

ALASKA LEGISLATURE COMMITTEE FILES 1983-1986 86/2

4246 SRES SB 152 - SB 155

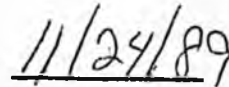
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# Alaska State Legislature

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## Senate Committee on Resources

MEMORANDUM

February 19, 1985

TO: All Members  
Senate Resources Committee

FROM: Staff *MCM*  
Senate Resources Committee

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

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

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

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

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

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

*is the true  
Sen. Halford*



STATE OF ALASKA  
THE LEGISLATURE

POUCH Y STATE CAPITOL  
JUNEAU ALASKA 998  
907 465 3800

LEGISLATIVE AFFAIRS AGENCY

MEMORANDUM

February 18, 1985

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

TO: Senator Arliss Sturgulewski  
Chairman, Senate Resources Committee

FROM: Randall J. Moen  
Legislative Counsel

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

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

Senator Arliss Sturgulewski  
February 18, 1985  
page 2

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

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

7. Prior written notice to the Alaska Royalty Oil and Gas Development Advisory Board by the commissioner of natural resources before the waiver of competitive bidding. (AS 38,06.050(c))

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

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

Section 4 Immediate effective date.

RJM:csh  
c3/004

Prepared by:  
Senator Coghill's  
Office 2/19/85

Golden Valley Electric Assn.

Contract Extension

SB 152

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

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

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

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

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

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

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

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

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

It is not practical at this time to treat the proposed extension as a new disposa. . . numerous requirements which would be waived by the proposed CS for S. 2.

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

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

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

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

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

(1) state the time and place of hearing

(2) describe the lands involved; and

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

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

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

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

Authority: AS 38.05.020  
AS 38.05.140  
AS 38.05.145(a)

11 AAC 82.670. SUSPENSION OF

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

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

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

Authority: AS 38.05.020  
AS 38.05.140  
AS 38.05.145(a)

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

Authority: AS 38.05.020  
AS 38.05.145(a)

**ARTICLE 7.  
ROYALTY PRODUCTS**

**Section**

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

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

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

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

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

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

Authority: AS 38.05.020  
AS 38.05.145(a)  
AS 38.05.182

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

Authority: AS 38.05.020  
AS 38.05.145(a)  
AS 38.05.183

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

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

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

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

Authority: AS 38.05.020  
AS 38.05.145(a)

## ARTICLE 8. RECORDS AND REPORTS

### Section

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

### **11 AAC 82.800. PRODUCTION RECORDS.**

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

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

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

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

JAN 14, 1985

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

ESTIMATED PRODUCTION FOR PRUDHOE BAY AND KUPARUK RIVER UNITS

YEAR	ESTIMATED TOTAL PRODUCTION (BARRELS PER DAY)			ESTIMATED ROYALTY (BARRELS PER DAY)			ESTIMATED SALES OF ROYALTY OIL (BARRELS PER DAY)							
	TOTAL PRUDHOE	(1) TOTAL KUPARUK	TOTAL	PRUDHOE ROYALTY	KUPARUK ROYALTY	TOTAL ROYALTY	MAPCO	(2) GVEA (OLD)	(3) GVEA (PROPOSED)	(4) TESORO (OLD)	(5) TESORO (NEW)	(6) CHEVRON	(7) COMPETITIVE SALE	ROYALTY IN VALUE
1984	1,500,000	120,000	1,620,000	187,500	15,000	202,500	35,000	5,000		39,765		18,000		184,735
1985	1,500,000	180,000	1,680,000	187,500	22,500	210,000	35,000		5,000	45,999	25,001	18,000	65,000	15,000
1986	1,500,000	180,000	1,680,000	187,500	22,500	210,000	35,000		5,000	45,999	25,001	18,000		80,000
1987	1,475,000	180,000	1,655,000	184,375	22,500	206,875	35,000		4,917	45,233	25,567	17,700		78,458
1988	1,325,000	200,000	1,525,000	165,625	25,000	190,625	35,000		4,417	40,633	22,957	15,900		71,788
1989	1,175,000	200,000	1,375,000	146,875	25,000	171,875	35,000		3,917	36,833	20,367	14,100		62,458
1990	1,050,000	200,000	1,250,000	131,250	25,000	156,250	35,000		3,500	32,200	18,200	12,600		54,750
1991	950,000	200,000	1,150,000	118,750	25,000	143,750	35,000		3,167	29,133	16,467	11,400		48,563
1992	850,000	200,000	1,050,000	106,250	25,000	131,250	35,000		2,833	26,066	14,734	10,200		42,417
1993	750,000	200,000	950,000	93,750	25,000	118,750	35,000		2,500	23,000	13,000	9,000		36,250
1994	650,000	170,000	820,000	81,250	21,250	102,500	35,000		2,167	19,933	11,267	7,800		26,333
1995	575,000	145,000	720,000	71,875	18,125	90,000	35,000							55,000
1996	510,000	120,000	630,000	63,750	15,000	78,750	35,000							43,750
1997	460,000	100,000	560,000	57,500	12,500	70,000	35,000							35,000
1998	420,000	80,000	500,000	52,500	10,000	62,500	35,000							27,500
1999	380,000	75,000	455,000	47,500	9,375	56,875	35,000							21,875
2000	340,000	65,000	405,000	42,500	8,125	50,625	35,000							15,625
2001	300,000	55,000	355,000	37,500	6,875	44,375	35,000							9,375
2002	270,000	50,000	320,000	33,750	6,250	40,000	35,000							5,000
2003	240,000	40,000	280,000	30,000	5,000	35,000	35,000							0
2004	210,000	35,000	245,000	26,250	4,375	30,625								30,625
2005	180,000	25,000	205,000	22,500	3,125	25,625								25,625
2006	160,000	25,000	185,000	20,000	3,125	23,125								23,125
2007	140,000	20,000	160,000	17,500	2,500	20,000								20,000
2008	110,000	20,000	130,000	13,750	2,500	16,250								16,250
2009	80,000	10,000	90,000	10,000	1,250	11,250								11,250
2010	50,000	10,000	60,000	6,250	1,250	7,500								7,500

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

(2) [REDACTED]

(3) [REDACTED]

(4) TESORO'S CURRENT CONTRACT CALLS FOR A MAXIMUM QUANTITY OF 24.533% OF DAILY PRUDHOE ROYALTY OIL LESS COOK INLET ROYALTY PRODUCTION. THE QUANTITY IS 21.288% IN 1984, AND WILL BE 21.326% STARTING JAN. 1, 1985. THIS CONTRACT WILL BE INCREASED TO ITS' MAXIMUM QUANTITY ON OCTOBER 1, 1985 DUE TO CANCELLATION OF THE COOK INLET CONTRACT ON THAT DATE. THE CONTRACT EXPIRES JANUARY 1995.

(5) MOST OF THIS VOLUME (ABOUT 25,000 BPD), WHICH IS CURRENTLY BEING TAKEN "IN VALUE," WAS SOLD COMPETITIVELY FOR DELIVERY APRIL 1, 1985 THRU SEPT. 30, 1985. ON OCTOBER 1, 1985 IT IS ANTICIPATED THAT TESORO WILL COMMENCE DELIVERIES UNDER ITS' 12/9/83 PRUDHOE CONTRACT, WHICH HAS A MAXIMUM QUANTITY OF 13.86% OF DAILY PRUDHOE ROYALTY OIL AND EXPIRES JAN. 1, 1995.

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

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

AGREEMENT ; OR THE SALE AND  
PURCHASE OF ROYALTY OIL

THIS AGREEMENT, entered into as of May 9 1984 by and between THE STATE OF ALASKA ("Seller") and GOLDEN VALLEY ELECTRIC ASSOCIATION, an Alaskan Non-Profit Corporation, hereinafter referred to as "Buyer".

ARTICLE I  
DEFINITIONS

As used in this Agreement, the following terms shall have the following meanings:

1.1 "Commissioner" means the Commissioner of the Alaska Department of Natural Resources.

1.2 "Day" means a period of twenty-four (24) consecutive hours, beginning at 12:01 a.m., Yukon Time.

1.3 "Leases" means the oil and gas leases which are subject to the terms of the Unit Agreement.

1.4 "Lessee" means any person owning a working interest in any of the Leases.

1.5 "Month" means the period beginning at 12:01 a.m., Yukon Time, on the first day of the calendar month and ending at the same time on the first day of the next succeeding calendar month.

1.6 "Oil" or "crude oil" shall have the same meaning as the word "oil" under the Unit Agreement.

1.7 "Point of Delivery" shall have the meaning set out in Article 2.4.

1.8 "Royalty Oil" means the oil which the Seller may take in-kind (amount) as its royalty under the Leases whether or not Seller has elected to take or is taking that royalty in-kind.

1.9 "Daily Royalty Oil" means the quantity of Royalty Oil produced by the Lessees each day.

1.10 "Unit Agreement" means the Prudhoe Bay Unit Agreement effective April 1, 1977, by and between Seller and the Lessees, as it may be amended from time to time.

ARTICLE II  
SALE OF ROYALTY OIL

2.1 Quantity. Seller agrees to sell to Purchaser and Purchaser agrees to buy from Seller that amount of oil equal to 2.667% of the Daily Royalty Oil ("Maximum Quantity"). Upon at least nine (9) months written notice to Seller, Purchaser may increase or decrease the amount of oil to be tendered by Seller at the Point of Delivery, but the amount tendered by Seller under this Agreement shall not exceed the Maximum Quantity. Purchaser recognizes that Seller must normally give six (6) months notice under the Unit Agreement (or ninety (90) days if the amount increased or decreased is less than ten (10) percent of the current nominations) to increase or decrease the amount of Daily Royalty Oil to be taken in-kind. It is understood and agreed that the volume of Daily Royalty Oil available to Seller will vary and may be interrupted from time to time, and depends upon a variety of factors, including the rate of production from the Leases. Seller disclaims and Purchaser waives any representation, covenant or warranty, express or implied, as to the specific quantity or the total or daily, monthly, average, or aggregate volume of Royalty Oil to be sold or tendered under this Agreement. Seller warrants that it has good title to the oil tendered under this

Agreement. Seller shall hold the Purchaser harmless from all liens, encumbrances and valid adverse claims that may affect the Royalty Oil at the time the Royalty Oil is tendered to the Purchaser.

If Seller underlifts or stores Royalty Oil at Prudhoe Bay, or if Seller recovers underlifted or stored Royalty Oil, the quantity of Royalty Oil tendered under this Agreement shall be calculated as if no Royalty Oil was underlifted or stored or recovered.

2.2 Quality. The Royalty Oil sold shall be the same quality as the oil delivered by the Lessees to the Seller at the Point of Delivery. It is understood and agreed that the quality of the Royalty Oil sold may vary from time to time. Seller disclaims, and Purchaser waives, any guarantee, representation, or warranty, either expressed or implied, of the merchantability, fitness for use, or suitability for any particular use or purpose, or otherwise, of any of the oil delivered under this Agreement or as to any specific, average or overall quality or characteristic of Royalty Oil to be sold or tendered under this Agreement.

2.3 Price of the Royalty Oil. The price for the oil tendered under this Agreement shall be equal to the amount that Seller would have received from its Lessees for the Royalty Oil tendered if that royalty had been payable in money (taken in value) rather than taken in kind plus a premium of \$0.30 per barrel plus the Field Cost Allowance incurred by that oil as determined under the Prudhoe Bay Royalty Settlement Agreement (dated April 1, 1980 for reference purposes only), which was entered as part of a final judgment dated August 13, 1980 in State of Alaska, et al v. Amerada Hess Corp., et al., (Superior Court for the State of Alaska, First Judicial District at Juneau) ("Amerada Hess") ("Settlement Agreement") ("Purchase Price"). The Purchase Price shall be determined by Seller based upon the reports submitted by the Lessees for royalty purposes or, when those reports are unavailable, incomplete, or inaccurate, upon information submitted by the Lessees for production tax or other tax purposes, as may be adjusted from time to time as provided in this Agreement. Buyer will only be entitled to review or request

material or information which is not confidential under state law or regulation.

