

ALASKA LEGISLATURE COMMITTEE FILES 1995-1996 8672

8954 SENATE RESOURCES

**Preliminary Finding and Determination to Sell Royalty Oil
to
Tesoro Alaska Petroleum Company**

I. Summary

The commissioner of the Department of Natural Resources, on behalf of the State of Alaska, proposes a three-year sale of approximately 40,000 barrels per day of the state's royalty oil to Tesoro Alaska Petroleum Company (Tesoro). Tesoro operates a refinery in Nikiski on the Kenai Peninsula and is one of the state's largest retailers of petroleum products. This document provides the preliminary finding and recommendation required under AS 38.05.183 for the proposed sale.

The public is invited to comment on the proposed sale. Comments must be received in writing by April 21, 1995 at the address below:

Director
Division of Oil and Gas
3601 C Street, Suite 1380
Anchorage, Alaska 99503-5948

The Alaska Royalty Oil and Gas Development Advisory Board (Royalty Board) will be discussing the proposed sale at a meeting scheduled for 11:00 a.m., April 6, 1995, at the hearing room of the Legislative Affairs Agency, 716 West Fourth Avenue, Suite 200, Anchorage, Alaska. The public is invited to attend. If possible, this meeting will be teleconferenced to Legislative Affairs Agency offices throughout the state (contact Kevin Banks at 907-762-2589 for more information):

Fairbanks Office
119 North Cushman
Fairbanks, Alaska 99701-2879

Juneau Office
Room 314
Goldstein Building
130 Seward Street
Juneau, Alaska 99801-2197

Kenai Peninsula Office
34924 Kalifonsky Beach Road, Suite A
Soldotna, Alaska 99669-9728

Valdez Office
Room 13
State Office Building
Valdez, Alaska 99686-1969

This finding is preliminary; final conclusions have not been reached. Comments received from the public and recommendations made by the Royalty Board will be used to determine whether the proposed contract is in the state's best interest and, if so, whether changes are needed in the proposed contract. If the commissioner determines that the proposed sale is in the state's best interests, contract terms will be revised, if necessary and a final finding will be prepared that will include an evaluation of any changes to the contract. The final finding, a copy of the signed contract, and the recommendation from the Royalty Board will be forwarded to the Legislature. The sale will not take effect unless it is approved by the Legislature.

II. Background

The State of Alaska receives a royalty of approximately 12.5 percent of the oil and gas produced from the Prudhoe Bay Unit. The state may take its share of oil production "in-kind or "in-value." When the state takes its royalty share of the oil in-kind (RIK), it assumes ownership of the oil, and the commissioner disposes oil through either competitive or non-competitive sales. When oil is taken in-value (RIV), the state's lessees, who produce the oil, market the state's share along with the lessees' own share. The lessees are obligated to pay the state the value of its royalty share.

On September 9, 1995 the state agreed to sell to Tesoro a volume of royalty oil equal to 27.2 percent of the daily royalty oil production of the Prudhoe Bay Unit. Deliveries under this contract began on January 1, 1995 and will continue through December 31, 1995. By statute this contract may not be renewed without a specific recommendation of the Royalty Board to the legislature and the legislature's subsequent approval. Last December, Tesoro initiated negotiations with the department for a new royalty oil supply contract for which would begin deliveries when this current contract expires.

This finding and determination and the attached copy of the sales contract represent the result of those negotiations. Much of what was written by way of background to the 1995 contract still applies today. Where appropriate, this finding will reference the "Final Finding and Determination to Sell Royalty Oil to Tesoro Alaska Petroleum Company" dated September 9, 1994. In the following section of this finding, the description of the contract focuses on how this new contract differs from the current one-year contract.

III. Discussions of Contract Provisions

Quantity Tesoro will purchase 30 percent, denoted as the "maximum quantity," of the state's royalty share (estimated at 40,500 barrels per day in 1996) from the Prudhoe Bay Unit (PBU). This increases the percentage of PBU royalty oil nominated from the 27.2 percent in the current contract, but, because of the decline in production forecasted for the PBU in 1996, the actual volume taken by Tesoro will not significantly increase. Tesoro also has the right at any time to decrease the maximum quantity of RIK as long as it timely notifies the state, however, Tesoro may not ever increase the maximum quantity.

Because of the terms of the Prudhoe Bay Unit Agreement in force among the producers and the state, the state must combine royalty production from both the Prudhoe Bay field and royalty crude processed currently through the Lisburne Production Center. The 135,000 barrels per day of royalty crude oil forecast for 1996 (Table 1) is the sum of the royalty offtake from Prudhoe Bay, Lisburne, Pt. McIntyre, West Beach, North Prudhoe Bay State, and the Niakuk/Alapah oil fields.¹ Table 1 illustrates the future royalty crude oil supply from the Prudhoe Bay Unit. The

¹ The state reserves the right to supply 100 percent of Tesoro's volume from just the Prudhoe Bay Unit Initial Participating Areas (IPA) rather than include the production processed through the Lisburne Production Center. This would imply that Tesoro would receive approximately 35.2 percent of the Prudhoe Bay IPA production. Tesoro will be notified 90 days in advance if the commissioner, in his sole discretion, chooses to exercise this right.

state is obligated to supply 35,000 barrels per day to Mapco through 2003. If the proposed Tesoro contract is awarded, the state will still keep 44 percent of its royalty share as RIV in 1996 (declining to about 40 percent by 1998) and maintain the flexibility to nominate more RIK as circumstances warrant, e.g., other in-state refinery requirements, RIK sales to Lower-48 purchasers, or a change in the federal regulations that restrict the export of ANS.

Table 1: North Slope Royalty Crude Oil Production Forecast
(MBOD)

	1995	1996	1997	1998	1999	2000	2001	2002	2003
Prudhoe Bay Unit	143	135	127	116	106	95	85	75	69
Kuparuk River Unit	39	38	38	38	37	37	35	32	29
Mine Point	5	7	7	8	7	8	7	6	6
Endcott	13	12	10	9	8	7	6	5	4
Total Royalty:	200	192	182	171	159	147	133	118	108
minus RIV Req'd for Field Cost Allowance									
Prudhoe Bay Unit	14	14	13	12	11	10	9	8	7
Kuparuk River Unit	3	3	3	3	3	3	3	3	2
Mine Point	0	0	0	0	0	0	0	0	0
Endcott	1	1	1	1	1	1	0	0	0
	18	18	17	15	14	13	12	10	10
minus Current RIK Contracts									
Mapco	35	35	35	35	35	35	35	35	35
Tesoro	39	--	--	--	--	--	--	--	--
Total Current RIK Obligation	74	35	35	35	35	35	35	35	35
ANS Royalty Oil Available to Supply New RIK Contracts:									
	108	140	130	121	110	99	86	73	53
Less Tesoro @ 30.0%	--	41	38	35	--	--	--	--	--
ANS Royalty Oil Remaining:	108	99	92	86	110	99	86	73	53

Tesoro may elect to purchase less than the maximum quantity, subject to certain notice requirements. If Tesoro decides to take less than the maximum quantity, it will be subject to a per-barrel reservation fee on each barrel less than the maximum quantity. The per-barrel reservation fee is 0.75 percent of the full purchase price.

Price The proposed contract requires Tesoro to pay the same West Coast royalty value received by the state based on the royalty production lifted in the PBU by Exxon. This price meets the statutory requirement that the value of RIK is at least equal to or exceeds RIV. It also differs from the current contract which uses a price based on the volume-weighted average West Coast royalty value reported by the largest PBU producers, ARCO, BP, and Exxon. The proposed contract price is compared with the current contract and the value of RIV in Table 2.²

² If the commissioner elects to sell Tesoro RIK from the Prudhoe Bay IPA, then the price will be calculated on the basis of Exxon's Royalty Value from just the IPA. See Table 2.

Table 2: RIK Price Calculations--January 1995

Exxon's Royalty Value				
Proposed Tesoro Contract Price				
<i>Exxon Production at</i>	<i>Gross Volume</i>	<i>PS-1 Value</i>	<i>Product of Volume Times PS-1 Value</i>	<i>Average Price</i>
Lisburne Production Center	1,762,900.13	\$11.05000	\$19,408,046.44	
Prudhoe Bay IPA	8,807,215.20	\$11.11000	\$97,848,160.87	
Total	8,818,503.20		\$97,972,893.27	
Volume Weighted Average Value:				\$11.09999

Volume Weighted Average Price--ARCO, BP (West Coast), and Exxon

Tesoro's Current Contract				
<i>Producer</i>	<i>Gross Volume</i>	<i>PS-1 Value</i>	<i>Product of Volume Times PS-1 Value</i>	<i>Average Price</i>
Lisburne Production Center				
ARCO	1,459,347.74	\$11.58000	\$16,899,246.83	
BP Exploration	2,022,440.13	\$10.51000	\$21,255,845.77	
Exxon	1,762,900.13	\$11.05000	\$19,480,046.44	
Prudhoe Bay IPA				
ARCO	8,807,752.40	\$11.61000	\$102,258,005.36	
BP Exploration	12,721,772.40	\$10.61000	\$134,978,005.16	
Exxon	8,807,215.20	\$11.11000	\$97,848,160.87	
Totals	35,581,428.00		\$392,719,310.43	
Volume-Weighted Average Value:				\$11.03720

Volume Weighted Average Price--All Producers

Value of RIV				
<i>Producer</i>	<i>Gross Volume</i>	<i>PS-1 Value</i>	<i>Product of Volume Times PS-1 Value</i>	<i>Average Price</i>
Lisburne Production Center				
ARCO	1,459,347.74	\$11.58000	\$16,899,246.83	
BP Exploration	2,022,440.13	\$10.51000	\$21,255,845.77	
Exxon	1,762,900.13	\$11.05000	\$19,480,046.44	
Prudhoe Bay IPA				
Amerada Hess	121,673.40	\$11.27400	\$1,371,745.91	
ARCO	8,807,752.40	\$11.61000	\$102,258,005.36	
BP Exploration	12,721,772.40	\$10.61000	\$134,978,005.16	
Chevron*	195,833.10	\$11.11000	\$2,175,705.74	
Exxon	8,807,215.20	\$11.11000	\$97,848,160.87	
Louisiana Land and	8,993.30	\$11.61000	\$104,412.21	
Marathon†	11,288.00	\$11.61000	\$131,063.68	
Mobil	453,693.20	\$10.61000	\$4,813,684.85	
Phillips	449,246.20	\$10.61000	\$4,766,502.18	
Shell	31,141.00	\$11.61000	\$361,547.01	
Tesoro†	124,049.00	\$10.61000	\$1,316,159.89	
Totals	36,977,345.20		\$407,760,121.91	
Volume Weighted Average Value:				\$11.02730

Note: Only BP's royalty value, calculated from the volume-weighted average of the prices reported for each market may be made public. The per barrel price listed here is (a) BP's actual West Coast Value. Assume that BP's West Coast value is the volume-weighted average plus \$0.30.

Amerada Hess currently has no prospective formulaic treatment of its royalty value.

*Chevron uses a simple average of ARCO, BP, and Exxon.

†These producers use ARCO's royalty value formula.

These producers use BP's royalty value formula for West Coast destinations.

The Exxon West Coast royalty value further simplifies the calculation of the price for Tesoro's RIK purchase. In the calculation of royalty value in the current contract the West Coast price reported by BP must be held confidential by mutual agreement with BP and the state. Since this information is proprietary, a mechanism was devised so that this value is first estimated with a provision to later revise it when the data are no longer restricted. The BP royalty value is subject to a six-monthly true-up of its actual marine transportation deduction which is also subject to review and audit by the state. This means that an RIK price value based on a BP royalty value would be subject to subsequent re-adjustments that could occur over several years.

Tesoro opted for a RIK price based on the Exxon West Coast royalty value to avoid this uncertainty. The Exxon formula is strictly a West Coast price and no Gulf Coast pricing enters into its rather straightforward calculation of the PBU royalty value. Confidentiality provisions also apply in the intermediate calculations of the Exxon royalty value, but the value is determined by a formula that can be readily calculated independently.

The use of the Exxon royalty value explicitly recognizes that the sale of RIV to Tesoro is a West Coast placement.

Previous RIK Findings have described the so-called "displacement effect" and "competitive effect" that may occur with a state sale of RIK. The "displacement effect" theorizes that any RIK sale by the state replaces ANS sales by North Slope producers to refineries on the West Coast (including Alaska). Although the total volume of ANS sold on the West Coast is the same without a RIK sale, the state's RIK volume displaces the volume that North Slope producers may sell on the West Coast. The producers must then show in their royalty reports that a larger percentage of their oil is placed on the U.S. Gulf Coast with higher transportation costs and a lower netback value. The result is a calculation of the lessees' average royalty value for RIV that reflects a new ratio of West Coast-to-Gulf Coast sales. This proportion of deliveries to the West Coast and Gulf Coast is also reflected in the netback value reported for severance tax purposes. In this way, selling RIK may decrease the states revenues from both RIV royalties and severance taxes.

The "competitive effect" relies on an assumption that the price of ANS on the West Coast as reported in the producers' royalty value is higher than the price that would result from a purely competitive market. The ANS spot market is dominated by one North Slope producer who may be able to influence the price by its decision to transport oil to the Gulf Coast. When the state was selling most of its royalty oil in-kind (nearly 210,000 barrels per day in 1986), there was concern that the state, as another seller in the market, could contribute to a lower West Coast price.

The "displacement effect" will diminish insofar as the proportion of total ANS sold on the Gulf Coast will continue to decline over the next few years. As above, the effect appears both in RIV royalty value and severance taxes. Now at less than 15 percent of total ANS production, Gulf Coast deliveries may cease in 1996.¹ The "competitive effect" is minimized insofar as the

¹ Alaska Department of Revenue, 1994, Fall 1994 Revenue Sources Book, Anchorage, Alaska, p.16. In 1990, ANS movements to destinations in the Eastern U.S. represented 22 percent of total ANS production. Personal Communication with Roger Marks, Alaska Department of Revenue.

volumes of royalty crude considered for nomination under this proposed contract are so small (less than 3 percent) when compared to the total ANS production. Since the state may benefit from the continued operation of the Tesoro facility and, since the consumers of Alaska, may be better off with a more competitive refining industry, these benefits will likely outweigh the impact of these effects.

