

ALASKA LEGISLATURE COMMITTEE FILES 1985-1986 86/2

4271 SRES SB 309 - SB 334 151

MILLION A YEAR. IF THE FEDERAL GOVERNMENT FOLLOWS SUIT AND REPRICES ITS 40 PERCENT OF THE ROYALTY GAS THE IMPACT WILL BE ANOTHER \$1.8 MILLION ANNUALLY. ADDITIONALLY, SEVERANCE TAXES, WHICH CHUGACH ALSO PAYS ON THE GAS IT PURCHASES, ARE CURRENTLY BASED ON A PERCENTAGE OF THE CONTRACT PRICE. IF DNR IS SUCCESSFUL IN REVALUING THE GAS TO A HIGHER PRICE IT IS LIKELY THAT THE DEPARTMENT OF REVENUE WILL FOLLOW SUIT, COSTING OUR CONSUMERS OVER ANOTHER \$150,000 A YEAR.

AS YOU ARE AWARE, THERE HAS BEEN A TREMENDOUS INCREASE IN THE COST OF ENSTAR'S GAS AS A RESULT OF ITS RECENT SETTLEMENT OF ROYALTY CLAIMS IN THE KENAI GAS FIELDS. BETWEEN THE GAS THAT WE PURCHASE DIRECTLY FOR USE IN OUR FACILITIES IN ANCHORAGE AND ON THE KENAI, AS WELL THE INCREASED COST IN THE ELECTRICITY THAT WE BUY FROM THE ANCHORAGE MUNICIPAL LIGHT & POWER, THE ENSTAR REVALUATIONS WILL COST OUR CONSUMERS \$1.5 MILLION MORE ANNUALLY.

THE TOTAL IMPACT OF THESE IS OVER \$6 MILLION A YEAR. MY POINT HERE IS THAT THE DOLLAR VALUES ARE SIGNIFICANT, AND ALSO THAT ROYALTY VALUATION HAS A RIPPLE EFFECT, WITH IMPLICATIONS FAR BEYOND THE DECISION MADE BY DNR LAST MARCH, AND FAR BEYOND CHUGACH.

CHUGACH IS A COOPERATIVE UTILITY ORGANIZED TO SERVE ITS MEMBER-OWNERS. THE ADDITIONAL COST FOR ROYALTY GAS WILL DIRECTLY TRANSLATE TO INCREASED UTILITY BILLS. THESE INCREASES WILL BE ON TOP OF ANY RAISE IN RATES DUE TO INCREASES IN OPERATING EXPENSES.

THE SECOND, AND EVEN MORE IMPORTANT -- I REPEAT, MORE IMPORTANT -- CONCERN WE HAVE WITH DNR'S ACTION IS THE MEASURE OF UNCERTAINTY THAT IS INJECTED INTO BOTH OUR POWER PLANNING AND OUR RATE PLANNING.

THE FOLLOWING EXCERPT FROM DNR'S OWN DECISION MEMO OF NOVEMBER 6, 1984, SAYS IT ALL:

"THE FLUCTUATION OF ROYALTY VALUE INDEPENDENTLY OF THE CONTRACT PRICE UNDER WHICH GAS IS SOLD INJECTS UNCERTAINTY INTO THE LONG-TERM PLANNING BY OIL COMPANIES AND UTILITIES. THIS UNCERTAINTY (AND HIGHER ROYALTY RATES) MAY REDUCE INCENTIVES TO INVEST CAPITAL IN OIL AND GAS UTILITY ENTERPRISES, OR AFFECT THE TIMING AND STRUCTURING OF SUCH ENTERPRISES."

DNR WAS RIGHT. FOR THE CONSUMERS OF CHUGACH AND OTHER UTILITIES THIS IS AN EXTREMELY SIGNIFICANT AREA, AND ONE WHICH HAS CAUSED A GREAT DEAL OF CONCERN. OUR COMMITMENT TO BUILD GENERATION FACILITIES AT THE BELUGA GAS FIELD BACK IN 1965 WAS ABLE TO OCCUR ONLY BECAUSE WE HAD SIGNED LONG-TERM CONTRACTS ENSURING THE STABILITY OF THE PRICE FOR THAT BELUGA RIVER GAS. IN FACT, HAD WE BEEN UNSUCCESSFUL IN OBTAINING LONG-TERM CONTRACTS ENSURING STABLE FUEL PRICES, WE WOULD HAVE BEEN UNABLE TO MAKE THAT PLANT INVESTMENT, AND THE BELUGA GAS FIELD MIGHT STILL BE UNDEVELOPED TODAY. HAD THAT BEEN THE CASE, THE STATE WOULD HAVE HAD NO ROYALTY OR SEVERANCE TAX REVENUE.

IT IS VERY IMPORTANT FOR CHUGACH TO ENSURE RATE STABILITY. WE MAY NOT ALWAYS BE ABLE TO AVOID RATE INCREASES, BUT WE TRY TO PLAN THOSE INCREASES CAREFULLY TO MINIMIZE MAJOR RATE FLUCTUATIONS.

FOR THESE REASONS, THEN, WE WOULD URGE THE COMMITTEE MEMBERS TO SUPPORT PASSAGE OF S.B. 309 OR BILLS CONTAINING SIMILAR LANGUAGE, WHICH WOULD REQUIRE DNR TO TIE ROYALTY VALUATION TO LONG-TERM CONTRACT PRICES.

BY TYING ROYALTY PRICE TO LONG-TERM CONTRACT PRICE, DNR WILL CONTINUE TO MANAGE THE STATE'S RESOURCES FOR MAXIMUM VALUE WHILE RECOGNIZING THAT, AS WE MENTIONED EARLIER, THESE RESOURCES OFTEN DO NOT HAVE A VALUE INDEPENDENT OF LONG-TERM CONTRACT PRICES. COURTS IN OKLAHOMA, LOUISIANA AND ARKANSAS HAVE RECOGNIZED THIS. ADDITIONALLY, WE WOULD NOTE THAT UNDER THE CURRENT LEASE FORMS, DNR WOULD STILL BE PERMITTED, ON ONLY SIX MONTH'S WRITTEN NOTICE, TO TAKE ITS ROYALTY SHARE IN KIND AND SELL IT DIRECTLY TO A WILLING PURCHASER. IN OTHER WORDS, IF DNR CAN FIND SOMEONE TO PAY WHAT IT BELIEVES IS PREVAILING MARKET VALUE -- FINE. LET DNR SELL IT TO THEM. WE WILL NOT STAND IN THEIR WAY.

I WOULD ALSO LIKE TO STRESS THAT ROYALTY OIL PRICES WILL NOT BE AFFECTED IN ANY WAY, SHAPE OR FORM BY S.B. 309 OR OTHER BILLS WE SUPPORT. THE LANGUAGE WE ENDORSE RELATES ONLY TO ROYALTY GAS. BECAUSE OF THIS, THE AMERADA-HESS CASE ON THE NORTH SLOPE, OVER WHICH SOME QUESTIONS HAVE BEEN RAISED, WILL NOT BE AFFECTED. IMPLICATIONS TO THE CONTRARY ARE SIMPLY NOT VALID.

SENATOR STURGULEWSKI, YOU AND OTHER MEMBERS OF THE LEGISLATURE ARE AWARE THAT CHUGACH HAS BEEN NEGOTIATING IN GOOD FAITH WITH THE ADMINISTRATION OVER ROYALTY GAS FOR THE PAST TEN MONTHS. I MET AS LATE AS THIS MORNING WITH COMMISSIONER WUNNICKE AND HER STAFF.

QUITE FRANKLY, WE BELIEVE OUR RECENT IMPROVED ACCESS TO THE ADMINISTRATION IS A DIRECT RESULT OF THE RECENT LEGISLATIVE AND PUBLIC ATTENTION THAT HAS BEEN FOCUSED ON THIS ISSUES.

WHAT IS MORE IMPORTANT, HOWEVER, IS THAT DNR HAS BEEN ABLE TO DO LITTLE MORE THAN DISCUSS A NEW ROYALTY PRICE FOR OUR EXISTING BELUGAS GAS, AND TO PROPOSE A SLIGHTLY DIFFERENT WAY TO CALCULATE ROYALTY PRICE ON A NEW OR RENEGOTIATED CONTRACT THERE. THIS IS ONLY AT BELUGA AND ONLY FOR CHUGACH.

WHAT DNR HAS PROPOSED DOES NOT RESOLVE THE UNDERLYING ROYALTY POLICY QUESTION. CHUGACH APPRECIATES DNR'S TIME AND EFFORT ON THIS, AND WE HAVE GREAT RESPECT FOR COMMISSIONER WUNNICKE AND HER STAFF. BUT THE LACK OF ACCOMMODATION JUST GOES TO PROVE WHAT WE AND MANY OTHERS HAVE BEEN SAYING ALL ALONG -- THE LEGISLATURE MUST GET INVOLVED, AND THE LEGISLATURE MUST PROVIDE A LASTING SOLUTION.

ROYALTY VALUATION IS TOO FUNDAMENTAL AND TOO IMPORTANT TO BE LEFT TO ANY ONE AGENCY. YOU ARE THE POLICY-MAKING BRANCH OF THE GOVERNMENT.

I PERSONALLY BELIEVE DNR WOULD GO FARTHER FOR CHUGACH IF IS COULD  
-- BUT IT CAN'T. YOU CAN AND YOU SHOULD -- NOT JUST FOR CHUGACH  
BUT FOR ALL ELECTRIC AND GAS CONSUMERS IN OUR STATE.

THANK YOU FOR YOUR TIME TODAY. I, AND OTHER CHUGACH  
REPRESENTATIVES, WILL BE HAPPY TO ANSWER ANY QUESTIONS THAT YOU  
MAY HAVE OR MEET WITH YOU AT YOUR CONVENIENCE. AGAIN, CHUGACH  
URGES YOUR SUPPORT FOR S.B. 309.

:test.2

## IMPACTS OF STATE ROYALTY GAS INCREASE ON RAILBELT CONSUMERS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

## ATTACHMENT A

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

January 10, 1986

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

Stephen M. Ellis  
William Rozell  
James D. Linxwiler

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January 28, 1986

industry standard at the time; hence, the ontracts were not unreasonable. Finally, a majority of the Vela jurisdictions limit the royalty value to proceeds when there is a Natural Gas Policy Act ceiling on the price the producers may collect, as there is here.

A more recent and better reasoned line of cases is set forth in Tara Petroleum Corp. v. Hughey, 630 P.2d 1269 (Okla. 1981). This line of cases adopts arm's-length contracts as determinative of value for royalty purposes. Tara, and the cases which follow, are based on the proposition that the lessee is obligated to develop the lease, and thus, must market the gas. Because large quantities of gas cannot be marketed absent long-term commitment of supply, proceeds from an arm's-length contract should be respected as determinative of value. The Tara line of cases is better law and is also the line of cases most often followed by courts deciding the issue in the recent past.

It is also important to note here that, should the State at any time believe its gas to have a higher value than current contract price, it may, on only six months' notice, elect to take its royalty share in-kind and sell it directly to a willing purchaser.

Additionally, as a matter of long-term policy, the State's injection of a measure of uncertainty into long-term contracts raises serious concerns. The State's action here opens the door for revaluations in the future. This uncertainty factor is unacceptable to Chugach, both in terms of access to long-term financing for generation projects and for our ability to ensure rate stability for our members.

Ironically, the desirability of long-term stability to ensure resource development was a recognized priority of the State when the DL-1 leases were developed. Additionally, Chugach's need for stable royalty prices was addressed by the State, Chugach and the Producers prior to making the commitment to construct the Beluga power facilities, without which the Beluga gas field might still lie undeveloped. At that time, you made a firm commitment to resist efforts to increase royalty prices above contract price.

Disregarding for the moment the legal reasons that the State's settlement position is unacceptable, the terms of the settlement themselves raise grave concerns. First, the price is out of line with market realities. A \$1.50/Mcf price for Beluga gas is a multiple of the price that consultants engaged by Chugach have placed on the value of the remaining reserves in the field. It is also just marginally below the price presently being offered

Statement - Shasta Stangulinski

The issue today is how the state should determine the value of its royalty share of natural gas on state lands. In the past this determination has been based on long-term contract prices. In November of 1984, the Administration switched to determining the fair market value of its royalty share by comparison with other recent gas sales in Cook Inlet.

DLI  
The lease language, unfortunately, is <sup>so</sup> sufficiently ambiguous that legal arguments can be made to support both methods. Our job is not to offer legal interpretation, but to consider what public policy makes the best sense for Alaska.

To make that determination <sup>of appropriate public policy</sup> we need to get answers to some questions today.

- 1 - What will be the impact on consumers of gas and gas generated electricity?
- 2 - What will be the impact on state revenue?
- 3 - What will be the effect of the relative future certainty or uncertainty of gas prices that different methods of valuation may result in?
- 4 - How will our decision effect other purchasers of natural gas for uses such as LNG or urea?
- 5 - What will be the effect on oil and gas companies and future exploration and production decisions?
- 6 - What effect will there be on other ongoing royalty suits?
- 7 - What will be the impact of our decisions on use of North Slope gas, both for instate energy use and for possible exportation as LNG?

We have all the parties assembled here today. I hope that they can answer these and a number of other questions on the issue. After the public testimony, I plan to bring these bills back to the committee on Wednesday, February 19th for action.

COOK INLET ROYALTY GAS VALUATION:  
An Overview

A Presentation to the  
Senate Resources Committee  
by:

Esther C. Wunnicke, Commissioner  
Alaska Department of Natural Resources

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

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

Mark Worcester, Assistant Attorney General  
Alaska Department of Law

February 10, 1986

Outline of Presentation to Senate Resources Committee  
February 10, 1986

I. Introduction

II. History of Cook Inlet enforcement actions

- A. 1980 law requiring royalty audits
- B. Specific past actions and settlements
  - 1. Phillips
  - 2. Marathon
  - 3. Union
  - 4. Union, Marathon, and Enstar
- C. Pending disputes
  - 1. Beluga
  - 2. Kenai
  - 3. Other

III. Overview of Cook Inlet gas production

IV. Issues involved in Beluga dispute

- A. Legal issues
- B. Economic and social issues
  - 1. How is market value determined?
  - 2. Maximum benefit determination
  - 3. Impact on consumers
  - 4. Should energy subsidies be provided, and by what mechanism?
  - 5. Uncertainty. What long-term assurance this won't happen again?
  - 6. Effect on North Slope gas development.
  - 7. Effect on Power Cost Equalization program.
  - 8. Practical difficulties with in-kind gas sales.
- C. Procedural issues
  - 1. Why no notice and hearing?