The method, basis and amount of royalty due Seller when it takes its royalty in value from the Leases is presently the subject of litigation in Amerada Hess. One of the issues involved is the proper method to be used by the Lessees in calculating the state's royalty when the royalty is payable in money (in value). Until there is a resolution of that dispute through judicial resolution or settlement, the Purchase Price will be based upon the calculation of an amount per barrel equal to the per barrel volume weighted average of the in-value prices reported by the Lessees to Seller for royalty purposes or, when the royalty reports are unavailable, incomplete, or inaccurate, upon information submitted by the Lessees for production tax or other tax purposes, plus \$0.30 per barrel plus the Field Cost Allowance as determined under the Settlement Agreement. Upon resolution of each of the various issues that are or will be involved in Amerada Hess, adjustments will be made to previous payments in accordance with each resolution.

If additional amounts are owed by Purchaser to Seller, interest on those amounts will be paid at a variable interest rate which is the higher of: (1) the prime rate as may be announced from time to time by The Bank of America, San Francisco, California, plus three percent (3%); or (2) the rate of return as is realized from time to time in the investment of the State of Alaska's general fund. Amounts owed from Seller to Purchaser shall be repaid at the rate set out in Article 5.6. Buyer will not voluntarily intervene or otherwise participate in Amerada Hess unless Seller expressly consents to that participation in writing. A settlement of Amerada Hess will be binding upon Buyer whether or not Buyer agrees with or consents to the terms of that settlement.

If any applicable law of the United States of America or any rule or regulation promulgated by a federal agency will, in the judgment of Seller, operate to prohibit or prevent Seller from receiving the full amount due under the above provision, Buyer's obligation to pay the amount of the Purchase

Price in excess of the amount permitted will be suspended or adjusted to the minimum extent required for Seller to comply with that law, rule or regulation.

2.4 Point and Time of Delivery. Simultaneous with receipt of its Royalty Oil from its Lessees, Seller shall tender the oil to Purchaser at the point at which Seller receives the Royalty Oil from its Lessees. That point as presently agreed to by Seller and its Lessees in Article 2.3 of the Settlement Agreement is the custody transfer meters into the Trans Alaska Pipeline System at Prudhoe Bay.

2.5 Passage of Title and Risk of Loss. Title and risk of loss to the Royalty Oil sold under this Agreement shall pass from Seller to Purchaser for all purposes when Seller tenders the oil at the Point of Delivery.

2.6 Purchaser's Responsibility. Purchaser shall be responsible for the oil after passage of title. Purchaser will indemnify and hold Seller harmless from and against any and all claims, costs, damages (including reasonably foreseeable consequential damages), expenses or causes of action as a result of any loss, injury, or damage incurred by any party as a result of any transaction or event which relates to the crude oil after title has passed to Purchaser.

2.7 Transportation Arrangements. Purchaser shall make all necessary arrangements for transporting the oil sold under this Agreement from the Point of Delivery, including satisfaction of line fill obligations and storage tank bottom requirements of the Trans Alaska Pipeline System, if any. If and as requested by the Seller, and at the time or times requested by Seller, Purchaser shall submit specific information concerning the arrangement it has made for transportation of the Royalty Oil sold under this Agreement through and away from the Trans Alaska Pipeline System and for the resale or other disposal of the Royalty Oil. Such information may include the specific tenders of oil made to the Trans Alaska Pipeline System and identification of tankers which will transport the Royalty Oil. In addition, Purchaser will provide Seller, if and as requested by Seller, with satisfactory evidence or

reasonable assurance of the existence and continuing validity of adequate arrangements for the transportation or disposal of the Royalty Oil subject to this Agreement. Failure to provide information, evidence or assurances requested will, at Seller's election by notice to Purchaser, be a material default under this Agreement.

2.8 Absolute Obligations. The obligations of Purchaser to accept, pay for, and arrange for the transportation of the Royalty Oil tendered or sold under this Agreement are absolute and will not be excused or discharged by the operation of any disability of Purchaser, event of force majeure, impracticability of performance, change in conditions, or any other reason or cause.

2.9 Date of First Delivery. Seller will initiate tender of Maximum Quantity of Royalty Oil to Purchaser at the Point of Delivery to commence July 1, 1984.

2.10 Performance Guaranty and Reservation Fee. If Purchaser does not take the Maximum Quantity on the Date of First Delivery, Purchaser shall pay to Seller, in addition to the Purchase Price, an amount equal to 1.25% of the Purchase Price per barrel per day on the difference between the Maximum Quantity and the actual quantity tendered to and accepted by Purchaser ("Actual Quantity") for each day Purchaser does not take the Maximum Quantity on and after the Date of First Delivery. The payment of this fee shall end on the day that Purchaser accepts delivery of the Maximum Quantity. When Purchaser accepts the Maximum Quantity, all of the amounts paid under this Article 2.10 will be allowed to be credited against future payments for oil tendered under this Agreement except for an amount to be retained by Seller equal to .75% of the Purchase Price per barrel per day on the difference between the Maximum Quantity and the Actual Quantity for each day Purchaser did not take the Maximum Quantity on and after the Date of First Delivery. If Purchaser should thereafter decrease the amount of Royalty Oil to be tendered under this Agreement, Purchaser shall pay to Seller, in addition to the Purchase Price, an amount equal to .75% of the Purchase Price per barrel per

day after the date that the decrease in the amount of Royalty Oil to be tendered by Seller takes effect on the difference between the Maximum Quantity and the Actual Quantity.

2.11 In-State Processing. Purchaser agrees that all oil purchased under the terms of this agreement shall be used in the State of Alaska. As used in this Agreement "used in the State of Alaska" means the following described uses or a use substantially similar to that described.

Purchaser has assigned its royalty oil to North Pole Refining (MAPCO) for processing crude into a usable fuel for its generating station. Purchaser is guaranteed a lower refining charge under this arrangement which is passed directly through to consumers in the form of reduced electric rates. If MAPCO cannot process purchaser's crude, purchaser has a commitment from the Rural Electrification Administration that mortgage funds would be available to convert its generating units to accept crude as fuel.

Purchaser's obligation to use Royalty Oil in-state may only be suspended or excused under the provisions of Articles VIII and XI.

Seller may, at its option, waive the in-state use requirement in whole or in part, if Seller is satisfied that the waiver would not be contrary to the underlying intent of the other provisions of this Agreement.

2.12. Best Efforts. Purchaser agrees to use its "best efforts" to process oil under the arrangements in Article 2.11 to reduce consumer prices in the Electrical Coop. A determination of "best efforts" under this Article shall include consideration of Purchaser's capabilities and the surrounding business circumstances. Purchaser's obligation to use its best efforts include reasonable, diligent, and good faith efforts, but shall not require Purchaser to market in Alaska at a loss. "Best efforts" would, however, require Purchaser to market in Alaska even though Purchaser could make a greater profit by another disposition of the Royalty Oil or the products refined from that oil.

ARTICLE III  
REPRESENTATION AND OBLIGATIONS OF PURCHASER

Purchaser warrants, represents, and agrees:

3.1 Good Standing and Due Authorization. Purchaser is, and at all times during the operation of this Agreement shall remain, a corporation qualified to do business in, and in good standing with, the State of Alaska. Purchaser has all necessary corporate power to enter into this Agreement and to perform its covenants and obligations under this Agreement. All necessary corporate action has been taken to authorize Purchaser's entering into this Agreement and performing its covenants and obligations under this Agreement.

3.2 Financial Condition. The financial information submitted to Seller is complete and correct and fairly presents Purchaser's financial condition at the time the information was submitted to Seller. The financial information was prepared in accordance with generally accepted accounting principles consistently applied. Since the date the information was submitted, the condition, business and properties of Purchaser have not been materially adversely affected in any way. Purchaser agrees to inform Seller immediately if during the term of this Agreement there is any material adverse change in the condition, business, or properties of Purchaser which would have an appreciable adverse effect on Purchaser's performance under this Agreement. Purchaser, in addition, will immediately inform Seller of any significant change in ownership of either the Purchaser or any of its affiliates or parent company, and of any change in Purchaser's operations or agreements, which would appreciably affect Purchaser's performance under this Agreement.

3.3 Financial Statements. As soon as possible after the end of each fiscal year of Purchaser, and in any event within one hundred twenty (120) days thereafter, Purchaser will furnish to Seller, at Purchaser's sole cost and expense, a report or a complete copy of a report in a form to be

prescribed from time to time by Seller which will include Purchaser's balance sheet as of the close of the fiscal year and the income statement for that year prepared in each case in accordance with generally accepted accounting principles consistently applied by certified public accountants of recognized standing. For purposes of complying with this Article, Purchaser may submit, and Seller will accept, the annual report of the Golden Valley Electric Association, Inc.

ARTICLE IV  
MEASUREMENTS AND TESTS

4.1 Measurement Standards and Procedures. The quantity and quality of the crude oil sold under this Agreement shall be determined at the Point of Delivery. Procedures and methods for measuring and metering the oil sold under this Agreement shall be in accordance with the practices then in effect at Prudhoe Bay, Alaska.

ARTICLE V  
PAYMENTS AND ACCOUNTING

5.1 Billing. Seller will send to Purchaser, on or before the 10th (tenth) business day of each month after delivery of Royalty Oil, an invoice statement of account of all Royalty Oil estimated to have been measured at the custody transfer meter into the Trans Alaska Pipeline System and tendered to Purchaser under this Agreement during the immediately preceding month according to the best information available to Seller, the estimated price or prices applicable to those deliveries, and the total amount due ("initial billing"). The estimates will be made by Seller according to the best information reasonably available to Seller. Seller may render its initial billing to Purchaser based in part upon information reported by the Lessees to Seller and information published by the U.S. Government. Seller shall thereafter adjust its initial billing under this Article as soon as more

accurate information concerning the quantity and price or prices of Royalty Oil delivered each month is available. Seller, however, shall not be required to adjust the initial billing prior to the sending of the next month's invoice statement of account.

5.2 Initial Adjustment. After the monthly invoice under Article 5.1, the subsequent monthly invoice will also state Seller's initial adjustments to be made, if any, to the invoice rendered in the immediately preceding calendar month, in accordance with any additional or more accurate information which may have become available to Seller. Whether or not initial adjustments are made, however, subsequent adjustments may be made under Article 5.5.

5.3 Payment. Purchaser will make payment of that amount billed under this Article within ten (10) days after receipt of the invoice statement of account. Payment shall be made without any deduction, set off, or withholding in immediately available funds to Seller at the following address:

Bank of America, NT & SA  
San Francisco, California  
Securities Department 3298  
Credit to: State of Alaska Investment Account

Payment may be made in such other manner or to such other address as Seller may specify in the invoice statement of account or by other written notice. All other payments to be made under this Agreement shall be paid in the same manner. If payment is due on a Saturday, Sunday, or legal holiday of the place where payment is to be received, payment shall be made on the next following business day. It is recognized that Seller may bill, and that Purchaser will pay, amounts that are based upon confidential information held or received by Seller. If confidential information is used as the basis for a billing, then upon request Seller will furnish Purchaser with the certified statement of the Commissioner that the amounts billed are correct based upon the best information available to Seller. Except for obvious clerical mistakes, if a dispute concerning a bill arises, it is agreed that Purchaser will pay the full amount billed by Seller pending final resolution of the dispute. Upon final resolution, the amount paid will be refunded to the Purchaser with interest, if such a refund is appropriate.

5.4 Payment to Lessee. Purchaser, at the request of Seller in the invoice statement of account or otherwise in writing, shall pay all or any portion designated by Seller of that payment required to be made to one or more of the Lessees at an address or addresses and in the manner designated by Seller. The payment will be made within the time limit specified in Article 5.3. Seller may authorize and designate a third party to make the request and designate the amount, manner and place of payment under this provision. Unless otherwise specified, the balance of the payment due, if any, and payment for subsequent months, shall be made in accordance with Article 5.3.

5.5 Subsequent Adjustments. Purchaser acknowledges that more accurate information concerning the quantity of or Purchase Price for Royalty Oil tendered may subsequently become available to Seller. In the event that any such information should subsequently become available to Seller, Seller shall promptly furnish a corrected invoice statement of account to Purchaser and the parties will adjust the amount billed and pay or refund the amount of those adjustments.

