

SCOMM

#46:22

Department of Commerce and Economic Development Position Paper on HB 445, entitled "An Act relating to information on royalty oil and gas."

The Department of Commerce and Economic Development (DCED) does not oppose this bill but raises some questions on the appropriateness of the task's placement under its purview.

The department currently does not engage in an activity related to the oil and refining industries similar in nature to the one proposed by HB 445. Hence, an appropriate amount of start-up costs will have to be incurred to get the system going. Meanwhile, the Department of Natural Resources (DNR) already collects the information on the sale volume and prices of royalty oil and gas.

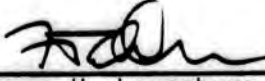
In addition, DNR is required to perform projections of future oil and gas consumption in the State. Such projections could be made more reliably by demand and supply market analysis of refined products. Retail prices collected as a requirement of HB 445 would be an inseparable part of demand projections of refined products.

However, a certain amount of duplication of effort may be acceptable in exchange for other benefits derived by holding DCED responsible with the execution of the Act's requirements. The following suggestions for the program are made with this in mind.

The Department suggests that the amendment to AS 38.05.183, Section 1, paragraph j, be extended to require reporting of refinery product prices, not just volumes. As it stands, item 2 of that paragraph is ambiguous.

Because there are few crude oil and gas producers and few refiners in the state, information collected from these sources should become a routine after the first year. A more difficult task would be tracking the wholesalers' and retailers' prices on a regional basis. The distribution component of products rapidly multiplies the number of contacts to be made in order to collect the required information. Consequently, a surveying approach is proposed for this component of the program. Surveys will be conducted only quarterly and some regions will be consolidated to keep costs down. If the number of wholesalers and retailers are large, a statistical sample will be used, again for cost containment reasons.

A major concern of the Act would be to conduct analyses based on the information collected, in order to answer policy questions. These questions may involve supply of cheap oil and gas to refiners to keep final product prices low, determination of the reasons for regional higher product prices or the maximization of state revenues received from royalty oil and gas. For this reason, we request an Economist II position, who will respond to analysis requests from the Legislature.


Loren H. Lounsbury
Commissioner
2/12/86
Date

**STATE OF ALASKA 1986 LEGISLATIVE SESSION
FISCAL NOTE**

Revision Date : _____

REQUEST

Bill/Resolution No. : CS HB 445
 Title : An Act relating to information
 on royalty oil and gas.
 Sponsor : Marco A. Pignalberi
 Requestor : _____
 Date of Request : _____

FISCAL DETAIL

Agency Affected : Commerce & Econ. Dev.
 BRU : Economic Development Advocates
 Components : Research Analysis and
 Support

EXPENDITURES/REVENUES : (Thousands of Dollars)

OPERATING	FY 86	FY 87	FY 88	FY 89	FY 90	FY 91
PERSONAL SERVICES	-0-	98.2	101.1	104.1	107.2	110.4
TRAVEL	-0-	6.3	3.2	3.3	3.4	3.5
CONTRACTUAL	-0-	39.4	38.4	39.6	40.8	42.0
SUPPLIES	-0-	3.1	2.0	2.1	2.2	2.3
EQUIPMENT	-0-	9.3	1.0	1.0	1.1	1.1
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	-0-	156.3	145.7	150.1	154.7	159.3

CAPITAL						
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REVENUE						
---------	--	--	--	--	--	--

FUNDING : (Thousands of Dollars)

GENERAL FUND	-0-	156.3	145.7	150.1	154.7	159.3
FEDERAL FUNDS						
OTHER						
TOTAL	-0-	156.3	145.7	150.1	154.7	159.3

POSITIONS :

FULL-TIME	-0-	2	2	2	2	2
PART-TIME	-0-					
TEMPORARY	-0-					

ANALYSIS : Attach a separate page if necessary

Note: A 37% inflation rate is used from FY 88 through FY 91.

