

ALASKA LEGISLATURE COMMITTEE FILES 1983-1984 86 / 2

2753 HRES HB 320 (FILE 1) - HB 370



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COMMITTEES  
OIL & GAS—(CO-CHAIR)  
STATE OF AFFAIRS—(VICE-CHAIR)  
LABOR & COMMERCE  
RESOURCES

House of Representatives

REPRESENTATIVE  
JOHN J. COWDERY  
DISTRICT EIGHT

June 15, 1983

The Honorable Bill Sheffield  
Governor  
State of Alaska  
Juneau, Alaska 99811

Dear Governor Sheffield:

I am seriously concerned by your recent statements regarding the proposed royalty oil contracts for Tesoro and Chevron. I note that, at your cabinet meeting this week, you accused several "large oil companies" of interfering with your attempts to seek legislative approval of the royalty oil contract legislation. Yet you declined to mention any of these "interferers" by name.

In a free enterprise system it seems quite appropriate to me that competition be allowed to flourish. You evidently disagree as evidenced by your statements. Further, if you intend to make such accusations, I would think you would have the courtesy to specifically name your detractors rather than brand the oil industry wholesale for what you perceive to be improper actions. I would request that you name the "large oil companies" which you are accusing so that the public will not be led to believe that the State's Chief Executive is dealing in rumor spreading or plain gossip.

I also am concerned that you are urging legislative ratification of these contracts and that you feel they deserve to be voted on. Yet, much of the information requested of Tesoro and Chevron by the House and Senate committees has not been forthcoming. Am I to assume by your statements that you wish the Legislature to vote on these contracts while many important questions about the financial feasibility of these long term contracts remain unanswered? I certainly hope not. You recently forced some legislators to vote on another matter without allowing questions to be answered via the committee process, and we have seen the less than ideal results of that debacle.

Governor Bill Sheffield  
June 15, 1983  
Page 2

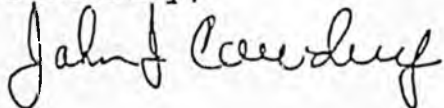
The committee process is in place to ask the questions that, perhaps, your Administration would rather not ask. We owe that obligation to Alaskans. The people of Alaska trust that their representatives will vote only after they are properly informed on the issues. Some of us respect the Constitutional duties we have been elected to uphold.

The contracts before us deserve critical and prolonged examination. I, personally, do not believe, at this time, they should be entered into. If the questions I have asked of the oil companies are satisfactorily answered, I might change that opinion.

Finally, I would note that House and Senate priorities were agreed upon during the time you were out of state attending a zoo opening in Oregon. If these contracts were so vital to you, it seems to me you would have been present in Juneau during the critical negotiations between the House and Senate to bring this session to a close.

I urge that you give greater consideration to these contracts and the unanswered questions. I further urge that you refrain from negatively branding the oil industry on which this state depends so greatly without adequate justification.

Sincerely,



Representative John Cowdery  
Chairman  
Joint Legislative Committee on Oil and Gas

AGO 786712



# THE ALLIANCE

P.O. Box 100100 / Anchorage, Alaska 99510 / (907) 562-0100

RESOLUTION IN SUPPORT OF  
ENACTMENT OF MEASURES  
WHICH ALLOW THE STATE TO  
PROCEED WITH THE SALE OF  
ROYALTY OIL TO BOTH TESORO  
ALASKA PETROLEUM CO. AND  
CHEVRON U.S.A.

Whereas, the Alaska Support Industry Alliance has reviewed the complicated issues attendant to the contracts between the State of Alaska and the Tesoro Alaska Petroleum Co. and Chevron U.S.A. and,

Whereas, after such review, it appears to be in the best interest of the State to proceed to enter into these agreements.

Now Therefore Be It Resolved that the Alaska Support Industry Alliance hereby does call upon the Legislature of the State of Alaska to expeditiously proceed with passage of those bills which are required to ratify both of the agreements executed by the Commissioner of Natural Resources and the in-state refiners.

Dated this 2<sup>nd</sup> day of June, 1983

Milton Byrd  
Milton Byrd, President

**Alaska Support Industry Alliance**...for responsible economic development

Milton Byrd — President  
Frontier Companies of Alaska  
Ann Curtis — Vice President  
Crowley Maritime  
Paul Harding — Secretary  
Universal Services, Inc., Int'l

John Mathis — Treasurer  
Universal Services, Inc., Int'l  
Virgil Gillespie  
Alaska International  
Construction, Inc.  
Len Kelley  
Greyhound Support Services, Inc.

John Martin  
Dresser Atlas  
Val Molyneux  
VECO  
Roger Spencer  
Alaska Bussell Electric, Inc.

Bill Webb  
Arctic Hosts, Inc.  
Chuck Becker  
Executive Director

AGO 786713

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2

COMMITTEE REPORT

HOUSE

*Rule*

(9)

FURTHER:

4/4/83

Date: 1-19-1984

Mr. Speaker:

The Committee on RESOURCES has had HB 320

An Act relating to the sale of royalty oil by the State of Alaska to the Tesoro Alaska Petroleum Company; and providing for an effective date.

under consideration and reports it back as follows:

- do pass  do not pass
- do pass with attached amendments(s)
- replace with CS for HB 320  same title  
 new title
- and recommends DO PASS
- AND attaches a "Letter of Intent"  New Fiscal Note
- reports it back without recommendation  Zero Fiscal Note Attached
- referred to the \_\_\_\_\_ Committee

MEMBERS SIGNING  
DO PASS

MEMBERS HAVING  
OTHER RECOMMENDATIONS:

<u><i>[Signature]</i></u>	SHVITZ	<u><i>[Signature]</i></u>	<u>GOLL</u>
<u><i>[Signature]</i></u>	LARSON	<u><i>[Signature]</i></u>	<u>LISKA</u>
<u><i>[Signature]</i></u>	RUSSELL	<u><i>[Signature]</i></u>	
<u><i>[Signature]</i></u>	LISKA	<u><i>[Signature]</i></u>	
<u><i>[Signature]</i></u>	VEILLIN	<u><i>[Signature]</i></u>	
<u><i>[Signature]</i></u>	RINGSTAD	<u><i>[Signature]</i></u>	
_____		_____	
_____		_____	
_____		_____	

*[Signature]*  
CHAIRMAN

# STATE OF ALASKA

BILL SHEFFIELD, GOVERNOR

## DEPARTMENT OF NATURAL RESOURCES

OFFICE OF THE COMMISSIONER

POUCH M  
JUNEAU, ALASKA 99811  
PHONE: 465-2400

May 13, 1983

The Honorable Al Adams  
Representative  
Alaska State Legislature  
Pouch V  
Juneau, AK 99811

Dear Representative Adams:

Several questions concerning our proposed royalty oil contracts were recently raised in a letter from Bob Breeze, an Anchorage attorney. We appreciate the opportunity you have provided us to respond to those points.

### I. The Correct Price of North Slope Oil

First, the letter claims that the State should not sell its oil at the "in-value" price, and that the value of Prudhoe Bay oil at Valdez should be approximately \$30, as opposed to the \$24 value there currently reported by the North Slope producers. An analysis of current oil markets will clearly show that the State's oil sells at prices comparable to other crudes produced in the U.S. or foreign countries. To assume that Alaska North Slope (ANS) oil should be worth \$30 a barrel at Valdez is in error. Because of federal restrictions on foreign exports, all 1,500,000 barrels a day of ANS crude oil must be sold in the U.S., which means that the 800,000 b/d which is surplus to West Coast needs must move to the Gulf Coast. Refiners in the Gulf Coast can get all the foreign and domestic crude oil they want for \$29 a barrel at the Gulf Coast. If we attempted to sell oil at \$29 a barrel at Valdez and were successful, then our purchaser would have to incur the \$5 a barrel it costs to move the oil from Valdez to the Gulf Coast. When he got there, he would have to sell the ANS oil for \$34 just to break even. But at \$34, no one would buy. In fact, no one would buy oil from that purchaser for anything over \$29--the cost of the next available crude oil. Thus the most that a purchaser can pay for oil at Valdez is \$24

AGO 786358 +

A similar calculation must be done for West Coast sales--the sales price on the West Coast is the starting point, not an assumed sales price at Valdez. Mr. Breeze seriously oversimplifies the method of valuing ANS oil and, as a result, is incorrect in his attack on the the "in-value" price. We urge you to discuss this with other knowledgeable observers of oil markets if you wish to verify our information.

The proposed contracts do not offer royalty oil for sale at a price below the world price. They do offer it for sale at a premium of \$.30 per barrel over the price the State would have received if it did not pursue the contracts, a total of over \$25 million in additional revenues over the life of the agreements. It has not been the policy of the State to seek a profit on sales for in-state processing. The \$25 million instead is protection that the State is not receiving less than it would have if it had made no sale and left the oil in-value.

As a general rule, the in-value price should maximize the return the State will receive for its oil. The State does believe that the in-value price should be calculated in a different manner than a simple weighted average sales price of the North Slope producers, and has so asserted in court (State v. Amerada Hess et al). The price to royalty purchasers in all of the State's existing and proposed royalty agreements will be adjusted both retroactively and prospectively for the outcome of that litigation.

Although opportunities may arise for out-of-state royalty sales for higher prices, those must be reviewed carefully because of the effect that State royalty oil sales have on other North Slope oil prices. If State sales result in a lower West Coast sales price, a loss of tens of millions of dollars in all royalty and severance tax receipts would occur. Consequently, we do not recommend selling on the West Coast at this time, until in-state needs have been met, and the West Coast market has been reviewed more carefully. (An attached staff paper discusses this subject in greater detail.)

The State can, at times, earn a greater return by actively marketing its oil that is surplus to in-state needs. The average premium over the in-value price of almost \$3 per barrel earned at the December 1980 crude oil auction is such an example. However, to accomplish a consistently successful marketing effort, capable of competing with existing sellers, would require granting a degree of autonomy to management of a significant portion of State revenues that we do not feel is sound public policy. The only royalty owners that actively

market their crude do so through independent corporations. Any such effort by Alaska would require bypassing important public notice and public review provisions of State law. Additionally, an effort to obtain maximum returns should occur during a strong seller's market, and encourage the participation of the widest possible number of possible buyers.

## II. Contract Term

Second, the duration (eleven years) of the Chevron and Tesoro contracts was questioned. The reasons for this concern include a desire to leave royalty oil uncommitted so that it can later be offered as an incentive for other economic development projects, or so that it can be sold in Japan or elsewhere at a higher price, and a general desire to retain flexibility in the face of ever-changing oil markets and the future decline in Prudhoe Bay production. We agree that these are valid points, but feel that they have been addressed in the following ways:

1. About 75,000 - 125,000 b/d of royalty oil will still be uncommitted until the end of these contracts. That amount should be more than sufficient to take advantage of opportunities that may arise.
2. The contract's price term is tied to the in-value price, based on producer sales. If Japanese exports become a reality, the price to all existing royalty purchasers will increase if sales to Japan result in higher average prices for North Slope oil.
3. The contracts provide for a certain percentage of Prudhoe production, not a certain volume. As Prudhoe production declines, so will the contract volumes. At current levels, the contracts leave available 62,500 b/d of Prudhoe royalty production, as well as all Kuparuk royalty oil (currently 12,000 b/d). We expect additional production from Kuparuk and new production from North Slope fields now under development to add somewhere between 30,000 to 80,000 b/d to total of available royalty oil. If the pending contracts are approved, approximately 50,000 b/d of residual oil would be available for sale by the State as a result of the option that the State retains for that oil in most of its royalty oil agreements.

As stated previously, until 1995, the State will have sufficient royalty volumes (75,000 to 125,000 b/d) available to take advantage of other opportunities that may arise.

4. We have reviewed the previous Administration's determination that the highest and best use for royalty oil is for in-state processing (see AS 78.05.183 and 38.06), all other things being equal, and concur with it, in light of the existing royalty oil statutes. These contracts are for that use. Since in-state refiners have sought long-term commitments to make in-state processing economic, we believe that we must seriously consider their requests, given current law.

5. The term was a negotiated item; although the State originally sought a shorter term from Tesoro (seven to nine years), the additional premium over the in-value price of \$.30 was agreeable because the State was willing to offer the eleven-year term. Tesoro stated that the premium affected the amortization schedule of the expansion, and necessitated at least an additional two to three years. Tesoro has offered letters from their bankers stating that a ten- to twelve-year crude commitment is necessary to cover the period needed to amortize the refinery.

6. Mapco and Tesoro already have royalty contracts until 2005 and 1995, respectively, for their base volumes. Although those contracts were consummated by the previous Administration, we felt that Chevron's request for a contract at least as long deserved some consideration in the interest of preserving equity among competing refineries. As a general principle, to preserve fair competition among in-state refiners, we believe that the same term should be offered to all in-state refiners.

### III. The Need To Approve The Contracts This Year

We believe that it is in the best interest of the State to consummate these agreements this year. The contract with Tesoro offers one of the only real hopes for reducing fuel prices in Railbelt and Western Alaska--increased competition. We feel that the Tesoro contract, by enabling the firm to make a substantial (\$80 to \$90 million) new in-State investment, provides significant employment and tax base benefits to Alaska. It will enhance the security of supply of petroleum products to Alaskans. The Chevron agreement will enable that company to continue to operate their Kenai refinery. The continued supply of asphalt and other products from the refinery is of benefit to Alaskans. Chevron is the only in-state supplier of asphalt.

Tesoro has stated that the economics of their refinery expansion depend on their ability to purchase the needed services and equipment at the discounts available now, during the economic downturn. Chevron would like a supply as secure as that of its competition, and not have to depend on producer sales or the yearly approval of the Legislature to meet their refinery's needs. Although we are sympathetic to the Legislature's desire to have more time to review the proposed agreements, we are recommending approval now because the chance for significant benefits may be lost if they are not. We see no risks or loss in proceeding this year, as explained above. Other opportunities can still be pursued with the remaining 75,000 - 125,000 b/d of royalty oil.

