

SCOMM

#46:24

BILL SHEFFIELD, GOVERNOR

**DEPARTMENT OF NATURAL RESOURCES**

**OFFICE OF THE COMMISSIONER**

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January 30, 1986

The Honorable Mike Davis, Chairman  
House Special Committee on Oil & Gas  
Alaska State Legislature  
P.O. Box V  
Juneau, AK 99811

Subject: Comments on HB 495

Dear Representative *Mike* Davis:

This letter summarizes the department's comments on HB 495, an Act relating to state oil and gas interests, which is scheduled for a hearing today before the House Special Committee on Oil and Gas.

Generally, we commend your efforts to streamline and clarify royalty oil and gas policy and procedures.

We believe the following suggestions would help further clarify the provisions of these statutes. Our comments are organized on a section by section basis.

I. Section 1.

- A. The new section 38.16.020 would require that royalty oil be taken in kind unless the commissioner determined that taking in value would be in the best interest of the state. We recommend that this section be modified by substituting "makes a written determination" for the word "determines" on page 1, line 29 of the Bill.
- B. Section 38.16.040 would consolidate and revise the criteria for making noncompetitive dispositions. In order to make this section consistent with the primary objective of maximizing state revenue, we suggest that the "or" on page 2, line 23 be changed to an "and".

Section 38.16.040 would require in item (7) that the commissioner consider "the ability, intent and degree of certainty of the prospective purchaser to provide refined products or by products for distribution and sale in the state with significant price and supply benefits for the

citizens of the state." This language is problematical since it will be difficult to assess "the intent and degree of certainty" with regard to future actions by long-term contract purchasers.

- C. Section 38.16.050(a) requires legislative approval for amendments to contracts that appreciably reduce the consideration received by the state. This provision could be clarified with respect to prices negotiated under price reopeners by inserting the following after the word "state" on line 23, page 3: ", including a reduction in price negotiated under a price reopener provision,".

Section 38.16.050(b) would restrict assignments of unrefined royalty oil. We believe this subsection appropriately should apply only to sales to instate refiners. We suggest insertion of the words "to an instate refiner" after the word "disposition" on line 25, page 3.

Section 38.16.050(b)(1)(A) would require the commissioner to be satisfied that an assignment of a royalty oil contract "will result in a significant increase of direct monetary benefit to energy consumers of the state." It is not clear whether the commissioner must be satisfied that the assignment will result in an increase of benefit compared to no royalty oil contract at all, or compared to a royalty contract without the assignment being made. This language would be particularly problematical in a situation like the one encountered in the GVEA contract approved last year, where the assignment and the contract are contemporaneous.

- D. Section 38.16.060 would add a needed clarification to the export restriction. We strongly support this change.
- E. Section 38.16.070 would require legislative approval of long-term contracts. The Department of Law has frequently asserted the unconstitutionality of this type of provision under the principles of separation of powers.

Section 38.16.070(d) refers to dispositions under (c)(2), requiring that they not be continued after the end of one year. Since subsection (c)(2) provides for two-year competitive sales, the words "or (c)(2)" on line 7, page 5 should be deleted.

- F. Section 38.16.080 requires a royalty oil and gas status report to be submitted to the legislature. With regard to item (1), we suggest that the reporting of royalty status

The Honorable Mike Davis, Chairman

Page 3

January 30, 1986

should be either by unit or by lease. We suggest the Bill be amended on lines 16 and 17, page 5 to read "(1) the royalty status of all producing oil and gas units or leases;".

In item (3), the commissioner would have to provide the "findings of the commissioner" for each noncompetitive sale. It is not clear if these findings must be provided only for contracts entered into in the previous year, only for contracts proposed for consideration by the legislature that year, or for every existing noncompetitive contract. It is also unclear whether the commissioner can just restate the findings made at the time the contract was entered into, or whether a new finding must be prepared indicating the current status of compliance with applicable disposal criteria. If the intent is that we submit findings only for new proposals, this could be accomplished by inserting the word "proposed" after the word "each" on line 19, page 5. We also suggest that the phrase "noncompetitively bid disposition" be replaced by "noncompetitive disposition."

Item (4) of this section would require "an evaluation of the economic consumer benefits resulting from in-state refiners and processors currently receiving royalty oil or gas." This evaluation will entail a number of interpretative and cost considerations. This requirement is the basis for the department's estimated fiscal impact of HB 495.

Assuming that "consumer benefits" refers to price benefits and does not include benefit categories such as employment or revenue, it would be the department's task to estimate the difference between current product prices and the hypothetical product prices which would prevail in the absence of royalty oil contracts for the state's four local refineries. However, the pricing behavior of these refineries in the absence of royalty oil contracts would be difficult to ascertain.

Given the difficulty of the task and the staff resources available, the department is certain that this requirement would require the services of professional consultants. Preliminary discussions with the university's Institute of Social and Economic Research, which is a representative candidate for this undertaking, indicate an initial cost of \$50,000 and \$25,000 each year thereafter. This cost is based on the above described methodology, which the department believes necessary to a meaningful examination of consumer benefits. The department also believes that a imprecise

treatment of this issue could lead to legal objections from affected instate refiners and utilities. Needless to say, these estimates would increase somewhat if any subsequent royalty oil contracts were awarded to instate refiners.

Section 38.16.080(5)(D) refers to oil and gas sold on a "competitive and noncompetitive bid basis." We suggest that the word "bid" on line 1, page 6 be deleted.

Section 38.16.080(5)(E) refers to purchases "by foreign nations." As we are seeing in the Cook Inlet export situation, it is unlikely that a foreign nation itself would purchase oil. More appropriate language is "purchased for export to foreign nations."

II. Section 3.

- A. Section 38.05.035 would be amended to provide that subsection (e) of that section does not apply to "royalty on oil or gas." We suggest that this provision be modified by substituting "to dispositions of royalty oil or gas" for the words "to royalty on oil or gas" on lines 1 and 2, page 8.

III. Section 9.

- A. AS 38.05.180(1) would be amended to require the commissioner to make a written finding that the state "receives back" its stored or traded royalty share. Since the underlift recovery would occur in the future, the language could more appropriately require that the state "will receive back" its stored or traded royalty share (line 29, page 9).

IV. Section 11 and Section 13.

- A. The new language added as subsection (aa) in Section 13 of the Bill could logically be placed at the beginning of the existing subsection (r). If this change were adopted, corresponding changes would be needed in sections 10 and 12 of the Bill (lines 12 and 27, page 10).

V. Section 20.

- A. In order to make section 38.06.010 consistent with the proposed sections 38.16.010 and 38.16.040, we suggest that the words "maximize revenue, to" be inserted after the words "calculated to" on line 26, page 12.

VI. Section 22.

- A. Section 38.06.040(a)(1) would still require the royalty board to "develop a plan for the wise development of the state's royalty oil and gas interests." The royalty board lacks the resources to prepare this type of plan.
- B. Section 38.06.040(a)(2) would require the royalty board to hold hearings to determine whether a disposition complies with the criteria in "AS 38.16.040." The current statute, AS 38.06.040(a)(2), references the criteria in AS 38.06.070. Since section .070 states the criteria for sales requiring legislative approval, we believe that the royalty board now need hold hearings only on sales requiring legislative approval. The proposed language would refer to the criteria in the new section 38.16.040, which are the criteria the commissioner must consider in any negotiated disposal; thus, the new language would seem to require royalty board hearings on any negotiated disposal, whether or not legislative approval was required.

VII. Section 24.

- A. The items in this revised section 38.06.070, criteria, could appropriately be combined with the powers and duties of the board listed in the new section 38.06.040. The items listed here technically are not criteria but rather possible recommendations that the board may make to the commissioner and a report that the board must make for proposed sales requiring legislative approval. It would seem to be consistent with the intent of the bill to consolidate all "criteria" in a single section. Adoption of this change would require corresponding changes in other sections.
- B. Section 38.06.070(2) would require the board to "report fully" for dispositions requiring legislative approval. The royalty board lacks the resources to prepare a full report on proposed dispositions.

VIII. Section 27.

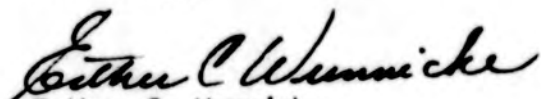
- A. This section would amend AS 44.62.175(a) to include additional items that must be published in the Alaska Administrative Journal. It is apparently an oversight that all proposed disposals under AS 38.05 were not previously

The Honorable Mike Davis, Chairman  
Page 6  
January 30, 1986

included. We suggest that the changes proposed on lines 2, 19, 20 and 21 of page 16 be deleted and replaced with a provision that reads: "(10) a notice of disposal required by AS 38.05.945 or AS 38.16."

Thank you for the opportunity to comment.

Sincerely,

  
Esther C. Wunnicke  
Commissioner

1935K

# STATE OF ALASKA 1986 LEGISLATIVE SESSION FISCAL NOTE

Revision Date : \_\_\_\_\_

**REQUEST**

Bill/Resolution No. : HB 495  
 Title : An Act relating to State Oil and Gas interests and providing for effective date  
 Sponsor : Oil and Gas Committee  
 Requestor : Governor  
 Date of Request : 1-24-86

**FISCAL DETAIL**

Agency Affected : Natural Resources  
 BRU : Petroleum Management  
 Components : Petroleum Management

**EXPENDITURES/REVENUES : (Thousands of Dollars)**

OPERATING	FY 86	FY 87	FY 88	FY 89	FY 90	FY 91
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL	50.0	25.0	25.0	25.0	25.0	25.0
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
<b>TOTAL OPERATING</b>	<b>50.0</b>	<b>25.0</b>	<b>25.0</b>	<b>25.0</b>	<b>25.0</b>	<b>25.0</b>

CAPITAL						
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REVENUE						
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**FUNDING : (Thousands of Dollars)**

GENERAL FUND	50.0	25.0	25.0	25.0	25.0	25.0
FEDERAL FUNDS						
OTHER						
<b>TOTAL</b>	<b>50.0</b>	<b>25.0</b>	<b>25.0</b>	<b>25.0</b>	<b>25.0</b>	<b>25.0</b>

**POSITIONS :**

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

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

See attached analysis.

Prepared by : Jim Eason Phone : 762-4246  
 Division : Division of Oil and Gas Date : 1-30-86  
 Approved by Commissioner : *M. D. Amodeo, Deputy* Date : 1-30-86  
 Agency : Natural Resources

Distribution (by Agency preparing fiscal note) :

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

Analysis for HB 495

The department believes that the implementation of item 4 of Section 38.16.080 will entail a number of interpretive and cost considerations. This subsection calls for "an evaluation of the economic consumer benefits resulting from in-state refiners and processors currently receiving royalty oil and gas...". Assuming that "consumer benefits" refers to price benefits and does not include benefit categories such as employment or revenue, it would be the department's task to estimate the difference between current product prices and the hypothetical product prices which would prevail in the absence of royalty oil contracts for the State's four local refineries. However, the pricing behavior of these refineries in the absence of royalty oil contracts would be difficult to ascertain.

Given the difficulty of the task and the staff resources available, the department is certain that this requirement will entail the services of professional consultants. Preliminary discussions with ISER, which is a representative candidate for this undertaking, indicate an initial cost of \$50,000 and \$25,000 each year thereafter. This cost is based on the above described methodology, which the department believes necessary to a meaningful examination of consumer benefits. The department also feels that an imprecise treatment of this issue could lead to legal objections from affected in-state refiners and utilities. Needless to say, these estimates would increase somewhat if any subsequent royalty oil contracts were awarded to in-state refiners.

HB 495  
Question and Answer Overview

What does HB 495 seek to accomplish?

HB 495 attempts to clarify state policy and administrative procedures regarding the taking and disposition of royalty oil and gas. This clarification is intended to facilitate the procurement of royalty oil and gas by eligible purchasers, while also improving the working relationship between industry, the legislature, and the administration.

In order to effect these changes, HB 495 isolates oil and gas royalties from other royalty resources in AS 38. A new chapter comprised in part of sections of AS 38.05 and AS 38.06 would deal exclusively with the taking and disposition of royalty oil and gas. This new chapter, AS 38.16, would also consolidate criteria regarding the sale of royalty oil and gas into a single section.

The revisor of statutes has also been asked to consider rearranging certain sections of AS 38.05 in order to further clarify the requirements and procedures set forth in this chapter.

What are the major policy and procedural issues addressed in the bill?

HB 495 focuses on several issues of consequence to the state. Following is a brief outline of the policy changes proposed in the bill.

1. Clear direction is given to the commissioner of DNR regarding the taking and disposition of royalty oil and gas. Central to this policy is the maximization of state revenues, with secondary goals being to expand foreign markets and to supply existing and new in-state refineries and utilities with royalty oil at current market value.
2. The commissioner of DNR must submit an annual report to the legislature delineating the status of all state-owned royalty oil and gas production and disposition. The report must be submitted no later than the 15th day of each regular session.

3. The state reserves the right to purchase residual oil from in-state refiners.
4. Language is deleted that allowed royalty oil or gas taken in kind to be exported from the state only after the commissioner made a determination that "the royalty-in-kind oil or gas is surplus to the present and projected intrastate domestic and industrial needs" of the state.
5. The term of a competitively-bid disposition of royalty oil or gas which may take place without legislative approval is extended to two years from the current one year limitation.
6. The commissioner of DNR must make public written findings and conclusions relating to non-competitive dispositions of royalty oil and gas.
7. The Alaska Royalty Oil and Gas Development Advisory Board is transferred to the Department of Natural Resources from the Department of Commerce and Economic Development.
8. All oil and gas exploration incentives are retained, with the exception that royalties on oil and gas cannot be reduced below 12.5 percent.
9. An assignment of unrefined royalty oil purchased from the state is prohibited unless certain minimum benefits to citizens of the state are met.
10. Prior to disposing of royalty oil or gas, consideration must be given not only to a prospective purchaser's ability to provide significant price and supply benefits to citizens of the state, but also to the degree of certainty and intent of the prospective purchaser that these benefits will be provided.
11. Prior to disposing of royalty oil or gas, consideration must also be given to the local or regional desirability of the disposition.
12. DNR may provide by regulation for the confidentiality of documents and records in the same manner that this is presently done by the royalty board. In neither case should these confidentiality provisions preclude proper legislative review of proposed sales of royalty oil or gas.

HB 495  
Sectional Analysis

\* Section 1.

Chapter 16. Taking and Disposition of Royalty Oil and Gas.

HB 495 isolates oil and gas royalties from other royalties in AS 38, and clarifies state policy for the taking and disposition of royalty oil and gas. Chapter 16 is a new chapter comprised, in part, of sections of AS 38.05 and AS 38.06.

Sec. 38.16.010. Directs the state to maximize revenues related to the taking and disposition of royalty oil and gas. Secondary goals are to supply existing in-state refineries and utilities with royalty oil or gas at current market value, supply new in-state refineries and utilities with royalty oil at current market value, and expand foreign markets for royalty resources.

Sec. 38.16.020. Rewording, without substantive change, of the provision that the state give preference to taking its royalty in kind. [AS 38.05.182(a)]

Sec. 38.16.030. (a) Rewording, without substantive change, of the provision that the state give preference to disposing of its royalty by competitive bid to the highest bidder. [AS 38.05.183(a)]

(b) Rewording to clarify that a single competitive bid may be rejected. [AS 38.05.183(b)]

(c) The commissioner must make public written findings and conclusions relating to dispositions of oil or gas which are to be made other than by competitive bid.

Sec. 38.16.040. This section consolidates criteria for the commissioner and the board to consider when reviewing proposals to dispose of royalty oil or gas non-competitively. Changes to these criteria are:

(1) Cash value for the oil or gas shall not be below current market value. [AS 38.05.183(e)]

(2) No substantive change. [AS 38.05.183(e) and AS 38.06.070(a)]

(3) Consideration of projected local and regional economic benefits of refining or processing oil or gas in state. [AS 38.05.183(e) and AS 38.06.070(a)]

Sec. 38.16.040. (Continued)

(4) No substantive change. [AS 38.06.070(a)]

(5) No substantive change. [AS 38.06.070(a)]

(6) No substantive change. [AS 38.06.070(a)]

(7) Consideration must be given not only to a prospective purchaser's ability to provide significant price and supply benefits to citizens of the state, but also to the intent and degree of certainty that these benefits will be provided.

Sec. 38.16.050. (a) No substantive change. [AS38.05.183(f)]

(b)(1) Prohibits an assignment of unrefined royalty oil purchased from the state unless certain minimum benefits to citizens of the state are met.

(b)(2) Reserves to the state the right to purchase residual oil from in-state refiners.

Sec. 38.16.060. Deletes language allowing royalty oil or gas taken in kind to be exported from the state only after the commissioner has made a determination that "the royalty-in-kind oil or gas is surplus to the present and projected intrastate domestic and industrial needs" of the state. [AS 38.05.183(d)]

Sec. 38.16.070. Subsection (c)(2) of this section extends the term of a competitively-bid disposition of royalty oil or gas which may take place without legislative approval to two years from one year. [AS 38.06.055]

Sec. 38.16.080. Requires the commissioner to submit a royalty oil and gas report to the legislature no later than the 15th day of each regular legislative session.

Sec. 38.16.090. The department may provide by regulation for the confidentiality of documents and records. Similar provisions remain in effect for the board under AS 38.06. [AS 38.06.060]

Sec. 38.16.900. Definitions.

\* Section 2.

Sec. 38.05.020. (b) Technical change, referencing AS 38.16.

\* Section 3.

Sec. 38.05.035. Technical change, reflecting Ch. 64 SLA 85 (HB 103).

\* Section 4.

Sec. 38.05.036. (a) Technical change, referencing AS 38.16.

\* Section 5.

Sec. 38.05.036. (b) Technical change, referencing AS 38.06.060 and AS 38.16.090.

\* Section 6.

Sec. 38.05.069. (f) Technical change, referencing AS 38.16.

\* Section 7.

Sec. 38.05.135. (a) Retains all exploration incentives, with the exception that royalties on oil and gas cannot be reduced below 12.5 percent.

\* Section 8.

Sec. 38.05.140. (c) Technical change, deleting language relating to oil and gas lease acreage. This language is transferred to the new subsection AS 38.05.180(aa).

\* Section 9.

Sec. 38.05.180. (l) Technical changes regarding the state's ability to store or trade its royalty share. Also adds a provision requiring the commissioner to make written findings prior to storing or trading the state's royalty share.

\* Section 10.

Sec. 38.05.180. (q) Technical change, referencing the new subsection AS 38.05.180(aa).

\* Section 11.

Sec. 38.05.180. (r) Technical change, referencing the new subsection AS 38.05.180(aa).

\* Section 12.

Sec. 38.05.180. (t) Technical change, referencing the new subsection AS 38.05.180(aa).

