

SCOMM

#46:16

Offered: 2/21/85
Referred: Finance

Original sponsors: Coghill, Bennett
and Fahrenkamp

1 IN THE SENATE BY THE RESOURCES COMMITTEE

2 CS FOR SENATE BILL NO. 152 (Resources)

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 FOURTEENTH LEGISLATURE - FIRST SESSION

5 A BILL

6 For an Act entitled: "An Act relating to extension and renewal of certain
7 sales of state royalty oil; and providing for an
8 effective date."

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

10 * Section 1. The following provisions of law do not apply to an exten-
11 sion or renewal of not more than three months of a sale of oil that is
12 subject to approval by the legislature under AS 38.06.055(c):

13 (1) AS 38.05.035(e);

14 (2) AS 38.05.183(a), (c), and (e); and

15 (3) AS 38.06.050.

16 * Sec. 2. A three-month extension of the "Agreement for the Sale and
17 Purchase of Royalty Oil between the State of Alaska and Golden Valley
18 Electric Association, Inc.," dated May 9, 1984, is hereby approved and
19 ratified.

20 * Sec. 3. Section 1 of this Act is repealed October 1, 1985.

21 * Sec. 4. This Act takes effect immediately in accordance with AS 01.-
22 10.070(c).

Introduced: 2/25/85
Referred: House Special Committee
on Oil & Gas, Resources and Finance

BY M.W. MILLER, FRANK, KOPONEN,
RINGSTAD, SHULTZ AND DAVIS

1 IN THE HOUSE

2 HOUSE BILL NO. 233

3

IN THE LEGISLATURE OF THE STATE OF ALASKA

4

FOURTEENTH LEGISLATURE - FIRST SESSION

5

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7

GVEA

GVEA ROYALTY OIL CONTRACT

FACT SHEET

TITLE: Agreement for Sale and Purchase of Royalty Oil

TERM: 3 months

MAJOR FACTS/BENEFITS:

- a. This is a renewal or continuation of GVEA's 1977 royalty oil contract which was the first royalty contract. GVEA is presently receiving oil and has been receiving continuously since 1981.
- b. The contract has specific "In State Processing Requirement".
- c. Guaranteed Benefits:
 - (1) Directly benefits more than 50,000 Interior residents who are consumers of GVEA by providing GVEA a lower price for turbine generator fuel.
 - (2) GVEA's fuel derived from the royalty oil agreement costs 9.4% less than next best competitive alternative.
 - (3) GVEA saves in excess of \$550,000 a year which is passed on directly to the consumer via GVEA's "Cost of Power Adjustment (CPAC)" tariff and has been a credit adjustment on the last 33 monthly electric billings.
- d. Fairbanks area electric consumers are the only major group in Alaska who do not presently benefit from hydro development, power cost assistance, or availability of economical natural gas fuels.
- e. Although approval now seems within our grasp, there have been several delays in the approval of GVEA's contract. We are in a position at this late date where even if the proposed contract is approved immediately, we will lose our oil supply because of the crude oil denomination and re-nomination requirements associated with the lapse of our current contract and implementation of the new contract. When DNR granted our present one year contract, they pledged their best efforts to insure that GVEA would suffer no crude flow interruption. Passage of S.B. 152 will insure that the commitment is kept.
- f. The 3 month lapse would result in \$125,000 to \$135,000 higher electric bills to the GVEA consumer via GVEA's CPAC.

Alaska State Legislature

ARLISS STURGULEWSKI, Chairman
BETTYE FAHRENKAMP, Vice Chairman
JACK COGHILL
DICK ELIASON
VIC FISCHER
RICK HALFORD
FRED ZHAROFF



POUCH V
JUNEAU, ALASKA. 99811
(907) 465-4907

Senate Committee on Resources

MEMORANDUM

February 19, 1985

TO: All Members
Senate Resources Committee

FROM: Staff *MC*
Senate Resources Committee

RE: SB 152 "An Act relating to extension and renewal of certain sales of state royalty oil; and providing for an effective date."

SB 152 is designed to cover a time lapse between the expiration of the state's royalty oil contract with GVEA (Golden Valley Electric Association) and the effective date of a new contract. The current contract is due to expire June 30, 1985. This bill would extend that date to September 30, 1985.

A bill approving a new royalty oil contract with GVEA is scheduled to be introduced at the request of the Governor on March 8, 1985. Royalty oil contracts become effective four months after they are signed which means that the new contract could not become effective before the original expiration date.