Prepared by : Orhan Yildiz Phone : 465-2017
 Division : Research Analysis and Support Date : 2/12/86

Approved by Commissioner :  Date : 2/12/86
 Agency : Commerce and Economic Development

Distribution (by Agency preparing fiscal note) :

- Legislative Finance
- Legislative Sponsor
- Requestor
- Office of Management and Budget
- Impacted Agency(ies)

CONTINUATION of FISCAL NOTE ANALYSIS

For Bill/Resolution No. CS HB 445

Assumptions: This fiscal note is prepared with the assumption that the mandates of the proposed HB445 will be an addition to the existing tasks of the Economic Analysis Section, which is part of the Economic Development Advocates BRU. In preparing an estimate of personal services the FY 86 salary schedule and the FY 87 benefit schedule (Appendix C of FY87 budget instructions) were used.

Additionally, it is assumed that the royalty oil and gas related volume and price statistics will be obtained directly from the Department of Natural Resources, which currently compiles this information. Hence, the estimates of personal services and travel expenditures reflect this assumption.

Part of the data will be collected through reports of refiners. It is assumed that refiners will be required to report not only the volume and price of royalty oil purchased, but also the prices and volume of the slate they produce. The wholesale and retail prices for refined products will require periodic regional surveys. Here we propose a quarterly survey to be done by a subcontractor.

Program Summary: Collect and compile information on the price and volume of royalty oil and gas, and refinery products from the royalty fuels. Produce a monthly report of average regional production and prices. Prepare an annual summary report, with a brief description of the regional market conditions for various refined products and the impact of possible alternatives in allocating the royalty fuels among in-state refiners.

1. **Positions:** Two new positions, an Economist II and a Research Analyst II, will be added to the existing staff of the Economic Analysis Section. They will be supervised by an existing Economist III to assure timely production of reports and analysis. See the attached position descriptions.
2. **Other Expenditures:** A survey of wholesale and retail prices will be subcontracted. There will also be travel expenditures to initially establish the reporting format and requirements of the refiners and subsequently to perform occasional audits to establish reliability of information. Equipment purchases (personal computers) will be made to facilitate compilation and analysis of data. Other contractual expenditures will be mostly the cost of preparing monthly reports. The cost breakdown of expenditures, other than personal services, is given on the following page.

CONTINUATION of FISCAL NOTE ANALYSIS

For Bill/Resolution No. CS HB 445

Travel:

5 trips to refineries (@ \$352 each)	\$1,760
5 trips to oil and gas producers (@ \$422)	2,110
Per diem expenditures (30 days)	2,400
TOTAL	\$6,270

Contractual:

Survey of wholesalers and retailers	\$28,000
Publications (printing)	7,000
Mailing	1,000
Telephone Communications	2,400
Computer Softwares	1,000
Maintenance	800
TOTAL	\$40,200

Supplies:

Stationary & copier supplies	\$ 400
Forms	400
Desk Supplies	800
Data Processing supplies	1,500
TOTAL	\$3,100

Equipment:

Chairs and bookcases	\$ 600
Electronic calculators	300
Two wang workstations (@ 3.5 each)	7,000
Wang installation	600
TOTAL	\$8,500

Position Title Research Analyst II			No. of Positions 1	Range/Step 16	Barg. Unit 6	Gov. Leg.	Approv.	Disapp.
Time Status FTP	Staff Months 12	RP Number	Location Juneau		Election District			
Type of Expenditure			Justification					
		Amount	<p>Research Analyst II will contact the Department of Natural Resources, crude oil and gas producers, refiners and the subcontractor to receive volume and price data on products in a timely manner. He will enter this information on the computer and perform necessary computations to produce the monthly report. RA II will train the suppliers of information on how to fill forms and check the consistency of provided data.</p>					
1	2	3						
Salary	32.4							
Benefits	10.3							
Premium Pay								
Other								
Total Personal Services		42.7						
Travel		3.2						
Contractual		19.7						
Commodities		1.6						
Equipment		4.7						
Other								
Total Cost		29.2						
Receipt Code	Funding Source							
	Federal Receipts 1002							
	G. F. Match 1003							
	General Funds 1004		71.9					
	I-A Receipts 1005							
	Program Receipts 1028							
	CIP Receipts 1061							
	Other							
For B&M Use Only								
Key Number _____								

**Request For
New Position**

Agency Commerce & Economic Development
 BRU Economic Development Advocates
 Component Research, Analysis & Support