\* Section 13.

Sec. 38.05.180. Technical change, adding the new subsection (aa).

\* Section 14.

Sec. 38.05.182. (a) References to oil and gas are deleted from this subsection relating to the taking of royalty.

\* Section 15.

Sec. 38.05.182. The new subsection (c) is added, stating this this section does not apply to royalty oil or gas.

\* Section 16.

Sec. 38.05.183. (a) The commissioner is not required to provide written notice to the royalty board regarding the non-competitive sale of non-oil or -gas royalty.

\* Section 17.

Sec. 38.05.183. (b) The commissioner is not required to provide written notice to the royalty board regarding the rejection of a competitive bid for non-oil or -gas royalty. Language is changed to clarify that a single bid may be rejected without necessitating the rejection of all bids involved in the sale.

\* Section 18.

Sec. 38.05.183. (c) The commission is not required to provide written notice to the royalty board regarding the determination upon which the decision was based to sell non-oil or -gas royalty non-competitively.

\* Section 19.

Sec. 38.05.183. A new subsection (h) is added, stating this this section does not apply to royalty oil or gas. Disposition of royalty oil and gas, including requirements that the commissioner provide written notice to the royalty board, is addressed in AS 38.16.030 and AS 38.16.040.

\* Section 20.

Sec. 38.06.010. The purpose of AS 38.06 is expanded to include local or regional desirability as a major consideration for the disposition of royalty oil or gas. Also included is a technical change referencing AS 38.16.

\* Section 21.

Sec. 38.06.020. The Alaska Royalty Oil and Gas Development Advisory Board is transferred to the Department of Natural Resources from the Department of Commerce and Economic Development.

\* Section 22.

Sec. 38.06.040. Technical changes, referencing AS 38.16.

\* Section 23.

Sec. 38.06.050. Technical changes, referencing AS 38.16.

\* Section 24.

Sec. 38.06.070. Subsection (a) is deleted, and the substance of this subsection is transferred to AS 38.16.040. The board may recommend that refiners proposing to distribute and sell refined products and by-products in-state provide significant price and supply benefits to the citizens of the state.

\* Section 25.

Sec. 38.06.080. Definitions.

\* Section 26.

Sec. 43.05.010. (16) Technical change referencing AS 38.16.

\* Section 27.

Sec. 44.62.175. (a) Technical change referencing AS 38.16.030. Also requires that notice of findings required to be made public by the commissioner be published in the Alaska Administrative Journal.

\* Section 28.

Sec. 38.05.183. Subsections (d), (e), (f) and (g) are repealed in order that this section exclusively address the sale of non-oil and -gas royalty. The sale of oil and gas royalty is addressed in AS 38.16.030 and AS 38.16.040.

Sec. 38.06.055. This section is repealed, and provisions regarding legislative approval of royalty oil and gas contracts are transferred to AS 38.16.070.

\* Section 29.

Sec. 01.10.070. (c) Provides for an immediate effective date.

CSHB 495  
Sectional Analysis

\* Section 1.

Chapter 16. Taking and Disposition of Royalty Oil and Gas.

HB 495 isolates oil and gas royalties from other royalties in AS 38, and clarifies state policy for the taking and disposition of royalty oil and gas. Chapter 16 is a new chapter comprised, in part, of sections of AS 38.05 and AS 38.06.

Sec. 38.16.010. Directs the state to maximize citizen benefits related to the taking and disposition of royalty oil and gas. Secondary goals are to supply existing in-state refineries and utilities with royalty oil or gas at current market value, supply new in-state refineries and utilities with royalty oil at current market value, and expand foreign markets for royalty resources.

Sec. 38.16.020. Rewording of the provision that the state give preference to taking its royalty in kind. The commissioner may take royalty oil or gas in value upon making a written determination that this action would be in the best interest of the state. [AS 38.05.182(a)]

Sec. 38.16.030. (a) Rewording, without substantive change, of the provision that the state give preference to disposing of its royalty by competitive bid to the highest bidder. [AS 38.05.183(a)]

(b) Rewording to clarify that a single competitive bid may be rejected. [AS 38.05.183(b)]

(c) The commissioner must make public written findings and conclusions relating to dispositions of oil or gas which are to be made other than by competitive bid.

Sec. 38.16.040. This section consolidates criteria for the commissioner and the board to consider when reviewing proposals to dispose of royalty oil or gas non-competitively. Changes to these criteria are:

(1) Cash value for the oil or gas shall not be below current market value. [AS 38.05.183(e)]

(2) No substantive change. [AS 38.05.183(e) and AS 38.06.070(a)]

Sec. 38.16.040. (Continued)

(3) Consideration of projected local and regional economic benefits of refining or processing oil or gas in state. [AS 38.05.183(e) and AS 38.06.070(a)]

(4) No substantive change. [AS 38.06.070(a)]

(5) No substantive change. [AS 38.06.070(a)]

(6) No substantive change. [AS 38.06.070(a)]

(7) No substantive change. [AS 38.05.183(e)]

Sec. 38.16.050. (a) Clarification that an amendment of a contract that appreciably reduces the consideration received by the state includes a reduction in price negotiated under a reopener clause. [AS38.05.183(f)]

(b)(1) Prohibits an assignment of unrefined royalty oil purchased from the state to an in-state refiner unless certain minimum benefits to citizens of the state are met.

(b)(2) Reserves to the state the right to purchase residual oil from in-state refiners.

Sec. 38.16.060. Deletes language allowing royalty oil or gas taken in kind to be exported from the state only after the commissioner has made a determination that "the royalty-in-kind oil or gas is surplus to the present and projected intrastate domestic and industrial needs" of the state. [AS 38.05.183(d)]

Sec. 38.16.070. No substantive change. [AS 38.06.055]

Sec. 38.16.080. Requires the commissioner to submit a royalty oil and gas report to the legislature no later than the 15th day of each regular legislative session.

Sec. 38.16.090. The department may provide by regulation for the confidentiality of documents and records. Similar provisions remain in effect for the board under AS 38.06. [AS 38.06.060]

Sec. 38.16.900. Definitions.

\* Section 2.

Sec. 38.05.020. (b) Technical change, referencing AS 38.16.

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Sec. 38.05.035. Technical change, reflecting Ch. 64 SLA 85 (HB 103).

\* Section 4.

Sec. 38.05.036. (a) Technical change, referencing AS 38.16.

\* Section 5.

Sec. 38.05.036. (b) Technical change, referencing AS 38.06.060 and AS 38.16.090.

\* Section 6.

Sec. 38.05.069. (f) Technical change, referencing AS 38.16.

\* Section 7.

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\* Section 8.

Sec. 38.05.140. (c) Technical change, deleting language relating to oil and gas lease acreage. This language is transferred to AS 38.05.180(r).

\* Section 9.

Sec. 38.05.180. (l) Technical changes regarding the state's ability to store or trade its royalty share. Also adds a provision requiring the commissioner to make written findings prior to storing or trading the state's royalty share.

\* Section 10.

Sec. 38.05.180. (q) Technical change, referencing AS 38.05.180(r).

\* Section 11.

Sec. 38.05.180. (r) This subsection is repealed and reenacted to reflect the transfer of language to this subsection from AS 38.05.140(c).

\* Section 12.

Sec. 38.05.180. (t) Technical change, referencing AS 38.05.180(r).

\* Section 13.

Sec. 38.05.182. (a) References to oil and gas are deleted from this subsection relating to the taking of royalty.

\* Section 14.

Sec. 38.05.182. The new subsection (c) is added, stating this this section does not apply to royalty oil or gas.

\* Section 15.

Sec. 38.05.183. (a) The commissioner is not required to provide written notice to the royalty board regarding the non-competitive sale of non-oil or -gas royalty.

\* Section 16.

Sec. 38.05.183. (b) The commissioner is not required to provide written notice to the royalty board regarding the rejection of a competitive bid for non-oil or -gas royalty. Language is changed to clarify that a single bid may be rejected without necessitating the rejection of all bids involved in the sale.

\* Section 17.

Sec. 38.05.183. (c) The commission is not required to provide written notice to the royalty board regarding the determination upon which the decision was based to sell non-oil or -gas royalty non-competitively.

\* Section 18.

Sec. 38.05.183. A new subsection (h) is added, stating this this section does not apply to royalty oil or gas. Disposition of royalty oil and gas, including requirements that the commissioner provide written notice to the royalty board, is addressed in AS 38.16.030 and AS 38.16.040.

\* Section 19.

Sec. 38.06.010. The purpose of AS 38.06 is expanded to include providing maximum benefits for the citizens of the state as a major consideration for the disposition of royalty oil or gas. Also included is a technical change referencing AS 38.16.

\* Section 20.

Sec. 38.06.020. The Alaska Royalty Oil and Gas Development Advisory Board is transferred to the Department of Natural Resources from the Department of Commerce and Economic Development.

\* Section 21.

Sec. 38.06.040. This section is repealed and reenacted in order to incorporate language regarding powers and duties of the board in AS 38.06.070. The board may recommend that refiners proposing to distribute and sell refined products and by-products in-state provide significant price and supply benefits to the citizens of the state. Technical changes, referencing AS 38.16.

\* Section 22.

Sec. 38.06.050. Technical changes, referencing AS 38.16.

\* Section 23.

Sec. 38.06.080. Definitions.

\* Section 24.

Sec. 43.05.010. (16) Technical change referencing AS 38.16.

\* Section 25.

Sec. 44.62.175. (a) Requires that notice of disposal required by AS 38.16 be published in the Alaska Administrative Journal.

\* Section 26.

Sec. 38.05.183. Subsections (d), (e), (f) and (g) are repealed in order that this section exclusively address the sale of non-oil and -gas royalty. The sale of oil and gas royalty is addressed in AS 38.16.030 and AS 38.16.040.

Sec. 38.06.055. This section is repealed, and provisions regarding legislative approval of royalty oil and gas contracts are transferred to AS 38.16.070.

Sec. 38.06.070. This section is repealed, and the substance of subsection (a) is transferred to AS 38.16.040. The remainder of the section is transferred to AS 38.06.040.

\* Section 27.

Sec. 01.10.070. (c) Provides for an immediate effective date.

Original sponsor: House Special Committee  
on Oil and Gas

1 IN THE HOUSE

BY THE HOUSE SPECIAL  
COMMITTEE ON OIL AND GAS

2 CS FOR HOUSE BILL NO. 495 (Oil and 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 state oil and gas interests; and  
7 providing for an effective date."

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

9 \* Section 1. AS 38 is amended by adding a new chapter to read:

10 CHAPTER 16. TAKING AND DISPOSITION OF ROYALTY OIL AND GAS.

11 Sec. 38.16.010. LEGISLATIVE FINDINGS RELATING TO ROYALTY OIL AND  
12 GAS. (a) The legislature finds that it is in the best interest of  
13 the state to take and dispose of royalty oil and gas in a manner that  
14 provides the maximum benefits for the citizens of the state.

15 (b) To the extent consistent with the primary goal of providing  
16 the maximum benefits for the citizens of the state, the secondary  
17 goals of the state in the taking and disposition of royalty oil and  
18 gas are to

19 (1) supply existing in-state refineries and oil- or gas-  
20 based utilities with oil or gas at the current market value for the  
21 oil or gas;

22 (2) promote new in-state refineries and oil- or gas-based  
23 utilities that are economically feasible at the current market value  
24 for oil or gas without the new refineries or utilities relying on  
25 royalty oil or gas contracts;

26 (3) expand the foreign market for the resources of the  
27 state.

28 Sec. 38.16.020. TAKING OF ROYALTY IN KIND. The state shall take  
29 an oil or gas royalty in kind unless the commissioner makes a written

1 determination that taking the royalty in value would be in the best  
2 interest of the state.

3 Sec. 38.16.030. METHOD OF DISPOSITION OF ROYALTY. (a) The  
4 commissioner shall make a disposition of royalty oil or gas by competi-  
5 tive bid to the highest responsible bidder, unless the commissioner  
6 determines, after prior written notice to the board, that competitive  
7 bidding is not in the best interest of the state or that no competi-  
8 tion exists.

9 (b) When competitive bids are required, the commissioner may,  
10 after prior written notice to the board, reject a bid if the commis-  
11 sioner determines that acceptance of a bid would not be in the best  
12 interest of the state due to the amount of the bid, the lack of res-  
13 ponsibility of the bidder, or other reasons consistent with the cri-  
14 teria set out in AS 38.16.040.

15 (c) If the commissioner determines that a disposition of oil or  
16 gas is to be made other than by competitive bid, the commissioner  
17 shall make public in writing the specific findings and conclusions  
18 that are the basis for the determination.

19 Sec. 38.16.040. CRITERIA FOR DISPOSITION OF NONCOMPETITIVELY BID  
20 ROYALTY OIL OR GAS TAKEN IN KIND. When the state does not use competi-  
21 tive bidding to dispose of royalty oil or gas taken in kind, the  
22 commissioner shall make the disposition of royalty oil or gas to the  
23 prospective purchaser whose proposal offers the maximum revenue or  
24 other benefits to citizens of the state. When making an award under  
25 this subsection, the commissioner shall consider the following cri-  
26 teria:

27 (1) the cash value offered, which, notwithstanding AS 38.-  
28 05.810(a), may not be less than the current market value of the royal-  
29 ty oil or gas;

1 (2) the projected effects of the disposition of royalty oil  
2 or gas on the revenue needs and projected fiscal condition of the  
3 state;

4 (3) the projected benefits to local and regional economies  
5 of the state of refining or processing the oil or gas in the state;

6 (4) the projected additional costs and responsibilities  
7 that the state and affected political subdivisions of the state may  
8 suffer due to the development related to the disposition of royalty  
9 oil or gas;

10 (5) the projected social effects of the disposition of  
11 royalty oil or gas;

12 (6) the projected environmental effects of the disposition  
13 of royalty oil or gas;

14 (7) the ability of the prospective purchaser to provide  
15 refined products or by-products for distribution and sale in the state  
16 with significant price and supply benefits for the citizens of the  
17 state.

18 Sec. 38.16.050. CONTRACT PROVISIONS. (a) The commissioner may  
19 not enter into a contract for a disposition of royalty oil or gas  
20 unless the contract provides that an amendment of the contract that  
21 appreciably reduces the consideration received by the state requires  
22 the prior approval of the legislature. In this subsection, an  
23 "amendment" includes a reduction in price negotiated under a  
24 contractual provision allowing price to be changed during the  
25 contract.

26 (b) A disposition of royalty oil to an in-state refiner must

27 (1) prohibit an assignment of unrefined royalty oil pur-  
28 chased from the state unless the assignor or assignee demonstrates to  
29 the satisfaction of the commissioner that

1 (A) the assignment will result in a significant in-  
2 crease of direct monetary benefit to energy consumers in the  
3 state; and

4 (B) the total direct monetary benefit to energy con-  
5 sumers in the state from the assignment will outweigh the mone-  
6 tary benefit to the assignor and assignee; and

7 (2) reserve to the state the right to purchase residual oil  
8 from the in-state refiner when the residual oil is a by-product of a  
9 disposition of royalty oil by the state.

10 Sec. 38.16.060. DISPOSITION OF ROYALTY OIL OR GAS FOR EXPORT. A  
11 disposition of royalty oil or gas taken in kind by the state under  
12 AS 38.16.020 may not be made for export from the state unless the  
13 commissioner determines that the disposition of royalty oil or gas is  
14 in the best interest of the state and makes public in writing the  
15 specific findings and reasons that are the basis for the determina-  
16 tion.

17 Sec. 38.16.070. LEGISLATIVE APPROVAL. (a) In addition to the  
18 recommendation by the board required under AS 38.06.050, the commis-  
19 sioner may not enter into a disposition of royalty oil or gas without  
20 the prior approval of the legislature by enactment of legislation.

21 (b) The commissioner shall notify the board in writing of a  
22 determination by the commissioner that a disposition of royalty oil or  
23 gas requires legislative approval.

24 (c) The provisions of (a) of this section do not apply to

25 (1) the disposition of royalty oil or gas for one year or  
26 less if the disposition is entered into to relieve storage or market  
27 conditions;

28 (2) the disposition of royalty oil or gas for one year or  
29 less if the disposition is bid competitively; or

1 (3) contracts for the disposition of royalty oil or gas  
2 that specify the sale and delivery of not more than

3 (A) 400 barrels of crude oil per day;

4 (B) 460 barrels of natural gas liquids per day; or

5 (C) 2,400 Mcf of natural gas per day.

6 (d) A disposition of royalty oil or gas under (c)(1) or (c)(2)  
7 of this section may not be continued after the end of one year or  
8 renewed with the same party without the prior approval of the legisla-  
9 ture under (a) of this section. This subsection does not apply to a  
10 sequential competitively bid disposition of royalty oil or gas made  
11 with the same party under (c)(1) of this section.

12 Sec. 38.16.080. REPORT BY COMMISSIONER. The commissioner shall  
13 submit to the legislature between the first and the 15th day of each  
14 regular legislative session a royalty oil and gas report that includes

15 (1) the royalty status of all producing royalty oil and gas  
16 units or leases;

17 (2) proposed dispositions of royalty oil and gas;

18 (3) for each proposed noncompetitive disposition of royalty  
19 oil or gas the findings of the commissioner on the criteria in AS 38.-  
20 16.040;

21 (4) an evaluation of the consumer price benefits resulting  
22 from in-state refiners and processors currently receiving royalty oil  
23 or gas; and

24 (5) the volume, percentage, and reported value of royalty  
25 oil and gas

26 (A) being taken in kind and in value;

27 (B) purchased by in-state refiners and processors;

28 (C) actually refined or processed in the state;

29 (D) sold on a competitive and noncompetitive basis;

1 and

2 (E) purchased for export to foreign nations.

3 Sec. 38.16.090. CONFIDENTIALITY. Notwithstanding AS 09.25.-  
4 110 - 09.25.120, the department may provide by regulation for the  
5 confidentiality of those documents and records in the possession or  
6 control of the department that contain confidential business or mar-  
7 keting information when the protection of the information is essential  
8 to the person who has submitted the information to the department, or  
9 when the department determines that protection of the information is  
10 essential to the best interest of the state. Confidentiality under  
11 this section does not preclude proper review by the legislature.

12 Sec. 38.16.900. DEFINITIONS. In this chapter

13 (1) "board" means the Alaska Royalty Oil and Gas Develop-  
14 ment Advisory Board;

15 (2) "commissioner" means the commissioner of natural re-  
16 sources;

17 (3) "department" means the Department of Natural Resources;

18 (4) "dispose of" or "disposition of" royalty oil or gas  
19 means the sale, exchange, or other alienation by the state of royalty  
20 oil or gas or of an interest in royalty oil or gas, and includes the  
21 waiver of a present or future right to take future production of oil  
22 or gas as a royalty; and

23 (5) "interest" in oil or gas includes the right to take  
24 future production of the oil or gas;

25 (6) "royalty gas" means gas, or an interest in gas,  
26 obtained by the state under a lease issued under AS 38.05.180;

27 (7) "royalty oil" means oil, or an interest in oil,  
28 obtained by the state under a lease issued under AS 38.05.180.

