

CHARLES

SPAHN

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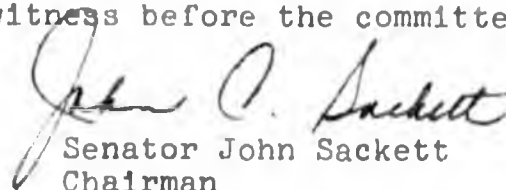
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The attached transcript contains the remarks made by Mr. Charles Spahr on October 19, 1973 before the Senate Resources Committee. It is a verbatim transcript of Mr. Spahr's remarks. There is occasionally a word missing or other minor gaps in certain places, which are due to the speaker's testimony being indecipherable at that point. However, it is believed that these occasions are rare and the transcript presents a fair picture of the thoughts expressed by the witness before the committee.



Senator John Sackett  
Chairman  
Resources Committee

TRANSCRIPT OF SENATE RESOURCES HEARING

October 19, 1973

SPAHR: For the record I should identify myself. As most of you know, I am the Chairman of the Standard Oil Company of Ohio. I have been involved in the oil business all of my working, earning life and am getting to the point where my seniority might entitle me to some respect in my actions and correspondence--in other words, I am getting to feel rather old these days. I feel that in the Committee's best interests, it would behoove me to position myself in the very beginning to answer questions, since I did make a statement this morning of an all encompassing nature, which I believe all of you heard. I believe we can use that as a reference and begin in whatever way you gentlemen would prefer.

SACKETT: Very good. Are there any questions from Committee members? Senator Thomas?

THOMAS: I won't hesitate to jump in now, because I know if I don't it will be about two hours before I get a chance. Mr. Spahr, maybe if I could just preface it by saying that I, at least, and I know a few others also, several years ago were much persuaded by the arguments about the ICC being a paper-tiger really and would not, because of its past performance, really protect our best interests up here. And, what we were fearful of was that the wellhead value would go down to a point

that our taxes would not amount to what they otherwise would and that is one reason, I am sure, that the cents-per-barrel tax came through; but primarily that was my reason, at least, in voting for the right-of-way leasing act--to give us some kind of handle on this thing and hopefully to persuade the owner companies of the pipeline to not recoup their investment as quickly as they could legally under the ICC rulings. And, at the same time we had no assurance that a maximum take would not be made by the companies involved--no assurance that this would not happen--driving down the value of the wellhead. Out of this, I think you can see what my question is--how are we going to be protected against this sort of thing?

SPAHR: Senator Thomas, I will try to be responsive to your concern. At the time you considered these questions and expressed these concerns, all of which are related, circumstances were somewhat different than they are today. I really believe that the things that have happened are one of the bases for your concern of these matters being litigated somewhat. Let me proceed to explain. I refer mainly to the way things are going in the world of oil production and purchasing and the relationship of supply and demand and the effects of all these things on the value of oil. A very decided upward pressure on the price. That prospect was not apparent several years ago when first considering the measures that are now law and your calculations have indicated that then current prices, backing off transportation charges, terminaling charges and all those kinds

of things, allowed for 7% return on the ICC evaluation on the pipeline on a low volume, that the value would be minimal, if existant at all. At that time we tried to point out that we were not interested in producing oil for no profit, just having all our profit given to a pipeline return, but I realize we just weren't very convincing. Let me proceed to the ICC. This morning in the House Resources Meeting, the question about the ICC arose and I think the implication was strong that there was still concern that there might be a paper-tiger. The question posed to me was--what has my company's experience been in working insofar as its transportation operations were concerned under ICC jurisdiction. And, I will give you the same kind of answer as I gave those gentlemen. My company, as far as operating pipelines in the Lower 48--we have one that we own entirely which is rather old now, which connects the tri-state, that is, the Illinois, Indiana and Kentucky oilfields, to our Ohio refinery--was built in 1939. It has connections to other carriers that serve it from more distant fields and it, in turn, has connections at this terminus that allow oil to be moved on to other carriers to destination. So, it is involved in both establishing rates and working out divisions of rate with other carriers, all of which have to be approved by the ICC. It has transported oil for other shippers who were the sole owner. At the same time, we have used pipelines operated by others that parallel and serve this line that I mentioned--Marathon's pipeline being one--various carriers who deliver into central

Illinois being others. We also participate in the Capline Project through our ownership in the Mid-Valley Pipeline. This latter company, Mid-Valley, built a consortium in 1950, connecting the East Texas oil fields to the Ohio refineries and pipelines which originate there. This was owned by the Sun Oil Company and my company in the beginning--we originated the line as we are attempting to share in the origination of this one because we needed the new carrier and a capacity that would be sufficient, and at the right place to satisfy our needs. Later, Gulf became a partial owner. That line operated continuously since 1950--it has served other shippers such as Ashland, other companies that I could name--it goes through the same proceedings in filings its tariffs and getting approval of the ICC as SOHIO Pipe. I could name others--the Colonial Pipeline, a product carrier, is one in which we have an interest, and the Harbor Pipeline is another, on the East Coast, in which we have a small interest. We have other wholly owned interests and much more restricted--restricted in terms of volume--but in all instances we have to file and get approval on our terms--terms of receipt, minimum volumes, conditions under which we receive, we have to specify the carrier's responsibility, the custodial law, the obligation to return it in kind, or substantial kind--and in all these operations, to my recollection, while we have had inquiries for clarification and some suggestions on improvements of our tariffs from the ICC, we have really quite apparently done nothing to trigger their criticism in terms of penalties that might have been applied--in other words, I think

we have conducted our operations well. Now I think our experience is typical of that in the Lower 48. We have used other people's pipelines before and they have used ours. We, or most major companies in the Lower 48, have operated for sometime and have been in transportation operations for sometime and parties to the rather well remembered Madison Consent Decree, which was the basis of establishing the limitation on pipeline earnings and related earnings to a percentage of the valuation. So you have that restriction, and an effective one, to be concerned about in our operation, and, of course, we are subject to the Interstate Commerce Act, which Act carries some interesting penalties among other things, failing to observe the law. The potential difficulty that arises out of malfeasance or misfeasance, or plain bad operation, or illegal operations, are so potentially severe that the ICC, in my view--an operator that has had to work under the jurisdiction--is a very effective regulator. Now, I believe it is a very fair thing for me to add that their concern about their regulation varies almost directly in relation to the size of the facilities, complexity of facilities, they have to be concerned about. A small line operating for a long time with a reliable record of performance gets their attention, but very little concern, let us say. They can easily tell if the tariffs are being developed in accordance with their regulations and if there are differences of any substantial nature from what they expect. Larger lines, such as Capline, which is a still growing line, having capacity added