In any case, pricing Tesoro's RIK at the Exxon royalty value should sufficiently compensate the state for these impacts.

In-state Processing In the current contract and in the proposed contract, Tesoro has agreed that 80 percent of the RIK it will purchase will be processed in the Nikiski refinery. This clause is designed to prevent Tesoro from re-selling RIK to a third party and possibly profiting from a favorable price charged to Tesoro by the state. If such a benefit is available because the price charged to Tesoro for its RIK based on Exxon's royalty value is less than Tesoro would have to pay for oil from another source, then this benefit should be passed on to the in-state consumers of Tesoro's products.

Purchase Price Reopener According to the ANS Royalty Settlement Agreement with Exxon, the state and Exxon have reopener rights in which a new pricing formula may be negotiated, if necessary, or arbitrated by an independent Decision Panel. If this process leads to a price that is not to Tesoro's liking, then Tesoro may unilaterally terminate its contract with the State, subject to specified notice requirements. Tesoro may not reopen the contract with the state over price should the state and Exxon agree to a different royalty value methodology. Tesoro also agrees that it will not intervene in any way in the negotiations or arbitration of a reopener between the state and Exxon.

Tesoro or the state may reopen the proposed RIK contract if the ban on ANS exports is lifted. This would also be cause for the state to reopen the ANS Royalty Settlement Agreement with Exxon. Though Tesoro may not intervene between the state and Exxon, the RIK contract reopener provides a mechanism for the state and Tesoro to develop a new price term through prompt and good faith negotiations between each other. If the state and Tesoro fail to agree on a new price then, by notice to the other, either the state or Tesoro may terminate the contract.

Payments Like the current contract, the proposed contract has specified the timing and due dates associated with the Initial Billing, Initial Adjustment, and Subsequent Adjustments. The timing of these invoice and due dates has been shortened somewhat to reduce the state's exposure to default risk as described below.

Unlike the current contract, the state has agreed that any subsequent adjustment rendered more than six years after the date of delivery will bear interest for only six years from the due date of the initial billing. However, this six-year interest limitation does not apply to adjustments that result from regulatory decisions, reopeners, court proceedings, or audits of Exxon's royalty reports that are commenced during the six year period.

Termination Notice The state requires at least a six-month plus ten-day notice of early termination of the contract or any reduction in the maximum quantity taken by Tesoro. This timing is

based on the ANS Royalty Settlement Agreements and the Prudhoe Bay Unit Agreement. Under the original Prudhoe Bay Unit Agreement, the state has a right to "denominate" RIK deliveries with a six month notice. Under each of the royalty settlement agreements, the timing requirement was reduced to 90 days. However, the settlements also provide that the lessees may claim *force majeure* if transportation is unavailable to transport any additional RIV for the first 90 days that the RIK has reverted back to the producers. During this up-to-90-day period that lessees could claim *force majeure*, the state must take full possession of its RIK and find customers to buy it and tankers to transport it. For this reason Tesoro is obliged to provide sufficient notice to terminate the contract or reduce its maximum quantity.

Security Supplies of RIK under the current contract are secured by an irrevocable letter of credit equal to 60 days worth of oil deliveries. The proposed contract will require a letter of credit equivalent to the value of 75 days worth of RIK to secure the state in the event that Tesoro, for any reason, fails to pay its bills or to take delivery. The increase in the value of the letter of credit is required to protect the state from its exposure to "denomination risk."⁴ As described above, in addition to the risk assumed by the state should Tesoro fail to pay, the state also runs a risk of losing full value of its RIK when it "denominates" the RIK volumes as RIV. This 90 day denomination notice period under the ANS Royalty Settlement Agreements is effectively increased to 180 days should a lessee declare *force majeure* in obtaining sufficient marine transportation to haul the additional RIV volume. During this period, the state either has to organize a new RIK purchaser or negotiate with the lessees to take back the RIK. In either event, the state is in a distress sale situation and the letter of credit instrument is intended to protect the state from this event.

The contract includes language that will allow the 75 day letter of credit to be reduced to 60 days if arrangements can be made to ameliorate the potential of a declaration of *force majeure* by any of the lessees. Since Tesoro will already have marine transportation under charter to move its ANS supply from Valdez to Nikiski, these vessels could be offered to the lessees as an indication that the supply of tankers in the Valdez trade is sufficient. A declaration of *force majeure* by the lessees in the event of a default of the proposed contract by Tesoro may be more difficult to demonstrate with Tesoro's tankers idled and waiting for new customers.

Local Hire Like current contract, the proposed contract requires that "Tesoro agrees to employ Alaska residents and Alaska companies to the extent they are available, willing and qualified for all work performed in Alaska in connection with the Agreement." An Alaska resident is defined as one who has lived in Alaska for at least a year at the time of employment. If this provision is found to be unconstitutional, then Tesoro agrees to hire Alaska residents to the extent that the constitution will allow.

⁴ Denomination risk and default risk were fully described in the Final Finding and Determination to Sell Royalty Oil to Petro Star Valdez Refinery Joint Venture, March 4, 1992.

IV. In-State Benefit Analysis

The commissioner must consider, among other things, the effects of the sale of RIK on the economy of the state and the projected benefits of refining or processing the RIK in the state (under AS 38.05.183). In short, the terms of the proposed RIK sale should 1) assure that the state receives at least as much value for the RIK as it would have received for RIV and 2) encourage in-state processing of RIK together with the attendant economic and social benefits. These benefits are measured in terms of jobs, taxes, and economic competition among the state's refineries for their products. The conclusions reached in the best interest finding that accompanied the current one-year contract are still applicable. Some of the information has been updated here.

In the following discussion of in-state benefits, there is one caveat: the degree to which these effects may be attributable to the sale depends on how important the sale is to the continued operation and expansion of Tesoro's Nikiski refinery. The state can offer a somewhat unique crude oil supply contract whose terms might not be available from any other seller. Presumably, Tesoro would continue their operations without this contract, but there are direct benefits to Tesoro that may be derived in their dealings with the state. To the extent that these benefits are translated into jobs, taxes, and more vigorous refined-products competition, the state will also benefit. By the same token, the degree to which the sale may contribute to the ongoing operation of the refinery also must be taken into account when describing the environmental effects of the refinery's operation.

Economic Impacts Tesoro reports that it currently employs 189 people in the Kenai Peninsula Borough.⁵ This translates as one-in-ten of the manufacturing jobs in the Borough (competing largely with fish processing and timber). Tesoro is, according to the Alaska Department of Labor, number six of the top-ten private sector employers in the Borough. For the most part these are also high-wage jobs with a payroll in the Borough of over \$11 million per year.⁶

Tesoro's statewide marketing and distribution of petroleum products also contributes to the diversity of the Alaskan economy. Tesoro employs 552 people statewide with a payroll of over \$20 million.

Social Impacts Tesoro is one of the largest property taxpayers in the Kenai Peninsula Borough. It contributed \$1.3 million in ad valorem taxes in 1994 and the state received another \$7.6 million in various income, payroll, and excise taxes. No incremental effects on land use, impacts on the local social infrastructure, i.e., schools, public safety, roads, and other government services, are anticipated as a result of this sale.

Consumption Benefits In 1993, the Corps of Engineers reported "coastwise receipts" of 626,000 tons of petroleum products (185 million gallons). These are domestic shipments

⁵ Tesoro Alaska Petroleum Company, March 14, 1995. Letter to Kevin Banks from Bernie Smith.

⁶ Scott Sellemeyer, February 1995. "A Diversified Economy--The Kenai Peninsula" Alaska Economic Trends, Alaska Department of Labor, pp. 1-7.

originating outside of Alaska. Furthermore, another 152,000 tons (45 million gallons) of petroleum products were imported to Alaska from Canada and elsewhere. Together these volumes amount to about 15 percent of the state's consumption. Presumably, some of these volumes can be displaced by a growth in local production of refined petroleum products and their may be a benefit to Alaskan consumers if competition from local supplies contribute to lower prices for the consumer.⁷

Tesoro estimates that its throughput in 1995 will 50,000 barrels per day. It produces a wide-range of products and contributes to a 30 percent share of the local market for diesel fuel, jet fuels, gasoline, and is a major supplier of propane and butane.

Environmental Impacts Tankers have operated in the Cook Inlet for over 50 years and, for the most part have operated safely.⁸ The bulk of tanker traffic in the Cook Inlet carries ANS from Valdez to the Nikiski refinery, petroleum products to Cook Inlet ports, or refined oil and gas to Pacific Rim markets. The sale of North Slope RIK will not materially affect the reliance of the Nikiski refinery on tanker transportation. The refinery's main source of crude oil comes from the North Slope via Valdez and the Cook Inlet, but Cook Inlet crude oil supplies will continue to contribute to 10 percent of Tesoro's requirements. The decision to sell RIK to Tesoro does not authorize its transportation. Federal and state permits will be required.

The Alaska Department of Environmental Conservation (ADEC) requires that the oil industry develop oil spill contingency plans and monitors the implementation of those plans. In 1990, the legislature enacted additional laws to reduce the likelihood of future spills in Alaska and to improve the capability to respond to those that occur. The federal Oil Pollution Act of 1990 created Regional Citizens Advisory Councils to involve local citizens in the process of preparing, adopting, and revising oil spill contingency plans and the regulation of tanker and terminal operations.

The Tesoro refinery now operates under a ADEC Air Quality Control permit to operate (PTO No. 9023-AA008) and under this permit Tesoro must comply with a variety of conditions to control and monitor emissions both from the burning of fuel and the refinery's process equipment. In January 1994, the state issued Tesoro a Prevention of Significant Deterioration air permit (PSD) to allow the refinery to operate some equipment for longer hours. Tesoro then submitted proposed amendments to the PSD permit in February related to the vacuum unit project. Tesoro has also agreed to several conditions that will result in air quality monitoring and improvements at the refinery including an air pollution compliance audit and improvements at the refinery that are recommended in the audit. Most significantly, Tesoro has agreed to reduce emissions of volatile organic compounds from the refinery by 150 tons per year by 1996.

⁷ U.S. Department of the Army, Corps of Engineers. November 1994. Waterborne Commerce of the United States, Calendar Year 1993, Part 4--Waterways and Harbors Pacific Coast, Alaska, and Hawaii. WRXC-WCUS-93-4. New Orleans, Louisiana and Alaska Department of Natural Resources. March 1995. Historical and Projected Oil and Gas Consumption. Anchorage, Alaska.

⁸ Alaska Department of Natural Resources. October 1993. Final Finding of the Director Regarding Oil and Gas Lease Sale 78, Cook Inlet. Anchorage, Alaska.

Under compliance orders with both ADEC and the U.S. Environmental Protection Agency, Tesoro is undertaking a long term clean-up of historical groundwater and soil contamination at the refinery.

V. Findings and Determination

The commissioner must conclude that in any disposition of RIK, first, under AS 38.05.183(a) the best interests of the state will be served by a non-competitive sale, and second, under AS 38.05.183(e), the non-competitive sale of RIK will be awarded to the prospective buyer whose proposal offers maximum benefits to the citizens of the state. The commissioner is specifically directed to consider the cash value offered for the RIK, the economic effects of the sale, the benefits of in-state processing of the RIK, and the ability of the prospective buyer to supply the state with refined products. In addition to these considerations, commissioner is obligated to analyze the sale using the same criteria that are to be considered by the Royalty Board in its review of the sale. These criteria are listed in AS 38.06.070 and include: the revenue needs and fiscal condition of the state; the local and regional requirements for petroleum products; the desirability of localized capital investment, increased payroll, and secondary development effects; the social impacts of the sale; the additional costs to the state and local governments caused by the development related to the transaction; the local and regional labor market; environmental effects; and the impact on existing private commercial enterprises and investment patterns.

Competitive Bidding is Waived As commissioner of the Department of Natural Resources, I have determined in accordance with AS 38.05.183(a) and 11 AAC 03.030 that the best interest of the state may be achieved in this sale without competitive bidding. The State is currently selling 37 percent of its North Slope royalty oil under the Mapco contract and Tesoro's one-year contract. There are other refineries that have requested RIK from the State. At the time of the publication of this finding, Petro Star Inc. and Petro Star Valdez Refinery together have requested 62,000 barrels per day and Tosco Refining Co. an independent West Coast refinery, has indicated an interest in a one-year supply contract. So, while competition for RIK may be said to exist, the state will retain enough royalty oil to meet the needs of these other RIK purchasers even with the proposed contract.

By this Preliminary Finding and Determination, the Alaska Royalty Oil and Gas Development Board has been notified that competitive bidding is waived as required under 11 AAC 03.040.

Contract Prices are Acceptable Under 11 AAC 03.010(b), I find that in establishing the price of this royalty oil contract, the department has obtained a price applicable to the oil that is being sold that is at least equal to, and probably will exceed, the volume-weighted average of the royalty value for all the RIV oil lifted in the Prudhoe Bay Unit.

The Sale is in the Best Interest of the State In accordance with AS 38.05.183(a), (c), and (e), I find that taking RIK and selling by non-competitive bid to Tesoro for use at the Nikiski refinery is in the best interests of the state. Furthermore, the sale as described above will maximize benefits to the citizens of Alaska. I find the following:

1. The state is now highly dependent on oil revenue and will continue to depend on oil

revenues in the future. The price term of the sale protects the state's interest by ensuring that revenues from this sale will likely exceed the in-value alternative.