29 \* Sec. 2. AS 38.05.020(b) is amended to read:

1 (b) The commissioner may

2 (1) establish reasonable procedures and adopt reasonable  
3 regulations necessary to carry out this chapter and AS 38.16 and,  
4 whenever necessary, issue directives or orders to the director to  
5 carry out specific functions and duties; regulations adopted by the  
6 commissioner shall be adopted under the Administrative Procedure Act  
7 (AS 44.62); orders by the commissioner classifying land, issued after  
8 January 3, 1959, are not required to be adopted under the Administra-  
9 tive Procedure Act (AS 44.62);

10 (2) enter into agreements considered necessary to carry out  
11 the purposes of this chapter and AS 38.16, including agreements with  
12 federal and state agencies;

13 (3) review an [ANY] order or action of the director;

14 (4) exercise the powers and do the acts necessary to carry  
15 out the provisions and objectives of this chapter and AS 38.16;

16 (5) notwithstanding the provisions of another [ANY OTHER]  
17 section of this chapter, grant an extension of the time within which  
18 payments due on a [ANY] lease or sale of state land, minerals, or  
19 materials may be made, including payment of rental and royalties, on a  
20 finding that compliance with the requirements is or was prevented by  
21 reason of war, riots, or acts of God;

22 (6) classify tracts for agricultural uses and require the  
23 prequalification, including the submission of conservation plans,  
24 development plans, or other plans, schedules, or programs, of persons  
25 who apply to participate in an agricultural development project under  
26 AS 44.33.475;

27 (7) waive, postpone, or otherwise modify the development  
28 requirements of a contract for the sale of agricultural land if

29 (A) the land is inaccessible by road; and

1 (B) transportation, marketing, and development costs  
2 render the required development uneconomic.

3 \* Sec. 3. AS 38.05.035 is amended by adding a new subsection to read:

4 (g) The provisions of (e) of this section do not apply to a  
5 disposition of royalty oil or gas obtained by the state under AS 38.-  
6 05.180.

7 \* Sec. 4. AS 38.05.036(a) is amended to read:

8 (a) The Department of Revenue shall audit reports, payments, and  
9 payments due relating to royalty and net profits under oil and gas  
10 contracts, agreements, or leases under this chapter and AS 38.16.

11 \* Sec. 5. AS 38.05.036(b) is amended to read:

12 (b) The Department of Revenue may inspect all reports and other  
13 information filed in support of or relating to royalty and net profits  
14 payments, whether or not the [THAT] information is confidential, and  
15 shall hold the [THAT] information confidential to the extent required  
16 under oil and gas agreements, contracts, or leases, or by this chap-  
17 ter, AS 38.06.060, AS 38.16.090, or AS 43.05.230.

18 \* Sec. 6. AS 38.05.069(f) is amended to read:

19 (f) Nothing in (c) of this section affects the disposal of  
20 minerals under AS 38.05.135 - 38.05.183 or AS 38.16.

21 \* Sec. 7. AS 38.05.135(a) is amended to read:

22 (a) Except as otherwise provided, valuable mineral deposits in  
23 land belonging to the state are [SHALL BE] open to exploration, devel-  
24 opment, and the extraction of minerals. All land, together with tide,  
25 submerged, or shoreland, to which the state holds title [TO] or to  
26 which the state may become entitled, may be obtained by permit or  
27 lease for the purpose of exploration, development, and the extraction  
28 of minerals. Except as specifically limited by AS 38.05.135 - 38.05.-  
29 181, land may be withheld from lease application on a first-come,

1 first-served basis, and offered only on a competitive bid basis when  
2 determined by the commissioner to be in the best interests of the  
3 state. In unproven areas the commissioner may offer additional incen-  
4 tives [, INCLUDING A REDUCTION OF ROYALTY TO A MINIMUM OF FIVE PERCENT  
5 IN THE CASE OF OIL AND GAS,) and other terms in and granting a permit  
6 or lease for exploration and development whenever it appears to be in  
7 the best interests of the state to do so.

8 \* Sec. 8. AS 38.05.140(c) is amended to read:

9 (c) A person may not take or hold at one time phosphate leases  
10 on state land exceeding in the aggregate 10,240 acres. A person may  
11 not take or hold sodium leases or permits during the life of sodium  
12 leases on state land exceeding in the aggregate acreage 5,120 acres,  
13 except that the commissioner may, where it is necessary in order to  
14 secure the economic mining of sodium compounds, permit a person to  
15 take or hold sodium leases or permits for up to 15,360 acres. [A  
16 PERSON MAY NOT TAKE OR HOLD AT ANY ONE TIME OIL OR GAS LEASES EXCEED-  
17 ING IN THE AGGREGATE 500,000 ACRES GRANTED ON TIDE AND SUBMERGED LAND  
18 AND 500,000 ACRES ON ALL LAND OTHER THAN TIDE AND SUBMERGED LAND,  
19 INCLUDING LEASES HELD BOTH AS LESSEE AND UNDER OPTION OR OPERATING  
20 AGREEMENT FROM OTHERS. WHERE MORE THAN A SINGLE PERSON HOLDS AN  
21 INTEREST IN AN OIL OR GAS LEASE, EACH PERSON SHALL BE CHARGED ONLY  
22 WITH THAT PERCENTAGE OF THE TOTAL ACREAGE WHICH CORRESPONDS TO ITS  
23 PERCENTAGE SHARE OF THE TOTAL BENEFICIAL INTEREST IN THE LEASE.]

24 \* Sec. 9. AS 38.05.180(1) is amended to read:

25 (1) Subject to the provisions of AS 31.05, the commissioner has  
26 discretion to enter into an agreement whereby, with the consent of the  
27 lessee, all or part of the state's royalty share of oil and gas pro-  
28 duction may be stored or retained in storage by the lessee, or the  
29 commissioner may enter into an agreement with one or more of the

1 affected field lease holders to trade all or part of the current  
2 royalty production from a field for a like amount, kind, and quality  
3 of future production, if the commissioner makes a written finding [ON  
4 THE CONDITION] that the state will receive [RECEIVES] back its stored  
5 or traded royalty share before 80 percent of the estimated life of the  
6 field is depleted, considering the engineering constraints and other  
7 relevant factors [DURING THE FIRST HALF OF THE ESTIMATED FIELD LIFE OR  
8 NO LATER THAN 15 YEARS AFTER START OF PRODUCTION, WHICHEVER IS  
9 SOONER].

10 \* Sec. 10. AS 38.05.180(q) is amended to read:

11 (q) A plan authorized by (p) of this section that [, WHICH]  
12 includes land owned by the state, may contain a provision vesting the  
13 commissioner, or a person, committee, or state agency, with authority  
14 to modify from time to time the rate of prospecting and development  
15 and the quantity and rate of production under the plan. All leases  
16 operated under a plan approved or prescribed by the commissioner are  
17 excepted in determining holdings or control under (r) of this section  
18 [AS 38.05.140]. The provisions of this section concerning cooperative  
19 or unit plans are in addition to and do not affect AS 31.05.

20 \* Sec. 11. AS 38.05.180(r) is repealed and reenacted to read:

21 (r) A person may not take or hold at one time oil or gas leases  
22 exceeding in the aggregate 500,000 acres granted on tide and submerged  
23 land and 500,000 acres on all land other than tide and submerged land,  
24 including leases held both as lessee and under option or operating  
25 agreement from others. Where more than one person holds an interest  
26 in an oil or gas lease, each person shall be charged only with that  
27 percentage of the acreage that corresponds to the person's share of  
28 the total beneficial interest in the lease. Producing acreage on a  
29 known geologic structure of a producing oil or gas field is excluded

1 from chargeability against the acreage limitation provisions of this  
2 subsection.

3 \* Sec. 12. AS 38.05.180(t) is amended to read:

4 (t) The commissioner may prescribe conditions and approve, on  
5 conditions, drilling, or development contracts made by one or more  
6 lessees of oil or gas leases, with one or more persons, when, in the  
7 discretion of the commissioner, the conservation of natural resources  
8 or the public convenience or necessity requires it or the interests of  
9 the state are best served. All leases operated under approved drill-  
10 ing or development contracts and interests under them, are excepted in  
11 determining holding or control under (r) of this section [AS 38.05.-  
12 140].

13 \* Sec. 13. AS 38.05.182(a) is amended to read:

14 (a) A [ANY] royalty provided for in AS 38.05.135 - 38.05.181 may  
15 be taken in kind rather than in money if the commissioner determines  
16 that the taking in kind would be in the best interest of the state.  
17 [HOWEVER, ROYALTIES ON OIL AND GAS SHALL BE TAKEN IN KIND UNLESS THE  
18 COMMISSIONER DETERMINES THAT THE TAKING IN MONEY WOULD BE IN THE BEST  
19 INTEREST OF THE STATE.]

20 \* Sec. 14. AS 38.05.182 is amended by adding a new subsection to read:

21 (c) This section does not apply to a royalty on oil or gas  
22 obtained by the state under AS 38.05.180.

23 \* Sec. 15. AS 38.05.183(a) is amended to read:

24 (a) The sale, exchange, or other disposal of a mineral obtained  
25 by the state as a royalty under this chapter [AS 38.05.182], or the  
26 sale, exchange or other disposal in whole or in part of a right to  
27 receive future mineral production under a state lease under this  
28 chapter, shall be by competitive bid and the sale, exchange or other  
29 disposal made to the highest responsible bidder, except that

1 competitive bidding is not required when the commissioner [, AFTER  
2 PRIOR WRITTEN NOTICE TO THE ALASKA ROYALTY OIL AND GAS DEVELOPMENT  
3 ADVISORY BOARD UNDER AS 38.06.050,] determines that the best interest  
4 of the state does not require it or that no competition exists.

5 \* Sec. 16. AS 38.05.183(b) is amended to read:

6 (b) When competitive bids are required, the commissioner [,  
7 AFTER PRIOR WRITTEN NOTICE TO THE ALASKA ROYALTY OIL AND GAS DEVELOP-  
8 MENT ADVISORY BOARD,] may reject a bid [ALL BIDS] on a determination  
9 that because of the amount of the bid or [BIDS,] the lack of respon-  
10 sibility on the part of the bidder, [BIDDERS, OR FOR REASONS CONSIS-  
11 TENT WITH THE CRITERIA SET OUT IN AS 38.06.070,] the acceptance of the  
12 bid [BIDS] would not be in the best interest of the state.

13 \* Sec. 17. AS 38.05.183(c) is amended to read:

14 (c) If the commissioner determines that a sale, exchange, or  
15 other disposal of a mineral obtained by the state as a royalty under  
16 this chapter [AS 38.05.182] or of a right to receive future mineral  
17 production under a state lease under this chapter shall be made other  
18 [OTHERWISE] than by competitive bid, [AND THE ALASKA ROYALTY OIL AND  
19 GAS DEVELOPMENT ADVISORY BOARD HAS BEEN NOTIFIED IN WRITING OF THAT  
20 DETERMINATION,] the commissioner shall make public in writing the  
21 specific findings and conclusions on [UPON] which the [THAT] deter-  
22 mination is based.

23 \* Sec. 18. AS 38.05.183 is amended by adding a new subsection to read:

24 (h) This section does not apply to a royalty on oil or gas  
25 obtained by the state under AS 38.05.180.

26 \* Sec. 19. AS 38.06.010 is amended to read:

27 Sec. 38.06.010. PURPOSE. It is the purpose of this chapter to  
28 facilitate the wise development of Alaska's oil and gas royalty inter-  
29 ests by providing means and procedures for [SALES, EXCHANGES OR OTHER]

1 disposition of those interests in ways calculated to maximize the  
2 benefits for the citizens of the state and to promote private economic  
3 growth consistent with applicable environmental standards and public  
4 fiscal stability, and in accordance with AS 38.16 [AS 38.05.183].

5 \* Sec. 20. AS 38.06.020 is amended to read:

6 Sec. 38.06.020. ESTABLISHMENT. There is established in the  
7 Department of Natural Resources [COMMERCE AND ECONOMIC DEVELOPMENT]  
8 the Alaska Royalty Oil and Gas Development Advisory Board.

9 \* Sec. 21. AS 38.06.040 is repealed and reenacted to read:

10 Sec. 38.06.040. POWERS AND DUTIES OF THE BOARD. (a) The board  
11 shall

12 (1) in accordance with the criteria set out in (c) of this  
13 section and AS 38.16.040, develop a plan for the wise development of  
14 the state's royalty oil and gas interests; the plan of development  
15 must be consistent with

16 (A) growth of the private sector of the economy;

17 (B) environmental standards required by law; and

18 (C) public fiscal stability;

19 (2) hold public hearings to determine whether a proposed  
20 disposition of royalty oil or gas complies with the criteria in  
21 AS 38.16.040;

22 (3) examine a proposed disposition of royalty oil or gas  
23 and recommend that the legislature approve or disapprove the proposed  
24 disposition of royalty oil or gas; and

25 (4) recommend to the commissioner conditions for the dispo-  
26 sition, delivery, transportation, refining, or processing of the  
27 royalty oil or gas.

28 (b) The board may

29 (1) direct the commissioner to solicit development plans or

1 bids consistent with the criteria set out in (c) of this section and  
2 AS 38.16.040 for the disposition of royalty oil or gas obtained by the  
3 state under AS 38.05.180;

4 (2) employ an executive director, and contract for the  
5 services of professionals, persons with knowledge of economics and  
6 other disciplines, and persons with technical skills who may be neces-  
7 sary to assist the board in the exercise of its powers and duties; and

8 (3) adopt regulations under the Administrative Procedure  
9 Act (AS 44.62) that are necessary to exercise its powers and duties.

10 (c) In the exercise of the powers of the board under (a) of this  
11 section and AS 38.06.050, the board

12 (1) may, when it is economically feasible and in the public  
13 interest, recommend to the commissioner as a condition of the disposi-  
14 tion of royalty oil or gas that

15 (A) the oil or gas be refined or processed in the  
16 state;

17 (B) the purchaser be a refiner who provides refined  
18 products or by-products for distribution and sale in the state  
19 with significant price and supply benefits to the citizens of the  
20 state; or

21 (C) the purchaser construct a processing or refining  
22 facility in the state;

23 (2) shall report fully to the department on each criterion  
24 in AS 38.16.040 and in (1) of this subsection for each disposition of  
25 royalty oil or gas that requires legislative approval under AS 38.16.-  
26 070; the report shall be submitted to the legislature for review when  
27 the legislation approving the proposed disposition of royalty oil or  
28 gas is introduced in the legislature.

29 \* Sec. 22. AS 38.06.050 is repealed and reenacted to read:

1           Sec. 38.06.050.   BOARD REVIEW AND RECOMMENDATION REQUIRED.  If  
2 legislative approval is required by AS 38.16.070, the commissioner may  
3 not dispose of royalty oil or gas without prior review of the proposed  
4 disposition of royalty oil or gas by the board.  The written recommen-  
5 dation of the board on the proposed disposition of royalty oil or gas  
6 shall be submitted to the legislature at the time the legislation  
7 approving the proposed disposition of royalty oil or gas is introduced  
8 in the legislature.

9 \* Sec. 23.  AS 38.06.080 is amended by adding new paragraphs to read:

10           (3) "commissioner" means the commissioner of natural re-  
11 sources;

12           (4) "department" means the Department of Natural Resources;

13           (5) "dispose of" or "disposition of" royalty oil or gas  
14 means the sale, exchange, or other alienation by the state of royalty  
15 oil or gas or of an interest in royalty oil or gas, and includes the  
16 waiver of a present or future right to take future production of oil  
17 or gas as a royalty;

18           (6) "interest" in royalty oil or gas includes the right to  
19 take future production of oil or gas as a royalty.

20 \* Sec. 24.  AS 43.05.010(16) is amended to read:

21           (16) audit reports, payments, and payments due relating to  
22 royalty and net profits under oil and gas contracts, agreements, or  
23 leases under AS 38.05 and AS 38.16;

24 \* Sec. 25.  AS 44.62.175(a) is amended to read:

25           (a) The lieutenant governor shall publish or contract for the  
26 publication of the Alaska Administrative Journal.  The journal shall  
27 be published weekly.  The journal must include

28           (1) notices of proposed actions given under AS 44.62.-  
29 190(a);

1 (2) notices of state agency meetings required under AS 44.-  
2 62.310(e), even if the meeting has been held;

3 (3) notices of solicitations to bid issued under AS 37.-  
4 05.230;

5 (4) notices of state agency requests for proposals issued  
6 under AS 18.55.255, 18.55.320; AS 19.10.190; AS 19.40.020; AS 35.15.-  
7 030; AS 36.98.030; AS 37.05.230, 37.05.315(d); AS 38.05.120; and  
8 AS 43.40.010;

9 (5) executive orders and administrative orders issued by  
10 the governor;

11 (6) written delegations of authority made by the governor  
12 or the head of a principal department under AS 44.17.010;

13 (7) the text or a summary of the text of a regulation or  
14 order of repeal of a regulation for which notice is given under  
15 AS 44.62.190(a), including an emergency regulation or repeal whether  
16 or not it has taken effect;

17 (8) a summary of the text of recently issued formal opin-  
18 ions and memoranda of advice of the attorney general; [AND]

19 (9) a list of vacancies on boards, commissions, and other  
20 bodies whose members are appointed by the governor;

21 (10) a notice of disposal required by AS 38.16.

22 \* Sec. 26. AS 38.05.183(d), (e), (f), and (g); AS 38.06.055 and 38.06.-  
23 070 are repealed.

24 \* Sec. 27. This Act takes effect immediately in accordance with AS 01.-  
25 10.070(c).

# Side by Side Analysis

1.

## HB 495

## Statute

### CHAPTER 16. TAKING AND DISPOSITION OF ROYALTY OIL AND GAS.

Sec. 38.16.010. LEGISLATIVE FINDINGS RELATING TO ROYALTY OIL AND GAS. (a) The legislature finds that it is in the best interest of the state and the citizens of the state that the state take and dispose of royalty oil and gas in a manner that maximizes state revenue.

(b) To the extent consistent with the primary goal of maximizing state revenue, the secondary goals for the state in the taking and disposition of royalty oil and gas are to

(1) supply existing in-state refineries and oil- or gas-based utilities with oil or gas at the current market value for the oil or gas;

(2) promote new in-state refineries and oil- or gas-based utilities that are economically feasible at the current market value for oil or gas without the new refineries or utilities relying on royalty oil or gas contracts;

(3) expand the foreign market for the resources of the state.