The proposed Tesoro agreement, in our view, meets both the letter and spirit of the goals expressed in Speaker Hayes' HCR 37, relating to an economic development policy. Specifically, the Tesoro expansion:

- (1) offers increased employment and long-term benefits to Alaskans by strengthening and diversifying the State's economic base and by encouraging a new activity that is economically feasible;
- (2) provides opportunities for increased personal income and reduced living costs by creating activity in economic sectors not presently in existence or fully developed;
- (3) has a positive effect on the revenue needs and fiscal conditions of the State and local communities and is cost effective; and
- (4) is undertaken with the full support of the citizens most impacted by the development.

The Chevron agreement is also consistent with these goals.

These contracts are the end result of a wide-ranging solicitation issued in 1981 by Commissioner Katz. As you know, two contracts (Tesoro and Doyon) were approved last year by the Legislature as a result of that solicitation; the negotiations on the two pending agreements were not completed during the past Administration, largely because Tesoro could not then assure completion of its refinery expansion. They are therefore before you now. Under the present statutes, they are superior to all other proposals received by the State under that solicitation. I believe that the Royalty Board's unanimous approval of these agreements reflects other knowledgeable participants' view of the agreements. The public hearings conducted by the Board also reflected widespread public support for the contracts.

Other Offers

There are a variety of other proposals before the State at this time, including an offer from a West Coast refiner (Shell) to purchase 20,000 b/d at a \$1 premium over the in-value price and to make a variety of products available at market prices in Seattle or San Francisco. Although we think that this offer is worth pursuing, we have told the prospective purchaser, as well as other interested buyers, that we intend to fulfill in-state processing needs with these contracts, and then pursue discussions with them. We believe that this is the soundest strategy for the State, and we have concluded that the statutes require us to do so.

The extension of Tesoro's existing Cook Inlet royalty oil contract (HB 320 and SB 285) should not be overlooked. If Tesoro does not receive the extension, it is entitled to additional Prudhoe Bay royalty oil under its 1982 contract. Since Tesoro will pay the maximum price, plus field costs, for Cook Inlet royalty oil, the State would lose revenues if this royalty oil were taken in-value instead.

V. Conclusion

Finally, none of the arguments against the contracts presented either in public or private dispute that these agreements meet the existing statutory preference for in-state processing. Arguments against the eleven-year term, for example, assume that "something better" such as oil exports or higher premiums will arise during that time. We are precluded by AS 38.05.183(d) from selling that oil out-of-state unless existing in-state industrial needs, such as those for the Tesoro and Chevron refiners, can be met.

If the royalty agreements are not approved, we would be faced with a dilemma by having existing statutory criteria rejected with no new criteria put in place. If the Legislature chooses to not act on the present agreements, it would be necessary to review and analyze a new royalty oil statutory policy. If these contracts for in-state processing are approved by the Legislature, such analysis and review would still be appropriate for the purpose of handling the remaining royalty oil. We would be pleased to work with you on such a policy review.

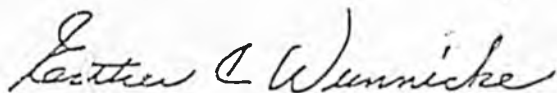
The Honorable Al Adams

-7-

May 13, 1983

Please let me know if you have any questions. I would be happy to provide further information.

Sincerely,



Esther C. Wunnicke  
Commissioner

Attachment

cc: The Honorable Joe Hayes  
The Honorable Bob Bettisworth  
The Honorable John Cowdery  
The Honorable John Ringstad  
The Honorable Richard Schultz  
The Honorable Jalmar Kerttula  
The Honorable Bettye Fahrenkamp  
The Honorable Don Bennett  
The Honorable John Sackett

AGO 786364

EFFECT OF WEST COAST ROYALTY OIL SALES ON STATE REVENUES

The price term for sales of royalty oil is founded on the average destination sales price (or internal transfer price) received by the Producers for all sales of Alaska North Slope (ANS) crude oil, netted back (i.e., with transportation and pipeline tariff charges subtracted) to Pump Station No. 1, the point of sale; this is referred to as the Producers' Weighted Average Field Price. Because ANS crude oil is marketed both on the West Coast and the Gulf Coast of the United States, the Weighted Average Field Price is necessarily a mixture of sales prices for both markets. Traditionally, the average netback price for West Coast sales has been higher than for Gulf Coast sales. Since Prudhoe Bay began production, this differential has ranged from one to three dollars per barrel. The differential netback is often called the two-tier price structure; the State believes this structure is a valid indication of the value of ANS in the respective markets and will persist in the future.

The two-tier price structure creates two potential adverse financial consequences to the State for a royalty oil sale to a West Coast destination. These effects occur as a

result of the use of the Producers' Weighted Average Field Price to calculate all severance tax and royalty payments due the State.

First, if the mixed-market Producers' Weighted Average Field Price were substantially below West Coast commercial prices for ANS crude oil, sales by the State on the West Coast could create a downward trend on the price of ANS generally, resulting in major adverse effects on royalty and severance tax payments to the State. This apparently happened in 1981 when approximately 159,000 b/d of the State's royalty oil was marketed short-term by several purchasers of the State's royalty oil. It occurred as a result of the needs of the purchasers to dispose of the oil in a weak seller's market. They had previously committed to buy the oil during a much stronger seller's market. This additional competition to sell North Slope oil apparently resulted in a general lowering of the West Coast sales price for producer oil, and, consequently, reduced State royalty and severance tax revenues.

The potential losses to the State from creating a downtrend in the market can be in the tens of millions of dollars annually. Because the West Coast market has a relatively small number of crude sellers and incremental sources of

supply, actions by the State which effect the availability and price of crude oil will tend to have a greater effect than would otherwise occur in a more diversified market situation.

Second, State royalty sales to a West Coast destination may replace a higher netback West Coast producer sale. The effect of this displacement in the proposed sales to Chevron and Tesoro would be in the neighborhood of two to five cents per barrel.

The State can, at times, earn a greater return by actively marketing its oil. The average premium over the in-value price of almost \$3 earned at the December 1980 royalty oil auction is such an example. If the State is to offer its oil for the highest possible premium, it should do so in a strong seller's market, when buyers will be most likely to pay a substantial premium to the State, and when detrimental displacement and price effects are likely to be least. Obtaining the interest of the maximum number of prospective purchasers would also be a prerequisite to receiving the highest possible price for royalty oil.

To accomplish a consistently successful and ongoing marketing effort, capable of competing with existing sellers, would

require granting a degree of autonomy to management of a significant portion of State revenues that we do not feel is sound public policy. The only royalty owners that actively market their crude do so through independent corporations. Any such effort by Alaska would require bypassing important public notice and review provisions of State law.

# STATE OF ALASKA

BILL SHEFFIELD, GOVERNOR

## DEPARTMENT OF NATURAL RESOURCES

OFFICE OF THE COMMISSIONER

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

May 26, 1983

The Honorable John Cowdery  
Representative  
Alaska State Legislature  
Pouch V  
Juneau, AK 99811

Dear Representative Cowdery:

You have asked us to provide you with the information on which we based our decision to negotiate three royalty oil agreements with Chevron and Tesoro. That decision was based on our review of the applicable statutes (AS 38.05.182, AS 38.05.183 and 38.06), on our discussions on royalty oil and general oil marketing issues with individuals from several oil companies, including Texaco, Sohio, ARCO, Exxon, Shell, Tesoro, Chevron; and on discussions with several individuals including State staff, with knowledge of royalty oil and general oil and gas issues.

In general, we sought to inform ourselves about general crude oil marketing practices and pricing policies, the near and long-term outlook for oil markets, the oil export issue, and the important lessons of the State's previous experiences with royalty oil transactions.

Our decision to pursue the contracts with Tesoro and Chevron was based initially on recommendations from Commissioner Katz and Deputy Commissioner Haynes, and on a desire to finish the process begun with the general 1981 royalty oil solicitation issued by Commissioner LeResche and amended by Commissioner Katz.

A solicitation for Cook Inlet royalty oil was issued in November 1982, and the decision to amend a contract to Tesoro was made based on our own analysis of the relevant

May 26, 1983

considerations and discussions with the companies. That information is presented in the written findings for the proposed Tesoro contract, which we have presented to the Royalty Board and the Legislature.

The decision to pursue contracts with Tesoro and Chevron was also made with several of the Governor's primary objectives in mind -- to encourage needed, beneficial in-state investment resulting in jobs and an improved economy, to show our support for recognized, valued, long-standing Alaska corporate citizens, and to provide a stable and coherent climate by government for private investment in Alaska.

The key staff reports that were considered in our decision are:

1. February 26, 1982 Findings Regarding the Disposition of Alaska Royalty Oil by Commissioner Katz (238 pp);
2. January 1, 1983 Review of Alaska Royalty Oil, by Deputy Commissioner Geoffrey Haynes (274 pp);
3. January 25, 1983 memorandum, "Royalty Oil - Key Points," by Geoffrey Haynes and Spécial Assistant Mark Wittow (4 pp);
4. May 5, 1983 Memorandum from Assistant Attorney General, "Overview of Royalty Oil Contracts," originally received as oral briefings in February 1982.

If any of these have not already been provided to you, we would be happy to do so at this time. In addition, the written findings for each of the proposed contracts, which we have also provided to the Legislature, contain an analysis of the contracts' compliance with existing royalty statutes, including a determination that the contracts are in the best interest of the State.

To ensure that we have covered each of the areas of concern to you, we will also re-state each of the sixteen questions presented in your letter of May 23, along with our response.

First, you requested:

1. All their Security Exchange Commission filings and registrations from 1979 to present.
2. Copies of all financial statements and all reports, letters and communications to stockholders from 1979 to present.
3. Copies of all tax returns and filings from 1979 to present."

Although they did not play a significant role in our decision, we have already provided you with the current financial statements of Chevron and Tesoro. Any earlier reports, as well as SEC filings, should be obtained from the companies. In our judgment, the information contained in those reports would be of extremely limited value to the State in evaluating the pros and cons of the proposed contracts. The tax returns you requested are confidential under federal and state statutes. We do not have, nor did we consult, those returns.

"4. What have been the monthly volumes of royalty crude and other crude purchased by Tesoro and Chevron from 1979 to present and what are the amounts of their own oil, if any, which they have additionally received from the North Slope."

Our royalty accounting staff in Anchorage is currently preparing the information on monthly royalty oil taken by Tesoro and Chevron since 1979 that you requested. Tesoro has no production of its own from the North Slope; Chevron owns a .78956% share of Prudhoe Bay production, amounting to approximately 11,843 b/d, and approximately a .1% share of Kuparuk production, or about 108 b/d. The Department does not have the authority to require the submission of data concerning purchase of North Slope oil other than royalty oil.

"5. Since January how much of the current 46,000 Tesoro and Chevron barrels per day royalty crude has been physically refined in Alaska as opposed to being shipped outside for refining elsewhere."

Oil totalling approximately 46,000 b/d was processed during this period. Of this amount, approximately 8,000 b/d consisted of Cook Inlet royalty oil and 2,000 b/d consisted of Prudhoe Bay royalty oil. The remainder of the Prudhoe Bay royalty oil received was used to obtain additional Cook Inlet supplies. Under the 1982 contract, Tesoro must refine the volume equivalent to their PB in-kind purchasers, which were approximately 38,000 b/d during this period. The 1982 Tesoro contract, unlike the agreement presently before you, allows the firm to exchange royalty oil for other oil. The firm currently uses its Prudhoe Bay royalty oil supply to obtain additional Cook Inlet oil to satisfy its current refinery configuration. The quantity of petroleum products produced and marketed in Alaska under the 1982 agreement is as follows:

January	-	858,775 barrels
February	-	739,890 barrels
March	-	846,947 barrels

Under the November 1982 one-year agreement, Chevron will not receive any royalty oil until May 31, 1983.

"6. What percentages, if any, of the royalty crude actually processed or refined in Alaska since January 1983 has been shipped to another refinery for additional refining."

Questions concerning the disposition of refined products or residual oil must be addressed to the particular company, since the Department does not maintain this information. All of the oil returned to TAPS by Mapco is processed elsewhere.

"7. We would like to request copies of all staff reports received by the DNR prior to recommending approval of the contracts."

This information is provided above, on page two of this letter.

"8. What amount of the total royalty crude sold under the proposed contracts will be actually refined into products in Alaska? We request copies of the data estimating such production on a monthly basis."

The contracts require that best efforts be made to process and market products in Alaska, and define "process" to mean at least 32% of the oil provided must be converted into product. However, the contracts require the entire quantity of the oil received under them to be processed in Alaska refineries. We expect approximately 50% of the oil provided under the agreements to be refined into products. The determination of a specific product slate is a marketing decision that must be made by the companies, and will change over time. You should consult with the companies and determine their specific plans in this area.

Your next several questions pose a series of "what if" queries. For the reasons stated below, all of these questions contain a common flaw - the assumption that one contract item can be changed without affecting other contract terms. This problem is explained in more detail in the attached memorandum on royalty contract terms prepared by the Department of Law.

"9. What would happen if we provide for an automatic contract termination if Charter ever acquires ownership, conversion rights or contract rights to Tesoro's common stock?"

An "automatic" termination clause as opposed to the present discretionary termination clause, could result in termination at a time not in the best interests of the State.

"10. What would happen if we put a \$4.00 per barrel surcharge on every barrel that's remitted at the end of each quarter for each barrel refined in the State and not subsequently sent elsewhere for additional refining?"

If by this question you mean a \$4.00 surcharge for each barrel sent elsewhere for refining, we have provided for a \$2.00 per barrel penalty for Tesoro for oil taken and not run through the expansion, and have given the Commissioner's authority to cancel the contract if the expansion is not operational by 1986.

"11. What would happen if we require Tesoro and Chevron to pay the same "premium" as Shell's offer or meet sealed bid prices from all comers?"

These contracts provide a number of benefits to the State, and are not comparable to the Shell offer, which does not provide for any in-state processing or employment. Neither Chevron nor Tesoro was willing to agree to a premium in the range of the Shell offer and, at the same time, operate or expand facilities in Alaska.

