears valid. Our actual experience with the process indicates it is not. The following experiences have led us to this conclusion:

- (1) Rate cases are expensive and time consuming processes. We have devoted an inappropriate amount of internal time and talent in our year long battle that began with the negotiated gas cost increase. We have spent approximately \$320,000 on attorneys and other specialists in regulatory matters in attempting to recover costs incurred by us in good faith for the benefit of our customers. The benefit of hindsight indicates we made a timely and appropriate



Mr. Bill Fackler, Executive Director
April 2, 1976
Page Three

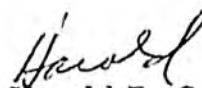
business decision, yet one that has been costly to the owners of the Company. Common sense tells us that a similar occurrence in the future could result in a new management team.

- (2) The uncertain outcome of hearings before an appointed regulatory agency with a recent history of rapid change in composition and philosophy makes long term commitments an extremely risky course of action.

A fuel cost flow through provision which would not require the company to assume the burden of proof in a full rate hearing for each fuel cost change would reduce the business risk to an acceptable level. Such provision would not prevent the Commission from ordering rate decreases in instances where the use of the provisions would result in an excessive profit to the utility.

Bill, I hope that this helps to explain our situation and to give you some insight into the constraints under which we labor as we strive to acquire additional reserves.

Very truly yours,


Harold F. Schmidt
Senior Vice President

HF3:jdj

Enclosures

PURCHASED GAS COST ADJUSTMENT CLAUSE
WITHDRAWN MAY 12, 1975

708 Purchased Gas Cost Adjustment - Company's rates are based on the current wellhead cost of a firm supply of natural gas at the gas field. In the event this price is increased or decreased, or taxes on such gas are increased or decreased, above the amount(s) payable on April 15, 1972, then the Company may, after appropriate notice to the Alaska Public Utilities Commission as required by AS 42.05.411, place into effect a like increase or decrease in the rate theretofore in effect. Such adjustment shall begin with bills rendered during the month subsequent to the effective date of the increase or decrease at wellhead.

PURCHASED GAS COST ADJUSTMENT CLAUSE
CURRENTLY IN EFFECT

708 Purchased Gas Cost Adjustment - The gas supply contracts existing on December 1, 1975, contain escalation clauses which result in periodic increases or decreases in the cost of purchased gas. Any increase in the cost of purchased gas to the Company under the escalation clauses that the Company becomes responsible for after July 1, 1976, may be passed on to the customers of the Company. Such an increase may be reflected in the rates paid by the customers for gas used by the customer after the date the Company is responsible for paying the increase. The increase, however, may not be charged to the customers of the Company unless the Company meets the conditions specified in Order No. 3 in Docket U-75-68. The Company may not flow through to its customers any increases in the cost of gas resulting from alterations, changes, or amendments of any part of the escalation clauses existing on December 1, 1975. The Company also may not flow through to its customers any other increase in the cost of gas except as specified in this Section and the Royalty Gas Section of this tariff. The increases flowed through to the customers pursuant to this section may not exceed 5¢/MCF per calendar year.

In the event the price which the Company must pay to purchase gas to serve the Company's customers is decreased the Company shall decrease its rates to its customers to fully reflect the entire decrease in the purchased gas cost.

Royalty Gas - The cost of gas purchased from the State is greater than the cost of gas purchased from other suppliers. The gas purchased from the State must be taken by the Company as produced. The Company must therefore distribute this gas to its customers when taken and it must be sold at a higher rate than the gas it now purchases from other suppliers. In order to insure a proper price of gas as a result of the commingling of the higher priced State gas and the lower priced gas from other suppliers the Company shall, month to month, increase or decrease the bills of customers to reflect the average cost per MCF of gas on an MCF basis which shall be computed as the product of the volume of gas purchased from the State each month multiplied by the price of that gas, plus the product of the volume of gas purchased from other suppliers during the month multiplied by the cost of this gas, and the sum of the products thus computed divided by the total volume of gas purchased. The flow through increases or decreases pursuant to this section of the tariff are subject to the conditions set forth in Order No. 3 of Docket U-75-68.



ALASKA PIPELINE COMPANY

General Offices Located at 3000 Spenard Road
P.O. Box 6288 Anchorage, Alaska 99502 / Phone (907) 277-5551
Telex 25-187

March 9, 1977

Mr. Don Wold, Executive Director
Royalty Oil & Gas Development
Advisory Board
Department of Natural Resources
Pouch M
Juneau, Alaska 99811

Dear Don:

As requested at the meeting of the Board on March 7, I enclose the pertinent extract (pages 1,8,9,10) from Order No. 3 in Docket U-75-68 dated 17 December, 1975.

You will note on page 10 that we were expected to be taking royalty gas prior to August 1, 1976. We explained the status of this matter by letter of September 29, in response to their inquiry. I surely hope that now, nearly 6 months later, we will be able soon to conclude the negotiations and proceed to begin taking royalty gas this year. Clearly, the Commission is convinced of our imperative need to obtain more reserves and has approved flow through of the cost. Copy of the complete order was mailed to the Attorney General, and to each legislator, by the Commission. I believe we will have no difficulty getting approval of the amended contract.

Very truly yours,

Dale Teel
Dale Teel

dh

Enclosures: Pages 1,8,9,10 and Mailing List of Order No. 3,
U-75-68
Letter to APUC dated September 29, 1976

RECEIVED
MAR 12 1977

SUBSIDIARY OF ALASKA INTERSTATE COMPANY

ALASKA ROYALTY
OIL & GAS BOARD

AGO 801281

*APUC
1975 not 2/20/76
to the matter
of transportation
for 1/23 for payment
He*

STATE OF ALASKA

THE ALASKA PUBLIC UTILITIES COMMISSION

Before Commissioners: Gordon J. Zerbetz, Chairman
 B. Richard Edwards
 Marvin R. Weatherly
 Carolyn S. Guess (not participating)
 Susan M. Knowles

In the Matter of the Filing of a	)	
Tariff Revision, Designated as	)	U-75-68
TA12-4, by ALASKA GAS AND SERVICE	)	
COMPANY to Adopt Purchased Gas and	)	ORDER NO. 3
Tax Adjustment Clauses	)	

ORDER MODIFYING PURCHASED GAS COST AND TAX FLOW
THROUGH CLAUSES AND ACCEPTING MODIFIED CLAUSES

On July 31, 1975, ALASKA GAS AND SERVICE COMPANY (AGAS), a division of Alaska Interstate Company, filed a tariff revision to reinstate in its natural gas utility tariff its tariff rules Nos. 708 and 709. These sections would allow AGAS to flow through to its customers, by means of a billing surcharge, any increase in its wellhead cost of gas above 41.5¢ per MCF occurring after July 1, 1975, and any new or increased tax or excise imposed by Federal, State, Borough, Municipal or other local taxing authority upon the production, transmission, or sale of gas, or levies of special taxes, license fees, or street or right-of-way levies or fees, above the amounts established on January 1, 1975.

Order No. 1 in this proceeding suspended the tariff revision until March 1, 1976. In Order No. 1 the Commission also established a hearing date of October 30, 1975. AGAS was to bear the burden of proof that the tariff revision requested was reasonable and proper in all respects.

U-75-68 (3)
Page 1

will be tailored as much as possible to enable the gas cost increases based on the wholesale price index to be flowed through in a timely manner.