Sec. 38.16.020. TAKING OF ROYALTY IN KIND. The state shall take in kind an oil or gas royalty provided for in AS 38.05.180, unless the commissioner determines that taking the royalty in value would be in the best interest of the state.

No equivalent

Sec. 38.05.182. Royalty on natural resources. (a) Any royalty provided for in AS 38.05.135 — 38.05.181 may be taken in kind rather than in money if the commissioner determines that the taking in kind would be in the best interest of the state. However, royalties on oil and gas shall be taken in kind unless the commissioner determines that the taking in money would be in the best interest of the state.

# Side by Side Analysis

2.

## HB 495

## Statute

**Sec. 38.16.030. METHOD OF DISPOSITION OF ROYALTY.** (a) The commissioner shall make a disposition of royalty oil or gas obtained by the state under AS 38.05.180 by competitive bid to the highest responsible bidder, unless the commissioner determines, after prior written notice to the board, that competitive bidding is not in the best interest of the state or that no competition exists.

(b) When competitive bids are required, the commissioner may, after prior written notice to the board, reject a bid if the commissioner determines that acceptance of a bid would not be in the best interest of the state due to the amount of the bid, the lack of responsibility of the bidder, or other reasons consistent with the criteria set out in AS 38.16.040.

(c) If the commissioner determines that a disposition of oil or gas is to be made other than by competitive bid, the commissioner shall make public in writing the specific findings and conclusions that are the basis for the determination.

**Sec. 38.05.183. Sale of royalty.** (a) The sale, exchange or other disposal of a mineral obtained by the state as a royalty under AS 38.05.182, or the sale, exchange or other disposal in whole or in part of a right to receive future mineral production under a state lease under this chapter, shall be by competitive bid and the sale, exchange or other disposal made to the highest responsible bidder, except that competitive bidding is not required when the commissioner, after prior written notice to the Alaska Royalty Oil and Gas Development Advisory Board under AS 38.06.050, determines that the best interest of the state does not require it or that no competition exists.

(b) When competitive bids are required, the commissioner, after prior written notice to the Alaska Royalty Oil and Gas Development Advisory Board, may reject all bids on a determination that because of the amount of the bids, the lack of responsibility on the part of the bidders, or for reasons consistent with the criteria set out in AS 38.06.070, the acceptance of the bids would not be in the best interest of the state.

(c) If the commissioner determines that a sale, exchange or other disposal of a mineral obtained by the state as a royalty under AS 38.05.182 or of a right to receive future mineral production under a state lease under this chapter shall be made otherwise than by competitive bid, and the Alaska Royalty Oil and Gas Development Advisory Board has been notified in writing of that determination, the commissioner shall make public in writing the specific findings and conclusions upon which that determination is based.

# Side by Side Analysis

3.

## HB 495

Sec. 38.16.040. CRITERIA FOR DISPOSITION OF NONCOMPETITIVELY BID ROYALTY OIL OR GAS TAKEN IN KIND. When the state does not use competitive bidding to dispose of royalty oil or gas taken in kind by the state under AS 38.16.020, the commissioner shall make the disposition of royalty oil or gas to the prospective purchaser whose proposal offers the maximum revenue or other benefits to citizens of the state. When making an award under this subsection, the commissioner shall consider the following criteria:

(1) the cash value offered, which, notwithstanding AS 38.05.810(a), may not be less than the current market value of the royalty oil or gas;

(2) the projected effects of the disposition of royalty oil or gas on the revenue needs and projected fiscal condition of the state;

## Statute

Sec. 38.05.183

(e) When a sale, exchange or other disposal of oil or gas taken in kind by the state as its royalty share, or a sale, exchange or other disposal in whole or in part of a right to receive future royalty oil or gas, under a state lease under this chapter is made other than by competitive bid, the sale, exchange or other disposal shall be awarded by the commissioner to the prospective buyer whose proposal offers the maximum benefits to citizens of the state. The commissioner shall consider

Sec. 38.05.183 (e)

(1) the cash value offered;

Sec. 38.05.183 (e)

(2) the projected effects of the sale, exchange or other disposal on the economy of the state;

Sec. 38.06.070 (a)

(1) the revenue needs and projected fiscal condition of the state;

# Side by Side Analysis

4.

## HB 495

### Sec. 38.16.040

(3) the projected benefits to local and regional economies of the state of refining or processing the oil or gas in the state;

(4) the projected additional costs and responsibilities that the state and affected political subdivisions of the state may suffer due to the development related to the disposition of royalty oil or gas;

## Statute

### Sec. 38.06.070 (a)

(2) the existence and extent of present and projected local and regional needs for oil and gas products and by-products, the effect of state or federal commodity allocation requirements which might be applicable to those products and by-products, and the priorities among competing needs;

(3) the desirability of localized capital investment, increased payroll, secondary development and other possible effects of the sale, exchange or other disposition of oil and gas or both;

(6) the existence of specific local or regional labor or consumption markets or both which should be met by the transaction;

### Sec. 38.05.183 (e)

(3) the projected benefits of refining or processing the oil or gas in the state;

### Sec. 38.06.070 (a)

(5) the projected additional costs and responsibilities which could be imposed upon the state and affected political subdivisions by development related to the transaction;

# Side by Side Analysis

5.

## HB 495

### Sec. 38.16.040

(5) the projected social effects of the disposition of royalty oil or gas;

(6) the projected environmental effects of the disposition of royalty oil or gas;

(7) the ability, intent and degree of certainty of the prospective purchaser to provide refined products or by-products for distribution and sale in the state with significant price and supply benefits for the citizens of the state;

(8) the local or regional desirability of the disposition of royalty oil or gas.

No equivalent

## Statute

### Sec. 38.06.070 (a)

(4) the projected social impacts of the transaction;

(7) the projected positive and negative environmental effects related to the transaction;

### Sec. 38.05.183 (e)

(4) the ability of the prospective buyer to provide refined products or by-products for distribution and sale in the state with price or supply benefits to the citizens of the state;

No equivalent.

### Sec. 38.06.070 (a)

(8) the projected effects of the proposed transaction upon existing private commercial enterprise and patterns of investments.

# Side by Side Analysis

6.

## HB 495

## Statute

Sec. 38.16.050. CONTRACT PROVISIONS. (a) The commissioner may not enter into a contract for a disposition of royalty oil or gas obtained by the state under AS 38.05.180 unless the contract provides that an amendment of the contract that appreciably reduces the consideration received by the state requires the prior approval of the legislature.

(b) A disposition of royalty oil obtained by the state under AS 38.05.180 must

(1) prohibit an assignment of unrefined royalty oil purchased from the state unless the assignor or assignee demonstrates to the satisfaction of the commissioner that

(A) the assignment will result in a significant increase of direct monetary benefit to energy consumers in the state; and

(B) the total direct monetary benefit to energy consumers in the state from the assignment will outweigh the monetary benefit to the assignor and assignee; and

(2) reserve to the state the right to purchase residual oil from in-state refiners when the residual oil is a by-product of a disposition of royalty oil by the state.

Sec. 38.05.183 (e)

(f) The commissioner may not enter into a contract for the sale of royalty oil unless the contract provides that any material amendment to the contract that appreciably reduces the consideration received by the state requires prior approval of the legislature.

No equivalent

No equivalent

# Side by Side Analysis

7.

## HB 495

**Sec. 38.16.060. DISPOSITION OF ROYALTY OIL OR GAS FOR EXPORT.** A disposition of royalty oil or gas taken in kind by the state under AS 38.16.020 may not be made for export from the state unless the commissioner determines that the disposition of royalty oil or gas is in the best interest of the state and makes public in writing the specific findings and reasons that are the basis for the determination.

**Sec. 38.16.070. LEGISLATIVE APPROVAL.** (a) In addition to the recommendation by the board required under AS 38.06.050, the commissioner may not enter into a disposition of royalty oil or gas obtained by the state under AS 38.05.180 without the prior approval of the legislature by enactment of legislation.

(b) The commissioner shall notify the board in writing of a determination by the commissioner that a disposition of royalty oil or gas requires legislative approval.

## Statute

**Sec. 38.05.183**

(d) Oil or gas taken in kind by the state as its royalty share may not be sold or otherwise disposed of for export from the state until the commissioner determines that the royalty-in-kind oil or gas is surplus to the present and projected intrastate domestic and industrial needs. The commissioner shall make public, in writing, the specific findings and reasons on which the determination is based and shall, within 10 days of the convening of a regular session of the legislature, submit a report showing the immediate and long-range domestic and industrial needs of the state for oil and gas and an analysis of how these needs are to be met.

**Sec. 38.06.055. Legislative approval.** (a) In addition to the recommendation by the board required under AS 38.06.050, the commissioner of natural resources may not enter into a sale, exchange, or other disposition of oil or gas or of the rights or waiver of the rights to receive future production of royalty oil or gas under AS 38.05.183 without the prior approval of the legislature. The legislature may approve a sale, exchange, or other disposition of oil or gas or of the rights or of a waiver of the rights to receive future production of royalty oil or gas only by enacting legislation.

No equivalent

# Side by Side Analysis

8.

## HB 495

### Sec. 38.16.070

(c) The provisions of (a) of this section do not apply to

(1) the disposition of royalty oil or gas for one year or less if the disposition is entered into to relieve storage or market conditions;

(2) the disposition of royalty oil or gas for two years or less if the disposition is bid competitively; or

(3) contracts for the disposition of royalty oil or gas that specify the sale and delivery of not more than

- (A) 400 barrels of crude oil per day;
- (B) 460 barrels of natural gas liquids per day; or
- (C) 2,400 Mcf of natural gas per day.

(d) A disposition of royalty oil or gas under (c)(1) or (c)(2) of this section may not be continued after the end of one year or renewed with the same party without the prior approval of the legislature under (a) of this section. This subsection does not apply to a sequential competitively bid disposition of royalty oil or gas made with the same party under (c)(1) of this section.

## Statute

### Sec 38.06.055

(b) The provisions of (a) of this section do not apply to

(1) the sale, exchange, or other disposition of oil or gas for one year or less if the sale, exchange, or other disposition is entered into to relieve storage or market conditions;

No equivalent

(2) contracts for the sale of state-owned royalty gas or oil that specify the sale and delivery of not more than

- (A) 400 barrels of crude oil per day;
- (B) 460 barrels of natural gas liquids per day; and
- (C) 2,400 Mcf of natural gas per day.

(c) A sale, exchange, or other disposition of oil or gas [MADE] under (b)(1) of this section may not be continued after the end of one year or renewed with the same party [TO PROVIDE RELIEF FOR MARKET OR STORAGE CONDITIONS] without the prior approval of the legislature under (a) of this section. This subsection does not apply to a sequential competitively bid sale of oil or gas made with the same party under (b)(1) of this section.

# Side by Side Analysis

9.

## HB 495

## Statute

Sec. 38.16.080. REPORT BY COMMISSIONER. The commissioner shall submit to the legislature between the first and the 15th day of each regular legislative session a royalty oil and gas report that includes

(1) the royalty status of all producing royalty oil and gas leases;

(2) proposed dispositions of royalty oil and gas;

(3) for each noncompetitively bid disposition of royalty oil or gas the findings of the commissioner on the criteria in AS 38.16.040;

(4) an evaluation of the economic consumer benefits resulting from in-state refiners and processors currently receiving royalty oil or gas; and

(5) the volume, percentage, and reported value of royalty oil and gas

(A) being taken in kind and in value;

(B) purchased by in-state refiners and processors;

(C) actually refined or processed in the state;

(D) sold on a competitive and noncompetitive bid

basis; and

(E) purchased by foreign nations.

No equivalent

# Side by Side Analysis

10.

## HB 495

## Statute

Sec. 38.16.090. **CONFIDENTIALITY.** Notwithstanding AS 09.25.-110 - 09.25.120, the department may provide by regulation for the confidentiality of those documents and records in the possession or control of the department that contain confidential business or marketing information when the protection of the information is essential to the person who has submitted the information to the department, or when the department determines that protection of the information is essential to the best interest of the state. Confidentiality under this section does not preclude proper review by the legislature.

No equivalent

Sec. 38.16.900. **DEFINITIONS.** In this chapter

- (1) "board" means the Alaska Royalty Oil and Gas Development Advisory Board;
- (2) "commissioner" means the commissioner of natural resources;
- (3) "department" means the Department of Natural Resources;
- (4) "dispose of" or "disposition of" royalty oil or gas means the sale, exchange, or other alienation by the state of royalty oil or gas or of an interest in royalty oil or gas, and includes the waiver of a present or future right to take future production of oil or gas as a royalty; and
- (5) "interest" in royalty oil or gas includes the right to take future production of oil or gas as a royalty.

Sec. 38.05.965. **Definitions.** In this chapter, unless the context otherwise requires,

- (3) "commissioner" means the commissioner of natural resources;
- (4) "department" means the Department of Natural Resources;

# Side by Side Analysis

11.

## HB 495

### Sec. 38.05.135

(a) Except as otherwise provided, valuable mineral deposits in land belonging to the state are [SHALL BE] open to exploration, development, and the extraction of minerals. All land, together with tide, submerged, or shoreland, to which the state holds title [TO] or to which the state may become entitled, may be obtained by permit or lease for the purpose of exploration, development, and the extraction of minerals. Except as specifically limited by AS 38.05.135 - 38.05.181, land may be withheld from lease application on a first-come, first-served basis, and offered only on a competitive bid basis when determined by the commissioner to be in the best interests of the state. In unproven areas the commissioner may offer additional incentives [, INCLUDING A REDUCTION OF ROYALTY TO A MINIMUM OF FIVE PERCENT IN THE CASE OF OIL AND GAS,] and other terms in and granting a permit or lease for exploration and development whenever it appears to be in the best interests of the state to do so.

### Sec. 38.05.140

(c) A person may not take or hold at one time phosphate leases on state land exceeding in the aggregate 10,240 acres. A person may not take or hold sodium leases or permits during the life of sodium leases on state land exceeding in the aggregate acreage 5,120 acres, except that the commissioner may, where it is necessary in order to secure the economic mining of sodium compounds, permit a person to take or hold sodium leases or permits for up to 15,360 acres. [A PERSON MAY NOT TAKE OR HOLD AT ANY ONE TIME OIL OR GAS LEASES EXCEEDING IN THE AGGREGATE 500,000 ACRES GRANTED ON TIDE AND SUBMERGED LAND AND 500,000 ACRES ON ALL LAND OTHER THAN TIDE AND SUBMERGED LAND, INCLUDING LEASES HELD BOTH AS LESSEE AND UNDER OPTION OR OPERATING AGREEMENT FROM OTHERS. WHERE MORE THAN A SINGLE PERSON HOLDS AN INTEREST IN AN OIL OR GAS LEASE, EACH PERSON SHALL BE CHARGED ONLY WITH THAT PERCENTAGE OF THE TOTAL ACREAGE WHICH CORRESPONDS TO ITS

## Statute

Note: Bracketed language is transferred to Sec. 38.05.180(aa)

# Side by Side Analysis

12.

## HB 495

### Sec. 38.05.180

(1) Subject to the provisions of AS 31.05, the commissioner has discretion to enter into an agreement whereby, with the consent of the lessee, all or part of the state's royalty share of oil and gas production may be stored or retained in storage by the lessee, or the commissioner may enter into an agreement with one or more of the affected field lease holders to trade all or part of the current royalty production from a field for a like amount, kind, and quality of future production, if the commissioner makes a written finding [ON THE CONDITION] that the state receives back its stored or traded royalty share before 80 percent of the estimated life of the field is depleted, considering the engineering constraints and other relevant factors [DURING THE FIRST HALF OF THE ESTIMATED FIELD LIFE OR NO LATER THAN 15 YEARS AFTER START OF PRODUCTION, WHICHEVER IS SOONER].

### Sec. 38.05.182

(c) This section does not apply to a royalty on oil or gas obtained by the state under AS 38.05.180.

### Sec. 38.05.183

(h) This section does not apply to a royalty on oil or gas obtained by the state under AS 38.05.180.

## Statute

Note: References to oil and gas and the royalty board are deleted from this section.

Note: References to oil and gas and the royalty board are deleted from this section.

# Side by Side Analysis

13.

## HB 495

Sec. 38.06.010. **PURPOSE.** It is the purpose of this chapter to facilitate the wise development of Alaska's oil and gas royalty interests by providing means and procedures for [SALES, EXCHANGES OR OTHER] disposition of those interests in ways calculated to promote private economic growth consistent with applicable environmental standards, local or regional desirability, and public fiscal stability, and in accordance with AS 38.16 [AS 38.05.183].

Sec. 38.06.020. **ESTABLISHMENT.** There is established in the Department of Natural Resources [COMMERCE AND ECONOMIC DEVELOPMENT] the Alaska Royalty Oil and Gas Development Advisory Board.

Sec. 38.06.040. **POWERS AND DUTIES OF THE BOARD.** (a) The board shall

(1) in accordance with the criteria set out in AS 38.06.070 and AS 38.16.040, develop a plan for the wise development of the state's royalty oil and gas interests; the plan of development must be consistent with

- (A) growth of the private sector of the economy;
- (B) environmental standards required by law; and
- (C) public fiscal stability;

(2) hold public hearings to determine whether a proposed disposition of royalty oil or gas complies with the criteria in AS 38.16.040;

(3) examine a proposed disposition of royalty oil or gas and recommend that the legislature approve or disapprove the proposed disposition of royalty oil or gas; and

## Statute

**Sec. 38.06.040. Powers and duties of the board.** (a) The board shall

(1) in accordance with the criteria set out in AS 38.06.070, develop a plan for the wise development of the state's oil and gas royalty interests; the plan of development shall be consistent with

- (A) growth of the private sector of the economy;
- (B) environmental standards required by law; and
- (C) public fiscal stability;

(2) hold public hearings on proposed sales, exchanges, or other disposals of royalty oil or gas to determine whether the proposals comply with AS 38.06.070;

(3) examine proposed sales, exchanges or other disposal of, and recommend to the legislature that it approve or disapprove a proposed sale, exchange or other disposal of

(A) the oil or gas that is obtained by the state as royalty under AS 38.05.182; or

(B) the rights to receive future oil or gas production under state leases; and

# Side by Side Analysis

14.

## HB 495

### Sec. 38.06.040

(4) recommend to the commissioner conditions for the disposition, delivery, transportation, refining, or processing of the royalty oil or gas.

(b) The board may

(1) direct the commissioner to solicit development plans or bids consistent with the criteria set out in AS 38.06.070 and AS 38.16.040 for the disposition of royalty oil or gas obtained by the state under AS 38.05.180;

(2) employ an executive director, and contract for the services of professionals, persons with knowledge of economics and other disciplines, and persons with technical skills who may be necessary to assist the board in the exercise of its powers and duties; and

(3) adopt regulations under the Administrative Procedure Act (AS 44.62) that are necessary to exercise its powers and duties.