2. There are local and regional economic benefits to be derived from the continued operation and expansion of the Nikiski refinery. While the proposed contract may increase the financial viability of the refinery, the extent to which these benefits can be ascribed to the proposed contract cannot be predicted.
3. As described above, Tesoro is an important competitor in the market of refined petroleum products. Vigorous competition in fuel sales in the state may provide for lower consumer product prices.
4. Tesoro provides high-wage jobs to 189 people in the Kenai Peninsula Borough and another 363 people statewide. It is one of the largest private sector employers in a region where unemployment rates often exceed state averages. Both the Kenai Peninsula Borough and the state receive revenues from Tesoro as property taxes and corporate income and excise taxes.
5. Any environmental effects will result from the continued operation of the Nikiski refinery, not from the proposed sale. The sale itself will have no incremental effect. Waterborne movements of ANS through the Cook Inlet will occur with or without the sale (though waterborne movements of residual oil will be reduced with the completion of the refinery expansion). Improvements at the refinery will operate only under air quality permits issued by the ADEC which has a process for assessing the effects of the projects.
6. To the extent that the sale helps provide a consistent and economic supply of crude oil to the refinery, the sale will contribute to ongoing economic stability in the Kenai Peninsula region and maintain a healthy competitor in the in-state market for refined petroleum products.

Criteria Weights According to 11 AAC 03.060(b), "In considering the criteria described in AS 38.05.183(e), the Commissioner will state which criteria apply to the proposed disposition and discuss the weight given to the applicable criteria in determining the maximum benefit to the state...."

In making this finding, the department first determined that the state would not lower the total oil revenue, including royalties and severance taxes, due the state by making a disposal to Tesoro. The department next looked at whether the disposal would contribute to robust competition in the in-state refining industry and the extent to which that would lead to lower product prices. Finally, the department examined the criteria to determine that the state would not create any unacceptable environmental or social impacts.

Royalty Board This finding and determination will be submitted to the Royalty Board in compliance with AS 38.05.183(e) which requires that commissioner may not waive competitive bidding in a sale of RIK unless prior written notice has been given to the board.

Legislative Approval According to AS 38.06.055(c) the commissioner may not renew the current one-year contract with Tesoro without the prior approval of the legislature. By statute, The Royalty Board must review the sale and submit a written recommendation to accompany a resolution introduced in the legislature to approve the sale.

Conclusion Under the terms of the proposed contract, the state would receive a fair royalty value for the royalty oil, while fostering in-state processing, potentially lowering product prices, and providing attendant benefits. The satisfactory price terms, coupled with the associated economic benefits for Alaska citizens, supports the decision to waive competitive bidding.

The foregoing facts and analysis support the finding that this disposal is in the best interest of the state and that it maximizes the benefits to Alaska citizens.

Appendix A: AS 38.05.183(e), AS 38.06.055, and AS 38.06.070(a)

AS 38.05.183(e). When a sale, exchange or other disposal of oil or gas taken in kind by the state as its royalty share, or a sale, exchange or other disposal in whole or in part of a right to receive future royalty oil or gas, under a state lease under this chapter is made other than by competitive bid, the sale, exchange or other disposal shall be awarded by the commissioner to the prospective buyer whose proposal offers the maximum benefits to citizens of the state. The commissioner shall consider:

- (1) the cash value offered;
- (2) the projected effects of the sale, exchange or other disposal on the economy of the state;
- (3) the projected benefits of refining or processing the oil or gas in the state;
- (4) the ability of the prospective buyer to provide refined products or by-products for distribution and sale in the state with price or supply benefits to the citizens of the state; and
- (5) the criteria listed in AS 38.06.070(a).

AS 38.06.055. Legislative approval. (a) In addition to the recommendation by the board required under AS 38.06.050, the commissioner of natural resources may not enter into a sale, exchange, or other disposition of oil or gas or of the rights or waiver of the rights to receive future production of royalty oil or gas under AS 38.05.183 without the prior approval of the legislature. The legislature may approve a sale, exchange, or other disposition of oil or gas or of the rights or of a waiver of the rights to receive future production of royalty oil or gas only by enacting legislation. (b) The provisions of (a) of this section do not apply to

- (1) the sale, exchange, or other disposition of oil or gas for one year or less if the sale, exchange, or other disposition is entered into to relieve storage or market conditions;
- (2) contracts for the sale of state-owned royalty gas or oil that specify the sale and delivery of not more than
 - (A) 400 barrels of crude oil per day;
 - (B) 460 barrels of natural gas liquids per day; and
 - (C) 2,400 Mcf of natural gas per day.

(c) A sale, exchange, or other disposition of oil or gas under (b)(1) of this section may not be continued after the end of one year or renewed with the same party without the prior approval of the legislature under (a) of this section. This subsection does not apply to a sequential competitively bid sale of oil or gas made with the same party under (b)(1) of this section.

AS 38.06.070. Criteria. (a) In the exercise of its powers under AS 38.06.040(a) and 38.06.050 the board shall consider

- (1) the revenue needs and projected fiscal condition of the state;
- (2) the existence and extent of present and projected local and regional needs for oil and gas products and by-products, the effect of state or federal commodity allocation requirements which might be applicable to those products and by-products, and the priorities among competing needs;
- (3) the desirability of localized capital investment, increased payroll, secondary development and other possible effects of the sale, exchange or other disposition of oil and gas or both;
- (4) the projected social impacts of the transaction;
- (5) the projected additional costs and responsibilities which could be imposed on the state and affected political subdivisions by development related to the transaction;
- (6) the existence of specific local or regional labor or consumption markets or both which should be met by the transaction;
- (7) the projected positive and negative environmental effects related to the transaction;
and
- (8) the projected effects of the proposed transaction upon existing private commercial enterprise and patterns of investments.

AGREEMENT FOR THE SALE AND PURCHASE

OF

STATE ROYALTY OIL

to

TESORO ALASKA PETROLEUM COMPANY

THE STATE OF ALASKA
Department of Natural Resources

Dated as of _____, 1995

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1 1.7 "Lessee" means any person owning a working interest in any of the Leases.

2 1.8 "Month" means the period beginning at 12:01 a.m., Alaska Standard Time,
3 on the first Day of the calendar Month and ending at the same time on the first Day of the next
4 succeeding calendar Month.

5 1.9 "Oil" means the same as the word "oil" under the Leases and the Unit
6 Agreement, except where inconsistent with Articles 2.1(b) and 2.2 of this Agreement, in which case
7 Articles 2.1(b) and 2.2 shall control. For purposes of this Agreement, "Oil" shall also include natural
8 gas liquids ("NGLs").

9 1.10 "Point of Delivery" shall have the meaning set out in Article 2.6.

10 1.11 "Royalty Oil" means the Oil which the State may take in-kind (in amount) as
11 its royalty under the Leases whether or not the State has elected to take or is taking that royalty in-
12 kind except as provided in Article 2.1(b).

13 1.12 "Royalty Settlement Agreement" means the written royalty settlement
14 agreements between the State and Exxon Corporation ("Exxon") dated December 31, 1991.

15 1.13 "Royalty Value" means the royalty value of all liquid hydrocarbons from the
16 Prudhoe Bay Unit or the Prudhoe Bay Unit initial Participating Areas as provided in Article 2.1(b)
17 calculated in accordance with the Royalty Settlement Agreement for West Coast placements as
18 explained in Article 2.3.

19 1.14 "TAPS" means the Trans Alaska Pipeline System.

20 1.15 "Unit Agreement" means the Prudhoe Bay Unit Agreement effective April 1,
21 1977, by and between the Lessees and the State, as amended from time to time.

1 If the State underlifts or stores Royalty Oil at the Prudhoe Bay Unit, or if the State
2 recovers underlifted or stored Royalty Oil, the quantity of Oil tendered under this Agreement shall be
3 calculated as if no Royalty Oil were underlifted or stored or recovered.

4 2.1(b) Initial Participating Areas Quantity. The State may choose, in its sole
5 discretion, to sell to Tesoro, and Tesoro agrees to buy from the state, oil that is produced solely from
6 the initial Participating Areas of the Prudhoe Bay Unit, as defined in the Unit Agreement, rather than
7 from all participating areas and Leases within the Prudhoe Bay Unit. If the State so elects, the
8 Maximum Quantity of Oil shall equal 35.2 percent of the Royalty Oil produced from the initial
9 Participating Areas in a Day. If the State so elects, the terms Daily Royalty Oil, Oil, and Royalty Oil
10 shall have the same meaning set forth in Article I as limited in this article.

11 2.2 Quality. The Oil sold shall be the same quality as the Royalty Oil delivered
12 by the Lessees to the State at the Point of Delivery from the Prudhoe Bay Unit Area. The quality of
13 the Oil sold may vary from time to time. The State disclaims, and Tesoro waives, any guarantee,
14 representation, or warranty, either expressed or implied, of merchantability, fitness for use, or
15 suitability for any particular use or purpose, or otherwise, of any of the Oil delivered under this
16 Agreement or as to any specific, average, or overall quality or characteristic of Oil to be sold or
17 tendered under this Agreement. Tesoro expressly waives any claim that any liquid hydrocarbons
18 made available to the State by the Lessees, including such substances as crude oil, condensate, natural
19 gas liquids, or return oil from the Prudhoe Bay Unit Crude Oil Topping Plant, that may be blended
20 with crude by the Lessees before the Point of Delivery and tendered as a common stream by the
21 Lessees to the State as Royalty Oil are not Oil, for purposes of this Agreement.

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ARTICLE II

SALE OF ROYALTY OIL

2.1 Quantity.

2.1(a) Prudhoe Bay Unit Quantity. The State agrees to sell to Tesoro and Tesoro agrees to buy from the State that amount of Oil equal to 30.0 percent of the Daily Royalty Oil (Maximum Quantity). At any time upon six months and ten days written notice, Tesoro may: (1) decrease the Maximum Quantity; or (2) terminate this Agreement, in which case Tesoro shall not make any payments as described in Article 2.11

Subject to the limitations in this article, Tesoro may temporarily decrease or increase the amount of Oil to be tendered, but not the Maximum Quantity provided in this article. To increase or decrease the amount of Oil to be tendered, Tesoro must give the State at least six Months and ten Days written notice. If, however, the increase or decrease is less than ten percent of Tesoro's then current in-kind nomination, Tesoro must give at least one hundred Days written notice. In addition, the new tendering will take effect on the first Day of the Month after the applicable notice period expires.

The volume of Daily Royalty Oil available to the State will vary and may be interrupted from time to time, and depends upon a variety of factors including the rate of production from the Leases. The State disclaims and Tesoro waives any representation, covenant or warranty, expressed or implied, that a specific quantity or the total or daily, monthly, average, or aggregate volume of Royalty Oil will be sold or tendered under this Agreement. The State warrants that it has good title to the Oil tendered under this Agreement.

1 2.3 Price of the Royalty Oil. The price each Month for Oil purchased under this
2 Agreement shall be the Royalty Value for that Month of Oil delivered to the West Coast by Exxon
3 from the Prudhoe Bay Unit production. The Royalty Value shall be determined according to the
4 Royalty Value calculation stated in Article 3.2 c) of its Royalty Settlement Agreement, except that the
5 Average Valdez Netback shall be the West Coast Valdez Netback. Exhibit A is an illustrative
6 calculation of the price if Tesoro had purchased Oil during the Month of January, 1995.

7 If any applicable law of the United States of America or any rule or regulation
8 promulgated by a federal agency will, in the sole judgment of the State, operate to prohibit or prevent
9 the State from receiving the full amount due under the above provision, Tesoro's obligation to pay the
10 amount of the purchase price in excess of the amount permitted will be suspended or adjusted to the
11 minimum extent required for the State to comply with that law, rule or regulation.

12 2.4 Reopeners.

13 2.4(a) Export Ban Reopener. Neither Tesoro nor the State shall have the
14 right to reopen this Agreement, unless the export ban on Alaska North Slope crude now in effect is
15 lifted. Anytime after the export ban is lifted, either Tesoro or the State may reopen this Agreement
16 for purchase price only, by giving the other party one month's prior written notice. Upon issuance
17 and receipt of a notice to reopen, Tesoro and the State will promptly commence good faith
18 negotiations in an attempt to establish a new purchase price. If Tesoro and the State cannot agree on a
19 price within three months after the written notice to reopen, either Tesoro or the State may terminate
20 this Agreement upon nine months written notice to the other. The purchase price for Oil tendered
21 during any period pending termination shall be the price in effect immediately before giving the

1 notice of intent to reopen. If a new purchase price is agreed to by Tesoro and the State, the new price
2 shall be effective for Oil delivered in the month following the Agreement.

3 2.4(b) Royalty Settlement Agreement Reopener. Tesoro shall not intervene
4 or otherwise participate in any way regarding litigation, styled ANS Royalty Litigation, Case No. 1-
5 JU-77-847, any future royalty settlement agreements with the Lessees, or reopeners or other
6 discussions under or pertaining to royalty settlement agreements. Any judgment resulting from the
7 ANS Royalty Litigation, any future royalty settlement agreements, or any reopener under the Royalty
8 Settlement Agreement shall be conclusively binding upon Tesoro whether or not Tesoro agrees with
9 or consents to the terms of any such judgment, settlement, or reopener. Furthermore, Tesoro has no
10 independent right to invoke any of the provisions of the Royalty Settlement Agreement. If the
11 Royalty Value is modified in the future as a result of a modification of the Royalty Settlement
12 Agreement, a corresponding retroactive modification will be made to the price term of this
13 Agreement and interest will apply to the modification, whether resulting in an overpayment or
14 underpayment, as set forth in Article 5.6. Tesoro agrees to be conclusively bound by any such
15 modification agreed to by the State and Exxon.

16 Nevertheless, due to potential unpredictable increased costs to Tesoro posed by any
17 changes to Article III of the Royalty Settlement Agreement and/or any changes made under the
18 reopener procedures of Article IV of the Royalty Settlement Agreement, the State shall give Tesoro
19 notice of such changes or a Notice of Reopener initiated by Exxon or the State. Such notice shall
20 include information on the nature of such changes and/or the reopener, the requested effective date of
21 any such changes or proposed changes, and the position taken by Exxon and the State. Any changes

1 and/or Reopener action under the Royalty Settlement Agreement will give Tesoro the right to
2 terminate this contract upon six Months and ten Days written notice to the State.

3 2.5 Point and Time of Delivery. Simultaneously with receipt of its Royalty Oil
4 from its Lessees, the State shall tender the Oil to Tesoro where the State receives the Royalty Oil
5 from its Lessees. That point presently agreed to by the State and its Lessees in Article 2.3 of the Field
6 Cost Agreement is the TAPS Pump Station No. 1 Prudhoe Bay Custody Transfer meter ("Transfer
7 Meter").