V. Approaches for resolution

- A. Negotiation/settlement
- B. Litigation
- C. Statutory amendments
  - 1. SB 309
  - 2. Authorize in-kind, below market sales
  - 3. Put formula in statute

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COOK INLET GAS SUMMARY

Lease interpretation: Under the terms of its oil and gas lease contracts with the oil companies, the state is entitled to royalty payments determined by the higher of the price received by an oil company under its sales contract, or the value of the gas at the time of production. This means that the price received under a long-term gas sales contract does not control royalty valuation in those instances where inflation and market forces have caused the current value of the gas to be higher than the contract price.

DNR policy:

(1) As land manager for the citizens of the entire state, it is DNR's responsibility to obtain fair value for the state's oil and gas resources by collecting the full royalties to which the state is entitled under its oil and gas leases.

(2) DNR should not selectively abdicate its responsibility to enforce the royalty terms of the Cook Inlet gas leases just because utility companies have agreed as part of their gas purchase contracts to reimburse the oil companies for royalty collections made by the state. Any consumer subsidy should be the result of an affirmative, direct subsidy by the legislature as part of a comprehensive energy policy.

(3) DNR should not divert from uniform enforcement of the oil and gas leases, since such action could, in addition to directly reducing revenues from any leases from which royalties are not fully collected, also indirectly cause a much larger reduction in state revenues by impairing the state's ability to enforce the royalty provisions of the North Slope leases.

The potential consumer impact result from actions by Chugach, not the state. The risk that gas values might escalate to values in excess of the long-term gas sales price was a circumstance foreseen by the parties to those sales contracts. This is demonstrated by the fact that the contracts between the oil company lessees and Chugach Electric Association, Inc. (Chugach) specifically assign to Chugach the risk of any rise in royalty obligations. The state was not a party to those sales contracts. The contract price, the absence of an adequate price escalator or price reopener, and the assignment to Chugach of the risk of increased royalty obligations were all conditions established by contract between Chugach and the lessees without state participation.

Existing law provides an adequate mechanism for long-term royalty certainty: DNR is sympathetic to the desirability of long-term certainty in royalty matters. However, new statutory authorities are not necessary in order to provide such certainty. Royalty certainty can be attained by negotiation of long-term in kind gas sales contracts which parallel the contracts between the state's

lessees and their gas purchasers. This would allow an opportunity for DNR, the royalty board, and the legislature to evaluate the adequacy of the royalty over the life of the contract. This is preferable to being locked into a long-term royalty value set by prices established by lessees without any notice to or participation from the state.

Litigation: Last March DNR notified the Cook Inlet lessees of its determination to enforce the leases. The notices asserted that the most recent (December 1982) major contracts from the Kenai and Beluga River fields (the "APL II contracts") established the current value. These contracts had a base contract price of \$2.05 per mcf in 1985. The state subsequently indicated its readiness to accept a lower royalty value if presented with evidence that the current value of gas in Cook Inlet is less than the price established under the APL II contracts. Union, Marathon, ARCO, Chevron and Shell responded to the notices by suing the state.

Recent Cook Inlet Gas Sales Contracts:

| <u>Date of Contract</u> | <u>Purchaser</u> | <u>Field</u>                             | <u>Starting Base Price</u> |
|-------------------------|------------------|--|----------------------------|
| 1982                    | APL (Enstar)     | Beluga                                   | \$2.32                     |
| 1982                    | APL (Enstar)     | Kenai, Beaver Creek<br>or McArthur River | \$2.32                     |
| 1983                    | Chugach          | Cannery Loop                             | \$1.80                     |
| 1984                    | APL (Enstar)     | Lewis River                              | \$1.80                     |
| 1985                    | Tesoro           | Kenai, Beaver Creek<br>or McArthur River | \$2.01                     |

Settlements achieved: In the last two months of 1985 DNR's royalty enforcement actions achieved significant success. Settlements relating to gas royalties due on production from the Kenai Field, and involving Marathon, Union, Alaska Pipeline Company (Enstar), CIRI, the U.S. Department of the Interior and the state, yielded the state about \$4 million in retroactive royalties, and will bring in excess of \$6.5 million per year more than the amounts which would have been paid under the lessees' prior reporting practices (including those increases attributable to the state's 90% interest in federal onshore royalties). Under the lessees' theory, the royalties would have been variously between \$0.21 and \$0.61 per mcf; under the settlement, the lessees will pay \$1.95 per mcf during 1986. The \$1.95 is squarely within the gas values established by recent Cook Inlet gas sales contracts, as well as the values established by Enstar's pending rates (\$2.1854 for Schedule C purchasers - "Large Commercial Service", and from \$1.6480 to \$2.0158 for sales to power plants). The settlements confirm the soundness of the royalty enforcement action taken last spring.

Remaining disputes: The major remaining dispute relates to the Beluga River field, the primary source of gas for Chugach.

Settlement negotiations during the last six months have failed to produce any resolution. Options explored have included underlifting the state's royalty share, thus delaying the royalty into the future; an in kind sale to Enstar or Chugach; and an in value settlement. The lessees (ARCO, Chevron and Shell) assert that they should not be required to contribute any monies to any settlement, since their sales contract with Chugach requires Chugach to reimburse the lessees for any additional royalty amount the state collects. Chugach, in turn, has been unwilling to agree to an acceptable value, and has indicated that it will seek legislative relief. Recently, the state made a formal offer to its lessees to settle the dispute for \$1.50 per mcf. This offer was rejected, but settlement efforts and discussions continue.

Consumer impact. Chugach estimates that a royalty rate of \$2.05 per mcf on state leases would increase retail consumer rates only about 2.38%, assuming the lessees were successful in asserting that their contracts with Chugach permitted them to pass the royalty burden on to Chugach, and further assuming that the APUC permitted Chugach to pass the burden on to its consumers. DNR estimates that a \$2.05 royalty would increase state revenues by about \$2.8 million per year. Under the \$1.50 per mcf settlement offer, the increased royalty income would fall to about \$2 million per year, and the magnitude of retail consumer impact would be correspondingly reduced to less than 2%. (A two per cent increase on a monthly bill of \$30 would be only \$0.60).

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COOK INLET GAS ROYALTY SETTLEMENTS  
(State leases and State share of federal royalties)

| Lessee                | Scope of Settlement  | Retro-<br>active<br>Payment<br>(millions) | Current<br>Monthly<br>Value Under<br>Settlement<br>(per Mcf) | Estimated<br>Additional<br>Royalties<br>per year<br>(millions) |   |
|-----------------------|--|---|--|--|---|
| Phillips              | North Cook Inlet Field<br>gas sold as LNG in<br>Japan  | \$36.3                                    | \$2.32   | \$12.00  | ✓ |
| Marathon              | Kenai field gas sold<br>as LNG in Japan  | \$ 4.3                                    | \$2.32   | \$ 0.75  | ✓ |
| Union and<br>Marathon | All of Union's Kenai<br>field gas disposition<br>(including the following:<br>urea/ammonia plant,<br>rental gas, Enstar), plus<br>Marathon's dispositions<br>to Enstar under Enstar's<br>1973 contract | \$ 4.1                                    | \$1.95   | 6.90   | ✓ |
|                       | Total  | <u>\$44.7</u>                             |  | <u>\$19.65</u>   |   |

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COOK INLET GAS ROYALTY CHRONOLOGY

| <u>Month</u> | <u>Year</u> | <u>Description of Event</u>  |
|--------------|-------------|--|
| March        | 1964        | <u>Foster v. Atlantic Refining Company</u> , 329 F.2d 485 (5th Cir. 1964) holds that long-term contract price does not control royalty valuation when market value rises, even if this is burdensome on the lessee.  |
| May          | 1965        | Chugach Electric Association, Inc. enters into 20 year contracts with ARCO, Chevron and Shell for Beluga River gas, with an initial price of 15.2 cents per mcf, subject to a volume limit.  |
| January      | 1973        | Chugach renegotiates its 1965 contracts, extending the term to 1998 (unless the new, higher volume limit is reached earlier). The 1986 base price under those contracts is about 21 cents per mcf.   |
| November     | 1982        | Chugach obtains supplemental gas deliveries under the 1973 contract at a base price of \$1.48 per Mmbtu (approximately equivalent to \$1.48 per mcf).  |
| December     | 1982        | Alaska Pipeline Company (Enstar) signs contracts for gas deliveries from Beluga River (with Shell) and Kenai (with Marathon) at a price of \$2.32 per mcf, with annual adjustments based upon fuel price fluctuations (the "APL-II" contracts). This is the first totally new contract for Beluga River gas subsequent to the 1973 Chugach contract under which there were any deliveries. |
| March        | 1984        | <u>Piney Woods County Life School v. Shell Oil Company</u> , 726 F.2d 225 (5th Cir. 1984), reh. den. 750 F.2d 69, cert. den. 105 S.Ct. 1868 (1985) reaffirms the soundness and continued validity of the rule in <u>Foster</u> , above.  |
| May          | 1984        | The state and Phillips settle their dispute concerning the valuation of Cook Inlet gas from state leases which is sold as LNG in Japan, using a formula which initially yields a royalty of \$2.40 per mcf.  |
| May          | 1984        | The federal government informs Union that virtually all gas royalties from the Kenai field, including gas sold under below-current-market, long-term contracts with Enstar, must be valued in accordance with the price under the APL-II contracts.  |
| November     | 1984        | DNR determines, in consultation with the Department of Law, to enforce the Cook Inlet lease terms requiring payment of gas royalty on the basis of current value.  |

February 1985 U.S. District Judge Fitzgerald rules that Marathon must pay royalties on Kenai Field gas sold as LNG in Japan based upon the Japan sales price, less costs of transportation. Marathon calculates the netback value under the order to be about \$3.00 per mcf, while the federal government calculates the value to be about \$3.60 per mcf. The accounting remains in dispute in District Court, while the District Court's February 1985 decision is under appeal to the Ninth Circuit.

March 1985 By written notice, DNR informs its Cook Inlet lessees of its determination to enforce the royalty requirements of the leases.

May/June 1985 All Cook Inlet gas producers file separate lawsuits seeking judicial declaration of their royalty obligations under the leases.

July 1985 The state and Marathon settle their dispute concerning the royalty value of Kenai Field gas sold as LNG in Japan in accordance with the terms of the May 1984 Phillips settlement.

November 1985 The state, federal government and CIRI (all royalty owners in the Kenai field) settle most royalty issues for production from the Kenai field. Most significantly, royalty on gas used in Union's urea and ammonia plant and used to promote greater oil production from the Swanson River oil field, is set at \$1.85 per mcf for 1985 and \$1.95 per mcf for 1986, with annual adjustments thereafter based upon fluctuations in fuel oil prices.

November 1985 The Secretary of the Interior issues a definitive order holding that Cook Inlet gas sold by Union and Marathon to Enstar must be valued for royalty purposes according to current market values.

December 1985 The state, federal government and CIRI enter into a settlement agreement on the value of the royalty on Kenai gas sold to Enstar under long-term contracts. Under this settlement, the royalty owners receive \$1.85 per mcf for the part of 1985 at issue, and will receive \$1.95 per mcf for 1986 production, with annual adjustment thereafter based upon fluctuations in the oil prices.

January 1986 The state offers to the producers to settle the dispute concerning the royalty value of gas sold to Chugach. This \$1.50 per mcf offer is rejected by the producers, but settlement discussions continue.

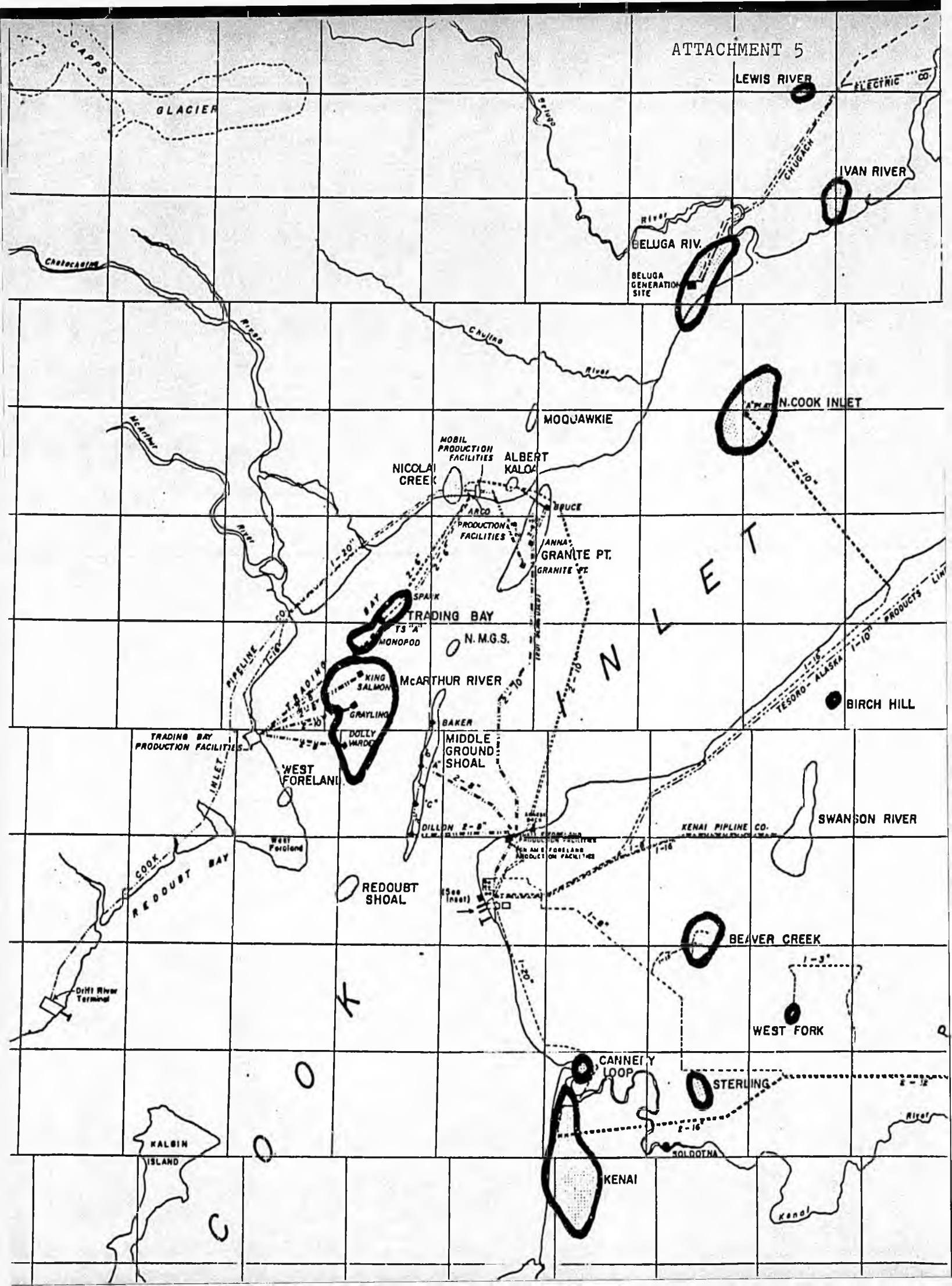
ALASKA DEPARTMENT OF NATURAL RESOURCES - DIVISION OF OIL AND GAS  
SUMMARY STATISTICS  
COOK INLET GAS PRICE DISPUTE  
AVERAGE MONTHLY SALES VOLUMES - JULY 1984 THROUGH JUNE 1985