almost every year, and which has an ultimate potential capacity of around 900,000 barrels a day, being in the state of development and growth, gets more of their attention than do the older, smaller lines. Thus, the operators get more inquiries; but again, the performance requirements have been so well established and the availability of the systems have been so general that the ICC's requirement to police and penalize is not great. Now I have the firm impression, however, that comments about ICC being a paper-tiger, concerns expressed in this State, general concerns expressed in Washington and elsewhere about the possible need of making sure that regulatory effort is good--all are going to have the result of making the Interstate Commerce Commission very, very aware of this pipeline and of the need to inspect, to study, to regulate, and to be sure that we don't do anything that we should not do. That's all a very lengthy way of saying--my own experience with them is that they will do an effective job. And, my belief is that this likelihood, coupled with the provision that we are going to keep our records for Alaskan operations separate from all of our other records--coupled with the willingness I expressed this morning to have our records--my own company's records with respect to Alaska--independently audited, with the auditor one that would be acceptable to the State--ought to give you some substantial assurance that we are going to operate within the law rather than outside it. Now, with respect to costs and tariffs and the value of Prudhoe Bay oil. We now expect to schedule our construction in such a way that the second increment of volume capacity will be available

as soon as the pipeline is done. In other words, we expect to install the stations needed to operate at 1,200,000 barrels a day and have them ready as soon as the line is commissioned. We will have to undergo a short period of commissioning time--it's variously estimated at four to six months, depending upon the weather prevailing at the time we are doing this--when we have to test everything, make sure it works right, fill the line, make sure we have vessels scheduled in Vald to take the oil away, make sure we don't encounter difficulty that would cause the pipeline to shut down and allow the jelling of the oil in severe winter--during which time the--according to Alyeska's operating people, we'll be operating at rates varying from 200,000 to 1,200,000 barrels per day. During that period of commissioning, the average rate's going to be less than 1,200,000, but as soon as it is over, there is nothing that we can visualize that would prevent us from operating practically at the 1,200,000 barrel per day rate. So, we no longer visualize the possibility of an extended period of time going by, like a year, during which low rates where, if the choice were calculated on the basis of a 7% return of low rate, it would go sky-high. We do want to have the privilege and we are counting on having the privilege of establishing our rates in accordance with the ICC limits, but we believe and we think it can be demonstrated by our people, as well as by the State Administration, that the use of tariffs that will allow a return on investment approximating 7% of valuation will not result in a valued oil at the wellhead that would be anywhere close to nothing or nominal. So, the combination of

expected initial volume at a high rate, with the advances and prices of world oil which will effect the value of Alaskan oil are the principal things that I see that tend to completely eliminate the concern that you have. I will try to be more brief on other answers.

SACKETT: Are there other questions? Senator Rader.

RADER: I am interested in the nature of the understanding that you have with the Governor. If we pass a 20 mil tax this session-- ad valorem tax--and an additional 5 mils next session, would that be a violation of your understanding with the Governor?

SPAHR: We have absolutely no understanding what the Legislature should, could, or would do in the future. I didn't presume to try and establish that. I feel if I had, the Governor would probably have kicked me out of his office. We simply tried to develop together--after listening to one another, a set of revised laws that would eliminate our concerns by being able to finance and really operate without undue restrictions and regulation. Now we recognize that the State must have revenues to meet its budgetary requirements and it has that power to do this at any time it wishes to, but as I said to the Governor in the very beginning--I believe that a philosophy we could use as a foundation for our discussion which would lead to a negotiation would be this--we recognize that with the State's power, and the realism of its working out tax laws that would provide it with the revenue it needs to do the jobs it wants to do for the State of Alaska. On the other hand, we hope that we can convince the

State as to the needs we must have for relief in the regulatory and financing areas that will allow us to do this job the way the State really wants us to do it with minimal cost and, you might say, with maximum speed. And, if this can be the basis of examination for changes that could be made to the laws about which we have been so concerned, it would seem to us that we should find a way for us to solve our problems, accomplish our objectives, and eliminate the waste of time that is bound to continue to occur by pleading the process through the courts.

RADER: Now if the imposition of a 25 mil ad valorem tax in January would not be a violation of your understanding, would the imposition of that tax now be a violation of your understanding with the Governor?

SPAHR: Well, sir, I really think the imposition of such a tax by you couldn't be conceived to be a violation of the understanding that I have with the Governor; however, the understanding I believe I have with the Governor is that the total content, including the tax amounts of these legislative proposals that are before you now, represents in combine a solution to the problems that we have. And, my understanding is that it represents an adequate taxation base and contemplated take for the part of the State. The Governor understands, and I want to be sure you do too, that if you decide to change this now, then I have the problem of going back to all of the companies involved, whom I have represented here as a spokesman, as well as the obligation of

re-examining from our own point of view, any changes that you make in order to determine whether we want to accept them, or whether we feel it would be best to go ahead and use the facilities of the court. My point is that if you do not choose now to approve what has been put before you, substantially in the way it has been put to you, then we just simply have to take the risk of use of time to find out who wants to do what-- whether the lawsuit stays in effect, or whether we can accept what you do. Now, insofar as January is concerned, while it is only a few months away, I think you are no more restricted there than you would be at any other legislative session, which is to say you are not restricted at all; however, I would feel that, frankly, you would be taking advantage of a technicality to move that fast on a change in the tax base--I wouldn't really understand it.

RADER: Our standard maximum in the State is 30% on ad valorem for our subdivisions at this time. If we went to 30 mils right now, you state the reason for the negotiations is so you would not have to go to court and have protracted hearings or for financing. Of course, there would be no court hearing involved in that--nor would that affect your financing, would it? If it was just a matter of our judgment what the fair tax would be?

SPAHR: It's a matter of your judgment, but here you begin to affect the economic considerations of the people involved in this pipeline project, and you bring me to the point where I would like to expand a little bit on what I said in the general

session this morning. While you have a right to do this, it changes our economics. Every participant in TAPS could evaluate it again. Some might conclude that, well--if the tax burdens are going to be this way--they are going to apply to the pipeline this heavily--maybe there is no real incentive to us anymore--they might reason-- to participate in the line so we would like to get out. My conjecture is that this kind of reasoning is very likely to arise among the small owners. Thus, we would be involved in TAPS in a reorganization--a rearrangement of ownership. I think it is fair to say that nobody wants to take any more of this ownership burden, in spite of your thoughts, that you may have had in the past, about the lucrative ownership of the pipeline--nobody wants any more of the burden than they have to take proportionately to the utilization made and so there will have to be some time spent in working out the rearrangement of ownership and investment responsibility and then there would be, as a consequence of that, the disappearance of some if it should take place, a going concern that I would have, and I think would be shared by others, that the elimination of small owners would serve to enhance the curiosity of the Department of Justice about whether or not we are getting involved in something that is a violation of anti-trust laws. We wouldn't be, but it is one thing to feel, you might say honest and pure, and another thing to convince those who might be inclined to think just the opposite of you. So these are the kinds of things that I think would arise out of such an action.