FY 87

Page _____ of _____
 Revised Date _____

Position Title Economist II			No. of Positions 1	Range/Step 20A	Barg. Unit G	Gov.	Approv.	Disapp.																																															
Time Status FTP	Staff Months 12	RP Number	Location Juneau		Election District	Leg.																																																	
<table border="1"> <thead> <tr> <th>Type of Expenditure</th> <th>1</th> <th>2</th> <th>3</th> </tr> </thead> <tbody> <tr> <td>Salary</td> <td></td> <td>42.8</td> <td></td> </tr> <tr> <td>Benefits</td> <td></td> <td>12.7</td> <td></td> </tr> <tr> <td>Premium Pay</td> <td></td> <td></td> <td></td> </tr> <tr> <td>Other</td> <td></td> <td></td> <td></td> </tr> <tr> <td>Total Personal Services</td> <td></td> <td></td> <td>55.5</td> </tr> <tr> <td>Travel</td> <td></td> <td></td> <td>3.1</td> </tr> <tr> <td>Contractual</td> <td></td> <td></td> <td>15.7</td> </tr> <tr> <td>Commodities</td> <td></td> <td></td> <td>1.5</td> </tr> <tr> <td>Equipment</td> <td></td> <td></td> <td>4.7</td> </tr> <tr> <td>Other</td> <td></td> <td></td> <td></td> </tr> <tr> <td>Total Cost</td> <td></td> <td></td> <td>29.0</td> </tr> </tbody> </table>			Type of Expenditure	1	2	3	Salary		42.8		Benefits		12.7		Premium Pay				Other				Total Personal Services			55.5	Travel			3.1	Contractual			15.7	Commodities			1.5	Equipment			4.7	Other				Total Cost			29.0	Justification <p>The Economist II in FY 87 will draft a reporting form for the refiners and a survey questionnaire for refined product retailers and wholesalers; write a request for proposal to subcontract four quarterly surveys of retail and wholesale prices of refined products; design the data compilation and analysis of collected information; and write up the monthly and annual summary reports. The Economist II will supervise the Research Analyst II, who will be responsible for day-to-day contact with sources and collection of information.</p>				
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**Request For
New Position**

Agency Commerce & Economic Development
 BRU Economic Development Advocates
 Component Research, Analysis & Support

FY 87

Page _____ of _____
 Revised Date _____

Bannister
2/20/86/

Original sponsor: Pignalberi

1 IN THE HOUSE

BY THE HOUSE SPECIAL COMMITTEE
ON OIL AND GAS

2 CS FOR HOUSE BILL NO. 445 (Oil & Gas)

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 FOURTEENTH LEGISLATURE - SECOND SESSION

5 A BILL

6 For an Act entitled: "An Act relating to information on royalty oil and
7 gas."

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

9 * Section 1. AS 38.05.183 is amended by adding new subsections to read:

10 (h) The department shall collect and compile information neces-
11 sary to determine on a monthly basis a representative

12 (1) price paid for state royalty oil and gas by in-state
13 refiners;

14 (2) refinery gate sales price of in-state refined fuel
15 products;

16 (3) wholesale or market exchange sales price of in-state
17 refined fuel products; and

18 (4) retail price of in-state refined fuel products.

19 (i) The commissioner may not enter into a noncompetitively-bid
20 contract of more than one year for the sale of state royalty oil or
21 gas to an in-state refiner unless the refiner agrees to provide infor-
22 mation to, and assist or allow the collection of information by, the
23 department on a monthly basis to determine the representative monthly
24 wholesale price, market exchange sales price, and refinery gate sales
25 price of the in-state refined fuel products of the refiner.

26 (j) A person who contracts to purchase royalty oil from the
27 state under this section under a noncompetitively-bid contract of more
28 than one year for in-state use shall provide to the commissioner,
29 during the period that the purchaser takes, refines, transports, or

1 otherwise deals with the purchased royalty oil, a report for the
2 preceding month that indicates for the purchased royalty oil

3 (1) the volume of oil taken;

4 (2) the products, including residual oil, produced from the
5 oil;

6 (3) the volume of oil sold in the state; and

7 (4) the volume of oil exported from the state.