Where a flow through will not result in AGAS maintaining or receiving more than a reasonable rate of return on its investment it is the opinion of this Commission that the flow through should be permitted. The basic reason for flow through provisions is to insure that a short term windfall does not accrue to the customers of AGAS in rates which do not properly reflect the revenue requirements of AGAS. Such a windfall would result from short term regulatory lag. When designing flow through clauses or allowing the flow throughs pursuant to the clauses the Commission must insure that windfall profits do not accrue to AGAS. Each of the flow through clauses acceptable to the Commission should be applied by AGAS with this in mind. Conservative applications of these clauses should be the norm for AGAS. If the Commission determines that the flow through clauses set forth above in this order including the royalty gas clause are being applied to maintain or receive more than a reasonable rate of return or are otherwise being abused the Commission will commence an investigation to repeal these clauses and order appropriate refunds where applicable.

Royalty Gas

The evidence in this proceeding clearly demonstrates that if AGAS is able to purchase royalty gas from the State of Alaska it will be necessary that AGAS take the gas as it is produced and that the price of this royalty gas will be somewhat higher than the price of gas from other gas

supplies now committed to AGAS. The volume of gas from the State will not meet the entire demand on the system which results in commingling of high and low priced gas. This commingling raises several problems. The initial problem is a month to month change in rates to the consumers of AGAS. The month to month billings would vary directly in accordance with the royalty gas portion of the total gas volume consumed by the customers of AGAS. A higher proportion of royalty gas consumed would result in an increased average cost of gas. In order to prevent a windfall for either AGAS or the customers of AGAS that would result by setting a constant average price, it is the Commission's opinion that the royalty gas may be commingled with the cheaper gas and that the month to month rates of customers of AGAS may vary in accordance with the amount of royalty gas distributed to the customers. Another problem raised with the royalty gas variation involves the conditions under which the royalty gas flow through clause may be used. It is apparent to the Commission that monthly filings of comparative balance sheets, operating expense statements, rate of return calculations and rate base calculations is not practical for the implementation of this clause. It is the Commission's opinion, however, that a report should be filed by AGAS in a form acceptable to the staff of the Commission, that would allow the staff of the Commission to audit the fluctuation of the rates charged for gas to the customers of AGAS. These reports will be due on January 15, April 15, July 15 and October 15 of each year. The information in the report should at least show the total volume of gas consumed for each of the months involved in the report, the volume of

royalty gas purchased for each month, the price of the royalty gas at the point of purchase by AGAS, and the price and volume of the gas purchased by AGAS from other suppliers.

The method which should be used by AGAS to determine its average cost of gas per MCF is to multiply the amount of State royalty gas purchased in a month times the price of the State royalty gas and add to that product the product of the price and volume of gas purchased from other suppliers in the same month. The sum of the two products should then be divided by the total amount of gas purchased in the month to arrive at the average cost of gas per MCF. It is apparent to the Commission that by using this formula the additional cost of gas per MCF that the customers of AGAS will pay as a result of the commingling of royalty gas with other gas will fall generally in the range of 2 to 5¢ per MCF per month.

It is the Commission's opinion that it is imperative for AGAS to obtain additional reserves and gas supply to serve its customers. If the royalty clause is not used to reflect an average cost of gas on or before August 1, 1976, this Commission will commence an investigation to determine the reasons for the non-use and whether the clause should be deleted from the tariff of AGAS.

RESERVE TAX

The evidence in this proceeding shows that the gas company may become responsible for the payment to its suppliers of gas of the reserve tax that its suppliers are required to pay the State of Alaska pursuant to 159 SLA 1975. It is the opinion of the Commission that this tax should be treated as an expense of the utility recoupable

Zorobek - 4/18/77

"It would appear that the flow through charges would be valid. To develop a new rate case it would require an order of APUC based on a complaint by consumer citizens

APUC
state agency

AS 42.05 - APUC
Almost bound to pass on any bonafide expenses/cost a utility incurred

Adverse ruling if it could be shown that APC could have been more "reasonable prudent"

Zorobek said it was

- a reasonable price
- difficult to disallow flow through of added costs under present statutes, so long as the charges were bonafide costs.
- public hearing to justify the flow

through each. In order the put
the burden of proof on
AGHS APUC could not
call the hearing.

Mentioned that AGHS was "pretty strong"
about the whole thing, but there
was nothing improper, ^{for} he could
determine off hand.

He also mentioned that he thought
the rate of return okay to the
figures submitted by Phillips
seems a bit high compared
to what APUC is allowing APC.

In response to question as to how
something like this could be
avoided in the future he mentioned
that he had suggested to Jim Wolf
that Royalty gas statute might be
revised to allow for a "note" ^{which are more common} for exchange with fields
located to curve. He put it

Zerbets called around

4/20/77

12:00

Suggested I call and talk to
Richard (Dick) D. Edwards who
was the author of U-75-68(3).

Zerbets said he was the "most honest
and sincere person" he knew, and
that he would be an "impartial
source."

Since Ted Smith could provide a
reference for Edwards.

Callad Dick Edwards
276-5552

4/20/77

He stated that

- the verbatim was clear was written more to "force" him to get out and get committed measures, rather than addressing itself to the flow through costs.

- The intent of the order with respect of the verbatim was to "shut up APC's measures which are disturbing, particularly in Andovergo.

- For the future's good - get measures committed

If we need a legal opinion from him we can retain him at \$80/hr (10-15 hr preparation time + time in bureau (etc) if nec + expenses -

travel, hotel, Xeroxing, etc - probably a
total of 25-30 hrs = \$2,500 + expenses -
don't use these figures though. He
would need a lead time of 2
days

He felt he could give an impartial
legal opinion on the matter as
long as the Order was not
reopened.

4/22/77

Breeding - Don't know/interested operators

- North Cook Tubel Field in the Prof.
- Contract 76-1 did not become operational.
- Need to figure out a way to get gas delivered.
- Reasons contract does not work
 - 17MM/day - marginaly production/day
 - Must be used within 30 days totally, there could not well exceed 10 MM/day
 - Must be taken at wellhead
- Big delivering to a utility the would subject itself to PUC jurisdiction.

① What did you talk to at the PUC regarding the above? GZ

- PUC is not involved with it they should be (check and audit work, whatever they are proper, they did

not have an opportunity to do so).

Are the CCB reasonable? They have

not been looked at; they are

major fiscal maneuvers (10 + 10)

Analyses of T&E's are those
change

The changes have not received the
scrutiny they would have normally.

Best efforts

Cannot take all of the time (APC)
Cannot produce all of the time. (PA)

What were happen when APC low
its own royalty line?

Why is a 5 yr contract not
feasible?

What is the go for \$1.45? T&E - B&G;
not comparable to NCI royalty rate
contract. What - Know's spot + sale.

T&E: CCB
"Are reasonable"

⑤ what did you say was the
"average" increase which you
mentioned to Rick Union?

Tell - 1¢/gallon/oil for transportation (10¢)

~
$$1¢/\text{gallon/oil} = \underline{7.4¢/\text{Mcf/gas}}$$

42 gallons = 1 bbl

1 MM BTU/Mcf

58 MM BTU/bbl

~
Hugh Malone - 2/3 available to BLPP - Tell
cost to BLPP? 86¢ - filed tariff.

5/6/77

Senate Resources

SCR 56 - North Cook Inlet Royalty Sale

✓ ① Charges - APUC

✓ ② Highest Price Argument

✓ ③ Length of Contract - Royalty Area

5/7/77

Senate Resources

SCR 56 - NCI Royalty Sale

5/7/77

BRIEFLY,

APC NEEDS NEW SUPPLIES OF GAS TO CONTINUE SERVICE TO ITS NORTH KENAI ROAD CUSTOMERS AND TO OBTAIN ADDITIONAL RESERVES FOR ANCHORAGE.