Date: 1/14/86

| FIELD<br>Producers<br>(% of field owned) | PURCHASER            | % of FIELD<br>on sale by<br>sale basis | SALES<br>VOLUMES<br>(MCF)<br>1/ | EFFECTIVE<br>ROYALTY INTEREST | ROYALTY<br>VOLUME<br>(MCF) | VALUE REPORTED<br>FOR ROYALTIES<br>2/ | PRODUCER/<br>PURCHASER<br>BASE CONTRACT<br>VALUE 2/ 7/ | EFFECTIVE<br>DATE | EXPIRATION<br>DATE |
|--|----------------------|--|---------------------------------|-------------------------------|----------------------------|---------------------------------------|--|-------------------|--------------------|
| <b>BELUGA RIVER FIELD</b>                |                      |  |                                 |                               |                            |                                       |  |                   |                    |
| CHEVRON (33.33%)                         | ENSTAR               | 2.11%                                  | 37,790                          | 0.07555                       | 2,855                      | \$1.8000                              | \$2.0300 9/  | 12/20/82          | 10/1999            |
| ARCO (33.33%)                            | ENSTAR               | 2.11%                                  | 37,790                          | 0.07555                       | 2,855                      | \$1.8000                              | \$2.0300 9/  | 12/20/82          | 10/1999            |
| SHELL (33.33%)                           | E:STAR               | 2.11%                                  | 37,790                          | 0.07555                       | 2,855                      | \$1.8000                              | \$2.0300 9/  | 12/20/82          | 10/1999            |
| AGEA (100.00%)W-214-35                   | E:STAR               | 0.45%                                  | 8,122                           | 0.07555                       | 614                        | \$1.8000                              | \$2.0300 9/  | 12/20/82          | 10/1999            |
| SUB TOTAL                                |                      | 6.77%                                  | 121,492                         |                               | 9,179                      |                                       |  |                   |                    |
| CHEVRON (33.33%)                         | CHUGACH              | 28.70%                                 | 515,065                         | 0.07555                       | 38,913                     | \$0.2103                              | \$0.2103   | 5/14/85           | 1/1998 3/          |
| ARCO (33.33%)                            | CHUGACH              | 28.70%                                 | 515,065                         | 0.07555                       | 38,913                     | \$0.2103                              | \$0.2103   |                   |                    |
| SHELL (33.33%)                           | CHUGACH              | 28.70%                                 | 515,065                         | 0.07555                       | 38,913                     | \$0.2103                              | \$0.2103   |                   |                    |
| AGEA (100.00%)W-214-35                   | CHUGACH              | 7.13%                                  | 127,863                         | 0.07555                       | 9,660                      | \$0.2103                              | \$0.2103   |                   |                    |
| SUB TOTAL                                |                      | 93.23%                                 | 1,673,058                       |                               | 126,400                    |                                       |  |                   |                    |
| TOTAL BELUGA RIVER FIELD                 |                      | 100.00%                                | 1,794,550                       |                               | 135,579                    |                                       |  |                   |                    |
| <b>KEMAI FIELD</b>                       |                      |  |                                 |                               |                            |                                       |  |                   |                    |
| UNION (50%)                              | APL-ANCHORAGE        | 10.28%                                 | 845,622                         | 0.020688                      | 17,494                     | \$1.9500 8/                           | \$0.6220 6/  | 5/13/60           | 12/92 3/           |
| UNION (50%)                              | APL-CHEV NIK         | 0.19%                                  | 15,888                          | 0.020688                      | 329                        | \$1.9500 8/                           | \$0.6220   |                   |                    |
| UNION (50%)                              | UNION-CHEV           | 0.19%                                  | 15,518                          | 0.020688                      | 321                        | \$1.9500 8/                           | \$0.6220   | 2/5/81            | INDEFINITE         |
| UNION (50%)                              | CITY OF KEMAI        | 0.25%                                  | 20,599                          | 0.020688                      | 426                        | \$0.3000                              | \$0.3000   | 5/17/66           | 6/1986             |
| UNION (50%)                              | RENTAL GAS           | 4.50%                                  | 370,334                         | 0.020688                      | 7,661                      | \$1.9500 8/                           | \$0.0700   | 1/17/66           | 1/1995 3/          |
| UNION (50%)                              | ADDITIONAL RENTAL    | 2.37%                                  | 194,981                         | 0.020688                      | 4,034                      | \$1.9500 8/                           | \$0.3800   |                   |                    |
| UNION (50%)                              | UNION CHEMICAL       | 40.73%                                 | 3,352,041                       | 0.020688                      | 69,347                     | \$1.9500 8/                           | \$0.6130   | 11/1/77           | 1998               |
| TOTAL UNION SHARE                        |                      | 58.51%                                 | 4,814,973                       |                               | 99,612                     |                                       |  |                   |                    |
| MARATHON (50%)                           | APL-I                | 14.38%                                 | 1,185,535                       | 0.020688                      | 24,485                     | \$1.9500 8/                           | \$0.6220 6/  | 12/16/82          | 12/1992 3/         |
| MARATHON (50%)                           | APL-II               | 4.48%                                  | 368,603                         | 0.020688                      | 7,626                      | \$2.0550                              | \$2.0800 9/  |                   | 12/1997 3/         |
| MARATHON (50%)                           | APL-NIKISKI          | 0.19%                                  | 15,888                          | 0.020688                      | 329                        | \$2.0550 4/                           | \$0.6220   |                   |                    |
| MARATHON (50%)                           | CITY OF KEMAI        | 0.25%                                  | 20,599                          | 0.020688                      | 426                        | \$2.0550 4/                           | \$0.3000   |                   | 6/1986             |
| MARATHON (50%)                           | RENTAL GAS           | 4.50%                                  | 370,242                         | 0.020688                      | 7,660                      | \$0.2100                              | \$0.2100   |                   | 1/1995 3/          |
| MARATHON (50%)                           | ADDITIONAL RENTAL    | 2.36%                                  | 194,450                         | 0.020688                      | 4,023                      | \$0.3800                              | \$0.3800   |                   |                    |
| MARATHON (50%)                           | TOKYO UTILITIES      | 15.32%                                 | 1,261,073                       | 0.020688                      | 26,089                     | \$2.2795                              | \$4.7590 5/  |                   | 6/1/89             |
| TOTAL MARATHON SH...                     |                      | 41.49%                                 | 3,414,390                       |                               | 70,637                     |                                       |  |                   |                    |
| TOTAL KEMAI FIELD                        |                      | 100.00%                                | 8,229,363                       |                               | 170,249                    |                                       |  |                   |                    |
| <b>STERLING FIELD</b>                    |                      |  |                                 |                               |                            |                                       |  |                   |                    |
| UNION (50%)                              | PENINSULA GREENHOUSE | 50.00%                                 | 736                             | 0.015546                      | 11                         | \$0.4000                              | \$0.4000   | 10/27/61          |                    |
| MARATHON (50%)                           | PENINSULA GREENHOUSE | 50.00%                                 | 736                             | 0.015546                      | 11                         | \$2.0550 4/                           | \$0.4000   |                   |                    |
| TOTAL STERLING FIELD                     |                      | 100.00%                                | 1,472                           |                               | 22                         |                                       |  |                   |                    |
| <b>MCARTHUR RIVER FIELD</b>              |                      |  |                                 |                               |                            |                                       |  |                   |                    |
| UNION/MARATHON (50% each)                |                      | 0.47%                                  | 1,671                           | 0.125                         | 209                        | 0.000                                 | 0.000  |                   |                    |
| UNION/MARATHON (50% each)                | RENTAL GAS           | 1.48%                                  | 5,260                           | 0.125                         | 658                        | 0.000                                 | 0.210  |                   |                    |
| UNION/MARATHON (50% each)                | UNION CHEMICAL       | 87.56%                                 | 311,215                         | 0.125                         | 38,902                     | 0.000                                 | 0.613  |                   |                    |
| UNION/MARATHON (50% each)                |                      | 9.39%                                  | 33,375                          | 0.125                         | 4,172                      | 0.000                                 | 0.000  |                   |                    |
| UNION/MARATHON (50% each)                |                      | 1.10%                                  | 3,910                           | 0.125                         | 489                        | 0.000                                 | 0.000  |                   |                    |
| TOTAL MCARTHUR RIVER FIELD               |                      | 100.00%                                | 355,431                         |                               | 44,429                     |                                       |  |                   |                    |
| <b>TRADING BAY FIELD</b>                 |                      |  |                                 |                               |                            |                                       |  |                   |                    |
| Marathon 48.66%                          |                      | 48.66%                                 | 580                             | 0.125                         | 73                         | 0.000                                 | 0.000  |                   |                    |
| Union 48.66%                             |                      | 48.66%                                 | 580                             | 0.125                         | 73                         | 0.000                                 | 0.000  |                   |                    |
| Superior 1.34%                           |                      | 1.34%                                  | 16                              | 0.125                         | 2                          | 0.000                                 | 0.000  |                   |                    |
| Texaco 1.34%                             |                      | 1.34%                                  | 16                              | 0.125                         | 2                          | 0.000                                 | 0.000  |                   |                    |
| TOTAL TRADING BAY FIELD                  |                      | 100.00%                                | 1,192                           |                               | 149                        |                                       |  |                   |                    |

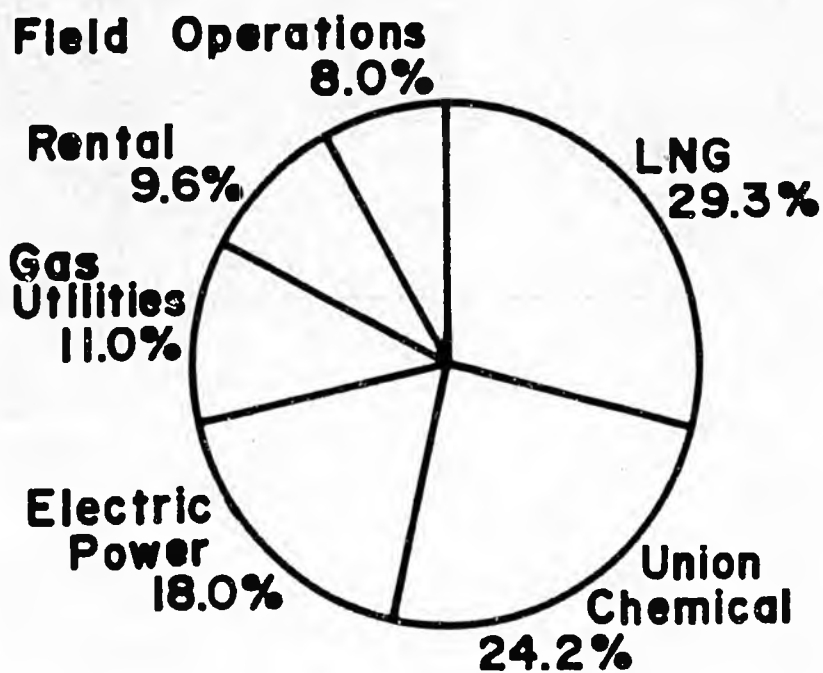
- 1/ ANNUAL VOLUME DIVIDED BY 12 MONTHS EQUAL AVERAGE MONTHLY VOLUME.  
2/ ROYALTY AND CONTRACT VALUES ARE THE MOST CURRENT IN EFFECT AS OF JANUARY 1986. PRODUCTION AND HAVE NOT BEEN ADJUSTED FOR BTU CONTENT.  
3/ QUANTITY TERM COULD OPERATE TO EXTEND OR SHORTEN THE CONTRACT PERIOD.  
4/ PRICE REPORTED BY MARATHON IS BEING PAID UNDER PROTEST.  
5/ CONTRACT PRICE IS A GROSS PRICE BEFORE TRANSPORTATION COSTS.

- 6/ CONTRACT PRICE TO GO TO \$0.27 MCF DURING 1986.  
7/ BASE CONTRACT PRICE DOES NOT INCLUDE LESSEE TAX OBLIGATIONS PAID BY THE PURCHASER.  
8/ VALUE AGREED TO BY SETTLEMENT.  
9/ SPECIAL DELIVERABILITY CHARGE OF \$0.35/MCF MAY ALSO BE EFFECTIVE.