8 2.6 Passage of Title and Risk of Loss. Title and risk of loss to the Oil sold under
9 this Agreement shall pass from the State to Tesoro for all purposes when the State tenders the Oil at
10 the Point of Delivery.

11 2.7 Tesoro's Responsibility. Tesoro shall be responsible for the Oil after passage
12 of title. Tesoro will indemnify and hold the State harmless from and against any and all claims, costs,
13 damages (including reasonably foreseeable consequential damages), expenses, or causes of action
14 arising from or in connection with any transaction or event which relates to the Oil after title has
15 passed to Tesoro.

16 2.8 Transportation Arrangements. Tesoro shall make all necessary arrangements
17 for transporting the Oil sold under this Agreement from the Point of Delivery, including satisfaction
18 of line fill obligations and storage tank bottom requirements of the TAPS, if any. If requested by the
19 State, Tesoro shall submit specific information concerning its arrangement for transportation of the
20 Oil sold under this Agreement through and away from the TAPS and for the resale or other disposal
21 of the Oil. Such information may include the specific tenders of Oil made to the TAPS and
22 identification of tankers, if any, which will transport the Oil. In addition, Tesoro will provide the

1 State, if requested by the State, with satisfactory evidence or reasonable assurance of the existence
2 and continuing validity of adequate arrangements for the transportation or disposal of the Oil subject
3 to this Agreement. Failure to provide information, evidence, or assurances requested will, at the
4 State's election by notice to Tesoro, be a material default under this Agreement.

5 2.9 Absolute Obligations. The obligations of Tesoro to accept, pay for, and
6 arrange for the transportation of the Oil tendered or sold under this Agreement are absolute and will
7 not be excused or discharged by the operation of any disability of Tesoro, event of force majeure,
8 impracticability or performance, change in conditions, or any other reason or cause.

9 2.10 Date of First Delivery. The date of First Delivery will be the first Day of
10 January 1, 1996.

11 2.11 Performance Guaranty and Reservation Fee. If Tesoro does not take the
12 Maximum Quantity, Tesoro shall pay to the State, in addition to the purchase price on the actual
13 quantity taken, an amount equal to .75 percent of the purchase price per barrel per Day on the
14 difference between the Maximum Quantity and the actual quantity tendered to and accepted by
15 Tesoro for each Day Tesoro does not take the Maximum Quantity.

16 2.12 In-State Processing. Tesoro agrees to use best efforts to insure that any and all
17 of the Royalty Oil tendered under this Agreement will be processed through Tesoro's refinery near
18 Nikiski, Alaska, or will be exchanged for other crude oil which shall be processed at that refinery.
19 "Process" means the manufacture of refined petroleum products. In no event, however, shall the
20 quantity of Royalty Oil, which must be processed, be less than 80 percent of the volume of Royalty
21 Oil tendered under this Agreement. "Exchange" means: (1) direct trades of equal volumes of crude
22 oil; (2) trades of crude oil involving either cash or volume adjustments, or both, provided that those

1 adjustments relate solely to quality or location differences; (3) sequential transactions in which Tesoro
2 receives back crude oil from a party other than the party which receives the Royalty Oil in a trade
3 from Tesoro; or (4) matching purchases and sales of crude oil. The terms under which Tesoro
4 receives crude oil in any exchange shall not differ in any significant term from the terms under which
5 Tesoro delivered Royalty Oil except for terms which adjust for differences in quality and location.
6 Tesoro agrees that any trade or exchange shall not reduce the price to be paid to the State and that
7 trades or exchanges shall be at no cost or expense to the State.

8 Tesoro's obligation to process Royalty Oil or exchanged oil in-State may only be
9 suspended or excused under the provisions of Articles VIII and XI.

10 The State may, in its sole discretion, waive the in-State processing requirement in
11 whole or in part, if State is satisfied that Tesoro is using its best efforts to process the Royalty Oil
12 tendered or the oil exchanged for Royalty Oil tendered under this Agreement at Tesoro's Alaska
13 refinery and that the waiver would not be contrary to the underlying intent of the other provisions of
14 this Agreement.

15

1 ARTICLE III

2 REPRESENTATION AND OBLIGATIONS OF TESORO

3 Tesoro warrants, represents, and agrees:

4 3.1 Good Standing and Due Authorization. Tesoro is, and at all times during the
5 operation of this Agreement shall remain, a corporation organized and existing under and by virtue of
6 the laws of the United States or of any State, territory or the District of Columbia, and qualified to do
7 business in, and in good standing with, the State of Alaska. Tesoro has all necessary corporate power
8 to enter into this Agreement and to perform the covenants and obligation under this Agreement. All
9 necessary corporate action has been taken to authorize Tesoro to enter into this Agreement and
10 perform its covenants and obligations under this Agreement.

11 3.2 Financial Condition. The financial information submitted to the State is
12 complete and correct and fairly presents Tesoro's financial condition when the information was
13 submitted to the State. The financial information was prepared in accordance with generally accepted
14 accounting principles consistently applied. Since the date the information was submitted, the
15 condition, business, and properties of Tesoro have not been materially adversely affected in any way.
16 Tesoro agrees to inform the State immediately if there is any material adverse change in its condition,
17 business, or properties which may have an appreciable adverse effect on its ability to perform under
18 this Agreement. Tesoro, in addition, will immediately inform the State of any significant change in
19 ownership of Tesoro, affiliates, parent company, and of any change in Tesoro's operations or
20 Agreements, which may appreciably affect Tesoro's performance under this Agreement.

21 3.3 Financial Statements. As soon as possible after the end of the fiscal year of
22 Tesoro, and in any event within one hundred twenty Days thereafter, Tesoro will furnish to the State,

1 at Tesoro's sole cost and expense, a report or a complete copy of a report in a form to be prescribed
2 from time to time by the State which will include Tesoro's balance sheet as of the close of the fiscal
3 year and the income statement for that year, prepared in each case in accordance with generally
4 accepted accounting principles consistently applied by certified public accountants of recognized
5 standing. For purposes of complying with this article, Tesoro may submit, and the State will accept,
6 the annual report of Tesoro Petroleum Corporation filed with the United States Securities and
7 Exchange Commission pursuant to Sec. 13 or 15 (d) of the Security Exchange Act of 1934.

8
9 **ARTICLE IV**

10 **MEASUREMENTS AND TESTS**

11 The quantity and quality of Oil sold under this Agreement shall be determined at the
12 Point of Delivery. Procedures and methods for measuring and metering the Oil sold under this
13 Agreement shall be in accordance with the practices then in effect in the Prudhoe Bay Unit.

1 5.3 Subsequent Adjustments. Tesoro acknowledges that after the Initial Billing
2 and Initial Adjustment Invoices, more accurate information concerning the quantity of or purchase
3 price for Royalty Oil tendered may become available to the State. If any such information should
4 later become available to the State, it shall furnish a corrected invoice statement of account to Tesoro
5 ("Subsequent Adjustment Invoice") and the State will adjust the amount previously billed; and Tesoro
6 will pay, or the State will credit or refund, the amount of any Subsequent Adjustment Invoice plus
7 interest. If the State should render a Subsequent Adjustment Invoice to Tesoro, any amount to be
8 credited or refunded from the State to Tesoro or paid by Tesoro to the State will be refunded or paid
9 within thirty Days after the date of the Subsequent Adjustment Invoice.

10 The parties recognize that subsequent adjustments may be necessary after December
11 31, 1998, and, accordingly, the provisions of Article V will survive any termination of this
12 Agreement. Any Subsequent Adjustment Invoice rendered more than six years after the date of
13 delivery will bear interest for only six years from the date accrued as defined in Article 5.5. This
14 limitation on interest does not apply to Subsequent Adjustment Invoices resulting from: (1)
15 regulatory, reopener or court proceeding (including appeals) commenced during the six year period
16 whether or not the Tesoro or the State is a party and (2) bona fide audits by the State of Exxon
17 commenced during the six year period.

18 5.4 Payment. Tesoro will pay the Initial Billing Invoice on the third business Day
19 of the month following delivery or within three business Days after the date of the invoice whichever
20 is later; and the Initial Adjustment Invoice within three business Days of the date of the invoice and
21 on any Subsequent Adjustment Invoice within 30 Days of the date of the invoice. Payment shall be

1 made without any deduction, set off, or withholding, by wire transfer of immediately available funds
2 to the State's account at the following address:

3 State Street Bank & Trust Company
4 Boston, Massachusetts
5 ABA #011000028
6 For credit to the State of Alaska
7 General Investment Fund, AY01
8 Account #00657189
9 Attn: Kim Chan, Public Funds

10
11 Payment may be made in such other manner or to such other address as the State may
12 specify in the invoice statement of account or by other written notice. All other payments to be made
13 under this Agreement shall be paid in the same manner. If payment is due on a Saturday, Sunday, or
14 legal holiday of the place where payment is to be received, payment shall be made on the next
15 following business Day. It is recognized that the State may bill, and that Tesoro will pay, amounts
16 that are based upon confidential information held or received by the State. If confidential information
17 is used as the basis for a billing, then the State will furnish Tesoro, upon its request, with the certified
18 statement of the Commissioner that the amounts billed are correct based upon the best information
19 available to the State. If a dispute concerning a bill arises, Tesoro agrees to pay the full amount billed
20 by the State, except for obvious clerical mistakes, pending final resolution of the dispute.

21 5.5 Interest. The Amount of all sums, which are not paid when due under this
22 Agreement or which are later determined to be due as an adjustment, shall bear interest from the date
23 accrued until paid in full at the rate as provided in AS 38.05.135(d) or as that statutory provision may
24 later be amended. Currently, that interest rate in a calendar quarter is at the rate of five percentage
25 points above the annual rate charged member banks for advances by the 12th Federal Reserve District
26 as of the first Day of that calendar quarter, or at the annual rate of 11 percent, whichever is greater.

1 compounded quarterly as of the last Day of that quarter. The term "date accrued" means the date of
2 the "Initial Billing plus three business Days." Interest shall apply to both adjustments for
3 overpayments and underpayments.

4 The following illustrates from what date interest will run:

5 January 1 - 31, 1996 -- Tesoro takes 1996 January production:

6 February 9, 1996 -- State sends Tesoro the Initial Billing Invoice for 1996 January
7 production;

8 February 14, 1996 (Initial Billing plus three business Days) -- Tesoro must pay the
9 Initial Billing Invoice for January 1996 production. If Tesoro does not pay on
10 this day, the Initial Billing Invoice bears interest from this date plus a late
11 payment penalty.

12 March 8, 1996 -- State sends Tesoro the Initial Adjustment Invoice for January 1996
13 production. Tesoro owes the State an additional sum.

14 March 13, 1996 -- Tesoro must pay the Initial Adjustment Invoice plus interest from
15 February 14, 1996 through the payment date.

16 January 10, 1997 -- State sends Tesoro a Subsequent Adjustment Invoice for January
17 1996 production. Tesoro is entitled to a credit. State pays interest from
18 February 14, 1996 through January 10, 1997.

19 April 10, 2006 -- The State is notified by Exxon that, due to a clerical error, it has
20 revised the Royalty Value for January 1996.

1 April 17, 2006 -- State sends Tesoro another Subsequent Adjustment Invoice for
2 January 1996 production after Exxon reports a clerical error in its
3 calculation of the Royalty Value. Tesoro owes the State an additional sum.

4 May 17, 2006 -- Tesoro must pay the Subsequent Adjustment Invoice for January
5 1996 production plus interest from calculated February 14, 1996 through
6 February 14, 2002. If Tesoro does not pay the Subsequent Adjustment
7 Invoice on this date, interest will accrue from February 14, 1996 through the
8 date the payment is made and Tesoro must also pay a late payment penalty.

9 November 10, 2006 -- Court settles dispute between the TAPS carriers and shippers;
10 Carriers are awarded a higher tariff for January 1996.

11 November 30, 2006 -- State sends Tesoro a Subsequent Adjustment Invoice. Tesoro
12 is entitled to a refund which includes interest calculated from February 14,
13 1996 through November 30, 2006.

14 5.6 Late Payment Penalty. If Tesoro fails to make a full payment within three
15 business days of the date of either an Initial Billing Invoice or Initial Adjustment Invoice, or within
16 thirty Days of the date of any Subsequent Adjustment Invoice, then in addition to the amount due
17 plus interest from the date accrued until the date of actual payment, Tesoro will pay an amount equal
18 to five percent of the principal payment due as a late payment penalty.

19 5.7 Payment to Lessee. At the request of the State in the invoice statement of
20 account or otherwise in writing, Tesoro shall pay all or any portion designated by the State of that
21 payment required to be made to one or more of the Lessees at an address or addresses and in the
22 manner designated by the State. The payment will be made within the time limit specified in

1 Article V. The State may authorize and designate a third party to make the request and designate the
2 amount, manner and place of payment under this provision. Unless otherwise specified, the balance
3 of the payment due, if any, and payment for subsequent Months, shall be made in accordance with
4 Article V.

5 5.8 Payment to Third Parties. The State may direct that Tesoro pay any amount
6 due or which may become due directly to a third party in a manner and time as may be directed by
7 the State in written notice to Tesoro if, in the State's sole discretion, the payment to the third party
8 will assist the State in monitoring or enforcing this Agreement.

9
10 **ARTICLE VI**

11 **TERM**

12 This Agreement shall become effective upon execution by the parties. The State's
13 obligation to sell and Tesoro's obligation to buy Royalty Oil becomes effective immediately.
14 Deliveries under this Agreement shall begin on January 1, 1996, and shall end December 31, 1998.
15 The provisions of Article V shall survive the termination of this Agreement.