When the state is taking its royalty oil in kind rather than in value, State regulations require 90 days written notice when the amount of oil taken is going to change. (See attached copy of 11 AAC 82.700[2]) If the contract lapsed, the state would have to give 90 days notice that it was decreasing the amount of oil taken in kind and then, when the contract was signed, would have to give another 90 days notice that the amount was going to go back up. These notice requirements, together with the actual lapse in the contract would cause a substantial interruption in the supply of oil to GVEA.

The Department of Natural Resources has issued findings that the GVEA contract is in the best interest of the state. It appears that the issue of whether the GVEA contracts are a good or bad deal for the state is an issue that would more properly be addressed when the new contract is before this body. Nothing in this bill would commit the state in any way to the new contract.

In this packet is a sectional analysis of the committee substitute proposed by Sen. Coghill's office; a memo from Sen. Coghill's office on this issue; a copy of the relevant regulations; a chart showing the current distribution of the state's royalty oil; and a copy of GVEA's current contract.

STATE OF ALASKA
THE LEGISLATURE

LEGISLATIVE AFFAIRS AGENCY

POUCH Y STATE CARTER
JUNEAU ALASKA 998
907 465 7544

MEMORANDUM

February 18, 1985

SUBJECT: Sectional Analysis for CS for HB 152
(Resources)

TO: Senator Arliss Sturgulewski
Chairman, Senate Resources Committee

FROM: Randall J. Moen
Legislative Counsel

Section 1 The following need not occur if a sale of state royalty oil subject to legislative approval is extended or renewed for not more than three months and the extension or renewal relates to a one year or less prior sale of oil with the same party to relieve market or storage conditions:

1. A written finding to the public by the director of the division of lands for the Department of Natural Resources that a sale of oil will serve the best interests of the state. (AS 38.05.035(e))
2. Competitive bidding by the commissioner of natural resources or prior written notice to the Alaska Royalty Oil and Gas Development Advisory Board of reasons for waiver of competitive bidding. (AS 38.05.183(a))
3. Prior written notice to the public and the Alaska Royalty Oil and Gas Development Advisory Board of the reasons why the commissioner of natural resources intends to sell royalty oil other than by competitive bid. (AS 38.05.183(c))
4. A requirement of the commissioner of natural resources to sell royalty oil to a prospective buyer whose proposal offers maximum benefits to the state. (AS 38.05.183(e))

Senator Arliss Sturgulewski
February 18, 1985
page 2

5. Review and written recommendation to the legislature by the Alaska Royalty Oil and Gas Development Advisory Board. (AS 38.06.050(a))

6. Prior written notice to the Alaska Royalty Oil and Gas Development Advisory Board by the Commissioner of natural resources of rejection of a bid or application for the purchase of royalty oil. (AS 38.06.060(b))

7. Prior written notice to the Alaska Royalty Oil and Gas Development Advisory Board by the commissioner of natural resources before the waiver of competitive bidding. (AS 38,06.050(c))

Section 2 The legislature approves and ratifies a three month extension of a royalty oil contract between the State of Alaska and Golden Valley Electric Association, Inc.

Section 3 On October 1, 1985 the provisions of law noted in section 1 will apply to an extension or renewal of not more than three months of sale of oil that is subject to approval by the legislature under AS 38.96.055(c).

Section 4 Immediate effective date.

RJM:csh
c3/004

Prepared by:

Senator Coghill's
Office 2/19/85

Golden Valley Electric Assn.

Contract Extension

SB 152

Golden Valley and the State of Alaska negotiated an agreement in 1976 to sell 5,000 barrels per day of royalty oil. Golden Valley requested royalty oil so that crude oil might be used as turbine fuel for power generation if market conditions made the cost prohibitive.

Golden Valley did not exercise its option to purchase until 1981. It assigned its contract rights to Mapco in exchange for a price discount on the turbine fuel.

This price discount, over \$500,000 a year, is passed on to its 50,000 electric customers. The Department of Natural Resources has indicated that continued royalty oil sales to GVEA is in the best interest of the state because it offers maximum benefits to the citizens of the State.

The new Golden Valley contract with the State is a long-term noncompetitive bid contract for 10 years. It is still awaiting final approval. This contract will require legislative approval and will not be ready for that approval until March. It then must be signed by the governor. It becomes effective four months after signing.

