

ALASKA LEGISLATURE SPECIAL COMMITTEE / SUBJECT FILE 8672

1218 SCOMM 46: HOUSE SPEC. COMMITTEE ON OIL AND GAS 1985-86

Proposed amendment to CSSB 115/CSHB143

Section 1.

- (b)(2) a state lease or materials sale necessary for exploration, development, or production of oil and gas or reconstruction or maintenance of the highway.
- (b)(3) a state lease for transportation of oil and gas within one-quarter mile of the highway centerline under AS 38.35.

Sec. 19.40.100. Use of the highway by industrial or commercial traffic. (a) The department shall maintain the highway and keep it open to industrial or commercial traffic throughout the year.

(b) "Industrial or commercial travel" means

(1) travel necessary and related to resource exploration and development or to support of those activities, if the individual engaged in those activities has all necessary permits; or

(2) travel necessary and related to access by local residents to their property; or

(3) motor carriers engaged in commerce which are common carriers or contract carriers regulated by the Alaska Transportation Commission under AS 42.10. (§ 3 ch 177 SLA 1980)

Sec. 19.40.110. Public use of a portion of the highway. The department shall maintain the section of the highway between the Yukon River and Dietrich Camp and shall keep that section of the highway open to use by the public between June 1 and September 1 each year. (§ 4 ch 177 SLA 1980; AS 19.40.120)

Revisor's notes. — This section was renumbered by the revisor of statutes pursuant to AS 01.05.031.

Sec. 19.40.120. Closure of the highway to traffic. The provisions of AS 19.10.100 apply to the closure of the highway by the department. (§ 3 ch 177, SLA 1980; AS 19.40.110)

Revisor's notes. — This section was renumbered by the revisor of statutes pursuant to AS 01.05.031.

Sec. 19.40.200. Prohibition on disposal of land within five miles of the highway. The state may not dispose of state land under AS 38 which is within five miles of the right-of-way of the highway. (§ 5 ch 177 SLA 1980)

Legislative history reports. — For governor's letter returning SCS HB am S (H. failed eff. date) see 1980 House Journal, p. 2240, and 1980 Senate Journal, p. 1781. For attorney general's opinion advising the governor that the house and senate did not pass the same bill, see Op. Atty. Gen. July 1, 1980.

Sec. 19.40.210. Prohibition of off-road vehicles. Off-road vehicles are prohibited on land within five miles of the right-of-way of the highway. However, this prohibition does not apply to a person who holds a mining claim in the vicinity of the highway and who must use land within five miles of the right-of-way of the highway to gain access to his mining claim. (§ 5 ch 177 SLA 1980; AS 19.40.200(b))

Revisor's notes. — This section was renumbered by the revisor of statutes pursuant to AS 01.05.031.

Cl

Section

01. Definitions

02. Penalties

15. Highway co

Sec. 19.45

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(4) "cost of incurred by th removal of a fi and above the relocated and subtracted fro facility;

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(6) "excess l required for a so acquired is l to its owner, or or other dama

(7) "federal-tem" include a provided in th amending or s

(8) "highway secondary syst structure and right-of-way th operated solely and any such r

(9) "mainten roadside struct condition as cor ation of highwa highways;

(10) "municip vision which ha

BACKGROUND ON SB 115
DEPARTMENT OF NATURAL RESOURCES
February 8, 1985
Senate Resources Committee

DISPOSALS UNDER AS 38 NECESSARY FOR OIL AND GAS DEVELOPMENT:

- Oil and gas leases under AS 38.05.180 convey exploratory drilling rights and production rights for any oil and gas discovered.
- Material (sand and gravel) sales are made to private entities under AS 38.05.110-120 for roads, drill pads, offshore artificial drilling islands, causeways, and other facilities. "Sales" are also made to the Department of Transportation and Public Facilities for highway reconstruction and maintenance under AS 38.05.810 (public and charitable use).
- Oil and gas pipeline right-of-way leases under AS 38.35 are the required authorization to construct an oil or gas pipeline on or across state land.
- Leases under AS 38.05.070 are held by private service companies and contractors in the Prudhoe Bay Industrial Tract Subdivision. These companies and contractors sell, rent, and repair equipment and provide services to oil and gas lessees. Alyeska Pipeline Service Co. also holds leases (for example, construction camp site).

ACTIVITIES IMMEDIATELY AFFECTED BY THE PROPOSED LEGISLATION

- Oil and Gas Lease Sale 47 (Kuparuk Uplands) is tentatively scheduled for May 21, 1985, and contains approximately 611,840 acres. Of that total, about 230,000 acres (52 of the 113 tracts) are within five miles of the highway and would have to be deleted from the sale without the proposed clarification of existing statute. Final notice of Sale 47 is scheduled to be given March 22, 1985.
- Seismic exploration using off-road vehicles is currently prohibited within the 10-mile corridor.
- Several existing material sales to the Department of Transportation and Public Facilities, and current pending applications for continued materials requirements of Alyeska will be in jeopardy.

DEPARTMENT OF LAW
OFFICE OF THE ATTORNEY GENERAL

February 12, 1985

BILL SHEFFIELD, GOVERNOR

REPLY TO:

☒ 1031 W 4th AVENUE
SUITE 200
ANCHORAGE, ALASKA 99501
PHONE: (907) 276-3550

☐ 1st NATIONAL CENTER
100 CUSHMAN ST.
SUITE 400
FAIRBANKS, ALASKA 99701
PHONE: (907) 452-1568

☐ POUCH K - STATE CAPITOL
JUNEAU, ALASKA 99811
PHONE: (907) 465-3600

The Honorable Arliss Sturgulewski, Chairman
Senate Resources Committee
Alaska State Senate
Pouch V
Juneau, Alaska 99811

Re: CSSB 115 (Res)

Dear Senator Sturgulewski:

Kay Brown, director of the division of oil and gas, has asked us to respond to your inquiry whether there would be any negative legal implications from the retroactive application of the proposed amendments to AS 19.40.200 - 19.40.210 contained in the referenced bill. 1/ We believe that there would not.

Although retrospective laws are generally not favored, curative legislation is encouraged. Here, the legislation is in part being proposed to validate certain existing AS 38.05 disposals and off-road vehicle activities which might otherwise be void for failure to conform with the existing proscriptions of

1/ You will recall that the inquiry was made at your meeting of February 8, at which time Ms. Brown proposed that the provisions of CSSB 115 (Res) be made retroactive. We had earlier advised Ms. Brown that any question regarding the validity of existing uses of state land along the Dalton Highway could be resolved in the context of an attorney general's opinion. However, on February 4, it was brought to our attention that at least one existing oil and gas lease would be void unless made valid by retroactive application of the proposed amendments contained in the bill.

AS 19.40.200 - 19.40.210. These disposals and activities were authorized by state officials under the mistaken belief that the provisions of AS 19.40.200 - 19.40.210 were limited in scope to certain circumstances of primary concern to the legislature when the original Act was passed, namely, the prohibition of cabin site and other land surface disposals under AS 38.05 and of hunting with ORVs along the Haul Road corridor. The plain language of the statute, however, exceeds this narrow application, even though a broad interpretation reportedly was not the legislature's original intent.

Nevertheless, even curative legislation must comply with certain legal requirements. Among these is the requirement of AS 01.10.090 for an express statement of retroactivity. The legislative drafting manual suggests that language providing for retroactive application of a bill be set out in a separate section immediately preceding the effective date section, and that the retroactive section and the sections of the bill that are to be retroactive have immediate effective dates. Thus, CSSB 115 (Res) should contain an additional section to read:

* Sec. 3. Sections 1 - 2 of this Act are retroactive to October 5, 1980. 2/

From a constitutional standpoint, a curative Act may not impair the obligation of contracts, take property without due process of law, or interfere with purely judicial matters. We are not aware of any potential problems arising in these three areas of concern if the presently proposed amendments to AS 19.40.200 - 19.40.210 are made retroactive to the effective date of the original Act. To the contrary, retroactive application will avoid the possibility of finding invalid existing uses of state land previously authorized by state officials.

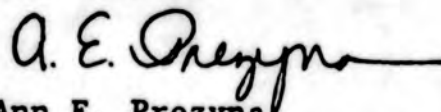
In sum, we are of the opinion that CSSB 115 (Res), which grants new rights rather than takes away existing rights,

2/ The present Section 3, providing for an immediate effective date, would be renumbered Section 4.

will present no negative legal implications if its provisions are applied retroactively. To the contrary, because of the uncertain validity of some existing uses of state land, we strongly encourage inclusion in the bill of a retrospective clause such as the one we have suggested.