APC MADE APPLICATION FOR ROYALTY GAS FROM THE NORTH COOK INLET FIELD IN AUGUST 1975, EXPECTING THAT THEY WOULD BE ALLOWED TO FLOW THROUGH THE HIGHER COST OF THE ROYALTY GAS FROM THE NORTH COOK INLET GAS FIELD VIS-À-VIS THEIR KENAI FIELD PRICE.

AT THAT TIME THE PRICE WAS THOUGHT TO BE 50.45¢--45¢ FOR THE GAS AND 5.45¢ FOR TRANSPORTING IT FROM THE PLATFORM TO PHILLIPS' LNG PLANT.

THE APUC ALLOWED FLOW THROUGH OF COST OF THIS HIGHER PRICE ROYALTY GAS IN DECEMBER 1975 WHEN THESE COSTS, TO THE BEST OF OUR KNOWLEDGE, WERE THOUGHT TO HAVE BEEN NO MORE THAN 55.80¢ (50.25¢ FOR THE GAS AND 5.55¢ FOR TRANSPORTATION). THIS COMPARES TO 41.5¢ FOR KENAI FIELD GAS APC HAS UNDER CONTRACT.

NOW WE ARE TALKING ABOUT 84.65¢ FOR THIS GAS. MOST OF THE ADDED INCREASE IS TAKEN UP BY THE 20¢ FOR TRANSPORTATION AND COMPRESSION. IT IS MAYBE WORTH NOTING THAT THE APUC HAD DENIED APC THEIR TAP'FF FLOW THROUGH REQUEST OF 19.5¢ IN APRIL OF 1975, BECAUSE IT WAS SO BROAD AS TO ALLOW ALL COSTS TO BE FLOWED THROUGH, A SITUATION NOT DESIRED BY THE APUC.

WE MENTION THIS ONLY TO POINT OUT THAT IT APPEARS THAT THE APUC WAS APPARENTLY THINKING OF MUCH LOWER COSTS WHEN THEY ALLOWED THESE FLOW THROUGH CHARGES THAN ARE BEING PROPOSED NOW.

Mr. Wold indicated on Friday that APC would go to the APUC to seek approval of these added transportation and compression costs. This is not so!!!!!! APC on two occasions indicated to me that they felt the Dec. '75 order allowing flow through of royalty gas costs did not require them to seek additional approval from the APUC to justify the 20¢ transportation and compression charges, and ~~that~~ they did not plan to submit them for approval to the APUC.

COMMISSIONER ZERBETZ OF THE APUC TOLD ME THAT A CURSORY REVIEW OF THE DECEMBER '75 ORDER WOULD CONFIRM APC'S CONTENTION.

THE CONTRACT BEFORE THE LEGISLATURE NOW SEEKS TO ACCOMMODATE APC SO AS TO ALLOW THEM TO TAKE THE ROYALTY GAS.

THE MAJOR DEVIATIONS ARE --

- THE DELIVERY POINT
- THE AMOUNT OF GAS APC IS REQUIRED TO TAKE OF THE ROYALTY PRODUCTION.

APPENDIX "A" ATTACHED TO THE PACKET YOU HAVE COMPARES THE KEY PROVISION OF THE CONTRACTS, AND IF YOU WANT ME TO I CAN QUICKLY GO THROUGH THESE PROVISIONS??????????????

ANOTHER POINT WORTH MENTIONING, I THINK, IS THAT THE APUC ALLOWED THE FLOW THROUGH PROVISIONS TO PROVIDE APC THE OPPORTUNITY FOR SECURING ADDITIONAL GAS RESERVES, PARTICULARLY IN ANCHORAGE. WITH THE ABSENCE OF A ROYALTY LINE AND NO EXCHANGE AGREEMENT BETWEEN APC AND PHILLIPS AND U-M, THE ANCHORAGE DEDICATED RESERVES WILL CONTINUE TO DWINDLE SINCE NO ROYALTY GAS FROM THE NORTH COOK INLET FIELD WOULD REACH ANCHORAGE. THE QUESTION IS WOULD THE APUC HAVE APPROVED THE FLOW THROUGH PROVISIONS AS THEY DID IF THEY HAD KNOWN THAT NO NORTH COOK INLET ROYALTY GAS WOULD REACH ANCHORAGE??????????????

MR. WOLD ALSO INDICATED LAST FRIDAY THAT ONE OF THE REASONS THE SALE OF ROYALTY GAS FROM THE NORTH COOK INLET FIELD TO APC WAS IN THE BEST INTEREST OF THE STATE WAS THE PRICE OF THE ROYALTY GAS. THAT IF APC COULD NOT OBTAIN THIS GAS THEY WOULD HAVE TO PAY THE CURRENT GOING PRICE FOR COOK INLET GAS, WHICH IS SAID TO BE AS HIGH AS \$1.45. THOSE COSTS, OF COURSE, WOULD BE PASSED ON TO THE CONSUMER AND WOULD BE MUCH MORE THAN ANYTHING PROPOSED BY THE CONTRACT UNDER CONSIDERATION. WHAT MR. WOLD DID NOT SAY WAS THAT THE CONTRACT PROVIDES THAT THE CONTRACT PRICE IS RENEGOTIATED ANNUALLY, AND APC WILL HAVE TO PAY THE HIGHEST PRICE OF THREE PRICING OPTIONS. ONE OF THESE OPTIONS IS THE HIGHEST PRICE PAID BY ANY PURCHASER WITHIN A 100 KM RADIUS OF PHILLIPS' PLATFORM FOR SIMILAR QUALITY GAS AND UNDER SIMILAR CONDITIONS OF DELIVERY. THE \$1.45 FIGURE INCIDENTALLY IS WITHIN THAT 100 KM RADIUS, WE ARE TOLD.

THEREFORE, IT APPEARS THAT IF PRICES REMAIN WHERE THEY ARE AT NOW, OR RISE AS CAN BE EXPECTED, APC WOULD HAVE TO PAY THE HIGHEST PRICE PAID BY ANY PURCHASER WITHIN A YEAR, AND THUS ANY PRICE ADVANTAGE WOULD BE FOREGONE WITHIN ONE YEAR.

WHEN I RAISED THIS POINT WITH MR. TEEL OF APC HE INFORMED ME THAT THERE WOULD NEVER BE A SALE UNDER SIMILAR CONDITIONS AS THE ONE NOW BEING CONSIDERED, AND THUS THEY WOULD NEVER HAVE TO PAY THAT PRICE. IF THAT IS TRUE, I WONDER WHY THE PROVISION EXISTS IN THE CONTRACT?????????

Rep. Lisa Rudd: Question re the term of the contract

Rep. Hugh Malone: (Speaking from the floor of the House)

"...We have been informed by Mr. Wold, the executive director of the State Royalty Oil and Gas Board, that before such an extension goes into effect the normal course of action would be to ask for that to be ratified by the legislature and so in answer to Rep. Rudd's question (is) initially 1984; following that any extensions are approved by the Administration and, hopefully, by the Legislature."

HCR 58

SCR 56

HB Senator Colletta moved and asked unanimous consent that the
461 Rules be suspended and HOUSE BILL NO. 461 be advanced to
third reading and placed on final passage. Without objec-
tion, it was so ordered.

HOUSE BILL NO. 461 was read the third time.

The question being: "Shall HOUSE BILL NO. 461 (Extending
term of Bristol Bay Regional Development Council) pass the
Senate?" The roll was taken with the following result:

Yeas:	18	Bradley, Butrovich, Colletta, Croft, Ferguson, Hackney, Hohman, Kerttula, Meland, Poland, Rader, Ray, Rodey, Sackett, Sumner, Tillion, Willis, Ziegler
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Nays:	1	Huber
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Excused:	1	Orsini
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and so HOUSE BILL NO. 461 passed the Senate.

