ALASKA LEGISLATURE SPECIAL COMMITTEE / SUBJECT FILE 8672

1220 SCOMM 46: HOUSE SPEC. COMMITTEE ON OIL AND GAS 1985-86

F. THE STATE OF ALASKA GENERAL FUND

According to DNR, WHEN THE STATE GAVE UP THE RIGHT TO RETAIN OWNERSHIP OF THE RETURN OIL, MAPCO BECAME INTERESTED IN THE CONTRACT. The return oil is valuable because it is available on a long term basis, at a known price, constant supply and even at a thirty cents premium, profits are to be made.

The best example of these profits was the State's own recent competitive bid royalty oil sale in December 1984 which resulted in premiums above the average weighted delivery point prices:

December 1984 Competitive Royalty Oil Sale

	days	volume	ave premium......	high	benefit
Kuparuk	182.5	15,000	$.51	$ .82	$ 1,554,781
Prudhoe	182.5	25,000	$.69	$1.84	$ 2,671,389
Prudhoe	365.0	50,000	$.84	$1.83	$13,331,807

The GVEA contract requires a $.30 premium to be paid on the royalty oil above the average delivery point price. Clearly, if MAPCO was to sell this return oil at the time of the above competitive sale it could receive a price greater than its costs for the GVEA crude oil.

With 5,000 bpd purchased by GVEA/NPR, 2,786 bpd is returned to TAPS and quality penalties are taken care of in NPR margins which yields from the above:

$1.83 pb maximum premium
less $ .30 pb GVEA premium
----
up to $1.53 pb gross margin!

The annual gross margin can be up to $1,550,000 on the return oil! The value of the return oil title can be significant to a crude oil broker.

The State could:

sell the 5,000 bpd at the $.84 pb premium (average) for Prudhoe, [$1,533,000]

place a $.30 pb premium (equal to GVEA) into the general fund [$547,500]

place the $.54 pb remaining premium into the general fund [$985,400] and from which,

WRITE GVEA AN ANNUAL CHECK FOR $500,000 (equal to GVEA's benefits)

and, STILL REALIZE A $485,000 GAIN OVER THE GVEA PROPOSAL.

This latter point implies that the State could realize additional revenues to the General Fund and still give the GVEA its benefits under the proposed contract. THE QUESTION IS WHETHER THIS CONTRACT IS THE BEST OPTION FOR THE STATE AS A WHOLE. MARKETING THE CRUDE ON THE OPEN MARKET MAY YIELD SIGNIFICANTLY LARGER REVENUES THAN THE GVEA PROPOSAL. ALASKANS FAMILIAR WITH MARKETING ANS CRUDE OIL COULD REALIZE EVEN HIGHER GAINS.

The State needs to develop a policy that determines the "weight" of the benefits of an individual proposal that benefits a special group against the maximum benefits that it could receive thru other options.

TRANS-ALASKA PIPELINE CARRIER TARRIFS, $/B

temporary rates from pump station #1 to

destination	owner	GVEA	VALDEZ					
effective date	%	6/14/78	8/20/77	1/1/82	7/1/82	10/19/83	11/1/83	8/1/84
EXXON	.203378	3.76	6.27	5.30	5.30	6.27	6.27	6.27
BP	.166745	3.54	6.35	6.35	5.40	5.40	6.20	6.20
SOHIO	.333363	3.70	6.16	6.16	6.16	6.16	6.16	5.66
ARCO	.213547	3.63	6.04	6.04	6.04	6.04	6.04	6.04
UNION	.01356	3.66	6.09	6.09	6.09	6.09	6.09	6.09
MOBIL	.040845	3.67	6.31	6.31	6.31	6.31	6.31	6.31
AMERADA HESS	.015	3.78	6.44	6.44	6.44	6.44	6.44	6.44
PHILLIPS	.013561	3.86	6.22	6.22	6.22	6.22	6.22	6.22
sum/average	1.000000	3.67	6.20	6.00	5.84	6.04	6.17	6.01

[rates are subject to refund or true-up per AS 42.06.410(b)]

Table One

NORTH POLE REFINERY LANDED CRUDE COSTS, FUEL, QB COSTS

[$ per product barrel]

	crude exhib-B	crude ANS-ave	P/L tariffs	fuel costs	QB c/deg	QB cost	gross costs
JAN80	14.17	14.14	3.85	0.81	8.53	1.28	20.12
FEB	14.79	14.76	3.85	0.84	8.53	1.28	20.76
MAR	15.44	15.40	3.85	0.87	8.53	1.28	21.44
APR	16.06	15.86	3.85	0.90	8.53	1.28	22.09
MAY	16.65	16.11	3.85	0.92	8.53	1.28	22.70
JUN	17.21	16.59	3.85	0.95	8.53	1.28	23.29
JUL	17.03	16.64	3.85	0.94	8.53	1.28	23.10
AUG	17.39	17.02	3.85	0.96	8.53	1.28	23.48
SEPT	17.85	17.41	3.85	0.98	8.53	1.28	23.96
OCT	17.68	17.48	3.85	0.97	8.53	1.28	23.78
NOV	18.88	18.55	3.85	1.02	8.53	1.28	25.04
DEC80	20.21	19.98	3.83	1.08	8.53	1.28	26.40
JAN81	25.42	24.95	3.83	1.32	8.53	1.28	31.85
FEB	26.33	25.59	3.83	1.36	8.53	1.28	32.80
MAR	26.16	25.54	3.83	1.35	8.53	1.28	32.62
APR	25.18	24.73	3.83	1.31	8.53	1.28	31.60
MAY	24.29	23.88	3.83	1.27	8.53	1.28	30.67
JUN	23.93	23.37	3.83	1.25	8.53	1.28	30.29
JUL	23.38	22.70	3.83	1.22	8.53	1.28	29.71
AUG	23.05	22.65	3.83	1.21	8.53	1.28	29.37
SEPT	22.26	22.04	3.83	1.17	8.53	1.28	28.55
OCT	22.22	22.06	3.83	1.17	8.53	1.28	28.51
NOV	22.24	22.05	3.83	1.17	8.53	1.28	28.52
DEC81	21.93	21.80	3.83	1.16	8.53	1.28	28.20
JAN82	21.45	21.18	3.83	1.14	8.53	1.28	27.70
FEB	20.10	19.52	3.83	1.08	8.53	1.28	26.29
MAR	18.83	18.40	3.83	1.02	12.80	1.92	25.60
APR	19.00	18.72	3.83	1.03	12.80	1.92	25.78
MAY	19.03	18.93	3.83	1.03	12.80	1.92	25.81
JUN	20.94	20.36	3.83	1.11	12.80	1.92	27.80
JUL	21.03	20.38	3.83	1.12	12.80	1.92	27.91
AUG	21.01	20.42	3.83	1.12	12.80	1.92	27.88
SEPT	20.82	20.34	3.83	1.11	12.80	1.92	27.68
OCT	20.73	20.25	3.83	1.11	12.80	1.92	27.59
NOV	20.08	19.82	3.83	1.08	12.80	1.92	26.91
DEC82	19.43	19.23	3.83	1.05	12.80	1.92	26.23
JAN83	18.69	18.32	3.83	1.01	18.77	2.82	26.36
FEB	17.70	17.44	3.83	0.97	18.77	2.82	25.32
MAR	17.55	17.33	3.83	0.96	18.77	2.82	25.16
APR	17.49	17.27	3.83	0.96	18.77	2.82	25.10
MAY	17.56	17.33	3.83	0.96	18.77	2.82	25.17
JUN	17.60	17.36	3.83	0.96	18.77	2.82	25.22
JUL	17.77	17.52	3.83	0.97	18.77	2.82	25.39
AUG	18.25	17.80	3.83	0.99	18.77	2.82	25.89
SEPT	18.26	17.78	3.83	0.99	18.77	2.82	25.91
OCT	18.19	17.74	3.83	0.99	18.77	2.82	25.83
NOV	17.97	17.59	3.83	0.98	18.77	2.82	25.60
DEC83	18.03	17.67	3.83	0.98	18.77	2.82	25.67
JAN84	17.85	17.54	3.83	0.98	17.91	2.69	25.34
FEB	17.97	17.58	3.83	0.98	17.91	2.69	25.47
MAR	18.00	17.61	3.83	0.98	17.91	2.69	25.50
APR	18.08	17.70	3.83	0.99	17.91	2.69	25.59
MAY	18.15	17.69	3.83	0.99	17.91	2.69	25.66
JUN	18.12	17.68	3.83	0.99	17.91	2.69	25.62
JUL	18.22	17.84	3.83	0.99	17.50	2.63	25.67
AUG	18.21	17.78	3.83	0.99	17.50	2.63	25.66
SEPT	18.38	18.02	3.83	1.00	17.50	2.63	25.84
OCT	18.27	17.94	3.83	0.99	17.50	2.63	25.72
NOV	18.25	17.96	3.83	0.99	17.50	2.63	25.70
DEC84	17.62	17.45	3.83	0.97	17.50	2.63	25.04
JAN85	17.03	16.90	3.83	0.94	17.50	2.63	24.42

Table Two

NPR EX-REFINERY POSTINGS

cents/gal

	gross costs	HO#1	HO#2	JET A1	JET B	TURBINE
JAN80	47.90	67.98	64.23	85.40	NA	NA
FEB	49.43	70.28	66.53	90.68	NA	NA
MAR	51.06	72.15	68.40	91.06	NA	NA
APR	52.60	72.15	68.40	91.06	NA	NA
MAY	54.05	74.86	71.11	91.06	NA	NA
JUN	56.46	79.15	75.40	93.06	NA	NA
JUL	55.01	82.60	78.70	97.32	NA	NA
AUG	55.90	87.50	82.40	100.33	NA	NA
SEPT	57.05	90.50	84.60	99.43	NA	NA
OCT	56.62	90.50	84.60	101.07	NA	NA
NOV	59.62	93.50	86.70	101.36	NA	NA
DEC80	62.86	95.50	88.40	NA	NA	NA
JAN81	75.84	95.48	90.64	94.91	92.41	85.60
FEB	78.09	103.25	98.25	100.38	97.88	85.60
MAR	77.66	106.63	101.63	103.55	101.05	85.60
APR	75.23	107.40	102.40	108.00	105.50	85.60
MAY	73.03	104.40	102.40	108.00	105.50	85.60
JUN	72.11	104.40	102.40	108.00	105.50	85.60
JUL	70.75	104.40	102.40	108.00	105.50	85.60
AUG	69.93	104.40	102.40	108.00	105.50	85.60
SEPT	67.97	104.40	102.40	108.00	105.50	85.60
OCT	67.87	110.11	105.11	109.81	107.31	107.90
NOV	67.91	110.40	105.40	110.00	107.50	107.90
DEC81	67.14	110.40	105.40	110.00	107.50	107.90
JAN82	65.95	110.40	105.40	108.95	106.45	107.90
FEB	62.59	110.40	105.40	108.95	106.45	107.90
MAR	60.96	106.75	101.75	108.95	106.45	107.90
APR	61.39	105.40	100.40	106.92	104.42	107.90
MAY	61.46	103.00	98.00	102.75	100.25	100.65
JUN	66.20	103.00	98.00	102.75	100.25	92.93
JUL	66.44	97.50	92.50	102.75	100.25	86.50
AUG	66.39	97.50	92.50	102.75	100.25	86.50
SEPT	65.91	97.50	92.50	102.75	100.25	86.50
OCT	65.68	97.50	92.50	102.75	100.25	86.50
NOV	64.07	97.50	92.50	102.75	100.25	86.50
DEC82	62.45	97.50	92.50	102.75	100.25	86.50
JAN83	62.75	97.11	92.11	102.30	99.80	86.11
FEB	60.29	94.71	89.71	99.86	97.36	67.64
MAR	59.91	90.77	85.77	96.79	94.29	56.39
APR	59.75	90.00	85.00	95.50	93.00	56.00
MAY	59.93	90.00	85.00	95.50	93.00	56.00
JUN	60.04	90.00	85.00	95.50	93.00	56.00
JUL	60.46	90.00	85.00	95.50	93.00	56.00
AUG	61.65	90.00	85.00	95.50	93.00	56.00
SEPT	61.68	90.00	85.00	95.50	93.00	56.00
OCT	61.50	90.00	85.00	95.50	93.00	56.00
NOV	60.95	90.00	85.00	95.50	93.00	56.00
DEC83	61.11	90.00	85.00	95.50	93.00	56.26
JAN84	60.34	90.74	86.48	95.50	93.00	58.00
FEB	60.65	91.00	87.00	95.50	93.00	58.00
MAR	60.71	91.00	87.00	95.50	93.00	58.00
APR	60.93	91.00	87.00	95.50	93.00	58.00
MAY	61.09	91.00	87.00	95.50	93.00	58.00
JUN	61.01	91.00	87.00	95.50	97.00	59.80
JUL	61.13	91.00	87.00	95.50	97.00	59.80
AUG	61.10	91.37	87.37	95.50	97.00	61.80
SEPT	61.53	91.50	87.50	95.50	97.00	62.50
OCT	61.23	91.50	87.50	95.50	97.00	62.50
NOV	61.19	91.50	87.50	95.50	97.00	62.50
DEC84	59.63	91.50	87.50	95.50	97.00	62.50
JAN85	58.15	90.53	86.85	95.50	97.00	62.50

