

ALASKA LEGISLATURE COMMITTEES FILES 1997-1998 8672

9677 SENATE RESOURCES



Municipality of Anchorage  
Rick Myster, Mayor



## Municipal Light & Power

1200 East First Avenue  
Anchorage, Alaska 99501-1685  
Telephone: (907) 279-7671. Telecopiers: (907) 263-5804. 277-9272

10 March 1997

James Rowe, Executive Director  
Alaska Telephone Association  
4341 "B" Street, Suite 304  
Anchorage, AK 99503

Dear Mr. Rowe,

ML&P is supportive of the Alaska Telephone Association's efforts to enact State legislation pertain to underground locates. When the Anchorage utilities initiated the formation of a One-Call within the Municipality in 1986 we opted for a municipal ordinance because we couldn't find a legislator willing to carry the banner to the legislature. ATA's attempt for state legislation is timely since there is a current movement for federal legislation that would dictate to states without such legislation.

The Locate Center of Alaska has worked out well for its 26 members which are primarily located in the Anchorage area, Kenai Peninsula, and Mananuska-Susinta Borough and some rural utilities. It has virtually eliminated dig-ins caused by excavators that didn't call for locates (historically the largest group of offenders).

Attached is ML&P's detailed analysis of ATA's proposed bill. The language of the proposed bill is in the left hand column and our suggested changes and comments in the right hand column. The portions of the text that is in bold in the right hand column emphasize the changes in intent from the proposed bill. Also attached is a copy of Anchorage's current ordinance.

It would be to ATA's advantage to obtain input from the Anchorage Area Utility Association; they worked closely with the Utility Contractors Association in gaining their support for the Anchorage ordinance.

Sincerely

Thomas R. Stahr  
General Manager

# ~~Alaska Telephone Association~~

4341 B Street, Suite 304  
Anchorage, AK 99503  
(907)563-4000  
FAX (907)562-3776

Duane C. Durand  
President

James Rowe  
Executive Director

February 3, 1997

Bob Yivisaker  
President  
Anchorage Area Utility Association  
P.O. Box 2929  
Palmer, AK 99645

Dear Mr. Yivisaker:

The Alaska Telephone Association is interested in establishing minimum statewide standards to reduce damages to underground facilities as well as above ground facilities; thereby promoting safety and protecting the public interest. To that end we have produced the enclosed draft legislation -- modeled after legislation in Washington -- and we would appreciate your review and comments.

Sincerely,

James Rowe

enc.

Alaska Telephone Association

**JAMES ROWE**  
Executive Director

201 E. 56th, Suite 114  
Anchorage, AK 99518

907-563-4000  
Fax 907-562-3776  
e-mail: jrowe@ptialaska.net

Telephone Association

201 E. 56th, Suite 114  
Anchorage, AK 99518  
(907) 563-4000  
FAX (907) 562-3776

**James Rowe**  
Executive Director

November 24, 1997

Kimberly Crisafulli  
ENSTAR  
3000 Spenard Road  
Anchorage, AK 99503

Dear Ms. Crisafulli:

Thank you for your help with the number of locates earlier today. I look forward to receiving your year end compilation when it is available.

Enclosed is a draft of the proposed locate legislation we expect to have introduced in January. It has been shared with utilities and contractors and I encourage widespread distribution. Over the past year I have made a number of changes in response to suggestions. I welcome your input.

Sincerely,



James Rowe

# Alaska Telephone Association

201 E. 56th, Suite 114  
Anchorage, AK 99518  
(907) 563-4000  
FAX (907) 562-3776

David Fauske  
President

James Rowe  
Executive Director

December 23, 1997

Pat Wolfe  
Alaska Building Contractors  
720 W. 58th Avenue  
Anchorage, AK 99518

Dear Pat,

The enclosed state locate standards draft has been submitted to the chairs of the Senate and House Labor and Commerce Committees for consideration for introduction during the next session. It's been circulated for comment and modification among a number of utilities and the Associated General Contractors of Alaska. I think it fairly spells out the responsibilities of all parties involved in locating and excavation of underground utilities.

Based on a Washington statute, this draft was initiated by the Alaska Telephone Association's Engineering and Planning Committee which, recognizing that there are stricter municipal standards, believed that a minimum statewide standard for locates would be beneficial for utilities, contractors and the public. As I'm sure you're aware, the telephone industry is experiencing new entities placing facilities in the ground. Timely and accurate locates will only become more important as the building continues.

I'd be pleased to hear any comments or suggestions you have regarding this draft and I expect the respective chairs of the committees, Sen. Loren Leman and Rep. Norman Rokeberg, would also welcome your thoughts. If you'd like to get together to discuss this, please call me at 563-4000.

Happy holidays.

Sincerely,



James Rowe

# ~~Alaska Telephone Association~~

201 E. 56th, Suite 114  
Anchorage, AK 99518  
(907) 563-4000  
FAX (907) 562-3776

David Fauske  
President

James Rowe  
Executive Director

December 23, 1997

Henry Springer  
Executive Director  
Associated General Contractors of Alaska  
4041 B Street  
Anchorage, AK 99503

Dear Mr. Springer:

Last August I sent you a copy of the enclosed state locate standards draft and solicited your comments. After you distributed it, Ken Smith of Wire Communications and Electrical, Inc. called me with concern regarding the treble damages paragraph (page 7), but he didn't offer any suggestions. I'd think the "willful and malicious" intent that triggers the treble damages would be deemed a benefit by most contractors.

Since (other than Mr. Smith's comment) I've received no adverse reaction, I submitted it without change to the chairs of the Senate and House Labor and Commerce Committees for consideration for introduction during the next session. I think it fairly spells out the responsibilities of all parties involved in locating and excavation of underground utilities.

Based on a Washington statute, this draft was initiated by the Alaska Telephone Association's Engineering and Planning Committee which, recognizing that there are stricter municipal standards, believed that a minimum statewide standard for locates would be beneficial for utilities, contractors and the public. As I'm sure you're aware, the telephone industry is experiencing new entities placing facilities in the ground. Timely and accurate locates will only become more important as the building continues.

I'd still welcome any suggestions you have regarding this draft and I expect the respective chairs of the committees, Sen. Loren Leman and Rep. Norman Rokeberg, would also welcome your thoughts. If you'd like to get together to discuss this, please call me at 563-4000.

Happy holidays.

Sincerely,



James Rowe

# Alaska Telephone Association

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Anchorage, AK 99518  
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FAX (907) 562-3776

David Fauske  
President

James Rowe  
Executive Director

December 23, 1997

Doug Askerman  
Anchorage Home Builders Association, Inc.  
8301 Schoon Street, Suite 200  
Anchorage, AK 99518

Dear Mr. Askerman:

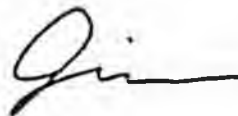
The enclosed state locate standards draft has been submitted to the chairs of the Senate and House Labor and Commerce Committees for consideration for introduction during the next session. It's been circulated for comment and modification among a number of utilities and the Associated General Contractors of Alaska. I think it fairly spells out the responsibilities of all parties involved in locating and excavation of underground utilities.

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I'd be pleased to hear any comments or suggestions you have regarding this draft and I expect the respective chairs of the committees, Sen. Loren Leman and Rep. Norman Rokeberg, would also welcome your thoughts. If you'd like to get together to discuss this, please call me at 563-4000.

Happy holidays.

Sincerely,



James Rowe

# **Alaska Telephone Association**

201 E. 56<sup>th</sup>, Suite 114  
Anchorage, AK 99518  
(907) 563-4000  
FAX (907) 562-3776

**David Fauske**  
President

**James Rowe**  
Executive Director

## **State Underground Locate Standards**

### **Purpose of the Proposed Locate Legislation**

The purpose of this proposed legislation is to provide an understanding of the standards and responsibilities of the locate and excavation of underground utilities throughout the state for utilities and contractors. Adherence to these standards will reduce damage to utilities, decrease outages to customers, promote safety for industry employees and the public, and serve the public interest.

With an ever increasing profusion of utilities being placed underground, the need for cooperation and coordination among contractors and utilities is escalating. This draft assigns accountability in a fair manner to facilitate efficient and safe construction and maintenance of utilities, minimize monetary loss and avoid hazardous conditions.

# LOCATE CALL CENTER OF ALASKA

## OPERATING GUIDELINES

The Locate Call Center of Alaska and the utilities participating in this Call Center have established the following guidelines for operation:

1. All marking shall be in accordance with the American Public Works Association Uniform Color Codes of

**Red** electric power lines, conduit, cables and lighting cables.

**Yellow** gas, oil, steam, petroleum and gaseous materials.

**Orange** communication, alarm or signal lines, cables or conduit. (some local TV companies use pink)

**Blue** water, slurry and irrigation lines.

**Green** sewers and drain lines.

2. Some utilities choose to mark their lines using the following abbreviations:

S	sanitary sewer	E	electric power
ST	storm sewer	TV	television
W	water	T	telephone
G	gas	POL	petroleum oil line

3. A circle will be drawn around pedestals and poles to allow for any loops that might be buried. Hand digging is required within this circle.
4. Hand digging is required within 2 feet of either side of outside dimensions of the underground facility.
5. Clear, visible marks with white paint or staking may be used by the party requesting a locate to denote the area of excavation.
6. After a locate has been performed in an area, it is the responsibility of the party requesting the locate to reference or maintain the locate marks during the construction period. The utilities may charge for lines that need to be remarked.

7. Directions given for locating will be stated as north, south, east, or west, if possible.

8. Site meets are required by Anchorage Water & Wastewater and are available with other utilities, but must be requested at the time of the locate request. Site meets will be scheduled by each utility.

9. The standard locate time for each utility varies from 15-45 minutes of locating per site visit. Addition locating time per site visit may be requested, but must be scheduled in advance by each utility.

10. A utility shall provide a surface mark at the location requested, showing the location of its underground facilities within the excavation site on or before the time of excavation. Anchorage Municipal Ordinance requires the notification of excavation be at least two business days before excavation.

If a utility fails to provide a requested surface mark by the excavation date, the excavator may proceed. If the excavator reveals that a surface mark has been incorrectly provided, or if an

underground facility is found in an unmarked excavation site, the excavator may proceed but only in a manner which avoids damage to such underground facility and must immediately notify the affected utility. (AMO 26.90)

11. Anytime a utility is cut, pulled, or even scraped slightly, the excavator is to call the Locate Call Center and report the incident. The Locate Call Center will then give the excavator further information on reporting this damage. A facility may be damaged when contact is made even though external damage is not visible.
12. Even though a request is made for a specific utility locate, the Call Center will still notify all utilities in the area. The caller will be asked to explain why they requested only a specific utility.
13. If a party requests an emergency locate, states it meets the definition of threat to life and property, and must be located in less than the minimum of two business days required period, and the locator determines this was not so, there may be a charge for this locate.

14. If a short notice or urgent locate request is made (requesting a locate in less than the minimum two business days notification period), the utilities will be notified, but immediate response is not guaranteed. If the requestor is willing to pay the utility standard rates, and if the utility can provide the locate, the locate may be performed prior to the standard time requirements.

15. Lower priority will be given to any request for design purposes. Whenever possible, it is suggested that these requests be made during the "off" (winter) season.

•••••

**THINK SAFETY,  
CALL FIRST !!!!**

**LOCATE CALL CENTER  
OF ALASKA**

•••••



## **LOCATE CALL CENTER OF ALASKA, INC.**

**OPERATING  
GUIDELINES**

**BEFORE YOU DIG...**

**Call to Request an  
Underground Utility Locate!**

•••••

**Anchorage Bowl Area  
278-3121**

**Statewide Toll Free  
800-478-3121**

**S B**

**3 4 0**

# ALASKA STATE LEGISLATURE



Sen. Robin Taylor, Chair  
Sen. Druc Pearce, Vice Chair  
Sen. Mike Miller  
Sen. Sean Parnell  
Sen. Johnny Ellis

State Capitol  
Juneau, AK 99801-1182  
(907) 465-3717  
Fax: (907) 465-3922

## Senate Judiciary Committee

### SPONSOR STATEMENT

#### SENATE BILL 340

**“Relating to the University of Alaska and university land, and authorizing the University to select additional state land.”**

The provisions of SB 340 allow the University of Alaska to select 250,000 acres of state land subject to approval by the Legislature. Land approved for transfer would include interests in minerals and to oil and gas subject to certain limitations. Also lands subject to a coal lease or where a lease application is pending are not available for selection. The University would bear the costs of selection, platting, surveying and conveyance. All land selections must be made by December 31, 2012. Twenty percent (20%) of income derived from selected lands must be used at the campus closest to the income generating parcel(s). All lands conveyed under this program are exempted from municipal taxation. SB 340 is compatible with Senator Murkowski's S.660 the legislation, pending in Congress, that will convey additional public lands to the University of Alaska.

The University of Alaska system was created under federal authority as a land grant institution to provide for the higher education requirements of Alaska's people in perpetuity. Most colleges established under the land grant program were endowed with sizable land bases from which to generate income to be used for operating purposes. Unlike most institutions in the lower 48 states, the University of Alaska does not have the relatively larger population base and proximity to other support services that are so beneficial. The University of Alaska also suffers from a smaller pool of alumni and other normal sources of endowment income which many institutions rely on to help support operations, especially subsidies for teaching positions.

In the past decade several legislators have introduced legislation allowing the University of Alaska to select additional lands from the State. The purpose of all legislative attempts to provide more land for the University statewide system has been to provide more income producing assets where monetary resources are becoming scarcer and unpredictable. This bill continues the effort to give the University of Alaska a larger more productive land base. The bill also provides clear expectations that land conveyed is to be used for the development of value added industries where appropriate.

# SENATE COMMITTEE REPORT

## First Committee of Referral

DATE: 3/10/98

FURTHER: Finance

Date of 5-Day Notice: 4/23/98  
(in accordance with Uniform Rule 23)

DATE TURNED IN TO OFFICE: 4/30/98

Resources Committee considered      SENATE BILL NO. 340

"An Act relating to the University of Alaska and university land, and authorizing the University of Alaska to select additional state land."

and recommends:

- be replaced with \_\_\_\_\_ CS SB 340 ( RES )
- 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:**
- same title
  - technical title
  - new: SCR# \_\_\_\_\_

SIGNING DO PASS	DP	OTHER/RECOMMENDATIONS	NR	DNP	AM
<i>Adrian L. Taylor</i>	✓	<i>Alan Johnson</i>	✓		
<i>Donna A. Johnson</i>	✓	<i>John A. ...</i>			✓
CHAIR: <i>Rich Halford</i>	✓	CHAIR:			

**NEW FISCAL NOTE(S):**

Department	Date	Zero	Fiscal
<i>DNR - IRLM</i>	<i>4/29</i>		<i>40.0</i>
<i>DNR - LAND</i>	<i>4/29</i>		<i>779.0</i>
<i>UNIVERSITY</i>	<i>4/29</i>		<i>1523.0</i>

*Apply to Bill + CS*

**PREVIOUS FISCAL NOTE(S):\***

Department	Date	Zero	Fiscal
<i>DNR - IRLM</i>	<i>4/29</i>		<i>40.0</i>
<i>DNR - LAND</i>	<i>4/29</i>		<i>779.0</i>
<i>UNIVERSITY</i>	<i>4/29</i>		

APPROPRIATION -- no fiscal note

\*include fiscal notes accompanying Governor's bill

# FISCAL NOTE

**STATE OF ALASKA**  
**1998 LEGISLATIVE SESSION**

**BILL NO.** SB340

Revision Date: \_\_\_\_\_ Dept Affected: Natural Resources  
 Title: An Act relating to the University of Alaska and BRU: Management and Administration  
university land, and authorizing the U of A to select addt. st. land. Component: Information Resource Management  
 Sponsor: (S) Judiciary  
 Requestor: (S) RES Component Serial No. 427

**Expenditures/Revenues** (Thousands of Dollars)

OPERATING EXPENDITURES	FY99	FY00	FY01	FY02	FY03	FY04
PERSONAL SERVICES	27.0	27.0	27.0	27.0	27.0	27.0
TRAVEL						
CONTRACTUAL	10.0	10.0	10.0	10.0	10.0	10.0
SUPPLIES	3.0	3.0	3.0	3.0	3.0	3.0
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
<b>TOTAL OPERATING</b>	<b>40.0</b>	<b>40.0</b>	<b>40.0</b>	<b>40.0</b>	<b>40.0</b>	<b>40.0</b>
<b>CAPITAL EXPENDITURES</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>CHANGE IN REVENUES (fund code)</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

**FUND SOURCE** (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF	40.0	40.0	40.0	40.0	40.0	40.0
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type)						
<b>TOTAL</b>	<b>40.0</b>	<b>40.0</b>	<b>40.0</b>	<b>40.0</b>	<b>40.0</b>	<b>40.0</b>

Estimate of any current year (FY98) 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)

SB340 authorizes the University of Alaska to select 250,000 acres of state land for management and revenue generation by the University. The Land Records Information Section would require a total of \$40.0 annually. \$27.0 in personal services would include 2 months time for NRM I to develop new land LAS case types with the division of land staff, (first year), 4 months of on-going (annual) Analyst Programmer III support to assist with site location and analysis, 1 month on-going (annual) Cartographer II to post changes to the graphic record, and on-going (annual) centralized GIS support for the Division of Land and University Staff. In addition to personal services, \$10.0 is needed in contractual services for software technical support and licensing, and \$3.0 in cartographic and mapping supplies.