Very truly yours,

NORMAN GORSUCH
ATTORNEY GENERAL



By: Ann E. Prezyna
Assistant Attorney General

AEP/ma

cc: Kay Brown, Director
Division of Oil and Gas
Department of Natural Resources

Arthur H. Peterson
Assistant Attorney General
Department of Law - Juneau



STATE OF ALASKA
OFFICE OF THE GOVERNOR
BILL ANALYSIS

DEPARTMENT Fish and Game	DIVISION Habitat	BILL NUMBER CSHB 143	SPONSOR House Special Committee on Oil and Gas
DEPARTMENT POSITION Neutral			
PREPARED BY Region III	DATE 2/26/85	COMMISSIONER'S SIGNATURE <i>Conrad Hillenworth</i>	DATE 3-21-85

SUMMARY

OTHER AGENCIES AFFECTED BY BILL Department of Natural Resources	CONSTITUENT GROUP(S) AFFECTED BY BILL North Slope Borough Arctic Slope Regional Corp.
ORGANIZATIONAL SUPPORT FOR BILL Alaska Oil and Gas Association	ORGANIZATIONAL OPPOSITION TO BILL Unknown

FISCAL IMPACT: ☒ NONE ☐ FISCAL NOTE ATTACHED

BACKGROUND/LEGISLATIVE INTENT

AS 19.40.200 and .210 currently prohibits the disposal of state land and the use of off-road vehicles within a five mile corridor on both sides of the Dalton Highway right-of-way. This bill would amend AS 91.40.200 and .210 to permit disposals or use of off-road vehicles for oil and gas exploration, development, production, or transportation or the reconstruction or maintenance of the highway.

ANALYSIS OF BILL/PROGRAM EFFECTS

Adds a new subsection AS 19.40.200(b) exempting AS 38.05.180 oil and gas leases and other leases or material sales necessary for oil and gas exploration, development, production or transportation north of 68 degrees north latitude or reconstruction or maintenance of the highway. Amends AS 19.40.210 to exempt off-road vehicles necessary for oil and gas exploration conducted under an AS 38.05.180 oil and gas lease.

No program effects are anticipated; will not adversely affect AS 16.05.789 nor any other ADF&G programs currently mandated by law.

AMENDMENTS PROPOSED

None.

PLEASE ATTACH A SEPARATE SHEET FOR ADDITIONAL COMMENTS OR ANALYSIS.



STATE OF ALASKA

DEPARTMENT OF NATURAL RESOURCES

ESTHER C. WUNNICKE, COMMISSIONER
POUCH M
JUNEAU, AK 99811
(907) 465-2400

PUBLIC AFFAIRS OFFICE
555 CORDOVA ST. POUCH 7-005
ANCHORAGE, AK 99510
(907) 276-2653

MEDIA RELEASE

DIVISION OF:	Oil and Gas	CONTACT:	Leila Wise
RELEASE DATE:	March 26, 1985	PHONE:	265-4300
SUBJECT:	Delay of Oil & Gas Lease Sale 47	DNR NEWSLINE:	265-4129

The Department of Natural Resources, Division of Oil and Gas, announced today that Oil and Gas Lease Sale 47 (Kuparuk Uplands) will be delayed from May 1985 until September 1985 and held in conjunction with Sale 45A (North Slope). The delay results from a state statutory conflict which would have reduced the acreage available for leasing in Sale 47, and could have adversely affected the value of the remaining sale acreage by hindering access.

The Dalton Highway crosses the Sale 47 area and approximately one-half of the Sale 47 tracts lie within or partially within a five mile corridor on either side of the highway right-of-way. Alaska Statutes preclude oil and gas leasing within the corridor, as well as use of off-road vehicles.

-MORE-

Sale 47 acreage lies on the North Slope, from the Kuparuk River in the west to the Sagavanirktok River in the east; sale acreage is situated southeast of the Kuparuk River oil field and south of the Prudhoe Bay oil field. Originally scheduled for May 1985 and now scheduled for September 1985, Sale 47 will offer approximately 611,340 acres in 113 tracts, assuming the legislature acts on the proposed changes before adjourning.

For further information about Sale 47 or other proposed oil and gas lease sales, contact the Division of Oil and Gas, Department of Natural Resources, at 555 Cordova, Pouch 7-034, Anchorage, Alaska 99510 or call Ron Beran at 265-4276.

preliminary

The Department of Natural Resources is requesting amendment of AS 19.40.200 and AS 19.40.210 to allow oil and gas exploration and development within five miles of the right-of-way of the Dalton Highway (North Slope Haul Road).

The statute presently prohibits the disposal of state land under AS 38 and use of off-road vehicles within five miles of the highway. "State land" includes resources owned by the state, including oil and gas.

Although the department does not believe it was the intent of the 1980 legislature to prohibit oil and gas activities along the highway, the statute as presently written may be interpreted to have that effect. Oil and Gas Lease Sale 47 (Kuparuk Uplands) is tentatively scheduled for May 21, 1985 and contains approximately 611,840 acres. Of that total, some 230,000 acres (52 of the 113 tracts) are within the five-mile corridor and will have to be deleted from the sale without clarification of the statutes cited above. Final notice of Sale 47 is scheduled to be given March 22, 1985.

Offered: 2/11/85
Referred: Transportation

Original sponsor: Resources Committee

1 IN THE SENATE

BY THE RESOURCES COMMITTEE

2 CS FOR SENATE BILL NO. 115 (Resources)

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 FOURTEENTH LEGISLATURE - FIRST SESSION

5 A BILL

6 For an Act entitled: "An Act relating to land use and disposal near a
7 highway right-of-way; and providing for an effective
8 date."

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

10 * Section 1. AS 19.40.200 is amended by adding new subsections to read:

11 (b) The prohibition on disposal of state land under (a) of this
12 section does not apply to a

13 (1) disposal necessary for an oil and gas lease under
14 AS 38.05.180;

15 (2) a state lease or materials sale necessary for explora-
16 tion, development, production, or transportation of oil and gas or
17 reconstruction or maintenance of the highway.

18 (c) Before the sale of materials under (b)(2) of this section to
19 a private entity or person or to a state agency the state shall give
20 due consideration to the availability of materials from private
21 sources in the area where the materials are needed.

22 * Sec. 2. AS 19.40.210 is amended to read:

23 Sec. 19.40.210. PROHIBITION OF OFF-ROAD VEHICLES. Off-road
24 vehicles are prohibited on land within five miles of the right-of-way
25 of the highway. However, this prohibition does not apply to off-road
26 vehicles necessary for oil and gas exploration, development, produc-
27 tion, or transportation or to a person who holds a mining claim in the
28 vicinity of the highway and who must use land within five miles of the
29 right-of-way of the highway to gain access to the [HIS] mining claim.

- 1 * Sec. 3. This Act is retroactive to October 5, 1980.
- 2 * Sec. 4. This Act takes effect immediately in accordance with AS 01.-
- 3 10.070(c).

STATE OF ALASKA



POUCH V
JUNEAU, ALASKA 99811
(907) 485-4941

HOUSE SPECIAL COMMITTEE ON OIL AND GAS

CSSB 115/CSHB 143

Sectional Analysis

CSSB 115 and CSHB 143 are identical bills, except for differences in their titles. Although the intent of both bills is exclusively to allow oil and gas activities to take place within the Dalton Highway right-of-way, the title of CSHB 143 is more specific to this purpose.

The Dalton Highway was constructed for the purpose of oil and gas exploration, development, and transportation, and it is the feeling of this committee that prohibitions within the highway corridor were never intended to apply to these activities. Passage of these bills would allow for the sale of oil and gas leases within the Dalton Highway right-of-way, as well as allowing for related oil and gas activities and the associated use of off-road vehicles. Timely passage of this legislation would also allow the Department of Natural Resources' May 1985 Kuparuk Uplands Sale #47 to take place on schedule.

Section 1.

(b)(1) This subsection addresses AS 38.05.180, which specifically applies to land disposals related to oil and gas leases. Disposals other than those related to oil and gas leasing cannot take place under this section.

(b)(2) This subsection refers to all other leases and materials sales necessary for oil and gas activities. These disposals include oil and gas pipeline right-of-way leases (AS 38.35) and materials sales (AS 38.05.110-120 and .810). Materials sales refer specifically to the sale of sand and gravel.

(c) Due consideration shall be given by the state to purchasing sand and gravel needed for reconstruction or maintenance of the highway from private sources in the area. This subsection is not intended to imply that preference should be given to purchasing materials from these sources, but only that due consideration be given to them.

Section 2.

This section allows off-road vehicles to be used within the Dalton Highway right-of-way when necessary for oil and gas activities. No changes are made to the existing exemption which allows miners to use off-road vehicles within the right-of-way to reach their claims.

Section 3.

This act is retroactive to October 5, 1980; the date at which this statute was first enacted. The reason for the retroactive date is that several leases and material sales have taken place within the right-of-way since 1980.

STATE OF ALASKA

DEPARTMENT OF NATURAL RESOURCES

OFFICE OF THE COMMISSIONER

BILL SHEFFIELD, GOVERNOR

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

January 31, 1985

The Honorable Mike Davis, Chairman
House Special Committee on Oil and Gas
Pouch V
Juneau, AK 99811

Dear Representative Davis:

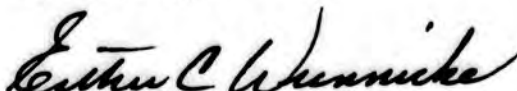
The Department of Natural Resources is requesting amendment of AS 19.40.200 and AS 19.40.210 to allow oil and gas exploration and development within five miles of the right-of-way of the Dalton Highway (North Slope Haul Road).

The statute presently prohibits the disposal of state land under AS 38 and use of off-road vehicles within five miles of the highway. "State land" under AS 38 includes oil and gas leases for exploration and production rights.