In the event that Seller should render a corrected invoice to Purchaser, the parties will adjust the amount previously billed accordingly. Any amount to be refunded from Seller to Purchaser or paid from Purchaser to Seller will be paid within fifteen (15) days after the date of the corrected invoice. The time for paying an adjustment will be different, however, when the adjustment concerns an amount last invoiced more than sixty (60) days before the corrected invoice, in which case the amount will be paid by Purchaser or refunded by Seller, as the case may be, in equal monthly installments over the same period of time as that over which the adjustment accrued or six (6) months, whichever is the shorter period. No adjustment will be made more than twelve (12) months after the date of the last original invoice to which the adjustment relates, except for adjustments resulting from: (i) regulatory or court proceedings (including appeals) commenced or pending during that twelve (12) month period, whether or not Seller or Purchaser is a party to the proceeding, or (ii) bona fide audits by Seller of any Lessee(s) commencing at

any time during the period six (6) years after the date of the last invoice to which such adjustment relates, or any resolution of disputes arising out of those audits. Adjustments due to audits or regulatory proceedings or court proceedings may be made at any time. The provisions of this Article 5.5 will survive any termination of this Agreement.

5.6 Interest. Except for adjustments made upon resolution of Amerada Hess under Article 2.3, the amount of all sums which are not paid when due under this Agreement or which are subsequently determined to be due under an adjustment under Article 5.5, or refunds, shall bear interest from the date accrued until paid in full at a variable rate per annum equal to the prime rate as announced from time to time by the Bank of America, San Francisco, California, plus one and one-quarter percent (1.25%) per annum.

5.7 Late Payment Penalty. Except for unintentional failures to pay, including clerical mistakes or occurrences not within the reasonable control of Purchaser, or insignificant underpayments, if Purchaser fails to make payment within one (1) day of the date that payment is due, then in addition to the amount due plus interest from the date that payment was due until the date of payment, Purchaser will pay an amount equal to one percent (1%) of the amount owed.

5.8 Payment to Third Parties. Seller may direct that Purchaser pay any amount due or which may become due directly to a third party in the manner and time as may be directed by Seller in written notice to the Purchaser if, in the Seller's sole discretion, the payment to the third party will assist Seller in monitoring or enforcing this Agreement.

ARTICLE VI

TERM

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

ARTICLE VII

DEFAULT OR TERMINATION

7.1 Default. If any one or more of the following events ("Events of Default") occur, then at Seller's option, Seller may terminate or suspend its obligation to tender and sell Royalty Oil and proceed to exercise any one or more of the rights and remedies provided in this Agreement:

- (i) Except for obvious clerical errors, Purchaser does not pay in full any sum owed under this Agreement at the time when payment is due; or
- (ii) Purchaser fails to observe or perform any of its other covenants and obligations under Article II; or
- (iii) Purchaser does not perform any act required or contemplated under this Agreement and either: (a) the nonperformance continues for more than thirty (30) days after Seller has notified the Purchaser of Purchaser's nonperformance; or (b) Purchaser had failed to perform the same or any other act required or contemplated under this Agreement during the immediately preceding twelve (12) month period; or

- (iv) there is a material adverse change in Purchaser's condition, business or property which appreciably affects the ability of the Purchaser to perform any of its obligations under this Agreement, and Purchaser is unable to give Seller adequate assurance of continued performance either within fourteen (14) days of a request for such an assurance or within such other shorter time period as Seller may reasonably request under the circumstances; or
- (v) any representation or warranty made by Purchaser in this Agreement proves to have been false or incorrect in any material respect at the time that the representation or warranty was made.

7.2 Failure to Pay Debts. If at any time Purchaser becomes unable to pay any of its debts when those debts are due, or should otherwise become insolvent (without regard to how that insolvency may be evidenced), Purchaser will immediately give notice of that fact to Seller. Whether or not that notice is given, if Purchaser becomes unable to pay any of its debts when those debts are due or should otherwise become insolvent, Seller's obligation to tender and sell Royalty Oil under this Agreement will automatically and immediately terminate without any requirement of notice or other action by Seller; however, Purchaser will nevertheless be and remain liable for payment and performance of all of its obligations and covenants under this Agreement with respect to Royalty Oil actually tendered by Seller to and after any such termination. Within thirty (30) days after receipt of Purchaser's notice or, if no notice is given, after Seller otherwise becomes aware (as determined in Seller's sole discretion) of Purchaser's insolvency, Seller will have the right, upon written notice to Purchaser, to reinstate all of Seller's and Purchaser's obligations under this Agreement retroactively to the date of termination.

7.3 Seller's Remedies. Upon the occurrence of any Event of Default or if Seller's obligation to tender and sell Royalty Oil under this Agreement is terminated or suspended under Articles 7.1 and 7.2, all obligations of Purchaser accrued but not otherwise due and payable under this Agreement will

immediately be due and payable in full. In addition, Purchaser will indemnify and hold Seller harmless from and against all other liability, damages (including reasonably foreseeable consequential damages), costs, losses and expenses (including reasonable attorneys' fees and disbursements) incurred by Seller and arising out of the Event of Default, termination, or suspension. Seller shall have the right cumulatively to exercise any and all other rights and remedies and to obtain all other relief available under applicable law or at equity, including mandatory injunction and specific performance. The Seller, upon occurrence of any Event of Default, in its sole discretion, may arrange for any disposition to third parties of Royalty Oil to be tendered and sold under this Agreement. Upon the occurrence of any Event of Default, the Purchaser is released from the obligations set forth in Articles 2.11 (In-State Processing) and 2.12 (Best Efforts) until the Event of Default no longer exists or the obligation of the Purchaser to take Royalty Oil under this Agreement expires. If upon occurrence of any Event of Default the Seller makes arrangement for disposition to third parties of Royalty Oil or if the Purchaser is released from Articles 2.11 and 2.12, whether or not this Agreement is terminated, Purchaser will nevertheless be and remain liable to Seller for the full amount of the Purchase Price for that Royalty Oil in excess of the Purchase Price over any amount or amounts received by Seller on account of that disposition, net of the expenses of that disposition and for all other costs, expenses (including reasonable attorneys' fees and disbursements), damages (including reasonably foreseeable consequential damages) and losses incurred by Seller and arising out of the Event of Default or disposition.

7.4 Purchaser's Exclusive Remedies. Upon any breach of, or default in, the due and timely observance or performance of any of Seller's covenants or obligations under this Agreement, Purchaser acknowledges and agrees that Purchaser's remedies will not include a temporary restraining order or preliminary injunction preventing Seller from taking any action with regard to the Royalty Oil sold under the Agreement.

ARTICLE VIII  
DISPOSITION OF OIL

8.1 Disposition of Oil Upon Default or Termination. Purchaser acknowledges and agrees that under the Unit Agreement and Leases Seller's election to take Royalty Oil in-kind can be revoked or reversed only upon the satisfaction of various conditions, including the giving of six (6) months' notice to return all or more than ten percent (10%) of Seller's then current nominations. Purchaser acknowledges and agrees that Seller's election to invoke its rights to return to taking its Royalty Oil in value on less than six (6) months' notice, or to attempt to secure a waiver of any condition or requirements, is at Seller's sole and complete discretion. Notwithstanding termination of this Agreement for default or for any other reason, including expiration or termination under any provision contained in this Agreement, Purchaser shall continue to take and purchase Seller's Royalty Oil in the amount and for the price set forth in this Agreement for up to seven (7) months following termination of this Agreement if Seller, in its discretion, so requires.

8.2 Inability to Receive Oil. If for any reason Purchaser is unable or refuses to accept or receive any Royalty Oil tendered under this Agreement, Purchaser shall nevertheless be and remain responsible for the disposal of that Royalty Oil and for paying the Seller for the oil as though it has been received and accepted by Purchaser unless Seller, in its sole discretion, elects to waive this requirement.

8.3 No Right to Storage or Underlift. Purchaser waives and disclaims any interest or right that it may assert to storage of Royalty Oil, including by underlift or other means, to which Seller is or may come to be entitled under the Leases or any other agreement.

ARTICLE IX

WAIVER

9.1 Waiver. The failure of either party to insist upon strict performance of any provision of this Agreement shall not constitute a waiver of, or estoppel against, asserting the right to require that performance in the future. A waiver or estoppel in any one instance shall not constitute a waiver or estoppel with respect to a later breach of a similar nature or otherwise. A course of performance established by a party shall also not estop the other party from complaining of a later breach similar in nature.

ARTICLE X

VALIDITY

10.1 Validity. If any provision or clause of this Agreement or application of this Agreement to any person or circumstance is held invalid, that invalidity shall not affect other provisions or applications of this Agreement which can be given effect without the invalid provision or application. If, however, an invalidity should operate to impair any material right or remedy of a party to this Agreement, that party may terminate this Agreement by notice to the other.

ARTICLE XI

FORCE MAJEURE AND CHANGE IN CONDITION

11.1 Effect of Force Majeure. Except for Purchaser's obligations to make payment of money for Royalty Oil tendered under this Agreement and except for Purchaser's obligations to accept and dispose of Royalty Oil, neither party shall be liable for any failure to perform the terms of this Agreement when the failure is due in whole or in substantial part to force majeure. The term "force majeure" as applied to this Agreement shall mean Acts of God, strikes, lockouts and industrial disputes or disturbances, civil disturbances,

arrests and restraints from rulers or people, interruptions by government or court orders or by present or future orders of any regulatory body having or asserting jurisdiction, acts of the public enemy, wars, riots, blockades, insurrections, inability to secure materials by reasons of allocations promulgated by authorized governmental agencies, epidemics, landslides, lightning, earthquakes, fires, storms, floods, washouts, explosions, breakage or accident to machinery or lines of pipe, freezing of wells or pipelines, or any other event or condition, whether of the kind herein enumerated or otherwise, not within the reasonable control of the party claiming the benefit of this excuse. If, however, any material obligation of Purchaser is excused or suspended because of a claim of force majeure for a period of three hundred sixty-five (365) successive days or more, Seller will have the right to terminate this Agreement. Prior to the Seller exercising its right to terminate this Agreement the Seller and Purchaser shall enter into good faith negotiations to restore, to the fullest extent possible, the Seller and Purchaser to the benefits and obligations that existed under this Agreement before the occurrence of the force majeure condition.

11.2 Responsibility. Upon the occurrence and discovery of an event providing the basis for a claim of force majeure, the party making a claim shall notify the other party to this Agreement of its claim of force majeure. Upon the occurrence of an event constituting force majeure that event shall, so far as possible, be remedied with all reasonable diligence and dispatch. Except for Purchaser's obligations to make payment of money for Royalty Oil tendered under this Agreement and except for Purchaser's obligation to dispose of Royalty Oil, the obligations of the disabled party to perform under this Agreement, insofar as they are affected by that force majeure, shall be suspended from the time that force majeure occurs and for so long as the disability caused should have continued had the party claiming the existence of the force majeure remedied the event providing the basis of the claim of force majeure with reasonable diligence and dispatch, and for no longer. The settlement of strikes or lockouts or industrial disputes or disturbances will be entirely within the discretion of the party having the difficulty, and the above requirement that any force majeure shall be remedied with diligence and

dispatch shall not require the settlement of strikes, lockouts, or industrial disturbances by acceding to the demands of any opposing party therein when such course is inadvisable in the sole discretion of the disabled party.

ARTICLE XII  
NOTICES

12.1 Method. All notices, requests, demands or statements shall be in writing, and may be delivered personally to the party to be notified or may be sent by registered or certified United States mail, postage prepaid, with a return receipt requested to such party. Notice deposited in the mail in this manner shall be effective upon the expiration seven (7) days after it is so deposited. Notice given in any other manner shall be effective only if and when received by the addressee. For the purposes of notice, the addresses of the parties to this Agreement shall be as follows:

If to Seller: State of Alaska  
Commissioner of Natural Resources  
Pouch "M"  
Juneau, Alaska 99811

and

Commissioner of Revenue  
Pouch "S"  
Juneau, Alaska 99811

and

Director, Division of Oil and Gas  
Pouch 7-034  
Anchorage, Alaska 99510

If to Purchaser:

GOLDEN VALLEY ELECTRIC ASSOCIATION  
P.O. Box 1249  
Fairbanks, Alaska 99707

12.2 Change of Address. Each party may change its address for notice by giving notice of the change.

ARTICLE XIII  
RULES AND REGULATIONS

13.1 Rules and Regulations. This Agreement is subject to all present and future valid laws, orders, rules and regulations of the United States, the State of Alaska, and any duly constituted agency thereof.