Senator Colletta moved and asked unanimous consent that the
roll call on the passage of the above bill be considered
the roll call on the effective date clause. Without objec-
tion, it was so ordered.

HOUSE BILL NO. 461 was signed by the President and
Secretary and returned to the House.

SECOND READING OF HOUSE RESOLUTIONS

HCR HOUSE CONCURRENT RESOLUTION NO. 58 (Approving disposal
58 to Alaska Pipeline Company of royalty gas taken in-kind)
was read the second time.

Senator Sackett moved and asked unanimous consent that
the Letter of Intent (Senate Supplement No. 49) be adopted
as the Letter of Intent of the Senate. Senator Croft
objected.

The question being: "Shall the Finance Committee Letter
of Intent be adopted as the Letter of Intent of the
Senate?" The roll was taken with the following result:

Yeas:	12	Bradley, Butrovich, Colletta, Hackney, Huber, Meland, Poland, Rader, Sackett, Sumner, Willis, Ziegler
-------	----	--

Nays:	4	Croft, Kerttula, Ray, Tillion
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Absent:	3	Ferguson, Hohman, Rodey
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Excused:	1	Orsini
----------	---	--------

and so, the Letter of Intent was adopted as the Letter of
Intent of the Senate.

Letter of Intent of the Senate appears in Senate Supplement HCR
No. 50 to today's journal. 58

Senator Colletta moved for the adoption of HOUSE CONCURRENT
RESOLUTION NO. 58.

The question being: "Shall HOUSE CONCURRENT RESOLUTION
NO. 58 (Approving disposal to Alaska Pipeline Company of
royalty gas taken in-kind) pass the Senate?" The roll was
taken with the following result:

Yeas:	12	Bradley, Butrovich, Colletta, Ferguson, Hackney, Meland, Rader, Sackett, Sumner, Tillion, Willis, Ziegler
Nays:	6	Croft, Huber, Kerttula, Poland, Ray, Rodey
Absent:	1	Hohman
Excused:	1	Orsini

and so, HOUSE CONCURRENT RESOLUTION NO. 58 passed the
Senate was signed by the President and Secretary and
returned to the House.

The President stated the Senate would recess to a call of
the Chair. Without objection, the Senate recessed at
3:16 p.m.

AFTER RECESS

The Senate reconvened at 4:35 p.m.

The President stated engrossment on SENATE COMMITTEE SUBSTI-SCS
TUTE FOR COMMITTEE SUBSTITUTE FOR HOUSE BILL NO. 264 (Res) CSHB
amended Senate be waived in order to transmit the bill to 264
the House as soon as possible. Without objection, it was (Res)
so ordered. am
S

UNFINISHED BUSINESS

Senator Kerttula gave notice of reconsideration of SENATE
COMMITTEE SUBSTITUTE FOR COMMITTEE SUBSTITUTE FOR HOUSE
BILL NO. 264 (Res) amended Senate (Fisheries enhancement) and
asked that it be taken up at this time.

HCS SB
to third
26, 1977

May 26, 1977

HOUSE JOURNAL

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Mr. Miller moved and asked unanimous consent that HCS SB 226 (2d Rules) be considered engrossed, advanced to third reading and placed on final passage. There being no objection, it was so ordered; the bill was read the third time. HCS SB 226 (2d Rls)

The question being: "Shall HCS SB 226 (2d Rules) pass the House?" The roll was taken with the following result:

Yeas: 24 Bennett, Bradley, Brown, Buchholdt, Carpenter, Cotten, Cowper, Dankworth, Duncan, Eliason, Gruening, Kelly, Lethin, McKinnon, Malone, Meekins, Miles, Miller, Parr, Phillips, Rudd, Smith, Snider, Urion.

Nays: 16 Akers, Anderson, Beirne, Chatterton, Freeman, Gardiner, Guy, Haugen, Hayes, Lovseth, Nakak, Ose, Osterback, Rhode, Schaeffer, Swanson.

Excused: 0

And so, HCS SB 226 (2d Rules) passed the House.

Mr. Miller moved that the effective date clause be adopted.

The question being: "Shall the effective date clause be adopted?" The roll was taken with the following result:

Yeas: 36 Akers, Anderson, Beirne, Bennett, Bradley, Brown, Buchholdt, Carpenter, Chatterton, Cotten, Cowper, Dankworth, Duncan, Eliason, Gardiner, Gruening, Haugen, Hayes, Kelly, Lethin, Lovseth, McKinnon, Malone, Meekins, Miles, Miller, Ose, Osterback, Parr, Phillips, Rhode, Rudd, Smith, Snider, Swanson, Urion.

Nays: 4 Freeman, Guy, Nakak, Schaeffer.

Excused: 0

And so, the effective date clause was adopted.

SECOND READING OF HOUSE RESOLUTIONS

HOUSE CONCURRENT RESOLUTION NO. 58 (approving the disposal of Alaska Pipeline Company of royalty gas taken in-kind) was read the second time with the Resources Committee report (p. 1052) and the Finance Committee report (p. 1304 of the Journal). HCR 58

Speaker pro tempore Miller assumed the Chair.

Mr. Malone voted at Mr. Miller's desk and Mr. Miller voted at the Speaker's desk.

May 26, 1977

HCR 58 The question being: "Shall HCR 58 pass the House?" Roll call was requested and appears as follows:

Yeas: 33 Akers, Anderson, Beirne, Bennett, Carpenter, Chatterton, Cotten, Dankworth, Duncan, Eliason, Freeman, Gardiner, Guy, Hayes, Kelly, Lethin, Lovseth, Malone, Meekins, Miles, Miller, Nakak, Ose, Osterback, Parr, Phillips, Rhode, Rudd, Schaeffer, Smith, Snider, Swanson, Urion.

Nays: 4 Bradley, Brown, Buchholdt, McKinnon.

Excused: 3 Cowper, Gruening, Haugen.

And so, HCR 58 passed the House.

Mr. Malone gave notice of reconsideration of his vote on HCR 58.

Mr. Malone moved and asked unanimous consent that the House adopt the letter of intent on HCR 58. (page 1526 of the journal)

Mr. Brown objected and withdrew his objection.

Mr. Bradley objected.

The question being: "Shall the letter of intent on HCR 58 be adopted?" Roll call was requested and appears as follows:

Yeas: 37 Akers, Anderson, Beirne, Bennett, Bradley, Brown, Buchholdt, Carpenter, Chatterton, Cotten, Dankworth, Duncan, Eliason, Freeman, Gardiner, Guy, Hayes, Kelly, Lethin, Lovseth, McKinnon, Malone, Meekins, Miles, Miller, Nakak, Ose, Osterback, Parr, Phillips, Rhode, Rudd, Schaeffer, Smith, Snider, Swanson, Urion.

Nays: 0

Excused: 3 Cowper, Gruening, Haugen.

And so, the motion passed.

Mr. Malone asked to take up the reconsideration of his vote on HCR 58 at this time.

The question to be reconsidered is: "Shall HCR 58 pass the House?" The roll was taken with the following result:

Yeas: 31 Akers, Anderson, Beirne, Bennett, Chatterton, Cotten, Dankworth, Duncan, Eliason, Freeman, Gardiner, Guy, Hayes, Kelly, Lethin, Lovseth, Malone, Meekins, Miles, Miller, Nakak, Ose, Osterback, Parr, Phillips, Rhode, Rudd, Schaeffer, Smith, Swanson, Urion.

Nays: 3 Bradley, Brown, McKinnon.