Sec. 38.06.050. BOARD REVIEW AND RECOMMENDATION REQUIRED. If legislative approval is required by AS 38.16.070, the commissioner may not dispose of royalty oil or gas without prior review of the proposed disposition of royalty oil or gas by the board. The written recommendation of the board on the proposed disposition of royalty oil or gas shall be submitted to the legislature at the time the legislation approving the proposed disposition of royalty oil or gas is introduced in the legislature.

## Statute

### Sec. 38.06.040

(4) recommend to the commissioner of natural resources the conditions relating to the sale, delivery, transportation, refining or processing of oil or gas which the commissioner may include in the offer and sale of oil or gas obtained by the state as royalty under AS 38.05.182.

(b) The board may

(1) direct the commissioner of natural resources to solicit development plans or bids consistent with the criteria set out in AS 38.06.070 for

(A) the sale, exchange or other disposal of oil or gas obtained by the state as royalty under AS 38.05.182; or

(B) the sale, exchange or other disposal of all or a portion of the rights to receive future oil or gas production under a state lease;

(2) employ an executive director, and contract for the services of professionals, persons with knowledge of economics and other disciplines, and persons with technical skills who may be necessary to assist the board in the exercise of its powers and duties; and

(3) adopt regulations under the Administrative Procedure Act (AS 44.62) that are necessary for the exercise of its powers and duties. (§ 2 ch 9 SSSLA 1974; am § 4 ch 112 SLA 1980)

Sec. 38.06.050. Board review and recommendation required. (a) If legislative approval is required by AS 38.06.055, a sale, exchange, encumbrance, or other disposition of oil or gas or of the rights or waiver of the rights to receive future production of royalty oil or gas may not be made by the commissioner of natural resources under AS 38.05.183 without prior review of the proposed sale, exchange, encumbrance or other disposition by the board. A written recommendation of the board on the proposed sale, exchange, encumbrance or other disposition of oil or gas or of the rights or waiver of the rights to receive future production of royalty oil or gas shall be submitted to the legislature at the time a resolution approving the proposed sale, exchange, encumbrance or other disposition is introduced in the legislature.

# Side by Side Analysis

15.

## HB 495

### Sec. 38.16.030

(b) When competitive bids are required, the commissioner may, after prior written notice to the board, reject a bid if the commissioner determines that acceptance of a bid would not be in the best interest of the state due to the amount of the bid, the lack of responsibility of the bidder, or other reasons consistent with the criteria set out in AS 38.16.040.

(c) If the commissioner determines that a disposition of oil or gas is to be made other than by competitive bid, the commissioner shall make public in writing the specific findings and conclusions that are the basis for the determination.

Sec. 38.06.070. CRITERIA. In the exercise of the powers of the board under AS 38.06.040(a) and 38.06.050, the board

(1) may, when it is economically feasible and in the public interest, recommend to the commissioner as a condition of the disposition of royalty oil or gas that

(A) the oil or gas be refined or processed in the state;

(B) the purchaser be a refiner who provides refined products or by-products for distribution and sale in the state with significant price and supply benefits to the citizens of the state; or

(C) the purchaser construct a processing or refining

## Statute

### Sec. 38.06.050

(b) Bids or applications for the purchase of royalty oil or gas may be rejected by the commissioner of natural resources if prior written notice of the proposed disapproval is given to the board.

(c) Competitive bidding in a sale, exchange or other disposition described in (a) of this section may not be waived by the commissioner of natural resources under AS 38.05.183 unless prior written notice of proposed waiver is given to the board.

Sec. 38.06.070. Criteria. (a) In the exercise of its powers under AS 38.06.040(a) and 38.06.050 the board shall consider

Note: Criteria listed under (a) of this section have been transferred to Sec. 38.16.040.

(b) When it is economically feasible and in the public interest, the board may recommend to the commissioner of natural resources, as a condition of the sale of oil or gas obtained by the state as royalty, that

- (1) the oil or gas be refined or processed in the state;
- (2) the purchaser be a refiner who supplies products to the Alaska market with price or supply benefits to state citizens; or
- (3) the purchaser construct a processing or refining facility in the state.

# Side by Side Analysis

16.

## HB 495

Sec. 38.06.070

(2) shall report fully to the department on each criterion in AS 38.16.040 and in (1) of this section for each disposition of royalty oil or gas that requires legislative approval under AS 38.16.-070; the report shall be submitted to the legislature for review when the legislation approving the proposed disposition of royalty oil or gas is introduced in the legislature.

AS 38.06.080 is amended by adding new paragraphs to read:

(3) "commissioner" means the commissioner of natural resources;

(4) "department" means the Department of Natural Resources;

(5) "dispose of" or "disposition of" royalty oil or gas means the sale, exchange, or other alienation by the state of royalty oil or gas or of an interest in royalty oil or gas, and includes the waiver of a present or future right to take future production of oil or gas as a royalty;

(6) "interest" in royalty oil or gas includes the right to take future production of oil or gas as a royalty.

Sec. 44.62.175

(a) The lieutenant governor shall publish or contract for the publication of the Alaska Administrative Journal. The journal shall be published weekly. The journal must include

(10) a notice of the findings required to be made public by the commissioner of natural resources under AS 38.16.030 and 38.16.-060.

## Statute

Sec. 38.06.070

(c) The board shall make a full report to the legislature on each criterion specified in (a) or (b) of this section for any disposition of royalty oil or gas which requires legislative approval. The board's report shall be submitted for legislative review at the time a resolution for legislative approval of a proposed disposition of royalty oil or gas is introduced in the legislature. (§ 2 ch 9 SSSLA 1974; am § 2 ch 131 SLA 1978; am § 7 ch 112 SLA 1980; am § 103 ch 6 SLA 1984)

Proposed amendments to HB 495

Page 1, Line 12

Sec. 38.16.010(a) is amended to read:

(a) The legislature finds that it is in the best interest of the state [and the citizens of the state] that the state take and dispose of royalty oil and gas in a manner that [maximizes state revenue] provides maximum benefit to its people.

Page 1, Line 15

Sec. 38.16.010(b) is amended to read:

(b) To the extent consistent with the primary goal of [maximizing state revenue] providing maximum citizen benefits, the secondary goals for the state in the taking and disposition of royalty oil and gas are to

Page 1, Line 27

Sec. 38.16.020 is amended to read:

Sec. 38.16.020. TAKING OF ROYALTY IN KIND. The state shall take in kind an oil or gas royalty [provided for in AS 38.05.180], unless the commissioner [determines] makes a written determination that taking the royalty in value would be in the best interest of the state.

Page 2, Line 2

Sec. 38.16.030(a) is amended to read:

(a) The commissioner shall make a disposition of royalty oil or gas [obtained by the state under AS 38.05.180] by competitive bid to the highest responsible bidder, unless the commissioner determines, after prior written notice to the board, that competitive bidding is not in the best interest of the state or that no competition exists.

Page 2, Line 18

Sec. 38.16.040 is amended to read:

Sec. 38.16.040. CRITERIA FOR DISPOSITION OF NONCOMPETITIVELY BID ROYALTY OIL OR GAS TAKEN IN KIND. When the state does not use competitive bidding to dispose of royalty oil or gas taken in kind [by the state under AS 38.16.020], the commissioner shall make the disposition of royalty oil or gas to the prospective purchaser whose proposal offers the maximum [revenue or other] benefits to citizens of the state. When making an award under this subsection, the commissioner shall consider the following criteria:

Page 2, Line 26

Sec. 38.16.040(1) is amended to read:

(1) the cash value offered, which [, notwithstanding AS 38.05.810(a),] may not be less than the current market value of the royalty oil or gas;

Page 3, Line 13

Sec. 38.16.040(7) is amended to read:

(7) the ability [, intent and degree of certainty] of the prospective purchaser to provide refined products or by-products for distribution and sale in the state with significant price and supply benefits for the citizens of the state;

Page 3, Line 19

Sec. 38.16.050(a) is amended to read:

(a) The commissioner may not enter into a contract for a disposition of royalty oil or gas [obtained by the state under AS 38.05.180] unless the contract provides that an amendment of the contract that appreciably reduces the consideration received by the state, including a reduction in price negotiated under a price reopener provision, requires the prior approval of the legislature.

Page 3, Line 25

Sec. 38.16.050(b) is amended to read:

(b) A disposition to an in-state refiner of royalty oil [obtained by the state under AS 38.05.180] must

Page 4, Line 17

Sec. 38.16.070(a) is amended to read:

(a) In addition to the recommendation by the board required under AS 38.06.050, the commissioner may not enter into a disposition of royalty oil or gas [obtained by the state under AS 38.05.180] without the prior approval of the legislature by enactment of legislation.

Page 4, Line 29

Sec. 38.16.070(c)(2) is amended to read:

(2) the disposition of royalty oil or gas for [two] one year[s] or less if the disposition is bid competitively; or

Page 5, Line 4

Sec. 38.16.080(4) is amended to read:

(4) an evaluation of the [economic] consumer price benefits resulting from in-state refiners and processors currently receiving royalty oil or gas; and

Page 5, Line 16

Sec. 38.16.080(1) is amended to read:

(1) the royalty status of all producing [royalty] oil and gas units or leases;

Page 5, Line 19

Sec. 38.16.080(3) is amended to read:

(3) for each [noncompetitively bid] proposed noncompetitive disposition of royalty oil or gas the findings of the commissioner on the criteria in AS 38.16.040;

Page 6, Line 1

Sec. 38.16.080(5)(D) is amended to read:

(D) sold on a competitive and noncompetitive [bid] basis; and

Page 6, Line 3

Sec. 38.16.080(5)(E) is amended to read:

(E) purchased [by] for export to foreign nations.

Page 6, Line 4

Delete Sec. 38.16.090.

Page 6, Line 26

Sec. 38.16.900 is amended by adding paragraphs (6) and (7) to read:

(6) "royalty gas" means the state's interest in gas obtained under AS 38.05.180.

(7) "royalty oil" means the state's interest in oil obtained under AS 38.05.180.

Page 8, Line 1

Sec. 38.05.035(g) is amended to read:

(g) The provisions of (e) of this section do not apply to dispositions of royalty [on] oil or gas obtained by the state under AS 38.05.180.

Page 9, Line 20

Sec. 38.05.180 (1) is amended to read:

(1) Subject to the provisions of AS 31.05, the commissioner had discretion to enter into an agreement whereby, with the consent of the lessee, all or part of the state's royalty share of oil and gas production may be stored or retained in storage by the lessee, or the commissioner may enter into an agreement with one or more of the affected field lease holders to trade all or part of the current royalty production from a field for a like amount, kind, and quality of future production, if the commissioner makes a written finding [on the condition] that the state will receive[s] back its stored or traded royalty share before 80 percent of the estimated life of the field is depleted, considering the engineering constraints and other relevant factors [during the first half of the estimated field life or no later than 15 years after start of production, whichever is sooner].

Page 10, Line 29

Transfer Sec. 38.05.180(aa) to Sec. 38.05.180(r), and make corresponding changes.

Page 12, Line 22

Sec. 38.06.010 is amended to read:

Sec. 38.06.010. PURPOSE. It is the purpose of this chapter to facilitate the wise development of Alaska's oil and gas royalty interests by providing means and procedures for [sales, exchanges or other] disposition of those interests in ways calculated to maximize citizen benefits, and to promote private economic growth consistent with applicable environmental standards [, local or regional desirability,] and public fiscal stability, and in accordance with AS 38.16 [AS 38.05.183].

Page 14, Line 16

Incorporate Sec. 38.06.070 as the section appears in HB 495 to Sec. 38.06.040, and make corresponding changes.

Page 16, Line 1

Sec. 44.62.175(a)(3) is amended to read:

(3) notices of solicitations to bid issued under AS 37.05.230 [and AS 38.16.030];

Page 16, Line 19

Sec. 44.62.175(a)(10) is amended to read:

(10) a notice of [the findings] disposal required [to be made public] by [the commissioner of natural resources under AS 38.16.030 and 38.16.060] AS 38.05.945 or AS 38.16.

Proposed Amendments to HB 495

Page 1, Line 15:

Sec. 38.16.010(b) is amended to read:

(b) To the extent consistent with [the primary goal of maximizing state revenue] (a) of this section, the secondary goals for the state in the taking and disposition of royalty oil and gas are [to] , in order of priority, the promotion of in-state utilization and the maximization of state revenue.

OMIT (1), (2), (3), and their respective texts

Page 2, Line 2:

Sec. 38.16.030(a) is amended to read:

Sec. 38.16.030. METHOD OF DISPOSITION OF ROYALTY. (a) The commissioner shall make a disposition of royalty oil or gas obtained by the state under AS 38.05.180 by competitive bid to the highest responsible bidder, unless the commissioner determines, after prior written notice to the board, that competitive bidding is not [in the best interest of the state or that no competition exists] consistent with providing maximum benefit to the people of the state.

Page 2, Line 18:

Sec. 38.16.030(d) is added to this section:

(d) When the commissioner has competitively bid a disposition of royalty oil or gas for one year or less, the commissioner shall, before awarding the contract to an out-of-state refiner who submitted the highest competitive bid, allow in-state refiners to submit bids to match or exceed the bid of the out-of-state refiner. The commissioner shall award the contract in the following order of priority:

(1) to the in-state refiner whose bid exceeds the bid of each other bidding in-state refiner and the bid of the out-of-state refiner;

(2) to the in-state refiner whose bid exceeds the bid of each other bidding in-state refiner and matches the bid of the out-of-state refiner;

(3) to the in-state refiner whose bid

(A) matches the bid of the other bidding in-state refiners and the bid of the out-of-state refiner; and

(B) is received before the other matching bids of the in-state refiners;

(4) to the out-of-state refiner, if the bid of an in-state refiner does not match or exceed the bid of the out-of-state refiner.

Page 2, Line 18:

Sec. 38.16.040 is amended to read:

Sec. 38.16.040. CRITERIA FOR DISPOSITION OF NONCOMPETITIVELY BID ROYALTY OIL OR GAS TAKEN IN KIND. When the state does not use competitive bidding to dispose of royalty oil or gas taken in kind by the state [under AS 38.16.020], the [commissioner] board shall make the disposition of royalty oil or gas to the prospective purchaser whose proposal offers the maximum [revenue or other] consumer benefits through lower product prices or other benefits to the citizens of the state. When making an award under this subsection, the [commissioner] board shall consider the following criteria:

Page 2, Line 26:

Sec. 38.16.040(1) is amended to read:

(1) the cash value offered [, which, notwithstanding AS 38.05.810(a), may not be less than the current market value of the royalty oil or gas];

Page 3, Line 3:

Sec. 38.16.040(3) is amended to read:

(3) the projected benefits to local and regional economies of the state of refining, or processing the oil or gas in the state , including the projected effects of the sale upon existing and perspective private, commercial investment ;

Page 3, Line 13:

Sec. 38.16.020(7) is amended to read:

(7) the ability, [intent and degree of certainty] of the prospective purchaser to provide refined products or by-products for distribution and sale in the state with [significant] competitive price and supply benefits for the citizens of the state;

Page 3, Line 17:

Sec. 38.16.020(8) is omitted.

[ (8) the local or regional desirability of the disposition of royalty oil or gas. ]

Page 3, Line 19:

Sec. 38.16.050 is amended to read:

Sec. 38.16.050. CONTRACT PROVISIONS. (a) The commissioner may not enter into a contract for a disposition of royalty oil or gas obtained by the state under AS 38.05.180 unless the contract provides that an amendment of the contract that appreciably reduces the consideration received by the state requires the prior approval, in the following order of the board, the governor, and the legislature.

Page 4, Line 1:

Sec. 38.16.050(b)(1)(A) is amended to read:

(A) the assignment will result in a [significant] verifiable increase of direct monetary benefit to energy consumers in the state; and

Page 4, Line 4:

Sec. 38.16.050(b)(1)(B) is omitted.

[(B) the total direct monetary benefit to energy consumers in the state from the assignment will outweigh the monetary benefit to the assignor and assignee; and]

Page 4, Line 7:

Sec. 38.16.050(b)(2) is amended to read:

(2) reserve to the state the right to purchase residual oil from in-state refiners when the residual oil is a by-product of a disposition of royalty oil by the state, only when the residual oil is reinjected into the Trans-Alaska Pipeline; and at the alternate market price.

(c) The commissioner may not enter into a contract for the sale of state royalty oil or gas to an in-state refiner unless the refiner agrees to provide information to, and assist or allow the collection of information by, the Department of Commerce and Economic Development on a monthly regional basis to determine the average monthly wholesale

price, market exchange sales price, and refinery gate sales price of its in-state refined fuel products.

(d) A person who purchases royalty oil from the state under this section shall provide to the commissioner, during the period that the purchaser takes, refines, transports, or otherwise deals with the purchased royalty oil, a report for the preceding month that indicates for the purchased royalty oil

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

Page 4, Line 17:

Sec. 38.16.070 is amended to read:

Sec. 38.16.070 APPROVAL BY THE GOVERNOR AND THE LEGISLATURE. [LEGISLATIVE APPROVAL.] In addition to the recommendation by the board required under AS 38.06.050, the commissioner may not enter into a disposition of royalty oil or gas obtained by the state under AS 38.05.180 without [the prior approval of the] first obtaining the approval of the governor and then the approval of the legislature by enactment of legislation.

Page 5, Line 7:

Sec. 38.16.070(d) is amended to read:

(d) A disposition of royalty oil or gas under (c)(1) or (a)(2) of this section may not be continued after the end of one year or renewed with the same party without first obtaining the [prior] approval of the governor and then the approval of the legislature under (a) of this section. This subsection does not apply to a sequential competitively bid disposition of royalty oil or gas made with the same party under (c)(1) of this section.

Page 5, Line 13:

Sec. 38.16.080 is amended to read:

Sec. 38.16.080 REPORT BY THE COMMISSIONER. The commissioner shall submit to the legislature between the first and the 15th day of each regular legislative session a royalty oil and gas report that includes a monthly analysis of:

Page 5, Line 22:

Sec. 38.16.080(4) is amended to read:

(4) an evaluation of the economic consumer benefits resulting from in-state refiners and processors currently receiving royalty oil or gas, which must include

(A) price paid for state royalty oil and gas by the purchaser;

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

(C) refinery gate sales price of in-state refined fuel products; and

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

Page 6, Line 25:

The following section is added to HB 495:

AS 31.05.030 is amended by adding a new subsection to read:

(i) The commission shall provide research assistance to the Alaska Royalty Oil and Gas Development Advisory Board on request.