RADER: As I understand it, you are saying that some of the owners, if you raise the tax, might consider it so unprofitable that they would not any longer be interested in participating?

SPAHR: Undesirable--I don't think I said unprofitable. Maybe I did, and if I did I want to correct that.

RADER: Undesirable--unprofitable--aren't you talking about profitability?

SPAHR: Profitability is always related, but you see, every company involved, I think, has the theoretical choice at least, and I think it's a practical choice, of deciding where he is going to put his money for investment. He doesn't have to put it in Alaska in a pipeline when he could put it in a chemical plant, or motel, or invest it at 10% in short-term governments, or there are a lot of things that would perhaps be attractive by comparison, so he might decide that he can rely upon somebody else taking care of his obligation in the pipeline, including perhaps the Federal Government, finally, as I mentioned this morning--let them do it, produce his oil, he won't have to worry about the risk of the pipeline, he won't have to hire lawyers to take care of his obligations, he won't have to do a lot of things that are involved here--he can do the simpler job of making money elsewhere, and rely upon a service provided by somebody else.

RADER: Let me preface my next question with a statement. A lot of us are concerned about the ICC matter, because we view the pipeline as being in the nature of a public utility--a

monopoly, which is different than in the Lower 48. Pipelines have other competitive methods, but we have only one exit from the North Slope. It has to go through this pipeline, and if we did consider it in the nature of a public utility, then you would be assured as a public utility is, with a certificate of convenience and necessity, and the rest of it, and under ordinary and standard public utility law, a reasonable return on your investment, and bankers are accustomed to lending money under those circumstances. Don't you think they would finance you if you were under the same constraints?

SPAHR: I doubt it, but let me answer you in a broader context than you posed the question to me--I want to refer to some of your observations. You apparently think there is a difference in the situation you are involved in because there aren't other transportation facilities available to compete with the pipeline. As a practical matter, in the Lower 48 states there are no other transportation facilities that are available to compete either. It is not physically attractive, desirable, or economically feasible to transport oil by truck or by railroad, or by anything other than by pipelines down there. In the normal course of development of pipelines, there aren't duplicate facilities that serve the same source, the same destination, so while this is the first development up here--and it is the biggest one ever--it seems to me that the situation is relatively the same as those operating in the Lower 48--your State situation as well as Texas or anywhere else, so I really don't understand the concern. Now it really isn't a public utility--as public

utilities are defined as I understand them--it's a private business, regulated, serving a limited amount of interested shippers and those who at destination would like to have the oil. And the public as such isn't involved at all, so to regulate us and restrict us and require certificates of convenience and necessity to get in and out, as I see it, would serve no purpose except to be restrictive and ready to provide jobs for others--it wouldn't protect the public--it would severely limit us in the flexibility we would like to exercise as time goes by, but none of us present in the room, for example, may be in the same position to be influenced as we are now. So, that's the objectionable feature to me.

RADER: Of course, you say it is not a public utility, but that may be a question. If we have only one, it's a monopoly situation--everybody has to use it. It has all the earmarks of a public utility where you want only one waterworks, one telephone system, or one power company; we don't want two pipelines, and we don't want alternate methods for economic reasons, ecological reasons, and other reasons, and it's hard for me--and I think others have the same problem here--to think that the public doesn't have an interest in that rate, and what the rates are that other corporate citizens, who are not owners of the pipeline, have to pay to get their oil to market. It is because of our concern in that sense--and again, assuring to you--what if we put you under our Public Service Commission, no owner's forfeiture provisions or anything else--you would be under the same provisions as the Alaska Juneau Light Company or Alaska Pipeline from Kenai on up to Anchorage up north--the same position, same

control, same regulation--that will guarantee a rate of return. They have no trouble financing themselves, its a method of financing that is well known throughout the country--a certificate of convenience of necessity enhances the financability of most utility projects--why wouldn't it operate in the same way for you?

SPAHR: I repeat, this is not a utility project, so I can't see that it would enhance our capabilities at all--I see that I haven't been convincing to you, although I still contend with great conviction, that it would hamper us. I have complete difficulty in understanding your concern since we are regulated by the Interstate Commerce Commission on the one hand, by the Madison Consent Decree on the other, which limits how we can establish our tariffs. We have to make the pipeline available to any and all who meet the tariff requirements--we have to be reasonable in the first place and satisfy the ICC as to the reasonableness. It seems to me that all you are suggesting, frankly, is double regulation which requires more attention to detail, more expense, and in the end less profit, and it seems to me it's less rewarding to you.

RADER: But that's not a reason for not building the pipeline--for double regulation, is it? Isn't there a lot more involved in this than that? Isn't there a great difference in the type of regulation I am talking about and what you are talking about?

SPAHR: Would you mind telling me specifically what you think might be involved? Are you concerned about the profits we will make on the pipeline?

RADER: I think you must make a profit. I want you to make a profit, but I think the public has an interest, aside from that profit, in the same way they have an interest in the profit of the local utility company here. They have a monopoly situation. They are serving the greatest resource we have--there is no other way to extract the resource.

SPAHR: Do you think a return of 7% on the approximate investment involved in the pipeline is unreasonable?

RADER: As I understand it, that could be a 50 or 100% return on your invested equity. We have had testimony from others that that could well be a 100% return on your invested equity.

SPAHR: Alright, now we are getting very much to the point. Our borrowing capacity--anybody's borrowing capacity--is limited finitely, dependent upon the resources we have available to cover the borrowing. If we are going to remain in business, then every investment we make has to be a reasonably constructive one or we ought to take the alternates that are available to us. Therefore, if we are going to be limited severely on the return on the borrowed capital we have to employ up here, we are employing the capital and withdrawing the ability to use it elsewhere for a better rate of return with the rest of our capital employed. If we only use 15% equity up here, we will probably use more elsewhere. We can take advantage of the high borrowing ability up here to finance a project that is very, very costly, which couldn't be financed otherwise if we had to use more equity. This particularly applies to my company and it has very similar appeal to all the rest, so when you are looking at our problems and our finan-