May 26, 1977

Excused: 6

And so, HCR 58 passed vote and was referred

Speaker Malone resumed

Mr. Chatterton gave on HCS CSSB 226 (2d

Mr. Nakak asked that

AL
May 26, 1977
58 pass the House? Roll
as follows:
erson, Beirne, Bennett,
Chatterton, Cotten, Dankworth,
ason, Freeman, Gardiner, Guy,
Y. Lathin, Lovseth, Malone,
ice, Miller, Naude, Ose,
Parr, Phillips, Sanderson, Rudd,
Smith, Snider, Swanson, Utton.

May 26, 1977

HOUSE JOURNAL

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Excused: 6 Buchholdt, Carpenter, Cowper, Gruening, HCR
Haugen, Snider. 58

And so, HCR 58 passed the House on reconsideration of the vote and was referred to the Chief Clerk for engrossment.

Speaker Malone resumed the Chair.

Mr. Chatterton gave notice of reconsideration of his vote on HCS CSSB 226 (2d Rules). HCS
CSSB
226

Mr. Nakak asked that the members of the Conference Committee on HCS CSSB 150 be excused for a meeting in Senator Bradley's office at this time. (2d
Rls)

HOUSE CONCURRENT RESOLUTION NO. 79 (cost analysis of keeping the capital in Juneau) was read the second time with the State Affairs Committee report (page 1513 of the journal). HCR
79

A fiscal note on HCR 79 appears in House Supplement No. 70.

Mr. Anderson moved that HCR 79 be shown as sponsored by all members of the House.

Mr. Anderson withdrew his motion and moved that his name and other members desiring of having their names added, be added as co-sponsors of HCR 79. There being no objection, it was so ordered.

Mr. Miller moved and asked unanimous consent that the House recess for ten minutes. There being no objection, the House recessed at 2:55 p.m.

AFTER RECESS

The House was called to order at 3:27 p.m.

Mr. Parr moved and asked unanimous consent that the following letter of intent be concurred in by the members of the House and that it be printed in the journal. There being no objection, it was so ordered, and the letter of intent appears as follows:

Letter of Intent on HCR 79

It is the intent of the House that the fiscal note for HCR 79 be zero, and that the cost be absorbed in the authorized budget for the New Capital Site Planning Commission.

HCR The letter of intent on HOUSE CONCURRENT RESOLUTION NO. 58
58 (approving the disposal to Alaska Pipeline Company of royalty gas taken in-kind) appears as follows:

RULES COMMITTEE

LETTER OF INTENT

The House of Representatives in approving the sale of state royalty gas from the North Cook Inlet field to Alaska Pipeline Company through HCR 58, does not intend to waive, in any way, jurisdiction or regulatory authority of the state over Phillips pipeline or pipelines of a similar nature, and that approval of HCR 58 not be considered as a precedent for any royalty oil or gas sales. The House is concerned by the lack of regulatory review of the tariff charges which would be applicable under the contract.

The House therefore respectfully requests that the Governor, before the state enters into any similar contracts, review the statutes relating to state regulatory authority over pipelines used to transport state royalty oil and gas, including the consideration whether such lines should be designated as common carriers, and to report his findings and recommendations to the Second Session of the Tenth Alaska Legislature within thirty days of convening.

In addition to this, there is a question as to whether all the consumers who will be receiving benefits of the royalty gas will fairly share in the costs. Therefore, the Alaska Public Utilities Commission is respectfully requested to review its 1975 decision relating to flow-through costs of royalty gas.

Finally, although an argument for approval of the contract is certainly to increase the reserves available to both the Kenai Peninsula and Anchorage, it appears that either construction of a new line or an exchange agreement with Union Marathon is necessary to make the reserves usable. Therefore, the Alaska Public Utilities Commission is respectfully requested to review its 1971 exemption from regulation of the Kenai-Nikiski gas pipeline.

Samuel R. Cotten

Rep. Sam Cotten, Chairman
House Rules Committee

T. Buchholdt

Rep. Buchholdt, Vice Chmn

R. Urie

Rep. Urie

Tim Kelly

Rep. Kelly

W. D. Miller

Rep. Miller

Charles Parr

Rep. Parr

Norm Nekak

Rep. Nekak

May 26, 1977

CONSID

The Speaker stat
Mr. Miller moved ar
rescind its previou
No. 4.
Mr. Fr

CSHB A message dated May 10, 1977 was read stating the Senate 342 has passed COMMITTEE SUBSTITUTE FOR HOUSE BILL NO. 342 am amended (management of the coastal resources of the state; effective date) with the following amendment:

SENATE COMMITTEE SUBSTITUTE FOR
COMMITTEE SUBSTITUTE FOR HOUSE BILL NO. 342

and the same is transmitted for consideration.

REPORTS OF STANDING COMMITTEES

HCR 58 The Finance Committee has had HOUSE CONCURRENT RESOLUTION NO. 58 (approving the disposal to Alaska Pipeline Company of royalty gas taken in-kind) under consideration and five of the members recommend it do pass. Concurring: Freeman (Vice Chairman), Rhode, Haugen, Guy and Duncan. Not concurring: Gruening, Buchholdt and Meekins have no recommendation.

HCR 58 was referred to the Rules Committee for placement on the calendar.

HCR 59 The Finance Committee has had HOUSE CONCURRENT RESOLUTION NO. 59 (approving the disposal to Golden Valley Electric Association, Inc. of royalty oil taken in-kind) under consideration and a majority of the members recommends it do pass. Concurring: Freeman (Vice Chairman), Gruening, Duncan, Buchholdt, Guy, Haugen and Rhode. Not concurring: Meekins has no recommendation.

HCR 59 was referred to the Rules Committee for placement on the calendar.

CSHB A Finance Committee Chairman's letter of intent on CSHB 322 322 appears as follows: (The Finance Committee report appears on page 1284 of the journal.)

FINANCE COMMITTEE CHAIRMAN'S REPORT
FOR
COMMITTEE SUBSTITUTE
FOR
HOUSE BILL NO. 322

The House Finance Committee reports out CSHB 322, an oil and gas corporate franchise tax, which includes as additions to the original bill, HB 322, the following provisions:

1. A requirement that the tax be paid even though it be challenged before the department or under appeal in the courts (Sec. 43.21.060(1)); and

2. Relief for the taxpayer if the taxpayer can establish that it is being taxed on more than 100% of its net income (Sec. 43.21.065).

MESSAGES FROM THE SENATE

HCR 53 A message dated April 27, 1977 was read stating the Senate has passed HOUSE CONCURRENT RESOLUTION NO. 53 (Alaska Special Olympics), and it is returned.

HCR 53 was referred to the Chief Clerk for enrollment.

A message dated April 28, 1977 was read stating the Senate accepts the invitations to joint sessions April 28, 1977, Thursday at 1:30 p.m. for the purpose of confirmation of the Governor's appointments and for changes to the Uniform Rules; and April 29, Friday at 1:30 p.m. for the purpose of d-2 land discussions with the Honorable Ted Stevens, U.S. Senator, and the Governor of Alaska.

HCR 50 A message dated April 27, 1977 was read stating the Senate has passed HOUSE CONCURRENT RESOLUTION NO. 50 (commending the State Investment Advisory Committee) with the following amendment:

Page 1, line 23: After "Sterling" delete "S"

Page 2, line 2: After "Sterling" delete "S"

and so, HOUSE CONCURRENT RESOLUTION NO. 50 amended Senate is transmitted herewith for consideration.

REPORTS OF STANDING COMMITTEES

SCR 26 The Judiciary Committee has had SENATE CONCURRENT RESOLUTION NO. 26 (increase in the number of state troopers) under consideration and a majority of the members recommends it be replaced with HOUSE COMMITTEE SUBSTITUTE FOR SENATE CONCURRENT RESOLUTION NO. 26 (same title) and that it do pass. Concurring: Gardiner (Chairman), Miles, Eliason and Brown.