Page 11, Line 26:

As 38.05.183(a) is amended to keep:

, after prior written notice to the Alaska Royalty Oil and Gas Advisory Board under AS 38. 06.050,

Page 11, Line 21:

AS 38. 05.183(b) is amended to keep:

, after prior written notice to the Alaska Royalty Oil and Gas Development Advisory Board,

Page 13, Line 1:

A new section is added to HB 495 to read:

AS 38.06.025(a) is amended to read:

(a) The board consists of the commissioner of commerce and economic development; the commissioner of revenue; the commissioner of natural resources, who is a nonvoting member; one legislator, who is a nonvoting member appointed by the

governor, the chair of the Alaska Oil and Gas Conservation Commission, who is a nonvoting member; and five [three] public members.

Page 13, Line 2:

A new section is added to HB 495 to read:

AS 38.06.035(a) is amended to read;

(a) The board shall prescribe its own rules of procedure. It shall meet at a time and place determined by the chair [chairman], and at other times and places as the chair [chairman], or a majority of the board members, considers necessary. [A quorum is a majority of the voting members of the board.] The votes of the board members shall be recorded. Effective action to carry out the powers granted under this chapter requires the affirmative vote of a majority of the board members. A board member may not, with respect to a matter before the board, vote for or on behalf of another member of the board.

Page 13, Line 18:

Sec. 38.06.040 (a) (3) is amended to read:

(3) examine a proposed disposition of royalty oil or gas and recommend that the [legislature] governor approve or disapprove the proposed disposition of royalty oil or gas; and

Page 13, Line 24:

Sec. 38.06.040 (a) is amended to add sections (5) and (6):

(5) employ an executive director, and a full-time staff of persons experienced in international crude oil refining, trading, and marketing;

(6) adopt regulations under the Administrative Procedure Act (AS 44.62) that are necessary to exercise its powers and duties.

Page 13, Line 29:

Sec. 38.06.040(b) (2) is amended to read:

(2) [employ an executive director, and] contract for the services of professionals, persons with knowledge of economics and other disciplines, and persons with technical skills who

may be necessary to assist the board in the exercise of its powers and duties; and

Page 14, Line 5:

Sec. 38.06.040(b)(3) is amended to read:

(3) [adopt regulations under the Administrative Procedure Act (AS 44. 62) that are necessary to exercise its powers and duties] obtain research assistance from the department and the Alaska Oil and Gas Conservation Commission.

Chugach Electric Association, Inc.

Proposed amendments to H.B. 495

Page 1, Line 12

Sec. 38.16.010(a) is amended to read:

(a) The legislature finds that it is in the best interest of the state and the citizens of the state that the state take and dispose of royalty oil and gas in a manner that maximizes [state revenue] benefits for Alaska's residents.

Page 1, Line 15

Sec. 38.16.010(b) is amended to read:

(b) To the extent consistent with the primary goal of maximizing [state revenue] benefits, the secondary goals for the state in the taking and disposition of royalty oil and gas are to

Page 2, Line 26

Sec. 38.16.040(1) is amended to read:

(1) the cash value offer, which[, notwithstanding AS 38.05.810(a),] may not be less than the current market value of the royalty oil or gas, except that sales at less than market value may be made to utilities owned and operated by a government agency or organized as a cooperative under AS 10.25 providing service within the state;

Page 3, Line 9

Sec. 38.16.040(5) is amended to read:

(5) the projected social effects, including consumer benefits, of the disposition of royalty oil or gas;

Page 4, Line 10

Sec. 38.16.060 is amended to read:

DISPOSITION OF ROYALTY OIL OR GAS FOR EXPORT. A disposition of royalty oil or gas taken in kind by the state under AS 38.16.020 may not be made for export from the state unless the commissioner determines that the disposition of royalty oil or gas is surplus to the present and projected intra-state, domestic and industrial needs and is in the best interest of the state [and makes]. The commissioner shall make public in writing the specific findings and reasons that are the basis for the determination.

Page 5, Line 22

Sec. 38.16.080(4) is amended to read:

(4) an evaluation of the economic consumer benefits resulting from in-state refiners and processors currently receiving royalty oil or gas; [and]

Page 5, Line 25

Sec. 38.16.080(5) is amended by inserting a new paragraph (5) to read:

(5) an evaluation of the economic consumer benefits resulting from oil- and gas-based utilities providing service within the state currently receiving royalty oil or gas; and

Page 5, Line 25

Sec. 38.16.080(5) is renumbered as paragraph (6) and amended to read:

(6) the volume, percentage, and reported value of royalty oil and gas

(A) being taken in kind and in value;

(B) purchased by in-state refiners and processors;

(C) purchased by oil- and gas-based utilities providing service within the state;

[(C)] (D) actually refined or processed in state;

[(D)] (E) sold on a competitive and noncompetitive bid basis; and

[(E)] (F) purchased by foreign nations.

Page 6, Line 19

Sec. 38.16.900(4) is amended to read:

(4) "dispose of" or "disposition of" royalty oil or gas means the sale, exchange, or other alienation by the state of royalty oil or gas or of an interest in royalty oil or gas, and includes the waiver of a present or future right to take future production of oil or gas as a royalty; [and]

Page 6, Line 24

Sec. 38.16.900(5) is amended to read:

(5) "interest" in royalty oil or gas includes the right to take future production of oil or gas as a royalty[.]; and

Page 6, Line 26

Sec. 38.16.900 is amended by adding paragraph (6) to read:

(6) "current market value" for royalty gas taken in value and sold pursuant to a long-term contract means that contract price unless the commissioner determines, by clear and convincing evidence, that the contract price was unreasonably low at the time the contract was entered into.

Page 14, Line 24

Sec. 38.06.070(B) is amended to read:

(B) the purchaser be a refiner who provides refined products or by-products for distribution and sale in the state with significant price and supply benefits to the citizens of the state; [or]

Page 14, Line 28

Sec. 38.06.070(C) is amended to read:

(C) the purchaser construct a processing or refining facility in the state; or

Page 15, Line 1

Sec. 38.06.070 is amended by adding paragraph (D) to read:

(D) the purchaser be an oil- or gas-based utility providing benefits to the citizens of the state;

Page 16, Line 19

Sec. 44.62.175(a)(10) is amended to read:

(10) a notice of the findings required to be made public by the commissioner of natural resources under AS 38.16.030 and 38.16.060[.]; and

Page 16, Line 22

Sec. 44.62.175(a) is amended by adding paragraph (11) to read:

(11) all Notice to Lessees issued by the state.

:hb495  
cb

## CASES ON ROYALTY VALUATION

(These cases are interpreting a variety of royalty valuation clauses. Both the actual lease terms and the facts of the particular case have an impact on the court's rulings.)

1. Tara Petroleum Corp. v. Hughey, 630 P.2d 1269 (Okla. 1981)

The courts following Tara have reasoned that since the lessee has an obligation to develop the lease and market the gas, long-term contracts are essential to resource development. Establishing a royalty value higher than an arms-length contract price penalizes the parties to those contracts. States following Tara:

- a. Oklahoma: Tara (1981)
- b. Louisiana: Henry v. Ballard & Cordell Corp.  
418 So.2d 1334 (La. 1982)
- c. Arkansas: Hillard v. Stephens  
637 S.W.2d 581 (Ark. 1982)

2. Texas Oil & Gas Corp. v. Vela, 429 S.W.2d 866 (Tex. 1968)

In this line of cases, courts have held that the market value of royalty gas is to be established by reference to comparable sales of gas. States following Vela:

- a. Texas: Vela (1968)
- b. Montana: Montana Power Co. v. Kravik  
586 P.2d 298 (Mont. 1978)
- c. North Dakota: West v. Alpar Resources, Inc.  
298 N.W.2d 484 (N.D. 1980)
- d. Kansas: Lightcap v. Mobil Oil  
562 P.2d 1 (Kan. 1977)

3. Does an NGPA ceiling price establish "market value?"

The question addressed here is whether or not market value can exceed a price ceiling established by government regulation.

NGPA sets ceiling price:      Texas: First National Bank v. Exxon Corp.  
622 S.W.2d 80 (Tex. 1981)  
Bowers v. Phillips Petroleum  
692 F.2d 1015 (5th Cir. 1982)

NGPA does not set ceiling price:      Kansas: Lightcap v. Mobil Oil  
586 P.2d 1 (Kan. 1977)

ALASKA DEPARTMENT OF NATURAL RESOURCES - DIVISION OF OIL AND GAS  
 SUMMARY STATISTICS  
 COOK INLET GAS PRICE DISPUTE  
 AVERAGE MONTHLY SALES VOLUMES - JULY 1984 THROUGH JUNE 1985

Date: 1/14/86

FIELD Producers (% of field owned)	PURCHASER	% of FIELD on sale by sale basis	SALES VOLUMES (MCF) 1/	EFFECTIVE ROYALTY INTEREST	ROYALTY VOLUME (MCF)	VALUE REPORTED FOR ROYALTIES 2/	PRODUCER/ PURCHASER BASE CONTRACT VALUE 2/ 7/	EFFECTIVE DATE	EXPIRATION DATE
<b>BELUGA RIVER FIELD</b>									
CHEVRON (33.33%)	ENSTAR	2.11%	37,790	0.07555	2,855	\$1.8000	\$2.0300 9/	12/20/82	10/1999
ARCO (33.33%)	ENSTAR	2.11%	37,790	0.07555	2,855	\$1.8000	\$2.0300 9/	12/20/82	10/1999
SHELL (33.33%)	ENSTAR	2.11%	37,790	0.07555	2,855	\$1.8000	\$2.0300 9/	12/20/82	10/1999
AGEA (100.00%) W-214-35	ENSTAR	0.45%	8,122	0.07555	614	\$1.8000	\$2.0300 9/	12/20/82	10/1999
SUB TOTAL		6.77%	121,492		9,179				
CHEVRON (33.33%)	CHUGACH	28.70%	515,065	0.07555	38,913	\$0.2103	\$0.2103	5/14/65	1/1998 3/
ARCO (33.33%)	CHUGACH	28.70%	515,065	0.07555	38,913	\$0.2103	\$0.2103		
SHELL (33.33%)	CHUGACH	28.70%	515,065	0.07555	38,913	\$0.2103	\$0.2103		
AGEA (100.00%) W-214-35	CHUGACH	7.13%	127,863	0.07555	9,660	\$0.2103	\$0.2103		
SUB TOTAL		93.23%	1,673,058		126,400				
TOTAL BELUGA RIVER FIELD		100.00%	1,794,550		135,579				
<b>KENAI FIELD</b>									
UNION (50%)	APL-ANCHORAGE	10.28%	845,622	0.020688	17,494	\$1.9500 8/	\$0.6220 6/	5/13/60	12/92 3/
UNION (50%)	APL-CHEV NIK	0.19%	15,888	0.020688	329	\$1.9500 8/	\$0.6220		
UNION (50%)	UNION-CHEV	0.19%	15,518	0.020688	321	\$1.9500 8/	\$0.6220	2/5/81	INDEFINITE
UNION (50%)	CITY OF KENAI	0.25%	20,590	0.020688	426	\$0.3000	\$0.3000	5/17/66	6/1986
UNION (50%)	RENTAL GAS	4.50%	370,334	0.020688	7,661	\$1.9500 8/	\$0.0700	1/17/66	1/1995 3/
UNION (50%)	ADDITIONAL RENTAL	2.37%	194,981	0.020688	4,034	\$1.9500 8/	\$0.3800		
UNION (50%)	UNION CHEMICAL	40.73%	3,352,941	0.020688	69,347	\$1.9500 8/	\$0.6130	11/1/77	1998
TOTAL UNION SHARE		58.51%	4,814,973		99,612				
MARATHON (50%)	APL-I	14.38%	1,183,535	0.020688	24,485	\$1.9500 8/	\$0.6220 6/		12/1992 3/
MARATHON (50%)	APL-II	4.48%	368,603	0.020688	7,626	\$2.0550	\$2.0800 9/	12/16/82	12/1997 3/
MARATHON (50%)	APL-NIKISKI	0.19%	15,898	0.020688	329	\$2.0550 4/	\$0.6220		
MARATHON (50%)	CITY OF KENAI	0.25%	20,599	0.020688	426	\$2.0550 4/	\$0.3000		6/1986
MARATHON (50%)	RENTAL GAS	4.50%	370,242	0.020688	7,660	\$0.2100	\$0.2100		1/1995 3/
MARATHON (50%)	ADDITIONAL RENTAL	2.36%	194,450	0.020688	4,023	\$0.3800	\$0.3800		
MARATHON (50%)	TOKYO UTILITIES	15.32%	1,261,073	0.020688	26,089	\$2.2795	\$4.7590 5/		6/1/89
TOTAL MARATHON SHARE		41.49%	3,414,390		70,637				
TOTAL KENAI FIELD		100.00%	8,229,363		170,249				
<b>STERLING FIELD</b>									
UNION (50%)	PENINSULA GREENHOUSE	50.00%	736	0.015546	11	\$0.4000	\$0.4000	10/27/61	
MARATHON (50%)	PENINSULA GREENHOUSE	50.00%	736	0.015546	11	\$2.0550 4/	\$0.4000		
TOTAL STERLING FIELD		100.00%	1,472		23				
<b>MARTHUR RIVER FIELD</b>									
UNION/MARATHON (50% each)		0.47%	1,671	0.125	209	0.000	0.000		
UNION/MARATHON (50% each)	RENTAL GAS	1.48%	5,260	0.125	658	0.000	0.210		
UNION/MARATHON (50% each)	UNION CHEMICAL	87.56%	311,215	0.125	38,902	0.000	0.613		
UNION/MARATHON (50% each)		9.39%	33,375	0.125	4,172	0.000	0.000		
UNION/MARATHON (50% each)		1.10%	3,910	0.125	489	0.000	0.000		
TOTAL MARTHUR RIVER FIELD		100.00%	355,431		44,429				
<b>TRADING BAY FIELD</b>									
Marathon 48.66%		48.66%	580	0.125	73	0.000	0.000		
Union 48.66%		48.66%	580	0.125	73	0.000	0.000		
Superior 1.34%		1.34%	16	0.125	2	0.000	0.000		
Tesaco 1.34%		1.34%	16	0.125	2	0.000	0.000		
TOTAL TRADING BAY FIELD		100.00%	1,192		149				

- 1/ ANNUAL VOLUME DIVIDED BY 12 MONTHS EQUAL AVERAGE MONTHLY VOLUME.  
 2/ ROYALTY AND CONTRACT VALUES ARE THE MOST CURRENT IN EFFECT AS OF JANUARY 1986.  
 PRODUCTION AND HAVE NOT BEEN ADJUSTED FOR BTU CONTENT.  
 3/ QUANTITY TERM COULD OPERATE TO EXTEND OR SHORTEN THE CONTRACT PERIOD.  
 4/ PRICE REPORTED BY MARATHON IS BEING PAID UNDER PROTEST.  
 5/ CONTRACT PRICE IS A GROSS PRICE BEFORE TRANSPORTATION COSTS.  
 6/ CONTRACT PRICE TO GO TO \$0.27 MCF DURING 1986.  
 7/ BASE CONTRACT PRICE DOES NOT INCLUDE LESSEE TAX OBLIGATIONS PAID BY THE PURCHASER.  
 8/ VALUE AGREED TO BY SETTLEMENT.  
 9/ SPECIAL DELIVERABILITY CHARGE OF \$0.35/MCF MAY ALSO BE EFFECTIVE.

*\$1.95 settlement*

TESTIMONY OF

CHUGACH ELECTRIC ASSOCIATION, INC.

BEFORE THE HOUSE SPECIAL COMMITTEE ON OIL & GAS

JANUARY 30, 1986

GOOD AFTERNOON MR. CHAIRMAN AND MEMBERS OF THE COMMITTEE. MY NAME IS LARRY MARKLEY. I AM THE DIRECTOR OF GOVERNMENT AND MEMBER AFFAIRS FOR CHUGACH ELECTRIC ASSOCIATION. I APPRECIATE THE OPPORTUNITY TO BE HERE TODAY AND TO SHARE THESE VERY BRIEF COMMENTS WITH YOU. BECAUSE WE BECAME AWARE OF H.B. 495 ONLY LATE YESTERDAY, WE OR OTHER UTILITIES MAY HAVE FURTHER COMMENTS ONCE WE HAVE HAD THE TIME TO FULLY ANALYZE THE DETAILS OF THE BILL.

WE WANTED TO TAKE THE OPPORTUNITY TO TESTIFY HERE TODAY, BECAUSE CHUGACH AND OTHER RAILBELT UTILITIES ARE VERY INVOLVED THIS SESSION WITH ISSUES RELATED TO ROYALTY VALUATION. WE WILL ALSO BE TESTIFYING AT THE HEARING ON FEBRUARY 10 BEFORE THIS COMMITTEE AND THE HOUSE AND SENATE NATURAL RESOURCES COMMITTEES IN SUPPORT OF S.B. 309, WHICH WOULD TIE THE VALUE OF ROYALTY GAS TO LONG-TERM CONTRACT PRICES. WE SIMILARLY SUPPORT TWO HOUSE BILLS, H.B. 403 AND H.B. 425, WHOSE INTENTS ARE THE SAME.

OUR CONCERN WITH H.B. 495 FOCUSES ON SECTION 38.16.010(a). ALTHOUGH WE SUPPORT THE STATE MAXIMIZING OUR NATURAL RESOURCES FOR THE BENEFIT OF ALL OUR CITIZENS, ACTIONS SUCH AS THE DNR'S REVALUATION LAST SPRING OF THE ROYALTY PRICE FOR BELUGA GAS HAS A SIGNIFICANT IMPACT ON THE COST OF ELECTRICITY FOR CONSUMERS FROM HOMER TO FAIRBANKS. THESE ARE THREE-QUARTERS OF ALASKA'S POPULATION. I HAVE PROVIDED EACH OF YOU WITH AN INFORMATION PACKET THAT DETAILS THIS ISSUE FURTHER.

WHILE OUR INITIAL REVIEW INDICATES THAT SECTION 38.16.010(a) OF H.B. 495 IS NOT INCONSISTENT WITH THE INTENT OF S.B. 309,

H.B. 403 OR H.B. 425, WE BELIEVE IT WOULD BE CLEARER IF THE ABOVE SECTION WERE MODIFIED TO REFLECT THIS. WE WOULD BE HAPPY TO WORK WITH THE COMMITTEE IN THIS REGARD.

EQUALLY IF NOT MORE IMPORTANT THAN THE IMMEDIATE PRICE INCREASE TO RAILBELT CONSUMERS FROM THE BELUGA ROYALTY GAS REVALUATION, IS THE FACT THAT DNR'S ACTION INTRODUCES A REAL ELEMENT OF UNCERTAINTY, FOR UTILITIES AND OTHERS. THIS UNCERTAINTY CREATES PROBLEMS BOTH IN LONG-TERM FINANCING OF POWER SUPPLY PROJECTS AND IN OUR EFFORTS TO ENSURE RATE STABILITY. THERE IS AN UNRESOLVED POLICY QUESTION REGARDING VALUATION OF STATE RESOURCES, AND IT NEEDS A THOROUGH PUBLIC REVIEW AND MEANINGFUL INVOLVEMENT OF THE LEGISLATURE.