The expiration date of the existing contract is June 30, 1985. As part of the Prudhoe Bay Unit Agreement of April 1, 1971, 90 days notice must be given to the producers to switch from in kind taking to in value for a small volume. This is the nomination/denomination process.

Notice must be given to the producers by March 31, 1985 under the existing contract-- if it expires June 30--in order for the State to return to in value taking.

Essentially with no extension the royalty oil will stop coming to Golden Valley. There will be a gap between the old and new contract. There is a four month waiting period before the new contract takes effect so that the State may notify the producers of its desire to take in kind. In addition to these problems are the procedural requirements found in the bill relating to public notice. Each notice step takes a certain amount of time.

This bill will allow the Golden Valley contract to extend for three months, enough time for the new contract to take effect and keep the prices of turbine fuel down to help lower fuel costs to its customers. The legislation is temporary and expires October 1, a time fixed to coincide with the new contract start-up.

It is not practical at this time to treat the proposed extension as a new disposal due to numerous requirements which would be waived by the proposed CS for SB 152.


STATE OF ALASKA
THE LEGISLATURE

POUCH Y STATE CAPITOL
JUNEAU, ALASKA 99811
907 465 3800

LEGISLATIVE AFFAIRS AGENCY

MEMORANDUM

March 4, 1985

SUBJECT: Constitutionality of HB 233
TO: House Special Committee on Oil and Gas
FROM: Randall J. Moen 
 Legislative Counsel

You have asked whether section 1 of HB 233 violates Article II, section 19 of the Alaska Constitution. In my opinion it does not.

Section 1 of HB 233 temporarily waives certain provisions of law relating to a particular type of sales of state royalty oil. It states:

The following provisions of law do not apply to an extension or renewal of not more than three months of a sale of oil subject to approval by the legislature under AS 38.06.055(c): (1) AS 38.05.035(e); (2) AS 38.05.183(a), (c), and (e); and (3) AS 38.06.050.

Article II, section 19 of the Alaska Constitution reads in part, "The legislature shall pass no local or special act if a general act can be made applicable." Two questions emerge: Is the language of section 1 of HB 233 of a special or local nature, and if so, can a general act be made applicable? I will only address the first question.

The two leading Alaska cases regarding Article II, section 19 of the Alaska Constitution are State v. Abrams, 534 P.2d 91 (1975) and State v. Lewis, 559 P.2d 630 (1977). Abrams, supra, dealt with a law giving Eagle River special incorporation privileges. In Lewis, supra, the court was faced with a law waiving other laws for a particular three way land exchange agreement. Both cases are similar in that they dealt with acts which on their face were applicable to only one entity or party or locale. This can be distinguished from section 1 of HB 233 which may apply to anyone or anywhere in general. It is not limited to any one entity or

Representative Mike Davis
March 4, 1985
Page 2

party or locale. Therefore, section 1 is not a "special or local" act under Article II, section 19 of the Alaska Constitution.

RJM:ojb
J12/051

STATE OF ALASKA



POUCH V
JUNEAU, ALASKA 99811
(907) 465-4941

HOUSE SPECIAL COMMITTEE ON OIL AND GAS

HB 233/CSSB 152

Passage of either HB 233 or its companion bill, CSSB 152, would provide for an emergency three-month extension of the present GVEA royalty oil contract. The best-interest finding of this bill is based on the royalty oil being assigned to MAPCO, and MAPCO in turn selling turbine fuel to GVEA at a discounted price. This discount results in a 1.57% savings to consumers on their electrical costs.

Because this legislation would bypass several procedures relating to the disposition of royalty oil, it is worthwhile to review the events that led to the introduction of this legislation.

- 1976 Negotiations take place between the Department of Natural Resources and GVEA
- 1977 GVEA contract is signed
- 1978 GVEA is eligible to begin receiving royalty oil; contract expires six years from date of first receipt
- 1981 GVEA elects to begin receiving royalty oil, at a rate of 5,000 b/d
- 1982 GVEA request 10-year extension of contract
- 1983 Negotiations take place between the Department of Natural Resources and GVEA; Royalty Board reviews the proposed contract
- 1984 The six-year contract expires, and an emergency one-year contract is signed
- 1985 HB 233 and CSSB 152 would provide for an emergency three-month extension

STATE OF ALASKA



POUCH V
JUNEAU, ALASKA 99811
(907) 465-4941

HOUSE SPECIAL COMMITTEE ON OIL AND GAS

HB 233

Letter of Intent

Passage of this legislation is in no way to be construed as tacit approval or endorsement having been given to the proposed ten-year royalty oil contract with GVEA. The ten-year contract shall be reviewed exclusively on its own merits at such time as this contract is presented to the Legislature.