8 * Sec. 2. AS 38.05.965 is amended by adding a new paragraph to read:

9 (24) "fuel products" means all oil and gas refined products
10 produced at an in-state refinery from state royalty oil and gas.

11 * Sec. 3. AS 38.05.183(j) enacted by sec. 1 of this Act applies to
12 noncompetitively-bid contracts of more than one year for the purchase of
13 royalty oil for in-state use from the state that are entered into on or
14 after the effective date of this Act.
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STATE OF ALASKA 1986 LEGISLATIVE SESSION FISCAL NOTE

Revision Date : 2/19/86

REQUEST

Bill/Resolution No. : CSHB 445
 Title : An Act Requiring Refiners
TO Submit...

 Sponsor : Signalberi
 Requestor : Signalberi
 Date of Request : 2/17/86

FISCAL DETAIL

Agency Affected : Natural Resources
 BRU : Oil & Gas

 Components : _____

EXPENDITURES/REVENUES : (Thousands of Dollars)

OPERATING	FY 86	FY 87	FY 88	FY 89	FY 90	FY 91
PERSONAL SERVICES	3900	3900	3900	3900	3900	3900
TRAVEL	.500	.500	.500	.500	.500	.500
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	4400	4400	4400	4400	4400	4400

CAPITAL						
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REVENUE						
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FUNDING : (Thousands of Dollars)

GENERAL FUND	4400	4400	4400	4400	4400	4400
FEDERAL FUNDS						
OTHER						
TOTAL						

POSITIONS :

FULL-TIME						
PART-TIME	1/12	1/12	1/12	1/12	1/12	1/12
TEMPORARY						

ANALYSIS : Attach a separate page if necessary

Prepared by : Ned Farquhar Phone : 465-2400
 Division : Commissioner's Office Date : 465-2400

Approved by Commissioner : *Esther C. Wunnicke* Date : 2-19-86
 Agency : Department of Natural Resources

Distribution (by Agency preparing fiscal note) :

- Legislative Finance
- Legislative Sponsor
- Requestor
- Office of Management and Budget
- Impacted Agency(ies)

STATE OF ALASKA 1986 LEGISLATIVE SESSION FISCAL NOTE

Revision Date : _____

REQUEST

Bill/Resolution No. : CSHB 445
 Title : An Act relating to information on royalty oil and gas.
 Sponsor : Marco A. Pignalberi
 Requestor : _____
 Date of Request : _____

FISCAL DETAIL

Agency Affected : Commerce & Economic Development
 BRU : Economic Development Advocates
 Components : Research and Support

EXPENDITURES/REVENUES : (Thousands of Dollars)

OPERATING	FY 86	FY 87	FY 88	FY 89	FY 90	FY 91
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL	-0-	55.0	58.0	60.6	63.0	65.5
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	-0-	55.0	58.0	60.6	63.0	65.5

CAPITAL						
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REVENUE						
---------	--	--	--	--	--	--

FUNDING : (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER						
TOTAL						

POSITIONS :

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS : Attach a separate page if necessary

DCED plans to subcontract the task in the form of a telephone survey and report the results of this survey on a monthly basis. It is assumed that transactions of royalty oil and refined products, as well as transaction prices, will be reported to DCED by oil producers and refiners.

Prepared by : Orhan Yildiz, Chief Economist
 Division : Research and Support

Phone : 465-2079
 Date : February 13, 1986

Approved by Commissioner : 
 Agency : Commerce & Economic Development

Date : 2/13/86

Distribution (by Agency preparing fiscal note) :

- Legislative Finance
- Legislative Sponsor
- Requestor
- Office of Management and Budget
- Impacted Agency(ies)

Original sponsor: Pignalberi

1 IN THE HOUSE

BY THE HOUSE SPECIAL COMMITTEE
ON OIL AND GAS

2 CS FOR HOUSE BILL NO. 445 (Oil & Gas)

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 FOURTEENTH LEGISLATURE - SECOND SESSION

5 A BILL

6 For an Act entitled: "An Act relating to information on royalty oil and
7 gas."

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

9 * Section 1. AS 38.05.183 is amended by adding new subsections to read:

10 (h) The department shall collect and compile information neces-
11 sary to determine on a monthly basis a representative monthly

12 (1) price paid for state royalty oil and gas by in-state
13 refiners;

14 (2) retail price of in-state refined fuel products;

15 (3) refinery gate sales price of in-state refined fuel
16 products; and

17 (4) wholesale or market exchange sales price of in-state
18 refined fuel products.