ROYALTY VALUE IS ESTABLISHED BY LONG-TERM CONTRACT PRICE. THIS APPROACH IS FOLLOWED IN OTHER STATES, SUCH AS OKLAHOMA AND LOUISIANA, WHICH RECOGNIZE THAT ROYALTY RESOURCES OFTEN HAVE LITTLE OR NO VALUE INDEPENDENT OF LONG-TERM CONTRACTS.

IN FACT, IT WAS CHUGACH'S SUCCESS IN NEGOTIATING STABLE LONG-TERM CONTRACTS FOR BELUGA GAS THAT ALLOWED US TO MAKE THE COMMITMENT TO BUILD OUR MAJOR GENERATION PLANT THERE IN THE MID-1960'S. WITHOUT THESE CONTRACTS, THAT GAS FIELD MIGHT STILL LIE UNDEVELOPED. ADDITIONALLY, IT IS IMPORTANT TO NOTE THAT UNDER THE EXISTING OIL AND GAS LEASES, DNR IS PERMITTED, ON ONLY SIX MONTHS' WRITTEN NOTICE, TO TAKE ITS ROYALTY SHARE IN-KIND AND SELL IT DIRECTLY TO A WILLING PURCHASER. NOTHING WE SUPPORT WOULD CHANGE THAT.

I THANK YOU AGAIN FOR THE OPPORTUNITY TO TESTIFY HERE TODAY, AND I URGE YOU TO CONSIDER THE IMPORTANT PROBLEMS RAISED BY DNR'S ACTION LAST SPRING AND TO SUPPORT LEGISLATION TYING ROYALTY VALUE TO LONG-TERM CONTRACT PRICE. CHUGACH AND OTHER RAILBELT UTILITIES WILL BE HAPPY TO SUPPLEMENT THESE COMMENTS AND OUR INFORMATION PACKET AS YOU WISH. WE WILL BE TESTIFYING IN GREATER DETAIL ON FEBRUARY 10.

:test.86

## IMPACTS OF STATE ROYALTY GAS INCREASE ON RAILBELT CONSUMERS

Alaskans from Fairbanks to Homer face utility bill increases as a result of the Alaska Department of Natural Resources' decision to drastically raise the price of royalty gas in Cook Inlet. For Chugach Electric Association consumers in the Anchorage area, the impacts will be nearly \$3 million a year.

DNR's action was taken with virtually no advance notice to the parties involved, to the public or to the State Legislature. Litigation was initiated by the three producers against DNR on the revaluation in April 1985. Chugach is also involved in the litigation.

There are two major aspects of this issue: The additional costs to utility consumers of DNR's actions and, perhaps more important, the fundamental policy question of how royalty valuation is established.

On March 18, 1985, the Department of Natural Resources (DNR) issued a formal notice to the three Beluga River gas field producers -- ARCO, Shell and Chevron -- informing them that DNR would no longer accept royalty payments based on long-term contract price but would require payments based on the "prevailing market value."

This value was initially determined by DNR to be \$2.05 per thousand cubic feet (mcf), based on a Shell-ENSTAR (APL II) contract signed in December 1982. By contrast, Chugach currently pays \$.26/mcf for its Beluga gas, under long-term contracts on which the DNR had based its royalty price for the past 17 years.

Based on the \$2.05/mcf figure, the annual increase to Chugach retail and wholesale consumers would be approximately \$2.8 million. Even under a recent settlement offer by the state which would value the royalty gas at \$1.50/mcf, the impact would be approximately \$1.9 million annually.

Chugach negotiated its Beluga contracts in good faith and at arms length in 1965, and renegotiated with the producers in 1973. The contracts extend to 1998 or whenever 373 billion cubic feet (bcf) of gas is used, whichever comes first. That means the overall impact of the Beluga royalty revaluation alone could total more than \$30 million to consumers.

Additional financial impacts on Chugach consumers have resulted or could result from actions similar to or related to the Beluga royalty revaluation. Those actions are:

- a possible revaluation, identical to the state's, by the other Beluga royalty gas owners (the federal government and Cook Inlet Region, Inc.);
- the recent \$8.5 million settlement by ELSTAR relative to royalty gas from the Kenai field (raising ENSTAR's Kenai royalty price from \$.66 to \$1.95, and including retroactive payments);
- an increase in the cost of power purchased from Anchorage Municipal Light & Power, which was substantially impacted by the ENSTAR increase, and
- a possible increase in state gas severance taxes based on the Beluga royalty gas revaluation.

If all these actions occur, the impact on Chugach consumers would be approximately \$6 million annually -- the equivalent of about a 6 percent rate increase. Attachment A details the impacts.

Financial impacts also will be felt in the Fairbanks area, because Chugach has been selling wholesale power to Golden Valley Electric Association and Fairbanks Municipal Utility System over the Anchorage-Fairbanks intertie. ML&P also is selling power to Golden Valley. Golden Valley has estimated that its consumers will save more than \$600,000 this winter alone through purchases of power from Chugach and ML&P.

Copper Valley Electric Association also is concerned, because the Glennallen-based cooperative wants its consumers from Glennallen to Valdez to be intertied with the Railbelt utilities and reap the benefits of less expensive power.

Approximately three quarters of the state's estimated 560,000 residents live in the Railbelt between Fairbanks and Homer. Chugach serves nearly half the state's population through sales to its own retail consumers and those of Matanuska Electric Association, Homer Electric Association and the City of Seward. Thus, residents of the Matanuska and Susitna Valleys and on the Kenai Peninsula are directly affected.

In addition to the cost increases associated with the existing gas contracts, there is another major -- and perhaps even more important -- impact of DNR's royalty revaluation decision.

This is what could be called the uncertainty factor. If DNR is ultimately successful in setting royalty prices on what it determines to be the prevailing market value of a resource, utilities, producers and other purchasing parties will have no assurance of what future royalty gas components will be. This injects a real measure of insecurity into long-term gas contracts and, for Chugach at least, into power supply planning and ratemaking.

The uncertainty factor is an important public policy question for the state and is one that may well eclipse the cost-increase aspect of any given royalty lease revaluation. It could be argued that settling the price dispute over a specific revaluation without first resolving the underlying policy question is getting the horse before the cart.

It is important to note that although DNR's gas and oil lease form has given rise to dispute and litigation in many instances over the years, DNR has failed to propose regulations defining important lease terms. Proposed regulations would at least allow for a public discussion of the policy questions.

To resolve the problem raised by the state's royalty gas revaluation, Chugach is supporting passage of S.B. 309, or similar bills H.B. 403 and H.B. 425. Each of these bills would require DNR to tie royalty valuation to long-term contract price, thereby resolving the underlying policy question. A copy of each of the bills is attached.

Uncertainty in long-term price for royalty gas raises problems for Chugach and other utilities both in terms of long-term financing for generation projects and in efforts to ensure electric rate stability. Tying royalty price to long-term contract price allows DNR to continue to manage the state's resources for maximum value, while recognizing that these resources do not have a value independent of long-term contracts. DNR would still be permitted, on only six months' written notice, to take its royalty share in kind and sell it directly to a willing purchaser.

ATTACHMENT A

CHUGACH ELECTRIC ASSOCIATION, INC.  
Rate Impacts Due to Market Valuation of Royalty Gas

January 10, 1986

	<u>Retail:</u> <u>Dollars</u>	<u>Retail:</u> <u>Percent</u>	<u>Wholesale:</u> <u>Dollars</u>	<u>Wholesale:</u> <u>Percent</u>	<u>Total:</u> <u>Dollars</u>	<u>Total:</u> <u>Percent</u>
Current revenues	\$63,200,000		\$35,800,000		\$99,000,000	
Impacts:						
The state's Beluga royalty revaluation from \$.26/mcf to \$2.05/mcf	1,501,164	2.38	1,278,769	3.57	2,779,933	2.81
Possible federal/CIRI Beluga revaluation (based on state's \$2.05/mcf figure)	1,000,776	1.58	852,513	2.38	1,853,289	1.87
ENSTAR settlement	420,853	0.67	358,505	1.00	779,358	0.79
ML&P rate increase (resulting from ENSTAR settlement)	337,500	0.53	287,500	0.80	625,000	0.63
Possible state gas severance tax increase (based on state's Beluga royalty revaluation)	<u>87,100</u>	<u>0.14</u>	<u>74,196</u>	<u>0.21</u>	<u>161,296</u>	<u>0.16</u>
	\$3,347,393	5.30	\$2,851,483	7.97	\$6,198,876	6.26

Introduced: 3/4/85  
Referred: Resources

1 IN THE SENATE

BY FAIKS, KELLY AND V. FISCHER

2

SENATE BILL NO. 309

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 the royalty value of a natural  
7 gas lease on state land; and providing for an effective  
8 date."

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

10 \* Section 1. FINDING. The legislature finds that to provide for the  
11 utilization, development and conservation of gas resources for the maximum  
12 benefit of the people of the state, the value of production of gas for  
13 purposes of computing the royalty reserved to the state must be based  
14 primarily on the contract price of gas rather than the current market value  
15 of the gas. This will encourage stable markets, promote investment, assure  
16 reasonable energy prices and provide the maximum benefit to the people of  
17 the state.

18 \* Sec. 2. AS 38.05.180 is amended by adding a new subsection to read:

19 (aa) Notwithstanding other provisions of this section, if the  
20 royalty share of natural gas reserved to the state under a lease  
21 issued under (f) of this section is taken in value, the value of  
22 production sold under a long-term sales contract may not be greater  
23 than the price received for the production under the long-term sales  
24 contract unless it is shown by clear and convincing evidence that the  
25 long-term contract price was unreasonably low at the time of contract.

26 \* Sec. 3. This Act applies to leases issued before or after the effective  
27 date of this Act.

28 \* Sec. 4. This Act takes effect immediately in accordance with AS 01.-  
29 10.070(c).

Introduced: 4/26/85  
Referred: House Special Committee  
on Oil & Gas, Resources and Finance

1 IN THE HOUSE

BY FIGNALBERI

2

HOUSE BILL NO. 403

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 the royalty value of a natural  
7 gas lease on state land; and providing for an effective  
8 date."

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

10 \* Section 1. FINDING. The legislature finds that to provide for the  
11 utilization, development and conservation of gas resources for the maximum  
12 benefit of the people of the state, the value of production of gas for  
13 purposes of computing the royalty reserved to the state must be based  
14 primarily on the contract price of gas rather than the current market value  
15 of the gas. This will encourage stable markets, promote investment, assure  
16 reasonable energy prices and provide the maximum benefit to the people of  
17 the state.

18 \* Sec. 2. AS 38.05.180 is amended by adding a new subsection to read:

19 (aa) Notwithstanding other provisions of this section, if the  
20 commissioner issues a gas lease under (f) of this section and the  
21 royalty value of the production of gas removed or sold from the lease  
22 is measured by a long-term contract price, the commissioner may not  
23 adjust the long-term contract price to reflect the current market  
24 value of gas if the commissioner determines the current market value  
25 price adjustment would result in an increase in the consumer price of  
26 the gas or unless the commissioner determines in a written finding  
27 supported by clear and convincing evidence that the long term contract  
28 price is unreasonably low.

29 \* Sec. 3. This Act applies to leases issued before or after the

1 effective date of this Act.

2 \* Sec. 4. This Act takes effect immediately in accordance with AS 01.-

3 10.070(c).

Introduced: 5/4/85  
Referred: House Special Committee  
on Oil & Gas and Resources

1 IN THE HOUSE

BY PEARCE

2

HOUSE BILL NO. 425

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 the royalty value of a natural  
7 gas lease on state land; and providing for an effective  
8 date."

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

10 \* Section 1. AS 38.05.180 is amended by adding a new subsection to  
11 read:

12 (aa) Notwithstanding other provisions of this section, the value  
13 of the production of natural gas taken in value and sold under a lease  
14 issued under (f) of this section may not exceed the long-term contract  
15 price for the natural gas unless it is established by clear and con-  
16 vincing evidence that the long-term contract price was unreasonably  
17 low at the time of contract.

18 \* Sec. 2. This Act applies retroactively to leases issued before the  
19 effective date of this Act.

20 \* Sec. 3. This Act takes effect immediately in accordance with AS 01.-  
21 10.070(c).

## ALASKA PUBLIC UTILITIES COMMISSION

The primary areas of concern regarding the Alaska Public Utilities Commission (APUC) for Chugach and other cooperatives are (1) the impacts of APUC action on the financing options of cooperatives, (2) the scope of the APUC's authority, (3) the delay in APUC decision making and (4) composition of the Commission itself.

Following is a synopsis of each of the four areas.

It should be stressed that Chugach is opposed to any elimination of the APUC, has articulated this position on numerous occasions and is moderate among electric cooperatives as to the degree of changes which should occur. Chugach does join most other utilities in Alaska in the belief that the APUC should focus its role and resources on the basic areas for regulation, and not on the details of day-to-day utility management. In the cooperatives' case, the APUC should not function as a "super" board of directors.

### 1. Financing Impacts

Chugach expects that funding from or access to the Rural Electrification Administration (REA) will be sharply reduced in the near future. Steps must be taken to make electric cooperatives more acceptable credit recipients from commercial lending sources. If a banker is going to make loans to any business, especially in the large amounts needed by electric utilities for generation and distribution expansion, the banker must be certain that the business has stable and reliable revenues. It is common for the financial community to do a careful analysis of the regulatory environment before making loans to regulated utilities.

As Chugach and other cooperatives increase their dependency on the private financial market, it is important that the regulatory environment not be one which limits access to financing or adversely impacts on the cost of that financing. In recent years, the APUC has abrogated the price component of Chugach's wholesale contracts and ordered the refund of other utilities' permanent rates. Actions of this type can cause great concern within the financial community.

### 2. Scope of APUC Authority

The APUC serves as a regulatory body for about half the public utilities operating in Alaska. In recent years, the APUC has broadened the scope of its oversight and regulatory

practices, and is becoming increasingly involved in details of day-to-day management.

The authors of the APUC enabling legislation granted the Commission far-reaching powers, ones that often exceed other regulatory agencies in Alaska, and then mandated that these powers be "liberally construed." No such broad grants of power were given to other commissions.

The APUC has drafted voluminous proposed service and safety regulations with far-reaching implications for day-to-day operations of the electric utilities. Many of these proposed regulations contradict existing utility tariff and would override policy decisions made by utilities regarding their own operations. APUC involvement in utility functions has a cost impact to utilities, both in responding to APUC requests and in the delays these increasing wide-reaching inquiries create.

3. Regulatory Delay

Regulatory delay can be a costly and serious problem for all utilities. Last year a review of the open and pending APUC dockets revealed that approximately 100 cases opened between 1982 and 1983 remain open. Many other state agencies operate under very tight time limits, and Alaska's judges and justices have their pay withheld if they fail to rule on pending cases in a timely manner. Although there are many reasons for delay, the APUC currently has no mandate to act expeditiously.

4. Composition of the Commission

Because of their number and the complexity of their operations, electric utilities are of a strong mind that at least one seat on the commission ought to be designated for an electrical engineer. This is currently not the case, nor has it been so in recent years. Proposed language would mandate that two of the five Commission seats be held by graduate engineers, one an electrical engineer and the other an engineer (not necessarily electrical) with public utility experience.

### RIGHT-OF-WAY RELOCATION COSTS

Chugach Electric Association supports the House Transportation Committee Substitutes for House Bill 159 and House Bill 160, which deal with relocation of utility facilities from airports, other public facilities and highways.

The two bills originally would have made affected utilities responsible for all relocation costs, but were favorably amended on April 11, 1985, by the Transportation Committee at the request of the Alaska Rural Electric Cooperative Association and other utilities.

The amendments require the Department of Transportation to pay relocation costs if (1) utility facilities existed before the date of enactment of (2) if utility permits or regulations so specified for facilities constructed after the date of enactment. Utilities would pay relocation costs in all other cases. Currently, relocation costs are borne by the state unless otherwise agreed to by utilities.

The bills were referred to the House Finance Committee, where they await action at the 1986 session.

Offered: 4/11/85  
Referred: Finance

Original sponsor: Rules/Governor

1 IN THE HOUSE BY THE TRANSPORTATION COMMITTEE  
2 CS FOR HOUSE BILL NO. 159 (Transportation)  
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 utilities and encroachments in  
7 state airports, public facilities, and highways; and  
8 providing for an effective date."

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

10 \* Section 1. AS 02.15 is amended by adding new sections to article 2 to  
11 read:

12 Sec. 02.15.102. USE OF AIRPORTS FOR UTILITIES. A utility facil-  
13 ity may be constructed, placed, or maintained across, along, over,  
14 under, or within a state airport only in accordance with regulations  
15 adopted or procedures prescribed by the department and only if au-  
16 thorized by a written permit issued by the department.

17 Sec. 02.15.104. RELOCATION OF UTILITY FACILITIES INCIDENT TO  
18 AIRPORT PROJECTS. (a) If, incident to the construction of an airport  
19 project, the department determines and orders that a utility facility  
20 located across, along, over, under, or within a state airport must be  
21 changed, relocated, or removed, the utility owning or maintaining the  
22 facility shall change, relocate, or remove it in accordance with the  
23 order, within a reasonable time set by the department in the order.

24 (b) If the utility facility is not changed, relocated, or re-  
25 moved in accordance with the order, any permit authorizing the facil-  
26 ity issued by the department under AS 02.15.102 becomes invalid and  
27 the facility will be considered an unauthorized encroachment subject  
28 to the provisions of AS 02.15.114.

29 (c) The cost of change, relocation, or removal, as defined in

1 AS 02.15.260, ordered under (a) of this section is to be paid as  
2 follows:

3 (1) by the department as a cost of airport construction, if  
4 the utility facility is installed or authorized under a utility  
5 permit, or a regulation after the effective date of this Act;

6 (2) by the department as a cost of highway construction if  
7 the facility is installed before the effective date of this Act;

8 (3) by the utility in all other cases unless the commis-  
9 sioner finds it is in the public interest for the cost to be paid by  
10 the department.

11 Sec. 02.15.106. ENCROACHMENT PERMITS. An encroachment may be  
12 constructed, placed, changed, or maintained across or within an air-  
13 port, but only in accordance with regulations or procedures adopted by  
14 the department. An encroachment may not be constructed, placed, main-  
15 tained, or changed until it is authorized by a written permit issued  
16 by the department, unless the department provides otherwise by regula-  
17 tion.