"12. What would happen if we would establish a shorter term?"

The term of the Tesoro agreement is consistent with the commitment that firm needed to finance the refinery expansion. The Chevron term was offered to enable them to fairly compete with the other two in-state refiners, Tesoro and Mapco, which have contracts through 1994 and 2004, respectively.

"13. What would happen if we add a clause that gives the state the right to terminate the contracts whenever the state is offered a \$1.00 or more per barrel over the present premium?"

If these contracts are consummated, the State will have enough uncommitted royalty oil available (70,000 - 125,000 b/d) to realize other available opportunities. An in-state processing contract is not comparable to a contract whose objectives is to receive the highest monetary return to the State.

"14. What would happen if we were to offer the crude to Shell on the condition that they build or acquire a major in-state refining or coking facility?"

We believe that Shell would decline, since they have consistently told us that they do not intend to construct any in-state facilities of the nature you describe. We understand that representatives of Shell also intended to convey this information directly to you.

May 26, 1983

15. What would happen if we set a major penalty, such as \$500 million or 50% owners' 'p of the local refinery, if they are not expanded within 3 years?"

As stated above, the contract contains several provisions to protect the State from a failure by Tesoro to complete their expansion, including a per barrel penalty and the right to unilaterally terminate the contract. The penalties you propose bear no relation to the respective obligations of the parties to the agreement.

In general, the "what if" queries you posed all presuppose additional burdens on the prospective purchasers, which would require a complete reexamination by the State and the companies of the benefits that would occur to each party as a result of the agreements. The questions speculate as to a change of one factor in a negotiated contract. It is reasonable to assume that changing that factor would result in change of other factors. We do not feel that any of the possibilities presented would be in the State's interest, since they would result in no agreements, with the oil taken in-value instead of used to enhance Alaska's economy.

16. It is my understanding that the Royalty Board did not know nor was presented the Shell offer. Is this true?"

The Royalty Board was briefed on the Shell offer by Commissioner Katz at their November 15, 1982 meeting. Since that time, we have also provided the Board with copies of the Shell correspondence, and have informed the Board at February and April meetings of our intention to work with Shell and other prospective purchasers following legislative consideration of the pending agreements. For a clarification of the State's discussions with Shell, I enclose a complete set of the correspondence between Shell and the State, which began in March 1981. Shell withdrew their offer under the 1981 solicitation in March 1982. Shell first talked to this administration in March 1983, and we promptly responded to their offer in writing by stating that we would be pleased to work with them following legislative consideration of the in-state processing agreements.

If the Legislature wishes to direct the department to achieve goals other than in-state processing and development, the royalty oil statutes need to be revised to so direct us. We could be pleased to work with the Legislature on such a revision. If the desired goal is revenue maximization to the general fund, the statutes can be changed to provide us with that direction. The State would have a difficult time out-marketing the North Slope producers in order to achieve higher price, for reasons that are explained in the staff

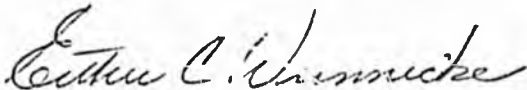
May 26, 1983

papers cited above prepared by Messrs. Haynes and Maynard. If we are to do so, budget and staff concerns should be discussed along with possible statutory revisions.

I hope what I have furnished you is responsive to your concerns. I have also attached information on the proposed contracts that has previously been provided to members of the Legislature, in case it may prove of use to you.

Please let me know if you have further questions. We would be pleased to assist your deliberations.

Sincerely,



Esther C. Wurnicke  
Commissioner

Attachment

cc: The Honorable John Ringstad  
The Honorable Richard Shultz  
The Honorable Bettye Fahrenkamp

# STATE OF ALASKA

## DEPARTMENT OF NATURAL RESOURCES

OFFICE OF THE COMMISSIONER

BILL SHEFFIELD, GOVERNOR

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

April 26, 1983

The Honorable John Ringstad  
Co-Chairman, House Resources Committee  
Pouch V  
Juneau, Alaska 99811

Dear Representative Ringstad:

I very much appreciate the opportunity to present the House Resources Committee with some additional comments on our proposed royalty oil agreements with Tesoro and Chevron. During previous discussions, several questions were raised on specific aspects of the agreements. I thought it might be useful to you and the committee if I provided our response in writing, as well as in oral testimony before the committee.

The contract with Tesoro would commit the State to providing 13.867% of Prudhoe Bay Unit production, or approximately 26,000 barrels a day (b/d) at current production levels, if Tesoro expands the capacity of their refinery to process the oil by 1986. The agreement expires on January 1, 1995; at the same time Tesoro's existing royalty oil contract for 46,000 b/d terminates. The basic rationale for this contract is fairly straightforward - providing a long-term guaranteed crude supply enables Tesoro to make a significant, new in-state investment, with attendant employment, supply, and tax base benefits.

The Chevron contract would furnish their Kenai refinery with 9.6% of Prudhoe Bay production, currently 18,000 b/d, until 1995. The Kenai refinery is not an economic component of Chevron's West Coast refining system, and the company has threatened to close it without a long-term supply of oil from the State. Chevron has consistently requested a 38,000 b/d contract, and will continue to seek an additional 20,000 b/d for processing on the West Coast and return to Alaska in the form of products. The 18,000 b/d agreement will enable the company to operate the Kenai refinery for as long as possible; that volume of oil must be processed at the Kenai plant to maintain the effectiveness of the contract.

Several legislators have questioned the duration (eleven years) of the Chevron and Tesoro contracts. The reasons for the concern, to our knowledge, include a desire to leave royalty oil uncommitted so that it can later be offered as an incentive for economic development projects, or so that it can be sold in Japan or elsewhere at a higher price, or a general desire to retain flexibility in the face of ever-changing oil markets and the future decline in Prudhoe Bay production. We agree that these are valid points, but feel that they have been addressed in the following ways:

1. The contracts provide for a certain percentage of Prudhoe production, not a certain volume. As Prudhoe production declines, so will the contract volumes. At current levels, the contracts leave available 62,500 b/d of Prudhoe royalty production, as well as all Kuparuk royalty oil (currently 12,000 b/d). We expect additional production from Kuparuk and new production from North Slope fields now under development to add somewhere between 30,000 to 80,000 b/d to total of available royalty oil. Approximately 50,000 b/d of residual oil may also be available for sale by the State as a result of the option that the State retains for that oil in most of its royalty oil agreements.

Until 1995, the State will have sufficient royalty volumes (75,000 to 125,000 b/d) available to take advantage of other opportunities that may arise.

2. Mapco and Tesoro already have royalty contracts until 2005 and 1995, respectively, for their base volumes. Although those contracts were consummated by the previous Administration, we felt that Chevron's request for a contract at least as long deserved some consideration in the interest of preserving equity among competing refineries. As a general principle, to preserve fair competition among in-state refiners, we believe that the same term should be offered to all in-state refiners.

3. The term was a negotiated item; although the State originally sought a shorter term from Tesoro (nine years), the additional premium over the in-value price of \$.30 was agreeable because the State was willing to offer the eleven-year term. Tesoro stated that the premium affected the amortization schedule of the expansion, and necessitated at least an additional two to three years.

4. The contract's price term is tied to the in-value price, based on producer sales. If Japanese exports become a reality, the price to royalty purchasers will

increase if sales to Japan result in higher average prices for North Slope oil.

5. We have reviewed the previous Administration's determination that the highest and best use for royalty oil is for in-state processing, all other things being equal, and concur with it, in light of the existing royalty oil statutes. These contracts are for that use. Since in-state refiners have sought long-term commitments to make in-state processing economic, we believe that we must seriously consider their requests, given current law.

Legislators have also understandably questioned the recent acquisition by two Charter Co. life insurance subsidiaries of 20% of Tesoro's stock, and the placing of Charter directors Raymond Mason and Gerald Ford on the Tesoro board. The involvement of a corporation with which the State has significant litigation was a cause of serious concern to us at the time of contract negotiations. In response to that concern, we took the following measures to protect the State from possible harm because of the involvement of Charter:

1. A "third-party control" provision in the royalty agreement allows the Commissioner to unilaterally terminate the contract if Charter gains a greater degree of influence over the management of Tesoro.
2. An agreement between Tesoro and Charter requires that Charter vote its shares in the same proportion as the shares held by all other Tesoro stockholders, and prevents Charter from seeking proxy votes.
3. Tesoro may not take the oil unless the Commissioner determines that the refinery will be capable of processing the additional crude; the contract terminates if the refinery expansion has not been completed by July 1986; and all oil taken under the contract must be run at the Tesoro Kenai refinery, and may not be traded, exchanged or otherwise disposed of.
4. The State retains the option to purchase and resell the substantial volumes of residual oil produced by the refinery.
5. Tesoro owns facilities worth over a hundred million dollars in Alaska.

We would hope that the concerns expressed do not stem from a desire to "punish" Charter by rejecting this agreement. We do not believe that Charter would be much affected by rejection of this contract. A vigorous legal effort to


collect the money owed the State by Alaska Oil Co. seems to us to be the proper course at this point. Tesoro is a long-standing Alaska business, and deserves to have its contract treated on the merits.

The effect of in-kind royalty oil sales on the State's production tax and royalty income is also a matter of concern. I have attached a short paper which discusses this issue for your consideration.

The provisions of the contract which specify in-state processing and supply are "sideboard" or minimum provisions which protect the State from abuses against the intent of the contract by the purchaser. The State insisted that the oil taken under the contracts be processed in an in-state refinery, that the refinery actually produce significant amounts of products, and that the purchaser otherwise exercise its best efforts to produce and market in Alaska some minimum quantity of oil products. The State left economic decisions on how best to meet the local demand for products to the individual refiner. We do not feel that anything other than these requirements are appropriate. Any further specificity would likely act against the interests of Alaskans in the long run, by reducing the flexibility to meet changing market conditions.

Thank you for your consideration of these important agreements. Please let me know if you have any comments or questions, or if we can provide additional information to the committee.

Sincerely,



Esther C. Wunnicke  
Commissioner

Attachment:

4/26/83  
ADNR

EFFECT OF IN-KIND ROYALTY OIL TAKING ON STATE FINANCES

The price term for sales of royalty oil is founded on the average destination sales price (or internal transfer price) received by the Producers for all sales of Alaska North Slope (ANS) crude oil, netted back (i.e., with transportation and pipeline tariff charges subtracted) to Pump Station No. 1, the point of sale; this is referred to as the Producers' Weighted Average Field Price. Because ANS crude oil is marketed both on the West Coast and the Gulf Coast of the United States, the Weighted Average Field Price is necessarily a mixture of sales prices for both markets. Traditionally, the average netback price for West Coast sales has been higher than for Gulf Coast sales (as explained in Section IV-F, pp. 175-211, of the Department's January 1, 1983 Review of Alaska Royalty Oil). Since Prudhoe Bay began production, this differential has ranged from one to three dollars per barrel. The differential netback is often called the two-tier price structure; the State believes this structure is a valid indication of the value of ANS in the respective markets and will persist in the future.

The two-tier price structure creates two potential adverse financial consequences to the State for a royalty oil sale to a West Coast destination. First, since the Producers'

AGO 786437

Weighted Average Field Price is used to calculate severance tax and royalty payments due the State, a State royalty sale to a West Coast destination may replace a higher netback West Coast producer sale. The State estimated that the effect of displacement in the proposed sales to Tesoro and Chevron would be in the neighborhood of two to five cents per barrel. That analysis partially provided the rationale for the required per barrel premium of \$.30 in the 1983 Tesoro and Chevron contracts. (In the 1982 royalty sales to Tesoro and Doyon, as well as in the 1978 sale to North Pole Refining, the State had not asked for any premium, instead relying on the array of benefits provided by in-state processing of the oil.)

Second, if the State's mixed-market Producers' Weighted Average Field Price were substantially below the West Coast Commercial Price for ANS crude oil, large volume sales by the State on the West Coast could create a downward trend on the price of ANS generally with some major adverse effects on royalty and severance tax payments to the State. This apparently happened once previously when approximately 159,000 b/d of the State's royalty oil was on the market short term from several of the State's purchasers. The potential losses to the State from creating a downtrend in the market can be in the tens of millions of dollars annually.

While economic and other benefits can generally be identified as an offset to the potential losses from in-state processing, the same is not necessarily true of royalty oil processed elsewhere. For this reason, the State has recently avoided entering into agreements with West Coast refiners.

The State believes that the \$.30 per barrel premium established in the proposed Prudhoe Bay Unit agreements with Tesoro and Chevron more than offsets any proposed financial loss to the State which might occur as a result of the two-tier price structure for ANS crude oil. In addition, the employment, tax base, and general economic benefits also should be included in any judgement of the net cost to the State of in-kind royalty oil sales.

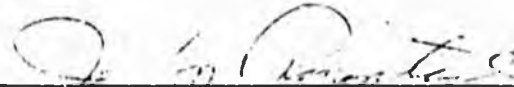
LETTER OF INTENT  
FOR CSHB 320  
January 19, 1984

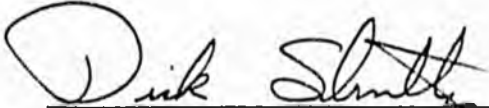
The House Resources Committee has considered CSHB 320, providing for approval of the Agreement between the State of Alaska and Tesoro Alaska Petroleum Company for the sale of a portion of Alaska's royalty oil. This Agreement must be approved by the legislature under the provisions of AS 38.06.055(a) which provides that "the commissioner of natural resources may not enter into a sale, exchange, or other disposition of oil or gas or of the rights or waiver of the rights to receive future production of royalty oil or gas under AS 38.05.183 without the prior approval of the legislature."

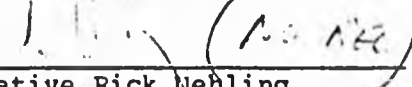
Section 19.1 of the Agreement provides that the Agreement may be "supplemented, amended or modified at any time, but only by written instrument duly executed by the parties to this Agreement." In making any such changes to the Agreement pursuant to this section, the Commissioner would be acting on behalf of the State of Alaska as one of the parties to the Agreement.