ARTICLE XIV  
SOVEREIGN POWER OF THE STATE

14.1 Sovereign Power of the State. This Agreement and its covenants shall not be interpreted as a limit on the exercise by the State of Alaska of any of its sovereign or regulatory powers, whether conferred on the State by constitution, statute or regulation, including but not limited to, its regulatory power over the Leases. The exercise by the State of Alaska of any sovereign or regulatory power will not operate or be deemed to enlarge any rights of Purchaser or to limit or impair any obligations or liability of Purchaser under this Agreement except for state statutes enacted after the effective date of this Agreement which have a direct and significant adverse effect on the ability of Purchaser to perform an obligation under this Agreement other than the obligations to accept, dispose, and pay for Royalty Oil tendered under this Agreement.

ARTICLE XV  
SECURITY

15.1 Letter of Credit. At least sixty (60) days before the Date of First Delivery, unless waived by Seller, Purchaser shall cause to be furnished to Seller an irrevocable stand-by letter of credit for the benefit of Seller, issued by a state or national banking institution of the United States which

is a member of the Federal Deposit Insurance Corporation and has an aggregate capital and surplus of not less than One Hundred Million Dollars (\$100,000,000), or other banking institution acceptable to Seller in its sole discretion. The principal face amount of the letter of credit shall initially be Five Million, Four Hundred Thousand Dollars, (\$5,400,000). The letter of credit shall be substantially in a form satisfactory to the Commissioner, but in any event shall not require any documents to be submitted in support of drafts drawn against this letter of credit other than the certified statement of the Commissioner or her designee and the Attorney General of the State of Alaska or his designee that Purchaser is liable to Seller for a sum equal to the amount of such draft, and that that sum is due and payable in full and has not been timely paid. In the event that Seller should have reasonable grounds for asserting any claims against Purchaser under this Agreement and does assert those claims in an aggregate amount in excess of the aggregate principal face amount of the letter of credit then in effect, Purchaser shall upon Seller's request (whether or not Purchaser may deny, reject or otherwise resist such claims) cause the principal face amount of the letter of credit to be increased by an amount equal to the excess. The principal face amount of the letter of credit shall also be automatically increased by Purchaser without request from Seller whenever the face amount is less than the expected Purchase Price of sixty (60) days of Royalty Oil tenders under this Agreement, to an amount equal to the expected Purchase Price of sixty (60) days of Royalty Oil tenders. The principal face amount of the letter of credit may be decreased by Purchaser upon approval of Seller if the face amount is more than the expected Purchase Price of sixty (60) days of Royalty Oil tenders under this Agreement, to an amount equal to the expected Purchase Price of sixty (60) days of Royalty Oil tenders. The Commissioner may accept such other or additional security as she, in her sole discretion, considers adequate to protect Seller.

ARTICLE XVI  
PREFERENTIAL HIRING AND NON-DISCRIMINATION

16.1 Preferential Hiring. Purchaser agrees to hire and employ Alaska residents and Alaska companies to the extent they are available, willing and qualified for all work performed in Alaska that is performed under or in connection with this agreement. As used in this agreement "Alaska resident" means an individual who has resided in the State for one year at the time of hiring or employment and "Alaska companies" means those companies who are incorporated in the State of Alaska or whose principal place of business is in Alaska.

If this provision is determined to be unconstitutional by a court of competent jurisdiction, then Purchaser agrees to hire and employ Alaska residents and Alaska companies to the extent such preferential hiring is determined to be constitutional.

ARTICLE XVII  
APPLICABLE LAW

17.1 Alaska Law. This Agreement shall be governed by and construed in accordance with the laws of the State of Alaska, excluding any conflict-of-law rule or principle which might refer such construction to the laws of another state or country.

17.2 Submission to Jurisdiction. Any legal action or proceeding arising out of or relating to this Agreement or for the enforcement of the covenants or obligation of either party must be instituted in a State court of general jurisdiction sitting in the State of Alaska, and Purchaser hereby irrevocably submits to the jurisdiction of that court in any such action or proceeding.

ARTICLE XVIII  
WARRANTIES

18.1 No Warranties. The purchase and sale of Royalty Oil under this Agreement is subject only to the warranties of Seller expressly set forth in this Agreement and Seller disclaims and Purchaser waives all other warranties, express or implied in law, whatsoever.

ARTICLE XIX  
AMENDMENT

19.1 Amendment. This Agreement may be supplemented, amended or modified at any time, but only by written instrument duly executed by the parties to this Agreement.

ARTICLE XX  
SUCCESSORS AND ASSIGNS

20.1 General Prohibition. No assignment, pledge or encumbrance of this Agreement shall be made by either party without first obtaining the written consent of the other party. The Commissioner may grant such consent on behalf of the Seller. The Commissioner shall have sole and complete discretion in granting or denying a proposed assignment, pledge or encumbrance. Subject to the above requirements in this Article, this Agreement will be binding upon and inure to the benefit of each of the parties and its successors and permitted assigns. In addition, if Purchaser gains or acquires a controlling interest in an entity which has an agreement with Seller for the sale of Royalty Oil ("Other Agreement"), then Seller, at its option and on one year's notice, may require Purchaser to terminate either this Agreement or the Other Agreement. The choice of which Agreement to terminate will be Purchaser's. Purchaser may request that Seller waive this option in advance of Purchaser gaining a controlling interest in an entity which has an agreement with Seller

for the sale of Royalty Oil. The Commissioner has sole and complete discretion in granting or denying the requested waiver.

## ARTICLE XXI

### HEADINGS

21.1 Headings. Headings used in this Agreement are for convenience only and shall not affect the construction of this Agreement.

## ARTICLE XXII

### RECORDS

22.1 Preservation of Records. Purchaser will preserve and maintain all books, accounts, and records relating to or arising out of the performance of this Agreement, including but not limited to the purchase or sale of Royalty Oil and its refined products, for a period of six (6) years. Purchaser will also maintain and preserve all similar books, accounts, and records of which it has possession belonging to those third parties with whom it contracts for the performance of various parts of this Agreement. Neither Purchaser nor Seller shall be required to retain any records for more than six (6) years unless retention of such records is specifically required by applicable law or regulation. Purchaser shall either maintain its records within the State of Alaska or make such records available to Seller at Purchaser's principal office in the State of Alaska within thirty (30) days after written request by Seller.

22.2 Inspection of Records of Parties. Purchaser and Seller will accord to each other and to their authorized agents, attorneys, and auditors during reasonable business hours access to any and all property, records, books, documents, and indexes directly relating to the Purchaser's or Seller's performance of this Agreement and which are under the control of the party from which access is desired so that the other party may inspect, photograph

and make copies of that property, records, books, documents and indexes. In no event, however, shall Seller be required to disclose any information, data, or records which are required to be held confidential by state law or regulation. If the information obtained by Seller may be held confidential under state or federal law or regulation, Purchaser may request that that information be held confidential by Seller.

ARTICLE XXIII  
INTERPRETATION OF TERMS AND CONDITIONS

23.1 Commissioner Finding and Review. In the event that there is a disagreement about the meaning or application of a word, term, or condition in this Agreement, Purchaser will present the arguments supporting its view in writing to the Commissioner for her consideration. The Commissioner will subsequently, within a reasonable time, issue a finding on the meaning or application of the disputed word, term, or condition, setting forth the basis for her conclusions. Purchaser agrees to accept findings by the Commissioner under this Article as long as there is substantial evidence supporting the Commissioner's findings.

DATED this 9<sup>TH</sup> day of May 1984.

SELLER: THE STATE OF ALASKA

*Esther C. Winnicke*  
Commissioner,  
Department of Natural Resources

PURCHASER: GOLDEN VALLEY ELECTRIC ASSOCIATION

By *Michael P. Kelly*  
Michael P. Kelly  
General Manager

HOUSE DRAFT



SPONSOR'S APPROVAL  
*OK*

# In Memoriam

\* RAY SCOBY \*

The members of the Alaska Legislature wish to pay a final tribute to a long-time Alaskan, Ray Scoby, who passed away recently in Seattle.

Born in Michigan in 1909, Ray Scoby spent his childhood in Michigan. He and Mable were married in 1936 and Ray worked as a cabinet maker until 1946 when the family moved to Tok.

Ray spent his first winter in Alaska trapping and the following spring began work on what was to become the 40-mile roadhouse at mile 1302 of the Alaska Highway. The roadhouse opened in 1948 and as the years went by it expanded. In earlier years in Alaska the roadhouses along all of Alaska's highways, and particularly along the Alaska Highway became, in every sense of the word, an oasis for weary travelers, offering shelter, food, fuel and nearly every sort of assistance imaginable. Ray and Mable made countless thousands of friends during their time at the roadhouse. Some they saw only once. Others came to be lifelong companions.

Ray Scoby was a genial, hard-working and caring man. He loved his family and he loved Alaska. He took great joy in raising dogs and was a charter member of the Tok Mushers Association. He leaves many deeply saddened friends and memories that will stay with the Tok community for many years.

We wish to extend to Mable our most sincere condolences.

*app. us 2/25*  
SPEAKER OF THE HOUSE

\_\_\_\_\_  
PRESIDENT OF THE SENATE

Date:

Requested by: Representative Shultz and  
Senator Coghill

SPONSOR'S APPROVAL

*Adams*



# In Memoriam

ROUGH DRAFT

\* LARRY L. GOURLEY \*  
\* ADVISORY PROJECT MANAGER \*  
\* IBM DATA PROCESSING DIVISION \*  
\* SEATTLE, WASHINGTON \*

The members of the 14th Legislature and their staff wish to pay tribute to Larry L. Gourley for ten years of dedicated, behind the scenes, work to create much of the data processing systems support this Legislature has come to depend on for a wide variety of accurate reports.

Larry first came to Juneau in the late fall of 1974. The plan was simply to assist legislative staff in the completion of a few "DP" systems and then return "forever" south. But two problems surfaced. Larry was so expert at his work that one completed program led to another, and the Legislature was so intrigued by the prospect of improved information reporting that new assignments promptly followed completed projects. And so it went through last week when Larry died quietly in Seattle.

What Larry accomplished and left behind we see and use every day:

- What is in the capital budget for Anchorage? Check Larry's "ED Run".
- How much is in the component for contractual? Larry's "short form" has the answer.
- Budget changed from fiscal year 1985 authorized? It would show on Larry's "cut sheet".
- The General Appropriations Act itself? Larry designed and produced that too, but not without many long, late-hour days work.
- Where is my bill? Pull up the ALASKA screen on BASIS, put in the bill "ID", and there is the bill history. Yes, Larry designed and first produced that report.

What Larry accomplished and left behind we still have and will continue to use. What he took with him, leaving behind only the memory, was the friendship of all those who knew him. Our sympathy goes to his wife, Mary, and to the other members of the family.

*app. mc 2/22*  
SPEAKER OF THE HOUSE

\_\_\_\_\_  
PRESIDENT OF THE SENATE

Date:

Requested by: Representative Adams, *U.S.H. Cong*

Very good!  
SPONSOR'S APPROVAL

Ziegler



ROUGH DRAFT

\* HONORING - NATHAN P. JACKSON \*

The members of the 14th Alaska Legislature take great pride in honoring a Native Alaskan, Nathan P. Jackson of Ketchikan, who has been selected to participate in an international arts festival.

A renowned carver, Nathan Jackson will travel to England in the spring to participate in a special program at the Museum of Mankind in London, England.

Nathan will be carving a totem pole approximately twenty feet tall during May and June. The pole will depict an eagle, a bear and a man.

Born in Southeast Alaska, Nathan Jackson was immersed in the art and lore of the Tlingit people at an early age. He received formal education at the American Indian Arts Institute in New Mexico, specializing in fabric design, silk screen and graphics. He has made his profession carving, jewelry making and design.

For many years Nathan has taught carving at a variety of educational institutions, within and without Alaska. He is currently the artist in residence at Ketchikan Community College. On many occasions he has been called upon as a consultant for important exhibits and as an instructor. He and his work are much in demand all across the United States.

All Alaskans can be proud that this talented artist will represent the State of Alaska, and the history of the native people of Southeast Alaska internationally. We commend him on his selection and extend to him our sincere best wishes. We know he will represent us well.