STATE OF ALASKA
THE LEGISLATURE

POUCH Y : STATE CAPITOL
JUNEAU, ALASKA 99811
907 465 3800

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March 4, 1985
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RJM:ojb
J12/051

**STATE OF ALASKA 1985 LEGISLATIVE SESSION
FISCAL NOTE**

Revision Date: _____

REQUEST

Bill/Resolution No.: SB 152
Title: Royalty Oil, GVEA

Sponsor: Coghill
Requestor: _____
Date of Request: _____

FISCAL DETAIL

Agency Affected: Natural Resources
Program Category Affected: _____
NRMEC

BRU, Program or Subprogram(s) Affected: _____
Minerals and Energy Management

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 85	FY 86	FY 87	FY 88	FY 89	FY 90
OPERATING						
100 PERSONAL SERVICES						
200 TRAVEL						
300 CONTRACTUAL						
400 SUPPLIES						
500 EQUIPMENT						
600 LAND & STRUCTURES						
700 GRANTS, CLAIMS						
800 MISCELLANEOUS						
TOTAL OPERATING		-0-	-0-	-0-	-0-	-0-

CAPITAL						
----------------	--	--	--	--	--	--

REVENUE						
----------------	--	--	--	--	--	--

FUNDING: (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER						
TOTAL		-0-	-0-	-0-	-0-	-0-

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS: Attach a separate page if necessary

No fiscal impact.

Prepared By: Ned Farquhar Phone: 465-2400
Division: Commissioner's Office Date: 15 February 1985

Approved by Commissioner: *Esther P. Wunniche* Date: 18 February 1985
Agency: Natural Resources

Distribution (by Agency preparing fiscal note):
Legislative Finance
Legislative Sponsor
Requestor
Office of Management and Budget
Impacted Agency(ies)

7/1/84

STATE OF ALASKA

BILL SHEFFIELD, GOVERNOR

DEPARTMENT OF NATURAL RESOURCES

OFFICE OF THE COMMISSIONER

POUCH M
JUNEAU, ALASKA 99811
PHONE:


February 18, 1985

Senator Arliss Sturgulewski, Chairman
Senate Resources Committee
Alaska State Senate
Pouch V
Juneau, Ak 99811

Dear Senator Sturgulewski:

The attached Extension Amendment has been drafted to accommodate a proposed extension of the current royalty oil contract between the State and Golden Valley Association, Inc., as contemplated by the proposed Committee Substitute for Senate Bill 152. Upon enactment of the legislation (including approval by the Governor), I am prepared to execute the amendment.

Sincerely yours,


Esther C. Wunnicke
Commissioner
Department of Natural Resources

Attachment as stated

cc: Mike Kelly, Golden Valley Electric Assoc., Inc.

1574K

Extension Amendment

The following language amends the agreement for the sale and purchase of royalty oil dated May 9, 1984 between the State of Alaska and Golden Valley Electric Association, Inc.:

ARTICLE VI

TERM

6.1 Term. This Agreement shall become effective upon execution by the parties. Subject to the other provisions contained in this Agreement, Seller's obligation to sell and Purchaser's obligation to buy Royalty Oil shall begin July 1, 1984 and end June 30, 1985.

6.2 Extension of Term. Upon enactment on or before March 28, 1985 of legislation approving and ratifying a three-month extension of this Agreement, Seller's obligation to sell and Purchaser's obligation to buy Royalty Oil shall not end until September 30, 1985, or until the date of first delivery under the agreement for the sale and purchase of Royalty Oil conditionally entered into by Seller and Purchaser on February 8, 1985, whichever comes first. As used in this article, "enactment of legislation" is as defined in AS 01.10.070(f)(4).

6.3 Security for Extension of Term. Seller shall not be obligated to deliver Royalty Oil to Purchaser under any extension of the term of this Agreement if Purchaser fails by March 28, 1985 to deliver to Seller evidence that Seller may issue drafts against Purchaser's Article XV Security instrument up to and including November 30, 1985.

Date: _____

Commissioner
Department of Natural Resources

Date: _____

Golden Valley Electric
Association, Inc.