SCR 26 was referred to the Finance Committee.

HCR 58 The Resources Committee has had HOUSE CONCURRENT RESOLUTION NO. 58 (approving the disposal to Alaska Pipeline Company of royalty gas taken in-kind) under consideration and a majority of the members recommends it do pass. Concurring: Osterback (Chairman), Eliason, Smith, Urion and Akers. Not concurring: Snider and Malone have no recommendation.

HCR 58 was referred to the Finance Committee.

Introduced: 4/22/77
Referred: Resources

BY THE RULES COMMITTEE BY
REQUEST OF THE GOVERNOR

1 IN THE SENATE

2 SENATE CONCURRENT RESOLUTION NO. 56

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 TENTH LEGISLATURE - FIRST SESSION

5 Approving the disposal to Alaska
6 Pipeline Company of royalty gas
7 taken in-kind

8 BE IT RESOLVED BY THE LEGISLATURE OF THE STATE OF ALASKA:

9 WHEREAS, under AS 38.06.055(a), each house of the legislature must
10 approve by concurrent resolution all sales of state-owned royalty natural
11 gas before the sale may be consummated; and

12 WHEREAS the State of Alaska has the right under AS 38.05.180 and its
13 oil and gas leases to receive royalty natural gas either in-kind or in-value
14 from fields in the Cook Inlet area; and

15 WHEREAS the commissioner of natural resources has entered into a
16 contract for the sale of state-owned royalty natural gas from the North
17 Cook Inlet Field to Alaska Pipeline Company; and

18 WHEREAS the Alaska Royalty Oil & Gas Development Advisory Board
19 approved the contract for the sale of royalty natural gas from the North
20 Cook Inlet Field to Alaska Pipeline Company; and

21 WHEREAS the legislature has reviewed this contract and conducted
22 hearings and otherwise received public input on this contract; and

23 WHEREAS the legislature finds this contract to be in the public
24 interest of Alaska and its people, and further finds that this contract is
25 in compliance with all requirements of law;

26 BE IT RESOLVED by the Alaska State Legislature that the "Gas Purchase
27 Contract" dated April 11, 1977, with the Alaska Pipeline Company and the
28 commissioner of natural resources for the sale and purchase of royalty
29 natural gas from the North Cook Inlet Field is hereby approved.

Introduced: 4/22/77
Referred: Resources and
Finance

1 IN THE HOUSE

BY THE RULES COMMITTEE BY
REQUEST OF THE GOVERNOR

2 HOUSE CONCURRENT RESOLUTION NO. 58

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 TENTH LEGISLATURE - FIRST SESSION

5 Approving the disposal to Alaska
6 Pipeline Company of royalty gas
7 taken in-kind

8 BE IT RESOLVED BY THE LEGISLATURE OF THE STATE OF ALASKA:

9 WHEREAS, under AS 38.06.055(a), each house of the legislature must
10 approve by concurrent resolution all sales of state-owned royalty natural
11 gas before the sale may be consummated; and

12 WHEREAS the State of Alaska has the right under AS 38.05.180 and its
13 oil and gas leases to receive royalty natural gas either in-kind or in-
14 value from fields in the Cook Inlet area; and

15 WHEREAS the commissioner of natural resources has entered into a
16 contract for the sale of state-owned royalty natural gas from the North
17 Cook Inlet Field to Alaska Pipeline Company; and

18 WHEREAS the Alaska Royalty Oil & Gas Development Advisory Board
19 approved the contract for the sale of royalty natural gas from the North
20 Cook Inlet Field to Alaska Pipeline Company; and

21 WHEREAS the legislature has reviewed this contract and conducted
22 hearings and otherwise received public input on this contract; and

23 WHEREAS the legislature finds this contract to be in the public
24 interest of Alaska and its people, and further finds that this contract is
25 in compliance with all requirements of law;

26 BE IT RESOLVED by the Alaska State Legislature that the "Gas Purchase
27 Contract" dated April 11, 1977, with the Alaska Pipeline Company and the
28 commissioner of natural resources for the sale and purchase of royalty
29 natural gas from the North Cook Inlet Field is hereby approved.

#

CONTRACTS

APPENDIX "A"

KEY PROVISIONS

PROPOSED REVISED CONTRACT

CONTRACT 76-1

CONTRACT BETWEEN STATE AND PHILLIPS (with APC being a signatory)

CONTRACT BETWEEN STATE AND APC

Quantity: ARTICLE II
All royalty gas available, when and as available.

ARTICLE IV
1. Phillips shall use its "best reasonable efforts" to deliver not less than 3 Bcf of royalty gas annually (without requiring installation or operation of added pipeline and compression facilities), and subject to
a. availability of capacity in Phillips' facilities to handle volumes in excess of Phillips' own requirements;
b. availability of royalty gas at the platform;
c. APC's requirements; and
d. APC's ability to take the requirements.
2. Over or under deliveries of royalty gas shall be carried in an over and short account. In the event the takes by the State (APC) shall ever be 60 MMcf less than the amount of royalty gas available, Phillips shall purchase the excess undelivered quantities of royalty gas over 60 MMcf from the State, and pay the State a price equal to that amount which Phillips would have otherwise paid the State had the State taken its royalty gas in value.

ARTICLE III
1. Up to all royalty gas available, subject to
a. APC's ability to take the entire amount of royalty gas available on any given day;
b. APC's need and available delivery facilities.
APC shall use its "best reasonable efforts" to take not less than 3 Bcf of royalty gas annually.
2. Over or under deliveries of royalty gas shall be carried in an over and short account. In the event the takes by APC shall ever be 60 MMcf less than the amount of royalty gas available APC is not permitted to make up for any such underdelivery and the State may sell the undelivered quantity of royalty gas to Phillips.

Delivery Point: ARTICLE III
Delivery point shall be the same for APC as it has been for State, which is Phillips' platform.

ARTICLE III & V
Delivery point shall be at or near the existing pipeline tap being presently used to deliver gas from Phillips' pipeline to the Tesoro refinery, which is located in the general vicinity of Phillips' Kenai LNG plant on the North Kenai Road.

ARTICLE V
APC's connection into Phillips' pipeline system at or near Phillips' pipeline tap serving the Tesoro refinery. It shall be the same delivery point as that of the State and Phillips.

Price: ARTICLE V
1. To July 1, 1977 55.5¢/Mcf
2. July 1, 1977-July 1, 1978
the higher of
a. 60.36¢/Mcf or
b. price State would have received had it continued to take its royalty gas in value or
c. the highest price paid by any purchaser in the Upper Cook Inlet area (within a 100 km radius of Phillips' platform) for similar quality gas and similar conditions of delivery.
3. July 1, 1978 and each succeeding 12 month period the higher of
a. the previous year's price plus 2¢/Mcf or
b. price State would have received had it continued to take its royalty gas in value or
c. the highest price paid by any purchaser in the Upper Cook Inlet area (within a 100 km radius of Phillips' platform) for similar quality gas and similar conditions of delivery.

ARTICLE VI
1. To July 1, 1978 64.65¢/Mcf
2. July 1, 1978-July 1, 1979
the higher of
a. 66.65¢/Mcf or
b. price State would have received had it continued to take its royalty gas in value or
c. the highest price paid by any purchaser in the Upper Cook Inlet area (within a 100 km radius of Phillips' platform) for similar quality gas and similar conditions of delivery.
3. July 1, 1979 and each succeeding 12 month period the higher of
a. the previous year's price plus 2¢/Mcf or
b. price State would have received had it continued to take its royalty gas in value or
c. the highest price paid by any purchaser in the Upper Cook Inlet area (within a 100 km radius of Phillips' platform) for similar quality gas and similar conditions of delivery.