\_\_\_\_\_  
SPEAKER OF THE HOUSE

\_\_\_\_\_  
PRESIDENT OF THE SENATE

Date:

Requested by: Senators Ziegler; *D. Fischer*  
Representatives Sund & Taylor

SPONSOR'S APPROVAL



ROUGH DRAFT

\* HONORING - STUDENT LEADERSHIP PROJECT \*

The members of the 14th Alaska Legislature wish to commend the Student Leadership Project and several of the young Alaskans who have participated in the leadership training program with outstanding results.

Funded through the Alaska Department of Education and operated by the Northern Institute, the Student Leadership Project has, in the four years since its creation, conducted workshops in every school district in Alaska. Teachers, administrators, and more than 3,500 students have received training in individual leadership, team building and how to organize a student leadership organization.

Hahna Shepard, President of the Alaska Association of Student Governments, an elective office, has described her candidacy as "one of the most educational events of my life." The election, and the Association of State Government is made possible through the Student Leadership Project.

Wasilla senior Susan DeCamp has used her Project training to involve herself in Future Homemakers of America. She has thus received training at the national level which, as Susan has said, "I will share with members at the state level and they will share with their families, schools and communities."

"I have learned to apply my vocational skills in on-the-job training," says Wasilla student Robert Nelson and Anchorage senior Christine Bradley, who has involved herself with the Distributive Education Clubs of America stated, in an address to members of the Legislature, "...students are given the chance of a lifetime by participating in the DECA program."

The Student Leadership Project, working in a variety of ways to bring forth the talents of Alaska's young people, has become a well established and popular program.

Keli Hite of Ft. Greely, state treasurer of OEA, a participant organization, says proudly, "because of OEA I have gained confidence not only in myself, but in others," and Palmer student Jeffrey Werner says of his participation in FFA "I set goals as a freshman in high school. At graduation those goals were all completed."

We are proud of each participant and the many organizations which have combined to make the Student Leadership Project an effective and well received program to assist Alaska's leaders of tomorrow.

app. rec 2/25  
SPEAKER OF THE HOUSE

\_\_\_\_\_  
PRESIDENT OF THE SENATE

Date:

Requested by:

Rep. Szymanski *Cotten*  
*all other members of the House*  
*Kelly, De Vries, Hayward, Vic Fuchs, Sturgis*

STATE OF ALASKA  
THE LEGISLATURE

LEGISLATIVE AFFAIRS AGENCY

LEGISLATIVE REFERENCE LIBRARY

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

May, 1986

Copies of minutes listed below were originally included in this file. The minutes are available on the STAIRS date base CM 14. In order to save space copies of minutes have not been left in the files.

Jeanie Henry

SENATE RESOURCES COMMITTEE, 2/20/85, 1:35

First Contract signed April 1977

Amount: 2,000 b/d 1978

3,000 b/d 1979-1981

5,000 b/d 1981-1984

Commenced taking June 1981

Term: Six years from date of first receipt. GVKA was technically deemed to be receiving in June of 1978 so expiration was June 1984

Price: In-Value plus Amerada-Hess retroactive plus field costs-as ammended March 1978.

Interim Events: GVEA requests extension of old contract for ten years-Nov. 82  
No action 1982. March 83 begin negotiations. Notice of proposed contract for RB review Nov. 1983. RB review negative Dec. 1983.

Emergency Contract signed May 1984

Amount: 2.667% of PB, now 5,000 b/d

commenced taking July 1984

Term: Expires June 30, 1985

Price: In-Value plus A-H retroactive plus field costs plus 30¢.

Kelly not in today - relayed GUEV fact sheet corrections to  
Kell: ... Kelly ...

*How much does*

MAPCO PROFITS RESULTING FROM GVEA CONTRACT

assume 42 gallons converted to: 5.25 gal. turbine fuel  
11.18 gal. jet and diesels/heating oil  
25.2 gal. reinject with quality bank penalty

Turbine fuel markup is about 9¢/gal. (from assignment agreement with MAPCO)

*stand turbine  
cheap rate of fueling*

Jet and Diesels markup is about 26¢/gal. (from Alaska Petroleum Product Pricing)

Refined Barrel Markup is about \$3.00. That would apply to the daily amount retained from the 5,000 b/d or about 2,000 b/d (40%). Implies annual gross profits of \$2,195,000 not counting the extent to which the (West Coast) value of return oil emerging at Valdez exceeds the in-value price paid for it plus quality bank penalty. Judging from the Alaska Petroleum Product Pricing report, refinery markups vary considerably over time—perhaps + or - 40%. Net profits are not known since MAPCO does not reveal its operating costs or amortization practices. Assuming MAPCO passes its savings (over the West Coast price) on to consumers, the per barrel markup would be no different than had MAPCO purchased from a producer. Otherwise, MAPCO's net profit should be viewed as simply the difference between what MAPCO pays vs. what it would have to pay a producer, just like Chevron and Tesoro.

CHRONOLOGY OF GVEA CONTRACT:

*From Resources*

GVEA ROYALTY OIL CONTRACT

FACT SHEET

TITLE: Agreement for Sale and Purchase of Royalty Oil

TERM: 3 months

MAJOR FACTS/BENEFITS:

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

# STATE OF ALASKA

BILL SHEFFIELD, GOVERNOR

## DEPARTMENT OF NATURAL RESOURCES

OFFICE OF THE COMMISSIONER

POUCH M  
JUNEAU, ALASKA 99811  
PHONE:

February 18, 1985

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

Dear Senator Sturgulewski:

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

Sincerely yours,



Esther C. Wunnicke  
Commissioner  
Department of Natural Resources

Attachment as stated

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

1574K

Extension Amendment

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

ARTICLE VI

TERM

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

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

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

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

\_\_\_\_\_  
Commissioner  
Department of Natural Resources

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

\_\_\_\_\_  
Golden Valley Electric  
Association, Inc.



**MAPCO PETROLEUM INC.**  
A SUBSIDIARY OF MAPCO INC.

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

February 15, 1985

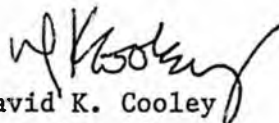
Senator John B. (Jack) Coghill  
Alaska State Legislature  
Pouch V (MS 3100)  
Juneau, Alaska 99811

Dear Senator Coghill:

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

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

Very truly yours,

  
David K. Cooley  
Vice President

DKC:jr

jr

Offered: 4/9/85  
Referred: Resources and  
Finance

Original sponsor: Rules/Governor

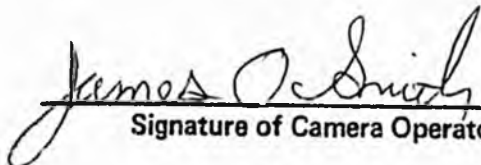
1 IN THE HOUSE  
2 CS FOR HOUSE BILL NO. 287 (Oil and Gas)  
3 IN THE LEGISLATURE OF THE STATE OF ALASKA  
4 FOURTEENTH LEGISLATURE - FIRST SESSION  
5 A BILL  
6 For an Act entitled: "An Act approving the sale of Prudhoe Bay royalty oil  
7 by the State of Alaska to the Golden Valley Electric  
8 Association; and providing for an effective date."  
9 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:  
10 \* Section 1. The "Agreement for the Sale and Purchase of Prudhoe Bay  
11 Royalty Oil" between the State of Alaska and the Golden Valley Electric  
12 Association, dated February 8, 1985, is approved and ratified for a period  
13 of one year only, until September 30, 1986.  
14 \* Sec. 2. This Act takes effect immediately in accordance with AS 01.-  
15 10.070(c).

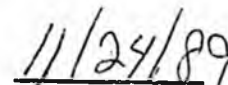


# RECORDS CERTIFICATION



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

  
Signature of Camera Operator

  
Date

S B

1 5 5

STATE OF ALASKA  
THE LEGISLATURE

POUCH Y - STATE CAPITOL  
JUNEAU, ALASKA 99811  
907.465.3800

LEGISLATIVE AFFAIRS AGENCY

MEMORANDUM

March 3, 1986

SUBJECT: Agricultural parcels  
[CSSSSB 155(Resources)]

TO: Senator Arliss Sturgulewski  
Chair, Senate Resources Committee

FROM: Richard A. Bradley  
Legislative Counsel

As I have advised Frank Homan, the question of the application of the bill to "conveyed" land may be ambiguous since the commissioner of natural resources conveys both patents and leases regarding agricultural land.

If only patented land is intended to be the subject of partition ("splitting"), then "patented" would be better usage than "conveyed".

If I may be of further assistance, please advise.

RAB:csh  
c6/023

1-22-86  
\* Section 1. AS 38.05.020(b)(7) is amended to read:

(b) The commissioner may

---

(7) waive, postpone, amend, or otherwise modify the development requirements of a contract for the sale of agricultural land as contained in a farm conservation plan on a finding under AS 38.05.064 that [IF]

(A) such waiver, postponement, amendment, or modification would tend to promote the more efficient and economical development of agriculture within the state [THE LAND IS INACCESSIBLE BY ROAD]; or [AND] *IT WILL BE IN THE BEST INTEREST OF THE STATE.*

(B) transportation, marketing, or [AND] development costs render the required development uneconomical.

\* Section 2. AS 38.05 is amended by adding a new section to read:

Sec. 38.05.064. SPLITTING AND COMBINING OF AGRICULTURAL PARCELS. (a) The commissioner may allow a person who has purchased a parcel of agricultural land under this chapter that is part of an agricultural development project to split the parcel by selling portions of the parcel or to combine it with other parcels.

(b) The total acreage of farmsteads resulting from a split or combination made under this section shall be no more than that allowed before the split or combination of parcels.

(c) The commissioner may not allow a parcel to be split or combined under this section unless

(1) the commissioner makes a written finding that the proposed split or combination is necessary to promote the public interest; in making this determination the commissioner shall consider whether the split or combination will encourage development of the state's agricultural resources, prevent economic waste, encourage instate agricultural products at a competitive market price, and assist in gaining agricultural self-sufficiency for the state;

(2) for each parcel resulting from a split or combination, an amended contract for the sale of agricultural land is to be entered into with the state and approved by the commissioner;

(3) the application for the split or combination of parcels designates an operator for each of the proposed resulting parcels;

(4) the commissioner provides public notice of, and an opportunity for a hearing and written comment regarding, a proposed split or combination; and

(5) the commissioner makes available to the public a written explanation of the proposed split or combination, information on how to obtain a copy of the application on the proposed split or combination, and the proposed amended contract for the sale of agricultural land.

(d) The commissioner may adopt regulations to implement this section.

JOSEPH PATRICK CANGE  
CERTIFIED PUBLIC ACCOUNTANT  
BOX 4-847  
ANCHORAGE, ALASKA 99509  
TELEPHONE (907) 344-5900

JAN 28 1986

January 22, 1986

Arliss Sturgulewski  
Chairman Resources Committee  
Alaska State Senate  
Pouch V  
Capital Building  
Juneau, Alaska

Subject: Senate Bill No. 155

Dear Arliss:

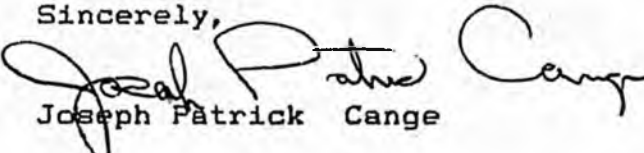
I am submitting a copy of a proposed bill which I would ask that you have your staff review and use as a substitute for the current Senate Bill 155. This proposed bill has been prepared by the people at DNR and has changes from the original Senate Bill 155 which were necessitated because of the language in AS 38.05.020(b) (7). There are also a few minor changes that were made to correct some ambiguous terminology and to clarify the intent of the bill.

This bill, as you know, is our most important piece of legislation if we are to survive at Point MacKenzie and at Delta.

If there are any questions regarding this proposed bill, please contact me. We thank you for your work on the agriculture bills and we appreciate your continuing support.

I would also like to ask for your assistance in getting Senate Bill 57 (an act relating to preferential use of Alaska agricultural or fisheries products) scheduled in Resources.

Sincerely,

  
Joseph Patrick Cange

1-22-86  
\* Section 1. AS 38.05.020(b)(7) is amended to read:

(b) The commissioner may

---

(7) waive, postpone, amend, or otherwise modify the development requirements of a contract for the sale of agricultural land as contained in a farm conservation plan on a finding under AS 38.05.064 that [IF]

(A) such waiver, postponement, amendment, or modification would tend to promote the more efficient and economical development of agriculture within the state [THE LAND IS INACCESSIBLE BY ROAD]; or [AND]

(B) transportation, marketing, or [AND] development costs render the required development uneconomical.