cing and our returns on investment, you have to consider our whole company and its problems. We have to--just to talk about my company a bit more--in addition to building our share of the pipeline, comparing our share of the North Slope, which is rather substantial, we have to buy ships for the Valdez operation --a 120,000 ton ship costs \$50 million each at this time-- in order to meet all the requirements and specifications that are designed into it now--we have to revise our refineries in the mid-continent so that they can run Slope crude, whereas they have been running Mid-East crude before--this takes millions of dollars; we have investments in expansion in the market place to make, as well as refining facilities to support them. Because of the very rapid shifting and supply situation in the world we have to commit ourselves to the financing of large capacity tankers of foreign flag nature to bring oil from the foreign lands to this land of ours--we have many, many things to do-- this is multiplied many times by the total industry. It is not remotely possible that we can do all these things with our own funds, and the problems facing the oil companies, as well as other industries in raising adequate amounts of money to do the kinds of things that are projected that we are going to need to do in this country, are nothing short of appalling, so we have to look at what we do in Alaska as part of the total, realizing that we have choices to make if the opportunities in one place aren't as good as in another, and this is why I have said, as strongly as I could say--hopefully without appearing to be combative or unreasonable--that if we cannot have the opportunity to work under ICC regulations with the reliability that I think

they provide for everybody--if we have to be restricted substantially in our earning capacity here--I am one who would much prefer to see somebody else do it. And, I am...

PALMER: You have just said we have to consider the entire situation, not as an isolated case. I think we do, so I think we have to figure the pipeline and its profit--not in its own relationship, but also in relation to the fact that it provides you a means of extracting and marketing the North Slope oil and, therefore, should be a much higher profit than might be gained in many other places, so it is not an end result, but only a means to an end, and can't be considered by itself in isolation.

SPAHR: It's a component of a total and I don't think you can necessarily conclude that its going to enable us to make an unconscionable profit on the oil that would not otherwise be moved. This oil is going to be moved anyway. If we don't build the pipeline, somebody else will. I am confident we will get that oil out of there--sometime.

KERTTULA: John's question wasn't entirely answered...

RADER: I have a couple more if I could follow for just a minute here...

KERTTULA: The answer is you can't earn over 7%--you can earn over 7% on your equity, that is....

SPAHR: Well, you can earn 7% on the evaluation which, in the very beginning, would be an approximation of the total investment

involved. Borrowed money, as well as equity money.

RADER: It is my understanding that it is your position that the TAPS consortium cannot finance this pipeline on a public utility basis--would not want to--is that what you are telling me?

SPAHR: I did not say that it could not be done. I do want you to understand that I think it would be more difficult. I do want you to understand it would be far less attractive to me-- I am not talking now about the consortium of the other oil companies because I haven't discussed this problem you are raising with them. We have only discussed feasible solutions we felt we could accept.

RADER: Now if you feel you would not want to build it on a utility basis, with a utility profitability, and if we felt we had to have that sort of a show, would your position then be to favor a Federal line?

SPAHR: My position would be that we would have to go home and re-examine the whole problem by ourselves and with our associates and reach a conclusion and my position is that that will take time. If we have to do it, we will have to do it, but I do feel it is not in the interests of anybody involved to spend time unnecessarily. This may be necessary as a consequence of what you do, but I am trying to say that it poses enough of a different question from any that we have considered that I do not have an answer.

SACKETT: Before anyone asks a question--while we are still on the same subject--I kind of like your idea of a Federal pipeline, built by the Federal government.

SPAHR: That's not my idea! It is a suggestion of a way to solve the problem.

SACKETT: Well, I like the suggestion you made this morning, as another alternative. I would assume that under Federal ownership the regulation would be with the Federal government and that regulation might take care of the same problem we have now, which is the concern over tariffs being charged at the wellhead value. Would you care to comment more on this concept?

SPAHR: The Federal government is another business--the Tennessee Valley Authority being a prime example--anyone who wishes to can evaluate that operation to their full satisfaction and speculate on this one. I don't think it would be a very good solution to ask the Federal government to build the line. I start from the premise that I simply can't accept your concern about the possibility that we are going to milk everybody in sight out of all the money they have for our pipeline service. I am concerned that Federal building of the pipeline would probably be the most expensive way to build it, and that it won't necessarily be the quickest way either, because the profit motive is not there, as it is with us. The desire to minimize the cost is not there, as it is with us. I could cite many, many instances on this latter business. For example, we attempted to persuade the Conference Committee that just brought out the pipeline bill to insert the

word "reasonable" in the phrase that requires us to compensate the government for all its expense in the past, now, or in the future, for investigating the line, inspecting during construction and during operation. We wanted "reasonable" in there so that we would only have to reimburse for reasonable expenses and that the charges might be subject to some examination. We didn't succeed in getting it in there and we have no control over what will be done. And, I don't think--and this is a personal opinion--that those who were responsible for putting that in there in the first place have much concern over what those costs will be. Now I want the pipeline inspected. I want it built well. I don't want trouble out of it, and we are determined we won't have it, but I do think that we need to do just as good a job on planning how to insure its inspection will get the job done well as by the kinds of materials we select. So, I think if the Federal government builds the line it will be more expensive, it will take longer and maybe the problems arising out of operation will be more difficult and time consuming to solve. That's it.

BUTROVICH: Mr. Spahr, you and Senator Rader had quite an exchange on whether the pipeline should be a public utility. Are pipelines public utilities anywhere? Are they handled as public utilities anywhere to your knowledge?

SPAHR: To my knowledge, no crude oil carrier or oil product carrier is treated as a public utility anywhere in the United States, I am not knowledgeable about the European countries, although I believe the same to be true over there.

BUTROVICH: If they are not a public utility, then as far as earnings are concerned, if they are not treated as a public utility, you agree then they should not be treated as a public utility for any other reason? Would that be a fair statement?

SPAHR: I think that would be a fair statement. In other words, they shouldn't be protected from competition or anything like that? Yes, that's correct.

BUTROVICH: All embracing--anything--they should not be considered a public utility for...

SPAHR: With a very important exception which I wish to make. The right of eminent domain is an important thing.

BUTROVICH: That is what I was thinking about.

SPAHR: I thought you might be. Railroads have had that right in the past. The pipeline has to -- the pipelines are already regulated in a very effective way, but if they don't have the right of eminent domain, perhaps then they can't be built.

BUTROVICH: Is that inherent or by a specific law?

SPAHR: I am not--is it inherent? I think you will have to ask Mr. Heard, who will be up here soon and who is a lawyer, to comment upon that.

SACKETT: Senator Palmer.

PALMER: Mr. Spahr, you talked earlier about your pipeline operations in the lower states--mentioning some of those. What is the percent profit earned at this time, or for the

recent past years, as calculated under the ICC? We hear about 5% and wondered if that was correct.

SPAHR: Depending upon the abilities to operate at the volumes that were contemplated when the tariff was set, they have ranged from 5 to 5-1/2, up to 7 at times.