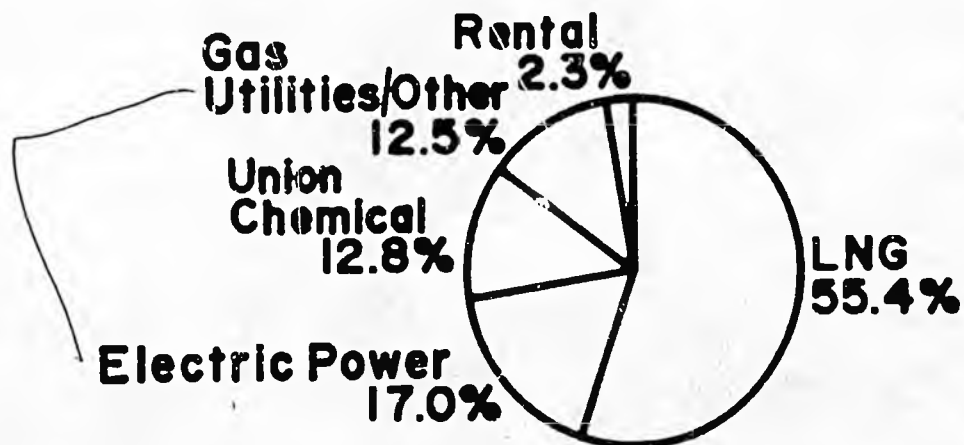


# COOK INLET

## Total Sales

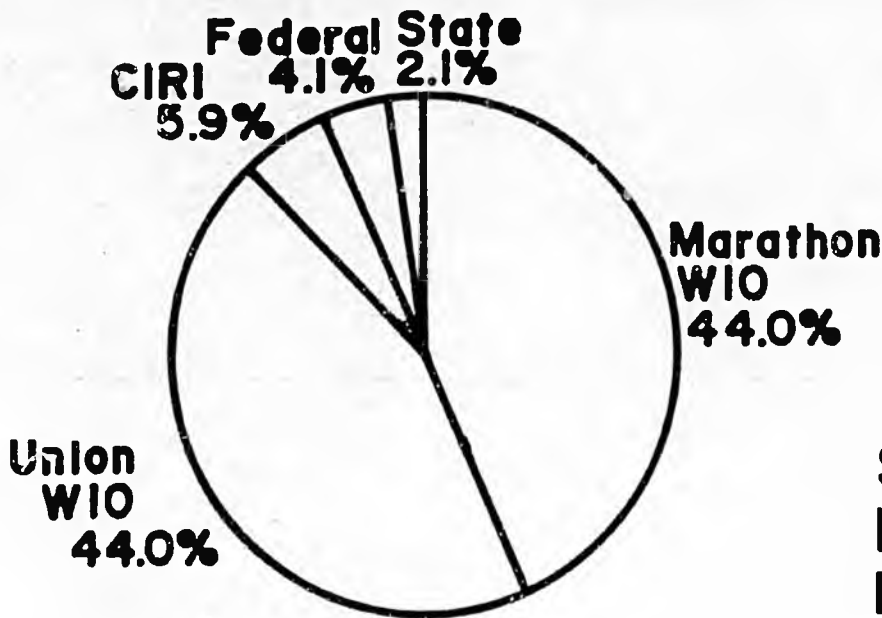


## State Royalty Disposition

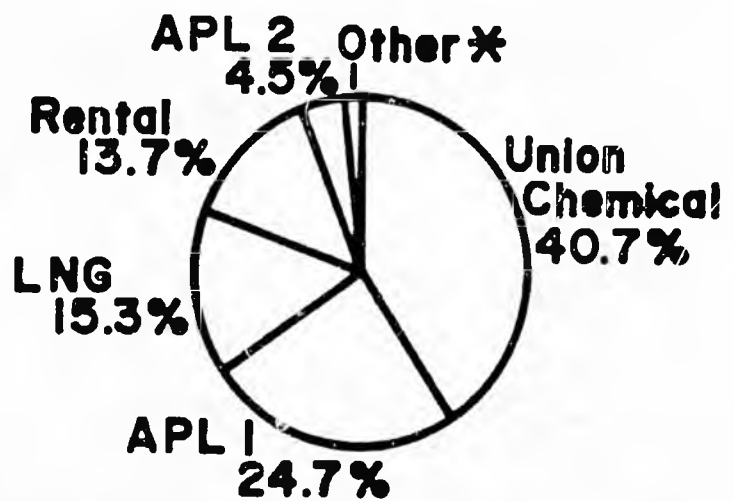


# KENAI FIELD

## Royalty And Working Interest Ownership



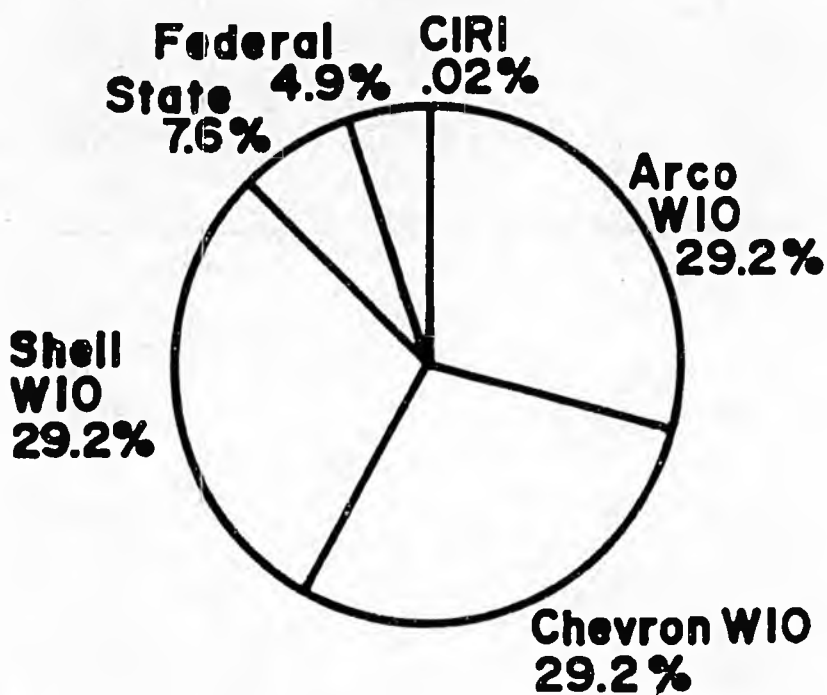
## State Royalty Disposition



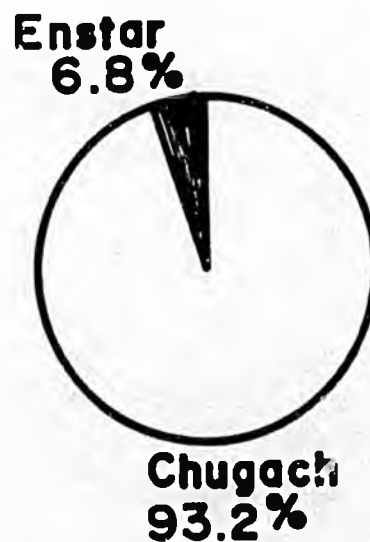
\* APL-Nikiski 0.4%  
 Union-Chevron Exchange 0.2%  
 City Of Kenai 0.5%

# BELUGA FIELD

## Royalty And Working Interest Ownership



## State Royalty Disposition



COOK INLET GAS PRODUCTION  
(For 1984)

|                                  | Total<br>MMCF/Month | State Royalty<br>MMCF/Month |
|----------------------------------|---------------------|-----------------------------|
| Beluga River Field               |                     |                             |
| For: Chugach                     | 1673                | 125                         |
| Enstar                           | <u>121</u>          | <u>9</u>                    |
| Total                            | 1794                | 134                         |
| Kenai Field                      |                     |                             |
| For: APL 1                       | 2029                | 42                          |
| APL 2                            | 369                 | 8                           |
| APL Nikiski                      | 31                  | 1                           |
| APL Kenai                        | 41                  | 1                           |
| Union Chevron Ex                 | 16                  | 1                           |
| Rental gas                       | 741                 | 15                          |
| Rental gas extra                 | 389                 | 8                           |
| Ammonia-Urea                     | 3352                | 67                          |
| LNG                              | <u>1261</u>         | <u>25</u>                   |
| Total                            | 8229                | 168                         |
| McArthur River Field             |                     |                             |
| For: Rental gas and ammonia-urea | 355                 | 44                          |
| Beaver Creek Field               |                     |                             |
| For: APL 2                       | 789                 | 0                           |
| Lewis River Field                |                     |                             |
| For: APL 2                       | 153                 | 19                          |
| North Cook Inlet Field           |                     |                             |
| For: LNG                         | <u>3932</u>         | <u>491</u>                  |
| GRAND TOTAL                      | 15,. 50             | 855                         |

Excerpts from Lease Form DL-1  
Pertaining to the Pricing of Royalty Products

11. ROYALTY ON PRODUCTION. Except for oil and gas used on said land for development and production or unavoidably lost, Lessee shall pay Lessor as royalty the following:

(a) On oil 12-1/2 percent in amount or value of the oil produced and saved and removed or sold from said land.

(b) On gas 12-1/2 percent in amount or value of the gas produced and saved and sold or used off said land or used for the extraction of natural gasoline or other products therefrom.

(c) On associated substances 12-1/2 percent in amount or value of such substances produced and saved and removed or sold from said lands.

15. ROYALTY IN VALUE. At the option of Lessor, which may be exercised from time to time upon not less than six months' notice to Lessee, and in lieu of royalty in kind, Lessee shall pay to Lessor the field market price or value at the well of all royalty oil and/or gas. All royalty that may become payable in money to Lessor shall be paid on or before the last day of the calendar month following the month in which the oil or gas is produced. The payments shall be accompanied by copies of run tickets or other satisfactory evidence of sales, shipments, and amounts or gross production.

16. PRICE. The field market price or value of royalty oil or gas shall not be less than the highest of: (1) The price actually paid or agreed to be paid to Lessee at the well by the purchaser thereof, if any; or (2) The posted price of Lessee in the field for such oil or gas at the well, if any; or, (3) The prevailing price received by other producers in the field at the well for oil of like grade and gravity or gas of like kind and quality at the time such oil or gas is removed from said land or run into storage, or such gas is delivered to an extraction plant.

264  
2.05-4

3 producers  
w/ separate

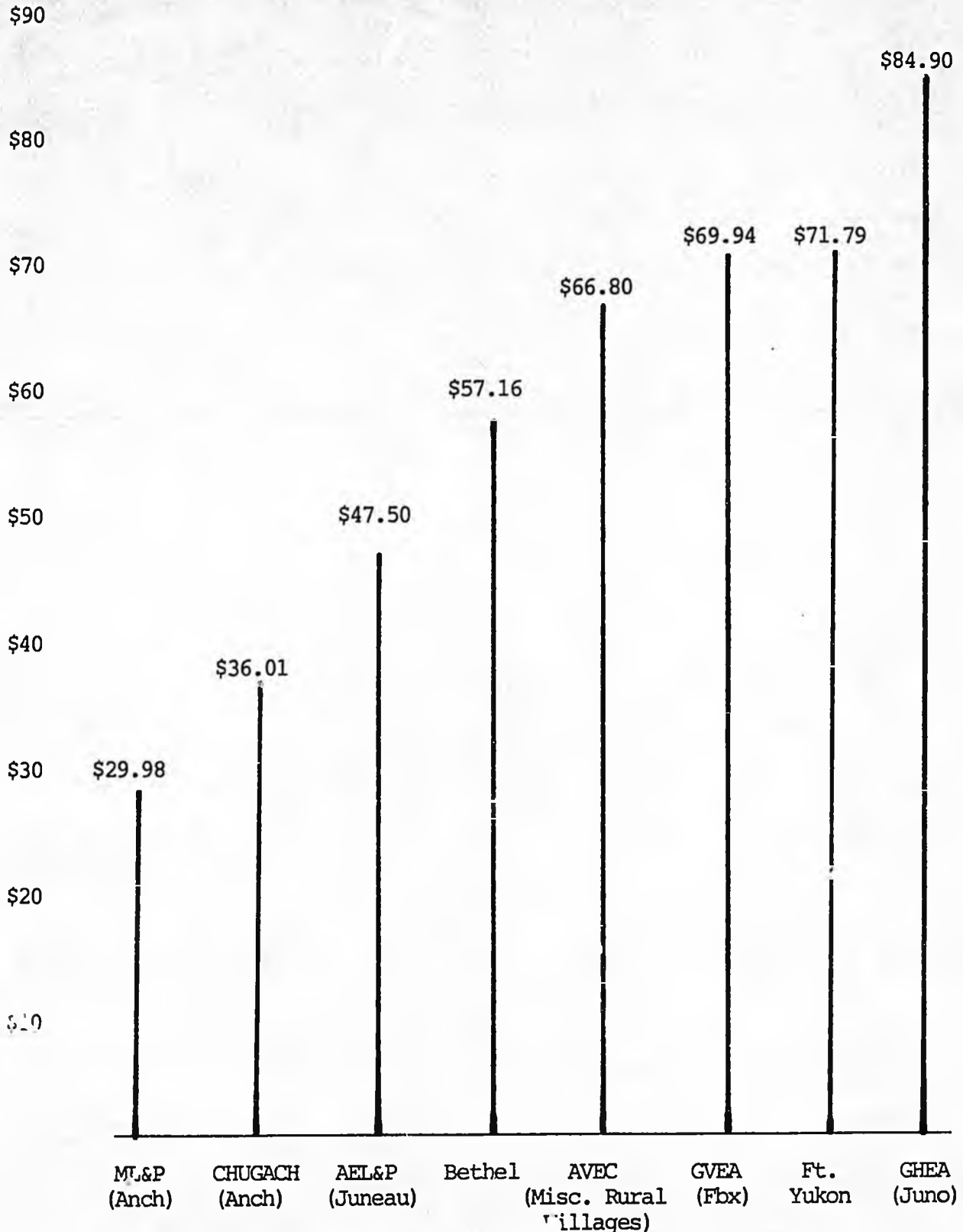
RECENT CONTRACTS AND PURCHASE AGREEMENTS

|         | <u>Purchaser</u> | <u>Field or Seller</u> | <u>Starting Base Price</u> |
|---------|------------------|------------------------|----------------------------|
| 1977    | Pac Alaska       | Cook Inlet             | \$1.46 per mcf             |
| 1982    | Enstar           | Beluga River           | \$2.32                     |
| 1982    | Enstar           | Beaver Creek Field     | \$2.32                     |
| 1982-83 | Chugach          | Beluga River           | \$1.40-1.60                |
|         | (Peaking Gas)    |                        |                            |
| 1983    | Chugach          | Cannery Loop           | \$1.80                     |
| 1984    | Enstar           | Lewis River            | \$1.80                     |
| 1985    | Tesoro           | Marathon               | \$2.01                     |
| 1985    | AEG&T            | Enstar                 | \$2.04                     |
|         | (Homer Electric) |                        |                            |
| 1985    | ML&P             | Enstar                 | \$1.60                     |
|         | (Anchorage)      |                        |                            |

February 6, 1986

Representative Residential Electrical Rates for 500 KWH

Assumes: Residential rate, non-demand, hot water heater, winter season.  
Power Cost Equalization payments have been subtracted.



Source: Alaska Public Utility Commission, except GHEA rates, which were obtained from GHEA.