Prepared by: Richard McMahon Phone: 269-8833  
 Division: Support Services Division, Land Records Information Section Date: 29-Apr-98  
 Approved by Commissioner: [Signature] Date: 4-29-98  
 Agency: Natural Resources

# FISCAL NOTE

**STATE OF ALASKA**  
**1998 LEGISLATIVE SESSION**

**BILL NO. SB340**

Revision Date: \_\_\_\_\_ Dept Affected: Natural Resources  
 Title: An Act relating to the University of Alaska and BRU: Resource Development  
university land, and authorizing the U of A to select addt. st. land. Component: Land Development  
 Sponsor: (S) Judiciary  
 Requestor: (S) RES Component Serial No. 431

Expenditures/Revenues	(Thousands of Dollars)					
OPERATING EXPENDITURES	FY99	FY00	FY01	FY02	FY03	FY04
PERSONAL SERVICES	139.7	157.7	157.7	157.7	157.7	157.7
TRAVEL	15.0	15.0	15.0	15.0	15.0	15.0
CONTRACTUAL	617.0	617.0	617.0	617.0	617.0	617.0
SUPPLIES	8.0	15.0	15.0	15.0	15.0	15.0
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
<b>TOTAL OPERATING</b>	<b>779.7</b>	<b>804.7</b>	<b>804.7</b>	<b>804.7</b>	<b>804.7</b>	<b>804.7</b>
<b>CAPITAL EXPENDITURES</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>CHANGE IN REVENUES ( )</b>						

FUND SOURCE	(Thousands of Dollars)					
1002 Federal Receipts						
1003 GF Match						
1004 GF	30.0	32.0	32.0	32.0	32.0	32.0
1005 GF/Program Receipts						
1006 GF/MHTIA						
1007 I/A	749.0	772.7	772.7	772.7	772.7	772.7
<b>TOTAL</b>	<b>779.0</b>	<b>804.7</b>	<b>804.7</b>	<b>804.7</b>	<b>804.7</b>	<b>804.7</b>

Estimate of any current year (FY98) cost: \$ None

**POSITIONS**

FULL-TIME	3	3	3	3	3	3
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 the minimum necessary for DNR to process land selections and conveyances to the University of Alaska. Most costs for the conveyance work will be paid for by the University of Alaska using Interagency Receipts, however, this money still must come from state funds.

For FY 99, staff will include 2 mos. of a Natural Resource Manager I, 12 mos. Natural Resource Officer (NRO) II, and 12 mos. NRO I who will help identify parcels for University selection, check land status and land records, prepare public notice, respond to public inquiries, negotiate with the University, and perform other tasks to prepare land lists. Includes 6 mos. for a Land Surveyor I to prepare survey instructions and contracts for survey. Large contractual expenditures reflect the cost to survey parcels, fiscal note assumes average parcel size will be 320 acres, about half (40 parcels) will require survey, average survey cost per parcel assumed to be \$15,000 (40x15,000=600,000).

FY 00 and following years include the above costs, plus costs to issue title documents.

\* 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 exactly what lands will be transferred.

Prepared by: Jane Angvik /rm *[Signature]* Phone: 269-8503  
 Division: Land Date: 29-Apr-98  
 Approved by Commissioner: *[Signature]* Date: 4-29-98  
 Agency: Natural Resources

**PREPARER TO PROVIDE ALL DISTRIBUTION COPIES TO GOVERNOR'S LEGISLATIVE OFFICE**

# FISCAL NOTE

STATE OF ALASKA  
1998 LEGISLATIVE SESSION

BILL NO. SB 340

Revision Date (Note if correction) \_\_\_\_\_ Dept. Affected University of Alaska  
 Title An Act relating to the University of Alaska and BRU University of Alaska  
and university land; authorizing selection of additional land Component Statewide Services  
 Sponsor Senate Judiciary  
 Requester Senate Resources Component Serial No. #730

**Expenditures/Revenues** (Thousands of Dollars)

OPERATING EXPENDITURES	FY 99	FY 00	FY 01	FY 02	FY 03	FY 04
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous	1,500.0	1,500.0	1,500.0	1,500.0	1,500.0	1,500.0
<b>TOTAL OPERATING</b>	<b>1,500.0</b>	<b>1,500.0</b>	<b>1,500.0</b>	<b>1,500.0</b>	<b>1,500.0</b>	<b>1,500.0</b>

<b>CAPITAL EXPENDITURES</b>						
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<b>CHANGE IN REVENUES ( )</b>						
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**FUND SOURCE** (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF	1,500.0	1,500.0	1,500.0	1,500.0	1,500.0	1,500.0
1005 GF/Program Receipts						
1037 GF/Mental Health						
University Receipts						
<b>TOTAL</b>	<b>1,500.0</b>	<b>1,500.0</b>	<b>1,500.0</b>	<b>1,500.0</b>	<b>1,500.0</b>	<b>1,500.0</b>

Estimate of any current year (FY98) cost: none

**POSITIONS**

Full-time						
Part-time						
Temporary						

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

This bill provides for the selection and conveyance to the University of Alaska of 250,000 acres of land conveyed to the state under the Alaska Statehood Act. A list of land to be conveyed is to be presented to the legislature within 30 days of the beginning of each regular session, with each list to contain at least 25,000 acres. The bill also provides that the University of Alaska shall bear all costs of selection, platting, surveying and conveyance. This fiscal note assumes that the minimum 25,000 acreage will be platted and surveyed each year, at an estimated cost of \$1,500.0.

Prepared by Marylou Burton, Director Phone 474-6490  
 Division UA Statewide Budget Office Date 4/28/98  
 Approved by Cr. Marvlou Burton, Director *Marylou D. Burton* Date 4/28/98  
 Agency UA Statewide Budget Office

**PREPARER TO PROVIDE ALL DISTRIBUTION COPIES TO GOVERNOR'S LEGISLATIVE OFFICE**

For further distribution information, call the Governor's Legislative Office

0-LS1664B

Cook

3/30/98

CS FOR SENATE BILL NO. 340( )  
IN THE LEGISLATURE OF THE STATE OF ALASKA  
TWENTIETH LEGISLATURE - SECOND SESSION

BY

Offered:

Referred:

Sponsor(s): SENATE JUDICIARY COMMITTEE

A BILL

FOR AN ACT ENTITLED

1 "An Act relating to the University of Alaska and university land, and authorizing  
2 the University of Alaska to select additional state land."

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

4 \* Section 1. FINDINGS AND PURPOSE. The legislature finds that

5 (1) as the beneficiary under the provisions of the Acts of August 30, 1890, and  
6 March 4, 1907, designating the Alaska Agricultural College and School of Mines as  
7 beneficiary, and of March 4, 1915, 38 Stat. 1214, transferring certain land for its location and  
8 support, the University of Alaska is a land grant university;

9 (2) under the Acts of March 4, 1915, 38 Stat. 1214, and January 21, 1929, 45  
10 Stat. 1091, the Congress of the United States granted to the Territory of Alaska certain federal  
11 land to be held in trust for the benefit of the predecessor of the University of Alaska;

12 (3) the Territory was unable to receive most of the land conveyed by the Act  
13 of March 4, 1915, before repeal of that Act by Sec. 6(k) of the Alaska Statehood Act (P.L. 85-  
14 508, 72 Stat. 339);

1 (4) the Congress of the United States granted the State of Alaska the right to  
2 select 102,500,000 acres of federal land under Sec. 6(b) of the Alaska Statehood Act;

3 (5) the land selection rights embodied in the Alaska Statehood Act reflect in  
4 part congressional recognition that the state would need the land to support its government and  
5 programs, and the Congress assumed that the State of Alaska would in turn devote some of  
6 the land or the income from it for the use and benefit of the University of Alaska;

7 (6) most land grant colleges in the western United States have obtained a larger  
8 land grant from the federal government than the University of Alaska has received;

9 (7) an academically strong and financially secure state university system is a  
10 cornerstone to the long-term development of a stable population and to a healthy, diverse  
11 economy in the state;

12 (8) it is in the best interests of the state and the University of Alaska that the  
13 university take ownership of a significant and substantial portfolio of income producing land  
14 in order to provide income for the support of public higher education in the state; and

15 (9) renewable resources should be managed on a sustained yield basis, taking  
16 into account the total land grant.

17 \* Sec. 2. LEGISLATIVE INTENT. It is the intent of the legislature that the University  
18 of Alaska encourage the development of in-state value-added industries to the maximum extent  
19 feasible when developing land conveyed under AS 14.40.365.

20 \* Sec. 3. AS 14.40.170(a) is amended to read:

21 (a) The Board of Regents shall

22 (1) appoint the president of the university by a majority vote of the  
23 whole board, and the president may attend meetings of the board;

24 (2) fix the compensation of the president of the university, all heads of  
25 departments, professors, teachers, instructors, and other officers;

26 (3) confer such appropriate degrees as it may determine and prescribe;

27 (4) have the care, control, and management of

28 (A) all the real and personal property of the university; and

29 (B) land

30 (i) conveyed to the Board of Regents by the  
31 commissioner of natural resources in the settlement of the claim of the

1 University of Alaska to land granted to the state in accordance with the  
2 Act of March 4, 1915 (38 Stat. 1214), as amended, and in accordance  
3 with the Act of January 21, 1929 (45 Stat. 1091), as amended; and

4 (ii) selected by the University of Alaska and conveyed  
5 to it by the commissioner of natural resources under AS 14.40.365,  
6 except as provided in AS 14.40.368(2);

7 (5) keep a correct and easily understood record of the minutes of every  
8 meeting and all acts done by it in pursuance of its duties;

9 (6) under procedures to be established by the commissioner of  
10 administration, and in accordance with existing procedures for other state agencies,  
11 have the care, control, and management of all money of the university and keep a  
12 complete record of all money received and disbursed;

13 (7) adopt reasonable rules for the prudent trust management and the  
14 long-term financial benefit to the university of the land of the university;

15 (8) provide public notice of sales, leases, exchanges, and transfers of  
16 the land of the university or of interests in land of the university;

17 (9) report each year within the first 10 days of the convening of a  
18 regular session of the legislature on the expenditures made during the preceding fiscal  
19 year from the funds of the University of Alaska that are derived from sales, leases,  
20 exchanges, or transfers of the land of the university or of interests in land of the  
21 university

22 (A) that were conveyed to the University of Alaska in  
23 settlement of the claim of the University of Alaska to land granted to the state  
24 in accordance with the Act of March 4, 1915 (38 Stat. 1214), as amended, and  
25 in accordance with the Act of January 21, 1929 (45 Stat. 1091), as amended;  
26 and

27 (B) that were selected by and conveyed to the University of  
28 Alaska under AS 14.40.365.

29 \* Sec. 4. AS 14.40.291 is amended to read:

30 **Sec. 14.40.291. Land of the University of Alaska not public domain land.**

31 (a) Notwithstanding any other provision of law, university-grant land, state

1 replacement land that becomes university-grant land on conveyance to the university,  
 2 land selected by and conveyed to the University of Alaska under AS 14.40.365, and  
 3 any other land owned by the University of Alaska is not and may not be treated as  
 4 state public domain land. Land conveyed to the University of Alaska under  
 5 AS 14.40.365 shall be managed under AS 14.40.365 - 14.40.369 and policies of the  
 6 Board of Regents of the University.

7 (b) Title to or interest in [TO] land described in (a) of this section may not  
 8 be acquired by adverse possession, prescription, or in any other manner except by  
 9 conveyance from the university.

10 (c) The land described in (a) of this section is subject to condemnation for  
 11 public purpose in accordance with law.

12 \* Sec. 5. AS 14.40 is amended by adding new sections to read:

13 **Sec. 14.40.365. University land from statehood act land selection**  
 14 **conveyances.** (a) The University of Alaska may select and, except as provided in (m)  
 15 of this section, is entitled to receive the conveyance of 250,000 acres of land conveyed  
 16 to the state under Sec. 6(b) of the Alaska Statehood Act (P.L. 85-508, 72 Stat. 339).  
 17 The Board of Regents of the University of Alaska and the commissioner of natural  
 18 resources shall periodically and jointly submit to the legislature, within 30 days of the  
 19 beginning of a regular legislative session, a list of land proposed to be conveyed by  
 20 the state to the University of Alaska under this section. Each list must contain not less  
 21 than 25,000 acres of land or the remaining entitlement under this subsection, whichever  
 22 is less. The legislature may by law approve or disapprove the list. A list submitted  
 23 shall be considered approved for conveyance to the University of Alaska if the  
 24 legislature neither approves nor disapproves the list during the legislative session  
 25 during which the list was submitted. Land may be included in the list only if it, on  
 26 the date of its selection by the university,

27 (1) has not been conveyed by the state;

28 (2) has not been reserved by law from the public domain;

29 (3) is not land

30 (A) included in a five-year proposed oil and gas leasing  
 31 program under AS 38.05.180(b); or

1 (B) leased under, or for which a lease application is pending  
2 under, AS 38.05.180(d) or 38.05.150;

3 (4) is not subject to a possessory interest or encumbrance other than  
4 (A) a lease that is not an oil or gas lease or a coal lease;  
5 (B) a timber contract;  
6 (C) a mining claim, a prospecting site, or a prospecting permit  
7 on tide or submerged land;

8 (D) a sale of materials under AS 38.05.110 - 38.05.123;  
9 (E) a land use permit or right-of-way issued by the Department  
10 of Natural Resources under AS 38.05;

11 (5) is not necessary to carry out the purpose of an interagency land  
12 management agreement; or

13 (6) is not subject to conveyance under a land exchange or land  
14 settlement agreement.

15 (b) Notwithstanding AS 38.05.125(a), the transfer of ownership and  
16 management of land from the Department of Natural Resources to the Board of  
17 Regents of the University of Alaska under this section includes the interest of the state  
18 in

19 (1) the coal, ores, minerals, fissionable materials, geothermal resources,  
20 and fossils that may be in or on the land; and

21 (2) the oil and gas that may be in or on the land, but only as to land  
22 that is selected by the University of Alaska under this section on and after the date that  
23 is the fifth anniversary of the effective date of this section.

24 (c) When the University of Alaska selects the land to which it is entitled under  
25 this section,

26 (1) selections must be made in parcels of 40 acres or larger unless the  
27 commissioner of natural resources finds it is in the best interest of the state to convey  
28 less; and

29 (2) unless the commissioner of natural resources determines under (e)  
30 of this section that the land should not be included on the list of land submitted to the  
31 legislature under (a) of this section, the commissioner of natural resources shall, upon

1 approval of the list submitted to the legislature or upon failure of the legislature during  
2 the legislative session following submission of the list to disapprove the list, convey,  
3 subject to divestiture under (m) of this section, a document of interim conveyance  
4 under (j) of this section or a patent to land.

5 (d) Notwithstanding any other provision of law, on land selected by but not  
6 yet patented to the University of Alaska or for which a document of interim  
7 conveyance has not been issued to the University of Alaska under this section,

8 (1) the state is authorized to enter into contracts and grant leases,  
9 licenses, prospecting sites, claims, permits, rights-of-way, or easements and any interim  
10 conveyance or patent shall be subject to the contract, lease, license, prospecting site,  
11 claim, permit, right-of-way, or easement, except that the authority granted the state by  
12 this subsection

13 (A) is the authority that the state otherwise would have had  
14 under existing laws and regulations had the land not been selected by the  
15 University of Alaska; and

16 (B) may be exercised only if the University of Alaska has  
17 concurred before the action is taken by the state;

18 (2) 90 percent of the proceeds derived from contracts, leases, licenses,  
19 prospecting sites, claims, permits, rights-of-way, or easements, or from trespasses,  
20 originating after the date of selection by the University of Alaska shall be held by the  
21 state until the land has been conveyed by the patent or by a document of interim  
22 conveyance; upon the issuance of a document of interim conveyance or a patent, the  
23 state shall pay to the University of Alaska the proceeds allocable to the land that were  
24 derived from the contracts, leases, licenses, prospecting sites, claims, permits, rights-of-  
25 way, or easements, or from trespasses, and, subsequent to the issuance of a document  
26 of interim conveyance or a patent, the University of Alaska shall receive 100 percent  
27 of the proceeds derived from the contracts, leases, licenses, prospecting sites, claims,  
28 permits, rights-of-way, or easements, or from trespasses;

29 (3) subject to AS 14.40.368, responsibility for management of contracts,  
30 leases, licenses, prospecting sites, claims, permits, rights-of-way, or easements vests  
31 with the University of Alaska upon issuance of a patent or a document of interim

1 conveyance.