\* Section 2. AS 38.05 is amended by adding a new section to read:

Sec. 38.05.064. SPLITTING AND COMBINING OF AGRICULTURAL PARCELS. (a) The commissioner may allow a person who has purchased a parcel of agricultural land under this chapter that is part of an agricultural development project to split the parcel by selling portions of the parcel or to combine it with other parcels.

(b) The total acreage of farmsteads resulting from a split or combination made under this section shall be no more than that allowed before the split or combination of parcels.

(c) The commissioner may not allow a parcel to be split or combined under this section unless

(1) the commissioner makes a written finding that the proposed split or combination is necessary to promote the public interest; in making this determination the commissioner shall consider whether the split or combination will encourage development of the state's agricultural resources, prevent economic waste, encourage instate agricultural products at a competitive market price, and assist in gaining agricultural self-sufficiency for the state;

(2) for each parcel resulting from a split or combination, an amended contract for the sale of agricultural land is to be entered into with the state and approved by the commissioner;

(3) the application for the split or combination of parcels designates an operator for each of the proposed resulting parcels;

(4) the commissioner provides public notice of, and an opportunity for a hearing and written comment regarding, a proposed split or combination; and

(5) the commissioner makes available to the public a written explanation of the proposed split or combination, information on how to obtain a copy of the application on the proposed split or combination, and the proposed amended contract for the sale of agricultural land.

(d) The commissioner may adopt regulations to implement this section.

PREPARED BY DAVE CREEKMAN ON

1-22-86

Bradley  
3/7/86 ✓

Original sponsor: Kerttula

1 IN THE SENATE

BY THE RESOURCES COMMITTEE

2 CS FOR SPONSOR SUBSTITUTE FOR SENATE BILL NO. 155 (Resources)

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 FOURTEENTH LEGISLATURE - SECOND SESSION

5 A BILL

6 For an Act entitled: "An Act relating to the splitting and combining of  
7 agricultural parcels."

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

9 \* Section 1. AS 38.05.020(b) is amended to read:

10 (b) The commissioner may

11 (1) establish reasonable procedures and adopt reasonable  
12 regulations necessary to carry out this chapter and, whenever neces-  
13 sary, issue directives or orders to the director to carry out specific  
14 functions and duties; regulations adopted by the commissioner shall be  
15 adopted under the Administrative Procedure Act (AS 44.62); orders by  
16 the commissioner classifying land, issued after January 3, 1959, are  
17 not required to be adopted under the Administrative Procedure Act  
18 (AS 44.62);

19 (2) enter into agreements considered necessary to carry out  
20 the purposes of this chapter, including agreements with federal and  
21 state agencies;

22 (3) review any order or action of the director;

23 (4) exercise the powers and do the acts necessary to carry  
24 out the provisions and objectives of this chapter;

25 (5) notwithstanding the provisions of any other section of  
26 this chapter, grant an extension of the time within which payments due  
27 on any lease or sale of state land, minerals, or materials may be  
28 made, including payment of rental and royalties, on a finding that  
29 compliance with the requirements is or was prevented by reason of war,

1 riots, or acts of God;

2 (6) classify tracts for agricultural uses and require the  
3 prequalification, including the submission of conservation plans,  
4 development plans, or other plans, schedules, or programs, of persons  
5 who apply to participate in an agricultural development project under  
6 AS 44.33.475;

7 (7) after public notice and an opportunity for a hearing  
8 and for written comment, waive, postpone, amend, or otherwise modify  
9 the development requirements of a contract for the sale of agricul-  
10 tural land on a finding that [IF]

11 (A) the waiver, postponement, amendment, or modifica-  
12 tion of the contract would tend to promote the more efficient and  
13 economical development of agriculture within the state and be in  
14 the best interests of the state; or [THE LAND IS INACCESSIBLE BY  
15 ROAD; AND]

16 (B) transportation, marketing, or [AND] development  
17 costs render the required development uneconomic.

18 \* Sec. 2. AS 38.05 is amended by adding a new section to read:

19 Sec. 38.05.064. SPLITTING AND COMBINING OF AGRICULTURAL PARCELS.

20 (a) The commissioner may allow a person who has purchased a parcel of  
21 agricultural land under this chapter that is part of an agricultural  
22 development project to split the parcel by selling portions of the  
23 parcel. Only conveyed land may be split under this section and no  
24 more than one farmstead may be maintained for each 640-acre parcel  
25 resulting from the split.

26 (b) If two or more parcels that are part of an agricultural  
27 development project are proposed to be combined, the commissioner may  
28 allow the owner of the parcels proposed for combination to amend each  
29 contract for the sale of an agricultural interest in state land only

1 as provided in this section and not more than four parcels may be  
2 combined.

3 (c) The commissioner may not allow a parcel to be split or  
4 approve an amended contract for the sale of an agricultural interest  
5 in state land to combine parcels under this section unless

6 (1) the commissioner makes a written finding that the  
7 proposed split or combination is necessary to promote the public  
8 interest; in making this determination the commissioner shall consider  
9 whether the split or combination will encourage development of the  
10 state's agricultural resources, prevent economic waste, and protect  
11 all interested parties including the state;

12 (2) for each parcel resulting from a split or combination  
13 under this section, an amended contract for the sale of agricultural  
14 land is entered into with the state and approved by the commissioner;

15 (3) the application for the split or combination of parcels  
16 designates an operator for each of the proposed resulting parcels;

17 (4) the commissioner provides public notice of, and an  
18 opportunity for a hearing and written comment regarding, a proposed  
19 split or combination; and

20 (5) the commissioner makes available to the public a writ-  
21 ten explanation of the proposed split or combination, information on  
22 how to obtain a copy of the application for the proposed split or  
23 combination, and the proposed agricultural development agreements.

24 (d) The commissioner may approve the sale of an agricultural  
25 interest in state land to permit the combination of parcels under this  
26 section if the contract for the combined parcels will require the  
27 operator of the combined parcels

28 (1) to cultivate not less than 90 percent of the Class II  
29 or III soils of the combined parcels;

1 (2) if the former contract required cows to be milked, to  
2 milk not less than one cow for each four acres of state land required  
3 to be cultivated under the former contract;

4 (3) to continue the cultivation and milking requirements of  
5 the former contracts for at least five years beyond the time required  
6 in each former contract;

7 (4) to permit inspection of the agricultural operations not  
8 less often than once each year;

9 (5) to reduce the number of farmstead acres permitted on  
10 the parcels to the amount of land actually being used for farmstead  
11 purposes.

12 (e) The commissioner may adopt regulations to implement this  
13 section.



Bradley  
3/3/86 ✓

Original sponsor: Kerttula

1 IN THE SENATE BY THE RESOURCES COMMITTEE

2 CS FOR SPONSOR SUBSTITUTE FOR SENATE BILL NO. 155 (Resources)

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 FOURTEENTH LEGISLATURE - SECOND SESSION

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21 state agencies;

22 (3) review any order or action of the director;

23 (4) exercise the powers and do the acts necessary to carry  
24 out the provisions and objectives of this chapter;

25 (5) notwithstanding the provisions of any other section of  
26 this chapter, grant an extension of the time within which payments due  
27 on any lease or sale of state land, minerals, or materials may be  
28 made, including payment of rental and royalties, on a finding that  
29 compliance with the requirements is or was prevented by reason of war,

*NOTE*  
 (C) The Commission shall provide for public notice and an opportunity for a hearing and written comment regarding a proposed modification or amendment.

riots, or acts of God;

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

(7) waive, postpone, amend, or otherwise modify the development requirements of a contract for the sale of agricultural land on a finding that [IF]

(A) the waiver, postponement, amendment, or modification of the contract would tend to promote the more efficient and economical development of agriculture within the state and be in the best interests of the state; or [THE LAND IS INACCESSIBLE BY ROAD; AND]

(B) transportation, marketing, or [AND] development costs render the required development uneconomic.

*Bill  
HEAL*

*Comm  
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WOULD  
ELIMINATE  
157 SEC.*

\* Sec. 2. AS 38.05 is amended by adding a new section to read:

Sec. 38.05.064. SPLITTING AND COMBINING OF AGRICULTURAL PARCELS.

(a) The commissioner may allow a person who has purchased a parcel of agricultural land under this chapter that is part of an agricultural development project to split the parcel by selling portions of the parcel, <sup>(m)</sup> or to combine it with other parcels

(b) Only conveyed land may be split under this section and no more than one farmstead may be maintained for each 320-acre parcel resulting from the split. <sup>(640)(m)</sup> If parcels are combined, <sup>LAND AND</sup> each approved contract for the sale of an agricultural interest in state land must be amended to accommodate the combination, <sup>5</sup> There is no limit on the size of the resulting parcel, but the total acres of farmstead on a resulting combination may not exceed the number of farmstead acres

1 permitted before the combination, and <sup>T</sup> the total acres of the farmstead  
2 may be reduced by the commissioner.

3 (c) The commissioner may not allow a parcel to be split or  
4 <sup>(m)</sup> combined under this section unless

5 (1) the commissioner makes a written finding that the  
6 proposed split or combination is necessary to promote the public  
7 interest; in making this determination the commissioner shall consider  
8 whether the split or combination will encourage development of the  
9 state's agricultural resources, prevent economic waste, and protect  
10 all interested parties including the state;

11 (2) for each parcel resulting from a split or combination,  
12 an amended contract for the sale of agricultural land is entered into  
13 with the state and approved by the commissioner;

14 (3) the application for the split or combination of parcels  
15 designates an operator for each of the proposed resulting parcels;

16 (4) the commissioner provides public notice of, and an  
17 opportunity for a hearing and written comment regarding, a proposed  
18 split or combination; and

19 (5) the commissioner makes available to the public a writ-  
20 ten explanation of the proposed split or combination, information on  
21 how to obtain a copy of the application for the proposed split or  
22 combination, and the proposed agricultural development agreements.

23 <sup>change</sup> (d) When the commissioner approves a combination of parcels  
24 under this section, each approved contract for the sale of an interest  
25 in agricultural land shall be amended and the contract for the com-  
26 bined parcel must require that the operator of the combined parcel  
27 cultivate not less than the total number of acres formerly required  
28 and milk not less than the total number of cows required to be milked  
29 under the previous contracts. The commissioner, as a condition to

1 approval of a combination of parcels may

2 (1) increase the total number of acres to be cultivated;

3 (2) increase the total number of cows to be milked;

4 (3) extend the term during which cultivation and milking is  
5 required.

6 (e) The commissioner may adopt regulations to implement this  
7 section.

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Bradley  
3/3/86 ✓

Original sponsor: Kerttula

1 IN THE SENATE

BY THE RESOURCES COMMITTEE

2 CS FOR SPONSOR SUBSTITUTE FOR SENATE BILL NO. 155 (Resources)

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 FOURTEENTH LEGISLATURE - SECOND SESSION

5 A BILL

6 For an Act entitled: "An Act relating to the splitting and combining of  
7 agricultural parcels."

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

9 \* Section 1. AS 38.05.020(b) is amended to read:

10 (b) The commissioner may

11 (1) establish reasonable procedures and adopt reasonable  
12 regulations necessary to carry out this chapter and, whenever neces-  
13 sary, issue directives or orders to the director to carry out specific  
14 functions and duties; regulations adopted by the commissioner shall be  
15 adopted under the Administrative Procedure Act (AS 44.62); orders by  
16 the commissioner classifying land, issued after January 3, 1959, are  
17 not required to be adopted under the Administrative Procedure Act  
18 (AS 44.62);

19 (2) enter into agreements considered necessary to carry out  
20 the purposes of this chapter, including agreements with federal and  
21 state agencies;

22 (3) review any order or action of the director;

23 (4) exercise the powers and do the acts necessary to carry  
24 out the provisions and objectives of this chapter;

25 (5) notwithstanding the provisions of any other section of  
26 this chapter, grant an extension of the time within which payments due  
27 on any lease or sale of state land, minerals, or materials may be  
28 made, including payment of rental and royalties, on a finding that  
29 compliance with the requirements is or was prevented by reason of war,

1 riots, or acts of God;

2 (6) classify tracts for agricultural uses and require the  
3 prequalification, including the submission of conservation plans,  
4 development plans, or other plans, schedules, or programs, of persons  
5 who apply to participate in an agricultural development project under  
6 AS 44.33.475;

7 (7) waive, postpone, amend, or otherwise modify the devel-  
8 opment requirements of a contract for the sale of agricultural land on  
9 a finding that [IF]

10 (A) the waiver, postponement, amendment, or modifica-  
11 tion of the contract would tend to promote the more efficient and  
12 economical development of agriculture within the state and be in  
13 the best interests of the state; or [THE LAND IS INACCESSIBLE BY  
14 ROAD; AND]

15 (B) transportation, marketing, or [AND] development  
16 costs render the required development uneconomic.