PALMER: Well, if there is no competition down there, and I felt that was what you said awhile ago, then why are the tariffs....

TAPE TURNED OVER--SOME TESTIMONY MISSED.

SPAHR: ....their geology and the rest of their exploration indicates is available. That's been proven time and again.

PALMER: But given that geology, they can only bid what their economic....(couldn't hear rest of his sentence.)

SPAHR: That's right, but think of the differences that sometimes exist on the bids on the same tract of land because of differing evaluation in any circumstance---they are far more important, I think, than the cost of transportation.

PALMER: If production capacity increases, as we hope it will, markedly, with some of the new lands up there, a market of course exists, what plans do you have for looping the line?

SPAHR: The plans have not been developed yet. They will be, I think, when it becomes apparent that they are getting close to the time. For example, once the line is built, and operating

at 1,200,000, it will be time, if not before then, to start developing, perfecting the plans for looping. There has been some projecting of looping plans already so that we are aware of what can generally be done, but nothing has been finalized in detail. I don't--I plead with you really to be somewhat confident that the companies are going to be quite timely in planning for that kind of thing.

PALMER: Even if it's not your own oil--even if it is someone else's oil that you will be carrying?

SPAHR: Yes, because among other things, you know, if somebody else discovers oil and puts it to us, and we don't have the capacity, everybody gets prorated and our oil gets backed up, and that gets pretty costly, so we will make the investments alright.

SACKETT: Are there other questions of committee members?  
Senator Rader.

RADER: On this problem of public utility regulation type of thing. We regulate as a public utility a gas line that exists --a single gas line that crosses the Inlet and serves Anchorage from the Kenai Peninsula--limiting their rate of return. Is that an unusual situation, or an unfair situation in your view?

SPAHR: I am really not competent to talk about that. The Natural Gas Act is quite an act in itself and has quite a lot of influence upon thinking pertaining to gas matters, and I am not as knowledgeable about those things as many others are. We are not gas producers in any substantial degree, nor are we gas

transmission operators.

RADER: Part of your pipeline package here is the sale to you of lands with the dock in Valdez and for other facilities, not at a competitive sale. And, of course, we would have to justify that because there was a very substantial broad public interest in the pipeline and in your expeditiously getting that land-- that it not be handled with somebody in between, making a very large profit or something like that. It seems to me that if we were to consider you in the light of a public utility; if you had a guaranteed rate of return, and a certificate of public convenience and necessity where you couldn't be competed with by any other consumer facility, that it would make it much easier for us to make that land available to you.

SPAHR: Well, let me...I think it has been pointed out up here that we have offered to pay the appraised value of the lands. All those lands we specified that we want, for \$10 million or whatever is higher. I think that is public knowledge up here. Our own appraisals of the land indicate that that \$10 million is better than twice a realistic appraisal at the present time. So, we felt that we had demonstrated a considerable responsibility in assuring you that even with this deviation from your normal procedure of selling land, that we assured you of substantially more than might otherwise come out of a sale, even with public bidding. So, I think we have handled the problem really.

RADER: I think you are right, but we have the philosophical thing and it's really the public interest in this pipeline is different than other bidders of land and other people we are dealing with. Let me ask you this. We have attempted through our right-of-way leasing thing to increase the right-of-way fees, as your profits increase--as a contractual matter--that is the theory we have proceeded on there. Would it be totally unacceptable to you, or your people, if we entered into an agreement with you as a contractual matter, and instead of that fee schedule that we have in the right-of-way lease, merely that you agreed to submit to public utility--standard public utility--type of regulation with a standard return on invested capital? I mean the whole public utility thing--get away from all this forfeiture stuff.

SPAHR: I dislike it myself. I don't know...I dislike it myself because of the things I have already said and because I don't think it is necessary to protect your interests; however, I cannot speak for the other oil companies involved. This would have to be put to them and they would have to consider it and answer for themselves, either directly or through me. I would be willing to be a conveyor, but that's not a question that is going to be answered in a few hours.

RADER: Let me carry it a little further--you don't really have to worry about ad valorem taxes of 30 mils if you are a public utility and have a guaranteed rate of return which is going to let you pay that 30 mil tax. You have, in a lot of ways, the things you are objecting too and the things you are concerned

participation, much as I dislike some of the features of it, and so on.

CROFT: You indicated that you might encourage others to take a percentage of the present participation. Are there arrangements between the owner companies at this time regarding that?

SPAHR: There is a provision in an agreement that exists among the owner companies that provides for a means of reallocating ownership as the pipeline capacity is enlarged, that provides for their nominating capacity for determination of what the new capacity allocations will be up to 100% and that's all that we have. But this provision was put into the contract because the contract was prepared at a time when the potential of Prudhoe Bay wasn't very definite. People thought they had certain interest in the field, but they weren't sure, and, of course, as it has turned out, there have been differences from expectations.

CROFT: Is SOHIO free to sell its interest in the pipeline to anybody without obtaining approval of any of the TAPS.....

END OF TAPE.

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END OF TAPE.

MILLER: My impression from your talk this morning was that basically the eight bills, substantially as written, which would indicate to me that that would include the distribution of the tax within the State of Alaska to local governments and this type of thing, also perhaps may have been part of your agreement with the Governor.

SPAHR: No, that was the Governor's determination. I am only-- we agreed we wouldn't fight a 20 mil tax--an all inclusive tax-- now by some formula (there is one in there) which would allow for distribution. We are not concerned about that. I don't see how we could possibly be, or should be. I didn't mean to imply that at all.

MILLER: With that particular bill then, perhaps we have more leeway than your talk indicated, and perhaps maybe some of the other bills could be construed the same way.

SPAHR: No, I think you have more leeway than you might have assumed this morning on that 20 mil bill, but I don't think my talk indicated that you would have less than I am indicating to you now. I was talking about the total amount of the tax this morning--if it were changed upward, then the total combination of things which we view as all inter-related would have to be reviewed because the cost would be higher.

MILLER: But I assume...

SPAHR: But, the distribution of the 20 mils, or of any figure, the distribution would be of no concern to us. It is the total that matters.

MILLER: But, that is a rather major portion of that bill that could be altered from the way it was written as far as you are concerned?

SPAHR: Distribution?

MILLER: Yes.

SPAHR: As long as the total doesn't change.

MILLER: Thank you, Mr. Chairman.

SACKETT: Mr. Spahr, Senator Silides has to leave for another meeting and has a question for you.

SILIDES: Mr. Spahr, there seems to be some difference of opinion as to whether you will be required to purchase oil which is brought to you. I was under the impression that you would have the option of buying it and that the prorating would begin only if you did indeed begin, or commence buying such oil.