# MATANUSKA ELECTRIC ASSOCIATION, INC.

P.O. BOX 1148

PALMER, ALASKA 99645

TELEPHONE  
(907) 745-3231

FEB 6 1986

February 4, 1986

The Honorable Arliss Sturgulewski  
Alaska State Legislature  
Pouch V  
Juneau, Alaska 99811

Dear Ms. Sturgulewski:

Subject: Senate Bill 309 (House Bills 403 and 425)

We strongly encourage your support of the above proposed legislation for the following reasons:

1. It will establish a law that the State of Alaska must follow in determining present and future royalty payments affecting utilities.
2. The proposal by the Department of Natural Resources and related actions that are likely to occur, could impact our power supplier (Chugach Electric Association, Inc.) by more than six million dollars annually. Since MEA represents approximately twenty percent of Chugach's revenues, this increased cost of providing electricity would amount to approximately \$1.2 million to our member/consumers.
3. Without SB 309, the price effect on pending negotiations between Chugach and the gas producers could result in additional costs to our member/consumers.
4. The State of Alaska needs a reasonable law which can be used by the utilities for long-term planning purposes and assist in rate stabilization, as well as provide our lenders with loan security.
5. The importance of this legislation has long-term impact on the consumers of electricity and natural gas from Homer to Fairbanks. As an electric cooperative, we are constantly making every attempt to keep rates as low as possible. Cost of purchasing power is the largest single expense for MEA, and I assure you that the member/consumers continually express their concerns about the cost of power. Senate Bill 309 is a consumer issue, as the outcome will affect their pocketbooks.

For these primary reasons, we urge you to support SB 309 (HB 403 and 425). Thank you for your cooperation.

Sincerely,

James F. Palin  
General Manager

cc: MEA Board of Directors  
Alaska Rural Electric Cooperative  
Association, Inc.



FEB 19 1986

**MATANUSKA ELECTRIC ASSOCIATION, INC.**

P.O. BOX 1148

PALMER, ALASKA 99645

TELEPHONE  
(907) 745-3231

February 11, 1986

The Honorable Arliss Sturgulewski  
Chairman, Senate Resources Committee  
Alaska State Legislature  
Room 508 Capitol Building  
Juneau, Alaska 99811

Dear Senator Sturgulewski:

Subject: Senate Bill 309

Due to apparent time constraints, I was not given the opportunity to offer my testimony via teleconference from Wasilla on February 10, 1986. In lieu of direct testimony, enclosed is a copy of the brief statement I planned to make in support of Senate Bill 309. I would appreciate it if you would provide the committee members a copy of this statement. If you would like additional information, please let me know and I will be happy to provide it.

Sincerely,

James F. Palin  
General Manager

rlh

Enclosure

cc: David P. Hutchens, ARECA  
Lawrence Markley, CEA

STATEMENT TO THE SENATE RESOURCES COMMITTEE

February 10, 1986

James F. Palin  
General Manager  
MATANUSKA ELECTRIC ASSOCIATION, INC.

GOOD AFTERNOON, MADAME CHAIRMAN, SENATORS...

ON BEHALF OF MATANUSKA ELECTRIC ASSOCIATION, I THANK YOU FOR THE OPPORTUNITY TO ADDRESS THIS COMMITTEE ON THE ISSUE OF ROYALTY NATURAL GAS PAYMENTS.

I AM JIM PALIN, GENERAL MANAGER OF MATANUSKA ELECTRIC ASSOCIATION, A POSITION I HAVE HELD SINCE 1981.

I'M HERE TODAY TO ADDRESS THE DECISION BY THE DEPARTMENT OF NATURAL RESOURCES TO INCREASE THE PRICE OF ROYALTY GAS IN THE COOK INLET BASIN FROM 26 CENTS PER MCF TO \$2.05 PER MCF -- NEARLY AN EIGHT-FOLD INCREASE, AND SENATE BILL 309.

AS YOU KNOW, WHEN THE PRICE OF RAW MATERIALS GOES UP, A BUSINESS HAS TWO CHOICES, IF IT WANTS TO STAY IN BUSINESS. IT CAN SELL ITS PRODUCT FOR THE SAME PRICE -- AND MAKE LESS OF A PROFIT, OR RAISE THE PRICE OF THE END PRODUCT.

OUR COOPERATIVE, MATANUSKA ELECTRIC, BUYS NEARLY ALL OF ITS POWER FROM CHUGACH ELECTRIC ASSOCIATION.

SINCE CHUGACH IS A NON-PROFIT COOPERATIVE, ITS ONLY CHOICE WHEN THE PRICE OF RAW MATERIALS GOES UP -- IN THIS CASE, NATURAL GAS -- IS TO RAISE THE PRICE OF ITS PRODUCT, ELECTRICITY.

ACCORDING TO CHUGACH ELECTRIC, DNR'S DECISION COULD COST CHUGACH MORE THAN \$6 MILLION PER YEAR.

AND SINCE MATANUSKA ELECTRIC'S PURCHASES MAKE UP APPROXIMATELY 20 PERCENT OF CHUGACH'S TOTAL REVENUES, OUR 26,000 CONSUMER-MEMBERS WOULD WIND UP PAYING ABOUT \$1.2 MILLION PER YEAR MORE THAN THEY NOW PAY FOR ELECTRICITY.

AND FOR MANY OF THEM, PARTICULARLY THOSE WHO LIVE IN THE MATANUSKA-SUSITNA VALLEY WHERE UNEMPLOYMENT IS OVER 17 PERCENT; THE COST OF ELECTRICITY IS ALREADY TOO HIGH.

BECAUSE OF THIS, BECAUSE DNR'S DECISION WOULD CAUSE A GENUINE HARDSHIP FOR MANY OF OUR MEMBER-CONSUMERS, MATANUSKA ELECTRIC ASSOCIATION SUPPORTS THE PASSAGE OF SENATE BILL 309, WHICH WOULD TIE THE PRICE OF ROYALTY GAS TO THE LONG-TERM CONTRACT PRICE.

IN ADDITION TO REDUCING THE IMPACT THAT THE COST OF ELECTRICITY HAS ON OUR MEMBERS, PASSAGE OF SB 309 WOULD PROVIDE A MEASURE OF CERTAINTY, OF SECURITY, FOR RAILBELT UTILITIES.

AS IT STANDS NOW, DNR COULD CHANGE THE PRICE OF ROYALTY GAS WHENEVER ANY ONE PURCHASER WAS WILLING TO PAY MORE FOR NATURAL GAS -- NO MATTER HOW MUCH OR HOW LITTLE OR FOR WHAT DURATION. THIS MAKES IT EXTREMELY DIFFICULT TO PLAN FOR THE FUTURE, TO SAY THE LEAST.

AS AN ELECTRIC COOPERATIVE, WE ARE CONSTANTLY MAKING EVERY EFFORT TO KEEP OUR MEMBERS' RATES AS LOW AS POSSIBLE. THE COST OF PURCHASING POWER IS MATANUSKA ELECTRIC'S LARGEST SINGLE EXPENSE, AND I ASSURE YOU THAT OUR MEMBERS CONTINUALLY EXPRESS THEIR CONCERNS ABOUT THE COST OF POWER. SENATE BILL 309 IS A CONSUMER ISSUE, A HUMAN ISSUE, AND WE URGE YOU TO VOTE FOR ITS PASSAGE.

THANK YOU VERY MUCH FOR GIVING ME THE OPPORTUNITY TO COMMENT ON THIS VITAL ISSUE, AND PLEASE FEEL FREE TO CALL ME IF I CAN BE OF ANY ASSISTANCE WHATSOEVER ON THIS ISSUE.

File  
SB 309

## ANCHORAGE CAUCUS

ALASKA STATE LEGISLATURE

### MINUTES

February 6, 1986

#### SENATE

Abood, M.  
DeVries, E.  
Faiks, J.  
Fischer, V.  
Halford, R.  
Josephson, J.  
Kelly, T.  
Kerttula, J.  
Rodey, P.  
Sturgulewski, A.

12:05 p.m., Senator Josephson called the meeting to order. The following members were not present: Representative Boucher; Senators DeVries, Kelly, Kerttula, and Rodey.

Dr. Joyce Murphy (President, Board of Directors, Chugach Electric Association) stated that the royalty gas increase impacts three-quarters of the State's population. The initial contract was a price of 26¢ per thousand cubic feet. DNR increased it to \$2.05. Most recently DNR offered a price of \$1.50 which we have turned down. We provide more than 85% of the power for half the residents of Alaska. We're looking at a 4.5 million dollar impact. On the consumer's electric bill it would be an increase of \$4.50 to \$5.00 per month. Our concern is that we have no long term assurance that this could not happen again. What Chugach is arguing now is that the market value is different than what the State is proposing. We feel it's because right now we're the only market. We understand the State's concern for wanting to get as much money as it can. In the last several days, we have been meeting with DNR and have had some good negotiations. We hope we can reach a settlement on the price. However, we're still concerned about the long term implications.

Rep. Cotten did you say you were about ready to reach a settlement?

Murphy we have been negotiating for about two years with the companies, we are delivering hard numbers back and forth. Hopefully, very soon we will reach an agreement.

Rep. Cotten that's with the producers, not with the Department.

#### HOUSE

Boucher, R.  
Clocksin, D.  
Collins, V.  
Cotten, S.  
Furnace, W.  
Gruenberg, M.  
Hanley, A.  
Jenkins, R.  
Martin, T.  
Pearce, D.  
Pettyjohn, F.  
Phillips, R.  
Pignalberi, M.  
Pourchot, P.  
Rieger, S.  
Szymanski, M.  
Uehling, R.

## ANCHORAGE CAUCUS

### ALASKA STATE LEGISLATURE

Minutes 2/6/85

Page Two

#### SENATE

Abood, M.  
DeVries, E.  
Faiks, J.  
Fischer, V.  
Halford, R.  
Josephson, J.  
Kelly, T.  
Kerttula, J.  
Rodey, P.  
Sturgulewski, A.

Murphy that's with the producers, however we are also negotiating with DNR in some productive meetings. Our major concern is the long term issue. We're not clear right now whether DNR can give us the assurance of a long term settlement that would not be needing some sort of legislative approval.

Sen. Sturgulewski what's your involvement with Susitna?

Murphy we support hydroelectric power. "No, we have not ever put our eggs in the Susitna basket." We have been concerned about the financial feasibility of it. We have not opposed it nor favored it. We have been looking at alternatives - small hydroelectric projects and coal.

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Rieger, S.  
Szymanski, M.  
Uehling, R.

Sen. Halford what are your thoughts on putting an amendment on power cost assistance to make up the difference?

Murphy as a taxpayer, I don't like subsidies. I believe that we're looking at the fact that we went out and negotiated at arms length a real favorable contract and it is now being disrupted. And we're about to go out and negotiate real favorable new contracts because we did have prior favorable contracts, and that's about to be disrupted. I don't consider that a subsidy, I consider that foolish.

Sen. Halford do you think we should treat the oil industry the same way?

Murphy I personally think the oil industry is a totally different ballgame.

Sen. Faiks expressed her disapproval with DNR's decision to increase royalty gas prices. She noted that to her, this is the consumer issue of the session.

## ANCHORAGE CAUCUS

### ALASKA STATE LEGISLATURE

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Page Three

#### SENATE

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Sturgulewski, A.

Jim Palin (General Manager, Matanuska Electric Association) we have about 27,000 consumers we are now serving. If this proposal goes through, we're talking about an impact of \$1.2 million annually. Our existing rates are about one-third higher than Chugach's. We support the legislation that was introduced this year (SB 309, HB 403 and HB 425). We are concerned about the long term impact about the gas price.

Sen. Halford why does MEA support the Bradley Lake intertie?

Palin by existing law, we're entitled to a portion of that energy. In the long run, obviously it should be one of the cheaper sources of power available in the State.

#### HOUSE

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Szymanski, M.  
Uehling, R.

Esther Wunnicke (Commissioner, Department of Natural Resources) DNR is not the cause of any increase of price. The lease terms are such that the representation of value is indicated by contracts that are entered into at arms length by other parties. The State of Alaska was not a party to the contract entered into between the producers and Chugach Electric or any other takers of gas from the producers. We were a party to the contract entered into with the producers when they took oil and gas leases from the State of Alaska. It was that contract that we sought to enforce. This particular enforcement should not be seen in isolation from all the other enforcement actions taken by DNR to do what is our responsibility on behalf of all of the people of Alaska in order to get full value for the State's royalty resources. We recognize that the Beluga field, because of the volumes taken by Chugach Electric, is a somewhat unique situation compared to some of the other fields in Cook Inlet. It was in recognition of that fact and also because there would be pass through effects on the utilities that DNR determined we would not ask for retroactive payment. Instead, the payment would be prospective.

# ANCHORAGE CAUCUS

## ALASKA STATE LEGISLATURE

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Page Four

### SENATE

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Discussion ensued about comparing gas contracts to oil contracts and the effect, if any, it would have on oil royalty prices.

Rep. Szymanski are you currently a party to the Chugach litigation with producers?

Wunnicke the producers have sued the State of Alaska. The last offer of \$1.50 was rejected, so we are still in Superior Court.

Murphy noted that in relationship to subsidy, if this Legislature passes a subsidy, it won't necessarily mean that your successors next year would approve it. We're not talking about something just this year, we're talking about thirty years down the road. The point we have tried to reiterate to DNR is that they have the right that with six months notice can take it out and sell it to whomever they want to if they think they can get a better price for it. Chugach would in no way ever block them from doing that. In fact, if DNR thinks they can do it, we'd like to see them do it today and then maybe this whole mess would go away.

Sen. Josephson adjourned the meeting at 1:05 pm.

### HOUSE

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Szymanski, M.  
Uehling, R.

Original sponsors: Faiks, Kelly  
and V.Fischer

1 IN THE SENATE BY THE RESOURCES COMMITTEE

2 CS FOR SENATE BILL NO. 309 (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 royalty gas contracts; and pro-  
7 viding for an effective date."

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

9 \* Section 1. FINDINGS. (a) The legislature finds that the best inter-  
10 est of the state will be served if the commissioner of natural resources is  
11 authorized to establish the value for royalty gas taken in value by the  
12 state and sold to a nonprofit electric utility by using the contract price  
13 between the lessee of the state and the nonprofit electric utility, whether  
14 or not the royalty gas lease with the state establishes a different stan-  
15 dard for the valuation and if the lessee and the nonprofit electric utility  
16 are not related to each other. The legislature finds that this authoriza-  
17 tion should apply prospectively and does not intend the authorization to  
18 apply to the valuation of royalty gas that is sold by a lessee of the state  
19 under a contract entered into before the effective date of this Act with a  
20 nonprofit electric utility.

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

25 (c) The proper exercise of the discretion conferred by this Act on  
26 the commissioner would support and complement the other programs that  
27 assist the citizens of the state with their long-term electrical needs,  
28 including the power cost equalization program under AS 44.83.162 - 44.83.-  
29 165 and hydroelectric and other programs for the generation of electricity.

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

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

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

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

21 (2) "price for the gas established in the contract" in-  
22 cludes tax reimbursement amounts, deliverability and other charges,  
23 and other forms of consideration paid by the nonprofit electric utili-  
24 ty under the contract.