2 (e) The commissioner of natural resources may not include on a list of land  
3 submitted to the legislature under (a) of this section a land selection made by the  
4 University of Alaska under this section if the commissioner determines that the  
5 proposed selection

6 (1) includes land for which, at the time of its selection under this  
7 section,

8 (A) a municipality has made a selection under AS 29.65 unless  
9 the land selection is, at a later date, rejected by the commissioner of natural  
10 resources or relinquished by the municipality; or

11 (B) the commissioner reasonably believes the land may be  
12 selected by a municipality under AS 29.65, but the commissioner may not  
13 withhold under this subparagraph the conveyance of title to land selected by the  
14 university longer than three years after the date of the municipality's  
15 incorporation;

16 (2) includes land that, at the time of its selection under this section,

17 (A) is subject to an oil and gas exploration license; or

18 (B) the commissioner reasonably believes will be made part of  
19 an oil and gas exploration license issued under AS 38.05.131 - 38.05.134; the  
20 commissioner may not refuse to convey title to land to the University of Alaska  
21 under this subparagraph for more than three years after its first selection by the  
22 University of Alaska;

23 (3) is not in the best interests of the state.

24 (f) When land is conveyed to the University of Alaska under this section, the  
25 University of Alaska takes the land subject to any possessory interest held by another  
26 person on the effective date of the conveyance. Except as provided in  
27 AS 14.40.368(1), the University of Alaska is entitled to receive the consideration due  
28 under that interest for the duration of the interest.

29 (g) In conveying land to the University of Alaska under this section, the  
30 commissioner of natural resources shall give public notice that substantially complies  
31 with notice requirements under AS 38.05.945(b) and (c) and provide for access under

1 AS 38.05.127, but other provisions of AS 38.04 and AS 38.05 do not apply.

2 (h) Land transferred or conveyed to the University of Alaska under this section

3 (1) is subject to

4 (A) Sec. 6(i) of the Alaska Statehood Act (P.L. 85-508, 72 Stat.  
5 339);

6 (B) art. IX of the state constitution;

7 (C) AS 19.10.010;

8 (D) the payment requirements to the Alaska permanent fund  
9 under AS 37.13.010(a) and (b); and

10 (E) the rights of the state under former 43 U.S.C. 932 (sec. 8,  
11 Act of July 26, 1866, 14 Stat. 253);

12 (2) excludes any interest transferred to the state by quitclaim deed dated  
13 June 30, 1959, under authority of the Alaska Omnibus Act, P.L. 86-70, 73 Stat. 141;

14 (3) based on a land selection filed by the University of Alaska on or  
15 after the effective date of this section and until the day before the day that is the fifth  
16 anniversary of the effective date of this section, is subject to reservation by the state  
17 in perpetuity of all oil and gas that may be in or on the land, together with the right  
18 to explore the land for oil and gas and to remove from the land all oil and gas located  
19 in and on it.

20 (i) The University of Alaska shall bear all costs of selection, platting,  
21 surveying, and, except as provided in (k) of this section, conveyance of the land that  
22 it selects under this section and, subject to appropriation, shall reimburse the  
23 Department of Natural Resources for the reasonable costs incurred by that department  
24 relating to that selection, platting, surveying, and conveyance. As to land due the  
25 University of Alaska under (c) of this section,

26 (1) if the land has been surveyed, the boundaries of the land conveyed  
27 must conform to the public land subdivisions established by the approved survey;

28 (2) if the land is unsurveyed, the commissioner shall survey the exterior  
29 boundaries of the land to be conveyed without interior subdivision and shall issue  
30 patent in terms of the exterior boundary survey within one year of the later of the  
31 effective date of the approval by the legislature of the list containing the land or the

1 adjournment of the legislative session during which the list containing the land was not  
2 disapproved by the legislature.

3 (j) For land due the University of Alaska under (c) of this section that is  
4 unsurveyed, pending the survey of exterior boundaries and issuance of patent, the  
5 commissioner of natural resources shall, within one year of the later of the effective  
6 date of the approval by the legislature of the list containing the land or the  
7 adjournment of the legislative session during which the list containing the land was not  
8 disapproved by the legislature, prepare and provide to the University of Alaska a  
9 document of interim conveyance for the land to be conveyed.

10 (k) Except as provided in AS 14.40.368(2), management of land conveyed to  
11 the University of Alaska by patent or by a document of interim conveyance vests with  
12 the University of Alaska from the date of recording of the patent or document of  
13 interim conveyance. The state shall pay the cost of recording all patents and  
14 documents of interim conveyance.

15 (l) The University of Alaska may not make a land selection under this section  
16 after December 31, 2012.

17 (m) When the commissioner of natural resources issues a document of interim  
18 conveyance under (j) of this section or a patent for land selected and held by the  
19 University of Alaska, the commissioner of natural resources shall retain the right to  
20 reenter the land conveyed and recover title to it. The commissioner of natural  
21 resources shall reenter and recover title

22 (1) if, on the 10th anniversary of the execution of the conveyance, the  
23 commissioner finds that the University of Alaska is not actively managing the land to  
24 provide income for the support of its education programs; however, if, at any time  
25 during the 10-year period, litigation, including any appeal, has prevented the University  
26 of Alaska from actively managing the land to provide income, the date on which the  
27 commissioner of natural resources shall make the finding required by this paragraph  
28 is extended by a period equal to the period attributable to the litigation during which  
29 the University of Alaska was prevented from actively managing the land to provide  
30 income; for purposes of this paragraph, "actively managing the land to provide  
31 income" means that the University of Alaska is deriving revenue from the land

1 selection or has in place a development program to derive income from the land  
2 selection; or

3 (2) if, before January 1, 2013, any land selected and conveyed to the  
4 University of Alaska under this section is conveyed, except in an acre-for-acre land  
5 exchange, directly by the University of Alaska or indirectly by third parties, to the  
6 United States; the reentry and recovery of title under this paragraph terminates the  
7 university's title or ownership interest in all land conveyed to it under this section and,  
8 after the reentry and recovery of title, the University of Alaska may not make any  
9 other land selections under this section.

10 **Sec. 14.40.366. Management and disposition of university land.** (a) The  
11 Board of Regents shall, by policy, establish procedures for mineral entry or location  
12 and mineral leasing on university land selections made under AS 14.40.365 that are  
13 substantially similar to mineral entry, location, and leasing procedures for state land  
14 under AS 38.05.185 - 38.05.275.

15 (b) Notwithstanding other provisions of law, the University of Alaska shall  
16 seek public comment on proposals for development, exchange, or sale of university  
17 selections made under AS 14.40.365. The Board of Regents shall adopt policies that  
18 provide that the university shall prepare an annual plan for management and  
19 disposition of university land under this section and shall, not less than 60 days before  
20 scheduled approval by the Board of Regents of the plan,

21 (1) make copies of the plan available at all legislative information  
22 offices and at other locations as the university may designate;

23 (2) publish a notice in newspapers of general circulation in the state  
24 that provides the public with information on the locations where the plan is available  
25 for public inspection;

26 (3) give notice to all legislators and to local governments with  
27 jurisdiction over the land affected by the proposal; and

28 (4) seek public comment on the annual plan before action by the Board  
29 of Regents approving the plan.

30 (c) Subject to appropriation of the income, the Board of Regents shall use at  
31 least 20 percent of the income derived from the management of university land

1 selections made under AS 14.40.365 for the campus of the university that is located  
2 closest to the land from which the income is derived.

3 **Sec. 14.40.368. Management and disposition of income from existing**  
4 **encumbrances.** For the land selected by and conveyed to the University of Alaska  
5 under AS 14.40.365 that is subject to a lease, contract, prospecting site, claim, sale,  
6 permit, or right-of-way identified in AS 14.40.365(a)(4)

7 (1) the state is entitled to receive the income obtained from the lease,  
8 contract, prospecting site, claim, sale, permit, or right-of-way for the duration of the  
9 term of the lease, contract, prospecting site, claim, sale, permit, or right-of-way, and  
10 during any renewal of it that is authorized by the lease, contract, prospecting site,  
11 claim, sale, permit, or right-of-way, or by law;

12 (2) the responsibility for the management of the land vests with the  
13 University of Alaska only upon conclusion of the term of the lease, contract,  
14 prospecting site, claim, sale, permit, or right-of-way, and any renewal authorized by  
15 the lease, contract, prospecting site, claim, sale, permit, or right-of-way, or by law.

16 **Sec. 14.40.369. Customary and traditional uses to be continued.** When land  
17 selected by the University of Alaska under AS 14.40.365 has been conveyed to it,  
18 before conveying or disposing of an interest in land to a third party, the University of  
19 Alaska shall manage the land in a manner that permits customary and traditional uses  
20 of the resources of that land to the maximum extent practicable.

21 \* Sec. 6. AS 14.40.400(a) is amended to read:

22 (a) The Board of Regents shall establish a separate endowment trust fund in  
23 which shall be held in trust in perpetuity all

24 (1) [ALL] net income derived from the sale or lease of the land granted  
25 under the Act of Congress approved January 21, 1929, as amended; [AND]

26 (2) net income derived from the sale, lease, or management of the  
27 land selected by and conveyed to the University of Alaska under AS 14.40.365;  
28 and

29 (3) [ALL] monetary gifts, bequests, or endowments made to the  
30 University of Alaska for the purpose of the fund.

31 \* Sec. 7. AS 29.45.030(a) is amended to read:

- 1 (a) The following property is exempt from general taxation:
- 2 (1) municipal property, including property held by a public corporation
- 3 of a municipality, [OR] state property, property of the University of Alaska, or land
- 4 that is in the trust established by the Alaska Mental Health Enabling Act of 1956, P.L.
- 5 84-830, 70 Stat. 709, except that
- 6 (A) a private leasehold, contract, or other interest in the
- 7 property is taxable to the extent of the interest;
- 8 (B) notwithstanding any other provision of law, property
- 9 acquired by an agency, corporation, or other entity of the state through
- 10 foreclosure or deed in lieu of foreclosure and retained as an investment of a
- 11 state entity is taxable; this subparagraph does not apply to federal land granted
- 12 to the University of Alaska under AS 14.40.380 or 14.40.390, [OR] to other
- 13 land granted to the university by the state to replace land that had been granted
- 14 under AS 14.40.380 or 14.40.390, or to land conveyed by the state to the
- 15 university under AS 14.40.365;
- 16 (C) an ownership interest of a municipality in real property
- 17 located outside the municipality acquired after December 31, 1990, is taxable
- 18 by another municipality; however, a borough may not tax an interest in real
- 19 property located in the borough and owned by a city in that borough;
- 20 (2) household furniture and personal effects of members of a
- 21 household;
- 22 (3) property used exclusively for nonprofit religious, charitable,
- 23 cemetery, hospital, or educational purposes;
- 24 (4) property of a nonbusiness organization composed entirely of persons
- 25 with 90 days or more of active service in the armed forces of the United States whose
- 26 conditions of service and separation were other than dishonorable, or the property of
- 27 an auxiliary of that organization;
- 28 (5) money on deposit;
- 29 (6) the real property of certain residents of the state to the extent and
- 30 subject to the conditions provided in (e) of this section;
- 31 (7) real property or an interest in real property that is exempt from

1 taxation under 43 U.S.C. 1620(d), as amended;

2 (8) property of a political subdivision, agency, corporation, or other  
3 entity of the United States to the extent required by federal law; except that a private  
4 leasehold, contract, or other interest in the property is taxable to the extent of that  
5 interest;

6 (9) natural resources in place including coal, ore bodies, mineral  
7 deposits, and other proven and unproven deposits of valuable materials laid down by  
8 natural processes, unharvested aquatic plants and animals, and timber.

# LEGAL SERVICES

DIVISION OF LEGAL AND RESEARCH 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 99801-2105

## MEMORANDUM

March 26, 1998

**SUBJECT:** Sectional summary (SB 340)

**TO:** Senator Robin Taylor, Chair  
Senate Judiciary Committee  
Attn: Ralph Bennett

**FROM:** Tamara Brandt Cook  
Director *ABC*

Sec. 1. Findings and purpose, including that the University of Alaska should own income producing land to provide income for the support of public higher education.

Sec. 2. Legislative intent that the University encourage the development of in-state value-added industries when developing the land conveyed to it.

Sec. 3. Technical amendment to add the land conveyed under this bill to the provision granting the Board of Regents the care, control, and management of other University land.

Sec. 4. Technical amendment to account for the land conveyed under this bill.

Sec. 5. Adds new section dealing with new land selections.

Sec. 14.40.365. Allows the University to select 250,000 acres of state land. A list of land proposed to be conveyed by the state shall be periodically submitted to the legislature and the legislature may approve or disapprove the list. Sets out requirements for the land that may be selected. The transfer of ownership of the land to the University includes the interest of the state in minerals and to oil and gas, but only as to land that is selected at least 5 years after the effective date of the bill. Describes the power of the state to manage the land selected but not yet conveyed. Lists types of land that may not be conveyed, including land the conveyance of which is determined by the Commissioner of Natural Resources not to be in the best interest of the state. The University bears costs of selection, platting, surveying, and conveying the land, except the state pays the cost of recording patents and documents of interim conveyance. The University must make all selections by December 31, 2012. Land reverts to the state if on the 10th anniversary of the conveyance the commissioner finds that the University is not actively managing the land to provide income.

Sec. 14.40.366. The Board of Regents must establish procedures for mineral leasing on the conveyed land that are substantially similar to state procedures. The board must

Senator Robin Taylor

March 26, 1998

Page 2

prepare an annual plan for the management of the land and seek public comment on the plan. At least 20 percent of the income derived from the management of selected land must be used at the campus that is closest to the land from which the income was derived.

Sec. 14.40.358. For land conveyed that is subject to certain types of agreements (leases, claims, permits, etc.), the state is entitled to receive the income, and the management of the land is turned over to the University only after the term of the agreement expires.

Sec. 14.40.369. Before conveying or disposing of an interest in selected land the University is required to manage the land in a manner that permits customary and traditional uses of resources to the maximum extent practicable.

Sec. 6. Includes income derived from the management of selected land in the endowment trust fund.

Sec. 7. Exempts from municipal taxation property of the University.

TBC:pl:jr

98-067.plm



APR 25 1998

# ALASKA MINERS ASSOCIATION, INC.

3305 Arctic #202, Anchorage, Alaska 99503 FAX. (907) 563-9225 Telephone. (907) 563-9228

April 24, 1998

Honorable Rick Halford  
Chairman, Senate Resources  
Capitol Building  
Juneau, AK 99801

RE: Senate Bill 340, University Lands

Dear Senator Halford,

Thank you for the opportunity to comment on Senate Bill 340 which proposes that the University of Alaska be allowed to select 250,000 acres of State land as a match to the same amount of land being obtained from the federal government

The Alaska Miners Association has been involved in this issue for many years. SB-340 addresses most of the concerns that we have had with past proposals of this type. Our concerns fall into four general categories. First, any UA selections must exclude any existing mining claims, upland leases, etc. Second, the selection process must be defined in a way that minimizes over-selections so it cannot be used to tie up large areas of land that will never actually become property of the University. Third, the process must be clear and straight forward to insure that future problems are not created. Fourth, the effective date for start of the selection process should not commence until an Act of Congress is passed and becomes law giving the University the right to select from the federal lands.

Even though most of our concerns have been addressed in SB-340, there are some changes that we feel are needed. I believe the sponsor's intent is to exclude any encumbered lands such as existing mining claims, leases, etc. but the list in Sec.5. under AS 14.40.365(a)(4)(C) should be expanded as follows:

(C) a mining claim, a prospecting site, an upland mining lease, a prospecting permit on tide or submerged land, a lease on tide or submerged land, or a coal lease.

Also, if land with such encumbrances is not available for selection, the new Sec. 14.40.368 is not needed. I.E. the lands with encumbrances cannot be selected, therefore there is no need for addressing the situation where there are revenues from such lands that may be transferred to the University.

Regarding the effective date - the effective date to begin selecting State-owned land should be contingent upon passage of an act in the Congress allowing selection of at least 250,000 acres and T.A. of that land to the University. This will provide an incentive and support to help get

the act through Congress. This will also help ensure that the focus on obtaining the federal land is maintained by the University and us supporters of the University. It will also allow the University to wait on the selection process until all the pieces are in place and it can gear up for the work without doing it piecemeal.