16
17 **ARTICLE VII**

18 **DEFAULT OR TERMINATION**

19 7.1 Default. If any one or more of the following events ("Events of Default")
20 occur, then the State, at the its sole option, may terminate or suspend its obligation to tender and sell
21 Oil and exercise any one or more of the rights and remedies provided in this Agreement:

- 1 (i) At any time, Tesoro (a) repudiates any of its covenants or obligations
2 under this Agreement, or (b) fails, within five Days, after written
3 request from the State to provide the State with written affirmation of
4 this Agreement and of Tesoro's intention to perform under this
5 Agreement (together with evidence or assurances of transportation
6 arrangement pursuant to Article 2.8 reasonably satisfactory to the
7 State);
- 8 (ii) Tesoro does not pay in full any sum owed under this Agreement at the
9 time when payment is due;
- 10 (iii) Tesoro fails to observe or perform any of its other covenants and
11 obligations under Article II;
- 12 (iv) Tesoro does not perform any act required or contemplated under this
13 Agreement and: (a) the non-performance cannot be cured; (b) the
14 nonperformance continues for more than thirty Days after the State
15 has notified Tesoro of its nonperformance; or (c) Tesoro has failed to
16 perform the same or any other act required or contemplated under this
17 Agreement;
- 18 (v) There is a material adverse change in Tesoro's condition, business, or
19 property which may appreciably affect its ability to perform any of its
20 obligations under this Agreement and Tesoro is unable or unwilling to
21 give the State adequate assurance of continued performance either
22 within five Days of a request for such an assurance or within such

1 other shorter time period as the State may request under the
2 circumstances:

3 (vi) Any representation or warranty made by Tesoro in this Agreement
4 was materially false or incorrect when made; or

5 (vii) Tesoro's failure or inability for any reason (including reasons beyond
6 Tesoro's control) to maintain the Security described in Article XV,
7 notwithstanding Tesoro's continuing willingness and ability to
8 perform its other obligations and covenants under the Agreement.

9 7.2 Failure to Pay Debts. If Tesoro becomes unable to pay any of its debts when
10 due, or should otherwise become insolvent (regardless how that insolvency may be evidenced),
11 Tesoro will immediately give written notice of that fact to the State. Whether that notice is given, if
12 Tesoro becomes unable to pay any of its debts when due or should otherwise become insolvent, the
13 State's obligation to tender and sell Oil will automatically and immediately terminate without any
14 requirement of notice or other action by the State; however, Tesoro will nevertheless be and remain
15 liable for payment and performance of all of its obligations and covenants under this Agreement
16 regarding Oil actually tendered by the State to and after any such termination. Within thirty Days
17 after receipt of Tesoro's notice or, if no notice is given, after the State otherwise becomes aware (as
18 determined in the State's sole discretion) of Tesoro's insolvency, the State will have the right, upon
19 written notice to Tesoro, to reinstate all of the State's and Tesoro's obligations under this Agreement
20 retroactively to the date of termination.

21 7.3 State's Remedies. If any Event of Default occurs or if the State's obligation to
22 tender and sell Oil under this Agreement is terminated or suspended, all of Tesoro's obligations

1 accrued but not otherwise due and payable under this Agreement will immediately be due and
2 payable in full. In addition, Tesoro will indemnify and hold the State harmless from and against all
3 other liability, damages (including reasonably foreseeable consequential damages), costs, losses and
4 expenses (including reasonable attorney's fees and disbursements) incurred by the State and arising
5 out of the Event of Default, termination, or suspension. The State shall have the right cumulatively to
6 exercise any and all other rights and remedies and to obtain all other relief available under applicable
7 law or at equity, including mandatory injunction and specific performance.

8 Additionally, in its sole discretion, the State, upon occurrence of any Event of
9 Default: (1) may dispose to third parties any or all Royalty Oil to be tendered and sold under this
10 Agreement and (2) may release Tesoro from the in-state processing obligations set forth in Article
11 2.12 until the Event of Default no longer exists or the obligation of Tesoro to take Oil under this
12 Agreement expires. If the State disposes of Oil to third parties, or if Tesoro is released from Article
13 2.12, whether or not this Agreement is terminated, Tesoro will nevertheless remain liable for the
14 difference between the purchase price for that Oil under this Agreement and the price received by the
15 State by disposition, including all of the expenses (including reasonable attorneys' fees and costs), and
16 losses incurred by the State arising out of the Event of Default or disposition.

17 7.4 Tesoro's Exclusive Remedies. Upon any breach of, or default in performance
18 of any of the State's covenants or obligations under this Agreement, Tesoro agrees that its remedies
19 will not include a temporary restraining order or preliminary injunction preventing the State from
20 taking any action regarding the Royalty Oil which is the subject of this Agreement.

1 State shall actually exercise its rights to succeed to Tesoro's interest under them and shall obtain the
2 benefits of them.

3 8.3 No Right to Storage or Underlift. Tesoro waives and disclaims any interest or
4 right that it may assert to storage of Royalty Oil, including by underlift or other means, to which the
5 State is or may become to be entitled under the Leases or any other agreement.

6
7 **ARTICLE IX**

8 **WAIVER**

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

15
16 **ARTICLE X**

17 **VALIDITY**

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

1
2 **ARTICLE XI**

3 **FORCE MAJEURE AND CHANGE IN CONDITION**

4 11.1 Effect of Force Majeure. Except for Tesoro's obligations to pay for Oil
5 tendered and to accept and dispose of Royalty Oil, neither party shall be liable for any failure to
6 perform when performance is prevented, in whole or in substantial part, by force majeure after good
7 faith efforts to perform. The term "force majeure" shall mean an event or condition not within the
8 reasonable control of the party claiming the benefit of this excuse. If, however, any material
9 obligation of Tesoro is excused or suspended by a force majeure for sixty successive Days or more,
10 the State will have the right to terminate this Agreement. Before the State exercises its right to
11 terminate, Tesoro and the State shall in good faith negotiate to restore the benefits and obligations of
12 the force majeure condition.

13 11.2 Responsibility. If a party believes that force majeure has occurred, the party
14 shall immediately notify the other party of its claim of force majeure. If force majeure occurs, that
15 occurrence shall, so far as possible, be remedied with reasonable diligence. Except for Tesoro's
16 obligations to pay for Oil tendered and to accept and dispose of Oil, the disabled party's obligations to
17 perform that are affected by the force majeure shall be suspended from the time that notification
18 occurs until the disability should have been remedied with reasonable diligence, and for no longer.
19

1 principal face amount of such letter of credit shall be a sum estimated by the Commissioner, in his
2 sole discretion, to be equal to the aggregate purchase price for the approximate total amount of Oil to
3 be tendered by the State to Tesoro during the first seventy five Days following the Date of First
4 Delivery. The letter of credit shall be in a form satisfactory to the Commissioner, but in any event
5 shall not require any documents to be submitted in support of drafts drawn against this letter of credit
6 other than the certified statement of the Commissioner or his designee and the Attorney General of
7 the State of Alaska or his designee that Tesoro is liable to the State for a sum equal to the amount of
8 such draft, and that sum is due and payable in full and has not been timely paid. The letter of credit
9 must be renewed seventy five Days before its expiration so that a letter of credit is continuously valid
10 for seventy five Days after the date of the last delivery of Royalty Oil. If a replacement letter of
11 credit, in a form satisfactory to the Commissioner in his sole discretion, is not received seventy five
12 Days before the expiration of the existing letter of credit, then Tesoro shall be deemed to have
13 materially breached this Agreement, there shall have occurred an event of default under Article 7.1,
14 and all obligations of Tesoro accrued, but not otherwise due and payable under this Agreement, will
15 immediately become due and payable in full.

16 If the State has reasonable grounds for asserting any claims against Tesoro and does
17 assert those claims in an aggregate amount in excess of the aggregate principal face amount of the
18 letter of credit then in effect, Tesoro shall, upon the State's request (whether or not Tesoro may deny,
19 reject or otherwise resist such claims), cause the principal face amount to be increased by an amount
20 equal to the excess. Tesoro shall also automatically increase the principal face amount, without
21 request from the State, whenever the face amount is less than the expected purchase price of seventy
22 five Days of Oil tenders, to an amount equal to the expected purchase price of seventy five Days of

1 Oil tenders. Upon approval of the State in its sole discretion, Tesoro may decrease the principal face
2 amount if the face amount is more than the expected purchase price of seventy five Days of Oil
3 tenders to an amount equal to the expected purchase price of seventy five Days of Oil tenders.

4 The letter of credit must allow drafts to be drawn and presented to the Issuer up to and
5 including the 75th Day after the last delivery of Royalty Oil to Tesoro under this Agreement. The
6 Commissioner may accept such other or additional security as he, in his sole discretion, considers
7 adequate to protect the State.

8 15.2 Reduction of Term. The term of the letter of credit required under Article XV
9 shall be reduced from seventy five Days to sixty Days, if Tesoro and the State can reach an agreement
10 regarding the transportation of Oil if Tesoro defaults under this Agreement. If the parties cannot
11 reach an agreement, then the letter of credit shall remain at seventy five Days or Tesoro shall have the
12 right, in its sole discretion, to terminate this Agreement as provided in Article 2.1.

13 14 ARTICLE XVI

15 PREFERENTIAL HIRING AND NON-DISCRIMINATION

16 Tesoro agrees to employ Alaska residents and Alaska companies to the extent they are
17 available, willing and qualified for all work performed in Alaska in connection with the Agreement.

18 "Alaska resident" means an individual who has resided in Alaska for one year at the time of
19 employment and "Alaska companies" means companies incorporated in Alaska or whose principal
20 place of business is in Alaska.

1 law or regulation, Tesoro may request that information be held confidential by the State and the State
2 will keep this information confidential.
3

4 **ARTICLE XXIII**

5 **INTERPRETATION OF TERMS AND CONDITIONS**

6 Any disagreement about the meaning or application of a word, term, or condition in
7 this Agreement will be decided according to the dispute resolution procedure set forth in this article.
8 Either party may give the other written notice of a disagreement. Within 60 days after written notice,
9 Tesoro must present any argument and evidence supporting its view in writing to the Commissioner
10 for consideration. Tesoro shall not have the right to civil litigation-type discovery or a civil litigation-
11 type trial with the right to call or cross-examine witnesses unless granted by the Commissioner in his
12 sole discretion. The Commissioner will subsequently issue a finding on the meaning or application of
13 the disputed word, term, or condition, setting forth the basis for the conclusions. Tesoro agrees to
14 accept findings by the Commissioner under this article which are supported by substantial evidence.
15

16 **ARTICLE XXIV**

17 **COUNTERPARTS**

18 This Agreement may be executed in multiple counterparts, the parties need not sign
19 the same counterpart. Each counterpart shall be deemed to be an original and all of which taken
20 together shall be one and the same instrument.
21
22

SIGNATURES

1

2 the State:

THE STATE OF ALASKA

3

4

5

Commissioner
Department of Natural Resources

6

Date: _____

7

8 Tesoro Alaska Petroleum Company:

TESORO ALASKA PETROLEUM COMPANY

9

By: _____

10

Its: _____

11

Date: _____

12

13 Tesoro Petroleum Company

TESORO PETROLEUM COMPANY

14

By: _____

15

Its: _____

16

Date: _____

ACKNOWLEDGEMENT

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State of Alaska)
) ss.
Third Judicial District)

THIS IS TO CERTIFY that on the _____ day of _____, 1995, before me, appeared _____, the commissioner, Department of Natural Resources, State of Alaska; that Harry A. Noah executed that document under legal authority and with knowledge of its contents; and that this act was performed freely and voluntarily upon the premises and for the purposes stated in the document.

Witness my hand and official seal the day and year in this agreement first above written.

Notary Public in and for Alaska
My commission expires: _____

EXHIBIT A

CALCULATION OF ROYALTY VALUE

This exhibit shows the mechanics of the price calculation and data sources. Exxon's Royalty Value for the Prudhoe Bay Unit lessees are taken from its Royalty Report. Royalty Value currently is taken from Column H of these reports. An example calculation using the information for January 1995 and a hypothetical RIK volume sold to Tesoro is shown below. Attached are the Royalty Report Summaries for the Prudhoe Bay Unit.

	Exxon's Production from the Prudhoe Bay Unit		Royalty Value from Column H of the Oil Royalty Report Summary		Product of Volume Times Royalty Value
Lisburne Production Center	1,762,900.13	x	\$11.050	=	\$19,480,406.44
Prudhoe Bay IPA	8,807,215.20	x	\$11.110	=	\$97,848,160.87
Total	<u>10,570,115.33</u>				<u>\$117,328,207.31</u>

$$\text{Exxon's Royalty Value} = \$117,328,207.31 \div 10,570,115.33 = \$11.09999$$

Should Article 2.1(b) apply, the Royalty Value will be calculated using the Royalty Value and production volumes for only the initial Participating Areas.

CALCULATION OF INTEREST

Numbers in these examples are illustrative. They do not represent accurate values that may have existed in the past or are forecasted for any time in the future.

Mechanics of the calculations include:

1. The annual interest rate specified in legislation is converted to a daily rate for calculations.
2. Credits are applied to the next monthly payment. Payment for an underpayment is due (a) within 3 business days of the date the bill is sent for Initial Billings and initial adjustment or (b) within 30 days of the time the bill is sent for subsequent adjustments. Interest on overpayments stops accruing on the date of the invoice.

Example 1: Initial Billing

Assumptions:

1. Month is February.
2. Royalty Oil delivered to Tesoro in January = 1,240,000 barrels.
3. Royalty Value for January, from Column H of Exxon's Oil Royalty Report Summaries (attached) = \$11.09999.
4. Bill sent to Tesoro on February 1st; Payment due to State by February 6th (Initial Billing date plus three business days).

Method for calculating Tesoro's initial invoice for January deliveries:

Volume	x	Price	=	Initial Billing
1,240,000	x	\$11.09999	=	\$13,763,987.60

Note:

The lessees are required to submit their royalty reports to the State for January's production by the last day in February. For this reason the State will bill Tesoro for January production based on the December Royalty Value. This is an interim value and is subject to revision, since the Agreement requires that Tesoro pay the Monthly Price for the same production month. The revised price is incorporated in the invoice submitted the following month (March).

Example 2: Initial Adjustment

Assumptions:

1. Month is March.
2. Royalty Oil delivered to Tesoro in January = 1,240,000 barrels.
3. Revised Monthly Price for January = \$11.00000.
4. Annual interest rate charged member banks for advances by 12th Federal Reserve District as of January 1st is three percent. Annual rate for contract = 11 percent.
5. Date of Initial Adjustment is March 1st.