Table Three

GVEA TURBINE FUEL COSTS
COMPARISION

	product fee	assign. fee	barrel reduct.	savings month	
JAN80	NA	NA	NA	NA	
FEB	NA	NA	NA	NA	
MAR	NA	NA	NA	NA	
APR	NA	NA	NA	NA	
MAY	3.31	1.25	2.06	39879	
JUN	3.33	1.26	2.07	38780	
JUL	3.35	1.27	2.08	40335	
AUG	3.37	1.28	2.09	40570	
SEP	3.37	1.28	2.10	39315	
OCT	3.42	1.30	2.12	41124	
NOV	3.43	1.30	2.13	39891	
DEC80	3.45	1.31	2.14	41497	
				sum =	321391
JAN81	3.50	1.33	2.17	41981	
FEB	3.51	1.34	2.18	38093	
MAR	3.53	1.34	2.19	42369	
APR	3.57	1.36	2.21	41430	
MAY	3.58	1.37	2.22	42963	
JUN	3.59	1.37	2.22	41658	
JUL	3.61	1.38	2.23	43254	
AUG	3.62	1.38	2.24	43406	
SEP	3.63	1.38	2.24	42046	
OCT	3.65	1.40	2.26	43766	
NOV	3.66	1.40	2.26	42394	
DEC81	3.66	1.40	2.26	43862	
				annual =	507222
JAN82	3.68	1.41	2.28	44098	
FEB	3.69	1.41	2.28	39880	
MAR	3.69	1.41	2.28	44181	
APR	3.70	1.41	2.28	42836	
MAY	3.71	1.42	2.29	44333	
JUN	3.70	1.42	2.29	42849	
JUL	3.70	1.42	2.29	44291	
AUG	3.70	1.42	2.29	44305	
SEP	3.70	1.42	2.29	42862	
OCT	3.73	1.43	2.30	44554	
NOV	3.73	1.43	2.30	43117	
DEC82	3.73	1.43	2.30	44623	
				annual =	521928
JAN83	3.74	1.43	2.31	44692	
FEB	3.76	1.44	2.32	40567	
MAR	3.76	1.44	2.32	44900	
APR	3.76	1.44	2.32	43545	
MAY	3.77	1.45	2.33	45080	
JUN	3.78	1.45	2.33	43692	
JUL	3.79	1.45	2.34	45301	
AUG	3.80	1.46	2.34	45384	
SEP	3.79	1.45	2.34	43866	
OCT	3.82	1.46	2.35	45578	
NOV	3.82	1.47	2.36	44161	
DEC83	3.83	1.47	2.36	45730	
				annual =	532496
JAN84	3.84	1.48	2.37	45886	
FEB	3.86	1.48	2.38	41629	
MAR	3.88	1.49	2.39	46255	
APR	3.89	1.50	2.40	44910	
MAY	3.89	1.50	2.40	46407	
JUN	3.89	1.50	2.40	44924	
JUL	3.90	1.50	2.40	46463	
AUG	3.89	1.50	2.40	46435	
SEP	3.89	1.49	2.39	44870	
OCT	3.90	1.50	2.40	46504	
NOV	3.90	1.50	2.40	45004	
DEC84	3.90	1.50	2.40	46560	
				annual =	545849

Table Four

GVEA TURBINE COST COMPARISON DATA

crude costs and Amerada Hess

	ave ANS crude	GVEA crude	exh-b crude	exh-B + GVEA	amerada hess	A-H sum month
JAN80	14.14	14.44	14.17	14.20	0.03	553
FEB	14.76	15.06	14.79	14.82	0.03	531
MAR	15.40	15.70	15.44	15.47	0.04	882
APR	15.86	16.16	16.06	16.07	0.18	3899
MAY	16.11	16.41	16.65	16.62	0.47	10294
JUN	16.59	16.89	17.21	17.17	0.56	11592
JUL	16.64	16.94	17.03	17.02	0.35	7674
AUG	17.02	17.32	17.39	17.38	0.33	7201
SEP	17.41	17.71	17.86	17.84	0.39	8306
OCT	17.48	17.78	17.68	17.69	0.18	3832
NOV	18.55	18.85	18.88	18.88	0.29	6167
DEC80	19.98	20.28	20.21	20.22	0.20	4385
					annual	65316
JAN81	24.95	25.25	25.42	25.40	0.42	9069
FEB	25.59	25.89	26.33	26.28	0.66	12830
MAR	25.54	25.84	26.16	26.12	0.54	11852
APR	24.73	25.03	25.18	25.16	0.40	8356
MAY	23.88	24.18	24.29	24.28	0.37	7995
JUN	23.37	23.67	23.93	23.90	0.50	10467
JUL	22.70	23.00	23.38	23.33	0.60	13167
AUG	22.66	22.96	23.05	23.04	0.35	7734
SEP	22.04	22.34	22.26	22.27	0.20	4185
OCT	22.05	22.35	22.22	22.23	0.16	3394
NOV	22.05	22.35	22.24	22.25	0.16	3411
DEC81	21.80	22.10	21.93	21.95	0.12	2554
					annual	96015
JAN82	21.18	21.48	21.45	21.45	0.24	5223
FEB	19.52	19.82	20.10	20.07	0.52	10154
MAR	18.40	18.70	18.83	18.82	0.38	8292
APR	18.72	19.02	19.00	19.01	0.25	5268
MAY	18.93	19.23	19.03	19.05	0.09	1933
JUN	20.36	20.66	20.94	20.91	0.51	10727
JUL	20.38	20.68	21.03	20.99	0.58	12636
AUG	20.42	20.72	21.01	20.98	0.52	11387
SEP	20.34	20.64	20.82	20.80	0.43	9008
OCT	20.25	20.55	20.73	20.71	0.43	9328
NOV	19.82	20.12	20.08	20.08	0.23	4844
DEC82	19.23	19.53	19.43	19.44	0.18	3848
					annual	92646
JAN83	18.32	18.62	18.69	18.68	0.33	7233
FEB	17.44	17.74	17.70	17.71	0.23	4554
MAR	17.33	17.63	17.55	17.56	0.19	4233
APR	17.27	17.57	17.49	17.50	0.20	4122
MAY	17.33	17.63	17.56	17.57	0.20	4372
JUN	17.36	17.66	17.60	17.61	0.22	4629
JUL	17.52	17.82	17.77	17.78	0.23	4994
AUG	17.80	18.10	18.25	18.23	0.40	8676
SEP	17.78	18.08	18.26	18.24	0.43	8992
OCT	17.74	18.04	18.19	18.17	0.40	8[illegible]7
NOV	17.59	17.89	17.97	17.96	0.34	7126
DEC83	17.67	17.97	18.03	18.03	0.32	7033
					annual	74780
JAN84	17.54	17.84	17.85	17.85	0.28	6067
FEB	17.58	17.88	17.97	17.96	0.35	6878
MAR	17.61	17.91	18.00	17.99	0.34	7421
APR	17.70	18.00	18.08	18.07	0.34	7239
MAY	17.69	17.99	18.15	18.13	0.41	8919
JUN	17.68	17.98	18.12	18.10	0.39	8161
JUL	17.84	18.14	18.22	18.22	0.34	7461
AUG	17.78	18.08	18.21	18.20	0.39	8417
SEP	18.02	18.32	18.38	18.38	0.32	6825
OCT	17.94	18.24	18.27	18.26	0.29	6233
NOV	17.96	18.26	18.25	18.25	0.26	5391
DEC84	17.45	17.75	17.62	17.64	0.15	3322
					annual	82333
JAN85	16.90	17.20	17.03	17.05	0.11	2355

Table Five

NPR GROSS MARGINS PER BARREL PRODUCT

[ex-refinery postings less landed crude, fuel, and Q8 costs]

	HO#1	HO#2	JET A1	JET B	Turbine	gross margin
JAN80	8.44	6.86	15.75	NA	NA	NA
FEB	8.76	7.18	17.32	NA	NA	NA
MAR	8.86	7.28	16.80	NA	NA	NA
APR	8.21	6.64	16.15	NA	NA	NA
MAY	8.74	7.17	15.55	NA	NA	NA
JUN	9.96	8.38	15.80	NA	NA	NA
JUL	11.59	9.95	17.77	NA	NA	NA
AUG	13.27	11.13	18.66	NA	NA	NA
SEPT	14.06	11.57	17.80	NA	NA	NA
OCT	14.23	11.75	18.67	NA	NA	NA
NOV	14.23	11.37	17.53	NA	NA	NA
DEC80	13.71	10.73	NA	NA	NA	NA
JAN81	8.26	6.22	8.01	6.96	4.10	6.38
FEB	10.57	8.47	9.36	8.31	3.15	7.29
MAR	12.17	10.07	10.87	9.82	3.34	8.41
APR	13.51	11.41	13.76	12.71	4.36	10.23
MAY	13.18	12.34	14.69	13.64	5.28	10.92
JUN	13.56	12.72	15.07	14.02	5.67	11.30
JUL	14.13	13.29	15.66	14.60	6.24	11.88
AUG	14.48	13.64	15.99	14.94	6.58	12.22
SEPT	15.30	14.46	16.81	15.76	7.41	13.04
OCT	17.74	15.64	17.61	16.56	16.81	16.93
NOV	17.86	15.75	17.68	16.63	16.80	16.98
DEC81	18.17	16.07	18.00	16.96	17.12	17.30
JAN82	18.67	16.57	18.06	17.01	17.62	17.64
FEB	20.08	17.98	19.47	18.42	19.03	19.05
MAR	19.23	17.13	20.15	19.10	19.71	19.26
APR	18.48	16.38	19.12	18.07	19.53	18.59
MAY	17.45	15.35	17.34	16.29	16.46	16.63
JUN	15.46	13.36	15.35	14.30	11.23	13.60
JUL	13.04	10.94	15.25	14.20	8.42	11.92
AUG	13.07	10.97	15.27	14.22	8.45	11.95
SEPT	13.27	11.17	15.47	14.42	8.65	12.15
OCT	13.36	11.26	15.57	14.52	8.74	12.24
NOV	14.04	11.94	16.25	15.20	9.42	12.92
DEC82	14.72	12.62	16.93	15.88	10.10	13.60
JAN83	14.43	12.33	16.61	15.56	9.81	13.30
FEB	14.46	12.36	16.62	15.57	3.09	11.18
MAR	12.96	10.86	15.49	14.44	-1.48	8.84
APR	12.70	10.60	15.01	13.96	-1.58	8.55
MAY	12.63	10.53	14.94	13.89	-1.65	8.48
JUN	12.58	10.48	14.89	13.84	-1.70	8.43
JUL	12.41	10.31	14.72	13.67	-1.87	8.25
AUG	11.91	9.81	14.22	13.17	-2.37	7.75
SEPT	11.89	9.79	14.20	13.15	-2.39	7.74
OCT	11.97	9.87	14.28	13.23	-2.31	7.82
NOV	12.20	10.10	14.51	13.46	-2.08	8.05
DEC83	12.13	10.03	14.44	13.39	-2.04	8.01
JAN84	12.77	10.98	14.77	13.72	-0.98	8.71
FEB	12.75	11.07	14.64	13.59	-1.11	8.63
MAR	12.72	11.04	14.61	13.56	-1.14	8.60
APR	12.63	10.95	14.52	13.47	-1.23	8.51
MAY	12.56	10.88	14.45	13.40	-1.30	8.44
JUN	12.60	10.92	14.49	15.12	-0.51	9.03
JUL	12.55	10.87	14.44	15.07	-0.56	8.98
AUG	12.72	11.04	14.45	15.08	0.30	9.31
SEPT	12.59	10.91	14.27	14.90	0.41	9.24
OCT	12.71	11.03	14.39	15.02	0.53	9.36
NOV	12.73	11.05	14.41	15.04	0.55	9.38
DEC84	13.39	11.71	15.07	15.70	1.21	10.04
JAN85	13.60	12.06	15.69	16.32	1.83	10.55

Table Six

NPR TYPICAL GROSS MARGIN PER PRODUCT BARREL

[ex-refinery postings less landed crude, fuel, $ QB

month	* = $1	gross margin
JAN81	******	6.38
FEB	*******	7.29
MAR	********	8.4
APR	**********	10.22
MAY	**********	10.91
JUN	***********	11.3
JUL	***********	11.87
AUG	************	12.21
SEP	*************	13.04
OCT	****************	16.92
NOV	****************	16.98
DEC81	*****************	17.3
JAN82	*****************	17.63
FEB	*******************	19.05
MAR	*******************	19.25
APR	******************	18.58
MAY	****************	16.62
JUN	*************	13.6
JUL	***********	11.92
AUG	***********	11.94
SEP	************	12.14
OCT	************	12.24
NOV	************	12.92
DEC82	*************	13.59
JAN83	*************	13.3
FEB	***********	11.17
MAR	********	8.83
APR	********	8.55
MAY	********	8.47
JUN	********	8.42
JUL	********	8.25
AUG	*******	7.75
SEP	*******	7.73
OCT	*******	7.81
NOV	********	8.04
DEC83	********	8.01
JAN84	********	8.7
FEB	********	8.62
MAR	********	8.59
APR	********	8.5
MAY	********	8.44
JUN	*********	9.03
JUL	********	8.98
AUG	*********	9.31
SEP	*********	9.24
OCT	*********	9.36
NOV	*********	9.38
DEC84	**********	10.03
JAN85	**********	10.55

Table Seven

NORTH POLE REFINERY PRODUCT MARGINS
[using January 1986 markups]

	HO#1	HO#2	JET A1	JET B	HAGO	TOTAL
BPD	392	278	392	407	685	2154
MU, $/B	13.60	12.06	15.69	16.32	1.83	10.55
GMU,day	5331	3352	6149	6641	1251	22725
GMU,mon	162164	101944	187041	201998	38066	691212
GMU,yr	1945965	1223325	2244494	2423970	456793	8294548

Royalty Oil Production, annual

gross margin	5000 bpd = $	8294548
gross margin	35000 bpd = $	58061833
gross margin	40000 bpd = $	66356380

Refinery Total Production, annual

gross margin	45000 bpd = $	74650928

Table Eight

NPR #1 HEATING OIL MARKUP PER BARREL

[ex-refinery posting less landed crude, fuel, $ QB]

month	* = $ 1	$/B, mark-up
JAN80	********	8.44
FEB	********	8.76
MAR	********	8.86
APR	********	8.21
MAY	********	8.74
JUN	*********	9.95
JUL	***********	11.59
AUG	*************	13.27
SEP	**************	14.05
OCT	**************	14.23
NOV	**************	14.23
DEC80	*************	13.71
JAN81	********	8.25
FEB	**********	10.57
MAR	************	12.17
APR	*************	13.51
MAY	*************	13.18
JUN	*************	13.56
JUL	**************	14.13
AUG	**************	14.48
SEP	***************	15.30
OCT	*****************	17.74
NOV	*****************	17.85
DEC81	******************	18.17
JAN82	******************	18.67
FEB	********************	20.08
MAR	*******************	19.23
APR	******************	18.48
MAY	*****************	17.45
JUN	***************	15.46
JUL	*************	13.04
AUG	*************	13.07
SEP	*************	13.27
OCT	*************	13.36
NOV	**************	14.04
DEC82	**************	14.72
JAN83	**************	14.43
FEB	**************	14.46
MAR	************	12.96
APR	************	12.70
MAY	************	12.63
JUN	************	12.58
JUL	************	12.41
AUG	***********	11.91
SEP	***********	11.89
OCT	***********	11.97
NOV	************	12.20
DEC83	************	12.13
JAN84	************	12.77
FEB	************	12.75
MAR	************	12.72
APR	************	12.63
MAY	************	12.56
JUN	************	12.60
JUL	************	12.55
AUG	************	12.72
SEP	************	12.59
OCT	************	12.71
NOV	************	12.73
DEC84	*************	13.39
JAN85	*************	13.60