The mining industry is a very strong supporter of the University of Alaska and is especially supportive of the University obtaining 250,000 acres from the federal government that can provide income for the University.

Sincerely,

A handwritten signature in black ink, appearing to read "Steven C. Borell". The signature is fluid and cursive, with the first name "Steven" and last name "Borell" clearly distinguishable.

Steven C. Borell, P.E.  
Executive Director

cc: Senator Robin Taylor  
Wendy Redman



# ALASKA CENTER *for the* ENVIRONMENT

519 West 8th Avenue, Suite 201 • Anchorage, Alaska 99501  
(907) 274-3621 • fax: 274-8733

April 29, 1998

Senate Resources Committee  
Alaska State Legislature  
State Capitol (MS 3100)  
Juneau, AK 99801-1182

Re: SB 340

Dear Committee Members:

I apologize for the brevity of this letter, and for relying on a position paper which was prepared in response to an earlier university land grant bill, SB 250, and not the current one, SB 340 (SB 340 would dispose of 250,000, not 350,000 acres). We believe, however, that most if not all of the points in the enclosed paper are still directly relevant to the current legislation, and we wanted to get something to you before this afternoon's hearing.

We recommend that you not pass this bill out of committee. Both the university and the public would be better served, and there would be far fewer conflicts in the future, if the university were provided adequate funding through annual appropriations—which could perhaps be generated in part through the use in some fashion of the Permanent Fund, as we believe Senator Stevens has suggested.

Thank you for considering our concerns.

Sincerely,

Cliff Eames  
Issues Director



# ALASKA CENTER *for the* ENVIRONMENT

519 West 8th Avenue, Suite 201 • Anchorage, Alaska 99501  
(907) 274-8621 • fax: 274-8738

## SB 250 DISPOSAL OF LAND TO THE UNIVERSITY

The Alaska Center for the Environment opposes SB 250, which would transfer to the University of Alaska 350,000 acres of yet to be identified multiple use public land to be used for the single purpose of generating the maximum amount of revenue for the university's operations.

**\*\* ACE and other conservation organizations strongly support the university.** However, the university, like other important public institutions, facilities, programs, and services should continue to be funded through the normal annual appropriations process rather than further fragmenting Alaska's land ownership and management patterns. The university is no more entitled to a dedicated source of revenue than is any other state entity.

**\*\* In fact, gratuitously transferring land to the university is probably illegal as a violation of the dedicated fund prohibition in the state constitution.** Even if it's not illegal, it runs counter to the wise policy adopted by our founding fathers. At the very least it creates a *de facto* dedicated fund or entitlement that effectively ties the hands of both the legislature and the general public during the appropriations process and in land management, and that forecloses funding and land management options for the future. Finally, it would seem to invite litigation that could threaten the mental health lands settlement that was finally achieved after nearly a decade of costly lawsuits and negotiations (although we believe the two situations can be distinguished).

**\*\* That the university was established decades ago as a land grant university is irrelevant; the most sensible way to fund it and other public programs in 1995 and in the foreseeable future is through annual appropriations.**

**\*\* Public lands should remain in general public ownership so that all Alaskans can continue to participate in decisions affecting their use.** SB 250 exempts the land transferred to the university from virtually all of the public participation and resource protection requirements of the Alaska Lands Act (AS 38.04 and 38.05). It negates years of good faith public participation in state land use planning that resulted in decisions to retain most lands for fish and wildlife habitat, public recreation and a host of other purposes (including development).

**\*\* The lands will no longer be managed for multiple public uses, such as fishing, hunting, and other public recreation, and the protection of fish and wildlife habitat, water quality, and scenic beauty (as well as for direct revenue generating purposes), but for revenue generation only—which will generally be incompatible with those other uses and also with industries like tourism and commercial fishing.**

**\*\* The university will select the best and most valuable land leaving the poorer land to the public.**

**\*\* Political opposition is substantial, and will only increase as lands to be transferred are actually identified on the ground. Attempts to compensate the mental health lands trust with large amounts of public land (some sort of reasonable compensation was mandated by the court in that instance; the university land dispute has already been settled) generated opposition, both in and out of court, not only from conservationists but also from sport and commercial fishers, hunters, other recreationists, subsistence users, recreational cabin owners, local residents, lodge owners, air taxi operators, the Anchorage Hotel/Motel Association, the oil and coal industries, the Alaska Miners Association, and the Resource Development Council (as well as mental health advocates who recognized that managing land was likely to create more headaches than revenue, and that in any case any revenue that might be generated would almost certainly result in an equal reduction in their General Fund support).**

**\*\* Access to public lands traditionally used for fishing, hunting, trapping and many other recreational purposes will be lost or restricted after their transfer.**

**\*\* Development on public lands transferred to the university will conflict with existing uses of private lands by neighboring landowners.**

4/10/96

**S B**

**3 4 1**

# SENATE COMMITTEE REPORT

## First Committee of Referral

DATE: 3/12/98

FURTHER:

Date of 5-Day Notice: 3/19/98  
(in accordance with Uniform Rule 23)

DATE TURNED  
IN TO OFFICE: 3/23/98

Resources Committee considered      SENATE BILL NO. 341

"An Act relating to agricultural land; and providing for an effective date."

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:**
- same title
  - technical title
  - new: SCR# \_\_\_\_\_

SIGNING DO PASS	DP	OTHER RECOMMENDATIONS	NR	DNP	AM
<i>Chris L. Taylor</i>	✓				
<i>[Signature]</i>	✓				
<i>[Signature]</i>	✓				
<i>[Signature]</i>	✓				
<b>CHAIR:</b> <i>Rick Halford</i>	✓	<b>CHAIR:</b>			

**NEW FISCAL NOTE(S):**

Department	Date	Zero	Fiscal
DNR	3/12	X	

**PREVIOUS FISCAL NOTE(S):\***

Department	Date	Zero	Fiscal

APPROPRIATION -- no fiscal note

\*include fiscal notes accompanying Governor's bill

# FISCAL NOTE

STATE OF ALASKA  
1998 LEGISLATIVE SESSION

BILL NO. SB341

Revision Date: 12-Mar-98 Dept Affected: Natural Resources  
 Title: An Act relating to agricultural land; and BRU: Agricultural Development  
providing for an effective date. Component: Agricultural Development  
 Sponsor: Senate State Affairs Committee  
 Requestor: Senate Resources Component Serial No. #455

**Expenditures/Revenues** (Thousands of Dollars)

OPERATING EXPENDITURES	FY99	FY00	FY01	FY02	FY03	FY04
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
<b>TOTAL OPERATING</b>	0.0	0.0	0.0	0.0	0.0	0.0
<b>CAPITAL EXPENDITURES</b>	0.0	0.0	0.0	0.0	0.0	0.0
<b>CHANGE IN REVENUES (fund code)</b>	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						
1037 GF/Mental Health						
Other (Specify Type)						
<b>TOTAL</b>	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY98) 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)

There is no fiscal impact associated with implementation of this legislation.

Prepared by: Robert Wells, Director *[Signature]* Phone: 745-7200  
 Division: Agriculture Date: 12-Mar-98  
 Approved by Commissioner: *[Signature]* Date: 3-12-98  
 Agency: Natural Resources

# ALASKA STATE LEGISLATURE



*Interim.*

600 East Railroad Avenue  
Wasilla, Alaska 99654  
(907) 376-3370  
(907) 376-3157 Fax

*Session.*

State Capitol  
Juneau, Alaska 99801-1182  
(907) 465-6600  
Fax (907) 465-3805

## SENATOR LYDA GREEN SENATE DISTRICT N

### Sponsor Statement

#### Senate Bill 341

“An Act relating to agricultural land; and providing for an effective date.”

Senate Bill 341 will correct a technical error in the legal descriptions of Section 14(b), Ch 20, SLA 1997 passed in SB 109, last session.

The Matanuska-Susitna Borough acquired Tract 30 by patent from the State of Alaska under the Municipal Entitlement Act. The borough then classified the land as agriculture and then sold the agricultural rights of Tract 30 to a farmer in May, 1981. The Borough retained ownership of the development rights. The Alaska Revolving Loan Fund later acquired the agricultural rights in Tract 30 by foreclosure of its lien which the farmer had secured with the agricultural rights. The Borough still retains the development rights provided for under borough code.

Tract 30 is the only parcel designated in SB 109 that has a split title and borough agricultural rights. Passage of SB 341 will delete reference to Tract 30 in SB 109 and it will allow unclouded development rights for the Borough and will permit the sale of the agricultural rights by the Alaska Revolving Loan Fund to be finalized.

Senate Bill 341 is supported by the Department of Natural Resources, Division of Agriculture and the Matanuska-Susitna Borough.

Senator\_Lyda\_Green@legis.state.ak.us

Alexander Creek • Big Lake • Butte • Caswell • Chickaloon • Chulitna • Finger Lake • Gouise Bay • Hitcher Pass • Huntington  
Knik • Kashwitna • Lake Louise • Lazy Mountain • Montana Creek • Nancy Lake • Neldhuna • Palmer • Peterville • Point Mackenzie  
Sheep Mountain • Skwentna • Sunshine • Sutton • Talkeetna • Trail Lakes • Trapper Creek • Wasilla • Willow

# LEGAL SERVICES

DIVISION OF LEGAL AND RESEARCH 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 99801-2105

## MEMORANDUM

March 13, 1998

**SUBJECT:** Sectional Summary of SB 341. (20-LS1679\A)

**TO:** Senator Lyda Green  
Attn: Janey Wineinger

**FROM:** Gerald P. Luckhaupt *GPL*  
Legislative Counsel

You have requested a sectional summary of the above-described bill. As a preliminary matter, please note that a sectional summary of a bill should not be considered an authoritative interpretation of the bill - the bill itself is the best statement of its contents.

Section 1 of the bill amends §14(b), Ch. 14, SLA 1997, relating to agricultural land at Point McKenzie.

Section 2 of the bill provides an immediate effective date.

GPL:jdr  
98-162.jdr

MAR 18 1998



## MATANUSKA-SUSITNA BOROUGH

Borough Manager

350 E. Dahlia Avenue, Palmer, Alaska 99645-6488

Phone (907) 745-9689 • FAX (907) 745-9845

March 11, 1998

State of Alaska Legislature  
Senate State Affairs Committee

The Honorable Lyda Green, Chair  
The Honorable Jerry Ward, Vice-Chair  
The Honorable Jerry Mackie, member  
The Honorable Mike Miller, member  
The Honorable Jim Duncan, member

RE: The Twentieth Legislature - Second Session  
Senate Bill 341 - An act relating to agricultural land

Dear Senators:

The Matanuska-Susitna Borough requests your support and passage of Senate Bill 341 now before you. This bill will correct a technical error in the legal descriptions of Section 14(b), Ch 20, SLA 1997 passed in Senate Bill 109 last session by deleting Tract 30. Tract 30 of ASLS 80-111 was included in the enumerated provision however, the condition of title for Tract 30 is very different from the other Tracts in ASLS 80-111 rightfully included in the bill.

The Matanuska-Susitna Borough acquired Tract 30 by patent from the State of Alaska under the Municipal Entitlement Act. The borough then classified the land as agriculture (based on borough code) and then sold the agricultural rights of Tract 30 to a farmer in May, 1981. The borough retained ownership of the development rights (as defined in borough code, not state law). The Alaska Revolving Loan Fund (ARLF) later acquired the agricultural rights in Tract 30 by foreclosure of its lien(s) which the farmer had secured with the agricultural rights.

While the borough lost its ability to recover the agricultural rights, it still retains the development rights provided for under borough code, and has actively enforced the rights when needed during the agricultural development of this property.

It is important from an administrative and legal viewpoint that Tract 30 be deleted so the authority for the "development rights" is clearly retained by the borough and not clouded.

Your consideration of this matter is greatly appreciated.

Sincerely,

Michael J. Scott  
Borough Manager

# STATE OF ALASKA

## DEPARTMENT OF NATURAL RESOURCES

### DIVISION OF AGRICULTURE

**TONY KNOWLES, GOVERNOR**

CENTRAL OFFICE  
1800 GLENN HIGHWAY, STE 12  
PALMIR, ALASKA 99645  
PHONE: (907) 745-7200  
FAX: (907) 745-7112

PLANT MATERIALS CENTER  
11002 BOX 7440  
PALMIR, ALASKA 99645-9706  
PHONE: (907) 745-4469  
FAX: (907) 746-1568

NORTHERN REGION OFFICE  
3700 AIRPORT WAY  
FAIRBANKS, ALASKA 99709-4699  
PHONE: (907) 451-2780  
FAX: (907) 451-2751

March 18, 1998

The Honorable Lyda Green, Chair  
Senate State Affairs Committee  
State Capitol, Room 125  
Juneau, AK 99801-1182

RE: Senate Bill 341 - An act relating to agricultural land

Dear Senator Green:

The Division of Agriculture would like to voice support for SB 341, currently before your committee. Tract 30, ASLS 80-111 was inadvertently included in SB 109 last session, and the proposed technical amendment to remove the parcel will solve the title problem for both the Mat-Su Borough and ARLF.

The Borough received patent from the State of Alaska to Tract 30 under the Municipal Entitlement Act in 1981. The Borough contributed this parcel to the Pt. MacKenzie Agricultural Project Sale held in 1981, and provided financing as well. The Borough recorded Conditions & Restrictions on this parcel restricting use to agricultural only, as defined by the borough. All "Non-Agricultural Surface Estate Interests" were retained by the Mat-Su Borough.

ARLF financed the development of Tract 30 and the loans were partially secured by a Deed of Trust on the property. The Borough subsequently subordinated its position to ARLF. In December, 1991, ARLF received a Trustee's Deed to the (borough) Agricultural Rights through Non-Judicial Foreclosure.

After considerable research and meetings held with the Land Management Division of the Borough, the Attorney General's Office and ARLF staff, it was determined that Tract 30 is the only parcel designated in SB 109 that has split title and borough agricultural rights.

Sen. Lyda Green  
March 18, 1998  
Page 2

The Division certainly supports SB 341 which deletes reference to Tract 30 in SB 109. It will allow unclouded development rights for the Mat-Su Borough and will permit the sale of the agricultural rights by ARLF to be finalized.

Sincerely,



Robert Wells  
Director

/dlh

cc: Sen. Rick Halford  
Sen. Loren Leman  
Sen. Bert Sharp  
Sen. Robin Taylor  
Sen. John Torgerson  
Sen. Georlanna Lincoln  
Michael J. Scott, Mat-Su Borough Manager

\*\*\*END\*\*\*



**MATANUSKA-SUSITNA BOROUGH**  
350 East Dahlia Avenue, Palmer, Alaska 99645-6488  
**LAND MANAGEMENT DIVISION**  
PHONE: (907) 745-4801 FAX: (907) 745-9876

February 17, 1998

Ms. Janie Wineinger, Legislative Aide  
Office of Senator Lyda Green  
State Capitol  
Juneau, AK 99801-1182

VIA FAX

RE: Request for technical amendment  
to correct legal description  
of affected Tracts in SB 109

Dear Ms. Wineinger:

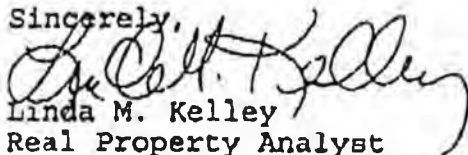
Recently the Matanuska-Susitna Borough became aware that Tract 30 of ASLS 80-111 was included in a provision of SB 109 when it passed last session. The Matanuska-Susitna Borough is requesting a technical amendment to delete Tract 30 from the legislation for the reasons which follow. A marked up copy of the legislation is attached which indicates the changes needed on pages 4 and 5.

The Matanuska-Susitna Borough has retained ownership of the "development rights" (as defined in borough code) in this tract. The Alaska Revolving Loan Fund (ARLF) acquired the "agricultural rights" (which the borough sold to Karen Lee in May, 1981) in this tract when ARLF foreclosed its lien(s) which Lee had secured with the "agricultural rights".

I have worked with the Palmer office of ARLF to contact various individuals within Division of Agriculture, Department of Natural Resources, and the Attorney General's office to seek a speedy remedy to the situation. The conclusion reached is that a technical amendment is the solution needed.

The Matanuska-Susitna Borough makes this request for a technical amendment as early as possible. Please call me at 907-745-9864 if additional information is needed.

