

Sponsor Statement

HB 57

“An Act amending the manner of determining the royalty received by the state on gas production as it relates to the manufacture of certain value-added products.”

[This bill](#) adds a new subsection to [AS 38.05.180](#) (aa) which allows the commissioner to enter into an agreement with the producer to use or accept as a price for the gas an amount that is not less than the price established in the contract (between the producer and the manufacturer of agricultural chemicals) and the highest prevailing price being paid for natural gas in the area. What this does is allow the agricultural manufacturer, along with the producer, to know early on what the price will be for the gas being purchased from the state’s royalty share and give “certainty in price”.

Secondly, it amends current statute and gives the commissioner more discretion to reject an agreement between a producer and manufacturer. The commissioner may enter into an agreement if it is in the State’s best interest and he finds:

1. The manufacturer and producer are not affiliated (one party exercises substantial financial interest over another);
2. He makes a written finding based on clear and convincing evidence that
 - a. the price is unreasonably low; or
 - b. that the royalty receipts would not be balanced by employment opportunities or other tangible benefits.

The House passed bill and the Senate Committee Substitute are the same in that, once adopted, the law would only apply to new contracts, not any existing contracts; the definition of manufacturing of agricultural chemicals is the same; and it will help provide certainty in price.

This policy is consistent with policies adopted by the State of Alaska. During the 22nd Legislature (2001) the state adopted [AS 44.99.100](#): Declaration of state economic development policy. In part this policy states:

“To take advantage of investment opportunities afforded by Alaska’s abundant natural resources and productive capacity, the state should undertake activities that serve as a catalyst to responsible economic development...”

“It is the policy of the state to encourage ‘value-added’ processing in the state...”

Thirdly, this should help accelerate exploration and production in the Cook Inlet.