17 \* Sec. 2. AS 38.05 is amended by adding a new section to read:

18 Sec. 38.05.064. SPLITTING AND COMBINING OF AGRICULTURAL PARCELS.

19 (a) The commissioner may allow a person who has purchased a parcel of  
20 agricultural land under this chapter that is part of an agricultural  
21 development project to split the parcel by selling portions of the  
22 parcel or to combine it with other parcels.

23 (b) Only conveyed land may be split under this section and no  
24 more than one farmstead may be maintained for each 320-acre parcel  
25 resulting from the split. If parcels are combined, each approved  
26 contract for the sale of an agricultural interest in state land must  
27 be amended to accommodate the combination. There is no limit on the  
28 size of the resulting parcel, but the total acres of farmstead on a  
29 resulting combination may not exceed the number of farmstead acres

1 permitted before the combination and the total acres of the farmstead  
2 may be reduced by the commissioner.

3 (c) The commissioner may not allow a parcel to be split or  
4 combined under this section unless

5 (1) the commissioner makes a written finding that the  
6 proposed split or combination is necessary to promote the public  
7 interest; in making this determination the commissioner shall consider  
8 whether the split or combination will encourage development of the  
9 state's agricultural resources, prevent economic waste, and protect  
10 all interested parties including the state;

11 (2) for each parcel resulting from a split or combination,  
12 an amended contract for the sale of agricultural land is entered into  
13 with the state and approved by the commissioner;

14 (3) the application for the split or combination of parcels  
15 designates an operator for each of the proposed resulting parcels;

16 (4) the commissioner provides public notice of, and an  
17 opportunity for a hearing and written comment regarding, a proposed  
18 split or combination; and

19 (5) the commissioner makes available to the public a writ-  
20 ten explanation of the proposed split or combination, information on  
21 how to obtain a copy of the application for the proposed split or  
22 combination, and the proposed agricultural development agreements.

23 (d) When the commissioner approves a combination of parcels  
24 under this section, each approved contract for the sale of an interest  
25 in agricultural land shall be amended and the contract for the com-  
26 bined parcel must require that the operator of the combined parcel  
27 cultivate not less than the total number of acres formerly required  
28 and milk not less than the total number of cows required to be milked  
29 under the previous contracts. The commissioner, as a condition to

1 approval of a combination of parcels may

- 2 (1) increase the total number of acres to be cultivated;
- 3 (2) increase the total number of cows to be milked;
- 4 (3) extend the term during which cultivation and milking is
- 5 required.

6 (e) The commissioner may adopt regulations to implement this  
7 section.

# Alaska State Legislature

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



POUCH V  
JUNEAU, ALASKA. 99811  
(907) 465-4807

## Senate Committee on Resources

MEMORANDUM

April 2, 1985

TO: All Members  
Senate Resources Committee

FROM: Staff *H*  
Senate Resources Committee

RE: SB 155 "An Act relating to the splitting and combining of agricultural parcels."

Senate Bill 155 would allow the Commissioner of the Department of Natural Resources to approve splitting and combining of agricultural project parcels if certain conditions are met. This legislation would affect 37 Delta barley project parcels and 31 Point MacKenzie project parcels.

If a parcel is split, no more than one farmstead (house, barns, outbuildings) of 20 acres may be maintained. If a parcel is combined, there is no limit to the size but only one farmstead may be maintained.

The Commissioner must evaluate each request for splitting or combining and must find that it is in the public interest, has an approved development plan and has designated an operator for each parcel. In addition, the Commissioner must provide for public notice and hearings on the proposed action.

Included in this packet are:

1. Fiscal note from the Department of Natural Resources which is zero.
2. Bill Analysis from the Department of Natural Resources.
3. A letter from the Alaska Rural Development Council supporting the bill.
4. A resolution from the Fairbanks Chamber of Commerce supporting the concept.
5. A letter from Karen O. Lee supporting the bill.
6. A letter from Joe Cange supporting the bill.
7. A letter from Dennis Green supporting the bill.
8. A letter from Sid Nelson opposing the bill.

fh:bh

Revision Date: APR 1 1985

**REQUEST**

Bill/Resolution No.: SB 155  
 Title: Splitting and Combining of agricultural parcels  
 Sponsor: Sen. Kerttula  
 Requestor: Senate Resources  
 Date of Request: 3/20/85

**FISCAL DETAIL**

Agency Affected: Natural Resources  
 Program Category Affected: NRMEC  
 BRU, Program or Subprogram(s) Affected: \_\_\_\_\_

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

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

**FUNDING: (Thousands of Dollars)**

GENERAL FUND						
FEDERAL FUNDS						
OTHER						
<b>TOTAL</b>	-0-	-0-	-0-	-0-	-0-	-0-

**POSITIONS:**

FULL-TIME						
PART-TIME						
TEMPORARY						

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

This legislation would likely affect only the 37 Delta barley project parcels and the 31 Point MacKenzie project parcels and applications would be processed, as received, by existing staff.

Prepared By: Carol Wilson Phone: 465-2400  
 Division: Commissioner's Office Date: 3/31/85  
 Approved by Commissioner: Mrs. D. Jensen, Deputy Date: \_\_\_\_\_  
 Agency: Natural Resources

**Distribution (by Agency preparing fiscal note):**

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

7/1/84

Analysis of Senate Bill No. 155

This legislation will allow the Commissioner of Natural Resources to approve requested splitting or combining of agricultural project parcels, and sets out the following conditions under which these changes may occur:

- only one farmstead per 640 acre parcel that results from a split;
- only one farmstead on a parcel resulting from combining other parcels;
- farmsteads may not exceed 20 acres in size;
- splitting or combining of parcels must promote the public interest or the development of agriculture;
- new development plans for the resulting parcels are approved by the commissioner;
- one operator will be designated for each resulting parcel;
- public notice and a written explanation of the proposed split or combination is provided.

To: Senators Kerttula and Cizhill

From: Alaska Rural Development Council

Re: Agricultural Bills discussed at the Alaska Rural Development Council's meeting

The board of directors of the Alaska Rural Development Council met as a workshop to review Senate bills 40, 41, 42, 57, 110, 120, 154 and 155, ~~and~~ House bills 11, 33, 39, 142 and 143; and Senate Joint Resolutions No. 1.

Our comments on this legislation is as follows:

H. B. 11 - support as written

S. B. 40 - This legislation addresses the same topic as SB 154 and was discussed by the board jointly. Carol Lewis, economist with the Agricultural and Forestry Experiment Station, was requested to review the tax bills, make an economic evaluation regarding their impact on farmer operations and comment on potential administrative requirements. She reviewed her work with us and the board's decision was to support SB 154 as the enabling legislation with regulations to be established ~~and~~ providing and administrative formula similar to the one she selected. A copy of this is attached.

The board would like to add that they feel this is necessary legislation at present

but over the long term would tend  
continue the concentration of agricultural  
financing with the state instead of  
encouraging farm financing from other  
sources.

S.B. 41 - Supported with the suggested  
change that the ending date of the note be  
extended by the time allowed in the moratorium.  
Moratorium ~~has~~ the presently fallow the payments  
once they start and could be a disadvantage  
rather than an advantage.

S.B. 42. The council encourages the  
enactment of SFR no. 1 with a strong  
administrative approach to improving  
agricultural rights patent protection.  
The council feels that SB 42 allows for excessive  
administrative discretion that could work against  
the preservation of agricultural land. If the  
legislature feels a bill is required the council  
would support H.B. 33 over SB. 42.

The council ~~feels~~ believes that the pursuit  
of a constitutional change that would enhance  
the preservation of Alaska's very limited  
agricultural land resources should be  
pursued.

5  
= SJR # 1 - support as discussed ~~in~~ in  
the comments regarding SB 40.

H.B. 33 - discussed with SB 40

S.B. 37 - The council supports this  
proposed legislation as long overdue.

S.B. 110 - The council believes this is  
desirable legislation, but, because of  
the limited availability of funds at the  
present time, does not encourage  
it right now.

SB 100 - The council supports this  
legislation as written

S.B. 154 - The council supports this  
legislation as described in the discussion  
of SB. 40.

S.B. 185 - The council feels that splitting  
or combining agricultural parcels should  
be permitted under strict guidelines.

H. B. 11 - The council supports this legislation  
as written.

H. B. 33. - the proposed legislation was discussed  
with S. B. 42 and SJ4 # 1.

H.B. 39. The council does not oppose this  
legislation if the state believes the cost of  
acquisition is realistic.

H. B. 192 - This is a companion bill to  
S.B. 47 which the Council supports  
with a change as previously discussed.

H. B. 193 - a companion to S.B. 40 and  
was previously discussed.

~~H.B.~~

The Alaska Rural Development Council  
is an organization that has been active  
in discussing Alaska's rural needs since  
1967 and considers it a privilege to  
comment on this proposed legislation.  
If we can be of any further assistance,  
please contact us.

Sincerely,

Sig Restad Chairman

P.S. please excuse the hand writing, no  
typist was available when these were being  
produced.

586-2323

Greater Fairbanks

Chamber

of Commerce

Po Box 7444

First National Center

700 Cushman Street

Fairbanks, Alaska

Fairbanks, Alaska

FAIRBANKS CHAM Fairbanks, AK. 9970

7/12 you  
of  
[Signature]

March 5, 1985

Senator Don Bennet  
Alaska State Legislature  
Pouch V (MS 3100)  
Juneau, Alaska 99811

Dear Don:

With oil prices continuing to dominate the news, concern is growing about the future stability of the Alaskan economy. It becomes important, then, that we look for ways to diversify our economy, and begin now to develop some reasonable alternatives. I realize this isn't an original idea, but we need to take it seriously, none the less.

Agriculture is an industry that holds much promise for the Interior of Alaska. It is renewable, it gets land into the hands of people who will use it productively, it can help us become less dependent on imports, it's clean, and on and on.

The Greater Fairbanks Chamber of Commerce is very supportive of agricultural development in the Interior and around the state. Our Agriculture Committee has reviewed several pieces of legislation that are in the works in one committee or another in the Senate. We would like to pass on our ideas for your consideration when these bills come before you.

In some cases, we have supported a bill "in concept", as the final form will probably change.

Thank you in advance for your consideration. Let us know if we can be of further assistance.

Best regards,

Buki Wright  
President

cc: Governor Bill Sheffield  
Esther Wunnicke, Commissioner of Natural Resources  
Bill Heim, Director, Division of Agriculture  
Adelheid Herrman, Chairman, House Resources Committee

The Agricultural Development Committee and the Board of Directors of the Greater Fairbanks Chamber of Commerce urges your support for the following legislation to encourage agricultural development in Interior and South Central Alaska.

1. Support is urged for SB39 to build the roads and bridges necessary to develop both the agricultural and mineral resources in the Totchaket area of Interior Alaska.
2. Support is urged for the concept of production credits, as outlined in SB40 and SB154, to assist Alaska's agricultural industry in its early stages of development.
3. Support is urged for SB41 to increase from five years to ten years, the moratorium on payments for the sale of state land for agricultural purposes. This bill will assist Alaskan farmers in adjusting to the new worldwide economic conditions in agriculture.
4. Support is urged for the concept of SB42 as it relates to the transfer of land title from state to private ownership. This concept will enhance the ability of Alaskan farmers to obtain financing from private sector sources for agricultural production.
5. Support is urged for SB57, which would require a clause be inserted in all state bids, requiring agricultural products originating in this state be used wherever competitively priced and available and of like quality as compared with agricultural products originating outside the state.
6. Support is urged for SB110 to increase the amounts of long term loans available from the State of Alaska to any one borrower for agricultural purposes. This legislation will increase the loan limits to be more in line with the economy of scale necessary for economically sound, modern farming and will enhance the ability of borrowers to repay.
7. Support is urged for the concept of SB155, relating to the splitting and combining of agricultural parcels, with the suggestion the bill be amended to allow the minimum parcel size be 320 acres. This legislation will permit increased flexibility in the development of economically sound full-time and part-time farming enterprises in Alaska.
8. Support is urged for SB120 to increase the limits of the Agricultural Revolving Loan Fund, to assist in the establishment of Commodity Marketing Associations, and to increase the number of members on the Agricultural Revolving Loan Fund Board.