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

27 (h) [~~Within 90 days after the written request of a lessee of a~~  
28 ~~lease issued under AS 38.05.180;~~] the commissioner may enter into a  
29 contract to sell royalty gas taken in kind by the state to a nonprofit

1 electric utility at less than the market value of the royalty gas if  
2 the commissioner, after considering the consumer benefits, other  
3 benefits, and detriments of the sale, makes a written finding that the  
4 sale is in the best interest of the state. In this subsection, "non-  
5 profit electric utility" includes an electric cooperative organized  
6 under AS 10.25 and a municipal utility.

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

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

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

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

28 \* Sec. 7. This Act takes effect immediately in accordance with AS 01.-  
29 10.070(c).

ENSTAR

Bannister  
2/26/86

Original sponsors: Faiks, Kelly  
and V.Fischer

1 IN THE SENATE

2 CS FOR SENATE BILL NO. 309 ( )

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 royalty gas contracts; and pro-  
7 viding for an effective date."

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

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

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

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

29 (d) The legislature finds that the state should adopt a policy for

1 the sale of royalty gas to gas or electric utilities for in-state consumer  
2 use and in-state generation of electricity that is fundamentally different  
3 from the policies of the state for the sale of royalty oil and for the sale  
4 of royalty gas for export from the state or for uses other than in-state  
5 consumer use and in-state generation of electricity.

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

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

19 (1) "gas or electric utility" includes an electric coopera-  
20 tive organized under AS 10.25, a municipal utility, and a gas or  
21 electric utility regulated under AS 42.05; and

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

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

27 (h) The commissioner may enter into a contract to sell royalty  
28 gas taken in kind by the state to a gas or electric utility at less  
29 than the market value of the royalty gas if the commissioner, after

1 considering the consumer benefits, other benefits, and detriments of  
2 the sale, makes a written finding that the sale is in the best inter-  
3 est of the state. In this subsection, "gas or electric utility"  
4 includes an electric cooperative organized under AS 10.25, a municipal  
5 utility, and a gas or electric utility regulated under AS 42.05.

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

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

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

25 \* Sec. 6. This Act takes effect immediately in accordance with AS 01.-  
26 10.070(c).

Original sponsors: Faiks, Kelly  
and V.Fischer

1 IN THE SENATE

BY THE RULES COMMITTEE

2 CS FOR SENATE BILL NO. 309 (Rules)

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 royalty gas contracts; and pro-  
7 viding for an effective date."

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

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

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

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

29 (d) The legislature finds that the state should adopt a policy for

1 the sale of royalty gas to gas or electric utilities for in-state consumer  
2 use and in-state generation of electricity that is fundamentally different  
3 from the policies of the state for the sale of royalty oil and for the sale  
4 of royalty gas for export from the state or for uses other than in-state  
5 consumer use and in-state generation of electricity.

6 (e) The legislature finds it is in the state's best interest to  
7 facilitate the financing and construction of a pipeline and increased gas  
8 production from the Prudhoe Bay reservoir by establishing a procedure by  
9 which the state could commit itself to a royalty valuation methodology for  
10 as long as the state takes its royalty share of gas production in value.

11 \* Sec. 2. AS 38.05.180 is amended by adding new subsections to read:

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

24 (1) "gas or electric utility" includes an electric coopera-  
25 tive organized under AS 10.25, a municipal utility, and a gas or  
26 electric utility regulated under AS 42.05; and

27 (2) "price for the gas established in the contract" in-  
28 cludes tax reimbursement amounts, deliverability and other charges,  
29 and other forms of consideration paid by the gas or electric utility

1 under the contract.

2 (bb) In the event of a contract between parties that are unrelat-  
3 ed in management, ownership, or other aspect for the sale of gas from  
4 Prudhoe Bay reservoir gas leases by means of delivery of the gas  
5 through a pipeline for export out of the state, and within 90 days  
6 after the written request of a lessee of a lease issued under this  
7 section, unless the commissioner makes a written finding that the  
8 contract price does not assure the maximum benefits to the people of  
9 the state in return for the state's gas resources, the commissioner  
10 shall enter into an agreement with the lessee to use the price for the  
11 gas established in the gas sales contract as the value of the state's  
12 royalty share of gas production sold by the lessee under the gas sales  
13 contract. The lessee shall have the burden of providing all informa-  
14 tion necessary for the commissioner to make an informed decision, and  
15 shall provide clear and convincing evidence that the value of the gas  
16 is reflected by the gas sales contract price rather than being attri-  
17 buted to transportation, marketing, or other profit or cost centers.  
18 In this subsection, "price for the gas established in the gas sales  
19 contract" includes tax reimbursement amounts, deliverability and other  
20 charges, and other forms of consideration received by the lessee under  
21 the gas sales contract.

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

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

1 utility, and a gas or electric utility regulated under AS 42.05.

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

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

17 \* Sec. 5. AS 38.05.180(aa), enacted by sec. 2 of this Act, applies to  
18 agreements to establish for a lease issued under AS 38.05.180 the in-value  
19 royalties on gas production that is sold under a contract entered into on  
20 or after the effective date of this Act between the state's lessee and a  
21 gas or electric utility.

22 \* Sec. 6. This Act takes effect immediately in accordance with AS 01.-  
23 10.070(c).  
24  
25  
26  
27  
28  
29

Original sponsors: Faiks, Kelly  
and V.Fischer

1 IN THE SENATE

2 CS FOR SENATE BILL NO. 309 ( )

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 royalty gas contracts; and pro-  
7 viding for an effective date."

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

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10 est of the state will be served if the commissioner of natural resources is  
11 authorized to establish the in-value royalty for gas sold to a gas or  
12 electric utility by using the contract price between the lessee of the  
13 state and the utility, whether or not the gas lease establishes a different  
14 standard for the valuation and if the lessee and the utility are not re-  
15 lated to each other. The legislature finds that this authorization should  
16 apply prospectively and does not intend the authorization to apply to the  
17 valuation for royalty purposes of gas sold by a lessee under a gas sales  
18 contract entered into before the effective date of this Act.

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

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

29 (d) The legislature finds that the state should adopt a policy for

1 the sale of royalty gas to gas or electric utilities for in-state consumer  
2 use and in-state generation of electricity that is fundamentally different  
3 from the policies of the state for the sale of royalty oil and for the sale  
4 of royalty gas for export from the state or for uses other than in-state  
5 consumer use and in-state generation of electricity.

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

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

19 (1) "gas or electric utility" includes an electric coopera-  
20 tive organized under AS 10.25, a municipal utility, and a gas or  
21 electric utility regulated under AS 42.05; and

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

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

27 (h) The commissioner may enter into a contract to sell royalty  
28 gas taken in kind by the state to a gas or electric utility at less  
29 than the market value of the royalty gas if the commissioner, after

1 considering the consumer benefits, other benefits, and detriments of  
2 the sale, makes a written finding that the sale is in the best inter-  
3 est of the state. In this subsection, "gas or electric utility"  
4 includes an electric cooperative organized under AS 10.25, a municipal  
5 utility, and a gas or electric utility regulated under AS 42.05.

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

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

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

25 \* Sec. 6. This Act takes effect immediately in accordance with AS 01.-  
26 10.070(c).

Add to section (1)(b) the following language at the end of the paragraph:

The legislature finds it is in the state's best interest to facilitate the financing and construction of a pipeline and increased gas production from the Alaska North Slope gas fields by establishing a procedure by which the state could commit itself to a royalty valuation methodology for so long as the state <sup>takes</sup> ~~look~~ its royalty share of gas production in value.

Add to section 2 a new subsection (bb):

In the event of a contract between parties which are unrelated in management, ownership, or other aspect for the sale of gas from Alaska's North Slope gas leases by means of delivery through a pipeline for export out of Alaska, within ninety days after the written request of a lessee of a lease issued under this section, unless the Commissioner makes a written finding that the contract price does not assure the maximum benefits to the people of Alaska in return for the state's gas resources, the Commissioner shall enter into an agreement with the lessee to use the price for the gas established in the gas sales contract as the value of the state's royalty share of gas production sold by the lessee under the contract. The lessee shall have the burden of providing all information necessary for the Commissioner to make an informed finding, and must

provide clear and convincing evidence that the value of the gas is reflected in the contract price rather than being attributed to transportation, marketing, or other profit or cost centers. For the purpose of this subsection, the term "price for gas established in the gas sales contract" includes tax reimbursement amounts, deliverability and other charges, and other forms of consideration received by the lessee under the contract.

Offered: 5/11/86  
For Today's Calendar

Original sponsors: Faiks, Kelly  
and V. Fischer

1 IN THE SENATE BY THE RULES COMMITTEE

2 HOUSE CS FOR CS FOR SENATE BILL NO. 309 (Rules)

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 royalty gas contracts; and pro-  
7 viding for an effective date."

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

9 \* Section 1. FINDINGS. The legislature finds that the best interest of  
10 the state will be served if the commissioner of natural resources is au-  
11 thorized to establish the in-value royalty for gas sold to a gas or elec-  
12 tric utility by using the contract price between the lessee of the state  
13 and the utility, whether or not the gas lease establishes a different stan-  
14 dard for the valuation and if the lessee and the utility are not related to  
15 each other. The legislature finds that this authorization should apply  
16 prospectively and does not intend the authorization to apply to the val-  
17 uation for royalty purposes of gas sold by a lessee under a gas sales  
18 contract entered into before the effective date of this Act. The legisla-  
19 ture does not intend this Act to apply to the policies of the state regard-  
20 ing the value of the state's royalty share of oil production.

21 \* Sec. 2. AS 38.05.180 is amended by adding new subsections to read:

22 (aa) Within 90 days after the written request of a lessee of a  
23 lease issued under this section, the commissioner shall enter into an  
24 agreement with the lessee to use the price for the gas established in  
25 the contract between the lessee and a gas or electric utility as the  
26 value of the state's royalty share of gas production sold by the  
27 lessee under the contract unless the commissioner makes a written  
28 finding, based on clear and convincing evidence, that

(1) the contract price is unreasonably low;

*SENTENCE  
FROM ORIG*

*Restructured*

1 (2) the prospective reduction in royalty receipts would not  
2 be balanced by increased benefits to in-state gas and electric con-  
3 sumers;

4 (3) the lessee and the utility are related in management,  
5 ownership, or other aspect; and

6 (4) the contract price is not in the best interest of the  
7 state.

8 (bb) In (aa) of this section

9 (1) "gas or electric utility" includes an electric coopera-  
10 tive organized under AS 10.25, a municipal utility, and a gas or  
11 electric utility regulated under AS 42.05; provided that if the con-  
12 tract gas is transmitted to consumers through a pipeline and the gas  
13 utility either owns the pipeline or is related in ownership to the  
14 owner of the pipeline, then the gas utility qualifies as a "gas or  
15 electric utility" within the meaning of this paragraph only if it is  
16 bound or agrees to be bound by the covenants set out in AS 38.35.120;

17 (2) "price for the gas established in the contract" in-  
18 cludes tax reimbursement amounts, deliverability and other charges,  
19 and other forms of consideration paid by the gas or electric utility  
20 under the contract;

21 (3) "state's royalty share of gas production" does not  
22 include the state's royalty share of gas production from land patented  
23 to the state under

24 (A) P.L. 84-830, 70 Stat. 709 (Alaska Mental Health  
25 Enabling Act);

26 (B) 38 Stat. 1214 (Act of March 4, 1915); or

27 (C) 43 U.S.C. 1635 in settlement of the claims of the  
28 state under 38 Stat. 1214.

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

*Removed  
Senate Rules  
CS  
(big)  
north slope  
gas  
pipeline*

*Common  
certain  
amendment*

*same*

*added at  
DNR's request  
of an advisor  
of Law*

*File under  
38.06.055 already  
Provides for  
legislative approval*

1 (h) Upon legislative approval, the commissioner may enter into a  
2 contract to sell royalty gas taken in kind by the state to a gas or  
3 electric utility <sup>at less than market value</sup> at a negotiated price for the gas if the  
4 commissioner, after considering the consumer benefits, other benefits,  
5 and detriments of the sale, makes a written finding that the sale is  
6 in the best interest of the state. In this subsection,

7 (1) "gas or electric utility" has the meaning given in  
8 AS 38.05.180(bb);

9 (2) "royalty gas taken in kind by the state" does not  
10 include royalty gas taken in kind by the state from gas production on  
11 land patented to the state under

12 (A) P.L. 84-830, 70 Stat. 709 (Alaska Mental Health  
13 Enabling Act);

14 (B) 38 Stat. 1214 (Act of March 4, 1915); or

15 (C) 43 U.S.C. 1635 in settlement of the claims of the  
16 state under 38 Stat. 1214.

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

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

*SOME*

1 making application, and of the terms of the grant under which the land  
2 was acquired by the state.

3 \* Sec. 5. AS 38.05.180(aa), enacted by sec. 2 of this Act, applies to  
4 agreements to establish for a lease issued under AS 38.05.180 the in-value  
5 royalties on gas production that is sold under a contract entered into on  
6 or after the effective date of this Act between the state's lessee and a  
7 gas or electric utility.

8 \* Sec. 6. This Act takes effect immediately in accordance with AS 01.-  
9 10.070(c).

} SAME



# RECORDS CERTIFICATION

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

James O. Smith  
Signature of Camera Operator

11/24/89  
Date

S B

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# STATE OF ALASKA

## DEPARTMENT OF NATURAL RESOURCES

OFFICE OF THE COMMISSIONER

BILL SHEFFIELD, GOVERNOR

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

Handwritten initials: FH

APR 7 1986

March 18, 1986

The Honorable Arliss Sturgulewski  
Chair, Senate Resources Committee  
Alaska State Legislature  
P.O. Box V  
Juneau, AK 99811

Dear Senator *Arliss* Sturgulewski:

The Department of Natural Resources has reviewed SB 327, a bill which allows the department to grant purchaser credits in timber and material sales for expenditures that result in lasting benefits to the state. Since roads built to access materials typically have no other use and materials for public roads are provided free of charge, no real purpose is served by including materials within the scope of this bill. Accordingly, we request that references to materials be deleted from SB 327. ←

We would also ask for clarification of the general intent of SB 327. If the bill is intended to provide a timber sale purchaser with credits for the cost of roads, bridges, or other expenses above and beyond those credited under the original sale contract, the department would be very supportive of the bill. Under this intent, the department would, for example, be able to provide the purchaser with credit for constructing roads that may not be necessary for harvesting timber but would be useful to the public for hunting, fishing and recreational access.