Sincerely,

  
Linda M. Kelley  
Real Property Analyst

Enclosures

cc: ARLF  
Borough Manager

**S B**

**3 4 2**

**SENATE COMMITTEE REF ORT**  
**First Committee of Referral**

DATE: 3/12/98

FURTHER: Finance

Date of 5-Day Notice: 4/23/98  
 (in accordance with Uniform Rule 23)

DATE TURNED  
 IN TO OFFICE: 5/4/98

Resources Committee considered      SENATE BILL NO. 342

"An Act approving the sale of Prudhoe Bay Unit royalty oil by the State of Alaska to Mapco Alaska Petroleum, Inc.; and providing for an effective date."

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:**
- same title
  - technical title
  - new: SCR# \_\_\_\_\_

SIGNING/DO PASS	DP	OTHER RECOMMENDATIONS	NR	DNP	AM
<i>[Signature]</i>	<input checked="" type="checkbox"/>				
<i>[Signature]</i>	<input checked="" type="checkbox"/>	<i>[Signature]</i>	<input checked="" type="checkbox"/>		
<i>[Signature]</i>	<input checked="" type="checkbox"/>				
<i>[Signature]</i>	<input checked="" type="checkbox"/>				
<i>[Signature]</i>	<input checked="" type="checkbox"/>				
<b>CHAIR:</b> <i>[Signature]</i>	<input checked="" type="checkbox"/>	<b>CHAIR:</b>			

**NEW FISCAL NOTE(S):**

Department      Date      Zero      Fiscal

Department	Date	Zero	Fiscal
<i>ENR / OIL &amp; GAS</i>	<i>3/10</i>		<i>760.2</i>

**PREVIOUS FISCAL NOTE(S):\***

Department      Date      Zero      Fiscal

Department	Date	Zero	Fiscal
<i>→</i>			

APPROPRIATION -- no fiscal note

\*include fiscal notes accompanying Governor's bill

# FISCAL NOTE

No. 1  
 Bill Version: SB342  
 (S) Publish Date: 3/12/98

STATE OF ALASKA  
 1998 LEGISLATIVE SESSION

Revision Date: \_\_\_\_\_ Dept Affected: Natural Resources  
 Title: MAPCO Royalty Oil Contract BRU: Resource Development  
 Component: Oil & Gas Development  
 Sponsor: Rules Committee  
 Requestor: Governor Component Serial No. 439

Expenditures/Revenues (Thousands of Dollars)

OPERATING EXPENDITURES	FY99	FY00	FY01	FY02	FY03	FY04
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
<b>TOTAL OPERATING</b>	0.0	0.0	0.0	0.0	0.0	0.0
<b>CAPITAL EXPENDITURES</b>	0.0	0.0	0.0	0.0	0.0	0.0
<b>CHANGE IN REVENUES (fund code)</b>	760.2	1,533.0	1,533.0	1,533.0	772.8	0.0

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type)						
<b>TOTAL</b>	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY98) cost: \$ \_\_\_\_\_

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)

Sale of royalty oil to Mapco from Jan 1, 1998, when first barrel is paid for, to Dec 31, 2003, at 28,000 bbl/day.

Prepared by: *Carol Annall* Phone: 465-4730  
 Division: LEGISLATIVE SERVICES DIVISION Date: 3/10/98  
 Approved by Commissioner: *Carol Annall* Date: 3/10/98  
 Agency: Natural Resources

TONY KNOWLES  
GOVERNOR



P.O. Box 110001  
Juneau, Alaska 99811-0001  
(907) 465-3500  
Fax (907) 465-3532

STATE OF ALASKA  
OFFICE OF THE GOVERNOR  
JUNEAU

March 10, 1998

342

The Honorable Mike Miller  
Senate President  
Alaska State Legislature  
State Capitol  
Juneau, AK 99801-1182

*Mike*  
Dear President Miller:

I am transmitting a bill that provides for legislative approval of a royalty oil contract between the state and Mapco Alaska Petroleum, Inc. for the sale of Prudhoe Bay Unit royalty oil. A copy of the resolution of the Alaska Royalty Oil and Gas Development Advisory Board, recommending approval of that contract in accordance with AS 38.06.040(a)(3) and 38.06.050(a) and providing the report required by AS 38.06.070(c), is also being provided to the Legislature with this bill.

Under the contract, the state will receive a fair value for the royalty oil, while promoting in-state processing and petroleum product competition. Among the economic benefits to Alaska's citizens are competitive consumer prices for petroleum products, such as gasoline, diesel and jet fuels, and employment of Alaskans at Mapco's North Pole refinery.

Copies of the commissioner's preliminary finding and the draft contract have been sent to the legislature and made available to the public for review. The commissioner's final finding and the signed contract are attached.

I respect the Legislature's desire to have a direct voice in major disposals of royalty oil. Therefore, although this and previous administrations have consistently taken the position the statutory requirement of legislative approval of royalty oil contracts is unconstitutional, as a matter of comity, I am introducing a bill approving and ratifying the contract. The contract is consistent with provisions requiring approval by the Legislature before it takes effect.

I urge your prompt consideration and passage of this bill.

Sincerely,

A handwritten signature in cursive script, appearing to read "Tony Knowles".

Tony Knowles  
Governor

## MAPCO ALASKA PETROLEUM Inc. POSITION PAPER

### FIVE YEAR ROYALTY OIL CONTRACT WITH STATE OF ALASKA

March 24, 1998

MAPCO ALASKA PETROLEUM Inc. (MAPI) is seeking ratification of a new five year royalty oil contract from the Alaska State legislature. The contract was unanimously recommended for legislative approval by the Alaska Royalty Oil and Gas Development Advisory Board at their February 17, 1998, meeting. Approval of the contract is now before the legislature in the form of SB 329 and HB 469.

The contract has been signed by the Alaska Commissioner of Natural Resources and the President of MAPI. The contract calls for the sale of approximately 28,000 barrels per day (bpd) of North Slope royalty crude to MAPI. The contract will be effective December 1, 1998, and calls for MAPI to pay the State Royalty-in-Value price for the royalty oil plus a \$.15 per barrel premium. Over the five years of the contract, the State could receive an additional \$7.665 million in gross revenues over what they would receive from other Prudhoe Bay lessees for the royalty oil.

The effective date of December 1, 1998, coincides with the expiration of a current one year contract MAPI now has with the State for 13,000 bpd of royalty oil. The new contract will replace the volume in the one year contract and add the additional volume to provide feed-stock for the \$70 million refinery expansion currently underway at MAPI. The expansion will add a new third crude unit that should be ready to ship additional production by December 1, 1998.

The \$70 million expansion project currently has 50 Alaska workers on site. Construction employment will peak at about 375 workers this summer. Over 30 Alaskan vendors and contractors will be working on the refinery expansion. Once completed, the new crude unit will produce an additional 14,000 bpd of jet fuel for Alaska's growing air cargo and air passenger business. An additional 25 rail cars of jet fuel will be shipped daily on the Alaska Railroad from Fairbanks to Anchorage when the project is completed. Local property tax payments by MAPI will increase, revenues to GVEA will increase, and vendors and contractors will benefit from both the construction and the ongoing operation of the third crude unit. Also, 19 permanent new employees will be hired at the refinery and the Anchorage terminal to help operate the new crude unit and market the additional production.

MAPI has refining, marketing and retail activities throughout Alaska. MAPI employs 155 people in the refining and marketing business and about 300 workers at the 29 MAPCO Express retail stores in Alaska. MAPI spent approximately \$330 million with over 600 Alaskan vendors and contractors in 1997. In addition, MAPI provided approximately \$500,000 in funding to educational institutions, non profit organizations and for event sponsorships in 1997. MAPI has its refining headquarters at North Pole near Fairbanks and its marketing headquarters in Anchorage.

For more information contact Jeff Cook at (907) 488-5104

# FISCAL NOTE

(S) RES

**STATE OF ALASKA**  
**1998 LEGISLATIVE SESSION**

No. 1  
 Bill Version: SB342  
 (S) Publish Date: 3/12/98

Revision Date: \_\_\_\_\_ Dept Affected: Natural Resources  
 Title: MAPCO Royalty Oil Contract BRU: Resource Development  
 Component: Oil & Gas Development  
 Sponsor: Rules Committee  
 Requestor: Governor Component Serial No. 439

**Expenditures/Revenues** (Thousands of Dollars)

OPERATING EXPENDITURES	FY99	FY00	FY01	FY02	FY03	FY04
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
<b>TOTAL OPERATING</b>	0.0	0.0	0.0	0.0	0.0	0.0
<b>CAPITAL EXPENDITURES</b>	0.0	0.0	0.0	0.0	0.0	0.0
<b>CHANGE IN REVENUES (fund code)</b>	760.2	1,533.0	1,533.0	1,533.0	772.8	0.0

**FUND SOURCE** (Thousands of Dollars)

100? Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1007 GF/Mental Health						
Other (Specify Type)						
<b>TOTAL</b>	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY98) cost: \$ \_\_\_\_\_

**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)

Sale of royalty oil to Mapco from Jan 1, 1998, when first barrel is paid for, to Dec 31, 2003, at 28,000 bbl/day.

Prepared by: *Carol Annall* Phone: 465-4730  
 Division: SUPPORT SERVICES Date: 3/10/98  
 Approved by Commissioner: *Carol Annall* Date: 3/10/98  
 Agency: Natural Resources

**Final Finding and Determination**

**to Sell Royalty Oil**

**to**

**MAPCO Alaska Petroleum Inc.**

SENATE BILL NO. 342  
HOUSE BILL NO. 469



Alaska Department of  
**NATURAL  
RESOURCES**

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

**March 5, 1998**

1

**Final Finding and Determination to Sell Royalty Oil  
to  
MAPCO Alaska Petroleum Inc.**

**I. Summary**

The commissioner of the Department of Natural Resources, on behalf of the state of Alaska, proposes a five-year sale of approximately 28,000 barrels per day of the state's royalty oil to MAPCO Alaska Petroleum Inc. (MAPCO). MAPCO operates a refinery in North Pole in the Fairbanks North Star Borough and is one of the state's largest retailers of petroleum products. This document provides the final finding and determination required under AS 38.05.183 for the proposed sale.

The department distributed the preliminary finding and draft contract on January 30, 1998. The public comment period ended one month later on March 3, 1998. The department notified the public about the preliminary finding and draft contract and written comments were solicited by sending a notice of the sale or copies of the preliminary finding and draft contract to 200 citizens, special interest groups, industry and government representatives, and the media. The department also advertised through display advertisements in newspapers throughout Alaska. At the close of the comment period, the department received three letters. The letters are included as Appendix C to this finding.

The mailing and advertisements also notified the public of a meeting of the Alaska Royalty Oil and Gas Development Advisory Board (Royalty Board) that was held on February 17, 1998 at which the proposed sale was discussed and public comment was solicited. Except for the representatives from MAPCO, there was no public testimony at the Royalty Board meeting. However, a letter from Hal Whitley, owner of Wet Willy's Carwash in Fairbanks was faxed to the Royalty Board in the morning before the Royalty Board met. The Royalty Board considered Mr. Whitley's comments. Subsequently, the Royalty Board unanimously supported the sale and adopted the Commissioner's findings as its report to the legislature, and passed a resolution recommending approval of the sale by the legislature.

This is a final finding and final conclusions have been reached. The commissioner has determined that the proposed sale to MAPCO is in the state's best interest. The final finding, a copy of the signed contract, and the recommendation from the Royalty Board will be forwarded to the Legislature under AS 38.06.055.

**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 of the 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 their own share of production. The lessees are obligated to pay the state the value of the state's RIV share.

### Quantity

The state agreed to increase the percentage of royalty oil that MAPCO may purchase to assure MAPCO a relatively constant supply of RIK oil as production declines. Over the life of the contract the volume of RIK taken by MAPCO will remain fairly constant. This proposed contract will increase the percentage of PBU royalty oil that MAPCO now receives under the current one-year contract. MAPCO will purchase 27.0 percent of the state's royalty share in 1999 (about 28,000 barrels per day from the PBU). In the second, third, fourth and fifth years, MAPCO's RIK purchase percentage will increase slightly to 28.5 percent, 30.0 percent, 32.0 percent and 33.5 percent, respectively.

**Table 1: RIK Percentages and Maximum Quantities**

Year	RIK %	RIK Volume (Bpd)
1998	27.0	28,350
1999	27.0	28,350
2000	28.5	28,500
2001	30.0	28,200
2002	32.0	28,480
2003	33.5	28,475

When MAPCO's current long-term RIK contract with the state is considered with the proposed contract, the actual volume taken by MAPCO will increase to approximately 56.7 percent of the state's royalty oil from the PBU.

The percentage of royalty oil designated in the contract for each year is called the "Maximum Quantity." If MAPCO takes 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.<sup>3</sup> MAPCO may elect to decrease or increase the quantity of RIK oil it will actually purchase month-to-month subject to certain notice requirements. MAPCO also has the right to terminate the contract with one hundred days notice to cease deliveries. With the same notice period, MAPCO may elect one time annually to permanently reduce the Maximum Quantity required under the contract. However, once MAPCO issues an annual notice of its option to permanently reduce the Maximum Quantity, MAPCO may not reinstate the Maximum Quantity to the initial level. In addition, MAPCO may not ever increase the Maximum Quantity.

Because of the terms of the PBU Agreement in force among the producers and the state, the state combines royalty production from both the Prudhoe Bay field and royalty oil processed currently through the Lisburne Production Center. The 112,000 barrels per day of royalty crude

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<sup>3</sup> The contract provides MAPCO with some operational flexibility. With the appropriate one hundred-day notice, MAPCO may take less than the Maximum Quantity, however, a reservation fee would apply to volumes less than the then applicable Maximum Quantity.

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THE FOLLOWING DOCUMENT(S)  
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Rev. 6/98

Central Microfilm Services  
Department of Education  
State of Alaska

**Final Finding and Determination  
to Sell Royalty Oil  
to  
MAPCO Alaska Petroleum Inc.**

SENATE BILL NO. 342  
HOUSE BILL NO. 469



Alaska Department of  
**NATURAL  
RESOURCES**

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

**March 5, 1998**

**Final Finding and Determination To Sell Royalty Oil  
To MAPCO Alaska Petroleum Inc.  
March 5, 1998**

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Appendix D: Changes to the Preliminary Finding and Draft Contract

1

**Final Finding and Determination to Sell Royalty Oil  
to  
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**I. Summary**

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MAPCO has a long history as a purchaser of RIK from the state. MAPCO has the longest running contract for ANS RIK. Deliveries under its long-term contract began in November 1979 for 35,000 barrels per day. This contract will not expire until December 2003. Through the end of 1997, MAPCO received approximately 205.8 million barrels of RIK.<sup>1</sup>

On August 26, 1997, the state agreed to sell to MAPCO an additional volume of royalty oil equal to 11.6 percent of the daily royalty oil production of the Prudhoe Bay Unit (PBU) for one year. Deliveries under this contract began on December 1, 1997 and will continue through November 30, 1998. 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 October, MAPCO initiated negotiations with the department for a new royalty oil supply contract to begin deliveries when this contract expires.

At the date of this final finding, Williams Companies Inc. is in the final stages of acquiring Mapco Inc. This acquisition will become final when Williams Companies Inc. receives approval from the Federal Trade Commission. On November 24, 1997, the companies announced that they had entered into a definitive merger agreement providing for Williams to acquire MAPCO. On February 26, 1998, MAPCO shareholders approved the acquisition. Standard and Poor's (S&P) revised its outlook for both companies to positive from stable. Primarily, the outlook change reflects the strengthening fundamentals of the Williams' pipelines and prospects for improving earnings at Williams Communications Group and Williams Energy Group. The proposed acquisition of Mapco Inc. is also a positive factor in S&P's outlook change.<sup>2</sup> The \$3 billion acquisition price includes \$2.2 billion of Williams common stock and the assumption of about \$750 million of acquired company debt. The conservatively financed acquisition should diversify Williams' pipeline operations with a relatively successful downstream energy services company. The merger will have no affect on the proposed sale and contract terms.

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 1997 contract still applies today.

In the following section of this finding, the description of the contract focuses on how this proposed contract differs from the current one-year contract.

### **III. Discussion of Contract Provisions**

#### **Term**

First delivery of RIK oil is set for December 1, 1998 and will continue for five years. The contract will terminate December 31, 2003. This coincides with the termination date of MAPCO's current long-term, 25-year contract.

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<sup>1</sup> Golden Valley Electric Association volumes are included in MAPCO's RIK deliveries.

<sup>2</sup> Standard & Poor's CreditWire dated November 24, 1997.