Although the department does not believe it was the intent of the 1980 Legislature to prohibit oil and gas activities along the highway, the statute as presently written may be interpreted to have that effect. Oil and Gas Lease Sale 47 (Kuparuk Uplands) is tentatively scheduled for May 21, 1985 and contains approximately 611,840 acres. Of that total, some 230,000 acres (52 of the 113 tracts) are within the five-mile corridor and will have to be deleted from the sale without clarification of the statutes cited above. Final notice of Sale 47 is scheduled to be given March 22, 1985.

I appreciate the willingness of your Committee to introduce HB 143, which would rectify the apparent oversight. Thank you in advance for your consideration and timely action on the bills.

Sincerely,


Esther C. Wunnicke
Commissioner

STATE OF ALASKA 1985 LEGISLATIVE SESSION

FISCAL NOTE

Revision Date: _____

REQUEST

Bill/Resolution No.: HB 143
 Title: Exploration and Development
 in Highway Rights-of-Way
 Sponsor: _____
 Requestor: Rep. Davis
 Date of Request: 1/31/85

FISCAL DETAIL

Agency Affected: Natural Resources
 Program Category Affected: NRMEC

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

EXPENDITURES/REVENUES: (Thousands of Dollars)

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

CAPITAL						
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REVENUE						
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FUNDING: (Thousands of Dollars)

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

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS: Attach a separate page if necessary

No fiscal impact.

Prepared By: Ned Farquhar
 Division: Commissioner's Office

Phone: 465-2400
 Date: January 31, 1985

Approved by Commissioner: Wm D. Amundson
 Agency: Natural Resources

Date: January 31, 1985

Distribution (by Agency preparing fiscal note):

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

7/1/84

STATE OF ALASKA 1985 LEGISLATIVE SESSION
FISCAL NOTE

Revision Date: _____

REQUEST

Bill/Resolution No.: SB 115
Title: Exploration and Development
in Highway Rights-of-Way
Sponsor: _____
Requestor: Sen. Sturgulewski
Date of Request: 1/31/85

FISCAL DETAIL

Agency Affected: Natural Resources
Program Category Affected: NRMEC

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

EXPENDITURES/REVENUES: (Thousands of Dollars)

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

FUNDING: (Thousands of Dollars)

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

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS: Attach a separate page if necessary

No fiscal impact.

Prepared By: Ned Farquhar
Division: Commissioner's Office

Phone: 465-2400
Date: January 31, 1985

Approved by Commissioner: Wm D Amodeo
Agency: Natural Resources

Date: January 31, 1985

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

7/1/84



RECORDS CERTIFICATION



I, the undersigned, an employee of the State of Alaska, do hereby certify that the microfilm images on this microform are accurate reproductions of the original records of the State of Alaska as accumulated during the regular course of business, and that it is the established policy and practice of this State to microfilm its records and to dispose of the original records after microfilm reproductions have been made.


Signature of Camera Operator


Date

SCOMM

#46:16

Offered: 2/21/85
Referred: Finance

Original sponsors: Coghill, Bennett
and Fahrenkamp

1 IN THE SENATE

BY THE RESOURCES COMMITTEE

2 CS FOR SENATE BILL NO. 152 (Resources)

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 FOURTEENTH LEGISLATURE - FIRST SESSION

5 A BILL

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

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

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

13 (1) AS 38.05.035(e);

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

15 (3) AS 38.06.050.

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

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

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

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

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

1 IN THE HOUSE

2 HOUSE BILL NO. 233

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 FOURTEENTH LEGISLATURE - FIRST SESSION

5 A BILL

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

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

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

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

15 (3) AS 38.06.050.

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17 Purchase of Royalty Oil between the State of Alaska and Golden Valley
18 Electric Association, Inc.," dated May 9, 1984, is hereby approved and
19 ratified.

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

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

7

GVEA

GVEA ROYALTY OIL CONTRACT

FACT SHEET

TITLE: Agreement for Sale and Purchase of Royalty Oil

TERM: 3 months

MAJOR FACTS/BENEFITS:

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

Alaska State Legislature

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



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

Senate Committee on Resources

MEMORANDUM

February 19, 1985

TO: All Members
Senate Resources Committee

FROM: Staff *NC*
Senate Resources Committee

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

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

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

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

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

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

STATE OF ALASKA THE LEGISLATURE

LEGISLATIVE AFFAIRS AGENCY

POUCH Y STATE CAPITOL
JUNEAU ALASKA 99801
907 465 1544

MEMORANDUM

February 18, 1985

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

TO: Senator Arliss Sturgulewski
Chairman, Senate Resources Committee

FROM: Randall J. Moen
Legislative Counsel

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

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

Senator Arliss Sturgulewski
February 18, 1985
page 2

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

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

7. Prior written notice to the Alaska Royalty Oil and Gas Development Advisory Board by the commissioner of natural resources before the waiver of competitive bidding. (AS 38.06.050(c))

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

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

Section 4 Immediate effective date.

RJM:csh
c3/004

Prepared by:

Senator Coghill's
Office 2/19/85

Golden Valley Electric Assn.

Contract Extension

SB 152

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

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

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

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

The expiration date of the existing contract is June 30, 1985.

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

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

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

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

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

STATE OF ALASKA THE LEGISLATURE

LEGISLATIVE AFFAIRS AGENCY

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

MEMORANDUM

March 4, 1985

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

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

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

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

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

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

Representative Mike Davis
March 4, 1985
Page 2

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

RJM:ojb
J12/051

STATE OF ALASKA



POUCH V
JUNEAU, ALASKA 99811
(907) 485-4941

HOUSE SPECIAL COMMITTEE ON OIL AND GAS

HB 233/CSSB 152

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

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

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

STATE OF ALASKA



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

HOUSE SPECIAL COMMITTEE ON OIL AND GAS

HB 233

Letter of Intent

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

STATE OF ALASKA THE LEGISLATURE

LEGISLATIVE AFFAIRS AGENCY

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

MEMORANDUM

March 4, 1985

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Representative Mike Davis
March 4, 1985
Page 2

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

RJM:ojb
J12/051

STATE OF ALASKA 1985 LEGISLATIVE SESSION
FISCAL NOTE

Revision Date: _____

REQUEST

Bill/Resolution No.: SB 152

Title: Royalty Oil, GVEA

Sponsor: Coghill

Requestor: _____

Date of Request: _____

FISCAL DETAIL

Agency Affected: Natural Resources

Program Category Affected: _____

NRMEC

BRU, Program or Subprogram(s) Affected: _____

Minerals and Energy Management

EXPENDITURES/REVENUES: (Thousands of Dollars)

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

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

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

FUNDING: (Thousands of Dollars)

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

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS: Attach a separate page if necessary

No fiscal impact.

Prepared By: Ned Farquhar

Division: Commissioner's Office

Phone: 465-2400

Date: 15 February 1985

Approved by Commissioner: Arthur P. Wunnicker

Agency: Natural Resources

Date: 18 February 1985

Distribution (by Agency preparing fiscal note):

Legislative Finance

Legislative Sponsor

Requestor

Office of Management and Budget

Impacted Agency(ies)

7/1/84

STATE OF ALASKA

BILL SHEFFIELD, GOVERNOR

DEPARTMENT OF NATURAL RESOURCES

OFFICE OF THE COMMISSIONER

POUCH M
JUNEAU, ALASKA 99811
PHONE:

February 18, 1985

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

Dear Senator Sturgulewski:

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

Sincerely yours,



Esther C. Wunnicke
Commissioner
Department of Natural Resources

Attachment as stated

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

1574K

Extension Amendment

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

ARTICLE VI

TERM

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

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

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

Date: _____

Commissioner
Department of Natural Resources

Date: _____

Golden Valley Electric
Association, Inc.

From
GVEA
2/19/85

GVEA ROYALTY OIL CONTRACT

FACT SHEET

TITLE: Agreement for Sale and Purchase of Royalty Oil

TERM: 3 months

MAJOR FACTS/BENEFITS:

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

Alaska State Legislature

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



POUCH V
JUNEAU, ALASKA, 99811
(907) 485-4907

Senate Committee on Resources

MEMORANDUM

February 19, 1985

TO: All Members
Senate Resources Committee

FROM: Staff *MEH*
Senate Resources Committee

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

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

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

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

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STATE OF ALASKA THE LEGISLATURE

LEGISLATIVE AFFAIRS AGENCY

POUCH - STATE CAPITOL
JUNEAU, ALASKA 99801
207 465 2800

MEMORANDUM

February 18, 1985

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

TO: Senator Arliss Sturgulewski
Chairman, Senate Resources Committee

FROM: Randall J. Moen
Legislative Counsel

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

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Senator Arliss Sturgulewski
February 18, 1985
page 2

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

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

Section 4 Immediate effective date.

RJM:csh
c3/004

Prepared by:

Senator Coghill's
Office 2/19/85

Golden Valley Electric Assn.