18 Sec. 02.15.108. RELOCATION OR REMOVAL OF ENCROACHMENT. If,  
19 incidental to the construction or maintenance of a state airport the  
20 department determines and orders that an encroachment previously  
21 authorized by written permit must be changed, relocated, or removed,  
22 the owner of the encroachment shall change, relocate, or remove it  
23 within a reasonable time set by the department in the order. The cost  
24 of the change, relocation, or removal shall be paid as provided in  
25 AS 02.15.104(c). If the owner does not change, relocate, or remove an  
26 encroachment within the time set by the department, the encroachment  
27 will be considered an unauthorized encroachment subject to the pro-  
28 visions of AS 02.15.114.

29 Sec. 02.15.110. UNAUTHORIZED ENCROACHMENTS. If an unauthorized

1 encroachment exists in, on, under, or over a state airport the depart-  
2 ment may require the removal of the encroachment, at the expense of  
3 the owner, in the manner provided in AS 02.15.112 - 02.15.114.

4 Sec. 02.15.112. NOTICE OF REMOVAL OF UNAUTHORIZED ENCROACHMENT.  
5 Notice shall be given the owner, occupant, or person in possession of  
6 an unauthorized encroachment, or to another person causing or per-  
7 mitting the encroachment to exist, by serving upon any of them a  
8 notice demanding the removal of the encroachment within a time limit  
9 set by the department. The notice shall describe the encroachment  
10 with reasonable certainty as to its character and location. Service  
11 of the notice may be made by certified mail.

12 Sec. 02.15.114. REMOVAL AT OWNER'S EXPENSE AFTER NONCOMPLIANCE;  
13 REMOVAL EXPENSE. After a failure of the owner of an unauthorized  
14 encroachment to comply with a notice or order of the department under  
15 AS 02.15.104, 02.15.108, or 02.15.112, the department may remove the  
16 encroachment, or cause it to be removed. The owner of the unauthor-  
17 ized encroachment shall pay to the department

18 (1) the expense of the removal of the encroachment;

19 (2) all costs and expenses paid by the state as a result of  
20 a claim or claims filed against the state by third parties for damages  
21 due to delays because the encroachment was not changed, removed, or  
22 relocated according to the order of the department; and

23 (3) costs and expense of suit.

24 \* Sec. 2. AS 02.15.260 is amended by adding new paragraphs to read:

25 (15) "cost of change, relocation, or removal" means the  
26 entire cost incurred by the utility properly attributed to the change,  
27 relocation, or removal of a facility, less the costs for improvements  
28 or upgrading over and above the cost of a functionally equal facility;  
29 if a facility is to be relocated and replaced with new equipment,

1           there shall also be subtracted from the entire cost the salvage value  
2           derived from the old facility;

3                   (16) "encroachment" includes a tower, pole, poleline, pipe,  
4           pipeline, driveway, private road, fence, billboard, stand or building,  
5           or structure or object of any kind that is or has been placed in, on,  
6           under, or over a portion of an airport;

7                   (17) "utility" includes a corporation, company, individual,  
8           or association of individuals, or a lessee, trustee, or court-appointed  
9           receiver, that owns, operates, manages, or controls a line, plant,  
10          pipeline, or system for furnishing, producing, generating, transmitting,  
11          or distributing power, electricity, communications, telecommu-  
12          nications, water, gas, oil, petroleum products, coal or other mineral  
13          slurry, steam, heat, light, chemicals, air, sewage, drainage not  
14          connected with airport drainage, irrigation, or similar products  
15          including publicly owned fire and police signal systems and street  
16          lighting systems that directly or indirectly serve the public or a  
17          segment of the public; "utility" also includes a corporation, company,  
18          individual, or association of individuals, or a lessee, trustee, or  
19          court-appointed receiver that owns, operates, manages, or controls a  
20          system for furnishing transportation of goods or persons by means of a  
21          railway, tramway, cableway, conveyor, flume, canal, tunnel, pipeline,  
22          or a similar means;

23                   (18) "utility facility" includes poles, plants, lines,  
24          trenches, bridges, utilidors, tunnels, pipelines, and any other system  
25          for furnishing, producing, generating, transmitting, or distributing  
26          power, electricity, communications, telecommunications, water, gas,  
27          oil, petroleum products, coal or other mineral slurry, steam, heat,  
28          light, chemicals, air, sewage, drainage not connected with an airport  
29          drainage system, irrigation, or another substance; "utility facility"

1 also includes a system for furnishing transportation of goods or  
2 persons by means of a railway, tramway, cableway, conveyor, flume,  
3 canal, tunnel, pipeline, or a similar means.

4 \* Sec. 3. AS 19.25.200 is amended to read:

5 Sec. 19.25.200. ENCROACHMENT PERMITS. (a) An encroachment may  
6 be constructed, placed, changed, or maintained across or along a  
7 highway, but only in accordance with regulations adopted by the  
8 department. An [NO] encroachment may not be constructed, placed,  
9 maintained, or changed until it is [DULY] authorized by a written  
10 permit issued by the department, unless the department provides  
11 otherwise by regulation.

12 (b) The provisions under (a) of this section do not apply to a  
13 mailbox or a newspaper box attached to a mailbox.

14 \* Sec. 4. AS 19.45.001(12) is repealed and reenacted to read:

15 (12) "utility" includes a corporation, company, individual,  
16 or association of individuals, or a lessee, trustee, or court-appointed  
17 receiver, that owns, operates, manages, or controls a line, plant,  
18 pipeline, or system for furnishing, producing, generating, transmit-  
19 ting, or distributing power, electricity, communications, telecommu-  
20 nications, water, gas, oil, petroleum products, coal or other mineral  
21 slurry, steam, heat, light, chemicals, air, sewage, drainage not  
22 connected with highway drainage, irrigation, or similar products  
23 including publicly owned fire and police signal systems and street  
24 lighting systems that directly or indirectly serve the public or a  
25 segment of the public; "utility" also includes a corporation, company,  
26 individual, or association of individuals, or a lessee, trustee, or  
27 court-appointed receiver that owns, operates, manages, or controls a  
28 system for furnishing transportation of goods or persons by means of a  
29 railway, tramway, cableway, conveyor, flume, canal, tunnel, pipeline,

1 or a similar means;

2 \* Sec. 5. AS 19.45.001 is amended by adding a new paragraph to read:

3 (14) "utility facility" includes poles, plants, lines,  
4 trenches, bridges, utilidors, tunnels, pipelines, and any other system  
5 for furnishing, producing, generating, transmitting, or distributing  
6 power, electricity, communications, telecommunications, water, gas,  
7 oil, petroleum products, coal or other mineral slurry, steam, heat,  
8 light, chemicals, air, sewage, drainage not connected with a highway  
9 drainage system, irrigation, or another substance; "utility facility"  
10 also includes a system for furnishing transportation of goods or  
11 persons by means of railway, tramway, cableway, conveyor, flume,  
12 canal, tunnel, pipeline, or a similar means.

13 \* Sec. 6. AS 35.10 is amended by adding new sections to read:

14 ARTICLE 6. UTILITIES AND ENCROACHMENTS IN PUBLIC FACILITIES.

15 Sec. 35.10.210. USE OF PUBLIC FACILITIES FOR UTILITIES. A  
16 utility facility may be constructed, placed, or maintained across,  
17 along, over, under, or within a state public facility only in accor-  
18 dance with regulations adopted or procedures prescribed by the depart-  
19 ment and only if authorized by a written permit issued by the depart-  
20 ment.

21 Sec. 35.10.220. RELOCATION OF UTILITY FACILITIES INCIDENT TO  
22 PUBLIC FACILITY PROJECTS. (a) If, incident to the construction of a  
23 public facility project, the department determines and orders that a  
24 utility facility located across, along, over, under, or within a state  
25 public facility must be changed, relocated, or removed, the utility  
26 owning or maintaining the facility shall change, relocate, or remove  
27 it in accordance with the order, within a reasonable time set by the  
28 department in the order.

29 (b) If the utility facility is not changed, relocated, or

1 removed in accordance with the order, a permit authorizing the utility  
2 issued by the department under AS 35.10.210 becomes invalid and the  
3 facility will be considered an unauthorized encroachment subject to  
4 the provisions of AS 35.10.270.

5 (c) The cost of change, relocation, or removal, as defined in  
6 AS 35.25.020, ordered under (a) of this section is to be paid as  
7 follows:

8 (1) by the department as a cost of public facility con-  
9 struction, if the utility facility is installed or authorized under a  
10 utility permit or a regulation after the effective date of this Act;

11 (2) by the department as a cost of highway construction if  
12 the facility is installed before the effective date of this Act;

13 (3) by the utility in all other cases unless the commis-  
14 sioner finds it is in the public interest for the cost to be paid by  
15 the department.

16 Sec. 35.10.230. ENCROACHMENT PERMITS. An encroachment may be  
17 constructed, placed, changed, or maintained across or within a public  
18 facility, but only in accordance with regulations or procedures adopt-  
19 ed by the department. An encroachment may not be constructed, placed,  
20 maintained, or changed until it is authorized by a written permit  
21 issued by the department, unless the department provides otherwise by  
22 regulation.

23 Sec. 35.10.240. RELOCATION OR REMOVAL OF ENCROACHMENT. If,  
24 incidental to the construction or maintenance of a state public facil-  
25 ity, the department determines and orders that an encroachment pre-  
26 viously authorized by written permit must be changed, relocated, or  
27 removed, the owner of the encroachment shall change, relocate, or  
28 remove it within a reasonable time set by the department in the order.  
29 The cost of the change, relocation, or removal shall be paid as

1 provided in AS 35.10.220(c). If the owner does not change, relocate,  
2 or remove an encroachment within the time set by the department, the  
3 encroachment will be considered an unauthorized encroachment and  
4 subject to the provisions of AS 35.10.270.

5 Sec. 35.10.250. UNAUTHORIZED ENCROACHMENTS. If an unauthorized  
6 encroachment exists in, on, under, or over a state public facility,  
7 the department may require the removal of the encroachment, at the  
8 expense of the owner, in the manner provided in AS 35.10.260 - 35.10.-  
9 270.

10 Sec. 35.10.260. NOTICE OF REMOVAL OF UNAUTHORIZED ENCROACHMENT.  
11 Notice shall be given the owner, occupant, or person in possession of  
12 an unauthorized encroachment, or to another person causing or per-  
13 mitting the encroachment to exist, by serving upon any of them a  
14 notice demanding the removal of the encroachment within a time limit  
15 set by the department. The notice shall describe the encroachment  
16 with reasonable certainty as to its character and location. Service  
17 of the notice may be made by certified mail.

18 Sec. 35.10.270. REMOVAL AFTER NONCOMPLIANCE; REMOVAL EXPENSE.  
19 After a failure of the owner of an unauthorized encroachment to comply  
20 with the notice or order of the department under AS 35.10.220, 35.10.-  
21 240, or 35.10.260, the department may remove the encroachment, or  
22 cause it to be removed. The owner of the unauthorized encroachment  
23 shall pay to the department

24 (1) the expense of the removal of the encroachment;

25 (2) all costs and expenses paid by the state as a result of  
26 a claim or claims filed against the state by third parties for damages  
27 due to delays because the encroachment was not changed, removed, or  
28 relocated according to the order of the department; and

29 (3) costs and expense of suit.

1 \* Sec. 7. AS 35.25.020 is repealed and reenacted to read:  
2       Sec. 35.25.020. DEFINITIONS. In this title, unless the context  
3 requires otherwise,  
4           (1) "construction" or a derivative of the term "construc-  
5 tion" means construction, reconstruction, alteration, improvement, or  
6 major repair;  
7           (2) "cost of change, relocation, or removal" means the  
8 entire cost incurred by the utility properly attributed to the change,  
9 relocation, or removal of a facility, less any costs for improvements  
10 or upgrading over and above the cost of a functionally equal facility;  
11 if a facility is to be relocated and replaced with new equipment,  
12 there shall also be subtracted from the entire cost any salvage value  
13 derived from the old facility;  
14           (3) "department" means the Department of Transportation and  
15 Public Facilities;  
16           (4) "encroachment" includes a tower, pole, poleline, pipe,  
17 pipeline, driveway, private road, fence, billboard, stand or building,  
18 or a structure or object of any kind that is or has been placed in,  
19 on, under, or over a portion of a public facility;  
20           (5) "maintenance" means the preservation of each type of  
21 facility as nearly as possible in its original condition as construct-  
22 ed, or as improved;  
23           (6) "public building" means a building owned or controlled  
24 and held by the state for government or public use;  
25           (7) "public facility" or "public work" means a structure or  
26 project constructed or maintained by the department except airports  
27 and highways, and includes public buildings, boat harbors, port facil-  
28 ities, dikes, jetties, and breakwaters;  
29           (8) "utility" includes a corporation, company, individual,

1 or association of individuals, or a lessee, trustee, or court-appointed  
2 ed receiver, that owns, operates, manages, or controls a line, plant,  
3 pipeline, or system for furnishing, producing, generating, transmitting,  
4 ting, or distributing power, electricity, communications, telecommu-  
5 nications, water, gas, oil, petroleum products, coal or other mineral  
6 slurry, steam, heat, light, chemicals, air, sewage, drainage not  
7 connected with public facility drainage, irrigation, or similar prod-  
8 ucts including publicly owned fire and police signal systems and  
9 street lighting systems that directly or indirectly serve the public  
10 or a segment of the public; "utility" also includes a corporation,  
11 company, individual, or association of individuals, or a lessee,  
12 trustee, or court-appointed receiver that owns, operates, manages, or  
13 controls any system for furnishing transportation of goods or persons  
14 by means of a railway, tramway, cableway, conveyor, flume, canal,  
15 tunnel, pipeline, or a similar means;

16 (9) "utility facility" includes poles, plants, lines,  
17 trenches, bridges, utilidors, tunnels, pipelines, and any other system  
18 for furnishing, producing, generating, transmitting, or distributing  
19 power, electricity, communications, telecommunications, water, gas,  
20 oil, petroleum products, coal or other mineral slurry, steam, heat,  
21 light, chemicals, air, sewage, drainage not connected with a public  
22 facility drainage system, irrigation, or another substance; "utility  
23 facility" also includes a system for furnishing transportation of  
24 goods or persons by means of a railway, tramway, cableway, conveyor,  
25 flume, canal, tunnel, pipeline, or a similar means.

26 \* Sec. 8. This Act takes effect immediately in accordance with AS 01.-  
27 10.070(c).

Offered: 4/11/85  
Referred: Rinance

Original sponsor: Rules/Governor

1 IN THE HOUSE BY THE TRANSPORTATION COMMITTEE  
2 CS FOR HOUSE BILL NO. 160 (Transportation)  
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 relocation of utilities; and  
7 providing for an effective date."

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

9 \* Section 1. AS 19.25.020(c) is amended to read:

10 (c) The cost of change, relocation, or removal necessitated by  
11 highway construction is a cost of highway construction to be paid [BY  
12 THE STATE] in accordance with AS 19.45.001(4) as follows:

13 (1) by the department as a cost of highway construction, if  
14 the utility facility is installed or authorized under a utility permit  
15 or a regulation after the effective date of this Act;

16 (2) by the department as a cost of highway construction if  
17 the facility is installed before the effective date of this Act;

18 (3) by the utility in all other cases unless the commis-  
19 sioner finds it is in the public interest for the cost to be paid by  
20 the department [, NOTWITHSTANDING THE TERMS OR PROVISIONS OF ANY  
21 EXISTING PERMIT, AGREEMENT, REGULATION OR STATUTE TO THE CONTRARY].

22 \* Sec. 2. This Act takes effect immediately in accordance with AS 01.-  
23 10.070(c).

### KENAI PENINSULA-ANCHORAGE INTERTIE

Chugach Electric Association supports construction of a new transmission circuit between the Kenai Peninsula and Anchorage.

Specifically, Chugach joins other Railbelt utilities in supporting immediate funding for a feasibility study for the intertie. The feasibility study should begin this year, to ensure that the new circuit is ready when the Bradley Lake project becomes operational. To facilitate the feasibility study for the intertie, Chugach has budgeted \$75,000 this year as part of a \$150,000 contribution by Railbelt utilities. The remaining cost of the feasibility study is to come from the Alaska Power Authority (APA).

The APA has estimated the cost of the feasibility study at \$625,000, although that figure could probably be reduced substantially. The \$625,000 was included in the APA's proposed Fiscal 1986 budget, but was deleted entirely by the State Office of Budget and Management in the final budget.

Despite a contrary conclusion in the Bradley Lake feasibility study, the 90-megawatt capacity of that hydroelectric project cannot all be used on the Kenai Peninsula. Hence, a new Kenai-Anchorage intertie will be needed. A fact sheet on Kenai Peninsula generation capacity in 1990 is attached. The Bradley Lake feasibility study underestimated the generation capacity on the Kenai Peninsula by approximately 55 megawatts, by not including the 40-megawatt Soldotna Unit No. 1 (soon to begin operation) and by underestimating existing capacity by 15 megawatts.

The only existing transmission link between Anchorage and the Kenai Peninsula is a 115-kilovolt Chugach line, which would not be adequate to serve the Bradley Lake project. The existing Chugach line is 25 years old, undersized and vulnerable to the elements. Nearly every year, the line is affected by avalanches, mudslides or high winds in the mountains near Turnagain Arm. Because of the terrain, repair work can be very difficult and time-consuming during severe weather. It is likely a new, higher-voltage circuit would bypass the high-risk areas by including a submarine cable crossing of Turnagain Arm.

Anchorage Municipal Light & Power, Matanuska Electric Association, Homer Electric Association and the Fairbanks electric utilities as well as Chugach will directly benefit from a new intertie. All the utilities support immediate state participation in a feasibility study for the intertie. State funding should be a priority item for the APA and the 1986 legislature.

NEED FOR NEW KENAI PENINSULA-ANCHORAGE TRANSMISSION CIRCUIT

GENERATION CAPACITY ON THE KENAI PENINSULA -- 1990:

<u>Owner</u>	<u>Capacity (megawatts)</u>
Chugach Electric Association	100
Alaska Electric G&T Cooperative *	40
Bradley Lake Project **	<u>90</u>
TOTAL:	230

Projected Kenai Peninsula Demand -- 1990

Homer Electric Association	85
Chugach Electric Association (including the City of Seward)	<u>30</u>
	115
Capacity of existing Chugach 115-kV transmission line between Kenai Peninsula and Anchorage ***	<u>55</u>
Kenai Peninsula generation capacity that can be used on the peninsula or trans- mitted to Anchorage	<u>(170)</u>
Excess Kenai Peninsula capacity (that cannot be used on the peninsula)	60

\* Scheduled for service in early 1986 (Soldotna Unit No. 1)

\*\* Scheduled for service in 1990

\*\*\* Assuming entire capacity of the line is available