Method for calculating Tesoro's revised invoice for January deliveries:

Volume	x	Price	=	Revised Billing
1,240,000	x	\$11.00000	=	\$13,640,000.00

Amount Paid by Tesoro for January deliveries (calculated in Example 1):

\$13,763,987.60

Overpayment for January:

(\$123,987.60)

Difference between Initial Adjustment date (March 1st) and original accrual date (February 6th) = 23 days.

Interest due = $\$123,987.60 \times (11\%/365) \times 23 =$ (\$859.42)

Credit due Tesoro for next month's billing = (\$124,847.02)

Example 3: Subsequent Adjustment

This adjustment is assumed to occur after true-up of BP transportation costs, a reopener for one of the Royalty Settlement Agreements, or for some other reason. It is assumed to occur June 5th.

Assumptions:

1. Month is June.
2. Royalty Oil delivered to Tesoro in January = 1,240,000 barrels.
3. Adjusted Monthly Price for January = \$11.11000.
4. Annual interest rate charged member banks for advances by 12th Federal Reserve District as of January 1 assumed to be three percent; as of April 1 and through the third quarter, seven percent. Annual interest rate for contract = 11 percent for the first quarter; 12 percent for the second and third quarter.
5. Tesoro is sent notice of underpayment on June 5th.
6. Tesoro's payment is received on July 5th.

Method for calculating Tesoro's revised invoice for January deliveries:

Volume	x	Price	=	Revised Billing
1,240,000	x	\$11.11000	=	\$13,776,400.00

Amount Paid by Tesoro for January deliveries (calculated in Example 2): \$13,640,000.00

Underpayment for January deliveries: \$136,400.00

Days of interest in first quarter (Initial Billing date plus 3 business days through March 31st) = 53

Days of interest in second quarter (April 1 through June 30th) = 91

Days of interest in third quarter (July 1 through July 5) = 5

Interest for first quarter = $\$136,400.00 \times (11\%/365) \times 53 =$ \$2,178.66

Interest for second quarter = $(\$136,400.00 + \$2,178.66) \times (12\%/365) \times 91 =$ \$4,145.97

Interest for third quarter = $(\$136,400.00 + \$2,178.66 + \$4,145.97) \times (12\%/365) \times 5 =$ \$234.62

Payment from Tesoro due to the State within 30 days of invoice date = \$142,959.25

If payment in full not received by or on July 5th then additional interest will accrue from July 6th through the payment receipt date, plus a late payment penalty will be assessed.

STATE OF ALASKA

DEPARTMENT OF NATURAL RESOURCES

DIVISION OF OIL AND GAS

TONY KNOWLES, GOVERNOR

3601 C STREET, SUITE 1380
ANCHORAGE, ALASKA 99503-5948
PHONE (907) 762-2549

March 21, 1995

MAR 27 1995

Dear Alaskan:

The State of Alaska proposes to sell royalty oil to Tesoro Alaska Petroleum Company (Tesoro). Under the proposed agreement, Tesoro would agree to buy approximately 40,000 barrels of royalty oil per day from the Prudhoe Bay Unit over a three year period. This oil will be processed in Tesoro's refinery at Nikiski on the Kenai Peninsula.

Enclosed is a copy of the Preliminary Finding and Determination and the proposed contract. The Alaska Royalty Oil and Gas Development Advisory Board will discuss this proposal at a public meeting at 11:00 a.m., Thursday, April 6, 1995, in the hearing room of the Legislative Affairs Agency, 716 West Fourth Avenue, Suite 200, Anchorage, Alaska. This meeting will be teleconferenced to Legislative Affairs Agency offices in Fairbanks, Juneau, Soldotna, and Valdez. The public is invited to attend.

These findings are preliminary, final conclusions have not been reached. Comments received from the public and from the Alaska Royalty Oil and Gas Advisory Board will be used to determine whether the proposed contract is in the state's best interest, and if so, whether changes are needed. If the commissioner determines that the proposed sale is in the state's best interests, the contract will be signed and a final finding and determination will be issued. Approval by the Legislature is required for this sale.

Comments must be received by April 21, 1995, and should be mailed to the Director, Division of Oil and Gas, 3601 C Street, Suite 1380, Anchorage, Alaska 99503-5948. If you have any questions, please contact Kevin Banks at 762-2589. Thank you for your interest.

Sincerely,



for Kenneth A. Boyd
Acting Director

Enclosures

SB

3

FISCAL NOTE

STATE OF ALASKA
1995 LEGISLATIVE SESSION

BILL NO. SB 3

Revision Date: _____
Title: Antitrust Exemption for Fishermen

Department Affected: Labor
BRU: Commissioner's Office
Component: Commissioner's Office

Sponsor: Senator Duncan
Requestor: Senator Duncan

COMPONENT SERIAL NO. 340

EXPENDITURES/REVENUES:

(Thousands of Dollars)

OPERATING	FY 96	FY 97	FY 98	FY 99	FY 00	FY 01
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0

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

CHANGE IN REVENUE FUND SOURCE #						
------------------------------------	--	--	--	--	--	--

FUNDING:

(Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipt						
1006 GF/MHTIA						
Other						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

Estimate of current year (FY95) impact: 5 None

ANALYSIS: (Attach a separate page if necessary)

Prepared by: Arbe Williams, Director Phone: 465-5981
 Division: Administrative Services Date: 1/23/95
 Approved by Commissioner: Tom Cashen, Commissioner
 Agency: Department of Labor Date: 1/23/95

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SENATE COMMITTEE REPORT
First Committee of Referr

DATE: 1/16/95

FURTHER: Judiciary

Date of 5-Day Notice: 1-19-95
 (in accordance with Uniform Rule 23)

DATE TURNED INTO OFFICE: 2-3-95

Resources Committee considered SB 3

"An Act relating to an antitrust exemption for persons engaged in the fishing industry."

and recommends:

- be replaced with _____ CS _____ (_____)
- adopt previous _____ CS _____ (_____)
- attached amendment(s)
- adopt Letter of Intent by _____ Committee
- further referral to the _____ Committee

Senate Bill:
 same title
 new title
 House Bill:
 technical change
 new: SCR# _____

SIGNING WITH RECOMMENDATIONS:	DP	DNP	NR	AM
<i>[Signature]</i>	✓			
<i>[Signature]</i>	✓			
<i>[Signature]</i>	✓			
<i>[Signature]</i>	✓			
CHAIR: <i>[Signature]</i>	✓			

NEW FISCAL NOTE(S):

Department	Date	Zero	Fiscal
Dept. of Labor	1/25/95	✓	

PREVIOUS FISCAL NOTE(S):*

Department	Date	Zero	Fiscal

APPROPRIATION -- no fiscal note

*include fiscal notes accompanying Governor's bill

BILL NO: Senate Bill No. 3

DATE: January 26, 1995

TITLE: Antitrust Exemption for Fishermen

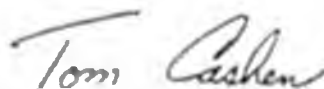
CONTACT: Arbe Williams
465-2700

Senate Bill No. 3 would allow fishers to form associations to negotiate fish prices. AS 16.20.280 provides that the Department of Labor serve as mediator of disputes between fishers and fish processors on the price to be paid for salmon. The department's experience has revealed that the inability of fishers to form such associations, due to current anti-trust laws, to negotiate with processors was a primary factor in the dispute.

This legislation would provide a mechanism to stabilize raw fish prices, thereby protecting Alaskan fishers and processors from the debilitating and extreme fluctuations in fish prices. A stable fishing industry will have a direct and positive effect on the Alaskan economy. It is only reasonable that Alaskan fishers and processors have the legal ability to protect themselves and this important resource from price setting by outside interests..

The Department of Labor supports Senate Bill No. 3.

APPROVED:



Tom Cashen, Commissioner

DATE:

1-26-95

POSITION PAPER/Department of Labor



Edward E. Crane
President

2550 Denali Street, Suite 1201
Anchorage, Alaska 99501
(907) 276-2007

January 27, 1995

Senator Jim Duncan
Alaska State Senate
State Capitol, Room 119
Juneau, Alaska 99801-1182

Dear Senator Duncan,

I have noted and read Senate Bill 3. In my view SB3 serves a relevant and highly significant purpose.

I have been directly or indirectly involved with individual producers of food and fiber, and with both formal and informal associations of such producers, for nearly 3 years. That includes almost continuous and intense involvement with producers and marketers of agricultural commodities of all kinds from 1965 through 1981.

As contrasted with manufacturers, an individual producer of food and fiber commodities is greatly disadvantaged by his or her isolated status within what may be a huge conformation of economic forces. The producer is further made vulnerable by the limited-life nature of most commodities and by the pressure to capture whatever value may exist on a timely basis.

There has probably been no more positive statutory force affecting commodities producers than the limited-antitrust exemptions in Federal, and most state, statutes. While a superficial glance may suggest they are merely the extension of privilege to a few, such exemptions are in actuality the cornerstones of the stability which is critical to any food production and distribution system and which provides immeasurable benefits to each of us as consumers.

Senator Jim Duncan
January 27, 1995
Page 2

Senate Bill 3 establishes and clarifies this important exemption for harvesters, producers, and marketers of Alaska's seafood resources. While it will solve no problems by itself, its enactment will provide significant opportunities for the creation of stabilizing forces which will benefit all of Alaska as well as seafood industry participants.

I would be most interested in knowing of any opportunities to express support for Senate Bill 3.

Very truly yours,



Edward E. Crane

EEC:dmv

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Mail Stop 3101

130 Seward Street, Suite 400
Juneau, Alaska 99801-2105

Copies of minutes listed below were originally included in this file. The minutes are available on the legislative computer database. In order to save space copies of minutes have not been left in the files.

Senate Resources
1-27-95 3:30pm
1-25-95 3:37am
SB3

Mary Pagenkopf

DEPARTMENT OF COMMERCE AND
ECONOMIC DEVELOPMENT

DIVISION OF ECONOMIC DEVELOPMENT

P.O. BOX 110804
JUNEAU ALASKA 99811-0804
PHONE (907) 465-2017

The Honorable Senator Jim Duncan
State Capitol
Juneau, Ak. 99811

DCED comments on SB 3

DCED supports passage of SB 3: "An Act relating to an anti-trust exemption for persons engaged in the fishing industry."

Currently, Alaska fishermen and processors cannot discuss price issues without violating anti-trust laws. This proposed legislation would help bring stability to the Alaska fishing industry and the communities dependent on this resource by allowing fishermen and processors to negotiate long-term price agreements.

Three years ago former Governor Hickel assigned DCED to head a Salmon Strategy Task Force to investigate the cause of salmon price declines. It was determined that increased world production of salmon had caused prices to decrease in recent years. Specifically, Alaska salmon has lost market share to increased farmed salmon production which is able to deliver to the marketplace a product that offers consistent supply, quality and price. A strategy to help recover market share was developed which included: expanded marketing efforts, improved consistency of quality, reduced costs of production and increased product options to consumers. While all these issues can not be addressed in a single piece of legislation, SB 3 is an important first step that offers the hope of stable pricing and supply necessary for food manufacturers to commit to new product development.

As part of its efforts to develop a price recovery strategy for salmon, DCED conducted a comparison study of Alaska and Canadian salmon prices. It was learned that a similar anti-trust exemption exists in Canada where long-term price contracts have helped keep Canadian pink salmon prices 113% higher and sockeye prices 60% higher than ex-vessel prices paid in Alaska.

While a federal anti-trust exemption may be necessary to fully remove liability, this is an important first step in a direction that will help the Alaska salmon industry to recover lost market share.

BILL NO: Senate Bill No. 3

DATE: February 23, 1995

TITLE: Antitrust Exemption for Fishermen

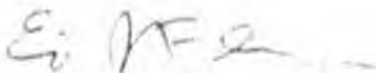
CONTACT: Dwight Perkins
465-2700

Senate Bill No. 3 would allow fishers to form associations to negotiate fish prices. AS 16.10.280 provides that the Department of Labor serve as mediator of disputes between fishers and fish processors on the price to be paid for salmon. The department's experience has revealed that the inability of fishers to form associations to negotiate with processors has been a primary factor in such disputes as the 1991 Bristol Bay strike.

This legislation would provide a mechanism to stabilize raw fish prices, thereby protecting Alaskan fishers and processors from the debilitating and extreme fluctuations in fish prices. A stable fishing industry will have a direct and positive effect on the Alaskan economy. It is only reasonable that Alaskan fishers and processors have the legal ability to protect themselves and this important resource from price setting by outside interests.

The Department of Labor supports Senate Bill No. 3.

APPROVED:



Tom Cashen, Commissioner

DATE:

2/23/95

POSITION PAPER/Department of Labor

BSFA

Bering Sea Fishermen's Association



725 Christenson Drive
Anchorage, Alaska 99501
(800) 770-6519 (Within Alaska)
(907) 279-6519
FAX (907) 258-6888

Serving western Alaska small boat fisheries since 1980

January 24, 1995

The Honorable Jim Duncan
Alaska State Senate
State Capitol
Juneau, Alaska 99801

Dear Senator Duncan:

The Bering Sea Fishermen's Association supports Senate Bill No. 3, "An Act relating to an antitrust exemption for persons engaged in the fishing industry", as positive legislation that will benefit commercial fishermen in western Alaska and statewide.

Western Alaska small boat fishermen, which BSFA represents, are engaged continually in a process of trying to develop and market fish products from their region. Their efforts involve species such as salmon, herring, and halibut.

By clarifying present law, SB 3 makes clear that commercial fishermen may join together to produce and market their catches, as well as bargain collectively with processors for better prices. In a region where there are few alternate sources of income, these activities are vital to the ability of western Alaska fishermen to strengthen their markets and achieve the best possible return from their seasonal fisheries.

Thank you for introducing SB 3. Please do not hesitate to contact our office if we can provide you with further information.

Yours truly,

A handwritten signature in cursive script that reads "Karl Ohls".