If, however, the intent of SB 327 is to limit credits allowed the purchaser for roads, bridges and other expenses necessary to harvest timber, the department would find it difficult to support the bill because of its possible detrimental affects on the timber industry. Currently, timber sale contracts set stumpage prices at net rate, inclusive of production costs. Roads and bridges needed to access timber are purchased by the state as part of the timber sale contract. ←

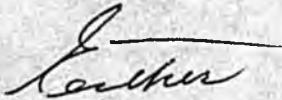
The Hon. Arliss Sturgulewski -2-

March 18, 1986

Roads and bridges designed for public use must be built to high standards and can be very costly. Limiting the ability of the purchaser to subtract the cost of building these facilities from the amount owed the state for timber could effectively prevent timber industry participation in state timber sales.

We would be happy to work with the bill's sponsors and the committee concerning this bill. Please let me know if I may provide additional information or assistance.

Sincerely,



Esther C. Wunnicke  
Commissioner

cc: Senator Kattula  
John Sturgeon

STATE OF ALASKA 1986 LEGISLATIVE SESSION  
FISCAL NOTE

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

**REQUEST**

Bill/Resolution No. : SB 327  
 Title : Credits in Timber and  
 Material Sale Contracts

Sponsor : Senator Kerttula  
 Requestor : Senate Resources Committee  
 Date of Request : 3/14/86

**FISCAL DETAIL**

Agency Affected : Natural Resources  
 BRU : Forest Management

Components : \_\_\_\_\_

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

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

Prepared by : Carol Wilson  
 Division : Commissioner's Office

Phone : 465-2400  
 Date : 3/18/86

Approved by Commissioner : James D. Arnold, Deputy  
 Agency : Natural Resources

Date : 3/20/86

Distribution (by Agency preparing fiscal note) :

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



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James A. Smith  
Signature of Camera Operator

11/24/89  
Date

S B

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4

# Alaska State Legislature

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



P. O. BOX V  
JUNEAU, ALASKA 99811  
(907) 485-4907

## Senate Committee on Resources

MEMORANDUM

April 10, 1986

TO: All Members  
Senate Resources Committee

FROM: Staff, Senate Resources Committee

RE: CSSSSB 334 (Res) "An Act relating to Hatcher Pass  
Public Use Area"

SB 334 would establish the Hatcher Pass Public Use Area. The bill provides for the protection and enhancement of fish and wildlife resources, provided for public recreation, protects water quality, and protects scenic resources within the area.

The Commissioner of Natural Resource is responsible for the management of the surface and subsurface estate. A management plan shall be adopted by the Department of Natural Resources with the concurrence of the Commissioner of Fish and Game.

The Hatcher Pass Public Use Area is closed to mineral entry, but existing valid claims remain valid.

Once established, the state may acquire land within the area by purchase, exchange, or otherwise, from willing landowners for inclusion. The Commissioner of Natural Resources may not sell land within the area.

The area to be included is shown on the attached map and consists of a strip of land along the Little Susitna River.

### Enclosures:

Map of area  
Letter of Support from Mat-Su Borough  
Sample letters pro and con



# Matanuska-Susitna Borough

BOX B. PALMER, ALASKA 99645 • PHONE 745-4801

BOROUGH ASSEMBLY

APR 10 1986

April 7, 1986

Honorable Bill Sheffield, Governor  
State of Alaska  
Pouch A  
Juneau, AK 99811

RE: Hatcher Pass Recreation Area

Dear Governor Sheffield:

The Matanuska-Susitna Borough Assembly has gone on record in the past and continues to strongly support the concept of development of the Hatcher Pass Recreation Area. A copy of Resolution No. 86-10 adopted on February 4, 1986 and Resolution No. 86-21 adopted February 18, 1986 are enclosed for your information.

The Matanuska-Susitna Borough Assembly feels a recreation area such as Hatcher Pass would definitely aid towards a more stable economic future for the Valley. They feel this is a viable project and have further funded \$15,000 for a feasibility study for a ski area at Hatcher Pass by adoption of Ordinance No. 86-20 (enclosed). The public participation and interest generated with this issue has been overwhelmingly in support of this development and the Borough's position remains unchanged, except perhaps for a stronger support of the concept.

If you should have any questions or need additional information, please feel free to contact my office.

Sincerely,

*Dorothy Jones as*  
Dorothy A. Jones, Mayor  
Matanuska-Susitna Borough

DJ/cls  
Enclosures

cc: Commissioner, Department of Natural Resources  
Representative Ron Larson  
Representative Katie Hurley  
Senator Jalmer Kerttula  
Senator Edna DeVries

Presented by: Mayor Jones  
Introduced: 02/18/86  
Drafted by: G.L.S.

MATANUSKA-SUSITNA BOROUGH

Resolution Serial No. 86-21

A RESOLUTION OF THE MATANUSKA-SUSITNA BOROUGH ASSEMBLY  
SUPPORTING THE MULTIPLE USE CONCEPT FOR THE AREA WITHIN THE  
PROPOSED HATCHER PASS MANAGEMENT PLAN.

WHEREAS, the Department of Natural Resources made a presentation on a proposed Hatcher Pass Management Plan to a joint meeting of the Matanuska-Susitna Borough Assembly and Planning Commission on February 10, 1986, and

WHEREAS, said plan was represented as an attempt to provide for the sound development of the several natural resources and potentials of the area, including, but not limited to, recreation, tourism, mining, hunting, fishing and wildlife management, and

WHEREAS, the public comments regarding use of the Hatcher Pass area indicated the area is susceptible to multiple use development including preservation of scenic quality, enhancement of recreational and historical uses, hunting, fishing, trapping, camping, skiing, hiking, grazing, and mineral development, and

WHEREAS, the Hatcher Pass Management Plan, Subunit Description of Resource Values dated December 1985 indicates many of the subunits contain moderate to high mineral potentials, and

WHEREAS, the area should be developed in such a manner as to maximize its recreational and economic benefits to the people of the state of Alaska and the Matanuska-Susitna Borough, and

WHEREAS, the multiple use approach to the management of the Hatcher Pass area should be clearly set out in the Plan;

NOW, THEREFORE, BE IT RESOLVED BY THE ASSEMBLY OF THE MATANUSKA-SUSITNA BOROUGH:

1. That it supports the multiple use concept presented to it by the Department of Natural Resources for the management of the Hatcher Pass area.

2. That it strongly recommends the Department of Natural Resources clearly incorporate in the Hatcher Pass Management Plan the multiple use approach to the management

of the various Hatcher Pass potentials and resources such as recreation, tourism, mining, timber, agriculture, hunting, fishing and wildlife management.

PASSED AND APPROVED this 18<sup>th</sup> day of February, 1986.

Dorothy A. Jones  
Dorothy A. Jones, Mayor

ATTEST:

READ AND APPROVED:

Chris Seagraves  
Chris Seagraves  
Borough Clerk

Gary Thurlow  
Gary Thurlow  
Borough Manager

(SEAL) \_

NON-CODE

INTRODUCED BY: ASSEMBLYMAN CYPRA

MATANUSKA-SUSITNA BOROUGH

ORDINANCE SERIAL NO. 86-20

AN ORDINANCE OF THE ASSEMBLY OF THE MATANUSKA-SUSITNA BOROUGH APPROPRIATING \$15,000 FROM THE LAND MANAGEMENT FUND BALANCE TO FUND 820 FOR A FEASIBILITY STUDY OF A SKIING FACILITY AT GOVERNMENT PEAK IN THE HATCHER PASS AREA.

BE IT ENACTED:

Section 1. Classification. This is a non-code ordinance.

Section 2. Appropriation Source. There is hereby appropriated \$15,000 from the Land Management Fund Balance to Fund 820 Feasibility Study.

Section 3. Effective Date. This ordinance shall take effect upon adoption by the Borough Assembly.

Introduction: March 18, 1986

First Reading: 3-18-86

Public Hearing: 4-1-86

ADOPTED by the Assembly of the Matanuska-Susitna Borough this  
1st day of April, 1986.

Dorothy A. Jones  
Dorothy A. Jones, Mayor

ATTEST:

Chris Seagraves  
Chris Seagraves, Borough Clerk

(SEAL)

Presented by: Assemblyperson  
Cypra  
Introduced: 01/21/86  
Drafted by: S.C.

MATANUSKA-SUSITNA BOROUGH

RESOLUTION SERIAL NO. 86-10 (Substitute)

A RESOLUTION ENDORSING THE HATCHER PASS, WILLOW AND  
TALKEETNA MOUNTAIN AREAS AS POTENTIAL WINTER OLYMPIC  
SITES.

WHEREAS, the Hatcher Pass, Willow and the Talkeetna Mountain areas are recognized for their high recreational value, and

WHEREAS, Hatcher Pass, the Willow and Talkeetna Mountain areas are located in the vicinity of the Municipality of Anchorage, and

WHEREAS, the Municipality of Anchorage has sought and received nominations as the Winter Olympic site in 1992, and

WHEREAS, the U.S. Cross Country Ski Team has recognized Hatcher Pass as having high potential and uses this area for training, and

WHEREAS, the Hatcher Pass, Willow area and Talkeetna Mountains receive considerable use by the Anchorage skiing community, and

WHEREAS, there is high unemployment in the Matanuska-Susitna Borough, and

WHEREAS, the current snowfall in the state of Alaska indicates the Hatcher Pass, Willow and Talkeetna Mountains can be relied upon as good sites for Winter Olympic sports,

NOW THEREFORE BE IT RESOLVED BY THE ASSEMBLY OF THE  
MATANUSKA-SUSITNA BOROUGH:

That the Assembly of the Matanuska-Susitna Borough  
endorses the Hatcher Pass, Willow and Talkeetna Mountain  
areas as potential Olympic sites for cross country skiing  
and any other appropriate activities.

PASSED AND APPROVED this 4th day of February,  
1986.

Dorothy A. Jones  
Dorothy A. Jones, Mayor

ATTEST:

REVIEWED AND APPROVED:

Chris Seagraves  
Chris Seagraves  
Clerk

Gary Thurlow  
Gary Thurlow  
Borough Manager

SEAL

A nonprofit association  
dedicated to education and awareness  
about rivers and river running  
throughout the United States.

Contributions are tax-deductible.



MAR 11 1986

Communicating bi-monthly with  
over 10,000 kayakers, rafters,  
and river canoeists through  
**CURRENTS** magazine.

**National Organization for River Sports**

Box 6847 314 North Twentieth Street Colorado Springs, Colorado 80904 (303) 473-2466

{ Senator Arliss Sturgulewski  
Resources Committee Chairman  
Alaska State Senate, Box V  
Juneau AK 99811 }

**NORS' BATTLES FOR BOATERS!**  
**CURRENTS COVERS RIVER RUNNING!**

Date: March 4, 1986

Dear Senator Sturgulewski:

It has come to my attention that the upper portion of the Little Susitna River, and its surroundings known as the Hatcher Pass Area, are the subject of a bill now before you, S.B. 334, which would make this a public recreational use area.

On behalf of our members in Alaska and elsewhere, I strongly urge you to help reserve this area for public recreational use. In recent years I have been amazed at the advances in technique and equipment for running rivers, and I can assure you that this river will carry increasing recreational use in coming years. Already there are not enough rivers to go around, resulting in waits of as long as ten years to get a permit for a trip on certain major rivers in the West. For the future of your state's tourism economy and the benefit of its citizens in general, I urge you to preserve this recreational area.

Sincerely,

A handwritten signature in cursive script that reads "Eric Leaper".

Eric Leaper  
Executive Director

EL/fa

cc: Senator Jan Faiks, Finance Committee

MAR 11 1986

March 3, 1986

Senator Arliss Sturgulewski, Chairperson  
Resources Committee  
Pouch V  
Juneau, Alaska 99811

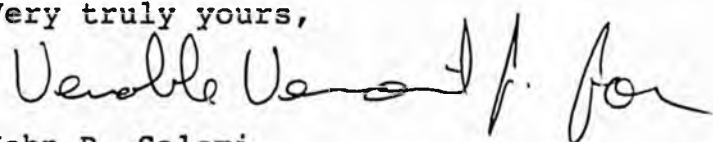
Dear Senator Sturgulewski:

As a frequent user of the Hatcher Pass area, I am writing you as a supporter of Senator Jay Kerttula's "Hatcher Pass Public Use Area" Bill. It is my understanding that this bill will close the Little Susitna River Corridor to new mining and will additionally prohibit state land disposal within the use area.

I believe this bill is a needed piece of legislation. It is a balanced bill in that it won't affect existing valid mining claims, but it will stem the trend regarding squatters on the land in this area. It is clear that the Hatcher Pass area is one of those areas which has both a high tourist value, and yet attracts residents year-round because of its diverse recreational uses. But because squatters and persons on illegal mining claims are posting certain areas so as to prohibit access to the lands, the public in general is suffering. One can find "no trespassing" signs placed by miners in areas on state lands to which the public has a right of use. This should not be tolerated, especially in this area.

I urge you to give this bill your fullest support during the legislative session. I, along with many others, will be following the progress of this legislation.

Very truly yours,



John B. Salemi

4204 COPE ST.  
ANCHORAGE, AK. 99503  
27 MARCH 1986

386  
SENATOR ARLISS STURGULEWSKI  
SENATE RESOURCE COMMITTEE  
P.O. BOX V  
JUNEAU, ALASKA 99811

DEAR SENATOR,

I AM WRITING URGING YOU TO SUPPORT SB-334 WHICH SETS ASIDE  
A CORRIDOR IN THE LITTLE SUSITNA VALLEY WHICH IS WITHHELD FROM  
MINING CLAIMS. I AM AN ACTIVE RECREATIONIST, SKIER / KAYAKER AND  
BELIEVE THAT SOME OF THE UNIQUE AND CHARMING VALUES OF THIS  
AREA SHOULD BE PRESERVED IN THE PUBLIC INTEREST. I AM NOT  
OPPOSED TO MINING PER SE BUT AM OPPOSED TO THE STATE'S LAX  
STANCE (OR NON STANCE) IN <sup>NOT EVALUATING</sup> ~~REPAIRING~~ CLAIM VALIDITY. FURTHER, THE  
STATE HAS SHOWN LITTLE INITIATIVE IN EVALUATING WHETHER HOUSING IS  
NECESSARY ON THE CLAIM. IN THE CASE OF ~~THE~~ LITTLE SUSITNA,  
WHICH HAS GOOD ROAD ACCESS, HOUSING IS MOST DEFINITELY NOT NECESSARY,  
AND IS FURTHER AN EYESORE AND A NUISANCE TO OTHER VALLEY USERS.  
PLEASE APPROVE SB-334 AS A START TO RESOLVING SOME OF THESE  
PROBLEMS. THANK YOU FOR YOUR TIME.