Contract Extension

SB 152

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

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

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

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

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

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

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

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

(1) state the time and place of hearing;

(2) describe the lands involved; and

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

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

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

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

Authority: AS 38.05.020
AS 38.05.140
AS 38.05.145(a)

11 AAC 82.670. SUSPENSION OF

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

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

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

Authority: AS 38.05.020
AS 38.05.140
AS 38.05.145(a)

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

Authority: AS 38.05.020
AS 38.05.145(a)

ARTICLE 7. ROYALTY PRODUCTS

Section

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

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

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

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

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

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

Authority: AS 38.05.020
AS 38.05.145(a)
AS 38.05.182

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

Authority: AS 38.05.020
AS 38.05.145(a)
AS 38.05.183

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

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

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

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

Authority: AS 38.05.020
AS 38.05.145(a)

ARTICLE 8. RECORDS AND REPORTS

Section

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

11 AAC 82.800. PRODUCTION RECORDS.

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

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

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

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

JAN. 14, 1985

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

ESTIMATED PRODUCTION FOR PRUDHOE BAY AND KUPARUK RIVER UNITS

YEAR	ESTIMATED TOTAL PRODUCTION (BARRELS PER DAY)			ESTIMATED ROYALTY (BARRELS PER DAY)			ESTIMATED SALES OF ROYALTY OIL (BARRELS PER DAY)							
	TOTAL PRUDHOE	(1) TOTAL KUPARUK	TOTAL	PRUDHOE ROYALTY	KUPARUK ROYALTY	TOTAL ROYALTY	NAPCO	(2) SHEA (OLD)	(3) SHEA (PROPOSED)	(4) TESORO (OLD)	(5) TESORO (NEW)	(6) CHEVRON	(7) COMPETITIVE SALE	ROYALTY IN VALUE
1984	1,532,000	125,000	1,657,000	187,500	15,000	202,500	35,000	5,000		33,763		18,000		184.72
1985	1,532,000	183,000	1,715,000	187,500	22,500	210,000	35,000		5,000	45,999	25,001	18,000	65,000	15.30
1986	1,530,000	180,000	1,710,000	187,500	22,500	210,000	35,000		5,000	45,999	25,001	18,000		88.00
1987	1,472,000	180,000	1,652,000	184,375	22,500	206,875	35,000		4,917	45,233	25,567	17,700		78.45
1988	1,325,000	200,000	1,525,000	165,625	25,000	190,625	35,000		4,417	40,633	22,967	15,900		71.76
1989	1,175,000	200,000	1,375,000	146,875	25,000	171,875	35,000		3,917	36,833	20,367	14,100		62.45
1990	1,050,000	200,000	1,250,000	131,250	25,000	156,250	35,000		3,500	32,200	18,200	12,600		54.72
1991	950,000	200,000	1,150,000	118,750	25,000	143,750	35,000		3,167	29,133	16,467	11,400		48.55
1992	850,000	200,000	1,050,000	106,250	25,000	131,250	35,000		2,833	25,066	14,734	10,200		42.41
1993	750,000	200,000	950,000	93,750	25,000	118,750	35,000		2,500	21,000	13,000	9,000		36.22
1994	650,000	170,000	820,000	81,250	21,250	102,500	35,000		2,167	19,933	11,257	7,900		30.33
1995	575,000	145,000	720,000	71,875	18,125	90,000	35,000							25.00
1996	510,000	120,000	630,000	63,750	15,000	78,750	35,000							21.72
1997	460,000	100,000	560,000	57,500	12,500	70,000	35,000							18.50
1998	420,000	80,000	500,000	52,500	10,000	62,500	35,000							15.71
1999	380,000	75,000	455,000	47,500	9,375	56,875	35,000							13.37
2000	340,000	65,000	405,000	42,500	8,125	50,625	35,000							11.62
2001	300,000	55,000	355,000	37,500	6,875	44,375	35,000							9.57
2002	270,000	50,000	320,000	33,750	6,250	40,000	35,000							8.24
2003	240,000	40,000	280,000	30,000	5,000	35,000	35,000							7.00
2004	210,000	35,000	245,000	26,250	4,375	30,625								6.50
2005	180,000	25,000	205,000	22,500	3,125	25,625								5.82
2006	150,000	25,000	175,000	18,000	3,125	21,125								5.11
2007	140,000	20,000	160,000	17,500	2,500	20,000								4.71
2008	110,000	20,000	130,000	13,750	2,500	16,250								4.02
2009	80,000	10,000	90,000	10,000	1,250	11,250								3.34
2010	50,000	10,000	60,000	6,250	1,250	7,500								2.50

NOTES: (1) DNR ESTIMATE OF FIELD PERFORMANCE, OCTOBER 1984.

(2) [REDACTED]

(3) [REDACTED]

(4) TESORO'S CURRENT CONTRACT CALLS FOR A MAXIMUM QUANTITY OF 24,500 BPD OF DAILY PRUDHOE ROYALTY OIL LESS COOK INLET ROYALTY PRODUCTION. THE QUANTITY IS 21,200 BPD IN 1984, AND WILL BE 21,325 BPD STARTING JAN. 1, 1985. THIS CONTRACT WILL BE INCREASED TO ITS MAXIMUM QUANTITY ON OCTOBER 1, 1985 DUE TO CANCELLATION OF THE COOK INLET CONTRACT ON THAT DATE. THE CONTRACT EXPIRES JANUARY 1995.

(5) MOST OF THIS VOLUME (ABOUT 25,000 BPD), WHICH IS CURRENTLY BEING TAKEN "IN VALUE," WAS SOLD COMPETITIVELY FOR DELIVERY APRIL 1, 1985 THRU SEPT. 30, 1985. ON OCTOBER 1, 1985 IT IS ANTICIPATED THAT TESORO WILL COMMENCE DELIVERIES UNDER ITS 12/9/83 PRUDHOE CONTRACT, WHICH HAS A MAXIMUM QUANTITY OF 13,065 OF DAILY PRUDHOE ROYALTY OIL AND EXPIRES JAN. 1, 1995.

(6) CHEVRON'S CONTRACT CALLS FOR A MAXIMUM QUANTITY OF 9.6% OF DAILY PRUDHOE ROYALTY OIL. THE CONTRACT EXPIRES JANUARY 1, 1995.

(7) DELIVERIES WILL COMMENCE APRIL 1, 1985 FOR 50,000 BPD OF PRUDHOE BAY UNIT ROYALTY OIL AND 15,000 BPD OF KUPARUK RIVER UNIT ROYALTY OIL, AND WILL CONTINUE FOR ONE-YEAR, AND SIX-MONTH PERIODS, RESPECTIVELY. AS A RESULT OF THE DEC. 11, 1984 COMPETITIVE SALE. PRIOR TO THAT TIME THIS OIL REMAINS "IN VALUE."



MAPCO PETROLEUM INC.
A SUBSIDIARY OF MAPCO INC.

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

February 15, 1985

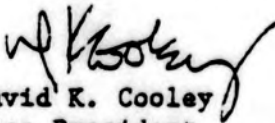
Senator John B. (Jack) Coghill
Alaska State Legislature
Pouch V (MS 3100)
Juneau, Alaska 99811

Dear Senator Coghill:

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

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

Very truly yours,


David K. Cooley
Vice President

DKC:jr

jr

STATE OF ALASKA



POUCH V
JUNEAU, ALASKA 99811
(907) 465-4041

HOUSE SPECIAL COMMITTEE ON OIL AND GAS

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

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

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

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

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

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

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



RECORDS CERTIFICATION



I, the undersigned, an employee of the State of Alaska, do hereby certify that the microfilm images on this microform are accurate reproductions of the original records of the State of Alaska as accumulated during the regular course of business, and that it is the established policy and practice of this State to microfilm its records and to dispose of the original records after microfilm reproductions have been made.


Signature of Camera Operator


Date

SCOMM

#46:17

Introduced: 3/13/85
Referred: House Special Committee
on Oil & Gas, Resources and Finance

BY THE RULES COMMITTEE BY
REQUEST OF THE GOVERNOR

1 IN THE HOUSE

2 HOUSE BILL NO. 287

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 FOURTEENTH LEGISLATURE - FIRST SESSION

5 A BILL

6 For an Act entitled: "An Act approving the sale of Prudhoe Bay royalty oil
7 by the State of Alaska to the Golden Valley Electric
8 Association; and providing for an effective date."

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

10 * Section 1. The "Agreement for the Sale and Purchase of Prudhoe Bay
11 Royalty Oil" between the State of Alaska and the Golden Valley Electric
12 Association, dated February 8, 1985, is approved and ratified.

13 * Sec. 2. This Act takes effect immediately in accordance with AS 01.-
14 10.070(c).

STATE OF ALASKA



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

HOUSE SPECIAL COMMITTEE ON OIL AND GAS

This bill packet for HB 287 contains the following materials:

Letter of Transmittal

In which certain inconsistencies in the royalty statutes are noted, and the view is expressed that the statutory requirement that the legislature approve royalty oil contracts is unconstitutional.

Fiscal Note

Zero fiscal note.

Royalty Board Resolution

The Royalty Board recommends that the legislature approve the GVEA contract.

MAPCO Statement

Provides breakdown of additional refined products to be produced by MAPCO, and notes aspects of agreement between MAPCO and GVEA.

Royalty Oil Production Table

North Slope royalty oil production, royalty oil obligated through current negotiated contracts, and remaining in-value royalty oil are all shown on the cover table. The other tables refer to the competitive royalty oil sale held in December, 1984.

DNR Final Findings & Determination

This document provides a background and chronology of the contract, summary of proposed contract terms, contract revisions since November, 1983, and findings leading to the determination that this contract is in the best interests of the state.