Karl Ohls
Fisheries Development Specialist

SB 3, Antitrust exemption for fishermen:

Those expected to testify at hearing, scheduled for 3:30 pm, Friday, 1/27/95:

Senator Jim Duncan (to testify from Sitka LJO. Located at 210 Lake Street.
Phone: 747-6276

Ed Crane, CFAB (to testify from Anchorage CFAB office. Has been instructed to call 1-700-222-1000 at 3:25 pm, then stand by until asked to testify.)

Dorne Hawxhurst, Cordova District Fishermen United (to testify from CDFU office. Will call 1-800-478-7612 at 3:25 pm, then stand by until asked to testify.)

Jerry McCune, UFA

Donna Parker, Commerce and Economic Development

Rick Lauber, Pacific Seafood Processors Association

George Utermohle, Legal Services, will be at the hearing to answer questions.

Letters have been received Cordova District Fishermen United (Dorne Hawxhurst) and Bering Sea Fishermen's Association (Karl Ohls). These should have been distributed to the committee on Wednesday.

A position paper is expected today from Department of Labor, and will be distributed at the hearing.

SENATOR JIM DUNCAN

ALASKA STATE LEGISLATURE

Alaska State Senate

State Capitol • Room 119 • Juneau, Alaska 99801-1182 • (907) 467-4766 • Fax 465-4748

January 1995

SPONSOR STATEMENT, SB 3:

ANTITRUST EXEMPTION FOR COMMERCIAL FISHERMEN

Senator Jim Duncan

Senate Bill 3 will allow fishermen to form associations to collectively negotiate raw or processed fish prices with processors. It does not authorize processors to agree among themselves on the prices they will pay fishermen; it only covers collective bargaining between fishermen and a processor, or group of processors.

A state antitrust exemption is a first step to stabilizing Alaska's fishing industry. While this exemption applies only to state antitrust laws, it is necessary to gaining Congressional approval for a federal exemption, so that fishermen and processors could negotiate prices. Once the legislature has approved SB 3, the state, fishermen and processors would be in a position to request the federal exemption. The attitude toward a federal exemption may be favorable now that Alaska's congressional delegation is in the majority.

In order to permit collective bargaining, fishermen must be allowed to market and sell their fish as a group. Current state antitrust law does not mention whether fishermen could collectively sell their raw catch or fish products, although it permits them to form associations to catch and prepare their fish for market. SB 3 clarifies this ambiguity, making state law consistent with federal law, which expressly permits fishermen to collectively engage in more activities, including marketing their fish. The incongruities between current state and federal law make it possible for some fishermen's organizations to be in compliance with federal antitrust law, yet breaking state law, or be in compliance with state antitrust law and violating federal law.

State legislation such as this, and pursuit of a corresponding federal exemption were recommended in the 1993 Alaska attorney general's report on the Bristol Bay sockeye salmon industry. The fishing industry is Alaska's largest private employer, and affects every segment of our economy, from small coastal villages to the state's general fund. Collective bargaining between fishermen and processors will help stabilize commercial fishing prices, bolstering local and state economies. Stable raw fish prices will promote stable consumer prices for processed seafood products, which means greater sales of Alaska seafood.

DIVISION OF LEGAL SERVICES
LEGISLATIVE AFFAIRS AGENCY
STATE OF ALASKA

(907) 465-3867 or 465-2450
FAX (907) 465-2029
Mail Stop 3101

130 Seward Street, Suite 409
Juneau, Alaska 99801-2103

MEMORANDUM

January 20, 1995

SUBJECT: SB 3 Summary (Work Order No. 9-LS0043VA)
TO: Senator Jim Duncan
FROM: George Utermohle *GU*
Legislative Counsel

This memorandum summarizes SB 3, An Act relating to an antitrust exemption for persons engaged in the fishing industry.

SB 3 proposes two significant changes to the state antitrust law.

First, SB 3 eliminates an ambiguity in state law as to whether commercial fishermen can collectively market their fish and fish products and makes the state antitrust exemption for fishermen compatible with the analogous federal exemption. See, section 1, SB 3.

When the state antitrust law was enacted in the mid-1970's, the legislature created an exemption from the law so that fishermen could agree among themselves to collectively engage in the harvesting and processing of fish. AS 45.50.572(c). Unfortunately the law does not mention whether fishermen could collectively market their fish and fish products. By expressly allowing fishermen to engage in collective harvesting and processing activities and not mentioning marketing activities, it must be presumed that the law precludes collective marketing activities by fishermen. SB 3 amends the state antitrust exemption for fishermen so that fishermen are clearly allowed to collectively engage in the marketing of their fish and fish products.

The federal antitrust law already contains an exemption that permits fishermen to collectively engage in catching, processing, and marketing their fish and fish products. 15 U.S.C. 521. But the federal law also places specific restrictions on the legal structure of the cooperatives that fishermen may form. SB 3 rewrites the state exemption so that it directly parallels the provisions of the federal law.

Thus SB 3 expands the kinds of activities that fishermen may engage in without violating the state antitrust law and substantially eases the burden on fishermen to simultaneously comply with the state antitrust law and the federal antitrust law.

Research

Senator Jim Ducan

January 20, 1995

Page 2

Second, SB 3 creates a new exemption from the state antitrust law to allow fishermen and processors to collectively agree on the price that fishermen would receive for their fish and on the price that processors would accept for processed fish. See, section 2, SB 3. The exemption would allow fishermen to enter into price agreements with a processor or a group of processors. SB 3 does not allow groups of processors to agree among themselves on the price that they would pay fishermen for fish or they would charge for their product. Groups of processors may agree on prices, only if fishermen participate in the agreement and are a party to the agreement.

Once SB 3 is enacted and the state antitrust law provides an exemption for collective agreements between fishermen and processors, the state, fishermen, and processors can approach the Congress for a comparable exemption from the federal antitrust laws. The state exemption can serve as a model for the federal exemption. In the mean time, it would be very risky for fishermen and processors to rely solely upon the state antitrust exemption as authority to engage in collective price setting. Because the Alaska fishing and fish processing industries significantly affect interstate and international commerce, the federal antitrust laws are certain to apply to, and thus prohibit, any price agreements between fishermen and processors. Fishermen and processors should wait for the Congress to enact the appropriate exemption from the federal antitrust law before attempting any such agreements.

If I may be of further assistance, please advise.

GU glc

95-076 glc

SB

16

FISCAL NOTE

STATE OF ALASKA

BILL NO. CSSB16(CRA)

1995 LEGISLATIVE SESSION

Revision Date: 9-Mar-95 Dept Affected: Natural Resources
 Title: An Act relating to the University of Alaska and BRU: Resource Development
university land, authorizing the University of Alaska to select... Component: Information Resource Management
 Sponsor: Senator(s) Frank, Kelly, Sharp, Reiger
 Requestor: _____ Component Serial No. 427

Expenditures/Revenues (Thousands of Dollars)

OPERATING EXPENDITURES	FY96	FY97	FY98	FY99	FY00	FY01
PERSONAL SERVICES	60.0	60.0	60.0	60.0	60.0	60.0
TRAVEL	5.0	5.0	5.0	5.0	5.0	5.0
CONTRACTUAL	5.0	5.0	5.0	5.0	5.0	5.0
SUPPLIES	1.0	1.0	1.0	1.0	1.0	1.0
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	71.0	71.0	71.0	71.0	71.0	71.0
CAPITAL EXPENDITURES	0.0	0.0	0.0	0.0	0.0	0.0
CHANGE IN REVENUES ()	0.0*	0.0*	0.0*	0.0*	0.0*	0.0*

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1006 GF/MHTIA						
Other I/A Receipts	71.0	71.0	71.0	71.0	71.0	71.0
TOTAL	71.0	71.0	71.0	71.0	71.0	71.0

Estimate of any current year (FY95) cost: \$ None

POSITIONS

FULL-TIME	0	0	0	0	0	0
PART-TIME	0	0	0	0	0	0
TEMPORARY	0	0	0	0	0	0

ANALYSIS: (Attach a separate page if necessary)

This fiscal note is for the minimum necessary for DNR to process land conveyances to the University of Alaska. All costs for the conveyance work will be paid by the University to DNR using Interagency Receipts. We assume this includes all costs to include selection, conveyance, records notation, deed recordation, survey, litigation, etc.

*It is impossible to project the exact amount of revenue these conveyances will generate for the University, and will be lost to the state, without knowing what lands will be transferred. With the inclusion of oil and gas, the revenue lost to the state will be significant.

Prepared by: Ron Swanson, Director Phone: 465-2406
 Division: Division of Land Date: 9-Mar-95
 Approved by Commissioner: _____ Date: 3-9-95
 Agency: Natural Resources

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FISCAL NOTE

STATE OF ALASKA

BILL NO. CSSB16(CRA)

LEGISLATIVE SESSION

Revision Date: 9-Mar-95 Dept Affected: Natural Resources
 Title: An Act relating to the University of Alaska and BRU: Resource Development
university land, authorizing the University of Alaska to select... Component: Information Resource Management
 Sponsor: Senator(s) Frank, Kelly, Sharp, Reiger
 Requestor: _____ Component Serial No. 427

Expenditures/Revenues

(Thousands of Dollars)

OPERATING EXPENDITURES	FY96	FY97	FY98	FY99	FY00	FY01
PERSONAL SERVICES	22.0					
TRAVEL						
CONTRACTUAL	2.0					
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	24.0	0.0	0.0	0.0	0.0	0.0
CAPITAL EXPENDITURES	0.0	0.0	0.0	0.0	0.0	0.0
CHANGE IN REVENUES ()	0.0	0.0	0.0	0.0	0.0	0.0

FUND SOURCE

(Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF	24.0					
1005 GF/Program Receipts						
1006 GF/MHTIA						
Other						
TOTAL	24.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY95) cost: \$ None

POSITIONS

FULL-TIME	0	0	0	0	0
PART-TIME	0	0	0	0	0
TEMPORARY	0	0	0	0	0

ANALYSIS:

(Attach a separate page if necessary)

This proposed legislation involves considerable public records notation work; however, since the University of Alaska is responsible for covering all cost associated with the selection, platting, survey and conveyance, those costs will be identified after we have worked with the University to identify a deliverables and a contract. The Land Records Information Section assumes that the records work associated with each of these steps will be paid by the University based on actual cost.

LRIS will need to set up a tracking system to facilitate the selection and conveyance process. LRIS must develop a new Land Administration System (LAS) casetype for these conveyances, and will establish a tracking subsystem within LAS. A separate tracking mechanism is necessary to comply with Sec. 14 40 365(n), where the commissioner is required to recover title after 10 years if certain conditions are not met. These are not expenses specified to be covered by the University.

Prepared by: Nico Bus, Acting Director Phone: 465-2406
 Division: Support Services Date: 3-Mar-95
 Approved by Commissioner: _____ Date: 3-9-95
 Agency: Natural Resources

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FISCAL NOTE

STATE OF ALASKA
1995 LEGISLATIVE SESSION

BILL NO. CSSB 16 (CRA)

Revision Date: 3/9/95 Dept. Affected: Fish and Game
 Title: University Land Selection BRU: Habitat and Restoration Division
 Component: Habitat
 Sponsor: Senator Frank
 Requester: Senate Resources COMPONENT SERIAL NO. 486

Expenditures/Revenues (Thousands of Dollars)

OPERATING EXPENDITURES	FY 96	FY 97	FY 98	FY 99	FY 00	FY 01
PERSONAL SERVICES	31.2	31.2	31.2	31.2	31.2	31.2
TRAVEL	1.0	1.0	1.0	1.0	1.0	1.0
CONTRACTUAL	1.0	1.0	1.0	1.0	1.0	1.0
SUPPLIES	0.5	0.5	0.5	0.5	0.5	0.5
EQUIPMENT	0.0	0.0	0.0	0.0	0.0	0.0
LAND & STRUCTURES	0.0	0.0	0.0	0.0	0.0	0.0
GRANTS, CLAIMS	0.0	0.0	0.0	0.0	0.0	0.0
MISCELLANEOUS	0.0	0.0	0.0	0.0	0.0	0.0
TOTAL OPERATING	34.3	34.3	34.3	34.3	34.3	34.3

CAPITAL EXPENDITURES	0.0	0.0	0.0	0.0	0.0	0.0
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CHANGE IN REVENUES ()	0.0	0.0	0.0	0.0	0.0	0.0
------------------------	-----	-----	-----	-----	-----	-----

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF	34.3	34.3	34.3	34.3	34.3	34.3
1005 GF/Program Receipts						
1006 GF/MHTIA						
Other						
TOTAL	34.3	34.3	34.3	34.3	34.3	34.3

Estimate of any current year (FY95) cost: \$ 0.0

POSITIONS

FULL-TIME	0.5	0.5	0.5	0.5	0.5	0.5
PART-TIME						
TEMPORARY						

ANALYSIS: (Attach a separate page if necessary)

The Department of Fish and Game will require approximately one-half full time equivalent for a Habitat Biologist to review university land selections and advise the Department of Natural Resources on the effects of conveyance to fish and wildlife resources, public uses of fish and wildlife; and potentially for legislatively designated state game refuges, critical habitat areas, and game sanctuaries. Additionally, as university land selections are made, existing state land management and Special Area plans will have to be revised to reflect the changes in land management. This will require approximately one-half full time equivalent of Habitat Biologist participation to advise the Department of Natural Resources on their revised land management plans and to revise the Department of Fish and Game's Special Area plans.

Prepared by: Ellen Fritts, Acting Director *Ellen Fritts*
 Division: Habitat and Restoration
 Approved by Commissioner: *Green Breen*
 Agency: Alaska Department of Fish and Game

Phone: 465-4105
 Date: 3/8/95
 Date: 3/9/95

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FISCAL NOTE

STATE OF ALASKA
117 LEGISLATIVE SESSION

BILL NO. SB16(CRA)

Revision Date: 3/9/95 Dept. Affected: Revenue
 Title: Increase Land Grant to UAA BRU: Revenue Ops
 Component: Oil and Gas Audit

Sponsor: Frank
 Requester: (S)RES COMPONENT SERIAL NO. 115

Expenditures/Revenues (Thousands of Dollars)

OPERATING EXPENDITURES	FY 96	FY 97	FY 98	FY 99	FY 00	FY 01
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0

CAPITAL EXPENDITURES						
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CHANGE IN REVENUES ()						
------------------------	--	--	--	--	--	--

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1006 GF/MHTIA						
Other						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY95) cos: \$ _____

POSITIONS

FULL-TIME						
PART-TIME						
TEMPORARY						

There would be no identifiable revenue or cost impacts resulting from the passage of this legislation over the period covered by this fiscal note.