Table Nine

FAIRBANKS #1 HEATING OIL

	........c/gal...........			gross	npr
	gross costs	npr markup	retail price	costs % retail	markup % retail
JAN80	47.90	20.08	84.20	57	24
FEB	49.43	20.86	87.00	57	24
MAR	51.06	21.09	90.70	56	23
APR	52.60	19.55	90.90	58	22
MAY	54.06	20.81	98.20	55	21
JUN	55.46	23.70	98.30	56	24
JUL	55.01	27.59	101.90	54	27
AUG	55.90	31.60	106.80	52	30
SEPT	57.06	33.46	109.60	52	31
OCT	56.62	33.88	109.80	52	31
NOV	59.62	33.88	112.80	53	30
DEC80	62.86	32.64	114.30	55	29
JAN81	75.84	19.65	117.80	64	17
FEB	78.09	25.16	124.20	63	20
MAR	77.66	28.97	127.20	61	23
APR	75.23	32.17	127.10	59	25
MAY	73.03	31.37	127.10	57	25
JUN	72.11	32.29	127.10	57	25
JUL	70.75	33.65	127.10	56	26
AUG	69.93	34.47	127.20	55	27
SEPT	67.97	36.43	127.10	53	29
OCT	67.87	42.24	130.60	52	32
NOV	67.91	42.49	130.50	52	33
DEC81	67.14	43.26	130.50	51	33
JAN82	65.95	44.45	130.60	51	34
FEB	62.59	47.81	130.70	48	37
MAR	60.96	45.79	126.70	48	36
APR	61.39	44.01	125.70	49	35
MAY	61.46	41.54	123.80	50	34
JUN	66.20	36.80	123.30	54	30
JUL	66.44	31.06	121.90	55	25
AUG	66.39	31.11	121.90	54	26
SEPT	65.91	31.59	121.70	54	26
OCT	65.68	31.82	121.30	54	26
NOV	64.07	33.43	121.20	53	28
DEC82	62.45	35.05	121.20	52	29
JAN83	62.75	34.36	121.10	52	28
FEB	60.29	34.43	120.20	50	29
MAR	59.91	30.86	118.80	50	26
APR	59.75	30.25	115.00	52	26
MAY	59.93	30.07	115.00	52	26
JUN	60.04	29.96	114.90	52	26
JUL	60.46	29.54	NA	NA	NA
AUG	61.65	28.35	NA	NA	NA
SEPT	61.68	28.32	114.80	54	25
OCT	61.50	28.50	NA	NA	NA
NOV	60.95	29.05	NA	NA	NA
DEC83	61.11	28.89	114.50	53	25
JAN84	60.34	30.40	NA	NA	NA
FEB	60.65	30.35	NA	NA	NA
MAR	60.71	30.29	NA	NA	NA
APR	60.93	30.07	NA	NA	NA
MAY	61.09	29.91	NA	NA	NA
JUN	61.01	29.99	NA	NA	NA
JUL	61.13	29.87	NA	NA	NA
AUG	61.10	30.27	NA	NA	NA
SEPT	61.53	29.97	115.30	53	26
OCT	61.23	30.27	NA	NA	NA
NOV	61.19	30.31	NA	NA	NA
DEC84	59.63	31.87	NA	NA	NA
JAN85	58.15	32.38	NA	NA	NA

Table Ten

FAIRBANKS #2 HEATING OIL

	.........c/gal.	....		gross	npr
	gross costs	npr markup	retail price	costs % retail	markup % retail
JAN80	47.90	16.33	79.10	60.55	21
FEB	49.43	17.11	81.70	60.50	21
MAR	51.06	17.34	85.10	60.00	20
APR	52.60	15.80	85.10	61.81	19
MAY	54.05	17.06	92.70	58.30	18
JUN	55.45	19.95	93.00	59.63	21
JUL	55.01	23.69	96.30	57.13	25
AUG	55.90	26.50	101.00	55.35	26
SEPT	57.05	27.55	103.10	55.34	27
OCT	56.62	27.98	103.50	54.70	27
NOV	59.62	27.08	105.60	56.46	26
DEC80	62.86	25.54	107.30	58.59	24
JAN81	75.84	14.81	111.00	68.32	13
FEB	78.09	20.16	117.40	66.52	17
MAR	77.66	23.97	120.60	64.39	20
APR	75.23	27.17	120.70	62.33	23
MAY	73.03	29.37	120.60	60.56	24
JUN	72.11	30.29	120.60	59.79	25
JUL	70.75	31.65	120.70	58.61	26
AUG	69.93	32.47	120.80	57.89	27
SEPT	67.97	34.43	120.40	56.45	29
OCT	67.87	37.24	124.20	54.65	30
NOV	67.91	37.49	123.20	55.12	30
DEC81	67.14	38.26	123.60	54.32	31
JAN82	65.95	39.45	123.60	53.36	32
FEB	62.59	42.81	123.80	50.55	35
MAR	60.96	40.79	120.10	50.76	34
APR	61.39	39.01	118.70	51.72	33
MAY	61.46	36.54	117.00	52.53	31
JUN	66.20	31.80	117.10	56.53	27
JUL	66.44	26.06	114.30	58.13	23
AUG	66.39	26.11	114.80	57.83	23
SEPT	65.91	26.59	114.60	57.51	23
OCT	65.68	26.82	114.40	57.41	23
NOV	64.07	28.43	113.90	56.25	25
DEC82	62.45	30.05	113.90	54.83	26
JAN83	62.75	29.36	114.00	55.04	26
FEB	60.29	29.43	113.40	53.16	26
MAR	59.91	25.86	111.70	53.63	23
APR	59.75	25.25	107.80	55.43	23
MAY	59.93	25.07	107.80	55.59	23
JUN	60.04	24.96	107.80	55.70	23
JUL	60.46	24.54	NA	NA	NA
AUG	61.65	23.35	NA	NA	NA
SEPT	61.68	23.32	107.80	57.22	22
OCT	61.50	23.50	NA	NA	NA
NOV	60.95	24.05	NA	NA	NA
DEC83	61.11	23.89	107.80	56.69	22
JAN84	60.34	26.14	NA	NA	NA
FEB	60.65	26.35	NA	NA	NA
MAR	60.71	26.29	NA	NA	NA
APR	60.93	26.07	NA	NA	NA
MAY	61.09	25.91	NA	NA	NA
JUN	61.01	25.99	NA	NA	NA
JUL	61.13	25.87	NA	NA	NA
AUG	61.10	26.27	NA	NA	NA
SEPT	61.53	25.97	109.20	56.34	24
OCT	61.23	26.27	NA	NA	NA
NOV	61.19	26.31	NA	NA	NA
DEC84	59.63	27.87	NA	NA	NA
JAN85	58.15	28.70	NA	NA	NA

Table Eleven

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.

James O. Smith
Signature of Camera Operator

12/12/89
Date

2-519 (REV 8/78)

SCOMM

#46:18

Alaska State Legislature

COMMITTEES

Committee on Community and Regional Affairs
Committee on Transportation
Special Committee on Oil and Gas
Special Committee on Fisheries
Finance Sub-committee on Fish and Game

Andre Marrou
Representative

February 28, 1986

To: Mike Davis, Chairman House Oil & Gas
From: Andre Marrou, Representative

Subject: HB 339 Fiscal Note

Here is the fiscal note for work draft of HB 339 dated Feb. 7.

I would like to point out that the revenue projections here, in my opinion, are severely under valued.

The preparer of the fiscal note took the position that the only increased revenue realized from HB 339 would come from section 4 of the bill which would limit new debt and new debt service by the North Slope Borough. Absent from the note are the increased revenues that would go to the State as the North Slope Borough retires its huge debt burden. This would be a direct result of section 2 of the bill.

According to the preparer of the fiscal note, if the North Slope Borough did not have plans to issue any new debt, there wouldn't be any fiscal implication at all. This is simply not true. If HB 339 were in effect today, the State would take in one half of a \$234,511,201 assessment[1] --or \$117,225,600-- instead of \$19,112,663. The rest --or\$215,398,538-- went to pay for North Slope Borough debt service.

The preparer of the fiscal note also assumed the North Slope Borough's new debt issue forecast to be credible.[2] However, experience shows that, as far as the North Slope Borough is concerned, the sky is the limit.

The property tax payers plan to invest another \$6,000,000,000 into Prudhoe Bay this summer. This should approximately increase the assessed value of Prudhoe Bay \$12,000,000,000 to \$18,000,000,000. That's 18 billion dollars of value that we are going to assess a 20 mill tax! This equals \$360 million dollars of potential State revenue that the North Slope Borough can siphon off, as it has done in the past, by issuing new debt. Therefore, the modest new debt forecasts for the North Slope Borough, outlined in line 7 of the 3rd page of this fiscal note, do not seem credible.

This bill has the potential of bringing in <u>HUNDREDS OF MILLIONS</u> of dollars in increased State revenue as the North Slope Borough pays off its current debt sometime between 1991 and 1996. This will be done with <u>no increase in taxes</u> on the oil and gas industry

1 Based upon 1984 assessments.
2 From the North Slope Borough's <u>Capital Improvement Program FY 1986-1991</u>, Table 14

During Session: P. O. Box V, Juneau, Alaska 99811, (907) 465-2719   During Interim: Box 1572, Homer, Alaska

STATE OF ALASKA 1986 LEGISLATIVE SESSION
FISCAL NOTE

Revision Date: ________

REQUEST
Bill/Resolution No: CS SS HB 339
Title: Limitation of oil and gas municipal property taxes to pay for bonds
Sponsor: Marrou
Requestor: House Oil & Gas
Date of Request: February 17, 1986

FISCAL DETAIL
Agency Affected:
BRU:
Components:

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 86	FY 87	FY 88	FY 89	FY 90	FY 91
OPERATING						
PERSONAL SERVICES	-	-	-	-	-	-
TRAVEL	-	-	-	-	-	-
CONTRACTUAL	-	-	-	-	-	-
SUPPLIES	-	-	-	-	-	-
EQUIPMENT	-	-	-	-	-	-
LANDS & STRUCTURES	-	-	-	-	-	-
GRANTS, CLAIMS	-	-	-	-	-	-
MISCELLANEOUS	-	-	-	-	-	-
TOTAL OPERATING	-	-	-	-	-	-
CAPITAL	-	-	-	-	-	-
REVENUE	10,500	17,700	17,100	28,100	55,600	51,100

FUNDING: (Thousands of Dollars)

	FY 86	FY 87	FY 88	FY 89	FY 90	FY 91
GENERAL FUND	10,500	17,700	17,100	28,100	55,600	51,100
FEDERAL FUNDS	-	-	-	-	-	-
OTHER	-	-	-	-	-	-
TOTAL	10,500	17,700	17,100	28,000	55,600	51,100

POSITIONS:

	FY 86	FY 87	FY 88	FY 89	FY 90	FY 91
FULL-TIME	-	-	-	-	-	-
PART-TIME	-	-	-	-	-	-
TEMPORARY	-	-	-	-	-	-

ANALYSIS: See attached analysis.

Prepared By: Milt Barker MB
Phone: 465-2350
Division: Treasury
Date: February 20, 1986

Approved by Commissioner: [signature]
Date: 2/21/86
Agency: Department of Revenue

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

10/25/85

CS SS HB 339
Fiscal Note Analysis

The only municipality possibly affected by CS SS HB 339 is the North Slope Borough as detailed in the attached table. However, there are two major loopholes in the CS that could mean the State would receive no additional revenue from property in the North Slope Borough.

First, the exemption for refunding bonds means that potentially no levies for existing debt would count toward the limit and therefore the second sentence of section 4 of the bill would not operate to limit issuance of new debt. This is because refunded debt is paid from the proceeds of refunding debt, not tax levies, and tax levies for the refunding debt are exempt. Thus, a municipality could wipe the slate clean as far as the limit is concerned by refunding all its debt. Technically, this could be fixed in the bill by putting the refunding exemption in a separate section and amending section 4.

The second loophole, to the extent the bill is meant to control debt issuance, is school debt. Since the State may pay 80 percent, 90 percent, or 100 percent of school debt service the major portion of such debt can be exempt from the limit in this bill. However, passage of HB 520 would limit State payments in the future for school debt.

CS SS HB 339 should not affect Valdez since the only new debt planned for issuance by Valdez is $24 million of bonds to redeem bond anticipation notes maturing March 1, 1988. These bonds would be exempt from the 10 mill limit of SS HB 339 by virtue of the bill's exemption for refunding bonds.

The limit would not affect other communities with oil and gas property because 10 mills would support far more debt than is outstanding, or at least more than is outstanding excluding school debt.