Agreement for the Sale and Purchase of Royalty Oil

Contract between the State of Alaska and GVEA. Brief descriptions of the three agreements related to this contract are made on the following page. Exhibit A is dated 1985. Exhibit B and the Petroleum Products Agreement, both dated 1980, were confirmed this Fall by MAPCO and GVEA as the working agreements for the present contract.

Exhibit A

Agreement between the State of Alaska, MAPCO, and GVEA. This agreement address the assignment of royalty oil from GVEA to MAPCO, MAPCO's ability to designate the volume of royalty oil that GVEA will receive, Amerada Hess adjustments and penalties for breaking the assignment agreement, and the State's agreement to not exercise its return oil option so long as MAPCO receives royalty oil under the GVEA contract.

Exhibit B - Assignment and Product Sales Agreement

Agreement between MAPCO and GVEA. This agreement specifies that MAPCO will sell to GVEA turbine fuel equal to 12.5% of the total crude oil received by MAPCO under this agreement. At 5,000 b/d, this equates to 625 b/d of turbine fuel. This agreement also states that the turbine fuel will be sold at MAPCO's acquisition cost, plus a processing fee.

Petroleum Products Agreement

Agreement between MAPCO and GVEA. This agreement specifies the quantity, quality, and title of the turbine fuel to be sold by MAPCO to GVEA. This agreement also specifies a fixed margin allowed to MAPCO on this turbine fuel, and addresses the duration of the contract and the three year cancellation clause.

Letter of Credit

An irrevocable letter of credit for GVEA in the amount of \$5,400,000.

Tesoro's Letter of Concern

Concerns expressed by Tesoro that the present contract does not benefit the consumer sufficiently to justify the arrangement between MAPCO and GVEA.

House Research Agency

A brief analysis of the major provisions of MAPCO's current royalty oil contract with the State of Alaska.

TESTIMONY

BY DIRECTOR, DIVISION OF OIL & GAS

TO HOUSE RESOURCES COMMITTEE & HOUSE SPECIAL COMMITTEE ON OIL & GAS

ON HB 287

ROYALTY OIL CONTRACT WITH GOLDEN VALLEY ELECTRIC ASSOCIATION

MARCH 20, 1985

Thank you Mr. Chairman. For the record, I'm Kay Brown, Director of the Division of Oil and Gas for the Alaska Department of Natural Resources. With me is Assistant Attorney General Steve Porter. I appreciate this opportunity to discuss the proposed long-term royalty oil contract with the Golden Valley Electric Association, also known as GVEA.

Contract Terms

The proposed contract would sell about 2.6% of the state's daily royalty oil from Prudhoe Bay Unit -- currently about 5,000 barrels a day -- to GVEA for 10 years.

The contract price is the monthly volume weighted average of the producers' current reported netback prices, plus field costs, plus adjustments for the final outcome of the Amerada Hess litigation, plus a 30¢ premium, with a price reopener in July 1987 and every two years thereafter.

I would refer the committee to the one-page sheet of background information we have provided on SB 232/HB 287, which summarizes the major

provisions of the contract.

Background

Golden Valley Electric Association is a cooperative which generates electricity for sale to its members. It uses a variety of fuels to generate the electricity, including turbine fuel. Some of the turbine fuel GVEA purchases is refined directly from royalty oil purchased under the cooperative's present state contract. GVEA purchases additional turbine fuel directly from the Mapco refinery.

Under its present and former state royalty oil contracts, GVEA assigns the royalty oil to Mapco, which processes the oil at its North Pole Refinery and sells Golden Valley turbine fuel at a discount. The discount on those purchases amounts to about \$550,000 annually in savings to GVEA. When measured from the consumer's perspective, this discount translates to a savings of about 1.5% on the average consumer bill.

History of GVEA Sales and Negotiations

I would like to briefly give the committee some history on the state's royalty oil sales with Golden Valley Electric Association. The first contract with Golden Valley was signed in April 1977, shortly after establishment of the Royalty Oil and Gas Development Advisory Board and the adoption of new statutory procedures governing royalty oil sales. Golden Valley did not commence taking under the contract until June 1981, when it began purchasing 5,000 barrels per day and assigning it to Mapco.

That contract expired in June 1984.

In November 1982, well in advance of the expiration of Golden Valley's original contract, GVEA requested a 10-year extension of the contract. No action was taken by the outgoing administration in 1982, and the new administration began negotiations with Golden Valley in March 1983. In November 1983, the department published a public notice of its intention to adopt a new contract with Golden Valley. The royalty board reviewed the contract in December 1983, and that review revealed specific concerns by both the public and the board members with respect to the state's option on residual oil and the relationship between Mapco and GVEA. In view of those reservations and the limited time for further negotiation, the long-term GVEA contract was not presented for legislative approval in 1984. Instead, an interim contract not requiring legislative approval was put into effect pending contract revisions responsive to the issues raised at the meeting of December 7, 1983. That interim contract expires June 30, 1985.

Intermittent negotiations were held on the proposed long-term contract during 1984. We had planned to complete negotiations so that approval legislation for the long-term contract could be introduced on the first day of the 1985 session.

Our timeline called for a preliminary contract and findings to be completed and a preliminary notice to be published in early October 1984. The final contract and findings were to be available November 16, 1984, Royalty Board review was scheduled for December 7, 1984, and approval

legislation was to be introduced on the first day of the session. Due to denomination deadlines, it was apparent to all the parties that if legislative approval did not occur by March 29, 1985, oil deliveries would have to be interrupted.

During September 1984, I informed Golden Valley and Mapco of the time pressure under this timeline, and had numerous negotiation sessions with representatives of both Golden Valley and Mapco. Draft agreements were exchanged, and we believed that agreement had been reached in early October 1984. However, at the conclusion of a negotiation session on October 9, 1984, Bert Sharp of Golden Valley stated his severe reservations about Golden Valley's liability for retroactive adjustments to the royalty oil price based on the Amerada Hess litigation. His primary objection was that as a regulated public utility, Golden Valley could only pass on to its customers retroactive adjustments for a one-year period. Amerada Hess adjustments for purchases older than one year could not be passed on to Golden Valley's customers, and would cause Golden Valley severe financial difficulty. Mr. Sharp proposed that the state charge an increased price premium but that it waive Amerada Hess adjustments. This price term offer was unacceptable to the state, and we suggested contract terms that would require Mapco to pay the Amerada Hess adjustments.

Negotiations stalled for almost two months at this deadlock. However, on November 23, 1984, I wrote to Bert Sharp and stated that an agreement among the state, Golden Valley and Mapco looked unlikely. I suggested commencing negotiations towards a contract between Golden Valley and the

state, without any assignment of the oil to Mapco. Negotiations resumed immediately, and on November 29, 1984, an agreement was reached on the terms now found in the proposed long-term contract. We immediately prepared findings and a final contract, and worked to get the contract before the royalty board and the legislature as soon as possible. However, due to the negotiation stalemate, legislation approving the long-term contract could not even be introduced in the legislature until mid-March 1985.

Unless a new contract with Golden Valley is approved prior to March 29, 1985, - or unless the present contract is extended - we will denominate the oil and return it to in-value. CSSB 152 would give the commissioner the authority to extend the existing Golden Valley contract for up to three months to avoid a lapse in taking by GVEA during the summer of 1985.

I want to briefly discuss two concerns that have been raised with the contract that were originally identified at the royalty board meeting of December 1983.

Consumer Benefits

The sale is premised on providing benefits to Alaska consumers. These consumer benefits depend on GVEA's assignment agreement with Mapco, which provides turbine fuel at a price lower than what GVEA would otherwise pay. Under GVEA's current contract, the state is unable to enforce the degree of advantage afforded to GVEA since that agreement is between GVEA and Mapco only.

Exhibit A to the new contract is a three-party agreement signed by the state, GVEA and Mapco. Exhibit A recognizes existing agreements between GVEA and Mapco. In Exhibit A, the state consents to those agreements so long as they are not modified to reduce the benefits to GVEA's consumers. The state retains the option to terminate the contract should the relationship between GVEA and Mapco change materially.

Thus, the modest consumer benefit that I described earlier will continue over the life of the contract, or the state will have the option to cancel the contract.

Return Oil

A second issue of concern involves the return oil provision of the contract. The Mapco refinery, because of its location near the Trans Alaska Pipeline, is able to reinject the heavy and lightest ends of the barrel which are not converted into products back into the pipeline. This so-called "return oil" then reemerges as whole oil at Valdez, with Mapco paying a \$.10 per degree quality bank differential penalty.

We did negotiate an option to purchase the return oil into the new GVEA contract. However, although the option to purchase return oil is embodied in Section 3.4 of the new GVEA contract, the state has agreed in Exhibit A that we will not exercise that option in return for Mapco paying Amerada Hess adjustments on the portion of the royalty oil that is converted into turbine fuel used by GVEA.

As I mentioned a moment ago, the negotiations were deadlocked for several months, and foregoing the return oil option was a concession we made to break the deadlock.

Refinery Profits

Another issue of concern raised by legislators during consideration of the three-month extension bill, CSSB 152, involves the amount of profits made by Mapco off of the Golden Valley contract.