From
GVEA
2/19/85

GVEA ROYALTY OIL CONTRACT

FACT SHEET

TITLE: Agreement for Sale and Purchase of Royalty Oil

TERM: 3 months

MAJOR FACTS/BENEFITS:

- a. This is a renewal or continuation of GVEA's 1977 royalty oil contract which was the first royalty contract. GVEA is presently receiving oil and has been receiving continuously since 1981.
- b. The contract has specific "In State Processing Requirement".
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ARLISS STURGULEWSKI, Chairman
BETTYE FAHRENKAMP, Vice Chairman
JACK COGHILL
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RICK HALFORD
FRED ZHAROFF



POUCH V
JUNEAU, ALASKA, 99811
(907) 486-4907

Senate Committee on Resources

MEMORANDUM

February 19, 1985

TO: All Members
Senate Resources Committee

FROM: Staff *MSM*
Senate Resources Committee

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STATE OF ALASKA
THE LEGISLATURE

POUCH • STATE CAPITOL
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907 463 2800

LEGISLATIVE AFFAIRS AGENCY

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Senator Arliss Sturgulewski
February 18, 1985
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Section 4 Immediate effective date.

RJM:csh
c3/004

Prepared by:

Senator Coghill's
Office 2/19/85

Golden Valley Electric Assn.

Contract Extension

SB 152

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This bill will allow the Golden Valley contract to extend for three months, enough time for the new contract to take effect and keep the prices of turbine fuel down to help lower fuel costs to its customers. The legislation is temporary and expires October 1, a time fixed to coincide with the new contract start-up.

It is not practical at this time to treat the proposed extension as a new disposal due to numerous requirements which would be waived by the proposed CS for SB 152.

(2) state location and status of all past and present activities on the lease;

(3) include a detailed report of all production during the six months preceding the filing of the application;

(4) contain a detailed statement covering the entire life of the lease showing all expenses and costs of operating the lease including all royalties and overriding royalties and all income from all produced minerals from the lease; and

(5) include an agreement by the applicant to defray the cost of publishing a notice as provided in (b) of this section.

(b) Upon receipt of an application complying with (a) of this section, the commissioner will cause to be published a notice of public hearing if required on the application. The notice must

(1) state the time and place of hearing;

(2) describe the lands involved; and

(3) state the name of the applicant and the nature of the relief applied for.

(c) The notice must be published at least once a week for at least two consecutive weeks in advance of the hearing date, which must be at least 15 days after the last date of publication, in at least one newspaper of general circulation in the vicinity of the principal office of the department, and must be posted at that office for the same period.

(d) At the time and place specified in the published notice, the commissioner will hear evidence offered by the applicant and any other interested party.

(f) The commissioner must give notice of the findings and determination to the lessee and to any other person who has filed a written request for it. The action taken is effective on the date specified in the notice. (Eff. 9/5/74, Reg. 51; am 7/22/79, Reg. 71)

Authority: AS 38.05.020
AS 38.05.140
AS 38.05.145(a)

11 AAC 82.670. SUSPENSION OF

PRODUCTION OR OPERATIONS. (a) Applications for suspension of production or operations under AS 38.05.140 must comply with 11 AAC 88.105 and must contain complete information showing the necessity or justification for the suspension.

(b) Whenever the commissioner takes an action under AS 38.05.140, he will give notice to the lessee, specifying the action taken, the effective date of it, and the duration of any suspension, and note the action in the status record.

(c) No lease expires because operations or production or both are suspended under any order or with the assent of the commissioner. (Eff. 9/5/74, Reg. 51; am 7/22/79, Reg. 71)

Authority: AS 38.05.020
AS 38.05.140
AS 38.05.145(a)

11 AAC 82.675. EFFECTIVE DATE OF LEASES AND PERMITS. The effective date of a lease or permit is the first day of the month following the date on which the lease or permit was signed on behalf of the state or upon prior written request on the first day of the month in which it was signed on behalf of Alaska. (Eff. 9/5/74, Reg. 51)

Authority: AS 38.05.020
AS 38.05.145(a)

**ARTICLE 7.
ROYALTY PRODUCTS**

Section

- 700. Taking royalty in kind
- 705. Bidding method
- 710. Notice of sale
- 715. Qualifications

11 AAC 82.700. TAKING ROYALTY IN KIND. Royalty products taken in kind as provided by AS 38.05.182 must be taken pursuant to the provisions of the lease which reserves the royalty to the state. If no provision is made in the lease or in the regulations dealing with the products to be taken, all or any portion of the state's share may, at the option of the commissioner, be taken in kind in accordance with the following:

(1) 90 days' written notice will be given to

each lessee of the state's election to take the royalty products in kind; however, if the proportion of the state's share to be taken in kind exceeds 50 percent of the state's share, 180 days' notice will be given;

(2) after taking has actually commenced, the amount to be taken in kind may be increased or decreased from time to time by not more than 10 percent upon 30 days' written notice to each lessee of record, from 10 percent to 50 percent upon 90 days' written notice, and over 50 percent upon 180 days' written notice:

(3) the products must be delivered to the state or its designated purchaser free of charge at the point provided in the lease for determination of the value of the royalty product if the production to be taken were paid in money rather than taken in kind; the condition of the product must be the same as the non-royalty share at the point of taking; the lessee shall, if necessary, furnish safe storage for the royalty share free of charge for the same duration and in the same manner as storage is provided for the non-royalty share; when all or part of the royalty product to be taken consists of gas, the commissioner will take into consideration the effect this taking may have on the long-term gas supply contracts that the lessee has entered into. (Eff. 9/5/74, Reg. 51; am 7/22/79, Reg. 71)

Authority: AS 38.05.020
AS 38.05.145(a)
AS 38.05.182

11 AAC 82.705. BIDDING METHOD. Royalty products which the commissioner determines are to be sold by competitive bid will be offered for sale by sealed bid or at public auction. (Eff. 9/5/74, Reg. 51; am 7/22/79, Reg. 71)

Authority: AS 38.05.020
AS 38.05.145(a)
AS 38.05.183

11 AAC 82.710. NOTICE OF SALE. If the commissioner determines that royalty products will be offered for competitive sale, notice of the sale will be given as provided by AS 38.05.345. The notice must specify all the terms and conditions of the sale, including the royalty products to be sold, bidding method, bond requirements, sale place and time, minimum bid, if prescribed, and any other term or condition which the commissioner determines necessary

to carry out the purposes of AS 38.05.183. (Eff. 9/5/74, Reg. 51; am 7/22/79, Reg. 71; am 3/18/83, Reg. 85; am 3/30/83, Reg. 85)

Authority: AS 38.05.020(b) AS 38.05.145
AS 38.05.135(b), AS 38.05.180

11 AAC 82.715. QUALIFICATIONS. A purchaser of the state royalty products must comply with the qualification requirements of 11 AAC 82.200 and must supply the showing of qualification required of mineral permittees and lessees by 11 AAC 82.205. (Eff. 9/5/74, Reg. 51; am 7/22/79, Reg. 71)

Authority: AS 38.05.020
AS 38.05.145(a)

ARTICLE 8. RECORDS AND REPORTS

Section

- 800. Production records
- 805. Test results
- 810. Confidentiality of data
- 815. Cross-referencing

11 AAC 82.800. PRODUCTION RECORDS. (a) Mineral lessees of state land shall keep in their possession accurate books and records showing the production and disposition of all minerals produced from the leased land and shall permit the commissioner or his agents at all reasonable hours to examine them.

(b) The commissioner will, in his discretion, require copies of sales contracts and other agreements with the first bona fide purchaser affecting produced minerals which are subject to royalties. (Eff. 9/5/74, Reg. 51; am 7/22/79, Reg. 71)

Authority: AS 38.05.020(b)(1)
AS 38.05.145(a)

11 AAC 82.805. TEST RESULTS. The lessee of a state-issued mineral lease shall furnish, upon request of the commissioner, a copy of all geological, geophysical, engineering, and other factual data obtained from the lease, including all pertinent tests, records, surveys, and analyses conducted on or pertaining to the leased land or products from it, but not including interpretations of these items or proprietary research data