Additional State Revenue
Due to
Limitation of CS SS HB 339 on North Slope Borough
($ Millions)

		FY 86	FY 87	FY 88	FY 89	FY 90	FY 91
	Full Property Value						
(1)	State Assessed	12,563.3	13,000.0	13,500.0	13,500.0	13,500.0	13,500.0
(2)	Local Assessed	313.5	313.5	313.5	313.5	313.5	313.5
(3)	Total Full Value	12,876.8	13,313.5	13,813.5	13,813.5	13,813.5	13,813.5
(4)	Limit on Taxable Value	2,397.1	2,397.1	2,397.1	2,397.1	2,397.1	2,397.1
(5)	10 Mill Limit on Debt Service	23.4	23.4	23.4	23.4	23.4	23.4
(6)	Debt Service on Outstanding Debt (as to be partially refunded)	202.3	212.1	219.7	211.7	198.5	188.6
(7)	New Debt to be Issued	52.9	28.0	28.0	154.0	-	-
(8)	Debt Service on New Debt	10.5	17.7	17.1	28.1	55.6	51.1
(9)	Additional State Revenue	10.5	17.7	17.1	28.1	55.6	51.1

Notes:

(1 & 2) January 1, 1985 values from Alaska Taxable 1985, Department of Community and Regional Affairs

(3) Rows (1) and (2)

(4) 1985 statewide average full value of $86,322 multiplied by 225% multiplied by 12,342 1985 North Slope Borough population

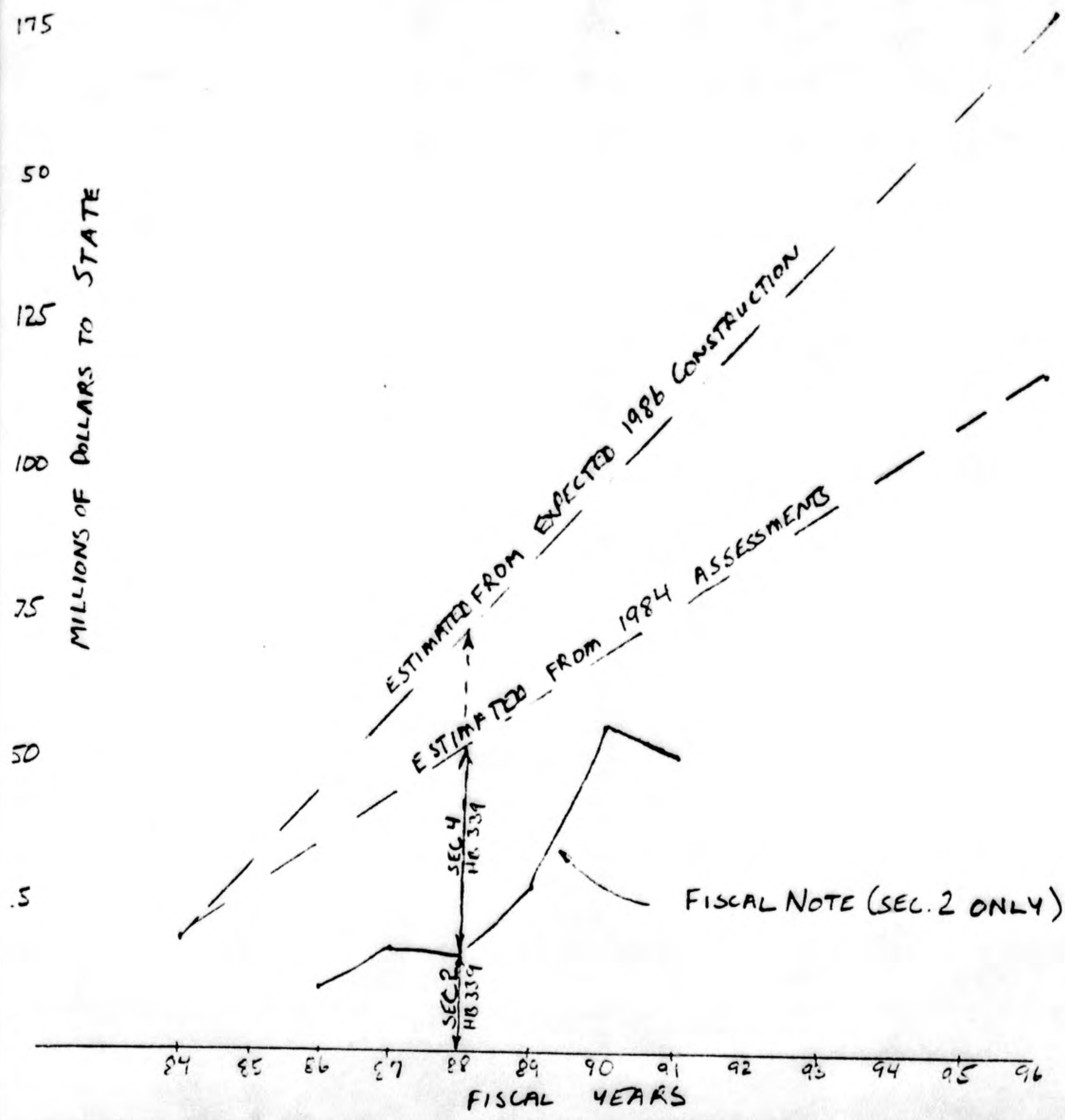
(5) 1% of row ((4) + Row (3)) x Row (1)

(6) From North Slope Borough Capital Improvements Program FY 1986 - FY 1991, Table 15, Column G minus Row 8 of this table.

(7 & 8) From North Slope Borough Capital Improvements Program FY 1986 - FY 1991, Table 14

(9) Row 8

EFFECTS OF HB 339 ON STATE REVENUES



Alaska State Legislature

COMMITTEES:

Committee on Community and Regional Affairs
Committee on Transportation
Special Committee on Oil and Gas
Special Committee on Fisheries
Finance Sub-committee on Fish and Game

District 5

Kenai, Soldotna, Homer, Seldovia, Kachemak, Kasilof, Ninilchik, Sterling, Anchor Point, Port Graham, English Bay, Nikolaevsk, Halibut Cove, Clam Gulch

Andre Marrou
Representative

January 10, 1986

To: Mike Davis, Chairman, Oil & Gas Committee
From: Andre Marrou
Subject: SSHB 339, Limiting Municipal Oil & Gas Property Taxes

Thank you for your letter of December 18 requesting backup material for SSHB 339. Following is a brief synopsis of my intent and how the bill works.

Current State Law allows an oil and gas property tax payer to credit against their state obligation of 20 mills (AS 43.56.010a) all local taxes (AS 43.56.010d) on oil and gas property covered by AS 43.56. This has the effect of shifting a State-imposed property tax to municipal coffers.

The current property tax rate in the North Slope Borough is 18.4 mills, Valdez is 11.7 and the Kenai Peninsula Borough is 2.5 mills. The North Slope property tax appears excessive. Certainly, it is costing the State hundreds of millions of dollars (see attached chart). For example, the State's share of property tax has fallen drastically from 48% to 8% in five years. Meanwhile, the North Slope Borough's share has skyrocketed from 52% to 92%.

It would appear that the intent of the State's oil and gas property tax law was not to allow the North Slope Borough to finance an astronomical debt ($97,373 per capita) and possibly jeopardize the State's bond rating should they default in these times of decreasing oil revenues. Note that, of the 20 mill State imposed property tax on Prudhoe Bay property, 18.4 of it goes to the North Slope Borough.

The residents of the North Slope Borough appear indifferent to their high tax rate, perhaps because of a variety of exemptions that are available to them.[1]

SSHB 339 proposes to split the State's 20 mill property tax 50/50 between the State and the borough. This is accomplished in Sec. 1 of the bill.

Sec. 2 of the bill is necessary to bring the statutes into compliance with limits set in Section one.

Sec. 3 exempts this tax limitation from applying to general obligation refunding bonds. Example: a municipality wishes to sell new bonds at a more favorable interest rate to pay off old debts at higher rates.

All the citations in this memo and in HB 339 refer to the old Title 29. These need to be updated.

More opinions, facts and figures will be forthcoming. I suspect you will agree that the amount of money in question merits a hearing and passage of this legislation from your committee. If this bill were in effect in 1984, it would have resulted in $98,142,937 more in State revenues [($234,511,201 / 2) - $19,112,663].

[1] ANCSA sec. 21D; Indian Reorganization Act, 25 USC 465; Federal Supremacy Clause for Native Trust Lands; AS 18.55.250; $10,000 Exemption per Assessment, AS 29.45.050(a).

During Session: Pouch V, Juneau, Alaska 99811, (907) 465-2719 During Interim: Box 1572, Homer, Alaska 99603, (907) 235-8200

Distribution of State Property Tax For the North Slope Borough

Year	State Assessed Value	Gross Revenue	Local Credit	Net to State	Percent Increase	Percent of Gross to State
1979	4,810,887,800	96,217,756	49,800,530	46,417,226		48.24
1980	5,450,597,290	109,011,946	55,974,326	53,037,620	14.26	48.65
1981	6,297,616,550	125,952,331	105,150,647	20,801,684	(60.78)	16.52
1982	7,722,388,820	154,447,776	126,781,999	27,665,777	33.00	17.91
1983	9,450,158,880	189,003,178	144,625,348	44,377,830	60.41	23.48
1984	11,725,560,030	234,511,201	215,398,538	19,112,663	(56.93)	8.15

SOURCE: DIVISION OF PETROLEUM REVENUE

Alaska State Legislature

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Kasilof	Halibut Cove
Ninilchik	Clam Gulch

Andre Marrou
Representative

February 13, 1986

To: Mike Davis, Chairman House Committee on Oil & Gas
From: Andre Marrou, Representative

Subject: HB 339, Oil & Gas Property Tax

The attached committee substitute dated February 7 has some technical improvements that further the original intent of this bill-- that intention is to split the revenues from the oil and gas property tax 50/50, municipality/State respectively. In 1984, the North Slope Borough assessed \$215,398,538 against a \$234,511,201 state tax bill. That is a 92/8 split of these revenues respectively.

The positive fiscal ramifications of this bill cannot be over-emphasized. We are are talking about <u>hundreds of millions of dollars</u> of increased State revenue (\$\$\$) without any increase of oil taxes if we pass this bill!

The original intention of allowing the oil companies to deduct or credit their local tax against the State 20-mill property tax was to allow the municipalities to finance as necessary for providing local services to the oil and gas properties being taxed. However, the idea that Prudhoe Bay is receiving over \$200,000,000 annually in local services is ludicrous.

Since AS 43.56, Oil and Gas Property Tax, is a State tax, it is clear that the revenues from this tax were meant for legislative distribution except for those allowed for <u>reasonable</u> local services. It is an unforseen result of the original legislation that this lopsided distribution of this tax should occur.

During Session: Pouch V, Juneau, Alaska 99811, (907) 465-2719 During Interim: Box 1572, Homer, Alaska 99603, (907) 235-8200

2/7/86

Original sponsor: Marrou

IN THE HOUSE

CS FOR SPONSOR SUBSTITUTE FOR HOUSE BILL NO. 339 (   )

IN THE LEGISLATURE OF THE STATE OF ALASKA

FOURTEENTH LEGISLATURE - SECOND SESSION

A BILL

For an Act entitled: "An Act relating to the limitation on municipal property taxation for the payment of bonds; and providing for an effective date."

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

* Section 1. AS 29.10.200 is amended by adding a new paragraph to read:

(47) AS 29.47.200(a) - (general obligation bonds)

* Sec. 2. AS 29.45.100 is amended to read:

Sec. 29.45.100. [NO] LIMITATIONS ON TAXES TO PAY BONDS. The limitations provided for in AS 29.45.080 - 29.45.090 do not apply to taxes levied or pledged to pay or secure the payment of the principal and interest on bonds. However, taxes levied under AS 29.45.080 [TAXES] to pay or secure the payment of principal and interest on bonds may only be levied in an amount that does not exceed one percent of the assessed value of property within the municipality taxed under AS 29.45.080 [WITHOUT LIMITATION AS TO RATE OR AMOUNT], regardless of whether the bonds are in default or in danger of default. This limitation does not apply to taxes levied or pledged to pay or secure the payment of general obligation refunding bonds used to refund a general obligation bond issue.

* Sec. 3. AS 29.47.200(a) is amended to read:

(a) The full faith and credit of a municipality are pledged for the payment of principal and interest on general obligation bonds. Subject to AS 29.45.100, the [THE] municipality may levy ad valorem taxes for payment [WITHOUT LIMITATION OF RATE OR AMOUNT TO PAY OR

SECURE THE PAYMENT] of the principal and interest on the bonds. This subsection applies to home rule and general law municipalities [, REGARDLESS OF WHETHER THE BONDS ARE IN DEFAULT OR IN DANGER OF DEFAULT].

* Sec. 4. The amendments to AS 29.45.100 and AS 29.47.200(a) made by secs. 2 and 3 of this Act apply only to taxes levied or pledged to pay general obligation bonds sold by a municipality on or after the effective date of this Act. However, notwithstanding any other provision of law, a municipality may not sell general obligation bonds after the effective date of this Act until the municipality is in compliance with AS 29.45.100 and AS 29.47.200(a) as amended by secs. 2 and 3 of this Act with respect to taxes levied or pledged to pay all general obligation bonds without regard to the dates of sale.

* Sec. 5. This Act takes effect July 1, 1986.

SECTIONAL ANALYSIS CSSSHB 339 (Oil & Gas)

*Section 1.

This section makes this bill applicable to home rule municipalities.

*Section 2.

This section restricts a municipality's ability to tax to pay for bonds, only if it taxes oil and gas properties under AS 29.45.080. The 1% figure will allow municipalities to collect up to half of the 20 mill oil and gas property tax under AS 43.56.