SPAHR: I think I can straighten that out. I think there is a little confusion on several different facts. If the pipeline is full with oil from Prudhoe Bay put to it by all of the producers up there, including us, and some other oil field is developed and connected to the pipeline, then those producers--let's say they exclude us--have the right to make tenders in accordance with the tariffs. If the pipeline does not have the capacity for handling everything, oil from Prudhoe Bay is going to have to be backed down so that the new producers and the old producers get transportation prorata to their total needs equitably.

SILIDES: Then you are indeed a common purchaser?

SPAHR: No, there is no purchasing involved here at all. Now if in this---you see, we are only producers here along with other producers, so we are an owner of oil that we want to ship, along with others who might have bought it or who produced it and, because of a restriction in transportation capacity, we are all restricted from moving all the oil we would like--it's a pro-rata restriction--nobody gets favored. Now, however, if in this field (we are talking about this second field) we choose to go in as a buyer from one producer there; then this proposal requires us to become a common purchaser in that field and to take prorata from everybody, as I understand it. We still could then turn around and find we are restricted as an owner of that purchased oil from moving all that we want to move, because the pipeline doesn't have the capacity.

SILIDES: My basic concern, which I think you have answered, but I want to be sure I understand---if someone connects with you, then you do have to back up the Prudhoe Oil and take oil....

SPAHR: Or provide the additional capacity so that nobody gets on the prorata purchase.

TUSSING: Both this morning and this afternoon you have said that the company could, or would not, go on with construction unless the proposed legislation were adopted, substantially as is. Now these bills contain a very large and complicated selection of propositions, some of which are considerably more important than others to the State and some which are considerably more important than others to the companies. We realize

that you are privileged to speak for the other companies. I think it would be useful to go through the bills and their main disposition and indicate some order of priority; that is, which of these things do you think are really indispensable. Specifically, which of them are things without which you would not go on with construction. Secondly, which are things which would not necessarily be an obstacle to initiating construction, but in the absence of which you would continue to litigate. And, then thirdly, those things which you think would be wise for the State to do and you would urge the State to do, but might not be either an obstacle to construction or a cause of action in a law suit.

SPAHR: If I might respond to you for the moment...this morning I indicated not that the pipeline companies or the oil companies could not or would not proceed with pipeline construction if you alter the legislation. What I tried to say was that if you do alter it substantially, then there will be an element of delay, compared with the situation that will prevail if you do not alter it substantially, because new evaluations of the total affect of the altered legislation will have to be made by everybody concerned, so that each person will be able to make his own individual decision as to whether the changes are acceptable or not. That takes time and the point was that the risk we face, therefore, was time in the very beginning. And the secondary risk, of course, is whether or not the changes made will result in any alteration of the TAPS consortium, etc. I pose those to you as possibilities that I think are real and should not be overlooked. Now, in response to your suggestion

that we ought to go through this legislation bit by bit--I'd like to repeat what I indicated this morning--that in our negotiations with the Governor, we made it clear--as we finally made clear by accepting the results--that we were looking at all of our problems and trying to solve them all as a package and that in our view, what has been presented to you will solve our problems in a way--and we believe from what the Governor said, would solve yours--in a way that would permit us to go ahead and permit you to let us go ahead. Now if you are going to examine these laws bit by bit--we have the people available who will do this with you--but I really don't propose to try to dismember or do surgery to all this stuff. What has been presented to you is something we can buy. If you choose to change it, that will be your decision and then we will look at it.

TUSSING: You are saying then, take it or leave it?

SPAHR: No, I am not really saying that. I am saying that a bit by bit examination with me of this legislation is not going to be productive because I am in no position to bargain with you at this time on alterations to this--speaking for seven oil companies--I do not have that commission and I don't presume to be presumptuous about it.

TUSSING: On the same basis, I can't pretend to speak for the committee members, but it seems unrealistic to come in here and expect to get the entire package, every jot and tilt, passed in its form--it's proposed form--and I think it would be worthwhile to pick out some of these things and to ask questions. Which of these things from your own point of view you could not live with.

SPAHR: Well, I have already said, this morning, and I will say it now voluntarily. Any very substantial change in taxes, in regulatory arrangements, is going to require a review on our part and on the part of the other oil companies. I had hoped when I came here that the Legislature would eventually conclude that the total content of the tax package was adequate. Now if you are going to raise some things and lower others so that the consequence for us is about the same, I'd have to predict that that would probably work out, but it would still have to be examined.

TUSSING: May I ask the Chairman here whether he wants to pursue this line of reasoning, because I do think it would be useful to ask specific questions about specific items, but I think that is up to you and whether the other members want to travel along that road.

SACKETT: Since we do have other people available who could probably answer these specific questions....

SPAHR: I doubt that they will be able to answer those...

SACKETT: The people tomorrow?

SPAHR: I doubt that.

SACKETT: Well, obviously they won't be answered, but then perhaps through the Attorney General's office and the Governor's office we may be able to determine exactly the priority....

TUSSING: In that case, let me ask one other question. The circumstances of the world energy picture has changed very radically in the last two years, and particularly in the last two weeks, and one of the consequences of that change is the vastly increased urgency of delivery of Alaskan oil to the Lower 48 markets, and the vastly increased value for that oil to its owners, both the State of Alaska and the operating companies. As far as I know, nobody has done the calculations and revised revenue projections in view of developments in the past two weeks. Perhaps it would not be unreasonable to project dollar values at the wellhead--in fact, values two or three times those that were projected (noise on tape...missed next couple of words)....Interior Department's tax statement 2-1/2 years ago.

SPAHR: I do have reason to believe that your State Administration is diligently working, and constantly, to keep such information updated.

TUSSING: Well, that really is not the point. In view of the immensely greater value and greater urgency of Alaskan oil, doesn't it seem that whatever difficulties or complications, either in financing or in the overall attractiveness of the overall project would be created by existing...(noise on tape--missed next word or two)...difficulties and burdens would be substantially less burdensome and substantially more bearable than there were in the time when the companies initiated their litigation against the State's laws.

SPAHR: I believe when you ask that question you are ignoring the realities of financing choices that holders of money and funds to invest have to make; particularly when those people can reason, as I believe they can, that they have a multiple of choices, all of which will be beneficial if chosen, to the country as well as to the owners of the money.

TUSSING: You think that this is one of the less desirable alternatives that is provided....

SPAHR: Would you say that again?

TUSSING: Well, I think you are implying that Alaska North Slope development and delivery of its oil to market would go down substantially...so substantially in the ranking of desirable investments that this project would no longer be of substantial interest to the government.