The Committee recognizes that a supplement, amendment, or modification of the Agreement could be a further "sale, exchange, or other disposition" within the meaning of AS 38.06.055(a). The Committee is also cognizant that pursuant to Section 20.1 of the Agreement, the Commissioner has the right to "grant" (consent to) an assignment of the Agreement.

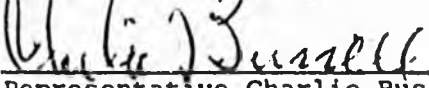
It is the intent of the Committee that it be understood that approval of CSHB 320 does not constitute prior approval of any supplement, amendment or modification or any assignment that would be a further "sale, disposition, exchange, or other disposition" within the meaning of AS 38.06.055(a) and that it is expected that any such action by the Commissioner must first be preceded by compliance with the procedures for obtaining the prior approval of the legislature.

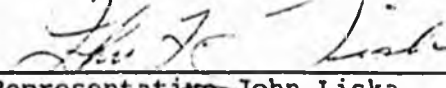
  
Representative John Ringstad  
Co-Chairman, Resource Committee

  
Representative Dick Shultz  
Co-Chairman, Resource Committee

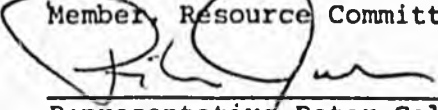
  
Representative Rick Nehling  
Vice-Chairman, Resource Committee

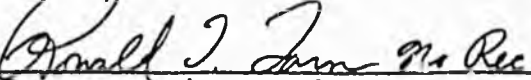
Representative John Cowdery  
Member, Resource Committee

  
Representative Charlie Bussell  
Member, Resource Committee

  
Representative John Liska  
Member, Resource Committee

Representative Anthony Vaska  
Member, Resource Committee

  
Representative Peter Goll  
Member, Resource Committee

  
Representative Ronald Larson  
Member, Resource Committee



Official Business

# Alaska State Legislature

## House Resources Committee

# SIGN-IN

Monday, Jan 16, 1984

HB 320  
HB 371  
SB 269

**NAME ADDRESS PHONE REPRESENTING**

Jack Lentaylor	of Ray Plummer - 736 W 12th, Juneau	586-3376	Chevron
ESTHER Winnicke	Dept. of Natural Resources Pouch - Juneau 99811	465-2400	State of AK
Kay Brown	Division of Minerals & Energy Mgmt. Dept. of Natural Resources	265-4241	State of AK
Donna Wood (Johnson)	Pouch 7-034 Anchorage, AK 99510	276-2653	State of AK
D. F. JUREN	8700 Tesoro Drive Spring Branch, Texas 78286	512 828-8484	Tesoro Petroleum Corp.
R. M. Maynard	Dept of Law	31000	Dept of Law

AGD 786338

Dennis Jaren  
Jack Lutewiler

Called to order 3:05

-00

Ring  
Dehling  
Larsen  
Bussell  
Liska  
Gell

Vaska

→

Davis  
Szymanski

Gilman  
Malcahy  
Sturg  
Ziegler  
Falko  
P. Fischer

070 Com in Wainicla

Statement - Contracts do indeed serve  
best interests of people of Alaska

108 Renegotiated contracts before German

110 Price reopeners on Prudhoe oil

Schultz arrives

All three require in-state refining

140 Royalty oil bd Dec mtg. Support overwhelming

Still substantial amt. taken in value

160 104,000 bd royalty oil in value

175 Statutes could be revised

Overlap on other resource disposition,  
complicates

185 Royalty bd overlaps

180 Kay Brown intro  
Donna Wood Johnson

200 Kay B. went over suggested statutory  
changes - regulations  
- Set floor on price in future negotiations  
- Royalty gas & Gas liquids -  
Propose to extend oil procedures to  
gas sales for future.

Jan 85 80,000 bbl remaining in value available  
after meeting<sup>3</sup> contracts

Majority of oil should be sold short term  
by competitive bid.

Admin will be making decision on in near  
future.

Bring <sup>some</sup> consistency as in 5 yr-leasing program

360 Donna Wood Johnson

Briefly acquainted members with contents  
of black book -

### Differences

Cook Inlet - amendments no longer req. by approval

Tesoro - 6 yr price reopener

- Amerada Hess. no longer applies

- 5¢ more = \$3.5 million

Chevron - 2 yr. price reopener

- back up provisions

380 - Discussed <sup>1-yr</sup> emergency contract provisions

400 - Discussed 1 yr Shell contract

- 417 Stung - asked about other applications  
Wunnicke - yes, none approved because  
no in-state refining provided for
- 436 Faiks - Proposed regulation regarding Field  
costs  $\frac{1}{2}$  floor price  
Kay B -  
Bib Maynard -
- 470 Vaska - legis. approval of amendments  $\frac{1}{2}$   
price reopener  
Wunnicke - not consid. amendment
- 490 Pestinger - How much value on in state refining?  
why such a key factor?  
Wunnicke - State cannot act as bus. when dealing  
with public resource  
Many secondary benefits - jobs, new facilities,  
etc
- 525 Ring - how much should go out on short  
term competitive bid  
K Brown - 50000 b/d in 25000 b/d increments  
every 6 mo in 1yr contracts
- 550 Vaska - Contract with Golden Valley up this yr -  
Wunnicke - yes  
Vaska - Tied to Mapco contract  
Wunnicke -
- 560 Ringstad - Will Golden Valley be coming to us  
Probably around March

575 Vehling - Asked about amendment  
end of tape

Gold - asked about direct savings to  
consumer -

Winnick - GVEA passes on savings  
directly

625 Tesoro - Juren presentation  
300 people back on job within weeks

690 Discussed result of ~~price~~ in-state refining on prices

730 Remote markets, unsubsidized by gov'ts  
Solution more political than commercial

760 Best for consumer to encourage expansion of  
in-state refining

778 Ringstad - Construction season lag time  
between approval of contracts and start-up  
Juren - none - immediate, weather permitting  
800 Ringstad - Construction completion  
Juren - late fall 1989

815 Szymanski - Charter Oil connection -  
Juren - Charter Security Life invested in  
Tesoro as part of portfolio -  $\frac{1}{3}$  to get equity  
accounting - at least 20%. Opportunity  
to express an influence, rather than direct or  
control  
If sold by Charter, must be broad distribution  
Has to vote shares in proportion to other shareholders

985 Ringstad - Voting proposition of Charter stock

1005 Ringstad - how does State monitor changes  
in Charter/Tesoro relationship  
Juren - Filings with SEC

1020 Goll - Many of these prohibitions can  
take place w/consent of directors

1050 Gilman - Did Tesoro have enough capacity  
to meet needs of S. Central & Railbelt  
markets -

Juren - No - unable to keep up in peak summer  
due to population growth. If an interruption  
took place, as in 73-74, would not be able to  
meet demand.

1080 Goll - What statewide distribution plans -

Juren - Some evaluations, prelim. engineering  
in Western Alaska - Billingsham

1105 Goll - Charter still largest share holder  
- Yes

Juren - answered st. all concerns - Why  
Tesoro's proposal is so much better than Shell's  
\$1 bbl - Tesoro investment = approximately  
\$1.30 barrel in construction, jobs, commerce  
and business in state.

1140 Kutwiler - Chevron

Continued. Long term operation of Chevron  
Nikiski refinery requires long-term oil supply

Lutewiler -

Chevron - 80% of AK Gas

12,000 bbl imported to state from Calif. refiners,

Asphalt producer - only one in-state

1300 Boll - Plans for dealing w/ high prices in  
rush / 14-state refiners -

Lute - high because of distrib. & handling  
but concerned

1330 Bussell - Is your contract viewed as short,  
2 yr cont. or long-term  
Some of each

1350 Lindauer - Do you practice price discrimination?  
No

Would you object if a prohibition of such was  
a condition -

Does Chevron use Calif. + pricing?

Lute - Cheaper to move product from Richmond  
Calif to Dutch than ~~by~~ from Nikiski

1405 Lindauer - Create any additional jobs  
No

What % of oil would actually be refined  
here - 35%

1420 Does Chevron get fair rate of return

1440 Boll - Can prices be balanced by shipping  
Calif. product to Dutch and moving AK  
refined product to W/AK.

1505 Lisa - Chevron - asphalt do you meet requirements  
Lute - requires import of Calif. ingredient

1520 ~~the~~ Lindauer - what price competition in W/AK

1570 Lindauer - Suet by Kenai Boro -  
Lute - unit ~~is~~ has been withdrawn - piped to  
Anch, blended & trucked back, small  
dealers in Kenai.

1600 Gilman - commented on Suet

PRESENTATION BEFORE THE HOUSE RESOURCES COMMITTEE

IN JUNEAU, ALASKA ON JANUARY 16, 1984

I AM JOHN C. LEUTWYLER, MANAGER OF STRATEGIC PLANNING, OPERATIONS AND BUSINESS PLANNING DEPARTMENT OF CHEVRON U.S.A. INC. I AM PLEASED TO HAVE THE OPPORTUNITY TO APPEAR BEFORE YOU TODAY TO DISCUSS THE ROYALTY OIL CONTRACT BETWEEN THE STATE OF ALASKA AND CHEVRON.

AS EVERYONE HERE TODAY KNOWS, CHEVRON NEGOTIATED A LONG-TERM CONTRACT FOR THE PURCHASE OF 18,000 BARRELS PER DAY OF NORTH SLOPE ROYALTY OIL WITH THE ADMINISTRATION IN 1983. THIS CONTRACT WAS APPROVED BY THE SENATE IN THE LAST SESSION, BUT WAS NOT ACTED ON BY THE HOUSE PRIOR TO ADJOURNMENT LAST SUMMER. NATURALLY, WE WERE VERY DISAPPOINTED THAT THE CONTRACT DID NOT RECEIVE ALL NECESSARY APPROVALS. CHEVRON CONTINUES TO BE THE ONLY IN-STATE REFINER WHICH DOES NOT PURCHASE ROYALTY OIL FROM THE STATE UNDER A LONG-TERM CONTRACT. CHEVRON IS OPERATING CURRENTLY UNDER A ONE YEAR CONTRACT FOR ROYALTY OIL RUN AT THE NIKISKI REFINERY, WHICH EXPIRES ON MAY 30 OF THIS YEAR.

THE PRIMARY CONCERN EXPRESSED BY THE HOUSE IN THE LAST SESSION WAS THAT THE CONTRACT HAD A PRICE TIED TO THE IN-VALUE PRICE WITH A FIXED PREMIUM OVER THE TERM OF THE CONTRACT--11 YEARS. THE STATE WOULD NOT HAVE BEEN ABLE TO PURSUE MORE ATTRACTIVE DISPOSITIONS OF THE ROYALTY OIL SHOULD THEY DEVELOP DURING THE TERM OF THE CONTRACT.

SINCE THE LEGISLATURE ADJOURNED LAST SUMMER, CHEVRON HAS HAD NUMEROUS MEETINGS WITH DEPARTMENT OF NATURAL RESOURCES REPRESENTATIVES AND MEMBERS OF THE LEGISLATURE IN ORDER TO MODIFY THE CONTRACT TO BE ACCEPTABLE TO THE LEGISLATURE. WE BELIEVE THIS HAS NOW BEEN ACHIEVED BY ADDING THE PROVISION THAT EITHER PARTY MAY REOPEN THE CONTRACT TO RENEGOTIATE THE PRICE FOR THE ROYALTY OIL EVERY TWO YEARS. THIS PROVIDES A MECHANISM TO ADJUST THE PRICE IN CASE EITHER PARTY BELIEVES THE THEN CURRENT PRICE IS OUT OF LINE WITH WORLD MARKETS. IF THE PARTIES CANNOT AGREE ON A NEW PRICE, THE CONTRACT CAN BE TERMINATED. CHEVRON IS AGREEABLE WITH THIS CONCEPT AS WE HAVE NEVER ASKED THAT THE STATE LOSE MONEY IN SELLING THEIR ROYALTY OIL TO CHEVRON. WE HOPE THIS PRICE REOPENER PROVISION HAS ELIMINATED THE LEGISLATIVE CONCERNS AND WILL RESULT IN APPROVAL OF CHEVRON'S ROYALTY OIL CONTRACT DURING THE EARLY PART OF THIS SESSION. SUCH APPROVAL IS ESSENTIAL TO AVOID A DISRUPTION IN CRUDE SUPPLY FOR OUR NIKISKI REFINERY AFTER THE PRESENT ONE-YEAR CONTRACT EXPIRES ON MAY 30 OF THIS YEAR. CONTINUED LONG-TERM OPERATION OF THE NIKISKI REFINERY REQUIRES A LONG-TERM CRUDE SUPPLY AT COMPETITIVE PRICES.

LEGISLATIVE APPROVAL OF THIS LONG-TERM CONTRACT WITH CHEVRON WOULD BE CONSISTENT WITH CONTRACTS THE STATE HAS ALREADY MADE WITH ALL OTHER IN-STATE REFINERS, EXCEPT CHEVRON.

I WOULD LIKE TO MENTION BRIEFLY CHEVRON'S LONG HISTORIC POSITION IN THE PETROLEUM INDUSTRY IN ALASKA AND OUR ROLE IN

SERVING THE REFINED PRODUCT NEEDS FOR THE CITIZENS OF ALASKA IN BOTH THE URBAN AS WELL AS THE BUSH AREAS.