JAN 14, 1985

STATE OF ALASKA
DEPARTMENT OF NATURAL RESOURCES
DIVISION OF OIL AND GAS

ESTIMATED PRODUCTION FOR PRUDHOE BAY AND KUPARUK RIVER UNITS

YEAR	ESTIMATED TOTAL PRODUCTION (BARRELS PER DAY)			ESTIMATED ROYALTY (BARRELS PER DAY)			ESTIMATED SALES OF ROYALTY OIL (BARRELS PER DAY)							ROYALT IN VALUE
	TOTAL PRUDHOE	(1) TOTAL KUPARUK	TOTAL	PRUDHOE ROYALTY	KUPARUK ROYALTY	TOTAL ROYALTY	NAOCO	(2) SUEA (OLD)	(3) SUEA (PROPOSED)	(4) TESORO (OLD)	(5) TESORO (NEW)	(6) CHEVRON	(7) COMPETITIVE SALE	
1984	1,532,000	123,000	1,655,000	187,500	15,000	202,500	15,000	5,000		37,763		18,000		184.72
1985	1,532,000	183,000	1,715,000	187,500	22,500	210,000	15,000		5,000	45,999	25,001	18,000	65,000	15.30
1986	1,532,000	180,000	1,712,000	187,500	22,500	210,000	15,000		5,000	45,999	25,001	18,000		88.00
1987	1,472,000	180,000	1,652,000	184,375	22,500	206,875	15,000		4,917	45,233	25,567	17,700		78.45
1988	1,322,000	200,000	1,522,000	165,625	25,000	190,625	15,000		4,417	48,633	22,967	15,900		71.76
1989	1,172,000	200,000	1,372,000	146,875	25,000	171,875	15,000		3,917	36,833	20,367	14,100		62.45
1990	1,022,000	200,000	1,222,000	131,250	25,000	156,250	15,000		3,500	32,200	18,200	12,600		54.72
1991	950,000	200,000	1,150,000	118,750	25,000	143,750	15,000		3,167	29,133	16,467	11,400		48.55
1992	850,000	200,000	1,050,000	106,250	25,000	131,250	15,000		2,833	25,066	14,734	10,200		42.41
1993	750,000	200,000	950,000	93,750	25,000	118,750	15,000		2,500	21,000	13,000	9,000		36.70
1994	650,000	170,000	820,000	81,250	21,250	102,500	15,000		2,167	19,933	11,257	7,800		30.33
1995	575,000	145,000	720,000	71,875	18,125	90,000	15,000							25.80
1996	510,000	120,000	630,000	62,750	15,000	77,750	15,000							21.70
1997	460,000	100,000	560,000	57,500	12,500	70,000	15,000							18.20
1998	420,000	80,000	500,000	52,500	10,000	62,500	15,000							15.10
1999	380,000	75,000	455,000	47,500	9,375	56,875	15,000							12.50
2000	340,000	65,000	405,000	42,500	8,125	50,625	15,000							10.00
2001	300,000	55,000	355,000	37,500	6,875	44,375	15,000							8.00
2002	270,000	50,000	320,000	32,750	6,250	39,000	15,000							6.50
2003	240,000	40,000	280,000	30,000	5,000	35,000	15,000							5.50
2004	210,000	35,000	245,000	26,250	4,375	30,625	15,000							4.50
2005	180,000	25,000	205,000	22,500	3,125	25,625	15,000							3.50
2006	160,000	25,000	185,000	20,000	3,125	23,125	15,000							3.00
2007	140,000	20,000	160,000	17,500	2,500	20,000	15,000							2.50
2008	110,000	20,000	130,000	13,750	2,500	16,250	15,000							2.00
2009	90,000	10,000	100,000	10,000	1,250	11,250	15,000							1.50
2010	50,000	10,000	60,000	6,250	1,250	7,500	15,000							1.00

- NOTES:
- (1) DNR ESTIMATE OF FIELD PERFORMANCE, OCTOBER 1984.
 - (2) [REDACTED]
 - (3) [REDACTED]
 - (4) TESORO'S CURRENT CONTRACT CALLS FOR A MAXIMUM QUANTITY OF 24,500 BPD OF DAILY PRUDHOE ROYALTY OIL LESS COOK INLET ROYALTY PRODUCTION. THE QUANTITY IS 21,200 BPD IN 1984, AND WILL BE 21,325 BPD STARTING JAN 1, 1995. THIS CONTRACT WILL BE INCREASED TO ITS MAXIMUM QUANTITY ON OCTOBER 1, 1985 DUE TO CANCELLATION OF THE COOK INLET CONTRACT ON THAT DATE. THE CONTRACT EXPIRES JANUARY 1995.
 - (5) MOST OF THIS VOLUME (ABOUT 25,000 BPD), WHICH IS CURRENTLY BEING TAKEN "IN VALUE," WAS SOLD COMPETITIVELY FOR DELIVERY APRIL 1, 1985 THRU SEPT. 31, 1985. ON OCTOBER 1, 1985 IT IS ANTICIPATED THAT TESORO WILL COMMENCE DELIVERIES UNDER ITS 12/9/83 PRUDHOE CONTRACT, WHICH HAS A MAXIMUM QUANTITY OF 13.86% OF DAILY PRUDHOE ROYALTY OIL AND EXPIRES JAN. 1, 1995.
 - (6) CHEVRON'S CONTRACT CALLS FOR A MAXIMUM QUANTITY OF 9.6% OF DAILY PRUDHOE ROYALTY OIL. THE CONTRACT EXPIRES JANUARY 1, 1995.
 - (7) DELIVERIES WILL COMMENCE APRIL 1, 1985 FOR 50,000 BPD OF PRUDHOE BAY UNIT ROYALTY OIL AND 15,000 BPD OF KUPARUK RIVER UNIT ROYALTY OIL, AND WILL CONTINUE FOR ONE-YEAR, AND SIX-MONTH PERIODS, RESPECTIVELY. AS A RESULT OF THE DEC. 11, 1984 COMPETITIVE SALE. PRIOR TO THAT TIME THIS OIL REMAINS "IN VALUE."