Prepared by: Deborah Vogt Phone: 907-276-1363
 Division: Oil and Gas Audit Date: 3/9/95
 Approved by: _____
 Commissioner: Deborah Vogt Date: 3/9/95
 Agency: Revenue

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FISCAL NOTE

**STATE OF ALASKA
1995 LEGISLATIVE SESSION**

BILL NO. CSSB16

Revision Date: _____
Title: Land Grant to the University

Department Affected: University of Alaska
BRU: Statewide Programs and Services
Component: Statewide Services

Sponsor: Frank
Requestor: _____

COMPONENT SERIAL NO.

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY96	FY97	FY98	FY99	FY00	FY01
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL	100.0	100.0	100.0	100.0	100.0	100.0
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	100.0	100.0	100.0	100.0	100.0	100.0

CAPITAL						
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REVENUE FD SOURCE						
--------------------------	--	--	--	--	--	--

FUNDING: (Thousands of Dollars)						
1002 FEDERAL FUNDS						
1003 GF MATCH						
1004 GENERAL FUND						
1006 GF/MHTIA						
1048 University Receipts	100.0	100.0	100.0	100.0	100.0	100.0
TOTAL FUNDING	100.0	100.0	100.0	100.0	100.0	100.0

POSITIONS:						
FULL-TIME						
PART-TIME						
TEMPORARY						

Estimate of current year impact: None

<p>ANALYSIS: (Attach a separate page if necessary.) The costs identified are for a contract with the Department of Natural Resources for land conveyance costs. Costs could exceed those identified if land conveyance can be done more quickly than is currently anticipated. Any additional expenses will be covered from the land grant trust fund, identified as University Receipts. Additional receipt and expenditure authority would be request at that time. Additional land will generate additional revenue. However, without specific identification of land we are unable to quantify the potential for revenue generation.</p>

Prepared by: <u>Wendy Matheny, Budget Analyst</u>	Phone: <u>463-3086</u>
Division: <u>Statewide Budget Office</u>	Date: <u>3/6/95</u>
Approved by: <u><i>MBS</i> Marylou Burton, Director</u>	Date: <u>3/7/95</u>
Agency: <u>Statewide Budget Office</u>	

Distribution (by preparer): Legislative Finance.

(encities)

FISCAL NOTE

STATE OF ALASKA

BILL NO. SB 16

1995 LEGISLATIVE SESSION

Revision Date: Original Dept Affected: Natural Resources
 Title: As Act relating to land of the Univ of AK and BRU: Resource Development
authorizing the U of A to select additional... Component: Land Development
 Sponsor: Senator Frank
 Requestor: _____ Component Serial No. 431

Expenditures/Revenues (Thousands of Dollars)

OPERATING EXPENDITURES	FY96	FY97	FY98	FY99	FY00	FY01
PERSONAL SERVICES	60.0	60.0	50.0	60.0	60.0	60.0
TRAVEL	5.0	5.0	5.0	5.0	5.0	5.0
CONTRACTUAL	5.0	5.0	5.0	5.0	5.0	5.0
SUPPLIES	1.0	1.0	1.0	1.0	1.0	1.0
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	71.0	71.0	71.0	71.0	71.0	71.0
CAPITAL EXPENDITURES	0.0	0.0	0.0	0.0	0.0	0.0
CHANGE IN REVENUES ()	*	*	*	*	*	*

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1006 GF/MHT/A						
Other I/A Receipts	71.0	71.0	71.0	71.0	71.0	71.0
TOTAL	71.0	71.0	71.0	71.0	71.0	71.0

Estimate of any current year (FY95) cost: \$ None

POSITIONS

FULL-TIME	1	1	1	1	1	1
PART-TIME	0	0	0	0	0	0
TEMPORARY	0	0	0	0	0	0

ANALYSIS: (Attach a separate page if necessary)

This fiscal note is for the minimum necessary for DNR to process land conveyances to the University of Alaska. All costs for the conveyance work will be paid by the University to DNR using Interagency Receipts. We assume this includes all costs to include selection, conveyance, records notation, deed recordation, survey, litigation, etc.

* It is impossible to project the exact amount of revenue these conveyances will generate for the University, and lost to the state, without knowing what lands will be transferred. With the inclusion of oil and gas, the revenue lost to the state will be significant.

Prepared by: Ron Swanson Phone: 767-2692
 Division: Land Date: 3-11-95
 Approved by Commissioner: Alvin B. ... Date: 4/1/95
 Agency: Natural Resources

FISCAL NOTE

STATE OF ALASKA
1995 LEGISLATIVE SESSION

BILL NO. SB 16

Revision Date: _____ Dept. Affected: Revenue
 Title: An Act relating to land of the University of Alaska BRU: Revenue Operations
authorizing selection of state public domain land Component: Treasury Management
 Sponsor: Senators Frank, Kelly, Sharp
 Requester: CRA, RES, FIN COMPONENT SERIAL NO. 121

(Thousands of Dollars)

EXPENDITURES/REVENUES	FY 96	FY 97	FY 98	FY 99	FY 00	FY 01
OPERATING EXPENDITURES						
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0
CAPITAL EXPENDITURES						
CHANGE IN REVENUES						

(Thousands of Dollars)

FUND SOURCE	FY 96	FY 97	FY 98	FY 99	FY 00	FY 01
1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1006 GF/MHTIA						
Other						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY95) cost: \$ 0.0

POSITIONS

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS: (Attach a separate page if necessary)

This legislation would not affect operating costs. However, potential General Fund revenues resulting from development of land granted to the University would accrue to the benefit of the University of Alaska General Fund rather than the General Fund.

Prepared by: Carolyn Hartsog, Asst. Comptroller Phone: 465-4880
 Division: Treasury Date: 2/1/95
 Approved by Commissioner: Deborah Voigt, Deputy Commissioner Date: 2/1/95
 Agency: Department of Revenue

FISCAL NOTE

STATE OF ALASKA
1995 LEGISLATIVE SESSION

BILL NO. SB 16

Revision Date: 2/6/95 Dept. Affected: Revenue
 Title: An Act authorizing the University of Alaska JRU: _____
 To select state public land and defining University endowment income Component: _____
 Sponsor: Senators Frank, Kelly, Sharp
 Requester: Frank COMPONENT SERIAL NO. _____

Expenditures/Revenues (Thousands of Dollars)

OPERATING EXPENDITURES	FY 96	FY 97	FY 98	FY 99	FY 00	FY 01
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0

CAPITAL EXPENDITURES						
----------------------	--	--	--	--	--	--

CHANGE IN REVENUES	0.0	0.0	0.0	0.0	0.0	0.0
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FUND SOURCE (Thousands of Dollars)

FUND SOURCE	FY 96	FY 97	FY 98	FY 99	FY 00	FY 01
002 Federal Receipts						
003 GF Match						
004 GF						
005 GF/Program Receipts						
006 GF/MHTIA						
Other						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY95) cost: 0

POSITIONS

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS: (Attach a separate page if necessary)

This Bill would authorize the University of Alaska to select additional state public domain subject to a wide variety of statutorily defined limitations with respect to existing and potential public revenue and interest concerns. In addition, the Bill would require legislative appropriation of disbursements from the University endowment trust fund which would include any new revenues resulting from the new lands selected by the University. There would be no identifiable revenue or cost impacts resulting from the passage of this legislation over the period covered by this fiscal note.

Prepared by: _____
 Division: Oil and Gas Audit Division
 Approved by Commissioner: [Signature]
 Agency: _____

Phone: 277-5627
 Date: 2/6/95
 Date: 2/11/95

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FISCAL NOTE

STATE OF ALASKA
1995 LEGISLATIVE SESSION

BILL NO. SE16

Revision Date: _____ Dept. Affected: Fish and Game
 Title: University Land Selection BRU: Habitat and Restoration Division
 Component: Habitat
 Sponsor: Frank
 Requester: Sen. Community and Regional Affairs COMPONENT SERIAL NO. 486

Expenditures/Revenues (Thousands of Dollars)

OPERATING EXPENDITURES	FY 96	FY 97	FY 98	FY 99	FY 00	FY 01
PERSONAL SERVICES	31.2	32.3	34.0	35.5	37.1	38.7
TRAVEL	1.6	1.6	1.7	1.8	1.9	2.0
CONTRACTUAL	1.0	1.1	1.1	1.1	1.1	1.2
SUPPLIES	0.5	0.5	0.5	0.5	0.5	0.5
EQUIPMENT	0.0	0.0	0.0	0.0	0.0	0.0
LAND & STRUCTURES	0.0	0.0	0.0	0.0	0.0	0.0
GRANTS, CLAIMS	0.0	0.0	0.0	0.0	0.0	0.0
MISCELLANEOUS	0.0	0.0	0.0	0.0	0.0	0.0
TOTAL OPERATING	34.3	35.8	37.3	38.9	40.6	42.4
CAPITAL EXPENDITURES	0.0	0.0	0.0	0.0	0.0	0.0
CHANGE IN REVENUES ()	0.0	0.0	0.0	0.0	0.0	0.0

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF	34.3	35.7	37.3	38.9	40.6	42.4
1005 GF/Program Receipts						
1006 GF/MHTIA						
Other						
TOTAL	34.3	35.7	37.3	38.9	40.6	42.4

Estimate of any current year (FY95) cost: \$ 0.0

POSITIONS

FULL-TIME	0.5	0.5	0.5	0.5	0.5	0.5
PART-TIME						
TEMPORARY						

ANALYSIS: (Attach a separate page if necessary)

The Department of Fish and Game will require approximately one-half full time equivalent for a Habitat Biologist to review university land selections and advise the Department of Natural Resources on the effects of conveyance to fish and wildlife resources, public uses of fish and wildlife; and potentially for legislatively designated state game refuges, critical habitat areas, and game sanctuaries. Additionally, as university land selections are made, existing state land management and Special Area plans will have to be revised to reflect the changes in land management. This will require approximately one-half full time equivalent of Habitat Biologist participation to advise the Department of Natural Resources on their revised land management plans and to revise the Department of Fish and Game's Special Area plans.

Prepared by: Ellen Fritts, Acting Director
 Division: Habitat and Restoration

Phone: 465-4105
 Date: 2/6/95

Approved by Commissioner: Governor Bruce L. Frank
 Agency: Alaska Department of Fish and Game

Date: 2/11/95

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SENATE COMMITTEE REPORT

DATE: 2/22/95

FURTHER: Finance

DATE TURNED INTO OFFICE: 3-17-95

Resources Committee considered SENATE BILL NO. 16

University of Alaska and university land, authorizing the University of Alaska to select additional state public domain land, and defining net income from the University of Alaska's endowment trust fund as 'university receipts' subject to prior legislative appropriation.

and recommends:

- be replaced with _____ CS _____
- adopt previous _____ CS 9-16 _____ (CIA)
- attached amendment(s)
- adopt Letter of Intent by _____ Committee
- further referral to the _____ Committee

Senate Bill:
 same title
 new title
 House Bill:
 technical change
 new: SCR# _____

SIGNING DO PASS	DP	OTHER RECOMMENDATIONS	NR	DNP	AM
<i>[Signature]</i>	✓	<i>[Signature]</i> true to law	✓		
<i>[Signature]</i>	✓			✓	
<i>[Signature]</i>	✓				
CHAIR: <i>[Signature]</i>	✓				

NEW FISCAL NOTE(S):

Department	Date	Zero	Fiscal
DNR-Info Res.	3/9		24.0

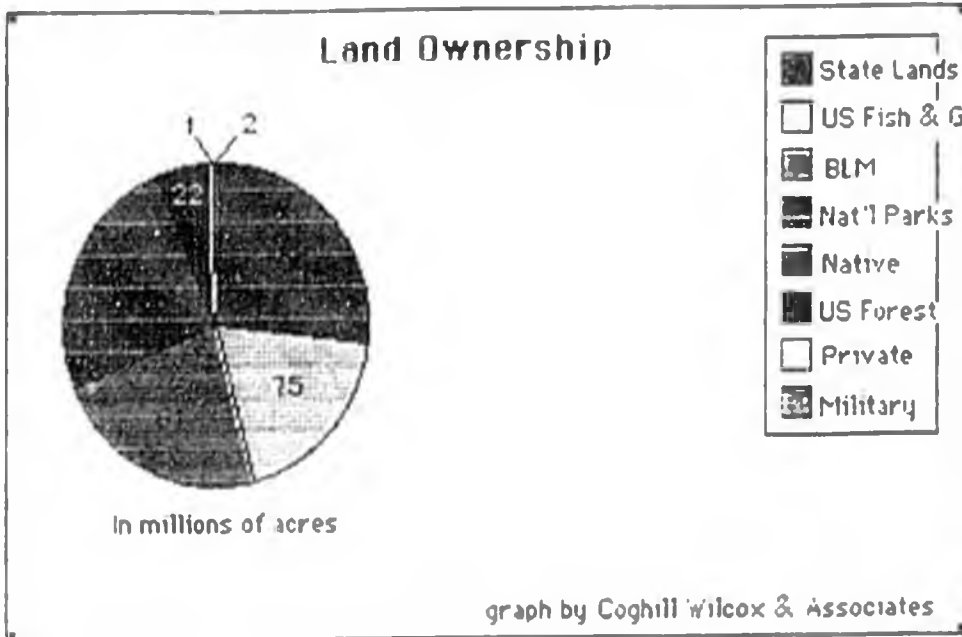
PREVIOUS FISCAL NOTE(S):*

Department	Date	Zero	Fiscal
Univ.	1/27		100.0
DNR-Land	2/7		71.0
FISH/GAME	2/10		34.3
REVENUE	2/1	✓	
REVENUE-Audit	2/6	✓	

APPROPRIATION -- no fiscal note

*Include fiscal notes accompanying Governor's bill

SB16



75
61
22
15
15
15
15
1
2

215 million acres