CHEVRON WAS THE FIRST COMPANY TO MARKET PETROLEUM PRODUCTS IN ALASKA STARTING IN 1889 AND HAS SERVED ALASKA CONTINUOUSLY SINCE THAT TIME. WE ARE THE ONLY STATEWIDE MARKETER AND ARE THE SOLE SUPPLIER OF PETROLEUM PRODUCTS IN FOURTEEN COMMUNITIES. CHEVRON SUPPLIES ABOUT 27,000 BPD OR SOME 36 PERCENT OF THE LIGHT PRODUCTS USED IN THE STATE. IN ADDITION, CHEVRON OPERATES THE ONLY FINISHED PRODUCT TANKER BASED IN ALASKA-- THE "ALASKA STANDARD" -- WHICH IS DEDICATED TO SERVING ALASKANS IN REMOTE AREAS. IN ADDITION TO THIS TANKER, WE HAVE EXTENSIVE AND EXPENSIVE BARGING OPERATIONS IN THE BRISTOL BAY, BERING SEA, AND SOUTHEAST ALASKA AREAS.

CHEVRON BUILT THE FIRST MODERN REFINERY IN ALASKA WHICH STARTED OPERATING IN 1963. IN ADDITION TO LIGHT PRODUCTS, WE HAVE HISTORICALLY MADE ABOUT 70 PERCENT OF THE STATE'S REQUIREMENT FOR ASPHALT AT NIKISKI. IN 1983 WE SUPPLIED 100 PERCENT OF THE REQUIREMENT AS THE OTHER SUPPLIER HAS WITHDRAWN FROM SELLING ASPHALT IN ALASKA.

CHEVRON HAS APPROXIMATELY 190 EMPLOYEES IN ALASKA DIRECTLY ASSOCIATED WITH OUR VARIOUS OPERATIONS. IN ADDITION, WE DO BUSINESS WITH ABOUT 190 INDEPENDENT RETAIL DEALERS WHO EMPLOY 800 PEOPLE AND 69 JOBBERS AND AGENTS WHO EMPLOY OVER 300 PEOPLE. IN TOTAL, CHEVRON'S INVOLVEMENT IN THE PETROLEUM INDUSTRY IN ALASKA RESULTS IN THE DIRECT AND INDIRECT EMPLOYMENT OF ALMOST 1300 PEOPLE.

THE STATE HAS ABOUT 197,000 BPD OF ROYALTY OIL FROM THE NORTH SLOPE, INCLUDING KUPARUK. OF THIS VOLUME, ABOUT 81,000 BPD IS COMMITTED TO IN-STATE REFINERS UNDER LONG-TERM CONTRACTS AND THE BALANCE OF ABOUT 110,000 BPD HAS BEEN LEFT WITH THE PRODUCERS WHO ARE EXPORTING THE OIL TO THE LOWER 48 STATES. THE BULK OF THE VOLUME BEING EXPORTED IS GOING THROUGH THE PANAMA CANAL TO THE GULF COAST AREA FOR SUPPLYING PRODUCTS IN THAT AREA, AND THE STATE IS IN EFFECT PAYING THE TRANSPORTATION COST FROM ALASKA TO THE GULF COAST THROUGH LOWER REALIZATIONS FROM THE PRODUCERS. NONE OF THE THREE LARGEST PRODUCERS EXPORTING ROYALTY OIL RETURN PRODUCTS TO ALASKA FOR USE BY THE RESIDENTS IN ALASKA. IN CONTRAST, CHEVRON BRINGS OVER 12,000 BPD OF PRODUCTS TO ALASKA FROM OUR CALIFORNIA REFINERIES TO SUPPLEMENT THE PRODUCTS MADE AT OUR NIKISKI REFINERY. ONE OF THE PRODUCTS WE BRING TO ALASKA IS AVIATION GASOLINE, OF WHICH CHEVRON SUPPLIES ABOUT 80 PERCENT OF THE STATE'S TOTAL REQUIREMENT.

THE STATE HAS THE ALTERNATIVE OF (1) LEAVING 18,000 BPD OF ROYALTY OIL WITH THE PRODUCERS FOR EXPORTING TO THE LOWER 48 TO MAKE PRODUCTS IN THE GULF COAST AREA, OR (2) SELLING THIS VOLUME OF ROYALTY OIL TO CHEVRON UNDER A LONG-TERM CONTRACT AT A HIGHER PRICE THAN THE STATE WILL RECEIVE FROM THE PRODUCERS. OUR CONTRACT WILL PROVIDE THAT WE REFINER THE OIL IN-STATE AT OUR NIKISKI REFINERY AND CONTINUE TO SUPPLY THE PRODUCT NEEDS OF THE CONSUMERS IN ALASKA INCLUDING DIESEL, HEATING OILS, JET FUELS, AND ASPHALT. I DO NOT BELIEVE ANYONE CAN ARGUE THAT SUCH USE OF THE ROYALTY OIL IS NOT IN THE BEST INTEREST OF THE STATE AND ITS CITIZENS.

IN CLOSING, WE SINCERELY HOPE THAT THE LEGISLATURE WILL DETERMINE IT IS IN THE BEST INTEREST OF THE STATE AND ITS CITIZENS TO APPROVE A LONG-TERM CONTRACT WITH CHEVRON, A COMPANY THAT HAS HISTORICALLY DONE BUSINESS IN ALASKA AND HAS SIZABLE INVESTMENTS IN THE STATE. WE WOULD LIKE TO CONTINUE OUR MAJOR INVOLVEMENT IN SERVING ALASKA.

I WILL BE HAPPY TO RESPOND TO ANY QUESTIONS THAT YOU MAY HAVE.

THANK YOU.

HB 320  
 HB 370  
 HB 371

DATE: MAY 5, 1983 SPONSOR: RULES/GOVERNOR  
 SUBJECT(S): ROYALTY OIL CONTRACTS

\*\*PLEASE FILL IN A COMPLETE ROW\*\*

NAME	REPRESENTING	ADDRESS	PHONE	Observer		Witness		For	Against
✓ Bill Blessington	ARECA	237 E Fireweed AVE	272 3235		✓		✓		
✓ Marilyn Dimmick	KENAI BORO	BOX 47 NINILCHIK	567-3927		✓		✓		
✓ Phil J. Harrett	Kenai Chamber of Commerce STATE Chamber	Box 3331 Kenai Kenai Board of Resources	243-7189		✓		✓		
✓ Betty J. Blich	Kenai	Box 528 Kenai	283-7644		✓		✓		
✓ Dennis F. Juren	Tesoro	SAN ANTONIO, TEXAS							
✓ Reed Williams	"	" "	512-828-8788		✓		✓		
✓ [unclear]	DEED								
✓ ESTER WARRICK	DNR								
BUR MAYNARD	AG								
✓ NELS ANDERSON					✓			✓	

AGD 786378

Introduced by: Mayor  
Date: May 3, 1983  
Vote:  
Action:

KENAI PENINSULA BOROUGH

RESOLUTION 83-119

SUPPORTING APPROVAL OF STATE ROYALTY OIL CONTRACTS TO CHEVRON USA AND TESORO ALASKA.

WHEREAS, contracts for the supply of the State's royalty oil for Chevron USA and Tesoro Alaska are currently pending the approval of the State Legislature; and

WHEREAS, the supplies of crude oil from Cook Inlet and Peninsula fields have been dwindling annually since 1970 necessitating the companies to look to the State for assured supplies; and

WHEREAS, it has been the expressed interest of the State to pledge its royalty oil for in-State processing and to trigger new industrial investment and employment; and

WHEREAS, the contracts call for an eleven-year supply of 18,000 barrels per day to the Chevron refinery, and 26,000 barrels per day to the Tesoro refinery for in-State processing of products for Alaska markets; and

WHEREAS, the supply of the royalty oil will add measurably to the economic well-being of the State of Alaska and the Kenai Peninsula assuring the continuing operation for the Chevron refinery and the further expansion of the Tesoro refinery; and

WHEREAS, the Chevron and Tesoro refineries are annual contributors to the economy with a combined payroll of \$4 million from the 105 year-round jobs, operations impacting another 100 jobs and \$2.5 million in wages in the service and supply sector, \$1.5 million in local purchases, and sizeable tax contributions from a combined \$125 million in assessed valuations; and

WHEREAS, such contributions to the economy would be increased by an \$80-\$90 million expansion of the Tesoro refinery, a 250-member construction work force, and the addition of 20-30 new year-round jobs for the expanded operations of the plant; and

WHEREAS, it has been determined by the State Commissioner of Natural Resources, and the State's Royalty Oil and Gas Advisory Board that the approval of contracts to provide long-term supplies of the State's North Slope crude to the two companies is in

10-1-5-1  
the best interest of the State of Alaska, and a wise and expedient use of the State's oil resources;

NOW THEREFORE, BE IT RESOLVED BY THE ASSEMBLY OF THE KENAI PENINSULA BOROUGH:

Section 1. That the Assembly recommends that the State Legislature approve contracts for the supply of the State's royalty oil from the North Slope to the in-State refining facilities of Chevron USA and Tesoro Alaska.

Section 2. That the Kenai Peninsula Borough Assembly supports the concept of approval and ratification of those contracts as provided in HB 320; HB 370; HB 371; SB 268, and SB 269.

Section 3. That the Borough Clerk shall distribute a copy of this resolution to Governor William J. Sheffield; to Senate President Jalmar Kerttula; to House Speaker Joe L. Hayes; to the Chairmen of the Senate and House Resources Committees; to Senators Don Gilman and Paul Fischer; and to Representatives Hugh Malone, Bette Cato, Milo Fritz, and Vern Hurlbert.

Section 4. That this resolution takes effect immediately on the date of its adoption.

ADOPTED BY THE ASSEMBLY OF THE KENAI PENINSULA BOROUGH ON THIS \_\_\_\_\_ DAY OF \_\_\_\_\_, 1983.

\_\_\_\_\_  
Donald L. McCloud, Assembly President

ATTEST:

\_\_\_\_\_  
Borough Clerk



Kenai Chamber of Commerce

Box 497

Kenai, Alaska 99611

(907) 283-7989

GREATER KENAI CHAMBER OF COMMERCE

RESOLUTION NO. 83-09

A RESOLUTION OF THE GREATER KENAI CHAMBER OF COMMERCE REQUESTING THE THIRTEENTH LEGISLATURE OF THE STATE OF ALASKA TO SUPPORT AND URGE THE PASSING OF HB 320, HB 370 and HB 371 AND SB 268 and SB 269 GRANTING ADDITIONAL STATE ROYALTY OIL TO CHEVRON AND TESORO AND URGING THE GOVERNOR TO SIGN HB 320, HB 370 and HB 371 AND SB 268 and SB 269.

WHEREAS, Chevron and Tesoro are good corporate neighbors to the Greater Kenai Area and have contributed to the community and the area in many positive ways toward the betterment of the community on a totally voluntary basis, and

WHEREAS, Chevron and Tesoro make up a substantial amount of the tax base in the area and provide the majority of the employment of the Central Kenai Peninsula, and

WHEREAS, Chevron and Tesoro have made many many capital investments in the State of Alaska that adds to the overall tax base and has contributed substantially to the availability of jobs for the purpose of processing the State of Alaska's natural resources in state, and

WHEREAS, Chevron and Tesoro need the royalty oil to continue making asphalt and to make a substantial addition to the Tesoro refinery for additional capacities which will provide substantial numbers of construction employees work over the next two years, and

WHEREAS, once that addition is completed, they will add to their permanent work force to man the added facilities at the Tesoro site, and

WHEREAS, to provide that additional royalty oil to any other concern or corporation without the promise or expectation of additional infrastructure for the purpose of in-state processing of the state's natural resources would seem unfair, and

WHEREAS, the Greater Kenai Chamber of Commerce believes at this time that the best use of Alaska's royalty oil is to give it to a corporation who intends to process it in state as opposed to sending it out of state and providing jobs and infrastructure outside the State of Alaska, and

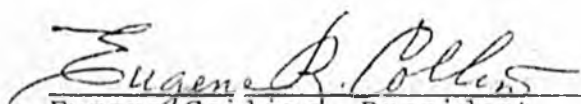
WHEREAS, there is an immediate need for the State of Alaska to make its decision in order that Chevron can continue to provide asphalt in the State of Alaska and permit Tesoro to immediately start the construction of their addition at the Tesoro refinery, and

WHEREAS, the granting of the proposed contract for additional royalty oil to Chevron and Tesoro will not deplete the State's share of royalty oil since the State will be entitled to in excess of 71,000 barrels a day over and above Chevron and Tesoro's request, and

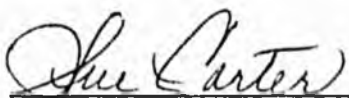
WHEREAS, providing Chevron and Tesoro the additional royalty oil will continue to provide the citizens of the State of Alaska a continued supply of fuel products.

NOW, THEREFORE, BE IT RESOLVED BY THE GREATER KENAI CHAMBER OF COMMERCE, that said Chamber is on record in support of HB's 320, 370 and 371 and SB's 268 and 269 requesting the granting of additional state royalty oil to Chevron and Tesoro because of the positive economic impact it will have on the entire State of Alaska, and further that immediately after the adoption of this Resolution, the Executive Director of the Greater Kenai Chamber of Commerce be directed to provide copies of this Resolution to Governor William J. Sheffield and each and every member of the State Senate and House of Representatives of the State of Alaska.

ADOPTED BY THE GREATER KENAI CHAMBER OF COMMERCE this 29th day of April, 1983.

  
Eugene R. Collins, President

ATTEST:

  
Sue Carter, Executive Director



VITA

Philip E. Sorensen

April 1982

Personal Data:

Address: 2239 Trescott Drive  
Tallahassee, Florida 32312  
(904) 785-9435

University: Department of Economics  
Florida State University  
Tallahassee, Florida 32306  
(904) 644-5001

Degrees:

B.S. (Government), Utah State University, 1954. Member: Phi Kappa Phi, Honorary Scholastic Fraternity. Received "College Award" as Outstanding Graduating Senior.

M.S. (Economics), Utah State University, 1957.

Ph.D. (Economics), University of California, Berkeley, 1966. Elected to Phi Beta Kappa, 1965.

Academic Appointments:

Teaching Assistant and Associate Instructor of Economics, University of California, Berkeley, 1958-1962. Assistant Professor of Economics, University of California, Berkeley, 1967.