dmj



MAPCO PETROLEUM INC.

A SUBSIDIARY OF MARCO INC.

480 NORTH BELT
SUITE 111
HOUSTON TEXAS 77060
(713) 931-7860
TELEX 794655

February 15, 1985

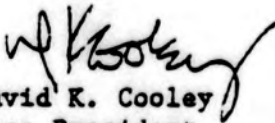
Senator John B. (Jack) Coghill
Alaska State Legislature
Pouch V (MS 3100)
Juneau, Alaska 99811

Dear Senator Coghill:

Mapco would support legislation introduced by yourself and co-sponsored by Senators Bennett and Fahrenkamp, that would extend for three months the term of the royalty oil sale contract between the State of Alaska and Golden Valley Electric Association, Inc. This extension would ensure a steady supply of oil available for processing for Golden Valley's account until the new long term contract is in place.

We appreciate the efforts of the Alaska legislature in this regard.

Very truly yours,


David K. Cooley
Vice President

DKC:jr

jr

STATE OF ALASKA



POUCH V
JUNEAU, ALASKA 99811
(907) 485-4041

HOUSE SPECIAL COMMITTEE ON OIL AND GAS

To: Representative Mike Davis, Chairman
From: Jonathan Sperber, Committee Aide
Date: March 17, 1985
Re: CSSB 152

The present and proposed GVEA royalty oil contracts are both predicated on GVEA assigning its crude oil to MAPCO, in exchange for which MAPCO then sells a share of #4 turbine fuel to GVEA at a discounted price. Of the 5,000 b/d of crude oil presently being assigned to MAPCO, 625 b/d of #4 turbine fuel is in return sold to GVEA. This represents approximately one-third of GVEA's turbine fuel needs, and one-sixth of the utility's total energy needs.

The turbine fuel is sold to GVEA at a discount from MAPCO's standard price, and this \$550,000 annual discount is passed through to GVEA's members as a 1.57% savings on their electrical costs. This consumer benefit satisfies the best-interest requirements set forth in AS 38, and thus serves as the basis and justification for the state to sell royalty oil to GVEA.

The product breakdown of the 5,000 b/d of crude oil that MAPCO presently receives from GVEA is as follows:

625 b/d	#4 turbine fuel sold to GVEA at discount
1758 b/d	other refined products
2617 b/d	residual oil
5000 b/d	total

The residual oil is returned to the Trans-Alaska Pipeline at Fairbanks, and is then reclaimed by MAPCO as whole crude oil at Valdez. MAPCO may then exchange this oil for crude oil from the North Slope, thereby repeating the process of receiving, refining, returning, and exchanging oil. As a penalty for returning lower-quality oil into the pipeline, MAPCO pays a quality bank differential of 10¢ per API degree loss. At a 7 degree quality loss, MAPCO would pay a penalty of 70¢ per barrel.

Each barrel of crude oil refined by MAPCO produces approximately 5.25 gallons of turbine fuel and 11.18 gallons of jet fuel and diesel/heating oil. The remaining oil is reinjected into the pipeline as resid. MAPCO marks-up turbine fuel at about 9¢/gal. (from assignment agreement with MAPCO) and jet and diesel/heating oil at about 26¢/gal. (from Alaska Petroleum Product Pricing). This implies an annual gross profit of about \$2,170,000 based on 1758 b/d at a mark-up of \$3.38 per barrel. Operating and depreciation expenses would be deducted from this figure to arrive at MAPCO's annual net profit.