SPAHR: On the contrary....a different nuance...I want to remind you, for example, that one of the features of the present legislation is that the State has an option to buy 20% of the pipeline, at a time of its choosing under circumstances where it can negotiate. Now I submit that that option stays in there-- in the first place the State is not going to exercise it except under what it considers to be the most opportune time. Now, I would like for this to be understood. When one goes to a prospective lender, and in this case it will be a substantial insurance institution or big pension fund, or something else similar, to propose that they lend us money--we are going to talk to people with substantial funds of knowledge in financing

matters and choices, and they are going to see that of the bonds that they are considering, for us, that 20% of it is not going to have an assured base in terms of being outstanding or earning capacity, and very likely, some development that only the State will control, may find that they have the funds back on their hands to reinvest again. So this will have an effect upon their attitude about what the terms of their lending will be. It will have an effect upon their judgment as to whether this is a better issue than some other one where the same return is provided but where the risk is not there. Those are the kinds of things that will effect a lender's decisions in my view. And, in my view, which I had checked out with our financial advisor, Morgan Stanley, I feel I've got great support and confidence that with that kind of an option there, we're not going to get the pipeline financed on a reasonable basis, if at all. Now if we are also...

TUSSING: This is one of the things you can't live with?

SPAHR: That is one of the things we can't live with--one among many. I am trying to give you a picture of our financing story and I don't think I am getting in a position where you are getting me to say things I said I wouldn't say, but I do want you to understand the financing problem. That's one feature. If we are going to have a feature, such as the one you now have, on the pipeline leasing act, which puts a severe limitation on our retention of earnings as a pipeline company, when it gets beyond a certain percent, it has the automatic result of lowering the coverage of fixed charges and...(noise on tape--couldn't hear next two words)...and making it less attractive than would other-

wise be the case if we can go to 7%. Again, this is going to have an effect on the bond raising and so on--even though, as you might suggest, we enjoy a quasi-public utility status. There is no question about it in my mind. The money is going to be lent at the best terms for the best possible conditions of coverage and recoupment and gain that are going to exist and to the extent that we are handicapped up here, we'll be hurt. Now the pipeline has to be financed separately from the North Slope. We have to watch our total corporate credit arrangements. If financing is going to have to be supported by through-put agreements, they are going to have to be noted on the balance sheets and so on, but there are differences in the way, as I am sure you know, analysts evaluate things that are on your direct balance statement and your footnotes, and they will look at the totals too, so this is a very important element along with others.

SACKETT: I would like to call a ten minute recess. (TAPE OFF AND THEN ON AGAIN.) Are there any further questions from Committee members? From Senators? Senator Hensley.

HENSLEY: Mr. Spahr, one of the pieces of legislation that has caused some dissention in the members of the legislature is the ad valorem tax, and I don't believe there are many that quarrel with the idea of the tax, but in my opinion, I don't think it is a major portion of the agreement--in terms of time, and inasmuch as we have several pieces of legislation that are going to take some time to work out, I would like to know whether it is of any difference to you whether or not we, the Legislature,

enact the ad valorem tax now, or the next session.

SPAHR: Well, if you don't enact it now, we don't have to worry about paying it for awhile, I guess. If you enact it at the next session and the total amount isn't changed that soon, I don't think we would have a problem. We have no reason to interfere in, or suggest anything, with respect to how that tax is divided up, as I have previously said, so I guess I would have to say that non-action on the ad valorem tax, insofar as we are concerned would not be a problem, but it could very well be a problem for the Administration of the State, I suppose, because it is an important element to them. You know, I should add here, I think, make it crystal clear that my own view, which I think is accurate, of the way this legislative package developed was that through our discussions, the Governor got a clear idea of our concerns and ideas and attitudes and from that he developed a series of proposed laws which we said, in effect, we can accept in their entirety, and so if I have sounded as if I have been defending what my presentation to you--I certainly want to correct that impression. It is a technicality, but I think it is an important one for all of us to understand.

HENSLEY: Your feeling is that that portion of the package is not such major concern to you as some other aspects of the package...

SPAHR: If you would never pass it, I would be delighted!

HENSLEY: Fine. Then if we can convince the Governor that it may not be worth the Legislator's time at the moment to go into

a battle over the distribution of that and save that portion of it until such time as we can fully explore the impact on the State's communities between now and the next session.

SPAHR: It would be helpful, and I am sure that the answer to this will have to be, we can't do it -- it would be helpful if I were to know that even though you don't pass it, that your present intent isn't to delay and up it substantially.

PALMER: Why is that tax any different than any others? Well, in essence you are saying that if we pass it now at 30 mils, it might change things so much we can't build the pipeline. Isn't that what you are saying? That you would have to go back and look at the other things again and, therefore, cause a delay?

SPAHR: I have said that. Here you could put yourself in a position of giving us nothing to re-examine except the lack of a determination on your part and we would just have to decide on a hope that things wouldn't be greatly different. That could be done, I am sure. Some people might say we don't want to deal in a lack of security--we acted in good faith--at the present time it would appear that these taxes are adequate--we would expect in a passage of time, not necessarily just a few weeks, that you might find that you would have to do something else, but we wouldn't expect that you would have to do something more--and "you", I am speaking figuratively as if I were talking to the Governor again.

SACKETT: Correct me if I am wrong--is not the tax at the present time at a rate of 30 mils? Was this not taken into consideration by the oil companies and did they not know that if the pipeline were constructed that Boroughs under the existing tax method would probably have come into existence?

SPAHR: I think you'd better enunciate that again so I make sure I answer you.

SACKETT: Isn't the tax millage now at 30 mils?

SPAHR: I thought the tax millage now -- limit was at 30 mils, and I didn't understand that that was being applied everywhere by any means.

SACKETT: Wasn't this taken into consideration though initially by the pipeline, the oil companies, that anyone could have charged up to 30 mils and that as soon as --- even though there aren't Boroughs created along the entire route, that as soon as the pipeline were constructed, that Boroughs would definitely have been created?

SPAHR: Well, I can assure you we didn't look at it that way. Our thought was more like this. We are bringing to the State a vast new asset that can be taxed and I don't recall -- I don't think I ever knew when legislation affecting the 30 mil limit was passed. But, we are bringing more assets under the taxation possibility and, therefore, the total amount of tax available with 20 mils would, in our view, exceed what might have been available under the old circumstances that prevailed when the

30 mil, or upper limit, was enacted, whenever that was.

SACKETT: That has been enacted for quite a few years. Yes, Senator Croft.

CROFT: As I understand your statement, if we were to change the mil levy or the severance tax rate and pass the Governor's package, you are not in a position to say then that the Trans-Alaska Pipeline could still be built?