For a number of reasons, it is difficult to calculate the profitability of a refinery based on information in the public record. Although the Department of Natural Resources has access to some confidential information provided by Mapco, we are obligated to hold this information confidential under AS 38.05.035 at Mapco's request. However, considering those constraints, we have attempted to provide some general information about refining profits.

Mapco's refining profits were examined in the February 1983 report entitled Alaska Petroleum Product Pricing prepared for the Senate Resources Committee. That document was authored by Messers. Pernela and Delong, both of whom are former employees of North Pole Refining. As can be seen in the report and the responses of Mapco and Tesoro to that document, the profitability of a refiner is nearly impossible to infer without access to certain cost data which is normally held confidential. This has proven true even though the authors, as former employees of

Mapco, may have had access to such data. This information gap largely accounts for the difference in the return to investment calculated in the report - 46% - and Mapco's stated return to investment of 15% to 17% (see Mapco's letter to Sen. Fahrenkamp of April 8, 1983).

Like most refiners, Mapco does not make available to the public separate accounts of its various operations such as the North Pole refinery. While Mapco's overall profitability is stated in its annual reports, the profits of a particular refinery cannot be deduced from those reports. The operating costs of a refinery are not normally available to the public since such knowledge would be of considerable advantage to a competitor.

For this reason Messers. Pernela and DeLong were forced to rely on a variety of unsatisfactory proxy figures which included the original cost of the North Pole refinery, a supposed cost of capital, and the adjusted operating costs of refiners in the continental United States, among other things. These shortcomings enabled Mapco to handily rebut the report by mentioning such items as investment which occurred after the initial construction, interest during construction, the original investment risk, the irrelevance of operating costs in other parts of the U.S. and the vagaries of the federal crude oil entitlement program, which was in effect over part of the study period.

Although Mapco's apparent markup can be found by comparing their wholesale prices with the aquisition cost of crude oil, a net profit per barrel cannot be arrived at without knowing all the capital and operating costs of the refinery as well as the method of amortization. Mapco has not

volunteered this information to date.

Summary

In summary, Mr. Chairman, this contract is intended to provide a modest amount of consumer benefit to the Alaska citizens living in the Interior and served by the Golden Valley Electric Association cooperative, and also to provide the state with a market price for the royalty oil. I believe that the state's interest is served by pursuing this alternative, compared to the alternative of not making a sale and leaving the oil in-value. It could be argued that this contract does not maximize the value of royalty oil relative to what could be obtained by selling the oil competitively. However, the statutes do not require competitive sales and, in fact, the statutes clearly contemplate negotiated sales that provide ancillary benefits from using the royalty oil within the State of Alaska. I think you could view this contract as maintaining the status quo between the in-state refiners, as it does not increase Mapco's benefit relative to the present situation. In fact, Mapco's benefit is slightly decreased under the new GVEA contract.

Mr. Chairman, I believe this contract complies with all requirements of the statute and the regulations, and that it is consistent with the state's policy of obtaining market value for its royalty oil.

For these reasons, the administration supports the contract and we urge your approval of HB 287.

Sam Murray, a petroleum economist on my staff, is standing by in Anchorage

to assist us with answering any questions the committee may have. That concludes my formal remarks, Mr. Chairman. Thank you.

1623K

TESTIMONY BY DIRECTOR, DIVISION OF OIL AND GAS
TO HOUSE RESOURCES COMMITTEE AND
HOUSE SPECIAL COMMITTEE ON OIL AND GAS
ON HOUSE BILL 287

ROYALTY OIL CONTRACT WITH
GOLDEN VALLEY ELECTRIC ASSOCIATION

March 21, 1985

Thank you Mr. Chairman. For the record, I'm Kay Brown, Director of the Division of Oil and Gas for the Alaska Department of Natural Resources.

Several issues and questions were raised at the hearing yesterday, and I'd like to provide the committee with some additional information on those points.

Many of the questions at the hearing yesterday centered on the benefits to be derived from the proposed contract -- what those benefits are and who receives them. Three parties would receive benefits -- the State, GVEA, and Mapco.

I'd like to briefly summarize those benefits as we perceive them, Mr. Chairman.

Benefits to the State of Alaska

The benefits to the State are described in our final finding of January 16, 1985. Under the statutes governing royalty oil and gas sales, the commissioner is obligated to maximize benefits to the citizens in a negotiated sale.

The price received is a benefit to the State. The State will receive a 30¢ premium above in-value, which makes this sale roughly equivalent to the Tesoro and Chevron royalty oil contracts approved by the Legislature last session. There is no price subsidy to GVEA, and to the extent that Mapco gets the oil, it pays more for this oil than it does for the oil it buys directly from the State.

Other benefits to the State are explained in detail in the final findings, but they include cheaper electricity rates for Fairbanks consumers, a dependable electricity supply, and protection of existing investments in the North Pole refinery and the utility's turbines.

Benefits to GVEA

GVEA's benefits come not from a reduced sale price, but from the reduced turbine fuel price Mapco gives GVEA on the turbine fuel Mapco produces from GVEA's royalty oil.

GVEA's benefit can be calculated by comparing two prices. Those prices are Mapco's general turbine fuel price to GVEA (which covers roughly half of GVEA's turbine fuel needs) and Mapco's reduced price to GVEA for turbine fuel processed from GVEA's royalty oil (which covers the other half of GVEA's turbine fuel needs). Specifically, the 1980 Petroleum Products Agreement

between GVEA and Mapco generally obligates Mapco to sell turbine fuel to GVEA at a price of Mapco's acquisition cost plus a processing fee. Mapco has requested that we keep that exact processing fee confidential. A second 1980 agreement between GVEA and Mapco obligates Mapco to sell GVEA turbine fuel processed from GVEA's royalty oil at a reduced processing fee. Mapco has also requested that we keep that exact fee confidential.

Although the exact processing fees charged by Mapco are confidential, GVEA manager Bert Sharp testified yesterday that the difference is between 5 and 6 cents a gallon. Multiplying that savings by 42 gallons per barrel, by 625 barrels per day, and by 365 days per year, GVEA achieves a yearly savings of between \$479,000 and \$575,000. In our final sale findings, our petroleum economist projected an annual savings to GVEA of approximately \$550,000.

This \$550,000 yearly savings translates into a benefit to GVEA's consumers of .1446¢ per kilowatt hour. (This number is obtained by dividing the \$550,000 yearly benefit by the 380,412,000 kwh that GVEA produces each year.)

Benefits to Mapco

The committee's third area of concern is the amount of benefits to Mapco under this contract. Mapco does benefit since it gets 87.5%

of each barrel, either as non-turbine fuel products or as return oil.

The profitability figures for Mapco shown on the chart prepared by staff that you received yesterday are basically accurate. However, the six-million dollar gross profit figure does not include the expenses Mapco incurs in refining the oil.

A more relevant comparison could be made by looking at the price that Mapco would otherwise have to pay the producers to obtain oil if it did not receive royalty oil on assignment from GVEA. For example, the January, 1985 Pump Station 1 in-value price is \$16.90. Thus Mapco's Pump 1 price would be \$17.20. By way of comparison, Pump 1 prices in January were reported as \$18.13 for British Petroleum, \$17.16 for Phillips and \$16.95 for Sohio. Thus, it is not clear that Mapco would pay less for State royalty oil than it would for producers oil.

A similar comparison can be made with regard to the return oil. The value of the return oil to Mapco at Valdez would roughly be the Pump 1 price of \$17.20, plus tariffs of about ^{\$6.10,} ~~\$6.01~~, plus a \$1.22 quality differential penalty, for a Valdez price of \$24.52. By comparison, Valdez prices for producers oil would be \$24.14 for BP, \$23.17 for Phillips and \$22.96 for Sohio. Again, this does not appear to be a windfall for Mapco.

To the extent that committee members feel that Mapco is getting a "good deal" from the State, I would suggest that the "good deal" does not come from this contract. Rather, Mapco's competitive advantage comes from Mapco's own royalty oil contract, which contains terms significantly more attractive than those found in Alaska's other royalty oil contracts, and from Mapco's geographical location, which insulates it from the competition of other refiners.

Since the information available to DNR concerning Mapco's profitability must by statute be held confidential, I would suggest that your specific questions about the relationship between GVEA and Mapco, and about Mapco's profits from this sale, be addressed to either GVEA or Mapco.

I'd like to correct one number that I gave to the committee yesterday. The amount of return oil barrels from the GVEA contract is roughly 3,300 bpd, rather than 1,500 to 1,600 bpd.

Thank you, Mr. Chairman. That concludes my remarks.

	Bbls. per Day	Gal. Per Bbl.	Gal. Per Day (5000 Bbl.)	MAPCO Markup	MAPCO daily Gross Profit	MAPCO Annual Gross Profit
Turbine Fuel	5,000	5.25	26,250	\$0.09	\$2,362.50	\$862,312.50
Diesel/heating	5,000	11.18	55,900	\$0.26	\$14,534.00	\$5,304,910.00
Totals			82,150		\$16,896.50	\$6,167,222.50
G.P. Turbine/per bbl		0.4725				=====
G.P. Diesel/heating		2.9068		GVEA Estimated Savings		\$550,000.00
Total G.P. per bbl/crude		3.3793				=====
				% of profit to GVEA		8.92%
Crude bbl per day		5,000				=====
G.P. per day (total)		\$16,896.50				

STATE OF ALASKA



POUCH V
JUNEAU, ALASKA 99811
(907) 485-4941

HOUSE SPECIAL COMMITTEE ON OIL AND GAS

To: Rep. Mike Davis, Chairman
From: Jonathan Sperber, Committee Aide
Date: March 19, 1985
Re: HB 287

The sale of royalty oil to Golden Valley Electric Association (GVEA) involves the purchase of royalty oil by GVEA, the assignment of that oil from GVEA to MAPCO, and the sale of 625+ b/d of industrial turbine fuel from MAPCO to GVEA at a discounted price. This discounted fuel represents approximately one-third of GVEA's turbine fuel needs, and one-sixth of the utility's total energy requirements.