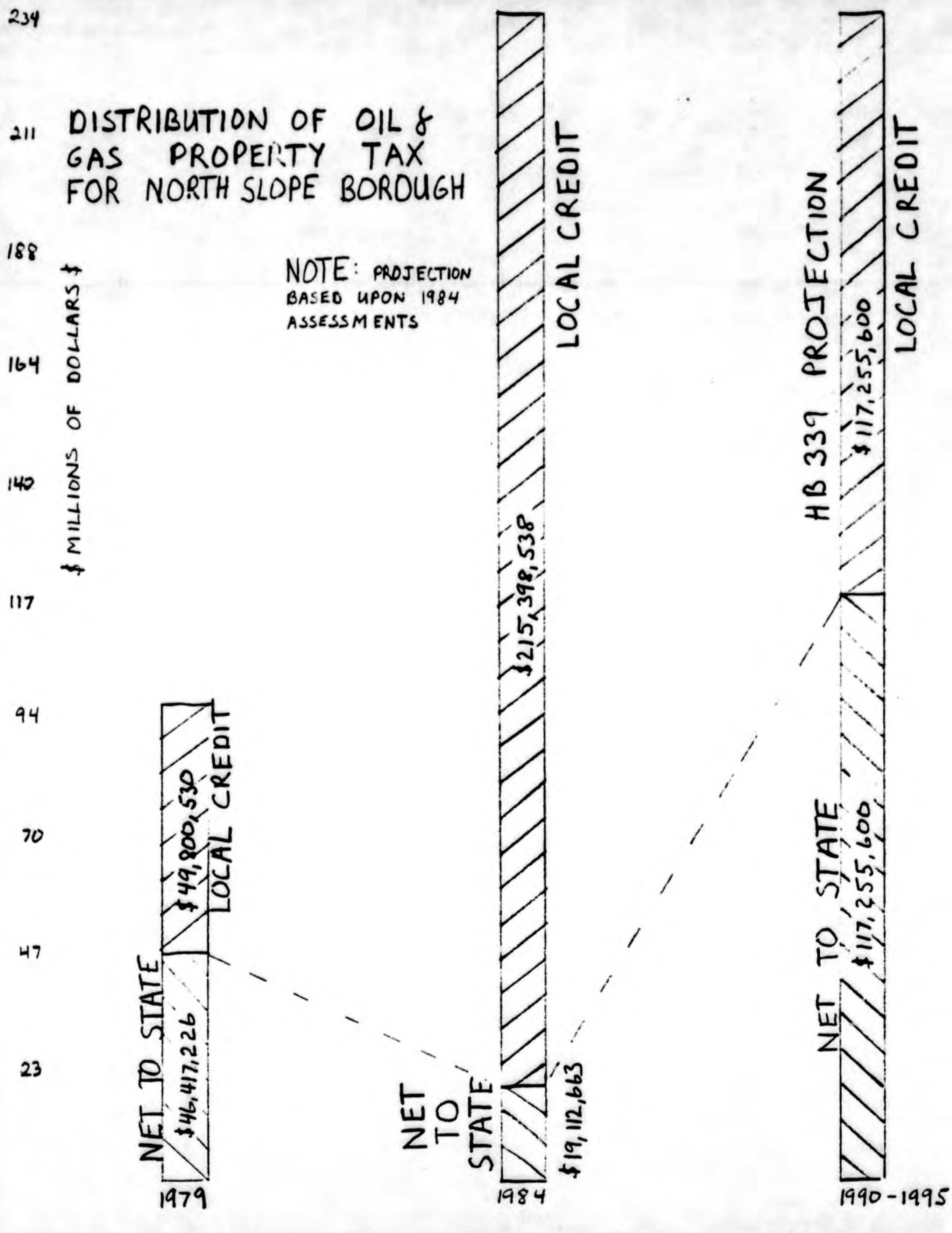
*Section 3.

This section conforms the statutes to the limitation in section 2.

*Section 4.

This section clarifies that the taxing authority to pay off current existing debt will not be impaired.

This section is also a debt limiter that prevents municipalities from issuing more bonds after the effective date, if the taxes to pay those bonds exceed the limit in section 2.


DISTRIBUTION OF OIL & GAS PROPERTY TAX FOR NORTH SLOPE BOROUGH
NOTE: PROJECTION BASED UPON 1984 ASSESSMENTS
$ MILLIONS OF DOLLARS $
234
211
188
164
140
117
94
70
47
23
NET TO STATE
$46,417,226
$49,900,530
LOCAL CREDIT
1979
NET TO STATE
$19,112,663
$215,398,538
LOCAL CREDIT
1984
NET TO STATE
$117,255,600
HB 339 PROJECTION
$117,255,600
LOCAL CREDIT
1990-1995

Alaska State Legislature

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Committee on Transportation
Special Committee on Oil and Gas
Special Committee on Fisheries
Finance Sub-committee on Fish and Game

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Ninilchik	Clam Gulch

Andre Marrou
Representative

February 17, 1986

ALASKA CONSTITUTION SUPPORTS CSSSHB 339 (O&G)

Current State law allows for an inequitable share of the State's natural resources (about 58% of total oil & gas property taxes) to go to a relatively small number (about 2.2%) of our population. This is contrary to the intent of Alaska's Constitution.

From Article VIII of the Constitution, entitled "Natural Resources" (emphasis added):

Section 1, Statement of Policy
"It is the policy of the State to encourage... the developement of its resources... for **maximum use consistent with the public interest**".

Section 2, General Authority
"The Legislature shall provide for the utilization, development, and conservation of all natural resources belonging to the State...for the maximum benefit of its people".

Section 6, State Public Domain
"Lands and interests therein... possessed or acquired by the State...constitute the State public domain."

Section 17, Uniform Application
"Laws and regulations governing the use and disposal of natural resources shall apply equally to all persons..."

Therefore, it seems clear that the Constitution intended for the State's natural resources to accure to the benefit of all the State's citizens, not to a few privileged by sheer chance.

During Session: P. O. Box V, Juneau, Alaska 99811, (907) 465-2719   During Interim: Box 1572, Homer, Alaska 99603, (907) 235-8200

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Andre Marrou
Representative

February 17, 1986

SALIENT FACTS RE: CSSSHB339

°Of a $234,511,201 tax bill due the State on Prudhoe Bay oil and gas property in 1984, 92% of it was credited to the taxpayer because the local municipality siphoned it off.

°In 1984, 2.26% of the State's population took 58% of all oil and gas property tax revenue ($215,398,538), or, approximately 10% of <u>all</u> State revenue.

°The North Slope Borough is $1.2 billion(!) in debt, or, $97,373 per capita.

°The North Slope Borough leads the State with the highest debt to assessed valuation % ratio.

°The current situation encourages debt by municipalities.

°Inaction by the Legislature will result in continued reduction of State oil and gas property tax revenue and a higher local share.

°Oil prices will stabilize and increase eventually; hence, so will the assessed oil and gas property tax base..

During Session: P. O. Box V, Juneau, Alaska 99811, (907) 465-2719 During Interim: Box 1572, Homer, Alaska 99603, (907) 235-8200

STATE OF ALASKA

BILL SHEFFIELD, GOVERNOR

DEPT. OF COMMUNITY & REGIONAL AFFAIRS

OFFICE OF THE COMMISSIONER

☐ POUCH B
JUNEAU, ALASKA 99811
PHONE: (907) 465-4700

☐ 949 E. 36TH AVENUE, SUITE 400
ANCHORAGE, ALASKA 99508
PHONE: (907) 563-1073

March 5, 1985

POSITION PAPER

RE: SSHB 339

SPONSOR: Representative Andre Marrou

Program Effects of Bill

Comments

Sponsor Substitute for House Bill 339 provides for the State to be guaranteed at least 50 per cent of all property taxes levied against AS 43.56 property. Municipalities would be allowed a property tax levy against that property which would not exceed ten mills.

The Department understands and appreciates the concept that all the people of the State should be guaranteed an equal share of revenues derived from this resource, as compared with the current system of taxation which allows some municipalities to benefit in excess of 50 per cent. We do not necessarily oppose that concept.

We do however, have concerns regarding the effect of implementing that concept at the municipal level. At the present time, there is no limit on taxes to pay bonds. The language in SSHB 339 would allow taxes for the payment of bonds to be levied at any level against homes and local businesses, while limiting the levy against AS 43.56 property to ten mills. At the same time, AS 43.56 property would enjoy a full level of municipal services such as education, fire protection, police protection, etc. which would be provided through issuance of the bonds.

Although the Department does not necessarily oppose the concept proposed in the bill, we must recognize the implementation of that concept would allow unequal taxation at the municipal level. For that reason, we cannot support passage of SSHB 339.

Jeff Sims

Emil Notti, Commissioner

21-P1LH

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.

James O. Smith

Signature of Camera Operator

12/12/89

Date

SCOMM

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Proposed amendment to HB 366

Delete lines 21 through 26, and replace with the following language:

* Sec. 2. AS 38.05.183(f) is amended to read:

(f) The commissioner may not enter into a contract for the sale of royalty oil unless the contract provides that

(1) any material amendment to the contract that appreciably reduces the consideration received by the state requires prior approval of the legislature;

(2) an assignment of unprocessed royalty oil may occur only under the following conditions:

(a) the assignee or assignor demonstrates to the satisfaction of the department and the Alaska Royalty Oil and Gas Development Advisory Board that the assignment of crude oil to be refined within Alaska will result in a significant increase in monetary benefits to Alaska's energy consumers; and

(b) the assignee or assignor demonstrates to the satisfaction of the department and the Alaska Royalty Oil and Gas Development Advisory Board that the Alaskan energy consumer receives the greatest proportion of monetary benefit from the assignment.

STATE OF ALASKA

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

HOUSE SPECIAL COMMITTEE ON OIL AND GAS

CSHB 366

Sectional Analysis

CSHB 366 amends several aspects of Title 38 relating to the disposition of royalty oil and gas and the Alaska Royalty Oil and Gas Development Advisory Board. These changes are discussed in the sectional analysis below.

Section 1. This amendment requires the commissioner of the Department of Natural Resources to make a determination, prior to the export of royalty oil or gas, that such a sale is in the best interest of the state. This language eases statutory requirements regarding the foreign and domestic export of Alaskan crude oil and natural gas.

This section also repeals language requiring the commissioner to make a determination that such "royalty-in-kind oil or gas is surplus to the present and projected intrastate domestic and industrial needs (of the state)." This language, which was passed at the time of the 1974 oil shortage, presently influences the type of royalty sales that may be made despite the fact that 1.6 million barrels of oil is now produced on the North Slope daily. This language has further resulted in severe difficulties in allowing the department to conduct competitive bid sales.

Section 2. This section specifies that the assignment of unrefined royalty oil shall be premised on a significant increase of direct monetary benefits to energy consumers. This section further specifies that the total direct monetary benefit to these consumers shall outweigh the monetary benefits to the assignor and the assignee. Determination of monetary benefit will be made be either the assignee or the assignor, to the satisfaction of the department and the Alaska Royalty Oil and Gas Advisory Board.

Section 3. This section moves the Royalty Board from the Department of Commerce and Economic Development to the Department of Natural Resources. The Board was housed in DNR until 1980, at which time the Board lost its authority to advise the legislature and was also transferred to DCED. These actions ostensibly occurred because of the Board's history of rubber-stamping administration recommendations.

The Alaska Royalty Oil and Gas Development Advisory Board presently serves as a forum for holding public hearings on royalty issues, and the Board also makes formal recommendations on proposed royalty sales to the Department of Natural Resources. The Board does not have any paid staff, and members of the DNR's Division of Oil and Gas serve as Royalty Board staff while also attending to their other duties.

This transfer is supported by both the Department of Natural Resources and the Department of Commerce and Economic Development.

Proposed amendment to HB 366

Delete lines 21 through 26, and replace with the following language:

(g) An assignment or resale of royalty oil under AS 38.05 - 38.06 may occur under the following conditions:

(1) the assignee demonstrates to the department and the Alaska Royalty Oil and Gas Development Advisory Board that the assignment or resale of crude oil to be refined within Alaska will result in a significant increase in benefits to Alaska's energy consumers, and

(2) the assignee demonstrates to the department and the Alaska Royalty Oil and Gas Development Advisory Board that the Alaskan energy consumer receives the greatest proportion of benefit from the assignment or resale.

HB 366

Sec. 2

(g) An assignment or resale of royalty oil under AS 38.05 - 38.06 may occur under the following conditions:

1. the assignee demonstrates to the department and the royalty board that the assignment or resale of crude oil to be refined within Alaska will result in a significant increase in benefits to Alaska's energy consumers, and

2. the assignee demonstrates to the department and the royalty board that the Alaskan energy consumer receives the greatest proportion of benefit from the assignment or resale.

(4) prescribe application procedures and practices for the sale, lease or other disposition of available land, resources, property, or interest in them;

(5) prescribe fees or service charges, with the consent of the commissioner, for any public service rendered;

(6) under the conditions and limitations imposed by law and the commissioner, issue deeds, leases or other conveyances disposing of available land, resources, property or any interests in them;

(7) have jurisdiction over state land, except that land acquired by the Alaska World War II Veterans Board and the Agricultural Loan Board or the departments or agencies succeeding to their respective functions through foreclosure or default; to this end the director possesses the powers and, with the approval of the commissioner, shall perform the duties necessary to protect the state's rights and interest in state land, including the taking of all necessary action to protect and enforce the state's contractual or other property rights;

(8) *[Repealed, § 20 ch 182 SLA 1978.]*

(9) maintain such records as the commissioner considers necessary, administer oaths, and do all things incidental to the authority imposed; the following records and files shall be kept confidential upon request of the person supplying the information:

(A) the name of the person nominating or applying for the sale, lease, or other disposal of land by competitive bidding;

(B) before the announced time of opening, the names of the bidders and the amounts of the bids;

(C) all geological, geophysical and engineering data supplied, whether or not concerned with the extraction or development of natural resources; → 38.05.153

(D) except as provided in AS 38.05.036, cost data and financial information submitted in support of applications, bonds, leases and similar items;

(E) applications for rights-of-way or easements;

(F) requests for information or applications by public agencies for land which is being considered for use for a public purpose;

(10) account for the fees, licenses, taxes or other money received in the administration of this chapter including the sale or leasing of land, identify their source, and promptly transmit them to the proper fiscal department after crediting them to the proper fund; receipts from land application filing fees and charges for copies of maps and records shall be deposited immediately in the general fund of the state by the director;

(11) select and employ or obtain at reasonable compensation cadastral, appraisal, or other professional personnel the director considers necessary for the proper operation of the division;

(12) be the certifying agent of the state to select, accept and secure by whatever action is necessary in the name of the state, by deed, sale,

ferred to the commissioner" for "returned to the jurisdiction of the division of lands" and "Transportation and Public Facilities" for "Highways" and made a series of technical changes; and repealed former subsection (a), relating to the sale, lease, or other disposal of university land.

Legislative history reports. — For report on ch. 267, SLA 1976 (FCCS SCSHB 139), see 1976 Senate Journal, p. 1461.

Opinions of attorney general. — The interaction of AS 38.05.030(b), 38.05.035(a)(7) and (12), AS 35.05.040(1), and AS 35.20.010 was examined to determine (1) which agency of the state had authority to accept title to land transferred by the federal government and (2) which agency had authority to manage the land, which was conveyed for airport and other purposes. The division of lands is the proper agency for acceptance of title. The division of aviation in the (former) Department of Public Works possesses the authority to manage the granted land for airport and directly related purposes while the division of lands possesses the authority to manage the land for other public purposes. April 14, 1977, Op. Att'y Gen.