19 (i) The commissioner may not enter into a contract for the sale
20 of state royalty oil or gas to an in-state refiner unless the refiner
21 agrees to provide information to, and assist or allow the collection
22 of information by, the department on a monthly basis to determine the
23 representative monthly wholesale price, market exchange sales price,
24 and refinery gate sales price of its in-state refined fuel products.

25 (j) A person who contracts to purchase royalty oil from the
26 state under this section shall provide to the commissioner, during the
27 period that the purchaser takes, refines, transports, or otherwise
28 deals with the purchased royalty oil, a report for the preceding month
29 that indicates for the purchased royalty oil

- 1 (1) the volume of oil taken;
2 (2) the products, including residual oil, produced from the
3 oil;
4 (3) the volume of oil sold in the state; and
5 (4) the volume of oil exported from the state.

6 * Sec. 2. AS 38.05.965 is amended by adding a new paragraph to read:

7 (24) "fuel products" means all oil and gas refined products
8 produced at an in-state refinery from state royalty oil and gas.

9 * Sec. 3. AS 38.05.183(j) enacted by sec. 1 of this Act applies to
10 contracts for the purchase of royalty oil from the state that are entered
11 into on or after the effective date of this Act.

Bannister
1/30/86

Original sponsor: Pignalberi

1 IN THE HOUSE

BY THE HOUSE SPECIAL COMMITTEE
ON OIL AND GAS

2 CS FOR HOUSE BILL NO. 445 (Oil & Gas)

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 FOURTEENTH LEGISLATURE - SECOND SESSION

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

9 * Section 1. AS 38.05.183 is amended by adding new subsections to read:

10 (h) The Department of Commerce and Economic Development shall
11 collect and compile information necessary to determine on a monthly
12 basis the ^{representative} ^ monthly

13 (1) price paid for state royalty oil and gas by in-state
14 refiners;

15 (2) retail price of in-state refined fuel products;

16 (3) refinery gate sales price of in-state refined fuel
17 products; and

18 (4) wholesale or market exchange sales price of in-state
19 refined fuel products.

20 (i) The commissioner may not enter into a contract for the sale
21 of state royalty oil or gas to an in-state refiner unless the refiner
22 agrees to provide information to, and assist or allow the collection
23 of information by, the Department of Commerce and Economic Development
24 on a monthly basis to determine the average monthly wholesale
25 price, market exchange sales price, and refinery gate sales price of
26 its in-state refined fuel products.

27 (j) A person who ^{contracts to} purchase royalty oil from the state ^{after the effective date of} ^ ^{this act} under this
28 section shall provide to the commissioner, during the period that the
29

1 purchased royalty oil, a report for the preceding month that indicates
2 for the purchased royalty oil

3 (1) the volume of oil taken;

4 (2) the products, including residual oil, produced from the
5 oil;

6 (3) the volume of oil sold in the state; and

7 (4) the volume of oil exported from the state.

8 * Sec. 2. AS 38.05.965 is amended by adding a new paragraph to read:

9 (24) "fuel products" means all oil and gas refined products
10 produced at an in-state refinery from state royalty oil and gas.

11 * Sec. 3. AS 44.33.020 is amended by adding a new paragraph to read:

12 (28) collect and compile information necessary to determine
13 on a monthly basis the ^{representative} monthly prices of

14 (A) royalty oil and gas purchased from the state; and

15 (B) fuel products sold by in-state refiners and made
16 from royalty oil or gas purchased from the state.