## Quantity

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oil forecast for 1998 (Table 2) is the sum of the royalty offtake from PBU including both the Initial Participating Areas and the Greater Point McIntyre Area, i.e. Lisburne, Pt. McIntyre, West Beach, North Prudhoe Bay State, and the Niakuk/Alapah Participating Areas.<sup>4</sup>

Table 2 illustrates the present and future royalty crude oil supply from the PBU. The state is obligated to supply 35,000 barrels per day to MAPCO through 2003 and 30 percent of the PBU royalty oil to Tesoro through 1998. If the proposed MAPCO contract is awarded, the state will still keep approximately 13 percent of its royalty share of PBU production as RIV or about 40 percent of the total ANS royalty production in 1998. See Figure 1, titled "Total ANS Royalty and RIK Sale" for the percentage share of ANS RIK oil versus ANS RIV oil.

The state must reserve a sufficient percentage of its PBU royalty oil as RIV to insure that PBU lessees can deduct field costs as a credit from their RIV royalty for the royalty oil the state takes in-kind. The state's flexibility to nominate more RIK oil from the PBU will be limited after this RIK sale to MAPCO. However, there will be some flexibility for the state to offer additional royalty oil from other non-PBU fields on the North Slope as circumstances warrant.

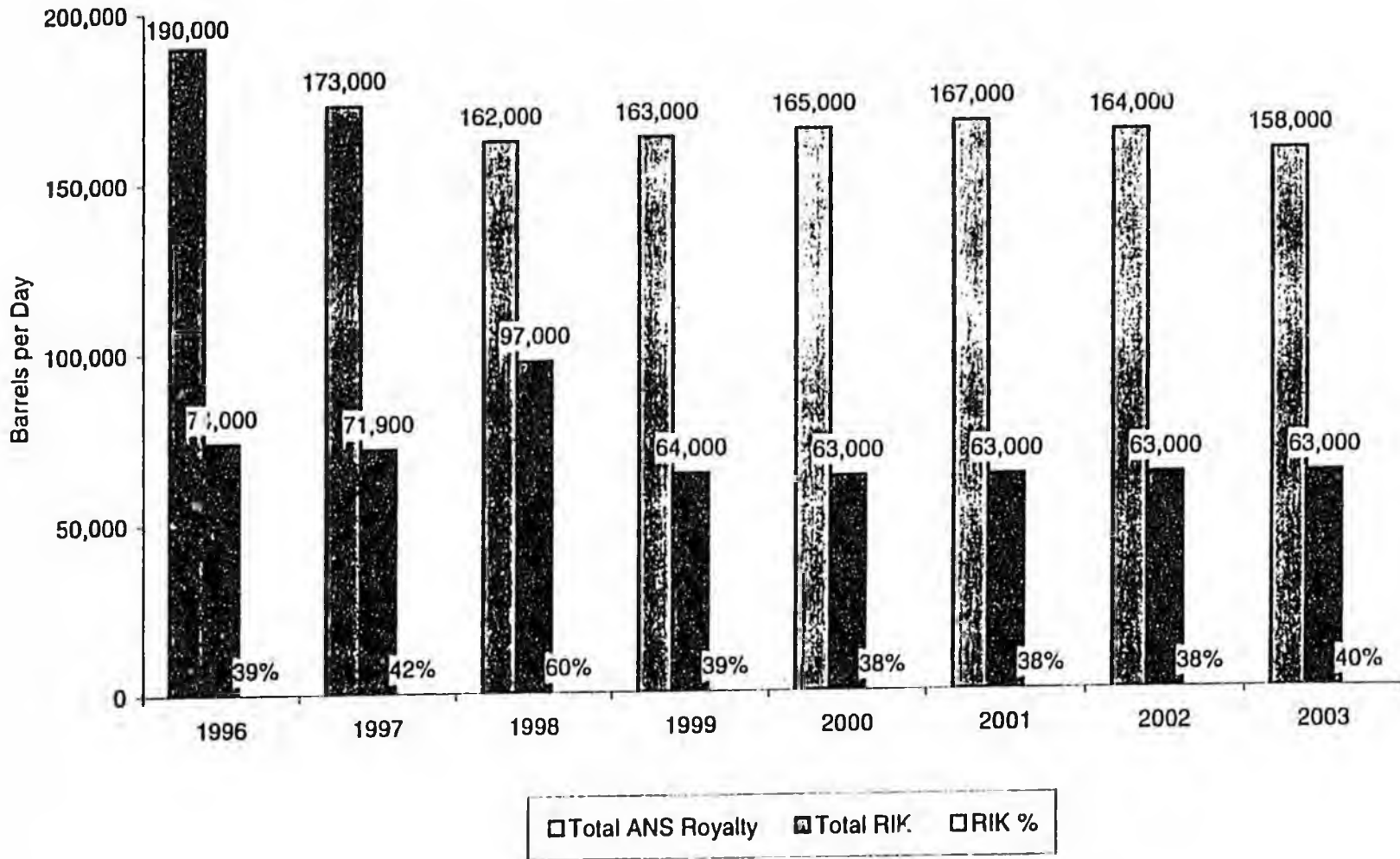
### Quality

MAPCO must accept the same quality of oil that the state receives from the producers at Pump Station No. 1. The existing contract with MAPCO does not distinguish between crude oil, condensate, or natural gas liquids (NGLs). MAPCO waives any claim that either condensate or NGLs blended with the crude oil by the lessees tendered to the state as royalty oil is not oil for the purposes of the contract. This waiver will protect the state against any future claim that MAPCO did not receive its full or correct volume of RIK by asserting that condensate or NGLs are not crude oil.

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<sup>4</sup>Under the proposed contract, the state reserves the right to supply 100 percent of MAPCO's volume from just the PBU Initial Participating Areas (IPA) rather than include the production from the Greater Point McIntyre Area, i.e., production processed through the Lisburne Production Center. In this case MAPCO would receive initially 33.8 percent of the PBU IPA production. MAPCO will be notified 90 days in advance if the commissioner, in his sole discretion, chooses to exercise this right.

Figure 1: Total ANS Royalty and RIK Sale  
(includes Proposed Mapco Contract)



**Table 2: North Slope Royalty Crude Oil Production Forecast**  
(MBOD)

	1998	1999	2000	2001	2002	2003	2004	2005	2006
Greater Point McIntyre Area	23	19	16	13	11	10	9	8	8
Lisburne	1	1	1	1	1	1	1	1	1
Niakuk	4	3	3	3	2	2	2	2	2
Point McIntyre	17	14	11	9	8	7	6	6	5
West Beach -N. Prudhoe Bay State	0	0	0	0	0	0	0	0	0
Prudhoe Bay a/	89	84	81	77	74	71	68	64	60
Satellites b/	0	2	3	4	4	4	5	5	4
Prudhoe Bay Unit	112	105	100	94	89	85	82	77	72
Kuparuk River Unit	33	35	36	34	33	32	29	27	25
Milne Point	8	9	10	11	12	13	13	12	11
Northstar	0	0	0	8	8	7	6	5	5
Other Onshore	0	0	0	0	4	4	4	4	4
Endicott	9	8	8	7	7	6	6	5	5
Badami	0	6	6	5	5	4	4	3	3
Alpine	0	0	6	6	6	6	6	5	5
<b>Total Royalty:</b>	<b>162</b>	<b>163</b>	<b>166</b>	<b>165</b>	<b>164</b>	<b>157</b>	<b>150</b>	<b>138</b>	<b>130</b>
<b>Minus RIV Req'd for Field Cost Allowance</b>									
Prudhoe Bay Unit	11	11	10	9	9	9	3	3	3
Kuparuk River Unit	3	3	3	3	3	3	3	3	3
Milne Point	0	0	0	0	0	0	0	0	0
Endicott	1	1	1	1	1	1	1	1	1
	<b>15</b>	<b>15</b>	<b>14</b>	<b>13</b>	<b>13</b>	<b>13</b>	<b>7</b>	<b>7</b>	<b>7</b>
<b>Minus Current RIK Contracts</b>									
MAPCO #1	35	35	35	35	35	35	0	0	0
MAPCO #2 c/	13	--	--	--	--	--	--	--	--
Tesoro	34	--	--	--	--	--	--	--	--
<b>Total Current RIK Obligation</b>	<b>85</b>	<b>35</b>	<b>35</b>	<b>35</b>	<b>35</b>	<b>35</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>ANS Royalty Oil Available to Supply New RIK Contracts:</b>									
	65	113	117	117	116	109	143	131	123
MAPCO's proposed 27.0% contract d/	28	28	28	28	28	28	--	--	--
<b>ANS Royalty Oil Remaining:</b>	<b>37</b>	<b>85</b>	<b>89</b>	<b>89</b>	<b>88</b>	<b>81</b>	<b>143</b>	<b>131</b>	<b>123</b>

a/ If the commissioner elects to sell MAPCO RIK from the Prudhoe Bay Initial Participating Area (IPA), then the price per barrel will be calculated on the basis of the volume weighted average of the Royalty Value received from just the IPA, plus \$.15. See Table 2.

b/ Satellites include wells penetrating several smaller, unnamed reservoirs.

c/ MAPCO's #2 contract expires November 30, 1998.

d/ MAPCO's proposed contract is expected to start December 1, 1998 and expires on December 31, 2003.

## Price

The proposed contract requires MAPCO to pay a price per barrel equal to the state's royalty value per barrel plus \$.15. The state's royalty value is defined as an amount equal to the per barrel value the state would have received from the Lessees for its royalty oil if the state had taken its royalty in-value instead of in-kind, plus any costs incurred by the state as a result of taking the royalty in-kind rather than in-value. This price meets the statutory requirement that the value of RIK is at least equal to or exceeds RIV. The proposed contract price is comparable to the one-year contract price and the value of RIV. Table 3 illustrates the calculation of MAPCO's price if it took deliveries under the proposed contract in January 1997.

**Table 3: 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>
<b>Lisburne Production Center a/ b/ c/</b>				
ARCO	1,803,528.68	\$19.50000	\$35,168,809.45	
BP Exploration	2,565,203.54	\$18.12000	\$46,481,488.14	
Exxon	2,167,463.77	\$18.73000	\$40,596,596.40	
<b>Prudhoe Bay IPA a/</b>				
ARCO	6,812,971.60	\$19.88000	\$135,441,875.41	
BP Exploration	9,731,640.80	\$18.64000	\$181,397,784.51	
Chevron	159,860.30	\$23.24800	\$3,716,432.25	
Exxon	7,700,737.40	\$19.58000	\$148,008,172.83	
Force	9,111.30	\$19.88000	\$181,132.64	
Mobil	362,126.20	\$19.82000	\$7,075,583.82	
Phillips	364,589.50	\$20.69000	\$7,543,356.76	
Texaco	100,129.00	\$18.95000	\$1,897,444.55	
<b>Totals</b>	<b>31,777,362.10</b>		<b>\$607,508,676.78</b>	
<b>Volume Weighted Average Value:</b>				<b>\$19.11766</b>
				<b>+ \$.15/bbl</b>
<b>Price of Sale Oil:</b>				<b>\$19.26766</b>

a/ Under the proposed contract, the state reserves the right to supply 100 percent of MAPCO's volume from just the Prudhoe Bay Unit Initial Participating Areas rather than include the production from the Greater Point McIntyre Areas, i.e., production processed through the Lisburne Production Center. This would imply that MAPCO would receive approximately 33.8 percent of the Prudhoe Bay Initial Participating Areas production. MAPCO will be notified 90 days in advance if the commissioner, in his sole discretion, chooses to exercise this right.

b/ Includes Larch, North Prudhoe Bay State and West Beach.

c/ Includes wells penetrating several smaller, unnamed reservoirs.

Like the current MAPCO and Tesoro contracts, the proposed contract price replaces the need for an escrow account and retroactive ANS Royalty Litigation<sup>5</sup> adjustments that appear in MAPCO's 1978 contract. MAPCO's proposed contract will have a more certain purchase price, subject to only minor subsequent adjustments. The ANS Royalty Settlement Agreements concluded the ANS Royalty Litigation and provided an agreed-upon valuation method that did not exist when MAPCO's 25-year royalty oil contract was signed. MAPCO's new RIK contract will rely upon agreed-upon valuation methods in the ANS Royalty Settlement Agreements to establish a contract price. Except for certain related adjustments contemplated under the

<sup>5</sup> ANS Royalty Litigation refers to the dispute between the state and the ANS lessees that was resolved in several settlement agreements (Case No. 77-847 Civil, June 1977).

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settlement agreements with ARCO, BP, Exxon and the other PBU producers the MAPCO contract will not require an interim pricing method.

Previous RIK findings have described the so-called "displacement effect" and "competitive effect" that may occur with a state sale of RIK. Because the changes in the markets for ANS oil, these effects will be very minor.

The "displacement effect" theorizes that any RIK sale by the state to in-state refiners will replace ANS sales by North Slope lessees to West Coast destinations including Alaska. Although the total volume of ANS sold on the West Coast is the same without a RIK sale, the producers must show in their royalty reports that a larger proportion of their oil is placed in destination markets where netback values are less than the West Coast. The West Coast destinations yield a higher royalty value than the other destinations. The average royalty value, weighted by oil volumes to each destination, is lower when the proportion of oil reported by the lessees going to the non-West Coast destination increases. This proportion of deliveries to the West Coast and other destinations is also reflected in the netback value reported for severance tax purposes. In this way, selling RIK decreases the state's revenues from both RIV royalties and severance taxes.

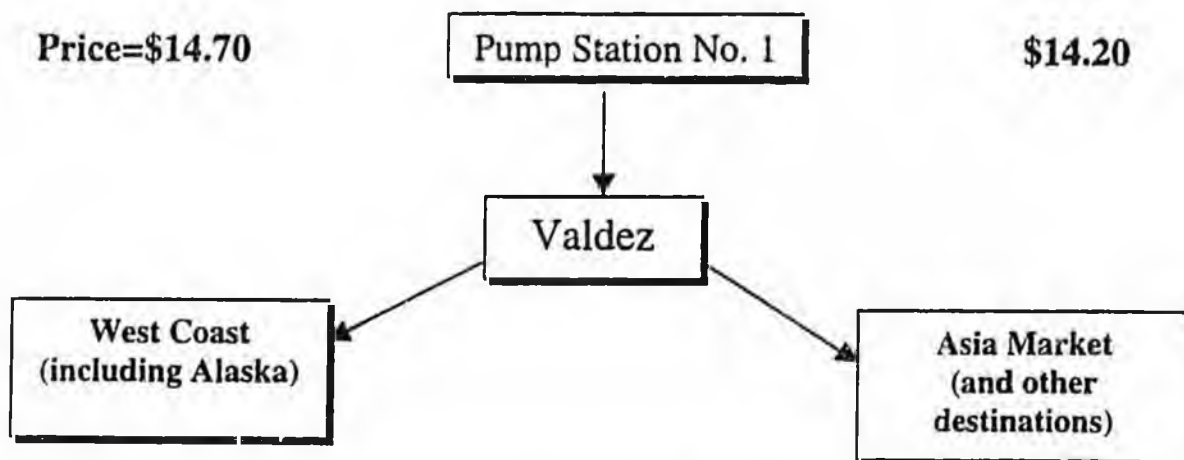
The potential for a "displacement effect" has diminished since the market of total ANS sold on the Gulf Coast has disappeared. The Gulf Coast's historically low royalty value contributed the biggest impact in calculating the displacement effect. There are now no more waterborne shipments of ANS to the Gulf Coast and the volumes shipped to the Mid-Continent or the Far East yield netbacks that are higher than the Gulf Coast netbacks.<sup>6</sup>

As shown in this example, (See Table 4) the displacement effect, is insignificant. The contract price is sufficient to compensate the state for any reduction in the royalty value of RIV oil.

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<sup>6</sup>Alaska Department of Revenue, Fall 1997 Revenue Sources Book, Forecast and Historical Data. Anchorage, Alaska, p.19. ANS movements to destinations in the Far East, the Caribbean and the U.S. Mid-Continent represented just 5 percent of total ANS production in FY 1997.

TABLE 4: DISPLACEMENT EFFECT



If the North Slope producers take all of our royalty oil "in-value," their shipments will look like this:

$$\begin{array}{rclclcl}
 28,000 & + & 922,000 & + & 50,000 & = & 1,000,000 \\
 \text{(Mapco)} & & \text{(CA and WA)} & & \text{(Asia Market)} & & \text{(Total)}
 \end{array}$$

In percentage terms:

$$\begin{array}{rclclcl}
 3\% & + & 92\% & + & 5\% & = & 100\%
 \end{array}$$

The calculation of royalty value (and severance tax) is:

$$(\$14.70 \times 3\%) + (\$14.70 \times 92\%) + (\$14.20 \times 5\%) = \$14.67$$

If the state sells oil to Mapco, the producer's placements on the West Coast are reduced by 28,000 barrels. Their shipments will now look like this:

$$\begin{array}{rclclcl}
 0 & + & 922,000 & + & 50,000 & = & 972,000 \\
 \text{(Mapco)} & & \text{(CA and WA)} & & \text{(Asia market)} & & 
 \end{array}$$

In percentage terms:

$$\begin{array}{rclclcl}
 0\% & + & 95\% & + & 5\% & = & 100\%
 \end{array}$$

The calculation of royalty value (and severance tax) is:

$$(\$14.70 \times 0\%) + (\$14.70 \times 95\%) + (\$14.20 \times 5\%) = \$14.67$$

In this example, the displacement effect has no effect on the state's royalty and severance tax revenue.