NOTES TO DECISIONS

Scope of subsection (a). — Subsection (a) of this section only covers disposals of land by the commissioner of natural resources. State v. University of Alaska, Sup. Ct. Op. No. 2303 (File No. 4579), 624 P.2d 807 (1981).

Creation of state park including university lands. — Since creation of a state park which included university lands was a disposal by the legislature, not by administrative action, subsection (a) of this section was inapplicable. State v. University of Alaska, Sup. Ct. Op. No. 2303 (File No. 4579), 624 P.2d 807 (1981).

By enacting AS 41.20.210 (now see AS 41.21.121), creating Chugach State Park, the legislature did not impliedly repeal subsection (a) of this section, which prevents disposal of university lands by the commissioner of natural resources without the approval of the Board of Regents of the University of Alaska. AS 41.20.210 withdrew the particular university land involved from the operation of the management mechanism created by subsection (a) and AS 14.40.170(a)(4), which grants certain management powers to the Board of Regents. State v. University of Alaska, Sup. Ct. Op. No. 2303 (File No. 4579), 624 P.2d 807 (1981).

Construction of state lease provision reserving right to grant right-of-way. — Provision in a lease issued by the State of Alaska, Division of Lands, expressly reserving the right to grant an easement or right-of-way across the leased property was construed to include an interagency transfer of a right-of-way to the Department of Transportation and Public Facilities. Wessells v. State, Dep't of Hwys., Sup. Ct. Op. No. 1402 (File No. 2834), 562 P.2d 1042 (1977).

Sec. 38.05.032. School land disposition procedures. [Repealed, § 20 ch 182 SLA 1978.]

Sec. 38.05.035. Powers and duties of the director. (a) The director shall

(1) have general charge and supervision of the division and may exercise the powers specifically delegated to the director; may employ and fix the compensation of assistants and employees necessary for the operations of the division; and is the certifying officer of the division, with the consent of the commissioner, and may approve vouchers for disbursements of money appropriated to the division;

(2) manage, inspect and control state land and improvements on it belonging to the state and under the jurisdiction of the division;

(3) execute laws, rules, regulations and orders adopted by the commissioner;

State of Alaska

Department of Natural Resources

Supplemental Findings

Competitive Royalty Oil Sale

(Prudhoe Bay and Kuparuk River Units)

November 28, 1984

Supplemental Findings
Competitive Royalty Oil Sale
(Prudhoe Bay and Kuparuk River Units)

AS 38.05.183(a) states that oil and gas taken in-kind as the state's royalty share of production may not be sold or otherwise disposed of for export from the state until the Commissioner of Natural Resources determines that the royalty in-kind oil or gas is surplus to the present and projected intrastate domestic and industrial needs for oil and gas. I find that the 90,000 bpd scheduled for competitive sale on December 11, 1984 is surplus to present and projected intrastate domestic and industrial needs for oil.

AS 38.05.183 also requires the Commissioner to submit an annual report to the state legislature "showing the immediate and long-term domestic and industrial needs of the state for oil and gas and an analysis of how these needs are to be met." The Department of Natural Resources, Division of Oil & Gas (the Department) complies with that requirement by preparing a document, published each January, entitled Historical and Projected Oil and Gas Consumption (also called the Supply/Demand study). The January 1984 Supply/Demand study concluded, as it had in previous years, that in-state supplies of both oil and gas far exceeded the immediate and long-term domestic and industrial needs of the state for oil and gas.

Due to the absence of any new information concerning the immediate and long-term domestic and industrial needs of the state for oil and gas, the Department again concluded, both in the Preliminary Findings and Determination to Negotiate Backup Royalty Oil Contract(s) and Conduct a Competitive Royalty Oil Sale (July 12, 1984) and the Final Findings and Determination to Conduct a Competitive Royalty Oil Sale for In-Kind Oil from the Prudhoe Bay and Kuparuk River Units (October 10, 1984), that the 90,000 bpd of state royalty oil to be sold competitively on December 11, 1984 is surplus to in-state needs. Consequently, upon the publication of the Preliminary Finding and execution of contracts with backup purchasers, the state gave a six-month notice to the North Slope producers of its intent to take 90,000 bpd of royalty oil in-kind (as provided by procedures in the Prudhoe Bay and Kuparuk River Unit Agreements).

The Department's conclusion was and is based in part on the interpretation of AS 38.05.183 stated in each Supply/Demand study since 1982. In that year, the study first gave specific definitions to certain phrases in that statute. Since 1982, the first chapter of every Supply/Demand study has contained a list of possible definitions for some of the imprecise clauses of AS 38.05.183, such as "how these needs are to be met". The Supply/Demand study definition of that phrase specifies the Department's long-standing position that the state's present and projected intrastate domestic and industrial needs for oil and gas may be met from a variety of sources, including state royalty oil. See 1984 Supply/Demand study page 1.7.

The intent of the statute should not be regarded as complete state self-sufficiency in refined products from state royalty oil. Rather, the Department believes the legislature was aiming at ensuring adequate overall oil and gas supplies for the state. The 1984 Supply/Demand study states that, "Under reasonable assumptions about recoverable reserves and Alaskan consumption, the current inventory of both oil and gas is more than sufficient to meet the presently identifiable needs of Alaskans for the next 15 years." Presently, the Department of Revenue's most recent crude oil price forecasts remain conservative due to the continued surplus in world supplies. While unfavorable from a revenue standpoint, that surplus will likely translate into dampened crude oil prices for Alaska consumers and industrial users. Only if the cost of imported products were significantly above the cost of products which could be refined in Alaska (e.g. when oil is not available to local refiners at the market price), or if Alaska users were suffering from an absolute shortfall in petroleum products, would the Department not consider the royalty oil to be sold at the competitive sale as "surplus" to present and projected in-state needs. Neither of these was found to be the case.

The Department's view of the purpose of AS 38.05.183 stems first from the atmosphere of absolute shortage, particularly in motor fuels, which prevailed at the time the statute was written. The statute was adopted in 1974, when the worldwide oil crisis and the imposition of federal oil contract controls raised the spectre of product shortages in Alaska despite North Slope crude oil production. The Department's view stems second from the apparent paradox of continued imports into regions such as Southeast Alaska, where the landed cost of such imports from Puget Sound undercuts the cost of delivered refined products to Southeast from Railbelt refiners. Under the most constrained interpretation of the statute, the Department would be obliged to promote in-state refining with royalty oil for the sake of absolute self-sufficiency, even when this resulted in higher prices for Alaskans. Clearly, this was not the intent of the statute. Intrastate needs for oil and gas are presently being met from a variety of sources, including state royalty oil. As charged, the 1984 Supply/Demand study identifies those sources and discusses how in-state needs are to be met, given the total supply of hydrocarbons within the state. In terms of total present and projected demand vs. total present and projected supply, intrastate refined product needs can be met with ease by the unprecedented production of crude oil from the North Slope, which is available to any purchaser willing to meet the market clearing price for that oil. For these reasons, the Department determined in the 1984 Supply/Demand study that the state enjoys a surplus of hydrocarbons relative to present and foreseeable demand.

Even if AS 38.05.183(d) were interpreted to require all intrastate needs to be satisfied by royalty oil before export could occur, I would find that the competitive sale amounts are surplus to present and projected intrastate domestic and on industrial needs for two reasons. First, persons who have a demand for oil as a result of current in-state processing or supply activities are granted priority rights to purchase royalty oil at the competitive sale. Second, during the term of the competitive sale contracts, royalty oil will remain in-value and will be available for disposition in-state.

The Department has provided for satisfaction of demand for royalty oil on the part of in-state refiners and in-state suppliers by giving them priority rights to purchase oil at the competitive sale. A priority will be offered to bidders which have sold an average of at least 5,000 bpd of refined petroleum products to distributors or consumers within the State of Alaska during the twelve-month period beginning June 1, 1983 and ending May 31, 1984, and which possess the ability to process crude oil into refined petroleum products at a processing facility owned by the bidder. Priority status will enable the in-state supplier to meet the highest winning bid in each of the three categories of royalty oil to be competitively sold. That right extends to the number of lots remaining in each category after the first round award of lot(s) to the highest winning bidder(s) in each category and priority bidders who have been posted as apparent high bidders. Consequently, in the first round of awards, priority bidders enjoy the possibility of receiving oil at the lowest price posted in each category. In addition, in-state suppliers are reasonably assured of receiving the desired volume of oil in the second round of awards, provided they are willing to meet the competitively established price. 11 AAC 03.250(5) states that:

> "present or projected intrastate domestic and industrial needs" means in-state domestic and industrial demand at a competitive market price for the royalty oil, gas, or gas liquids. "Competitive market price" includes, but is not limited to, a price established by competitive bid.

Thus, in-state refiners and suppliers will have the first right to royalty crude at a competitive market price so that their supply is assured.

At the present time the state leaves approximately 104,735 bpd of royalty oil in-value with the North Slope lessees. The lessees export this oil from Alaska and tender the reported netback sale proceeds to the state. During the first six months of the term of the competitive sale contracts, April 1985 to September 1985, approximately 26,013 bpd of royalty oil will remain in-value. During the following six months of the term, October 1985 to March 1986, approximately 41,013 bpd of royalty oil will remain in-value. These amounts will remain available for disposition in-state if the Department finds the disposition(s) to be in the State's best interest. (If a contract currently being negotiated with Golden Valley Electric Association is approved, future amounts available for disposition would be reduced by 5,000 bpd.)

Several parties have recently expressed an interest in purchasing royalty oil from the State. Our conclusion that the competitive sale amounts are surplus to present and projected needs was drawn with the knowledge that all in-state refiners do not have 100% of their projected capacity supplied by state royalty oil. For example, as mentioned in the Preliminary Finding, the Department has conducted negotiations for the sale of royalty oil to MAPCO Inc. to fuel a proposed refinery expansion. The successful outcome of those negotiations is not, however, regarded by the Department as prerequisite to the possible export of the state's royalty oil in the planned competitive sale. First, MAPCO representatives indicated to the Department that the proposed refinery expansion may not be built, throwing the question of MAPCO's projected needs into doubt. Second, if MAPCO had a projected demand for royalty oil at a competitive price, it could have availed itself of its opportunity to purchase oil at the competitive sale, as a priority bidder. Since it is a current in-state refiner, MAPCO would have been entitled to all the priority rights discussed above. Third, by virtue of its proximity to the Trans Alaska Pipeline (TAPS), MAPCO has unique opportunities to supply its refinery with North Slope oil. MAPCO currently receives 35,000 bpd of royalty oil directly from the State. MAPCO also receives 5,000 bpd of royalty oil through its agreement with another state royalty oil purchaser - the Golden Valley Electric Association. In addition, about 60% of the oil run through the MAPCO refinery is, with a minor quality penalty, reinjected into TAPS to re-emerge as whole oil at Valdez. That oil, which is the property of MAPCO, may be exchanged for more oil from the North Slope and again withdrawn from TAPS at Fairbanks. One of the several advantages that MAPCO enjoys with its state royalty oil contract, relative to other in-state refiners, is this absence of any state control over the return oil. MAPCO could also purchase oil directly from the North Slope lessees to satisfy any demand not met through the purchase and exchange of royalty oil. Finally, MAPCO's location on TAPS allows it to enter into "in-transit stop" arrangements in which MAPCO "borrows" oil from other TAPS shippers. The borrowed oil is processed in MAPCO's refinery with the full amount returned to the original shipper at Valdez through a combination of return oil and quality bank payments. This in-transit stop arrangement remains feasible so long as MAPCO's current contract which does not expire until 2003, remains in effect. The Department believes that any failure by MAPCO to secure oil through these possible sources of supply indicates that MAPCO's demand may exist only so long as it believes the State is willing to supply it with oil at a price below competitive prices. As explained above, 11 AAC 03.250(5) provides that projected needs means in-state demand at a competitive price.

Since the Department made its most recent finding of ample in-state hydrocarbon supplies, published in the Final Finding of October 10, 1984, several Alaskan parties in addition to MAPCO have expressed interest in purchasing royalty oil. Chevron has requested further volumes of royalty oil to meet a possible increase in "throughput" at its 18,000 bpd Nikiski Refinery. Chevron owns and exports 12,000 bpd of North Slope production in addition to the 18,000 bpd of royalty oil which it processes at Nikiski. New parties also propose to create additional new refineries in Alaska. Because these proposals were not known to the Department at the time of the most recent determination of an in-state hydrocarbon surplus, the state has decided to reduce the one-year term of those lots offered in the Kuparuk River oil category (category A) to six months. This will enable the state to have an additional 15,000 bpd of royalty oil available in the fall of 1985 for those who offer to purchase state royalty oil at terms which lead the Department to find that the disposition(s) would be in the state's best interest.

As stated, the impressive quantities of oil available within the state, which are the highest in the nation on a per-capita basis, diminish the likelihood of an actual "need" by these groups in the sense of supply availability. However, given the very recent nature of the new proposals received, the Department will further review their merits, as well as supply alternatives in addition to royalty oil. It has been the Division's experience that the term "need" is perceived differently by prospective in-state royalty oil purchasers. Rather than the physical unavailability of oil due to world shortages or the unwillingness of North Slope producers to sell ANS crude at the market clearing price, prospective in-state royalty oil purchasers often view their feedstock needs in terms of the royalty oil price and terms they require for economic viability. While the Department recognizes that there are a host of oil-related economic activities which can be made viable should the state choose to undercut the market clearing price of Alaska North Slope oil for specific parties, this is not seen as the definition of "need" in AS 38.05.183, nor is it clearly in the State's best interest to do so.

Given the short-term nature of the proposed competitive sale, the consideration extended to in-state refiners and suppliers through the priority bidding system, the lack of demonstrated current need on the part of other potential in-state purchasers, and the amounts of oil remaining in-value available for disposition, I find pursuant to AS 38.05.183 that the royalty oil to be disposed of at the competitive sale is surplus to present and projected intrastate domestic and industrial needs.