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STATE OF ALASKA

BILL SHEFFIELD, GOVERNOR

DEPARTMENT OF NATURAL RESOURCES

POUCH M
JUNEAU, ALASKA 99811
PHONE: 907-465-2400

OFFICE OF THE COMMISSIONER

February 7, 1986

The Honorable Marco Pignalberi
Alaska State Legislature
P.O. Box V
Juneau, AK 99811

Dear Representative Pignalberi:

* As you requested, the Department has examined House Bill 445, which is entitled "An Act relating to information on royalty oil and gas." The bill calls for the submission and gathering of a variety of data to enable precise estimates of the consumer benefits attributable to in-state royalty oil contracts. The availability of such data would enhance considerably the department's ability to address this very complex and recurring question.

The department annually gathers the data mentioned in this bill that pertain to the regional and intrastate movement of refined products. That task represents a large share of the staff time embodied in the Historical and Projected Oil and Gas Consumption report. As was mentioned in my letter to you of February 4, 1986, some reporting requirements are also contained in the royalty contracts held by Tesoro and Chevron. A similar clause appears in the Petro Star/Chevron royalty contract presently before the Legislature.

With some exceptions, the new data sought under House Bill 445 relates to wholesale and retail product prices. The implementation of the reporting and data gathering system for those prices is the department's main area of concern with this bill. The foremost difficulty with obtaining such data stems from the language of the royalty oil contracts presently in force or before the Legislature. MAPCO, Tesoro, and Chevron, which together nearly constitute the State's refining industry, did not negotiate their long-term royalty oil contracts with price reporting provisions. Such a provision would doubtless be regarded as a material item by those refiners.

The absence of direct wholesale information from those refiners severely undermines the ability of this or any other department to gather such data. Of the first set of four data items listed in this legislation, the refinery

gate sales price (3) and the wholesale and market exchange sales price (4) would be affected by this limitation. As presently written, a number of areas would also be left to the interpretation of the agency charged with this task. For example, the distinction between refinery gate, wholesale, and market exchange prices is not clear.

The interpretation of the term "regional" as it corresponds to "average" may also prove troublesome. For instance, the second data item shown in the bill refers to the retail price of refined products. While such prices would be relatively easy to gather, they vary substantially within the State according to region. Further, considerable price variation can be expected within any region selected since transportation costs, even over small distances, account for much of that variation. A hypothetical region such as Western Alaska, where retail prices in Dutch Harbor are markedly less than those of Bethel, is a case in point. The retail price differentials between Fairbanks and remote locations in the Interior region provide a further example. Since there are nearly as many "retail price regions" as there are remote settlements in Alaska, the attempt to produce average retail prices on a regional basis, if this is intended, would not yield meaningful figures.

The apparent utility of the data requested is to learn the price effects of state royalty oil contracts. However, the task of relating retail prices to refinery gate prices, even when available, is much complicated by the interim activities of transportation and distribution. In that process, the ownership of refined products may change several times before reaching the final consumer. These factors are a prime obstacle to a satisfactory measurement of the price effects of royalty oil contracts to in-state refiners. The measurement of those price effects must entail a comparison to some base case. That base case would be the price of Alaska refined products in the absence of state royalty oil contracts. This in turn depends on the actual cost of refining, including the amortization of refinery capital stock at present value. Such sensitive cost data would not likely be made available to the State. Generally, the price advantages traceable to a royalty oil contract could not exceed the difference between the cost of royalty oil and the cost of alternative feedstocks, plus what value the purchasers may place on the advantages of a long-term contract.

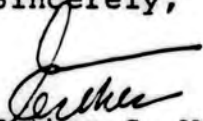
The cost to the department of implementing this bill is very dependent on which agency is given the task of compiling the information, the bill's interpretation, and the degree of cooperation from in-state refiners. As now written, the

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* fiscal impact in DNR is negligible since the Department of Commerce and Economic Development is responsible for compiling the information. If it is decided to give DNR this responsibility and under the most demanding interpretation with no cooperation from in-state refiners beyond their present contractual obligations, the department conservatively estimates that the equivalent of one staff member would be permanently assigned to this task. This preliminary estimate is based on a discussion with staff from the University's Institute of Social and Economic Research and the department's previous experience with the annual Historical and Projected Oil and Gas Consumption report.

I hope this is helpful. Please contact Kay Brown if you would like additional information.