CONTRACT 76-1

Gathering and
Compression
Charges and
Taxes; Other
Charges

CONTRACT BETWEEN STATE AND PHILLIPS

ARTICLE IX

1. 10¢/Mcf for gathering costs to delivery point to increase 6 percent per year compounded annually on the anniversary date of the contract.
2. 10¢/Mcf for added compression costs to delivery point to increase 6 percent per year compounded annually on the anniversary date when the facilities were first used.
3. Additional compression charges to be mutually agreed upon between the parties, which includes APC since they are signatories of this contract (see also 12.3). If no agreement is reached within 90 days after Phillips serves notice about such added costs, then this contract is terminated.
4. Additionally, the State must pay Phillips any new or increased fee, imposts, duty, charge, excise or tax in proportion to the amount of royalty gas delivered to the State as it relates to gathering and compression.

ARTICLE XIV

Effective: Upon approval by the Legislature of the contract between the State and APC.
Expiration: June 1, 1984 unless terminated or extended prior to that date.

ARTICLE IX, XI & XIV

1. Will be terminated immediately if deliveries to State (APC) have not commenced by June 30, 1978.
2. If subjected to regulation as a utility (11.2).
3. If added compression cost cannot be agreed upon within 90 days (9.3).
4. If contract between State and APC is terminated.
5. If terminated the State's election to receive its royalty gas in-kind is revoked, and royalty gas available shall be sold to Phillips in value.
- 6.

CONTRACT BETWEEN STATE AND APC

ARTICLE VI & VII

1. 10¢/Mcf for gathering costs to delivery point to increase 6 percent per year compounded annually on the anniversary date of the contract.
2. 10¢/Mcf for added compression costs to delivery point to increase 6 percent per year compounded annually on the anniversary date when such compression facilities are ready for use. (This is different from State/Phillips agreement.)
This does not obligate Phillips to install any compression facilities or to operate any compression facilities already installed.
3. Additional compression charges to be mutually agreed upon between the State and APC. If no agreement is reached within 90 days after the State serves notice about such added costs, then this contract is terminated (7.5).
4. APC must pay the State any amount for which the State is obligated to reimburse Phillips for a proportion of new or increased fees, imposts, duties, charges or taxes. (This leaves out excise.) (The language is somewhat different from State/Phillips contract, but the effect would seem to be the same.)
5. APC must pay the State any additional costs not covered in the contract and incurred by State in transporting the gas to shore.

ARTICLE VII

Effective: Upon approval by the Legislature.
Expiration: June 1, 1984 unless terminated or extended prior to that date.

ARTICLE VII

1. Contract shall terminate immediately if deliveries to APC have not commenced by June 30, 1978.
2. Either State or APC may terminate this contract by giving 30 days notice to the other if Phillips comes under regulation as a utility.
3. Contract may be terminated if added compression cost cannot be agreed upon within 90 days.
4. Contract may be terminated if contract between State and Phillips is terminated.
- 5.
6. State may terminate upon 30 days notice to APC if the State cannot arrange for satisfactory transportation of royalty gas to shore.

Term: ARTICLE VI
Effective: Upon approval by the Legislature 5/20/76
Expiration: July 1, 1984

Termination Clause: ARTICLE VII
Allows APC to terminate the contract within 30 days of written notice to State if APC is unable to make satisfactory arrangements to take delivery of the royalty gas. APC may not exercise this right after January 31, 1978.

CONTRACT 76-1

Representation
and Condition
Precedent:

Payments:

Miscellaneous

CONTRACT BETWEEN STATE AND PHILLIPS

ARTICLE XI
Phillips, by entering into this contract,
shall not be subject to regulation by the
FPC, APUC or APC.

Should they become subject to regulation
as a utility this contract may be termin-
ated by either party upon 30 days' notice.

ARTICLE XII
APC to make all payments for State's account
directly to Phillips.

CONTRACT BETWEEN STATE AND APC

ARTICLE VIII
Neither this contract nor APC's use or
disposition of the royalty gas will subject
Phillips to FPC, APUC or APC regulation.

- ARTICLE IX
1. Assignments of interest by APC may be made
"...to conform with...(APC's) various
financing documents or as may be desirable
to...(APC) as to...(APC's) commonly owned
affiliate or subsidiary."
 2. If APC does not receive or purchase all
royalty gas available, then State can dis-
pose of that portion not taken, provided no
gathering and compression charges are incur-
red by APC as a result.

W.O. 4105
Introduced: 4/22/77
Referred: Resources and
Finance

1 IN THE HOUSE

SC R No 58

BY THE RULES COMMITTEE BY
REQUEST OF THE GOVERNOR

2 HOUSE CONCURRENT RESOLUTION NO. 58

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 TENTH LEGISLATURE - FIRST SESSION

5 Approving the disposal to Alaska
6 Pipeline Company of royalty gas
7 taken in-kind

8 BE IT RESOLVED BY THE LEGISLATURE OF THE STATE OF ALASKA:

9 WHEREAS, under AS 38.06.055(a), each house of the legislature must
10 approve by concurrent resolution all sales of state-owned royalty natural
11 gas before the sale may be consummated; and

12 WHEREAS the State of Alaska has the right under AS 38.05.180 and its
13 oil and gas leases to receive royalty natural gas either in-kind or in-
14 value from fields in the Cook Inlet area; and

15 WHEREAS the commissioner of natural resources has entered into a
16 contract for the sale of state-owned royalty natural gas from the North
17 Cook Inlet Field to Alaska Pipeline Company; and

18 WHEREAS the Alaska Royalty Oil & Gas Development Advisory Board
19 approved the contract for the sale of royalty natural gas from the North
20 Cook Inlet Field to Alaska Pipeline Company; and

21 WHEREAS the legislature has reviewed this contract and conducted
22 hearings and otherwise received public input on this contract; and

23 WHEREAS the legislature finds this contract to be in the public
24 interest of Alaska and its people, and further finds that this contract is
25 in compliance with all requirements of law;

26 BE IT RESOLVED by the Alaska State Legislature that the "Gas Purchase
27 Contract" dated April 11, 1977, with the Alaska Pipeline Company and the
28 commissioner of natural resources for the sale and purchase of royalty
29 natural gas from the North Cook Inlet Field is hereby approved.

#

Introduced: 4/22/77
Referred: Resources

1 IN THE SENATE

BY THE RULES COMMITTEE BY
REQUEST OF THE GOVERNOR

2 SENATE CONCURRENT RESOLUTION NO. 56

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 TENTH LEGISLATURE - FIRST SESSION

5 Approving the disposal to Alaska
6 Pipeline Company of royalty gas
7 taken in-kind

8 BE IT RESOLVED BY THE LEGISLATURE OF THE STATE OF ALASKA:

9 WHEREAS, under AS 38.06.055(a), each house of the legislature must
10 approve by concurrent resolution all sales of state-owned royalty natural
11 gas before the sale may be consummated; and

12 WHEREAS the State of Alaska has the right under AS 38.05.180 and its
13 oil and gas leases to receive royalty natural gas either in-kind or in-value
14 from fields in the Cook Inlet area; and

15 WHEREAS the commissioner of natural resources has entered into a
16 contract for the sale of state-owned royalty natural gas from the North
17 Cook Inlet Field to Alaska Pipeline Company; and

18 WHEREAS the Alaska Royalty Oil & Gas Development Advisory Board
19 approved the contract for the sale of royalty natural gas from the North
20 Cook Inlet Field to Alaska Pipeline Company; and

21 WHEREAS the legislature has reviewed this contract and conducted
22 hearings and otherwise received public input on this contract; and

23 WHEREAS the legislature finds this contract to be in the public
24 interest of Alaska and its people, and further finds that this contract is
25 in compliance with all requirements of law;

26 BE IT RESOLVED by the Alaska State Legislature that the "Gas Purchase
27 Contract" dated April 11, 1977, with the Alaska Pipeline Company and the
28 commissioner of natural resources for the sale and purchase of royalty
29 natural gas from the North Cook Inlet Field is hereby approved.