The 625 b/d of turbine fuel is sold to GVEA at MAPCO's acquisition cost, plus a processing fee and a fixed margin. This represents a \$550,000 annual discount to GVEA, which is passed through to GVEA's members as a 1.57% savings on their electric costs. This consumer benefit satisfies the best-interest requirement set forth in AS 38, and this serves as the basis and justification for the state to sell royalty oil to GVEA.

Direct consumer benefit is an extremely important aspect of negotiated royalty oil contracts. In order to maximize benefits to both local consumers and the state as a whole, however, attention should be given to the following terms of the proposed GVEA contract:

1. Contract terms: duration, volume, premium
2. Three-year cancellation clause
3. Agreement for the state to not purchase return oil
4. Amerada Hess adjustment liabilities
5. Consumer savings v. MAPCO profits
6. Value of royalty oil taken in-kind v. in-value

1. Contract Terms

Duration: Ten years. The present GVEA contract is for a 7-year period, the Tesoro and Chevron contracts approved last year are both 10-year contracts, and the MAPCO contract lasts 25 years.

Volume: 2.667% of Prudhoe Bay Unit royalty oil production. Initial volume of 5,000 b/d, decreasing to 2,167 b/d in 1994. Since one-eighth of the crude oil volume must be made available to GVEA as turbine fuel at a discounted price, GVEA will receive 625 b/d of this fuel in 1985, and 270 b/d in 1994.

Premiums: 30¢ per barrel. This is the same as the premium negotiated with Chevron last year. Premiums on competitive bid sales significantly exceed those on negotiated sales, however, as evidenced by average premiums of 51¢, 69¢, and 84¢ on the three Prudhoe Bay and Kuparuk categories offered in the December, 1984 competitive bid sale.

2. Three-Year Cancellation Clause

The extreme length of notice required for GVEA to cancel its agreement with MAPCO, in concert with GVEA's being liable for Amerada Hess adjustments on all turbine fuel purchased under this agreement if the agreement is cancelled, is a very strong disincentive against breaking the agreement with MAPCO. A three-year cancellation clause effectively locks out GVEA's ability to negotiate a better deal on its energy purchases should favorable opportunities arise.

3. Agreement For the State to Not Purchase Royalty Oil

Based on MAPCO's agreement to be responsible for Amerada Hess adjustments, the state has agreed to not exercise its option to purchase return oil as long as MAPCO receives royalty oil under the GVEA contract. It is worth noting that the state does not have an opportunity to purchase return oil under the MAPCO contract, although this option does exist with both the Tesoro and Chevron contracts negotiated last year.

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

4. Amerada Hess Adjustment Liabilities

GVEA is liable for Amerada Hess adjustments on the turbine fuel received under the agreement with MAPCO for a 12-month period immediately prior to final resolution of Amerada Hess litigation. At an Amerada Hess adjustment figure of \$2 per barrel, and following MAPCO's stated intent to sell GVEA 685 b/d under this agreement, this equates to a loss of \$500,000. This loss represents approximately one year's annual savings to GVEA at the high-volume end of the contract. As mentioned above, GVEA will be liable for all Amerada Hess adjustments on turbine fuel received under this agreement if the utility cancels its agreement with MAPCO.

5. Consumer Savings v. MAPCO Profits

Each barrel of crude oil refined by MAPCO produces approximately 5.25 gallons of turbine fuel and 11.18 gallons of jet fuel and diesel/heating oil. The remaining oil is reinjected into the pipeline as resid. MAPCO marks-up turbine fuel at about 9¢/gal. (from assignment agreement with MAPCO) and jet and diesel/heating oil at about 26¢/gal. (from Alaska Petroleum Product Pricing). This implies an annual gross profit of about \$1,800,000 based on 1469 b/d at a mark-up of \$3.38 per barrel. Operating and depreciation expenses would be deducted from this figure to arrive at MAPCO's annual net profit.

6. Value of Royalty Oil Taken In-Kind v. In-Value

The difference in net value between oil taken in-kind and that taken in-value is based upon the premium and the extent (if any) to which the West Coast value of return oil emerging at Valdez exceeds the in-value price paid of it plus the quality bank penalty.



STATE OF ALASKA
OFFICE OF THE GOVERNOR
JUNEAU

143287

March 13, 1985

The Honorable Ben Grussendorf
Speaker of the House
Alaska State Legislature
Pouch V
Juneau, AK 99811

Dear Representative Grussendorf:

Under the authority of art. III, sec. 18, of the Alaska Constitution, I am transmitting a bill that provides for legislative approval of a royalty oil contract between the state and Golden Valley Electric Association for the sale of Prudhoe Bay royalty oil. Also transmitted with this bill is a copy of the resolution of the Alaska Royalty Oil and Gas Development Advisory Board recommending approval of this contract, along with a letter from the board chairman. This resolution is being transmitted in accordance with AS 38.06.040(a)(3) and AS 38.06.070(c).

This contract is also described in the findings issued by the Department of Natural Resources on January 16, 1985. Copies of these findings have been made available to the legislature and the public for review.

This contract is being submitted for legislative approval for two reasons. First, although this and the previous administration have consistently taken the position that the statutory requirement of legislative approval of royalty oil contracts (AS 38.06.055) is unconstitutional, as a matter of comity I respect the legislature's desire to have a direct voice in major disposals of royalty oil. Therefore, this contract contains provisions requiring approval by the legislature before it becomes effective. Second, this bill would ratify the agreement for sale of oil. This ratification would cure any procedural defect that may have occurred in the process of entering into this contract. Although we believe that all necessary steps have been taken, the statutes and regulations governing the disposal of royalty oil represent often conflicting desires and goals -- both procedural and substantive. For example, even if statutorily requiring legislative approval were constitutional, the present statutes provide, on the one hand, that the legislature is to approve the contract by enacting

legislation (AS 38.06.055(a)), but, on the other hand, they also provide that a report of the Royalty Board "shall be submitted for legislative review at the time a resolution for legislative approval of a proposed disposition of royalty oil and gas is introduced in the legislature" (AS 38.06.070(c)). Since legislative approval is required anyway as a matter of contract, I believe that it is only prudent to present this contract for legislative approval and ratification at this time.

Sincerely,

A handwritten signature in dark ink, appearing to read "Bill Sheffield", written in a cursive style.

Bill Sheffield
Governor

STATE OF ALASKA 1985 LEGISLATIVE SESSION
FISCAL NOTE

Revision Date: _____

REQUEST

Bill/Resolution No.: HB 287

Title: Approving royalty oil
contract with GVEA

Sponsor: _____

Requestor: _____

Date of Request: _____

FISCAL DETAIL

Agency Affected: Natural Resources

Program Category Affected: NRMEC

BRU, Program or Subprogram(s) Affected:
Oil and Gas

EXPENDITURES/REVENUES: (Thousands of Dollars)

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

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

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

FUNDING: (Thousands of Dollars)

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

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS: Attach a separate page if necessary

No fiscal impact.

Prepared By: Ned Farguhar

Division: Commissioner's Office

Phone: 465-2400

Date: March 5, 1985

Approved by Commissioner: Arthur C. Wunniche

Date: March 5, 1985

Agency: Natural Resources

Distribution (by Agency preparing fiscal note):

Legislative Finance

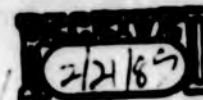
Legislative Sponsor

Requestor

Office of Management and Budget

Impacted Agency(ies)

7/1/84



BILL SHEFFIELD, GOVERNOR

DEPARTMENT OF NATURAL RESOURCES

DIVISION OF OIL AND GAS

POUCH 7-034
ANCHORAGE, ALASKA 99510

March 11, 1985

The Honorable Ben F. Grussendorf
Speaker of the House of Representatives
Alaska State Legislature
Pouch V
Juneau, Alaska 99811

Reference: "An Act Relating to the Sale and Purchase of Royalty Oil from the Prudhoe Bay Unit between the State of Alaska and Golden Valley Electric Association, Inc."

Dear Mr. Speaker:

In accordance with AS 38.06.040(3), I am forwarding for your consideration the resolution of the Alaska Royalty Oil and Gas Development Advisory Board which recommends that the legislature approve the referenced sale of royalty oil to Golden Valley Electric Association, Inc.

If we can be of further service, please do not hesitate to call.