Sincerely,


Esther C. Wunnicke
Commissioner

cc: Kay Brown, Director
Division of Oil and Gas

STATE OF ALASKA

DEPARTMENT OF NATURAL RESOURCES

OFFICE OF THE COMMISSIONER

BILL SHEFFIELD, GOVERNOR

POUCH M
JUNEAU, ALASKA 99811
PHONE: 907-485-2400

February 4, 1986

The Honorable Marco Pignalberi
Alaska State Legislature
P.O. Box V
Juneau, AK 99811

Dear Representative Pignalberi:

I am writing in response to your recent information requests of the department regarding mental health lands and royalty oil.

It would be costly and take a great deal of staff time to reproduce a complete set of maps, status plats, and reports on state mental health lands. Instead, we have provided your office a copy of the Alaska-wide map indicating townships containing mental health lands. I also would be willing to meet with you to describe the programs and would gladly put our microfiche records and hard-copy reports at your disposal if you or your staff wish to do research in Juneau or Anchorage. Please let me know if you need anything more on this topic.

The department does not keep a royalty oil chart of the kind that you requested, and it would be expensive and time consuming to undertake the preparation of one. Similar information is available in the historic oil and gas supply/demand report submitted annually to the Legislature. The House Research Agency might be able to prepare a chart like the one you have requested.

* In response to your inquiries of January 16 and January 30, 1986, on royalty oil management, I would like to raise several points helpful to your consideration of a bill calling for specific reporting requirements of in-state royalty oil purchasers. Presently, two of the state's four in-state refiners are contractually obligated to report on a monthly basis most of the data listed in your letter. The long-term negotiated royalty contract for Petro Star/Chevron presently before the Legislature also contains those reporting obligations, but on a quarterly basis. The earlier

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Mapco contract contains no regular reporting obligation, however, the contract calls for Mapco to consult with the state prior to exporting refined products from Alaska. (See Sec. 3.3 and 3.3.1 of the contract.)

Section 2.12 of the Tesoro, Chevron, and Petro Star/Chevron royalty oil contracts states in part that the purchaser shall report "the quantity of refined petroleum products produced and marketed in the State of Alaska...." While this section does not explicitly call for the product slate of the purchaser, the purchasers have, as a matter of practice, included their product slate with the monthly report. Petro Star, which has a very narrow product slate, is expected to follow suit. To avoid prospective competitive disadvantages, Chevron has requested that its monthly report be held confidential.

* In addition to a more explicit requirement with respect to product slate, the department believes there may be merit to your suggestion for an export report requirement. However, this information may be roughly deduced by comparing the volume of products marketed in Alaska to the volume of refined products produced in Alaska. The volume of residual oil may be obtained in a similar manner.

As your letter acknowledges, it probably would be difficult at this point to tighten the reporting requirements of Mapco, Tesoro and Chevron. We are also precluded against taking such action with the Petro Star/Chevron contract for two reasons: 1) Petro Star has virtually no capacity for export, and 2) Petrostar's limited product slate may be ascertained by examining its report of the volume of refined products produced in Alaska, as the product ratios of this simple distillation refinery are relatively inflexible. Nevertheless, I believe the reporting requirements you are considering may be of some aid to the department's data gathering efforts in the future. Naturally, the degree of resistance to these requirements on the part of a potential purchaser is an offsetting factor.

* With respect to the additional price related data mentioned in your correspondence of January 30, 1986, the royalty contracts presently in force or before the Legislature do not call for the reporting of such price information. As for the last two items of that correspondence regarding the volume of oil sold in and exported from the state, I believe you are referring to refined products and perhaps residual oil, all of which is either directly or indirectly attainable from Tesoro, Chevron, and Petro Star.

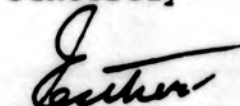
The Hon. Marco Pignalberi

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We are preparing a response to your most recent information request regarding HB 445 and will be in touch with you as soon as our work is complete. If you have any further questions, please contact me or Kay Brown, Director of the Division of Oil and Gas.

Sincerely,



Esther C. Wunnicke
Commissioner

cc: Tom Koester, Department of Law
Kay Brown, Division of Oil and Gas
Tom Hawkins, Division of Land and
Water Management
Jim Ayers, Governor's Office