Instructor and Assistant Professor of Economics, Claremont Men's College, Claremont, California, 1962-65.

Assistant Professor of Economics, University of California, Santa Barbara, 1965-1969. Associate Research Professor, University of California, Santa Barbara, 1970-1971. Visiting Professor of Economics, University of California, Santa Barbara, 1979-1980. Currently on Joint Appointment as Research Professor of Economics, University of California, Santa Barbara.

Associate Professor of Economics, Florida State University, Tallahassee, appointed 1971.

Professor of Economics, Florida State University, Tallahassee, since 1978.

Professional Appointments (Partial Listing):

Consultant to the State of California, Department of Public Health (on pollution control system costs and benefits), 1965-66.

Consultant to the United Nations Committee on Peaceful Uses of the Sea Bed (on the costs of deep ocean mining), 1968-71.

Consultant to the U.S. State Department (on deep ocean mining), 1969.

Consultant and Seminar Leader (on the U.S. Oil Industry), National Science Foundation Conference on the Social Management of Technology, University of Washington, Seattle, 1972.

Consultant to the Steering Committee (on Energy Research), National Academy of Engineering Study of the NSF-RANN Research Program, 1972-73.

Member: Florida Gasoline Allocation Committee, 1973-74.

Member: Governor's Advisory Council on Energy Allocation and Conservation, 1973-1976 (appointed by Governor Reubin Askew).

Chief Economist for Study of Economic Costs of the Santa Barbara Oil Spill, State of California, Department of Justice, 1974-75.

Chief Economist for Study of Environmental Damage Caused by the Bahia Sucia Oil Spill, Commonwealth of Puerto Rico, 1976-79.

Florida Representative on the Marine Resources Advisory Committee of the Coastal Plains Regional Commission (appointed by Governor Reubin Askew and Re-appointed by Governor Robert Graham), 1977-79.

Economic Advisory Committee to the Florida Department of Environmental Regulation, since 1977.

Member of the Steering Committee, The Amoco Cadiz Oil Spill Study, a joint U.S.-French Scientific Research Project, 1978-1981.

Consultant to the State of Washington, Department of Ecology (on the economic and environmental costs of the Northern Tier Pipeline project), 1981.

Member of U.S. Delegation to the OECD Conference on Economic Analysis of Oil Spills, Paris, France, June 1981.

Awards and Fellowships:

University Award, Utah State University, 1954.

Ford Foundation Fellowship, University of California, Berkeley, 1962.

Fellow of King's College, Cambridge, England, Summer 1962.

Danforth Associate, Danforth Foundation, 1967-present.

Reim Foundation Fellowship, London, 1968.

Graduate Research Council Award, Florida State University, 1973.

American Men and Women of Science, 1974-present.

Special Commendation:

Received Official Commendation from the Governor and Cabinet of the State of Florida for "outstanding public service" in developing data and analysis leading to the settlement of claims involving offshore oil and gas resources of the State. Commendation presented at meeting of the Florida Cabinet, January 6, 1976.

Professional Societies:

American Economic Association  
International Association of Energy Economists  
American Association for the Advancement of Science  
Royal Economic Society  
History of Economics Society

Publications:

The California Waste Management Study, State of California, Department of Public Health, 1965, 411 pages. (With other authors.)

"Externalities in Ocean Mineral Resource Development," in R.C. Steere (ed.) A Critical Look at Marine Technology, Washington, D.C. 1968, pp. 9-16 (with W.J. Mead).

"A Cost-Benefit of Analysis of Ocean Mineral Resource Development," American Journal of Agricultural Economics, December 1968, pp. 1611-1620 (with W.J. Mead). Reprinted: Hearings of the Committee on Interior and Insular Affairs, U.S. Senate, May 1970, pp. 364-70.

"A New Economic Appraisal of Marine Phosphorite Deposits Off the Coast of California," in The Decade Ahead, Marine Technology Society, Washington, D.C., 1969, pp. 491-500 (with W.J. Mead). Reprinted: Hearings of the Committee on Interior and Insular Affairs, U.S. Senate, May 1970, pp. 370-77.

"The Principal External Costs and Benefits of Marine Mineral Recovery," Proceedings of the 1970 Offshore Technology Conference, Houston, 1970, pp. 307-16 (with W. J. Mead).

"Optimum Population and Economic Externalities," in N. Hinrichs (ed.) Population, Environment, and People, McGraw-Hill Book Company, New York, 1971. This article cited in the New York Times, June 10, 1970, p. C72; also cited in Business Week, October 24, 1970, p. 103.

"Evaluation of Technological Spillovers," in Marine Technology-1970, Marine Technology Society, Washington, D.C., 1970, pp. 779-788 (with W. J. Mead).

"A National Defense Petroleum Reserve Alternative to Oil Import Quotas," Land Economics, Vol. 47, No. 3, August 1971, pp. 211-223 (with W. J. Mead). Article cited in The Washington Post, August 27, 1970, p. A12; and Oil and Gas Journal, June 28, 1971, p. 46.

"Marine Algae as an Economic Resource," in Marine Technology--1971, Marine Technology Society, Washington, D.C. 1971, pp. 523-33 (with W. Silverthorne).

"A Preliminary Estimate of the Economic Potential of Ocean Placer Mining," in Applications of Marine Technology to Human Needs, Marine Technology Society, 1972 (with W. J. Mead and S. Wilcox). Republished in summary form, Ocean Industry, August 1972.

"The Economic Cost of the Santa Barbara Oil Spill," in Santa Barbara Oil Spill: An Environmental Inquiry, Marine Science Institute, University of California, Santa Barbara, 1972, pp. 183-227 (with W. J. Mead).

"An Econometric Model of Florida Tourism," Proceedings of the American Statistical Association, 1974, pp. 373-78 (with J. Gapinski).

Severance Taxes, Royalty Rates, and Leasing Policy Toward Oil and Gas Resources Within State Jurisdiction in the United States, a monograph published by the Department of Administration, State of Florida, September 1974 (53 pp.)

"An Economic Assessment of the Project Independence Goals for OCS Oil and Gas Production," in Project Independence Reports, Vol. 8, November 1974, pp. 284-83. Cited in Oil and Gas Journal, Nov. 11, 1974, p. 241, and Florida Trend, February 1975, p. 94.

Patterns of Energy Consumption in Florida, published by the Florida Energy Committee, State of Florida, June 1975, 461 pp. (with other authors).

"Florida's Economic Impact Disclosure Act," in Revenue Estimating Procedures, published by the Research Section of the National Association of Tax Administrators, Washington, D.C., 1978, pp. 105-111.

A Comparative Analysis of Alternatives for Limiting Access to Ocean Recreational Salmon Fishing, a monograph published by the Pacific Marine Fisheries Commission, Portland, January 1978, 129 pp. (with F. Hester).

"Analytics of Motor Fuel Consumption and Tax Collections," State and Local Government Review, Vol. 10, No. 2 May 1978, pp. 69-78 (with J. Gapinski).

"Economic Issues in Oil Shale Leasing Policy," in Oil Shale Symposium, Colorado School of Mines, Golden, Fall 1978 (with R. Jones and W. Mead).

"Free Entry Into Crude Oil and Gas Production and Competition U.S. Oil Industry," Natural Resources Journal, Vol. 18, No. October 1978, pp. 859-75 (with R. Jones and W. Mead). Repr. A Utton (ed.) U.S. Energy Policy--1979. New York: Ballinger 1979.

"The Outer Continental Shelf Lands Act Amendments of 1978--An Analysis," Natural Resources Journal, October 1979, pp. 885-9 (with W. Mead).

Competition in OCS Oil and Gas Lease Sales and Lease Development 1969, published by U.S. Geological Survey, Washington, D. C. March 1980, 188 pages (with W. Mead).

"Measuring the Economic Impact of Oil Spills on Commercial Fisheries in Proceedings of the International Conference on Marine Oil Pollution, Brest, France, March 1979.

"The Economic Cost of the Amoco Cadiz Oil Spill," in Proceedings of the Conference on the Impact of Marine Pollution on Society, University of Rhode Island, Kingston, June 1980.

"The Economic Effects of the Small Business Motor Fuel Market Preservation Act--H.R. 6722," Joint Hearings Before the Subcommittee on Antitrust, Committee on Small Business, Washington, D.C., June 1979, pp. 471-502.

"Do Bidders in OCS Oil and Gas Lease Sales Behave Rationally?" in J. Dunkerley (ed.), International Energy Strategies, Cambridge, Mass.: Ballinger, 1980, pp. 321-334 (with R. Jones and W. Mead).

"Competition in Gasoline Marketing in the U.S.," in Hearings Before the Committee on the Judiciary, United States Senate, on S. 326, Divorce of Motor Fuel Service Stations, October 21, 1981, pp. 490-524.

"Assessing the Economic Damages of Oil Spills: The Amoco Cadiz Case Study, National Oceanic and Atmospheric Administration, U.S. Department of Commerce, 1982, 466 pp. (with other authors).

"Economic and Legal Issues Associated with Calculation of Damages to Fisheries and the Marine Environment Caused by Oil Spills," in Economic Costs of Marine Oil Pollution, OECD, Paris, France, 1982.

"The Effects of Taxes on the Profitability of U.S. Oil and Gas Production: A Case Study of the OCS Record," The National Tax Journal, March 1982 (with W. Mead and D. Muraoka).

"Toward Efficient National Policies for Leasing Oil and Gas Resources," in Proceedings of the 1982 Annual Meeting of the International Association of Energy Economists, Cambridge, England (with other authors).

Other Articles and Research Reports (Partial Listing):

"Edgeworth in Retrospect," a paper presented at the Annual Meeting of the Western Economic Association, 1968. Abstracted: Western Economic Journal, September 1968, p. 304.

Possible Impact of Seabed Mineral Production on World Markets, United Nations Committee on the Sea Bed, New York, 1971 (contributor to Chapter III, "Assessment of Economic Implications").

Priorities for Research Applied to National Needs, National Academy of Engineering, Washington, D.C., 1973 (contributor to volume).

"An Energy Profile of Florida," written for the Economic Report of the Governor, State of Florida, 1974.

Economic Evaluation of Environmental Damage Resulting from the Santa Barbara Oil Spill, a report prepared for the Department of Justice, State of California, July 1974.

"The Energy Situation in Florida," a series of reports written for the Florida Energy Committee, 1973-1974, published in the Committee's Report to the Florida Legislature, March 1974.

"Positive Science and Economics," a paper presented at the Annual Meeting of the History of Economics Society, Chapel Hill, N.C. May 1974 (with E. R. Canterbery).

"Competition in OCS Oil and Gas Production," a paper presented at the Annual Meeting of the Western Economic Association, 1975.

"An Economic Analysis of Florida's Environmental Regulations," a report prepared for the Florida Department of Environmental Regulation, March 1976.

A California Solar Energy Pilot Testing Program, a report prepared for the California Energy Resources Conservation and Development Commission, October 1976, 95 pages (with other authors).

"Environmental Damage in Economics and in Law," a paper presented at the Annual Meeting of the Southern Economic Association, 1976.

"Forecasting Gasoline Consumption and Tax Revenue," a paper presented at the Annual Meeting of the Atlantic Economic Association, Washington, D.C., '76 (with J. Gapinski).

"Competition in the Crude Oil and Natural Gas Lease Market," a paper presented at the Annual Meeting of the American Economic Association, New York, 1977 (with R. Jones and W. Mead).

"The Economic Costs of the Amoco Cadiz Oil Spill," a paper presented at the Conference on Impacts of Marine Pollution on Society, University of Rhode Island, June 1980.

Additional Studies of Competition and Performance in OCS Oil and Gas Lease Sales, a report prepared for the U.S. Geological Survey, November 30, 1980, 109 pages (with W. J. Mead).

Competitive Bidding Under Asymmetrical Information, Final Report to the U.S. Geological Survey, Reston, Virginia, September 30, 1981 (with W. Mead and A. Moseidjord).

An Economic Analysis of Florida's Saltwater Sport Fisheries, Final Report of a study funded by the NOAA-Sea Grant Program, 1982 (with F. Bell).

Cross Subsidization and Competition: A Case Study of Gas and Electric Utility Involvement in Residential Energy Conservation, Final Report to the U.S. Small Business Administration, 1982 (with W. Mead and S. Parsons).

Research Grants and Contracts (Principal Investigator):

John Randolph Haynes Foundation, 1968-72 (on ocean mineral economics)

NSF-Sea Grant Program, 1968-71 (on various aspects of marine algae production)

NOAA-Sea Grant Program, 1972 (on marine-based tourism)

Florida Department of Administration, 1973-77 (on offshore oil and gas leasing policy)

Florida Energy Committee, 1974 (on patterns of energy consumption).

Florida Department of Transportation, 1975-78 (on forecasting gasoline demand)

Florida Department of Environmental Regulation, 1976 (economic analysis of Florida's environmental regulations)

Florida Department of Administration, 1977 (developed guidelines for all State agencies to assure compliance with Florida's Economic Impact Disclosure Act)

U.S. Geological Survey, 1976-1982 (studies of OCS oil and gas leasing economics and lease policies)

U.S. Department of Commerce (NOAA), 1978-1981 (a study of the market-valued economic costs of the Amoco Cadiz oil spill)

State of Washington, Department of Ecology, 1980-81 (a study of the economic and environmental costs of the proposed Northern Tier Pipeline)

NOAA-Sea Grant Program, 1980-82 (a study of the economic value of Florida's saltwater sport fisheries)

U.S. Small Business Administration-Federal Trade Commission, 1980-82  
(a theoretical and empirical study of cross subsidization and  
predatory pricing)

Departmental and University Committees (Florida State University):

Director of Graduate Studies in Economics, 1972-73.

Co-director of Ph.D. field in Natural Resource Economics (including  
Energy Economics) and in History of Economic Thought.

Executive Committee of the Department of Economics, 1972-73, 1975-76,  
and 1978-79.

Chairman, FSU Energy Action Research Committee, 1973-1975.

University Graduate Policy Council, 1974-76; 1980-82.