Kay Brown

Kay Brown, Director
Division of Oil & Gas
Department of Natural Resources

11-28-84
Date

14-1044
Moen
4/9/85.

IN THE HOUSE

BY THE HOUSE SPECIAL COMMITTEE ON OIL AND GAS

HOUSE BILL NO.

IN THE LEGISLATURE OF THE STATE OF ALASKA

FOURTEENTH LEGISLATURE - FIRST SESSION

A BILL

For an Act entitled: "An Act relating to royalty oil and gas."

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

* Section 1. AS 38.05.183(d) is amended to read:

(d) Oil or gas taken in kind by the state as its royalty share may not be sold or otherwise disposed of for export from the state until the commissioner determines that the sale is in the best interest of the state [ROYALTY-IN-KIND OIL OR GAS IS SURPLUS TO THE PRESENT AND PROJECTED INTRASTATE DOMESTIC AND INDUSTRIAL NEEDS]. The commissioner shall make public, in writing, the specific findings and reasons on which the determination is based and shall, within 10 days of the convening of a regular session of the legislature, submit a report showing the immediate and long-range domestic and industrial needs of the state for oil and gas and an analysis of how these needs are to be met.

* Sec. 2. AS 38.05.183 is amended by adding a new subsection to read:

(g) An assignment or resale of royalty oil or gas purchased from the state may not occur unless the commissioner determines that the resident Alaskan [illegible] [assignor or seller] ~~is~~ the primary beneficiary of the assignment or resale of the royalty oil or gas. The primary beneficiary is the party receiving the greatest savings or net profit from the assignment or resale of the royalty oil or gas.

* Sec. 3. AS 38.06.020 is amended to read:

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

* Sec. 4. AS 38.06.025(a) is amended to read:

(a) The board consists of the commissioner of commerce and economic development; the commissioner of revenue; the commissioner of natural resources [, WHO IS A NONVOTING MEMBER]; and three public members.

STATE OF ALASKA 1985 LEGISLATIVE SESSION
FISCAL NOTE

Revision Date:

REQUEST
Bill/Resolution No.: HB 366
Title: Royalty Oil Statute Amendments
Sponsor: Oil and Gas Committee
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)

OPERATING	FY 85	FY 86	FY 87	FY 88	FY 89	FY 90
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. There is a separate budget increment that will support the Royalty Board under the Division of Oil and Gas.

Prepared By: Ned Farquhar Phone: 465-2400
Division: Commissioner's Office Date: April 16, 1985

Approved by Commissioner: Esther C. Wunnicke Date: April 16, 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

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.

James O. Smith
Signature of Camera Operator

12/12/89
Date

02-519 (REV 8/78)

SCOMM

#46:20

STATE OF ALASKA 1986 LEGISLATIVE SESSION
FISCAL NOTE

Revision Date :

REQUEST

Bill/Resolution No. : HB 403
Title : Natural Gas Valuation; Cook Inlet Basin

Sponsor : Rep. Pignalberi
Requestor : House Oil and Gas
Date of Request : 03-05-86

FISCAL DETAIL

Agency Affected : Natural Resources
BRU : Petroleum Management

Components :

EXPENDITURES/REVENUES : (Thousands of Dollars)

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

CAPITAL	-0-	-0-	-0-	-0-	-0-	-0-

REVENUE	(2,300)	(1,900)	(1,900)	(1,900)	(1,900)	(1,900)

FUNDING : (Thousands of Dollars)

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

POSITIONS :

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS : Attach a separate page if necessary

FY 86 losses include obligations incurred by producers since March 1985 royalty enforcement notice. See attached explanation.

Prepared by : Kay Brown
Division : Oil and Gas
Phone : 762-4241
Date : March 20, 1986

Approved by Commissioner : Mmms D Amred, Deputy
Agency : Natural Resources
Date : March 10, 1986

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

10/25/85

Fiscal Note Background
for HB 403

Passage of HB 403 would prevent enforcement of existing royalty collection provisions in Beluga Field oil and gas leases, and enforcement of royalty gas provisions in other fields. This fiscal note represents the impact of the legislation only on the Beluga Field royalty collections, although there are likely to be impacts in other fields.

The State issued an enforcement order for the Beluga Field in March, 1985, effective April 15, 1985. While the notice is contested by producers, there have been no payments made; if the notice were implemented as written, the State would currently receive $2.8 million/year in increased royalty payments. The fiscal impact has been calculated using a current value of $1.50/MCF which would not be collected if HB 403 becomes law.

Some of the revenue loss will be felt by the Alaska Permanent Fund, which receives 25% of the revenues from state oil and gas leasing. The remainder of the impact will be the General Fund.

There will be other significant but currently incalculable fiscal impacts from passage of the bill. If the bill passes, the State will not collect full royalty value (as stipulated in existing oil and gas lease forms) prospectively on other state leases producing gas. Additionally, producers may seek retroactive compensation for what they may regard as past royalty overpayments, including several recent settlements on royalty gas pricing in Cook Inlet.

If the Legislature's action affects the State's position regarding valuation of other State royalty oil and gas (most notably North Slope oil) there could be revenue losses amounting to tens or hundreds of millions of dollars.

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.

James O. Smith
Signature of Camera Operator

12/12/89
Date

02-519 (REV 8/78)

SCOMM

#46:21

PRELIMINARY SETTLEMENT AGREEMENT

The State of Alaska, Department of Natural Resources (DNR) and Chugach Electric Association, Inc. (Chugach) enter into the following conditional agreement concerning pending disputes and litigation concerning the valuation of the State's royalty share of gas:

(1) DNR and Chugach will vigorously support passage of the CS for SB 309 Resources (a copy of which is attached) (the Legislation), subject to mutually agreed-to amendments;

(2) DNR and Chugach agree to resolve the disputes at issue in ARCO Alaska, Inc. v. State of Alaska, Department of Natural Resources, and Chugach Electric Association, Inc., Case No. 3AN-85-6218 Civil, Chevron U.S.A. Inc. v. State of Alaska, Department of Natural Resources, and Chugach Electric Association, Inc., Case No. 3AN-85-7617 Civil, and Shell Western E&P, Inc. v. State of Alaska, Department of Natural Resources, Case No. 3AN-85-7633 Civil (collectively, the "Beluga River gas royalty litigation") concerning the royalty valuation of gas sold under Chugach's 1973 contracts with ARCO Alaska, Inc. (ARCO). Chevron U.S.A. Inc. (Chevron) and Shell Western E&P, Inc. (SWEPI) in accordance with the following terms:

(a) Supplemental gas for peak supply periods: the contract price, including all forms of consideration;

(b) Non-supplemental gas volumes for gas produced on or after April 15, 1985: 75 cents per mcf during 1985 and 1986, subject to -thereafter- annual adjustment on the first day of each January in proportion to the amount of increase or decrease in the United States of America GNP price deflator over the previous year. Payments for royalties from April 15, 1985 until the date of final settlement will be paid over three years plus interest subject to APUC approval;

(c) The dispute concerning royalty liability on tax reimbursement amounts on gas for the period prior to April 15, 1985: will be resolved in good faith negotiations between the DNR, Chugach and the Beluga River lessees (ARCO, Chevron and SWEPI);

(3) These agreements concerning settlement of the Beluga River gas royalty litigation are conditioned upon the following events:

(a) Approval by the Chugach Board of Directors;

(b) Passage of the Legislation;

(c) Agreement with the Beluga River lessees (with regard to the post-April 15, 1985 royalty issues);

(d) Court approval of the settlement; and

(4) Any remaining issues or disputes not specifically identified will be resolved by good faith negotiations.

CHUGACH ELECTRIC ASSOCIATION, INC.

Dated: ________________ ____________________________________

By: Joyce Murphy

President of the Board

ALASKA DEPARTMENT OF NATURAL RESOURCES

Dated: ________________ ____________________________________

By: Esther C. Wunnicke

Commissioner

STATE OF ALASKA
THE LEGISLATURE
LEGISLATIVE AFFAIRS AGENCY

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

M E M O R A N D U M   February 25, 1986

SUBJECT: Sectional analyses of CSSB 309(Res), SB 309, HB 403, SSHB 425 and HB 374

TO: Representative Marco Pignalberi

FROM: Theresa L. Bannister *TB*
Legislative Counsel

This memo contains the comparative sectional analysis that you requested for SB 309 and the statutes it amends, and the comparative sectional analyses that you requested for CSSB 309(Res), SB 309, HB 403, SSHB 425, and HB 374.

1. Comparative sectional analysis between SB 309 and the statutes it amends.

SB 309 adds a new section ((aa)) to the main oil and gas leasing section, AS 38.05.180, to deal with the valuation of natural gas taken in value by the state under an oil and gas lease issued under AS 38.05.180(f). There does not appear to be another section that deals with the criteria for such valuation. Section 2 of CSSB 309(Res) also adds a new section ((aa)) to the main oil and gas leasing section, AS 38.05.180, to allow the commissioner under specified conditions to amend existing an lease (at the request of a lessee) to value the state's in value royalty gas at the price paid for the gas by nonprofit electrical utilities to the lessee. Section 3 of CSSB 309(Res) allows the commissioner to sell in-kind royalty gas to a nonprofit electric utility at less than market value under certain conditions. AS 38.05.810(a) is the general provision for allowing sale of royalty resources under certain conditions at less than appraised value, and its valuation language is slightly different from that of CSSB 309(Res). Section 4 was added to CSSB 309(Res) to clarify that its language would govern state sales of royalty gas to nonprofit public electric utilities at less than market value.

2. Comparative sectional analyses of CSSB 309(Res), SB 309, HB 403, SSHB 425, and HB 374.

Section 1 of SB 309, HB 403, and SSHB 425 provide the legislative findings for the bills, are the same, and primarily state that the valuation of in value royalty gas must be based on the contract price of the gas rather than on the current market value of the gas. There are no findings in HB 374. The findings in CSSB 309(Res) deal primarily with the advisability of (1) allowing the commissioner to establish the value for in-value royalty gas sold to a nonprofit electric utility by using the contract price between the utility and the lessee, (2) giving the commissioner the authority to sell royalty gas to a nonprofit electric utility at less than market value, and (3) establishing a separate state policy for royalty gas being sold to nonprofit electric utilities for in-state generation of electricity.

Section 2 of SB 309, HB 403, and SSHB 425 are very similar, but do contain differences. Section 2 of SB 309 is not clear, but it appears to be attempting to state that royalty gas taken in value is to be valued by the state at the price of the lessee's long-term contract with a purchaser of the gas, unless clear and convincing evidence shows that the contract price was unreasonably low at the time the contract was entered into. Section 2 of HB 403 prohibits the commissioner from adjusting the valuation price for in-value royalty gas to the current market value if the royalty gas is measured by a long-term contract price and if the change would increase consumer prices, unless the commissioner determines in a writing supported by clear and convincing evidence that the long-term contract price is unreasonably low. Section 2 of SSHB 425 is not completely clear but appears to prohibit the state from valuing in-value royalty gas at a price greater than the price received for the gas under the long-term sales contract for the gas, unless clear and convincing evidence shows that the long-term contract price was unreasonably low at the time of contract. Section 2 of SB 309 and HB 403 apply to royalties from oil and gas leases entered into under (f) of AS 38.05.180; section 2 of HB 425 applies to royalties from oil and gas leases entered into under AS 38.05.180 generally. Section 2 of CSSB 309(Res) allows the commissioner, under certain conditions and upon the written request of an oil or gas lessee, to agree with the lessee to use the price contained in the lessee's sales contract to a nonprofit electrical utility as the valuation price for the royalty gas.

HB 374 is not comparable to section 2 of SB 309, HB 403, or SSHB 425, but is comparable to section 3 of CSSB 309(Res). HB 374 clarifies that a disposal of natural gas may be made to certain utilities for less than the appraised value determined under AS 38.05.810(a). Section 3 of CSSB 309(Res) allows the commissioner to sell in-kind royalty gas at less than the market value if the commissioner makes a written finding that the sale is in the best interest of the state. (See part 1 of this memo for the analysis of sec. 4 of CSSB 309(Res)).

Section 3 of SB 309 and HB 403 are identical applicability sections and apply the Act to leases issued before or after the effective date of the Act. Section 3 of SSHB 425 is nearly identical to SB 309 and HB 403, but makes the Act also apply to leases issued on the effective date of the Act. HB 374 has no provision comparable to sec. 3 of SB 309, HB 403, or SSHB 425. Sections 5 and 6 of CSSB 309(Res) are the applicability sections of CSSB 309; section 5 makes section 2 of the Act apply to royalty gas sales contracts by oil and gas lessees entered into on or after the effective date of the Act; section 6 makes the sales authority of the commissioner in section 4 apply to state contracts entered into on or after the effective date of the Act to sell new quantities of royalty gas to nonprofit electric utilities.

Section 4 of SB 309 gives the Act an immediate effective date. Section 4 of HB 403, section 4 of HB 425, and Section 7 of CSSB 309(Res) are the same. HB 374 has no effective date clause.

TLB:mkr
m3/077

Introduced: 5/4/85
Referred: Resources

IN THE SENATE BY FAIKS, KELLY AND V.FISCHER

SENATE BILL NO. 309

IN THE LEGISLATURE OF THE STATE OF ALASKA

FOURTEENTH LEGISLATURE - FIRST SESSION

A BILL

For an Act entitled: "An Act relating to the royalty value of a natural gas lease on state land; and providing for an effective date."

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

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

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

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

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

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

Offered: 2/20/86
Referred: Rules

Original sponsors: Faiks, Kelly
and V.Fischer

IN THE SENATE BY THE RESOURCES COMMITTEE

CS FOR SENATE BILL NO. 309 (Resources)

IN THE LEGISLATURE OF THE STATE OF ALASKA

FOURTEENTH LEGISLATURE - SECOND SESSION

A BILL

For an Act entitled: "An Act relating to royalty gas contracts; and providing for an effective date."

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

* Section 1. FINDINGS. (a) The legislature finds that the best interest of the state will be served if the commissioner of natural resources is authorized to establish the value for royalty gas taken in value by the state and sold to a nonprofit electric utility by using the contract price between the lessee of the state and the nonprofit electric utility, whether or not the royalty gas lease with the state establishes a different standard for the valuation and if the lessee and the nonprofit electric utility are not related to each other. The legislature finds that this authorization should apply prospectively and does not intend the authorization to apply to the valuation of royalty gas that is sold by a lessee of the state under a contract entered into before the effective date of this Act with a nonprofit electric utility.