The "competitive effect" relies on the 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. One North Slope producer dominates the ANS spot market and may be able to influence the price by its decision to transport oil to other destinations. When the state was selling nearly 210,000 barrels per day of RIK in 1986, (See Figure A-1) the state, as another seller in the market competing with the ANS producers, could conceivably contribute to a lower West Coast price. The "competitive effect" is probably immeasurable since ANS supply in the West Coast market is declining. Competitive market forces beyond the control of the ANS producers, including the state, now govern the price of ANS.

### **In-State Processing**

In the proposed contract, MAPCO has agreed that 80 percent of the RIK it will purchase will be processed in the North Pole refinery. This clause is designed to prevent MAPCO from re-selling RIK to a third party and possibly profiting from a favorable price charged to MAPCO by the state. The in-state processing clause assures that the state will enjoy the benefits described in Section IV below.

### **Purchase Price Reopener**

The contract provides no provision for either the state or MAPCO to renegotiate the price terms. Should the state pursue a price reopener as permitted by the ANS Royalty Settlement Agreements, the state is obligated only to inform MAPCO that negotiations have begun. MAPCO will pay based on whatever the Royalty Value the state and the producers may negotiate.

MAPCO also agrees that it will not intervene in any way in the negotiations or arbitration of a reopener between the state and the producers. If the new price terms that may result are disagreeable to MAPCO, it has the right to terminate the contract with one hundred days notice to cease deliveries.

### **Payments**

The proposed contract has specified the timing and due dates associated with the Production Month Invoice, Initial Adjustments, and Subsequent Adjustments. The timing of these invoices and due dates have been shortened somewhat to reduce the state's exposure to default risk as described below.

The state has agreed that any subsequent adjustments 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 true-up audits that are commenced during the six-

year period. This provision appears in both the current one-year MAPCO contract and Tesoro's current three-year contract.

### Termination Notice

The state requires at least one-hundred days notice of early termination of the contract or any reduction in the maximum quantity taken by MAPCO. This timing is based on the ANS Royalty Settlement Agreements and the PBU Agreement. Under the original PBU Agreement, the state has a right to "denominate" RIK deliveries with a six-month notice. However, under each of the ANS Royalty Settlement Agreements, the timing requirement was reduced to 90 days. The ANS Royalty Settlement Agreements provide that the lessees may claim *force majeure* if marine 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 MAPCO must provide sufficient notice to terminate the contract or reduce its maximum quantity, up to six-months and ten days if necessary.

### Late Payment Penalty

If MAPCO fails to make full payment of its monthly obligation within three business days following the receipt of the invoice, a five percent penalty will be imposed. In MAPCO's one year contract, the same late payment penalty applies.

### Interest

Underpayments and overpayments are an unavoidable problem in any RIK sales contract. The contract price is based on Royalty Values calculated under provisions in the ANS Royalty Settlement Agreements that are subject to re-adjustments for true-up audits, regulatory decisions, reopeners, or court proceedings. Both the state and MAPCO agree to pay each other the statutory interest rate on readjustments made for overpayments or underpayments, respectively. The applicable rate is five percent over the annual rate charged member banks for advances by the 12<sup>th</sup> Federal Reserve Bank or 11 percent compounded quarterly, whichever is greater (AS 38.05.135(d)).

### Local Hire

Like MAPCO's one-year contract and virtually every RIK contract to in-state refineries, the proposed contract requires that MAPCO agree to employ Alaska residents and Alaska companies to the extent they are available, willing and qualified for the applicable work performed in Alaska in connection with the Agreement. An Alaska resident is defined as one who has resided in Alaska for one year at the time of employment and "Alaska companies" means companies incorporated in Alaska or whose principal place of business is in Alaska. If

this provision is determined to be unconstitutional, then MAPCO agrees to hire Alaska residents to the extent that the constitution allows.

### Security

The proposed contract requires an irrevocable stand-by letter of credit equivalent to the value of 75 days worth of RIK to secure the state in the event that MAPCO, for any reason, fails to pay its bills or to take delivery. The value of the letter of credit is calculated to protect the state from its exposure to "default risk" and "denomination risk." Default risk is the exposure the state faces if MAPCO fails to pay. Since MAPCO is billed on the first day of the month following the production month up to 39 days of RIK will be delivered to MAPCO before the state is in a position to declare the contract in default for failure to pay (See Table 5). In addition to the risk assumed by the state should MAPCO fail to pay, the state also runs a risk of losing full value of its RIK when it "denominates" the RIK volumes to RIV. As indicated above, the 90 day denomination notice period under the ANS Royalty Settlement Agreements plus 90 days should a lessee declare *force majeure* represents the amount of RIK oil subject to this risk. 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 could be in a distress sale situation. The letter of credit instrument is intended to protect the state from losses for volumes delivered under the contracts or re-sold at a price less than the contract price.

The state's risk exposure is measured as follows:

**Table 5: Calculation of MAPCO's Letter of Credit**

	<b>Days</b>
<b>Default Risk</b>	
Days RIK tendered but not billed:	30
Days to Production Month Invoice:	2
Production Month Invoice Due:	3
Default Declared:	4
<b>Total Default Exposure</b>	<b>39</b>
<b>Denomination Risk</b>	
Volumes Subject to 90-day Denomination @ 100%	90 days
Probability that 90-day notice rights invoked @ 100%	90 days
Resale Value of denominated oil \$ .80 on the \$1	
<b>Number of days "at-risk" (20% X 90 days)</b>	<b>18</b>
Volumes Subject to 90-day Force Majeure @ 100%	90 days
Probability that 90-days notice rights invoked @ 100%	90 days
Resale Value of denominated oil \$ .80 on the \$1	
<b>Number of days "at-risk" (20% X 90 days)</b>	<b>18</b>
<b>Total Denomination Exposure</b>	<b>36</b>
<b>Total Risk Exposure</b>	<b>75</b>

The letter of credit is valued at the price of the RIK volume per day times the number of days of total risk exposure.

The proposed contract includes an alternative security provision if MAPCO so elects. This security provision requires that MAPCO provide the state with an irrevocable stand-by letter of credit for forty days of RIK oil, plus an irrevocable backup contract with a major oil company subject to approval by the Commissioner. The backup contract would assume MAPCO's full liability to the state to purchase RIK oil for a minimum of 90 days or a maximum of 180 days deliveries of RIK oil. Should MAPCO default, the state will draw from the 40 day letter of credit and the backup contract would immediately take effect for the RIK oil due MAPCO until the 90 day or 180 day (if producers invoke *force majeure* notice) denomination notice of the state's RIK oil became effective.

The concern for the state's exposure to default and denomination risk is driven by the state's previous experience. The security and other provisions of recent RIK contracts mitigate those risks. The Alpetco RIK sales contract, executed on February 22, 1978, a so-called in-state enhancement contract, was the worst performer recovering only 94.5% of the principal. Part of this difference were losses the state incurred on the royalty oil subject to "denomination risk." When Alpetco attempted to decrease its RIK purchases, the state realized only 78 percent of the contract price.

Over time, the Division has looked at some of the obvious problems with the Alpetco RIK contract and these problems have been mitigated or eliminated in the subsequent contracts. The proposed MAPCO contract avoids the following:

- Dispute clause that allowed Alpetco to unilaterally withhold any amounts Alpetco disputed without Alpetco's debt being called due and payable.

See MAPCO contract, page 15, line 11 (6.10 Disputed Payments) requires MAPCO to pay the full amount pending final resolution of the dispute.

- Ability to intervene in ANS Royalty Litigation allowed Alpetco the potential to disrupt the settlement if the state pursued litigation against Alpetco's parent company for claims.

See MAPCO contract, page 7, line 19 (2.5 Reopeners) stipulates that MAPCO shall not intervene or participate in any way regarding ANS Royalty Settlement Agreements or litigation with the lessees. This provision removes any leverage that MAPCO may have over the state.

- Failure to secure full value for its RIK oil resulted from the narrow marketing window imposed on the state when Alpetco could no longer take RIK volumes.

The MAPCO contract establishes the timing required for termination notices, notices to reduce the Maximum Quantity, and month-to-month deliveries volumes within the limits allowed in the ANS Royalty Settlement Agreements. The security clause requires a letter of credit and/or a backup contract so that the state can recover any losses due to premature denomination of RIK.

## IV. In-State Benefit Analysis

The commissioner considered 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 MAPCO's North Pole refinery. The state can offer a somewhat unique crude oil supply contract whose terms might not be available from any other seller. Presumably, MAPCO would continue operations without this contract, but there are direct benefits MAPCO may derive in dealing with the state. To the extent that these benefits are translated into jobs, taxes, and more vigorous refined-products competition, the people of the state also benefit. By the same token, the degree to which the sale may contribute to the ongoing operation and expansion of the refinery must also be taken into account when describing the environmental effects of the refinery's operation.

### Economic Impacts

A \$70 million expansion and upgrade at the North Pole refinery is underway and will increase fuel production by 17,000 barrels per day. Recent upgrades at the North Pole refinery provide MAPCO the opportunity to expand its export markets in Western Canada and the Pacific Rim. In addition, the 1998 expansion will create 17 new jobs in North Pole and Anchorage.

MAPCO reports that it currently employs 120 people in the Fairbanks North Star Borough and 35 people in Anchorage who are directly associated with the North Pole refinery. In addition, MAPCO employs another 300 people statewide at their MAPCO express outlets.<sup>7</sup> This translates as one-fourth of the manufacturing jobs in the Fairbanks North Star Borough competing largely with mining and construction jobs. For the most part, these are also high-wage jobs with a payroll in the Fairbanks North Star Borough of over \$9.4 million in 1994.<sup>8</sup> Wages in the petroleum refinery and transportation sector averaged \$72,677 or more than twice the Fairbanks North Star Borough average. Income spent by workers in this sector contributes to an employment multiplier of over 2.5, i.e., for every job at MAPCO's North Pole refinery 2.5 jobs are created in the wider Fairbanks North Star Borough economy.

<sup>7</sup> Communication with Keith Selby, MAPCO Alaska Petroleum, Inc. 1/23/98.

<sup>8</sup> Lee Huskey, ISER. November 1995. "Table 2: The Fairbanks Petroleum Sector Private Industry Wage and Employment Effects," of the "The Petroleum Industry and the Fairbanks Economy" report.

MAPCO's statewide marketing and distribution of petroleum products activities, together with the refinery, employs a total of 455 people statewide with a payroll (including benefits) of over \$19.5 million in 1997.<sup>9</sup>

### Consumption Effects

The market for crude oil and the market for retail petroleum products are different markets. While crude oil is a factor in the production of retail products (like electricity and labor), it is traded in a different market. Accordingly, lower prices of crude will not necessarily transfer immediately to a lower price for retail products. Wholesale product prices can move independently of ANS crude prices<sup>10</sup> because of the other factors. These other factors include such influences as refinery outages, changing gasoline specifications, gasoline inventory levels, the previous month's wholesale price, and other energy market effects.

As with other in-state refiners, the presence of MAPCO in the state provides competition to outside fuel sellers who import products to Alaska. California suppliers can capture the difference in state highway gasoline taxes of 22 cents per gallon between markets in Alaska and California. For Washington, the difference is 15 cents. All other things being equal, this difference in government take provides a business opportunity for outside suppliers to sell gas in Alaska. The presence of local suppliers of retail products in competition with imported petroleum products adds price competition to the retail market. In the same manner, imported products offer competition to local suppliers.

The presence of MAPCO's North Pole refinery as a local product supplier with lower transportation cost to markets and situated next to a crude oil pipeline provides price competition to imported petroleum products. MAPCO's healthy market share of the gasoline and jet fuel trade indicates that imported products sellers must consider MAPCO's price in setting their own.

Two investigations conducted in the mid-1980's by the Alaska Attorney General's office supports the important role of competition in the level of in-state gasoline prices.<sup>11</sup> Both studies report that higher profit margins stem from weak competition. In 1985, only one in-state refinery produced motor gasoline throughout the entire calendar year. That refiner enjoyed a decrease in its price for most of its crude feedstock while wholesale prices were increased by an average of 6.5 cents per gallon.<sup>12</sup> The Attorney General's report concluded, "... the refineries are charging more for refined gasoline, even though they are paying less for the crude oil they use to make the gasoline." With only one refiner producing gasoline for the entire calendar year, there was little competitive pressure to reduce wholesale prices at a time when their largest cost input, the price of crude feedstock, decreased. MAPCO began refining motor gasoline in the last quarter of 1985 and has provided competition in that market.

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<sup>9</sup> Communication with Keith Selby, MAPCO Alaska Petroleum Inc., Anchorage, Alaska 1/26/98.

<sup>10</sup> William W. Wade and Robert R. Trout. "Carb Gas Phase-In Price Spike: Collusion or Market Effects?" 1997

<sup>11</sup> Memo to M. Mike Miller, Chairman, House Judiciary Committee from Attorney General Norman C. Gorsuch. RE: Southeast Alaska Gasoline Price Investigation. May 13, 1985. Fairbanks Gasoline Report, February, 1986. An attachment to a memorandum to Governor Bill Sheffield from Attorney General Harold M. Brown, March 11, 1986.

<sup>12</sup> Fairbanks Gasoline Report, page 17.

This competition in the in-state gasoline sales market, along with other sellers, provides a dampening effect on prices. The effect of market competition on prices reported in the 1985 Attorney General's report explains that "The ...price difference [between wholesale prices in Anchorage and Southeast Alaska] appears to be due to a very low level of competition between wholesalers in Southeast Alaska, which permits higher profit margins."<sup>13</sup> Insofar as state refineries and product wholesalers can compete, the consumer can enjoy lower prices than would be the case if competition did not exist.

### Social Impacts

MAPCO paid 60 percent of the property tax revenues collected in 1996 by the City of North Pole. Until 1997, when the Ft. Knox Gold Mine came on line, MAPCO's North Pole refinery had the highest property assessment in the Fairbanks North Star Borough at \$94 million.<sup>14</sup> MAPCO's tax contribution will grow as a result of the refinery expansion. 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.

### Effect of Refinery Expansion

MAPCO's North Pole refinery is the largest refinery by volume in the state. Almost half of MAPCO's business is jet-fuel sales, and the company has about half the market at Anchorage International Airport which equals approximately 861,000 gallons per day in 1997. MAPCO's growth is being driven by the rapid expansion (about a 43% growth rate from 1995 levels), of jet-fuel sales in Anchorage as the growth in international air-cargo traffic continues. All of the additional jet fuel production due to the refinery expansion is projected to supplant foreign imports of jet fuel. Including purchased volumes, MAPCO supplies approximately 39% of the jet fuel used in Alaska. MAPCO's 1996 jet fuel production was 22,000 barrels per day or 924,000 gallons per day.<sup>15</sup>

Jet-fuel demand in Alaska has been growing at 7 to 8 percent a year and at least 4 percent growth is expected over the next few years.<sup>16</sup> Total Alaska jet-fuel demand is about 55,000 barrels per day, with all but 14,000 to 15,000 barrels of that supplied by the four Alaska refineries, mostly by MAPCO. Over 80% of North Pole refinery's production is consumed in the state of Alaska. MAPCO markets more than 40,000 barrels per day of these refined products to Alaska, Western Canada and the Pacific Rim. MAPCO processes only Alaska North Slope crude oil. In addition, the refinery markets 64% of its gasoline production through MAPCO Express stores in Alaska.

MAPCO estimates that its retention (i.e. oil taken from TAPS at the North Pole refinery but not returned to the pipeline) will be approximately 45,000 barrels per day. In future years MAPCO will retain approximately 64,000 barrels per day to produce MAPCO's produce slate. See Table

<sup>13</sup> Memo to M. Mike Miller, page 2.

<sup>14</sup> Lee Huskey, ISER, November 1995. "Table 2: The Fairbanks Petroleum Sector Private Industry Wage and Employment Effects," of the "the Petroleum Industry and the Fairbanks Economy" report.

<sup>15</sup> Communication with Keith Selby, MAPCO Alaska Petroleum Inc., Anchorage, Alaska 1/23/98.

<sup>16</sup> 1996 MAPCO Petroleum Inc. Annual Report.