University Senate Budget Committee, 1975-76.

Invited Testimony Before Legislative Bodies:

Special Committee on Oil Spill Legislation of the Florida Legislature,  
1973 (on the implications of unlimited liability for oil spill damages)

Florida House of Representatives, 1973 (at special meeting of the House  
considering the implications of gasoline shortages)

Florida House of Representatives, Commerce Committee, 1974 (on the  
question of competition in gasoline marketing in Florida)

Florida House of Representatives, Rules Committee, 1974 (on the  
implications of gasoline shortages for the Florida economy))

Florida Senate, 1977 (presenting report on Florida's Economic Impact  
Disclosure Act)

Florida House of Representatives, Committee on Tourism and Economic  
Development, 1977 (on the effects of hotel-motel licensing  
restrictions)

Florida Senate, Committee on Economic and Community Affairs, 1979 (on  
competition in gasoline marketing in Florida)

Alaska House of Representatives, Interim Committee on Oil and Gas Leasing  
Policy, 1979 (an economic analysis of leasing policies for the proposed  
Beaufort Sea lease sale)

Arizona State Senate, Committee on Commerce and Labor, 1980 (on  
competition in gasoline marketing in Arizona)

U.S. House of Representatives, Small Business Committee, Antitrust  
Subcommittee, 1980 (on competition in gasoline marketing in the U.S.)



# Alaska State Legislature

HOUSE OF REPRESENTATIVES  
COMMITTEE ON RESOURCES

JOHN RINGSTAD, CO-CHAIRMAN  
RICHARD SHULTZ, CO-CHAIRMAN  
PCUCH V  
JUNEAU, ALASKA 99811  
(907) 465-3715

## MEMORANDUM

To: All Members, House Resources Committee,  
Senate Resources Committee and  
Joint Committee on Oil and Gas

From: House Resources Committee Staff

Date: January 16, 1984

Re: Royalty oil contract changes

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Major contract differences between those contracts submitted to the 1983 Legislative session and those which will be presented to the 1984 session are as follows:

Section 2.13 has been deleted. In the old contracts, section 2.13 read:

2.13. Future Dispositions of Royalty Oil. Seller recognizes that AS 38.05.183, which governs disposition of royalty oil by the State of Alaska, establishes a statutory preference for dispositions proposing (1) in-state processing of royalty oil and (2) in-state supply of products generated from processing of royalty oil, in that order. Seller represents that, in conjunction with future dispositions of royalty oil, Purchaser will be afforded the consideration contemplated by AS 38.05.183.

The Purchasers' needs originally addressed in Section 2.13 have been met by other contract terms, and this provision will no longer be a standard contract term.

2. A second change to the contracts is that they and future contracts will no longer require legislative approval for any amendments.
3. Changes to specific contracts are as follows:
  - a. Tesoro Alaska Petroleum Company, Prudhoe Bay  
The previous Tesoro/Prudhoe contract outlined a

provision in the price term that would allow the premium paid by Tesoro to be applied against the Amerada Hess settlement if the State prevails in that dispute. The new contract does not contain this provision. Translated into dollars to the State, this negotiated provision means an additional \$24.9 million in revenue.

An additional five cents has been added to the premium of the new contract. Translated over the life of the contract at the estimated number of barrels to be taken, this means an additional \$3.6 million in revenue to the State.

The new contract contains a six year price reopener term with reopeners at two year intervals thereafter.

b. Chevron, USA

The Chevron contract now differs from the previous contract in that it now contains provisions for a price reopener every two years.

STATE OF ALASKA  
DEPARTMENT OF NATURAL RESOURCES  
DIVISION OF MINERALS & ENERGY MANAGEMENT

Contracts which will be presented to the 1984 legislature:

1. Long-term sale of Cook Inlet crude.

Purchaser: Tesoro Alaska Petroleum Company  
Quantity : 100% royalty crude from Cook Inlet  
Term : January 1, 1985 to January 1, 1995. (This contract commences upon the termination of the one-year emergency contract (1/1/84-12/31/84)).  
Price : Volume-weighted average of the producers in the Cook Inlet area. (What the state would have received had it taken the oil in-value).

2. Long-term sales of Prudhoe Bay Royalty Oil:

- A. Purchaser: Chevron U.S.A., Inc.  
Quantity : 09.60% of the State's daily royalty share of crude. (Approximately 18,000 bpd).  
Term : May 31, 1984 to January 1, 1995. (The expiration date of the emergency one-year contract is May 30, 1984).  
Price : Volume-weighted average of all producer prices, 30 cents premium, plus field costs, to be adjusted upon settlement of the Amerada Hess litigation. Price reopener two years after date of first delivery and every two years thereafter.

Option contract: In the event that the above contract for the sale of approximately 18,000 bpd of royalty crude is not approved by the Alaska State Legislature, Shell Oil Company will purchase the 18,000 bpd of nominated crude commencing May 31, 1984. This contract will contain all of the standard State contract terms with a price term equalling volume-weighted average producer's field price, plus \$1.00 premium, plus field costs, to be adjusted upon settlement of the Amerada Hess litigation.

- B. Purchaser: Tesoro Alaska Petroleum Company  
Quantity : 13.867% of the State's daily royalty crude (approximately 26,000 bpd).  
Term : January 1, 1985 is the estimated date of first delivery with January 1, 1995 the date of termination.  
Price : Volume-weighted average of all producer prices, plus 35 cents premium, plus field costs, to be adjusted upon settlement of Amerada Hess. Price reopener after six years from date of first delivery and at two year intervals thereafter.

LETTER OF INTENT  
FOR CSHB 320  
January 19, 1984

The House Resources Committee has considered CSHB 320, providing for approval of the Agreement between the State of Alaska and Tesoro Alaska Petroleum Company for the sale of a portion of Alaska's royalty oil. This Agreement must be approved by the legislature under the provisions of AS 38.06.055(a) which provides that "the commissioner of natural resources may not enter into a sale, exchange, or other disposition of oil or gas or of the rights or waiver of the rights to receive future production of royalty oil or gas under AS 38.05.183 without the prior approval of the legislature."

Section 19.1 of the Agreement provides that the Agreement may be "supplemented, amended or modified at any time, but only by written instrument duly executed by the parties to this Agreement." In making any such changes to the Agreement pursuant to this section, the Commissioner would be acting on behalf of the State of Alaska as one of the parties to the Agreement.

The Committee recognizes that a supplement, amendment, or modification of the Agreement could be a further "sale, exchange, or other disposition" within the meaning of AS 38.06.055(a). The Committee is also cognizant that pursuant to Section 20.1 of the Agreement, the Commissioner has the right to "grant" (consent to) an assignment of the Agreement.

It is the intent of the Committee that it be understood that approval of CSHB 320 does not constitute prior approval of any supplement, amendment or modification or any assignment that would be a further "sale, disposition, exchange, or other disposition" within the meaning of AS 38.06.055(a) and that it is expected that any such action by the Commissioner must first be preceded by compliance with the procedures for obtaining the prior approval of the legislature.

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Representative John Ringstad  
Co-Chairman, Resource Committee

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Representative Dick Shultz  
Co-Chairman, Resource Committee

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Representative Rick Uehling  
Vice-Chairman, Resource Committee

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Representative John Cowdery  
Member, Resource Committee

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Representative Charlie Bussell  
Member, Resource Committee

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Representative John Liska  
Member, Resource Committee

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Representative Anthony Vaska  
Member, Resource Committee

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Representative Peter Goll  
Member, Resource Committee

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Representative Ronald Larson  
Member, Resource Committee

*Original -*  
Hold

LETTER OF INTENT  
FOR CSSB 269  
January 19, 1984

The House Resources Committee has considered CSSB 269, providing for approval of the Agreement between the State of Alaska and Chevron U.S.A., Inc., for the sale of a portion of Alaska's royalty oil. This Agreement must be approved by the legislature under the provisions of AS 38.06.055(a) which provides that "the commissioner of natural resources may not enter into a sale, exchange, or other disposition of oil or gas or of the rights or waiver of the rights to receive future production of royalty oil or gas under AS 38.05.183 without the prior approval of the legislature."

Section 19.1 of the Agreement provides that the Agreement may be "supplemented, amended or modified at any time, but only by written instrument duly executed by the parties to this Agreement." In making any such changes to the Agreement pursuant to this section, the Commissioner would be acting on behalf of the State of Alaska as one of the parties to the Agreement.

The Committee recognizes that a supplement, amendment, or modification of the Agreement could be a further "sale, exchange, or other disposition" within the meaning of AS 38.06.055(a). The Committee is also cognizant that pursuant to Section 20.1 of the Agreement, the Commissioner has the right to "grant" (consent to) an assignment of the Agreement.

It is the intent of the Committee that it be understood that approval of CSSB 269 does not constitute prior approval of any supplement, amendment or modification or any assignment that would be a further "sale, disposition, exchange, or other disposition" within the meaning of AS 38.06.055(a) and that it is expected that any such action by the Commissioner must first be preceded by compliance with the procedures for obtaining the prior approval of the legislature.

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Representative John Ringstad  
Co-Chairman, Resource Committee

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Representative Dick Shultz  
Co-Chairman, Resource Committee

---

Representative Rick Uehling  
Vice-Chairman, Resource Committee

---

Representative John Cowdery  
Member, Resource Committee

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Representative Charlie Bussell  
Member, Resource Committee

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Representative John Liska  
Member, Resource Committee

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Representative Anthony Vaska  
Member, Resource Committee

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Representative Peter Goll  
Member, Resource Committee

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Representative Ronald Larson  
Member, Resource Committee

LETTER OF INTENT  
FOR CSHB 271  
January 19, 1984

The House Resources Committee has considered CSHB 271, providing for approval of the Agreement between the State of Alaska and Tesoro Alaska Petroleum Company for the sale of a portion of Alaska's royalty oil. This Agreement must be approved by the legislature under the provisions of AS 38.06.055(a) which provides that "the commissioner of natural resources may not enter into a sale, exchange, or other disposition of oil or gas or of the rights or waiver of the rights to receive future production of royalty oil or gas under AS 38.05.193 without the prior approval of the legislature."

Section 19.1 of the Agreement provides that the Agreement may be "supplemented, amended or modified at any time, but only by written instrument duly executed by the parties to this Agreement." In making any such changes to the Agreement pursuant to this section, the Commissioner would be acting on behalf of the State of Alaska as one of the parties to the Agreement.

The Committee recognizes that a supplement, amendment, or modification of the Agreement could be a further "sale, exchange, or other disposition" within the meaning of AS 38.06.055(a). The Committee is also cognizant that pursuant to Section 20.1 of the Agreement, the Commissioner has the right to "grant" (consent to) an assignment of the Agreement.

It is the intent of the Committee that it be understood that approval of CSHB 271 does not constitute prior approval of any supplement, amendment or modification or any assignment that would be a further "sale, disposition, exchange, or other disposition" within the meaning of AS 38.06.055(a) and that it is expected that any such action by the Commissioner must first be preceded by compliance with the procedures for obtaining the prior approval of the legislature.

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Representative John Ringstad  
Co-Chairman, Resource Committee

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Representative Dick Shultz  
Co-Chairman, Resource Committee

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Representative Rick Uehling  
Vice-Chairman, Resource Committee

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Representative John Cowdery  
Member, Resource Committee

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Representative Charlie Bussell  
Member, Resource Committee

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Representative John Liska  
Member, Resource Committee

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Representative Anthony Vaska  
Member, Resource Committee

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Representative Peter Goll  
Member, Resource Committee

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Representative Ronald Larson  
Member, Resource Committee



DRAFT

JOINT SENATE-HOUSE  
RESOURCE COMMITTEE HEARING  
JANUARY 16, 1984

Thank you for allowing me this opportunity to testify before your committee.

Today, you have in your hands the power to move forward with putting approximately 300 unemployed Alaskans back to work within the next 90 days. Your early ratification of the contracts to sell Tesoro Alaska state royalty crude will result in the concurrent resumption of work on a major expansion of our Kenai refinery with on-site construction off and running, full out, with breakup this spring. Local suppliers of goods and services will be able to see early and substantial gains in their business activity and tax authorities will begin to plug in new revenue projections reflecting the overall increase in local business activity and the enlarged tax base. Tesoro Alaska, incidentally, is the second largest tax payer on the Kenai, with payments for the last 5 years averaging \$1.3 million a year.

But jobs and taxes and increased revenues for Alaskan businesses are not the only benefits which you, through your ratification of our contracts can create. You also have the opportunity to influence the price of refined products for Alaskan consumers.

It is an economic truth that the relative price of a commodity in a free market is related to the degree of competition in that market. The greater the abundance of supply, the lower the price. The behavior of petroleum products prices in Alaska is no exception.

In recent testimony before the Royalty Oil & Gas Advisory Board we have demonstrated that as the volume of refined products from in-state refining has grown, the prices for refined products in Alaskan markets have moved toward parity with prices in comparable lower 48 markets. As an example, prior to our refinery coming on stream in 1969, wholesale prices for gasoline and diesel in Anchorage were about 70 percent above prices on the West Coast; generally reflecting the cost of transportation from the West Coast to Alaska. Within one year of our entering the market, that premium was cut in half. Today, 14 years and much in-state refining expansion later, wholesale prices are for all practical purposes, at parity with West Coast prices.

Similar findings can be made for the price of gasoline at the retail level. If you compare markets of comparable size, proximity to crude supply and refining capacity, you will find that the after-tax price levels are very competitive. Billings, Montana; Casper, Wyoming; Fresno, California; and Rochester, New York are all examples of markets where last year, prices were comparable to, and in many cases, higher than prices in Anchorage. And incidentally, the nationwide average retail price for self-serve leaded regular gasoline just published by the American Automobile Association last month was \$1.22 per gallon, including tax, which was \$0.11 per gallon higher than our price in Anchorage.