STATE OF ALASKA
OFFICE OF THE GOVERNOR
JUNEAU

April 22, 1977

The Honorable John L. Rader
President of the Senate
Alaska State Legislature
Juneau, Alaska 99811

Dear Mr. President:

Under authority of art. III, sec. 18 of the Alaska Constitution, and in accordance with AS 24.30.060(b) and the Uniform Rules of the Alaska State Legislature, I am transmitting a resolution giving legislative approval to a sale of royalty natural gas from the North Cook Inlet Field to Alaska Pipeline Company. AS 38.06.055(a) provides that no sale of state-owned royalty oil may be made unless approved by concurrent resolution of the legislature.

The Alaska Royalty Oil and Gas Development Advisory Board reviewed the contract and granted its approval on April 6, 1977. The Board's declarations and findings are included in the material submitted to each legislator today. I would be pleased to assist you with any additional information which you request.

Last year the State of Alaska and the Alaska Pipeline Company entered into a contract for the sale of the same royalty gas to Alaska Pipeline Company. That contract was approved by the legislature last session. However, certain difficulties with volume flexibility and arranging for the transportation of the gas from the offshore platform to shore prevented Alaska Pipeline Company from receiving the gas under that contract. The current agreement has been executed to solve these problems and allow royalty gas to be delivered to Alaska Pipeline Company.

The problems with the previous agreement were:

1. Alaska Pipeline Company was unable to use all of the royalty gas at all times (as required in the contract) due to lack of an adequate market; and yet, because of limitations also included in the contract, is unable to sell the excess gas back to Phillips Petroleum Company for export from the State.

2. Alaska Pipeline Company was unable to enter into an agreement with Phillips Petroleum Company for transporting of the gas to shore from the production platform due to understandable reluctance of Phillips to expose themselves to the jurisdiction of the Public Utilities Commission or the Pipeline Commission. The new agreement I am submitting to the legislature today remedies these problems.

✓ This new agreement with Alaska Pipeline necessitated that the State itself also enter into an agreement with Phillips Petroleum Company for delivery of the royalty gas from the platform to shore. This agreement requires that the State pay the cost of gathering and compressing the royalty gas to the point of delivery; however, Alaska Pipeline Company in turn agrees to pay these costs to Phillips for the account of the State. The Royalty Board has neither responsibility nor authority to judge the appropriateness of the level of these charges, and has not done so.

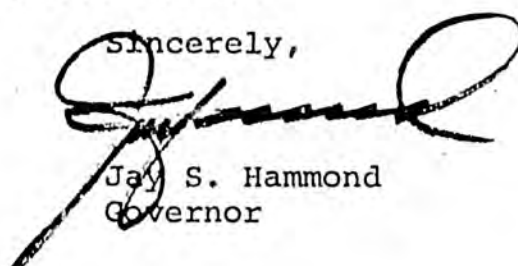
Phillips Petroleum Company has operational problems affecting their ability to deliver guaranteed volumes of royalty gas to shore, as does Alaska Pipeline Company affecting their ability to market the gas available. These companies, together with the State, have agreed to use their "best reasonable efforts" to accommodate the needs of one another to produce and market royalty gas.

The contract between the State and Phillips does not strictly require legislative approval since it does not involve a sale of royalty gas. Nevertheless, I have included it in the materials submitted to the legislature because it is an integral part of the sale of royalty gas to Alaska Pipeline Company.

✓ I believe your careful review of the enclosed materials will reveal many questions regarding this approach to resolving the many problems associated with the acquiring and delivery of this royalty gas. However, I also believe that these agreements are the best possible solution at this time, are in the best interest of the State, and are important to the long-term interest of Anchorage utility customers.

Thank you for your consideration.

Sincerely,


Jay S. Hammond
Governor

AGO 801318

Materials for Legislature

Alaska Pipeline Company

List of materials submitted to each legislator.

- ✓ 1. Gas Purchase Contract dated April 11, 1977 between Alaska Pipeline Company and the State of Alaska.
- ✓ 2. Agreement dated April 11, 1977 between Phillips Petroleum Company and the State of Alaska.
- ✓ 3. Reasons for Sale and Purchase of State Royalty Gas to Alaska Pipeline Company and for Agreement with Phillips Petroleum Company.
- ✓ 4. Findings and Conclusions of the Commissioner Pursuant to Alaska Statute 38.01.113(c) (determination not to use competitive bid procedures.)
- ✓ 5. Approvals relating to above by Alaska Royalty Oil and Gas Development Advisory Board dated April 6, 1977.
- ✓ 6. Attorney General's opinions relating to jurisdiction of Public Utilities Commission and Pipeline Commission.
- ✓ 7. Memos relating to gathering and compression charges.

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AGREEMENT

This Contract, made and entered into this 11th
day of April, 1977, by and between the State of Alaska,
herein referred to as "State", and Phillips Petroleum Com-
pany, herein referred to as "Lessee",

W I T N E S S E T H

WHEREAS, Lessee is the holder of certain mineral
leases from the State in the North Cook Inlet area of Alaska,
said leases identified in Exhibit "A" to this Agreement; and

WHEREAS, the State has the right under the terms
of said leases to receive in value or in kind a 1/8 (one-
eighth) royalty share of natural gas produced from said
leases; and

WHEREAS, the State desires to receive its in kind
royalty share of natural gas at a point other than at Lessee's
production platform; and

WHEREAS, Lessee operates a gas pipeline to gather
natural gas from the said leases to the LNG facility at
Kenai, Alaska (hereinafter referred to as Kenai LNG Plant),
which Lessee operates; and

WHEREAS, Lessee is willing to deliver to the State
its in kind royalty share of the natural gas from said
leases at a point near the Kenai LNG Plant; and

WHEREAS, the State desires to receive its royalty
share of the natural gas from said leases at such a point

1 and has agreed with Alaska Pipeline Company to sell such gas
2 to Alaska Pipeline Company (herein referred to as "APC") for
3 resale and use within the State of Alaska according to the
4 terms of that certain Gas Purchase Contract attached hereto
5 as Exhibit "B".

6 NOW, THEREFORE, premises considered, the State and
7 Lessee hereby mutually agree as follows:
8

9 ARTICLE I

10 DEFINITIONS

11 The following terms when used in this Agreement
12 shall have the following meanings:

13 1.1 The term "day" shall mean a period of twenty-
14 four (24) consecutive hours beginning and ending at 7:00
15 o'clock A.M. The reference date for any day shall be the
16 date of the beginning of such day.

17 1.2 The term "month" shall mean a period begin-
18 ning at 7:00 o'clock A.M. on the first day of a calendar
19 month and ending at 7:00 o'clock A.M. on the first day of
20 the next succeeding calendar month.

21 1.3 The term "Mcf" shall mean one thousand (1,000)
22 cubic feet of natural gas measured as hereinafter provided.
23

24 ARTICLE II

25 The State's Royalty Gas

26 2.1 Within 30 days after the execution and approval
27 of this Agreement as required by the laws of the State of
28 Alaska, the State shall notify the Lessee under the leases
29
30
31