(b) The legislature finds that it is also in the best interest of the state to give the commissioner explicit discretionary authority to sell royalty gas received in kind by the state to nonprofit electric utilities at a price that is below market value.

(c) The proper exercise of the discretion conferred by this Act on the commissioner would support and complement the other programs that assist the citizens of the state with their long-term electrical needs, including the power cost equalization program under AS 44.83.162 - 44.83.-165 and hydroelectric and other programs for the generation of electricity.

(d) The state should adopt a policy for the sale of royalty gas to nonprofit electric utilities for in-state generation of electricity that is fundamentally different from the policies of the state for the sale of royalty oil and for the sale of royalty gas for export from the state or for uses other than in-state generation of electricity.

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

(aa) Within 90 days after the written request of a lessee of a lease issued under this section, unless the commissioner makes a written finding based on clear and convincing evidence that the contract price is unreasonably low and that a prospective reduction in royalty receipts would not be balanced by increased benefits to electric consumers, the commissioner shall enter into an agreement with the lessee to use the price for the gas established in the contract between the lessee and a nonprofit electric utility, if the lessee and the utility are not related in management, ownership, or other aspect, as the value of the state's royalty share of gas production sold by a lessee of the state to a nonprofit electric utility. In this subsection

(1) "nonprofit electric utility" includes an electric cooperative organized under AS 10.25 and a municipal utility; and

(2) "price for the gas established in the contract" includes tax reimbursement amounts, deliverability and other charges, and other forms of consideration paid by the nonprofit electric utility under the contract.

* Sec. 3. AS 38.05.183(h) is amended by adding a new subsection to read:

(h) The commissioner may enter into a contract to sell royalty gas taken in kind by the state to a nonprofit electric utility at less than the market value of the royalty gas if the commissioner, after considering the consumer benefits, other benefits, and detriments of the sale, makes a written finding that the sale is in the best interest of the state. In this subsection, "nonprofit electric utility" includes an electric cooperative organized under AS 10.25 and a municipal utility.

* Sec. 4. AS 38.05.810(a) is amended to read:

(a) Except as otherwise provided in AS 38.05.183(h), the [THE] lease, sale, or other disposal of state land or resources may be made to a state or federal agency or political subdivision, or the lease, sale, or disposal of coal deposits suitable for mining may be made to a utility owned and operated by a government agency or nonprofit cooperative association organized to participate under the Federal Rural Electrification Act for the purpose of generating electric power and energy or the production of process steam, or both, for less than the appraised value as determined by the director and approved by the commissioner to be fair and proper and in the best interests of the public, with due consideration given to the nature of the public services or function rendered by the agency, subdivision, or utility making application, and of the terms of the grant under which the land was acquired by the state.

* Sec. 5. Section 2 of this Act applies to contracts entered into on or after the effective date of this Act to sell to nonprofit electric utilities gas produced under a lease issued under AS 38.05.180.

* Sec. 6. Section 3 of this Act applies to contracts entered into by the state on or after the effective date of this Act to sell new quantities of royalty gas to nonprofit electric utilities.

* Sec. 7. This Act takes effect immediately in accordance with AS 01.10.070(c).

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

IN THE HOUSE BY PIGNALBERI

HOUSE BILL NO. 403

IN THE LEGISLATURE OF THE STATE OF ALASKA

FOURTEENTH LEGISLATURE - FIRST SESSION

A BILL

For an Act entitled: "An Act relating to the royalty value of a natural gas lease on state land; and providing for an effective date."

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

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

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

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

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

effective date of this Act.

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

Introduced: 2/11/86
Referred: House Special Committee on
Oil & Gas, Resources and Finance

IN THE HOUSE

BY PEARCE, HANLEY, JENKINS
PIGNALBERI AND COLLINS

SPONSOR SUBSTITUTE FOR HOUSE BILL NO. 425

IN THE LEGISLATURE OF THE STATE OF ALASKA

FOURTEENTH LEGISLATURE - SECOND SESSION

A BILL

For an Act entitled: "An Act relating to the royalty value of a natural gas lease on state land; and providing for an effective date."

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

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

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

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

* Sec. 3. This Act applies to leases issued before, on, or after the effective date of this Act.

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

Introduced: 4/12/85
Referred: House Special Committee on
Oil & Gas, Resources and Finance

IN THE HOUSE BY COLLINS AND PIGNALBERI

HOUSE BILL NO. 374

IN THE LEGISLATURE OF THE STATE OF ALASKA

FOURTEENTH LEGISLATURE - FIRST SESSION

A BILL

For an Act entitled: "An Act relating to the lease, sale, or disposal of natural gas for a public use."

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

* Section 1. AS 38.05.810(a) is amended to read:

(a) The lease, sale, or other disposal of state land or resources may be made to a state or federal agency or political subdivision, or the lease, sale, or disposal of coal deposits suitable for mining <u>or of natural gas</u> may be made to a utility owned and operated by a government agency or nonprofit cooperative association organized to participate under the Federal Rural Electrification Act for the purpose of generating electric power and energy or the production of process steam, or both, for less than the appraised value as determined by the director and approved by the commissioner to be fair and proper and in the best interests of the public, with due consideration given to the nature of the public services or function rendered by the agency, subdivision, or utility making application, and of the terms of the grant under which the land was acquired by the state.

STATE OF ALASKA
THE LEGISLATURE
LEGISLATIVE AFFAIRS AGENCY

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

M E M O R A N D U M February 3, 1986

SUBJECT: Sectional analysis of HB 425

TO: Representative Drue Pearce

FROM: Theresa L. Bannister TB
Legislative Counsel

This memorandum contains the sectional analysis that you requested for HB 425.

Section 1 establishes the criteria for valuing the production of royalty natural gas taken in value and sold by the state under an oil or gas property lease.

Section 2 applies section 1 to oil or natural gas property leases issued by the state before the effective date of the act.

Section 3 gives the act an immediate effective date.

TLB:ml
M2/128

IMPACTS OF STATE ROYALTY GAS INCREASE ON RAILBELT CONSUMERS

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

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

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

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

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

Based on the $2.05/mcf figure, the annual increase to Chugach retail and wholesale consumers would be approximately $2.8 million -- the equivalent of a rate increase averaging about 3 percent. Even under a recent settlement offer by the state which would value the royalty gas at $1.50/mcf, the impact would be approximately $1.9 million annually -- an equivalent rate increase averaging about 2 percent.

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

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

- a possible revaluation, identical to the state's, by the other Beluga royalty gas owners (the federal government and Cook Inlet Region, Inc.);

- the recent $8.5 million settlement by ENSTAR relative to royalty gas from the Kenai field (raising ENSTAR's Kenai royalty price from $.66 to $1.95, and including retroactive payments);

- an increase in the cost of power purchased from Anchorage Municipal Light & Power, which was substantially impacted by the ENSTAR increase, and

- a possible increase in state gas severance taxes based on the Beluga royalty gas revaluation.

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

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

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

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

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

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

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

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

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

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

ATTACHMENT A

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

January 10. 1986

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

STATE OF ALASKA 1986 LEGISLATIVE SESSION
FISCAL NOTE

Revision Date : 2-11-86

REQUEST

Bill/Resolution No. : HB 425
Title : . . .Royalty Value of a Natural Gas Lease

Sponsor : Rep. Pearce
Requestor : Oil & Gas. Res Comm
Date of Request : 02-11-85

FISCAL DETAIL

Agency Affected : Natural Resources
BRU : Petroleum Management

Components :

EXPENDITURES/REVENUES : (Thousands of Dollars)

OPERATING	FY 86	FY 87	FY 88	FY 89	FY 90	FY 91
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING						
CAPITAL						
REVENUE	(2,300)	(1,900)	(1,900)	(1,900)	(1,900)	(1,900)

FUNDING : (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER						
TOTAL						

POSITIONS :

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS : Attach a separate page if necessary

FY 86 revenue losses include obligations incurred by producers since March 1985 royalty enforcement notice. See attached explanation.

Prepared by : Ned Farquhar NF ANM
Division : Commissioner's Office
Phone : 465-2400
Date : 02-11-86

Approved by Commissioner : Norman D Arnold, Deputy
Date : 2/11/86
Agency : Natural Resources

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

10/25/85

Fiscal Note Background
for HB 425

Passage of HB 425 would prevent enforcement of existing royalty collection provisions in Beluga Field oil and gas leases, and enforcement of royalty gas provisions in other fields. This fiscal note represents the impact of the legislation only on the Beluga Field royalty collections, although there are likely to be impacts in other fields.

The State issued an enforcement order for the Beluga Field in March, 1985, effective April 15, 1985. While the notice is contested by producers, there have been no payments made; if the notice were implemented as written, the State would currently receive $2.8 million/year in increased royalty payments. Because the State has offered to settle the lawsuit at a lower value than embodied in the enforcement notice, however, the fiscal impact has been estimated at the proposed settlement value ($1.50/mcf) that would be lost if SB 309 passes rather than at the value that would be recovered under the original notice.

Some of the revenue loss will be felt by the Alaska Permanent Fund, which receives 25% of the revenues from state oil and gas leasing. The remainder of the impact will be on the General Fund.

There will be other significant but currently incalculable fiscal impacts from passage of the bill. If the bill passes, the State will not collect full royalty value (as stipulated in existing oil and gas lease forms) prospectively on other state leases producing gas. Additionally, producers may seek retroactive compensation for what they may regard as past royalty overpayments, including several recent settlements on royalty gas pricing in Cook Inlet.

If the Legislature's action affects the State's position regarding valuation of other State royalty oil and gas (most notably North Slope oil) there could be revenue losses amounting to tens or hundreds of millions of dollars.

14-1936
Bannister
2/27/86

IN THE HOUSE

BY THE HOUSE SPECIAL COMMITTEE ON OIL AND GAS

HOUSE BILL NO.

IN THE LEGISLATURE OF THE STATE OF ALASKA

FOURTEENTH LEGISLATURE - SECOND SESSION

A BILL

For an Act entitled: "An Act relating to royalty gas contracts; and providing for an effective date."

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

* Section 1. FINDINGS. (a) The legislature finds that the best interest of the state will be served if the commissioner of natural resources is authorized to establish the in-value royalty for gas sold to a gas or electric utility by using the contract price between the lessee of the state and the utility, whether or not the gas lease establishes a different standard for the valuation and if the lessee and the utility are not related to each other. The legislature finds that this authorization should apply prospectively and does not intend the authorization to apply to the valuation for royalty purposes of gas sold by a lessee under a gas sales contract entered into before the effective date of this Act.

(b) The legislature finds that it is also in the best interest of the state to give the commissioner explicit discretionary authority to sell royalty gas received in kind by the state to gas or electric utilities at a price that is below market value.

(c) The legislature finds that the proper exercise of the discretion conferred on the commissioner by this Act would support and complement the other programs that assist the citizens of the state with their long-term gas and electrical needs, including the power cost equalization program under AS 44.83.162 - 44.83.165 and hydroelectric and other programs for the generation of electricity.

(d) The legislature finds that the state should adopt a policy for the sale of royalty gas to gas or electric utilities for in-state consumer use and in-state generation of electricity that is fundamentally different from the policies of the state for the sale of royalty oil and for the sale of royalty gas for export from the state or for uses other than in-state consumer use and in-state generation of electricity.

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

(aa) Within 90 days after the written request of a lessee of a lease issued under this section, unless the commissioner makes a written finding based on clear and convincing evidence that the contract price is unreasonably low and that a prospective reduction in royalty receipts would not be balanced by increased benefits to in-state gas and electric consumers, the commissioner shall enter into an agreement with the lessee to use the price for the gas established in the contract between the lessee and a gas or electric utility, if the lessee and the utility are not related in management, ownership, or other aspect, as the value of the state's royalty share of gas production sold by the lessee under the contract to the utility. In this subsection

(1) "gas or electric utility" includes an electric cooperative organized under AS 10.25, a municipal utility, and a gas or electric utility regulated under AS 42.05; and

(2) "price for the gas established in the contract" includes tax reimbursement amounts, deliverability and other charges, and other forms of consideration paid by the gas or electric utility under the contract.

* Sec. 3. AS 38.05.183 is amended by adding a new subsection to read:

(h) The commissioner may enter into a contract to sell royalty gas taken in kind by the state to a gas or electric utility at less than the market value of the royalty gas if the commissioner, after considering the residential consumer benefits, other benefits, and detriments of the sale, makes a written finding that the sale is in the best interest of the state. In this subsection, "gas or electric utility" includes an electric cooperative organized under AS 10.25, a municipal utility, and a gas or electric utility regulated under AS 42.05.

* Sec. 4. AS 38.05.810(a) is amended to read:

(a) <u>Except as otherwise provided in AS 38.05.183(h), the</u> [THE] lease, sale, or other disposal of state land or resources may be made to a state or federal agency or political subdivision, or the lease, sale, or disposal of coal deposits suitable for mining may be made to a utility owned and operated by a government agency or nonprofit cooperative association organized to participate under the Federal Rural Electrification Act for the purpose of generating electric power and energy or the production of process steam, or both, for less than the appraised value as determined by the director and approved by the commissioner to be fair and proper and in the best interests of the public, with due consideration given to the nature of the public services or function rendered by the agency, subdivision, or utility making application, and of the terms of the grant under which the land was acquired by the state.

* Sec. 5. Section 2 of this Act applies to agreements to establish for a lease issued under AS 38.05.180 the in-value royalties on gas production that is sold under a contract entered into on or after the effective date of this Act between the state's lessee and a gas or electric utility.

* Sec. 6. This Act takes effect immediately in accordance with AS 01.-10.070(c).

COOK INLET ROYALTY GAS VALUATION: An Overview

A Presentation to the
Anchorage Caucus
by:

Esther C. Wunnicke, Commissioner
Alaska Department of Natural Resources

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

Bill Van Dyke, Petroleum Manager
Division of Oil and Gas
Alaska Department of Natural Resources

February 6, 1986