Sincerely,

James B. Gottstein
Chairman

The Alaska Royalty Oil & Gas Development Advisory Board

Resolution 85-1

Findings

1. On December 5, 1984, the Alaska Royalty Oil and Gas Development Advisory Board ("board") received the preliminary findings and determinations of the commissioner of the Alaska Department of Natural Resources ("commissioner") on the sale of Prudhoe Bay royalty oil to Golden Valley Electric Association, Inc. ("GVEA") and the draft contract with GVEA for the sale and purchase of that royalty oil.
2. On January 16, 1985, the board received the commissioner's final findings and determinations on the sale of Prudhoe Bay royalty oil to GVEA.
3. On February 8, 1985, the State of Alaska, through the commissioner, executed the agreement for the sale of royalty oil with GVEA and provided each board member with a copy of the GVEA contract.
4. On February 20, 1985, the board held a public hearing in Anchorage, with telecommunication hookups in Fairbanks, Juneau, and Valdez, to receive testimony on the proposed sale of Prudhoe Bay royalty oil to GVEA and met to discuss the GVEA contract, the commissioner's findings and determination, and the public testimony.

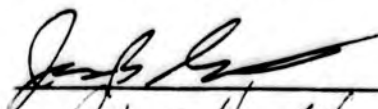
Conclusions

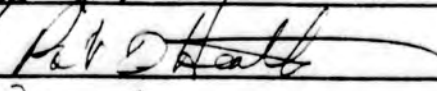
Based on the board's review of the GVEA contract, the commissioner's findings and determinations, and the public testimony, the board concludes that the proposed disposal of Prudhoe Bay royalty oil to GVEA meets the requirements of AS 38.06.

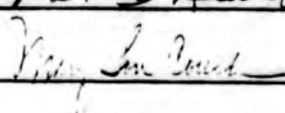
Resolution

Based on these findings and conclusions, the board recommends to the Fourteenth Alaska Legislature that the "Agreement for the Sale and Purchase of Royalty Oil" between the State of Alaska and Golden Valley Electric Association, Inc., dated February 8, 1985, be APPROVED.

Dated: March 11, 1985







BILL SHEFFIELD, GOVERNOR

DEPARTMENT OF NATURAL RESOURCES

DIVISION OF OIL AND GAS

POUCH 7-034
ANCHORAGE, ALASKA 99510

April 4, 1985

Marco Pignalberi
Alaska State Legislature
Pouch V (MS 3100)
Juneau, Alaska 99811

Dear Mr. Pignalberi:

As you requested, this letter responds to your concern that the Department of Natural Resources' ("DNR") January 16, 1985 Final Findings and Determination to Sell Prudhoe Bay Royalty Oil to Golden Valley Electric Association, Inc. contained an inexplicable factual error. This letter will explicate those concerns.

In that Finding DNR stated that approximately one-third (625 barrels) of GVEA's daily turbine fuel requirements would be provided at a discounted price to GVEA through the proposed disposal. GVEA Manager Burt Sharp noted at a recent House Oil & Gas Committee Hearing that at the time the Findings were prepared the DNR only had 1983 numbers. Mr. Sharp also noted that in his recent analysis of 1984 figures the barrels which would be provided at a discounted price to GVEA through the proposed disposal are now closer to one-half (983 barrels) of GVEA's daily turbine fuel requirement.

Although the contract contemplated a maximum quantity of 5000 bpd, as you can see by Attachment 1 (Exhibit B to the original GVEA contract), there are annual ceiling limits to this quantity, such limits expiring December 15, 1983. On December 3, 1980, GVEA gave notice to the State that they wished to commence taking 2,055 barrels per day of state royalty oil (1.096%), with deliveries commencing on June 17, 1981 (Attachment 2). The 2,055 barrels per day was the maximum GVEA could have taken at that time under the annual ceiling. On April 15, 1983 notification was sent to the producers at GVEA's request (See Attachment 3 - April 7, 1983 letter to Mike Kelly) increasing the maximum quantity to the 5,000 bpd authorized under the terms of the contract. Therefore, deliveries for 1983 to GVEA can be calculated as follows:

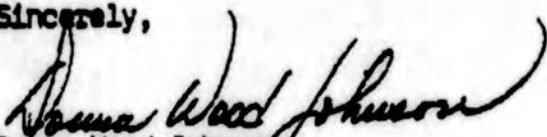
January 1 - July 31 @ 2,055 bpd X 212 days	=	435,660
August 1 - December 31 @ 5,000 bpd X 153 days	=	765,000
Total barrels		1,200,660

In 1984 deliveries were not subject to the annual quantity ceiling.

The amount of discounted turbine fuel provided to GVEA through the new contract will represent a larger proportion of GVEA's overall turbine fuel needs than DNR reported in its Findings. Measured as a proportion, the proposed contract will have an even more favorable impact on GVEA. However, this proportion does not affect the \$350,000 annual benefit to GVEA or the per-kilowatt hour savings of between one and two-tenths of one percent as specified in DNR's January Findings.

If there is anything else I can help you with please do not hesitate to ask.

Sincerely,


Donna Wood Johnson
Royalty Manager, Oil & Gas

DWJ/skt/3443s

EXHIBIT B

Attached to and Made a Part of the Royalty Oil Sales Agreement dated _____, 1977, Between GOLDEN VALLEY ELECTRIC ASSOCIATION, INC., an Alaskan Non-profit Corporation, "Buyer", and the Commissioner of Natural Resources of THE STATE OF ALASKA, acting pursuant to AS 38.05.183(d), "Seller", With Respect to Certain Royalty Oil Owned and Taken In-Kind by Seller Under the Leases Described in Exhibit "A", Covering Lands in the State of Alaska and Following the Herein Described Schedule of Delivery of Crude Oil.

SCHEDULE OF
DELIVERY OF CRUDE OIL

<u>DATES</u>		<u>QUANTITY</u>	
From	To	(bbls/day)	(But not to exceed on an annual basis*)
December 15, 1977	December 15, 1978	2000	500,000
December 15, 1978	December 15, 1979	3000	750,000
December 15, 1979	December 15, 1980	3000	750,000
December 15, 1980	December 15, 1981	3000 ✓	750,000
December 15, 1981	December 15, 1982	5000	1,200,000
December 15, 1982	December 15, 1983	5000	1,200,000

*in barrels

Attachment 1

3/18/85 (2)

MAPCO has had a contract with Golden Valley Electric Association (GVEA) since September 1, 1977. The contract is for MAPCO to deliver industrial turbine fuel into GVEA's fuel storage tanks via pipeline, based on a monthly requirement from GVEA. MAPCO assumes financial obligation to deliver product from the refinery to GVEA's storage tanks. For all ANS crude that is delivered through GVEA's feeder line to MAPCO's refinery, which runs approximately 2.3 miles from the TAPS line, MAPCO pays to GVEA a transportation fee.

MAPCO and GVEA signed a contract on May 1, 1980 whereby MAPCO supplied turbine fuel (which includes HF/DF #1 and HF/DF #2) for diesel generator facilities at North Pole and in Fairbanks. The Fairbanks product is delivered by rail tank car or transport truck. The proposed royalty oil contract between State of Alaska and GVEA insures a continued source of turbine fuel.

MAPCO signed an agreement with GVEA on October 22, 1984 whereby MAPCO had constructed, at a cost of \$2,250,000, an electric substation to connect MAPCO electrical facilities to the transmission system of GVEA. GVEA provides MAPCO system control and data acquisition capabilities for the 69 KV portion of the substation. As MAPCO and GVEA's operations are in close proximity, either party is available for any required maintenance work on a 24 hour basis.

GVEA is working with the Department of Natural Resources, State of Alaska, for a 5000 BPD royalty oil contract. A breakdown of that product, based on average percentage yields, is listed below:

Refinery fuel	60 BPD
GVEA - turbine fuel	685
Return oil	2786
Refined product	<u>1469</u>
JP-4/Jet B	407
#1 fuel oil -	
Jet A	784
#2 fuel oil -10°	242
#2 fuel oil +05°	36
	<u>1469</u>

5000 BPD

The turbine fuel is provided at a discount to GVEA. This accounts for approximately one-third of GVEA's daily turbine fuel requirements. The refining charge GVEA pays for the other two-thirds of its daily turbine fuel needs would translate into a savings to GVEA of about \$550,000 annually.

MAPCO and GVEA have an agreement for MAPCO to keep and dispose of the royalty return oil on an earlier contract. As the state has requested additional consideration from MAPCO for assignment agreement, MAPCO will be responsible for any GVEA liabilities resulting from retroactive price

adjustments regarding the resolution of the Amerada Hess dispute. GVEA would be responsible for one-eighth of the Amerada Hess liability accrued in one year. The remaining seven-eighths during that one year period, and any liabilities accrued in all other years during the term of the proposed GVEA contract, would be assumed by MAPCO. This provision guards GVEA from the effects of a favorable outcome for the state and increases benefits to be received by GVEA customers. With MAPCO's agreement to cover the largest share of any future liability, the benefit to GVEA members on the proposed royalty oil contract is great. This protection allows GVEA the freedom from a liability which could accumulate for up to ten years and be financially devastating.

The negotiation of this contract would have great benefits for the residents of Interior Alaska.

1. With population increasing in Interior Alaska, a constant electrical energy source is assured.
2. The benefits of an electrical cooperative will continue.
3. Local labor markets will benefit by employment with GVEA and MAPCO.
4. Alaska's petroleum requirements can be met with additional refined products available.