FEB 27 1985

Karen O. Lee  
P.O. Box 871871  
Wasilla, Alaska 99687

Senator Arliss Sturgulewski  
Pouch V  
Juneau, Alaska 99811

Dear Senator Arliss Sturgulewski;

I would like to request your help in remedying some of the problems associated with the state's current attempt at agricultural development.

At present, there are some crucial, and sensible, measures addressing this problem which have been introduced this session. I would like to urge your positive consideration of SB 110, raising the Agricultural Revolving Loan Fund loan limit per unit to \$2 million; SB 154, establishing a system of production credits on agricultural sales to apply toward interest on state agriculture loans; and SB 155, allowing for adjustments in contractual requirements on agricultural interest parcels sold by the state.

Before discussing the merits of each bill, I should like to make a brief case for agriculture in Alaska, and for the state's having a role in the initial development of it.

Not least among the considerations is the fact that the State of Alaska has already decided to develop agriculture. Many Alaskans with belief in the good intentions of our state have been invited to participate. Once in the program, we have been forced to put up very large sums of our own money, work and hopes for the future in support of a joint vision, ours and the state's. I cannot believe that the purpose in all this was to convince a few people to put our whole hearts into the enterprise and then end it. It is one thing for the state to cut its own losses; it is another thing altogether for the state to decide prematurely to cut the losses of its individual citizens.

To reiterate the reasons for the state's original interest in the development of agriculture: it is a basic, job-creating, service-creating, renewable resource industry. It not only creates its own labor requirements; it creates a ripple effect throughout every community where it exists. For example, my farm creates employment for four families directly. Commodities are hauled in and milk is hauled out; truckers are employed at both ends. In Anchorage, the milk is processed by more employees, and distributed by still more. Another company manufactures plastic jugs for the milk. All this demonstrates the well-known economic fact that a dollar produced by a basic industry circulates many times more than a service or retail dollar does.

I grew up in Alaska, and I can attest to the accuracy of the economists' observations. There is one major difference between the Alaska of the 1950's and the Alaska of the present, and that is the general affluence. That affluence is due to the building up of a large public and service network based on another basic industry, resource extraction. Without that basic industry, there would be no affluence. Without the incentives, particularly those at the federal level, urging on the oil companies to explore and the mining companies to keep looking, there would be little but fishing in Alaska right now which could qualify as a basic industry.

The problem with resource extraction as the basic industry of choice, of course, is its volatility. The warnings on oil have been sounding for some time now.

I believe strongly that we must develop what other basic industries we are able to in the time remaining to us, with the funds from other extractive industries which we still have coming to us. Agriculture, mining, fishing and tourism thus become, as I see it, the major areas for expansion, rather than contraction, in state spending in the coming years of waning oil revenue. At the point, we are not only going to have to be weaned from oil, we are going to need some other basic to replace it. Otherwise, we will be stuck with a state of shopping centers and state and service employees, and no one to provide the basic dollar on which they all feed.

Agriculture has earned its place in the line-up of future basic industries supporting the state's economy, even though it is still barely half-way to its goal of self-sufficiency. It has persevered through decades of neglect, lack of infrastructure, lack of marketing cohesion, lack of fair labeling laws, lack of sufficient volume of either land or product, and lack of sufficient state encouragement. Even so, there are now farms which have been in existence since the 1930's and 1940's.

All statistics available indicate that a self-sufficient agriculture industry happens naturally when 500,000 acres are in production. We have a way to go to meet that goal, as outlined in the Governor's Agricultural Task Force Report of May 18, 1983. I believe that if the fundamental precepts outlined in that document and others preceding it are followed, and funding is kept at the levels recommended in that report, the success of agriculture in Alaska will be assured.

As to the specifics of the bills, SB 110 and SB155, when considered together, actually constitute a cost-cutting device. In the case of the Point MacKenzie Agricultural Project, for example, the 19 dairies required in the original configuration would have been eligible for, and would have needed, \$1 million each, or a total of \$19 million. At that, many of the units would not have been of an efficient size, and those which were would have been grossly undercapitalized.

Should the bill allowing consolidation of units be approved, five consolidated farms and six single farms are likely to result at Point MacKenzie, making the total loan requirement \$16 million, a savings of \$3 million. (Five at \$2 million; six at \$1 million each.) Moreover, the total number of cows producing milk will actually be higher than in the original plan, a fact which is crucial to the survival of the finished product marketing arm, Matanuska Maid.

The original Point MacKenzie feasibility study was written seven years ago. Even then, the study clearly stated that the most efficient farm was the largest size studied (17 cows). Since that time, building costs have increased by huge increments. So have insurance, workmen's compensation, feed, labor, equipment, fertilizer, and so on.

In the past seven years, the industry as a whole has undergone a number of changes tending to force farms into larger sizes for efficiency of production. It is likely that this trend will increase, rather than subside, especially if President Reagan's proposed new farm policy is instituted nationally.

Consolidation and an increase in unit loan limits will insure that Point MacKenzie dairies come on line in configurations that will allow them to compete with shipboard milk. The ship milk is produced on farms being subjected to great national pressure to become larger and more efficient. If we are to compete, we too must become larger and more efficient. Building 19 units, many of which will be small expensive anachronisms on the day they open, does not make economic sense for the farmer, for the state, or for the consumer.

National statistics indicate that the farms now in trouble are those with between \$50,000 and \$500,000 in gross annual revenues. Adjusted for pricing differentials, the Alaskan figures would more likely be between \$60,000 and \$700,000. At present, only a few farms in Alaska exceed that volume. Anything under \$60,000 could be considered a hobby with the owner/operator making the main living elsewhere. To earn over \$700,000 a dairy farm would have to milk 240 cows, and milk them well. A 240-cow farm in Alaska costs a minimum of \$2.5 million to build, stock and plant.

With the recent loss of a significant percentage of its stability and pricing levels at the market, the dairy industry in Alaska is particularly vulnerable right now, and particularly in need of a mechanism for consolidating both land and debt to a point that will again allow them to operate with positive cash flows. Between them, SB 110 and SB 155, would be of immense help in preserving the gains that have been made in the dairy industry. And, as I mentioned earlier, they will save money in both the short and long runs.

Other areas of agriculture would be similarly benefitted by the measures. Delta would become more flexible in the handling of their lands; possibly converting some of the farms into the part-time lower-gross category while still maintaining the same amount of planted acreage. Hog farms and beef feedlots are as capital-intensive as are dairy farms; with the rise of inflation over the past decade, it would not be possible to build either of these enterprises to an efficient level for the current loan limits. The state has invested significantly in the processing ends of both the meat and milk industries. It seems foolish to expect these investments to pay off if there are not to be any large hog farms, no big beef feedlots and no large dairy farms.

There has been much concern expressed over the delinquency rate of current ARLF loans. I think that is a problem that will take care of itself once farming has actually been developed, rather than developing. Once the industry has grown to the sufficient volume to be interrelated and profitable, the private financing industry will be only too glad to take over the responsibilities. For now, it must be remembered by policy makers that ARLF is in the business of developing a new basic industry, literally from the woods. They are not loaning to a new hamburger outlet for a simple return on invested capital. They are trying to get Alaskan agriculture to the point where we could sell our own hamburgers, not just eat the

ones that come in from Argentina. When reading the negative reports from Legislative Audit and the Budget Office, this ultimate larger purpose should be recalled.

As for SB 154, dealing with production credits, I favor this mechanism simply because it promises some benefit to those who have been trying the hardest to make the agricultural system work. The way it is now, those of us who have been working hardest and longest, thus losing the most money, are the ones getting hurt. Those who have been planting for years at Delta, with only a modicum of state encouragement, or who began producing milk at Point MacKenzie before they absolutely had to, would at least get the benefit of some reduction in carryover interest debt. In the case of the Point MacKenzie farmers, the state in its capacity of creamery owner has held the price of milk down because of a state moratorium until late 1985 on state loan repayments. That sounds all right, until you remember that if the interest is not forgiven, it will have cost every farmer about \$80,000 for that moratorium. There is no way to recoup that loss without production credits.

To summarize, SB 110 and SB 155 will act quickly to maintain the dairy industry in Southcentral Alaska, and enable the other areas of agriculture to become more efficient and to develop according to the overall plan. SB 154 will not involve an appropriation, and will greatly aid those who have been the losers so far in the struggle to develop agriculture in Alaska.

I would be happy to supply more information, either general or specifically from my own Point MacKenzie operation, should you decide that that would help you in your deliberations.

Thank you for taking your time in a busy 120-day session to listen to these concerns.

Sincerely,



Karen O. Lee

Owner

Tract 30 Point MacKenzie

JOSEPH PATRICK CANGE  
CERTIFIED PUBLIC ACCOUNTANT  
BOX 4-847  
ANCHORAGE, ALASKA 99508  
TELEPHONE (907) 344-5800

February 18, 1985

Arliss Sturgulewski  
Chairman Resources Committee  
Alaska State Senate  
Pouch V  
Capital Building  
Juneau, Alaska

SUBJECT: SENATE BILLS NOS. 110 AND 155

Dear Arliss:

Pursuant to our conversation yesterday, I am submitting data regarding Senate Bills Nos. 110 and 155. Before I address these items, however, I would like to express my thoughts on the agriculture industry.

First I ask "Can the dairy industry be viable?" Yes. Our figures indicate that we can provide milk that is competitive with Outside milk because of the freight advantage that exists. The additional total cost of producing milk locally versus Outside is less than the freight on milk shipped from Seattle.

The goal at the Tucker dairy is to produce milk at the lowest cost possible per unit of milk produced. The local dairies must be as efficient and as well managed as Outside dairies or they cannot compete in the local market place. Most of the local dairies have never become efficient enough to bring their operating costs down to be competitive with Outside dairies. For example, our cost of feed is \$4.29 per day per cow when we bring in soybean meal and barley in bulk and mix our own feed. The cost of this same feed purchased locally is \$1.00 per day per cow more. That \$1.00 savings is the farmer's profit on the milk produced.

Arliss Sturgulewski  
February 18, 1985  
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Historically, the various State administrations have had no comprehensive plan. Thus, agriculture has been an unorganized, unplanned and poorly administered industry. This situation has left Alaskan agriculture in a state of chaos and near bankruptcy. It is not too late to save agriculture. Many things must be done and many changes in policies and practices must immediately take place if we are to save the industry.

We are fortunate that for the first time in Alaskan agricultural history we now have a Commissioner who is genuinely concerned about agriculture. She is willing to change obsolete policies and thinking and is doing the things necessary to save the industry -- and the state's investment. This is the direction in which Esther Wunnicke and Deputy Director James K. Barnett are embarking. Senate Bill No. 110 and Senate Bill No. 155 are a vital part of that comprehensive plan that will make the dairy industry viable.

SENATE BILL NO. 110

Proposes increasing loan limits of the Agricultural Revolving Loan Fund (ARLF) from \$1,000,000 to \$2,000,000

A number of things have made this increase necessary.

1. When the State's figures were done in 1979 (see Exhibit A "Potential Milk Production in the Point MacKenzie area of Southcentral Alaska") the Consumer Price Index was 233.2 (1/1/80). Today the Consumer Price Index is 316 which is a 36% increase in costs since 1/1/80.

2. The initial plan at Point MacKenzie was for the establishment of 19 small family-run dairies. However, the \$200,000 cash requirement for even the smallest dairy prohibited the building of these smaller dairies. The larger dairies actually being built require more total borrowing, but result in lower borrowing per cow.

3. The State's figures (see page 7 of Exhibit A) showed that the total capital investment for a 150-cow facility was estimated to be \$1,241,711. However, these numbers do not include housing, working capital or machinery costs. These add an additional \$500,000 to the 1979 figure of \$1,241,711.