SINCERELY,

DAVID BLANCHET

PUBLIC OPINION MESSAGE

TO: SENATOR ARLISS STURGULEWSKI  
FROM: JEANNE MOLITOR  
5110 SPRUCE CREEK CIRCLE  
ANCHORAGE 99516  
346-3459

BILL NO: SB 334

SUBJECT: ESTABLISHING HATCHER PASS PUBLIC USE AREA

MESSAGE:

AS A VOTER, I ENJOY THE LITTLE SUSITNA AND WANT TO MAINTAIN  
IT FOR OUR USE AND ENCOURAGE YOU TO PASS THIS BILL.

DATE: 04/01/86 TIME: 16:34:12 SENT BY: ANCHORAGE LIO

COPIES TO: SENATE RESOURCES

PUBLIC OPINION MESSAGE

TO: SENATOR ARLISS STURGULEWSKI  
FROM: BARBARA BAKER  
2031 CLIFFSIDE DRIVE  
ANCHORAGE 99501  
274-6385

BILL NO: SB 334

SUBJECT: ESTABLISHING HATCHER PASS PUBLIC USE AREA

MESSAGE:

AS A RECREATIONAL BOATER, I URGE YOUR SUPPORT FOR SB 334.  
THIS LEGISLATION WILL ASSURE ACCESS TO AND PRESERVATION OF  
ONE OF ALASKA'S PREMIER RIVERS, LITTLE SUSITNA.

DATE: 04/01/86 TIME: 09:47:56 SENT BY: ANCHORAGE LIO

COPIES TO: SENATE RESOURCES

Feb 27 1986

Senator Arliss Sturgulewski  
Senate Resource Committee  
Box V  
Juneau, Alaska 99811

Feb. 22, 1986

Dear Senator Sturgulewski,

I am writing you to ask for your support for SB 334, an Act creating a Hatcher Pass Use Area.

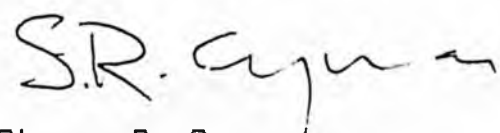
While I am currently on the Matanuska Susitna Borough Assembly and represent the area that the Use Area addresses, I am writing this as a private citizen.

There are numerous questions revolving around this bill, but I would like to share several of the things I have come to see as important.

Probably the two major concerns have been regarding mining in the area and whether SB 334 will conflict with the Hatcher Pass Management Plan. On the first concern, I do not believe this bill will establish a precedent miners should feel threatened with. On the contrary, most miners I know feel this area has little mining value and those who're using claims near the Little Susitna River are giving others a bad name. Of the second concern, that of the Hatcher Pass Plan, I have watched the planning process closely and from my perspective feel SB 334 will only strengthen both the public's desire and the Plan's goals.

One of the strongest personal concerns I have is building a diverse and healthy local economy. I believe SB 334 will protect the Little Susitna area for the things we desperately need the most: excellent recreational and tourist destinations.

Sincerely yours,



Steven R. Cypra

cc: Senate Resource  
Committee

# Black Sands Mining Co.

Phillip D. Strange  
P.O. Box 871478  
Wasilla, Alaska 99687  
(Placer - Gold)

FEB 21 1986

February 14, 1986

Dear Legislators:

I urge you to oppose S.B.334, creating the Hatchers Pass Public Use Area. This bill will force a mineral closure one half mile wide on each side of the Little Susitna River. This will be the beginning of another lock up of a very important mining district. Should S.B.334 pass into law it will cause the loss of private investment for mineral exploration and development on state lands in the Hatchers Pass Area.

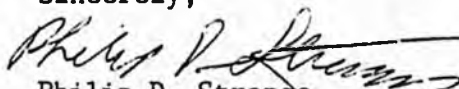
This area is of great economic importance for the vast mineral wealth that is there. The surface has barely been scratched on the mineral deposits of the Willow Creek Mining District. We need to develop this mineral wealth to bring new jobs and start an economically viable industry in the Mat-Su Valley.

The mining industry opened the Hatchers Pass Area and established the first roads into it, now that access is relatively easy, compared to 50 years ago. The people of Anchorage want to make it into their exclusive playground, but we do not need to close an area to mining because of the recreational wants and needs of urban Alaskans who know nothing about mining or the mining industry. With all the advances in mining and milling equipment we can lower grade ores at a higher profit with no detrimental effect on the environment.

I am presently working to develop the 200 foot level on a group of hard-rock claims not far from the Little Sustina River. Last year I invested fifty thousand dollars into rehabilitating the old crosscut and this year I plan to invest close to one hundred thousand dollars on development and exploration work. When I get it developed to the point where I can get to production, the cost of bringing in equipment will be very low because of the excellent road access into this mining area.

I believe that the needs of both miners and those who wish to use the area strictly for recreational purposes can be met but feel that S.B.334 will discriminate against the mining interests of the area. Thank you for your time and consideration of this matter.

Sincerely,

  
Philip D. Strange

FEB 10 1986

Knik Kanoers and Kayakers  
3903 Arkansas Drive  
Anchorage, Alaska 99503

February 5, 1986

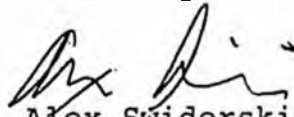
Senator Sturgulewski  
Resources Committee  
Pouch V  
Juneau, Alaska 99811

Dear Senator,

I am writing on behalf of the Knik Kanoers and Kayakers to urge you to support Senator Kertulla's Bill No. 334. The intent of the legislation is to protect the water quality and public use of the upper Little Susitna River. Kayakers use the Little Susitna on a regular basis. The proposed legislation creates the Hatcher Pass Public Use Area and protects our access to the river and surrounding lands.

The Little Su is an exceptional kayaking river. It is a clear warm water stream of unusual beauty and challenge. S.B. 334 is an important bill for Knik Kanoers and Kayakers. The bill would stop new mining on the stream and thereby the number of residents engaged in illegal placer mining there. A few of these miners have settled along the Hatcher Pass Road and accumulated junk in their yards and erected threatening signs along the road and river. Although they find little gold in the river they have significantly impacted the experience of kayakers paddling the river. Not only kayakers but also hikers, picnickers, fishermen, and motorists must be wary of these mining claims.

Sincerely Yours,

  
Alex Swiderski  
President

JAN - 4 1986

Jan. 13, 1986  
PO Box 2176  
Palmer, Alaska 99645

Senator Arliss Sturgulewski  
Senate Resources Committee  
Box V  
Juneau, Alaska 99811

Dear Senator Sturgulewski,

I urge you to support Senate Bill 334, establishing the Hatcher Pass Public Use Area, introduced by Senator Kerttula.

His bill protects public use of a popular area in two ways. First, the legislation disallows new mining on the Little Susitna River. As you know, the river is a tremendously valuable scenic resource to people in my community and visitors from out-of-state. On the other hand, it contains such small quantities of gold that all placer mining attempts have been failures. From the view of state resources management, there is no economic advantage to additional mining on the Little Su. Some of the current claim holders have created substantial eyesores on the stream, in violation of several state regulations. The proposed legislation will see to it that no additional squatters pre-empt the public from using the stream. As Chuck Hawley told me, "There is no gold there. That river should be for tourists."

Secondly, S.B. 334 prohibits state land disposals in the Hatcher Pass area. Private control of state land there fulfills no public needs, but in fact puts resources off-limits to the public now utilizing them there. Plenty of unsold private land lies near the proposed Public Use Area for people requiring a cabin site. At the recent public hearings, participants overwhelmingly objected to land disposals in the Hatcher Pass area.

Although S.B. 334 is valuable legislation, it has some room for improvement. The legislatively designated area should include the high mountains and meadows just to the northeast. This small area is a popular destination for skiers and mountaineers, and it therefore deserves the same legal consideration as the rest of the Public Use area.

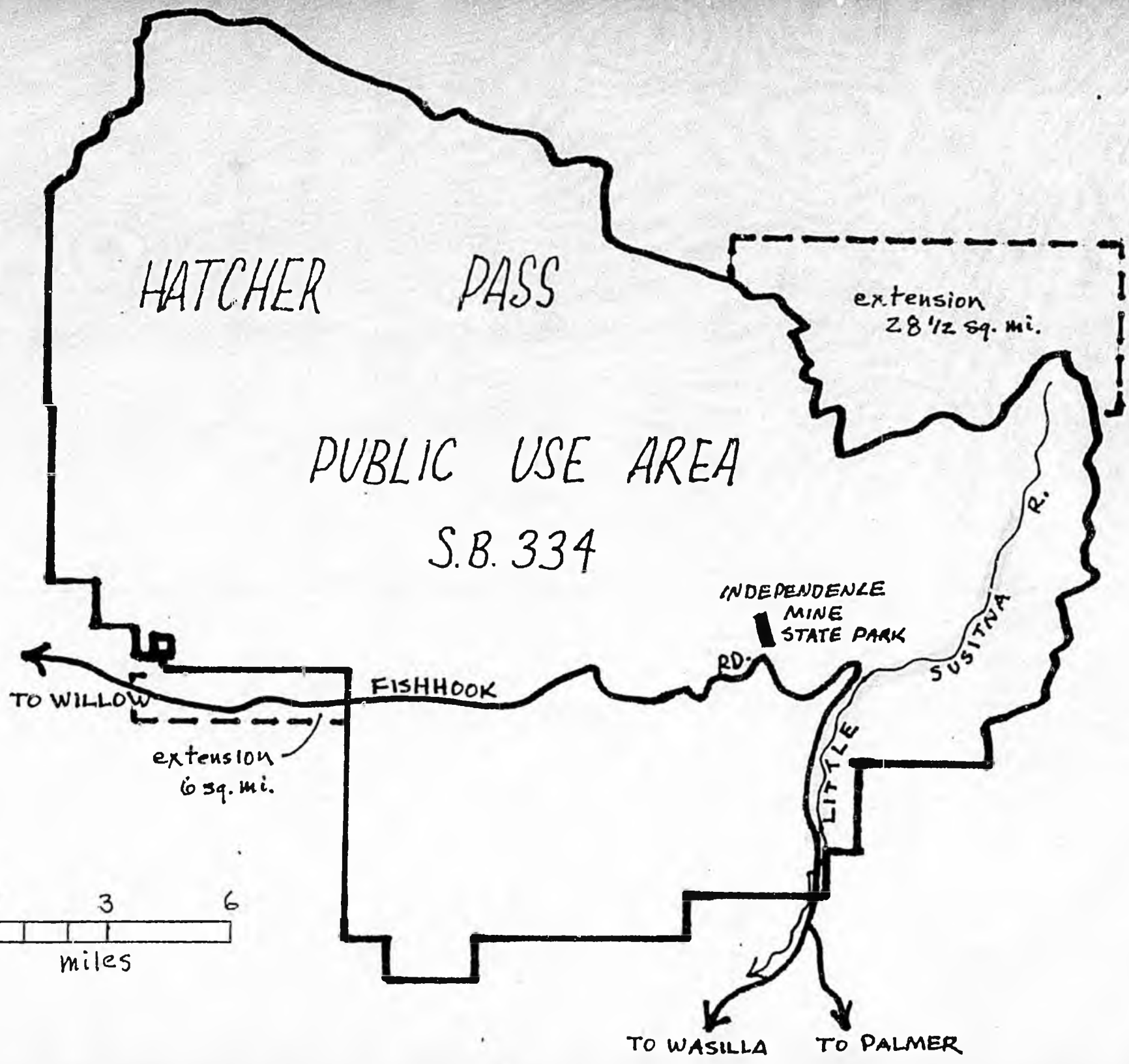
I would like to come down to Juneau and talk to the Resources Committee about the bill when it comes up on your agenda.

Sincerely,

*Mike Bronson*

Mike Bronson

cc: Senate Resource  
Committee members  
Dorothy Jones  
Esther Wunnicke



HATCHER PASS

PUBLIC USE AREA

S.B. 334

extension  
28 1/2 sq. mi.

INDEPENDENCE  
MINE  
STATE PARK

SUSITNA R.

FISHHOOK

RD.

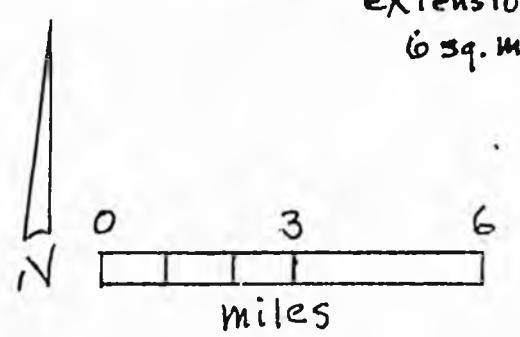
LITTLE

TO WILLOW

extension  
6 sq. mi.

TO WASILLA

TO PALMER



Offered: 4/21/86  
Referred: Finance

*Substantially reduced*

Original sponsor: Kerttula

1 IN THE SENATE BY THE RESOURCES COMMITTEE  
2 CS FOR SPONSOR SUBSTITUTE FOR SENATE BILL NO. 334 (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 Hatcher Pass Public Use Area."

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

8 \* Section 1. As 41.23 is amended by adding new sections to read:

9 ARTICLE. 2. HATCHER PASS PUBLIC USE AREA.

10 Sec. 41.23.100. PURPOSE. (a) The purpose of AS 41.23.100 -  
11 41.23.130 is to establish the area described in AS 41.23.130 as the  
12 Hatcher Pass Public Use Area.

13 (b) The Hatcher Pass Public Use Area is established to

14 (1) provide for public recreation activities;

15 (2) protect and enhance the fishery, waterfowl, and wild-  
16 life resources and habitat and provide for public use of the fishery  
17 and wildlife resources, including fishing, grazing, hunting, and  
18 trapping;

19 (3) protect the water quality and scenic resources within  
20 the Hatcher Pass Public Use Area.

21 Sec. 41.23.110. MANAGEMENT. (a) The commissioner of natural  
22 resources is responsible for the management of the surface and subsur-  
23 face estate within the Hatcher Pass Public Use Area consistent with  
24 the purposes of AS 41.23.100.

25 (b) The commissioner of fish and game, the Board of Fisheries,  
26 and the Board of Game are responsible for the management of fish and  
27 game resources and public use of fish and wildlife in the Hatcher Pass  
28 Public Use Area consistent with the purposes of AS 41.23.100.

29 (c) After adequate public hearings and in consultation with the