6 and Figure 2 titled "North Pole Refinery Total Retention and State Royalty Volumes" for the amounts by year. For every barrel of oil that MAPCO retains in its refinery, MAPCO returns two barrels of residual oil to the TAPS. (See Table 6 and Figure 3 titled "MAPCO's Projected Product Slate" for the types and percentages of refined products). After the 1998 expansion, the maximum crude distillation capacity or processing capacity of the North Pole refinery will rise to 210,000 barrels per day.

### Quality Bank

MAPCO's expansion will increase its return flow by 63,000 barrels to a total of 159,000 barrels per day.<sup>17</sup> This increased return flow to the pipeline degrades the crude oil stream. MAPCO compensates for this degradation by making increased payments to the TAPS Quality Bank.

Any effect on ANS crude price due to increased degradation of the pipeline stream is compensated by the Quality Bank. The quality bank methodology, theoretically, equalizes value between crude streams by billing relatively lesser value streams and compensating relatively higher value ones.

### Environmental Impacts

Air quality issues: MAPCO has made timely a application and complied with all permit requirements required under Title V of the federal Clean Air Act amendments of 1990 and 1993 state legislation under which Alaska was delegated authority. MAPCO is in compliance with the applicable air quality regulations and Alaska Department of Environmental Conservation (ADEC) officials expressed no problems with the refinery.<sup>18</sup>

Industrial wastewater issues: MAPCO runs its treated discharges through filters then into the North Pole Wastewater System. This is done under the authority of a pretreatment permit. MAPCO sends monitoring information to ADEC through quarterly reports. MAPCO is in compliance with the applicable wastewater regulations.<sup>19</sup>

Contaminated site issue: MAPCO has an ongoing groundwater remediation program and is still cleaning contaminants from the aquifer. ADEC reports that MAPCO is fulfilling its responsibility and operating properly under the appropriate permits. When asked, ADEC responded that if the refinery ceased operation and discontinued the remediation program, it would be a detriment to the environment as natural degradation of remaining contaminants would be very slow.<sup>20</sup> However, even if the refinery abruptly ceased operations, MAPCO would remain liable as an operator or owner for any contamination that has occurred as a result of refinery operations.<sup>21</sup>

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<sup>17</sup> Communication with Keith Selby at MAPCO, Anchorage, Alaska 12/3/97.

<sup>18</sup> Communication with Jack Coutts, Alaska Department of Environmental Conservation, 12/18/97.

<sup>19</sup> Communication with Tim Wingerter, Alaska Department of Environmental Conservation, 12/18/97.

<sup>20</sup> Communication with Doug Bauer, Alaska Department of Environmental Conservation, 12/19/97.

<sup>21</sup> Communication with Mary Lundquist, Alaska Attorney General's Office, 1/22/98.

TABLE 6

Table 6: Mapco's Projected Product Slate (Percent of Total Refinery Throughput)

	1994	1995	1996	1997	1998	1999-2003
Gasoline Blendstock	9	13	15	15	13	9
Gasoline	11	12	12	11	14	10
Jet Fuel	54	52	50	50	49	57
Diesel	19	19	17	18	18	19
Heavy Atm. Gas Oil	5	2	4	5	5	4
Asphalt	2	2	2	1	1	1
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

## MAPCO Refinery Retention (barrels per day)

Total Retention	38,000	42,000	46,000	44,000	45,000	64,000
State Royalty Volume	35,000	35,000	35,000	35,000	45,000	57,000

Figure 2: North Pole Refinery Total Retention and State Royalty Volumes

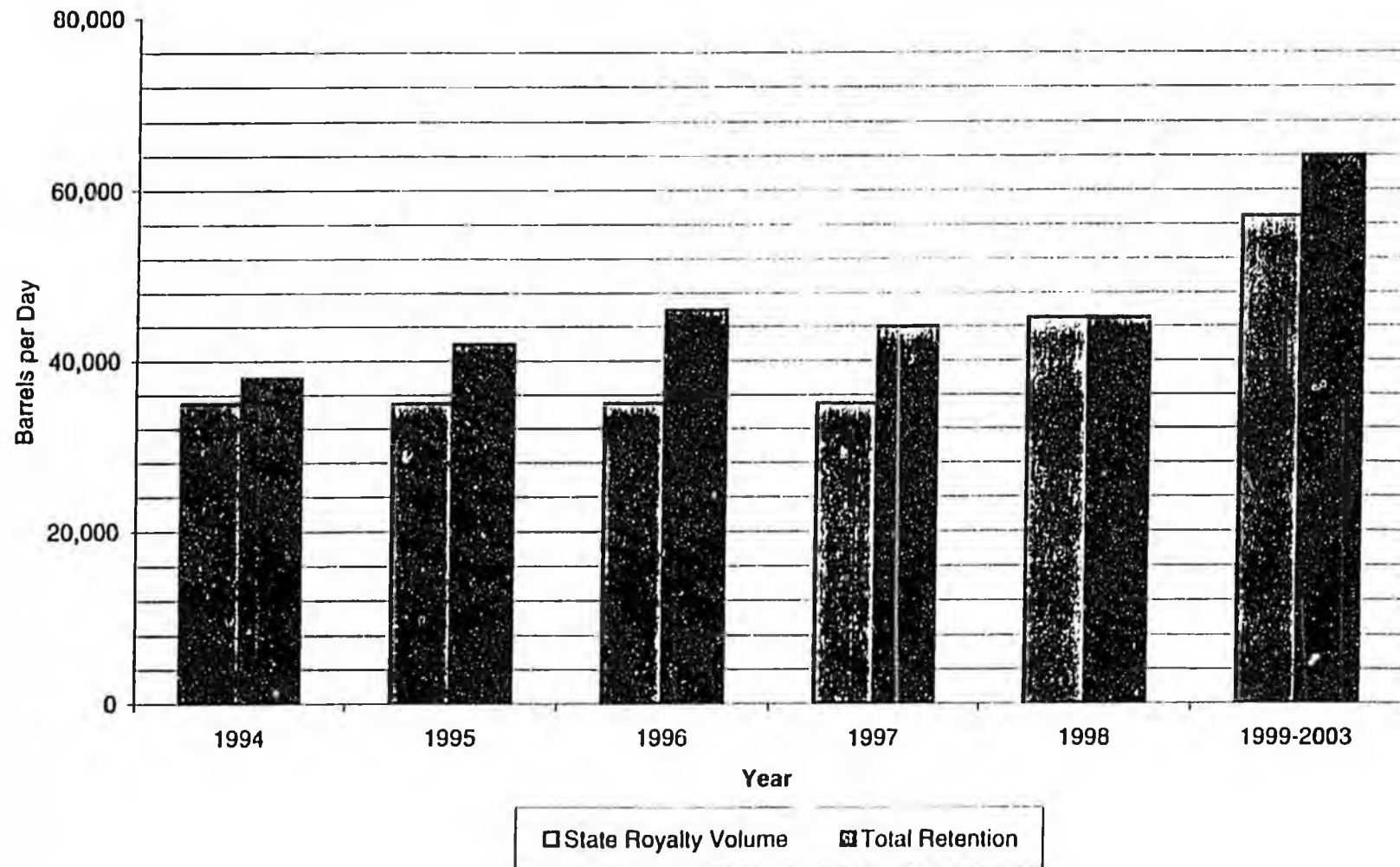
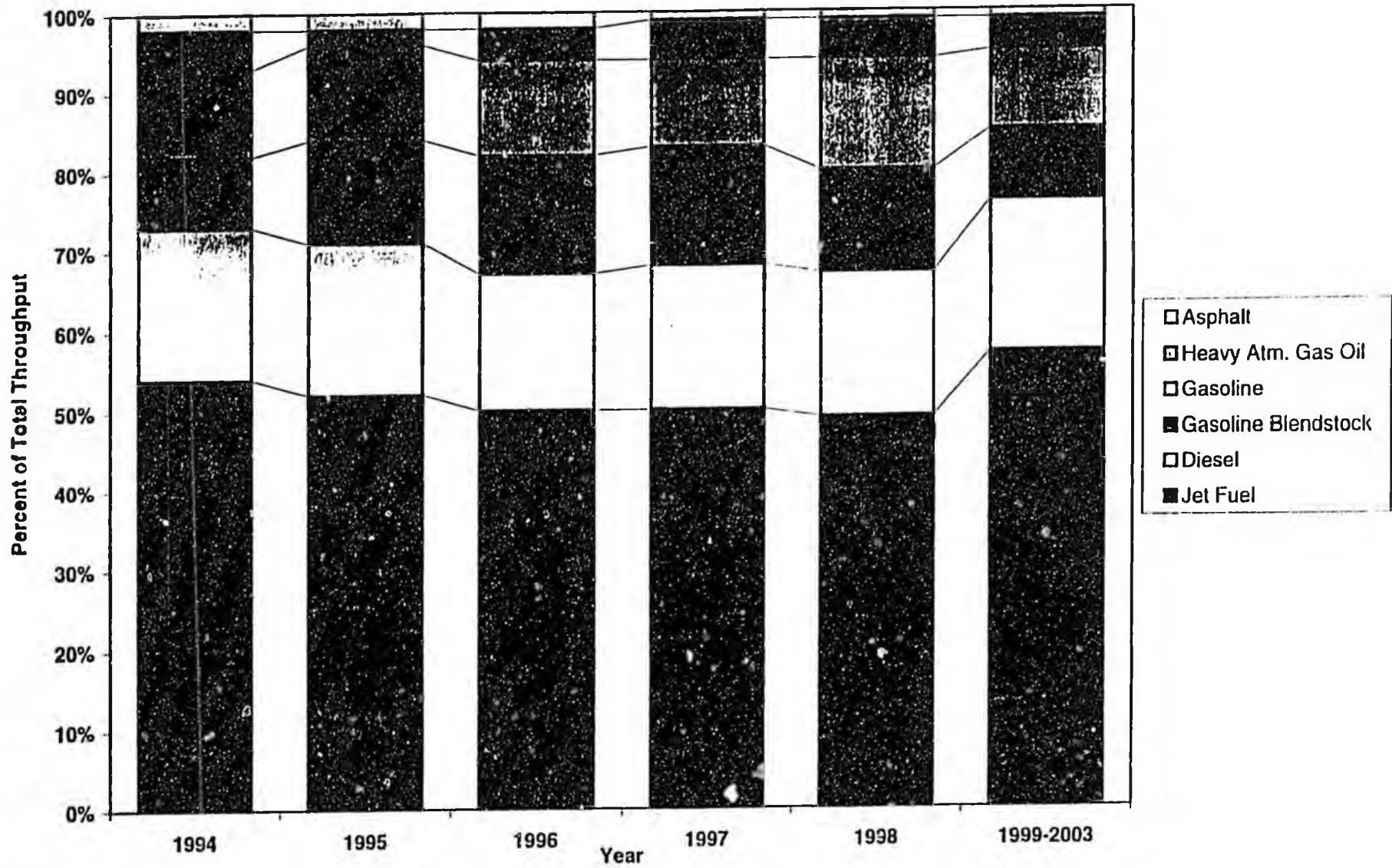


FIGURE 3: Mapco's Projected Product Slate



## V. Findings and Determination

In any disposition of RIK, the commissioner must conclude that the best interest of the state will be served by a non-competitive sale (AS 38.05.183(a)), and that, the non-competitive sale of RIK will be awarded to the prospective buyer whose proposal offers maximum benefits to the citizens of the state (AS 38.05.183(e)). The commissioner considered the criteria listed in AS 38.05.183(e) and AS 38.06.070(a). The criteria listed in AS 38.05.183(e) are: (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 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). These are the same criteria that are to be considered by the Royalty Board in its review of the sale. The criteria listed in AS 38.06.070(a) are: (1) the revenue needs and fiscal condition of the state; (2) the local and regional requirements for petroleum products; (3) the desirability of localized capital investment, increased payroll, and secondary development effects; (4) the social impacts of the sale; (5) the additional costs to the state and local governments caused by the development related to the transaction; (6) the local and regional labor market; (7) environmental effects; and (8) the impact on existing private commercial enterprises and investment patterns. The commissioner also considered comments from the public received during the 30-day public notice period.

The applicable statutes and regulations are included in Appendix B.

### 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 served by a sale without competitive bidding. The state is currently selling 71 percent of its PBU royalty oil under MAPCO's long term and one-year contracts and Tesoro's three-year contract. In 1999, Tesoro's three-year and MAPCO's one-year contracts expire.

By 1999, MAPCO will purchase approximately 60 percent of ANS royalty oil under its 25 year contract and the proposed contract. The state will retain 40 percent of its royalty, approximately 65,000 barrels per day for future RIK dispositions. Tesoro indicated verbally to the department an interest in a new one-year contract beginning in 1999.<sup>22</sup> The state will retain enough royalty oil to meet the needs of other RIK purchasers even with the proposed contract.

A copy of the Preliminary Finding and Determination was delivered to the Alaska Royalty Oil and Gas Development Board as notification under 11 AAC 03.040 that competitive bidding has been waived.

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<sup>22</sup> Communication with Ipe Chako, Tesoro Alaska Petroleum Company, December 12, 1997.

### The Sale is in the Best Interest of the State

In accordance with AS 38.05.182 and AS 38.05.183, I find that taking RIK oil and selling by non-competitive bid to MAPCO for use at the North Pole refinery is in the best interests of the state. The proposed RIK contract meets the following criteria as set out in AS 38.05.183(e).

1. The cash value offered: The RIK price offered under the proposed contract exceeds the royalty value of RIV by \$.15 per barrel. Therefore, the requirements of AS 38.05.183(c) and 11 AAC 03.010(b) are satisfied. Furthermore, the sales price satisfies the definition of "market conditions" in 11 AAC 03.024(1) and (3).
2. The projected effects of the sale, exchange or other disposal on the economy of the state: The projected effects of the sale to MAPCO on the economy of the state are expected to be positive. The people of the state will benefit from the proposed sale to the extent that benefits of this sale can be translated into jobs, taxes, and more vigorous refined-products competition.
3. The projected benefits of refining or processing the oil in the state: The presence of MAPCO's North Pole refinery as a local product supplier with lower transportation cost to markets and situated next to a crude oil pipeline provides price competition to imported petroleum products. The consumer may enjoy lower gasoline prices than would be the case if competition did not exist because MAPCO, other refineries and product wholesalers compete for a share of the gasoline sales market.
4. The ability of the prospective buyer to provide refined products for distribution and sale in the state with price or supply benefits to the citizens of the state: MAPCO's North Pole refinery is the largest refinery by volume in the state. It has been in business in Alaska since the late 1970's, and provides a 50 percent share of the local market for diesel fuels, jet fuels and gasolines.
5. The criteria listed in AS 38.060 070(a): See discussion below.

In addition, I find that the sale offers maximum benefits to the citizens of Alaska. The proposed sale meets the following criteria:

1. The revenue needs and fiscal condition of the state: The state depends 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 exceed the in-value alternative. (AS 38.06.070(a)(1))
2. The local and regional requirements for petroleum products: There are local and regional economic benefits to be derived from the continued operation and expansion of the North Pole 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. As described above, MAPCO 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. (AS 38.06.070(a)(2))

3. The desirability of localized capital investment, increased payroll, and secondary development effects: 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 Fairbanks North Star region and maintain a healthy competitor in the in-state market for refined petroleum products. MAPCO is undertaking a \$70 million expansion program at the refinery. During the construction period of the refinery expansion, there will be short-term economic benefits of jobs and salaries. In addition, MAPCO will add 17 permanent jobs to the local economy. (AS 38.06.070(a)(3))
4. The social impacts of the sale: Both the Fairbanks North Star Borough and the state receive revenues from MAPCO as property taxes and corporate income and excise taxes. MAPCO contributes \$94 million to the local property tax base. With the planned expansion of the refinery, this contribution will grow. (AS 38.06.070(a)(4))
5. The additional costs to the state and local governments caused by the development related to the transaction: Additional costs incurred by the state and local governments as a result of this transaction will be minor. The refinery expansion will employ more people who will require social and education services and the Division of Oil and Gas will incur additional administrative expenses. (AS 38.06.070(a)(5))
6. The local and regional labor market: MAPCO provides direct jobs to 120 people in the city of North Pole and 35 people in Anchorage for their North Pole refinery operations and another 300 people statewide. It is number ten of the top-ten private sector employers in the Fairbanks North Star region. (AS 38.06.070(a)(6))
7. Environmental effects: Any environmental effects will result from the continued operation and expansion of the North Pole refinery, not from the proposed sale. The sale by itself will have no incremental effect. (AS 38.06.070(a)(7))
8. Impact on existing private commercial enterprises and investment patterns: Any impacts on existing private commercial enterprises and investment patterns could result from more competition in the product market and lower prices for products might result from this competition. (AS 38.06.070(a)(8))

### Criteria Weights

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