On the other hand, there is no doubt that bush consumers in Alaska pay much higher costs than urban consumers for all petroleum products, but if you probe into the subject, you will find that to be true in markets all over the world where those markets are equally remote and removed from

efficient transportation and distribution systems, except where those extraordinary costs are subsidized by the government. Competition will certainly moderate prices where there is a sufficiently large concentration of demand in a remote area to make competitive entry economically feasible, and incidentally we believe there may possibly be such opportunities in parts of Alaska. But being purely pragmatic, the impact which can be caused by competition in a low demand-high cost remote area is limited and if the objective is to equalize the price between Bush and urban markets, the solution becomes more political than commercial.

Clearly, however, the growth of in-state refining has had a moderating effect on the price of petroleum products sold in Alaska and the best insurance you can provide the Alaskan consumer against unjustified increases in price and potential shortages of supply is to encourage the continued expansion of in-state refining. There is absolutely no doubt that the consumer always receives maximum value at the lowest cost where the power of competition is at work in a free market.

Your early ratification of these royalty crude contracts will give Tesoro Alaska the opportunity to continue providing such competition.

• Some legislators oppose the ratification of our Royalty Crude Contracts because an Insurance Company Subsidiary of the Charter Company has acquired a Tesoro preferred Stock issue for their investment portfolio while concurrently another, ~~the~~ Subsidiary of the Charter Company is engaged in litigation with the State of Alaska.

• We have provided the State with expert legal opinion that the life Insurance Companies ownership does not constitute control, but had to be of the magnitude involved in order to comply with Accounting Principals Bulletin Number 18 and Financial Accounting Standards Board Interpretation Number 35 governing equity accounting. That is, ownership must generally be greater than 20% and there must be some representation on the Board of Directors so that the minority interest holder has the opportunity to express opinions and offer influence. The Accounting Rules are very careful to specifically define the rights of the shareholder ~~to~~ as having the right to attempt to influence only and not the right to direct or control.

The precautions against such a minority shareholder overstepping the line between "influence" and "on hold" or "Direct" are embodied in a contractual agreement filed with the Securities and Exchange Commission and has as some of the principal provisions, the following:

• Restriction on Resale or Other Disposition

"Charter covenants and agrees that for so long as it or any of its affiliates owns, directly or indirectly, any stock or voting securities of Tesoro ... it will not sell, transfer, pledge, hypothecate or otherwise dispose of ... such securities, or any beneficial ownership interest therein, except with the prior written consent of Tesoro"

• Distribution of Shares (upon Sale Approved by Tesoro)

"... The seller will use its best efforts to effect the sale or transfer of such stock in a manner which will effect the broadest possible distribution, with no sales or transfers of stock to any one person or group (within the meaning of the Exchange Act) in excess of 3% of the then outstanding Tesoro Voting Securities."

• Right of First Refusal

"... Tesoro shall have ... the right and option to purchase all ... of the shares of stock covered by any Purchase Notice..."

• Voting By Charter

□ "... in the same proportion as the votes cast by or on behalf of all other holders of Tesoro Voting Securities..."

□ "May not solicit proxies or become a participant in a solicitation in opposition to the recommendation of Tesoro's Board of Directors with respect to any matter."

□ "May not deposit any Tesoro Voting Securities in a voting trust or subject them to a voting agreement of any kind."

□ "May not acquire more than 30% of the combined ..."

" may not join or permit any Affiliate to join a partnership, ... Syndicate or other group for purpose of acquiring ... Tesoro Voting Securities."

" may not initiate, propose or otherwise solicit ... or induce or attempt to induce any other person to initiate any Stockholder proposal or tender offer or any change of Directors or control of Tesoro."

" may not share representing more than 5% of another entity - if it, through its best efforts knows that such entity holds more than 5% or more of Tesoro Voting Securities."

### Legend and Stop Transfer

" The Shares represented by this Certificate are subject to the provisions of an Agreement between Tesoro Petroleum Corporation and Charter Security Life Insurance Company and may not be pledged, sold, transferred, hypothecated or otherwise disposed of except in accordance therewith..."

### Term of Agreement

- To January 25, 1993
- Tesoro has option to repurchase shares at that time.

### Rights to Directors

- up to 30% ownership - Two of 12 Directors
- ~~• up to 10% ownership - one of 12 Directors~~

## Specific enforcement

"Charter acknowledges and agrees that Tesoro would be irreparably damaged in the event any of the provisions of this agreement were not performed by Charter... and therefore Tesoro shall be entitled to injunctions to prevent breaches of the provisions of this Agreement and to enforce specifically the terms and provisions hereof in any court of the United States or any state thereof having jurisdiction, in addition to any other remedy to which Tesoro may be entitled at law or equity."

• But the ultimate control is that if ~~any of the~~ Charter attempted to exceed the ownership restrictions, the State has the unilateral right to summarily terminate the contract and take the oil away from us.

- Notwithstanding that all legal and professional accounting opinions and rules disclaim any control of Tesoro by Charter by virtue of the equity ~~control~~ ~~of the life~~ investment of the life Insurance Company, some legislators have expressed the opinion that the State should not do business with any company involved in litigation with the State or with any company in which such litigant has an interest.

But that policy seems to be inconsistent in its application:

- Stop doing business with IBIA or Buff or other companies whose securities may be a part of CSU's investment portfolio.

- Producers Bico dispute

- Permanent Longevity Bonus Class Action litigants

In the final analysis, a court of law will decide all these issues and ~~it is wrong~~ that includes the Charter suit.

~~It strikes me~~

I would urge you to apply the same rules of fairness and equal treatment to your consideration of these contracts that you <sup>use</sup> in evaluating the merits of contracts with any other company, whether involved in litigation with the State or not.

And please remember - Tesoro is not involved in any dispute with the State of Alaska and never has been.

3:15 Vaska, Russell, Larson, Vehlning  
Ringsstad & Shultz

003 George Lums3 - CotC  
Chamber supports leg. approval of contracts  
to Tesoro & Chevron.

0025 Vaska  
0044 Ringsstad asked for Bob Maynard.

0047 Bob Maynard - Regulations re: amendment  
process  
1. Price repealers - public notice, and  
commissioner cannot agree to price  
below in. value + field costs  
2. Amendments other than price repealers -  
that would appreciably reduce other  
secondary benefits - cannot take  
effect until approved by legislature

0022 Gell  
0088 Rep Russell - Why is reg what's already in  
statute - Maynard cited McKinnon

0105 Rep Vaska - Why is price repealer not part of reg.  
Maynard - Commissioner desired flexibility  
if negotiating

0124 Vaska - Public procedures Act excludes certain  
key components - such as where public hearing

on price reopener is held (W.A.K.)  
Maynard - Separate public notice reqs  
may be necessary.

Vaska - People in W.A.K. ought to be included  
in price reopener.  $\frac{1}{2}$  would be if it came before  
Legislature.

0160 Maynard - Price reopeners will not be before  
Legis.

0164 Rep. Bussell - Why req on such important issue -  
why not Statute?

Maynard 1 - legis has power, but has not used  
to put provisions in contracts

2 - Disagreement between admin  $\frac{1}{2}$  legis  
over territory -

3 - lease clause -

statute re-write - Bussell - indication of  
bad faith to come to ~~E~~ us with regulations

0280 Rep. Goll - Why does Charter agreement  
expire 3 yrs prior to end of Tesoro/AK sale.

Maynard - State is still able to terminate  
if charter increases control. Article 10.5, pg 19.

0442 - Rep. Goll asked for a copy of the reqs.

~~Committee Substitutes~~

Rep. Goll - still doesn't understand - bit confused

0478 Clif Groh - Attorney for Tesoro  
Standstill agreements - to protect Tesoro  
stockholders ~~to~~ from Charter - 10 yr period  
fairly standard - Was not contemplated  
that ~~the~~ agreement would be used in state contract

0540 Rep Shultz moved CS 320 -  
No objection to adoption

0552 Rep Shultz move CS 371  
No Obj

0560 Rep Shultz moved HCSB 269  
No Obj

0595 Rep Bussell - Statement - For the record -  
No footdragging - no attempt to impede progress  
of contracts - legislature timely ~~bec~~ trying  
to become part of process

0660 Statute does need to be rewritten. hopes members  
don't drop royalty oil with this vote

0675 Goll - is state jeopardized by Statutes

0685 Bussell - Statutes are clear - administration trying  
usurp legis. power - not interested in working  
w/ legis as much as they'd like us to think

0718

0740 Change tape -

0745 Goll asked about Ringstad's view on letter of Intent.

0775 Rep Larson - Thinks good faith effort has been made by admin. Have best interests of people of state in mind.

0788 Rep. Liska - Should have legis. approval of future amendments. Ringstad - time is of the essence.

0810 Rep Laska - Cowdery's remarks should be on the record - Bills should wait until Monday

0845 ~~Re~~ Shultz moved CS HB 320 w/indiv. recs. Goll objected, asked for AG's explanation of side agreement with Tesoro

0850 Maynard explained side agreement

0885 Goll removed his objection

0890 Bussell asked when his letter of intent wd be taken up

0895 Shultz → CS HB 371 no objection

0902 Shultz → HCSSB 269 no obj

0909 Ringstad - letters of intent

- 0925 - Bussell presented general terms of Let. of Int.
- 0958 Bob Maynard - agrees with Rep. Bussell
- 1024 Rep Vaska - Legis. does not have power to intervene in price reopeners  
Maynard - reduction in price left to another day to decide if constitutes new sale, exchange, etc
- 1075 Rep Vaska - Can 3rd party file suit.  
Maynard - in court, generally no standing to bring action, but arguments on both sides.
- 1139 Rep Larson - What would it mean to adopt letter at this stage - Ringstad - ~~for~~ House Resources recommendation - could be adopted by other committees and on floor of House - Go
- 1175 Bussell ~~is~~ - whether letter is adopted determines how he signs report.
- 1185 Goll asked about amendment vs price reopener
- 1269 Ray Plummer gave his interpretation of letter of intent
- 1345 Vaska - would letter have same weight as contract in court  
Plummer - weight would first go to bill, then to letter of intent - would believe state to go to that extent.

1390 Rep. Clif Groh -  
letter could be improved - inartfully drawn

0455 Ringstad - does letter do what you say it  
should do - Groh - I have reservations

Tape 6B

0030 Vaska -

068 Goll - can contract be amended to  
fix  
Magnard - fairly long time <sup>90 days or less</sup> - but problem  
wouldn't go away.

0107 Vaska - Tom Sofu - Why is bill not attached  
to statutes - Special Act

455 5 min recess

120 called back to order by, Chr Ringstad  
Rec. adopt letter.

130 Rep Bussell moved letter for HCSSB 269  
Vaska objected - incomplete, inaccurate

div	vaska	Liska
	vehling	Bussell
	Lawson	COH
	shultz	Ringstad

0183 Vaska moved bussell rewrite for clarity and  
present at tomorrow's mtg.

0203 Rep. Larson - doesn't mind letter going today  
just doesn't want to recommend.

235 Rep. Vaska withdrew motion

237 Rep. Shultz moved to rescind. no objection  
Motion now before committee to <sup>move letter</sup> on HCS SB 269

245 Rep. Vaska moved to amend "with individual  
recs."

No objection to Motion

274 Rep. Bussell moved Letter <sup>CSHB</sup> 320  
no objection

280 Rep. Bussell moved Letter <sup>CSHB</sup> 371  
no objection

Meeting adjourned at 5:15

HB

370

BILL SHEFFIELD  
GOVERNOR



STATE OF ALASKA  
OFFICE OF THE GOVERNOR  
JUNEAU

May 5, 1983

The Honorable Joe Hayes  
Speaker of the House  
Pouch V  
Juneau, AK 99811

Dear Mr. Speaker:

I am attaching the information that we discussed on our proposed royalty oil agreements. I have also attached a letter from Commissioner Wunnicke to Representative Ringstad that may be of interest to you.

If these contracts are approved, we will have met our responsibility under state law for satisfying in-state needs for royalty oil. This accomplished, the Administration will review other kinds of options for the sale of royalty oil in the coming months.

Please let me know if you have any questions or comments.

Sincerely,

Bill Sheffield  
Governor

cc: The Honorable John Ringstad  
The Honorable Richard Shultz  
The Honorable Rick Uehling  
The Honorable John Cowdery  
The Honorable Charlie Bussell  
The Honorable John Liska  
The Honorable Tony Vaska  
The Honorable Peter Goll  
The Honorable Ronald Larson

1983 Alaska Prudhoe Bay  
Royalty Oil Information

I. Pending Agreements:

Tesoro

- an 11-year contract for almost 14 percent of PBU production (about 26,000 b/d at current levels);
- for every barrel, a 30-cent premium over the in-value price;
- special provisions to avert control of Tesoro by Charter;
- enables \$90 million expansion of Nikiski refinery by Tesoro; entire quantity must be processed in-state.

Chevron

- an 11-year contract for about 9 1/2 percent of PBU production (about 18,000 b/d at current levels);

- as with Tesoro, a 30-cent premium for each barrel over the in-value price;
- will avert the closure of the Kenai refinery;
- will require the in-state production of specified petroleum products, including asphalt (which is in high demand).

II. Key points on the agreements:

A. In-state processing of more than 23 percent of Alaska's royalty oil promising:

- adequate and secure supplies of gasoline, asphalt, and other petroleum products for Alaskans;
- over \$40 million above the amount that would have been received in-value:
  - ° over \$25 million for Tesoro;
  - ° approximately \$18 million for Chevron;

- continuation of Chevron's Kenai refinery;  
nearly \$90 million expansion of Tesoro's  
Nikiski refinery;
  
- attendant tax base and employment benefits:
  - ° 250-300 construction jobs;
  
  - ° 20-30 direct permanent jobs;
  
  - ° increased state income tax collections;
  
  - ° approximately \$500,000/year increased  
property tax revenues to Kenai Peninsula  
Borough;

B. Future options are still possible:

- contract is for fixed percentage of  
Prudhoe Bay Unit production; from 75,000  
to 125,000 b/d of royalty oil will still  
be available from Prudhoe Bay, Kuparuk,  
and other North Slope fields that are  
expected to come into production during  
the next decade.