SPAHR: Senator Croft, you put the question in a way that I dislike answering. I am not in a position to say if you change the total tax base in any substantial way---what the reactions of other parties will be. And, therefore, I have tried to say I feel that we automatically will be involved in the use of some time to ascertain that and to find out what the consequences would be in terms of participation by everybody, or fall-out of some kind or other, etc.

CROFT: Suppose we raise the mill rate from 20 to 30 mils--what would be the position of SOHIO?

SPAHR: We would be dismayed.

CROFT: Would you still build the line?

SPAHR: I don't know.

CROFT: You really don't know whether you would still participate?

SPAHR: I think we would want to examine very carefully whether we would want to opt for trying to encourage some others to take a different percentage, get relief for some, consider the Federal

participation, much as I dislike some of the features of it, and so on.

CROFT: You indicated that you might encourage others to take a percentage of the present participation. Are there arrangements between the owner companies at this time regarding that?

SPAHR: There is a provision in an agreement that exists among the owner companies that provides for a means of reallocating ownership as the pipeline capacity is enlarged, that provides for their nominating capacity for determination of what the new capacity allocations will be up to 100% and that's all that we have. But this provision was put into the contract because the contract was prepared at a time when the potential of Prudhoe Bay wasn't very definite. People thought they had certain interest in the field, but they weren't sure, and, of course, as it has turned out, there have been differences from expectations.

CROFT: Is SOHIO free to sell its interest in the pipeline to anybody without obtaining approval of any of the TAPS.....

END OF TAPE.

CROFT: The exact terms of the options of the companies to purchase has not been worked out yet?

SPAHR: Oh, yes. Its all by formula, the price is established. For example, if we were to increase or decrease our ownership the price involved would recompense us for the costs we've paid or we'd have to recompense the other fellow, plus interest, for the time he had had the ownership for our benefit.

CROFT: That hasn't caused any financing problems?

SPAHR: No, its all very finite. It hasn't caused financing problems because we haven't tried to finance. We have to settle the issue of rearranging ownership before we go to financing. I know we won't have to. We'll do it promptly. We haven't gone to any of the financing companies. We've had lots of talk based on supposition.

CROFT: If that same arrangement were worked out with the State, would you still anticipate that that would cause financing problems as far as the option was concerned?

SPAHR: That would require the State to get in a position of putting or taking without option. We all have the same privilege for opting for new proposals of ownership as the pipeline increases to fit the realities of the development of the North Slope. In order to do it though, we have to pick up a hundred \_\_\_\_\_ or none of it works. There is a great deal worked into this to guarantee 100% performance,

unless there is unanimity on change.

CROFT: If the State had the same option, would that cause financing problems?

SPAHR: If the State had a similar option, I must qualify my words by deferring to lawyers who have read it more recently than I, then it would have to tie its obligation to its expected ownership of oil. It would have to expect that it would be forced to take 12 1/2% for example, or perhaps 20%, depending whether we are looking at royalty oil alone or the consequence of severance tax. And be prepared to take this base and pay for it and reimburse us for our expenses or pass the option up as soon as we decide what we are going to do. We are going to do this very quickly and before the construction starts I'm sure, or simultaneously with it as a practical matter. So the apparent options, we are probably using the term a little loosely, really are not going to exist.

CROFT: There will be an option as soon as you decide on the capacity and through put of 1.2, what happens when you get above 1.2, there will still be an option among the owner companies?

SPAHR: There will be another opportunity to determine whether we opt up to 1.2 or not, and as I recall, the full space has to be taken.

CROFT: At the time you obtain financing there will be an option among all of the companies to participate under certain circumstances in an increased or decreased ownership, and you don't anticipate that will cause any financing problems?

SPAHR: No because there will have to be complete coverage of it if it is to happen.

CROFT: Do you believe that the only financing problems faced by the companies are the 1972 oil legislation that we passed?

SPAHR: I have no idea what the other companies' financing problems are.

CROFT: What about SOHIO's.

SPAHR: We have a lot of difficulties that we have to manage in addition to this one.

CROFT: Of significant size?

SPAHR: Yes.

CROFT: You indicated that the public's attitude toward financing the line might cause financing problems. If the 1972 legislation is not resolved by adoption of the Governor's package you anticipate some financing problems, is that correct?

SPAHR: It would be more accurate to say that we would have to go ahead and ascertain what the results of the legal action

would be to a finite conclusion before we can evaluate what we can or should do.

CROFT: I thought you said this morning that the 1972 legislation caused some financing difficulties with some of the smaller companies.

SPAHR: No, I tried to say that the 1972 legislation caused financing problems for all of us, in terms of the quality of the financing proposal we would be able to bring to prospective lenders. The degree of difficulty would vary from company to company depending upon a lot of things.

CROFT: I understood you to say that some of the smaller companies might be forced out of the line and that this would cause anti-trust problems.

SPAHR: No, I believe I indicated that if this legislation were substantially changed that it would cause the smaller companies to reconsider their interest in continuing to participate in the line. But I wasn't trying to make a point about financing problems there. These companies, particularly those with small interests would have an opportunity to compare their prospects and opportunities resulting from investment in this pipeline with those resulting from investing in something else and they might well conclude that the interest they've had in the pipeline up to now is something they no longer wish to maintain and opt to get out. It would be a question of alternates that each would make for himself,

and there would probably be a difference of conclusions.

CROFT: Would you feel that potential investors would be skeptical of investing in these companies that participate in the Alyeska project until the 1972 legislation is resolved?

SPAHR: I have felt that way, yes.

CROFT: How does that tie in with the fact that SOHIO stock is selling at an all time high for the past decade?

SPAHR: Oh no. That is not true. Its been selling at new highs for the past couple of weeks. But since we made our agreement with BP in June of 1969, the stock has fluctuated. It went up when the lease sale went on up here, it then went down because the stock market interpreted that we must have missed the boat somehow, it got down to some pretty low rates, then it went back up, it fluctuated quite a bit, then its risen rather steadily this year as the prospects for difficulty in the Middle East have developed, this is my opinion now, and as the prospective position of a fully integrated oil company as we can conjecturably sometime be seem to get better by comparison with the other oil companies. So there has been quite a deal of speculation in our stock.

CROFT: I noticed on Foster & Marshall's Stock Guide that between the years 1960 and 1972 the highest price SOHIO stock ever sold at was between 119 7/8 dollars a share.

SPAHR: That 119 dollars was in August or September of 1969, wasn't that the year of last lease sale.

CROFT: Yes it was. And I noticed that the lowest it sold this year was 115 1/2 and that it closed at the end of September at 141.

SPAHR: That's right, but why don't you look at 1972 and 1971.

CROFT: My question had to do with whether investor confidence was shaken as far as SOHIO is concerned in the past year. Its selling at about 31 times earnings?

SPAHR: 31 times last years earnings. Its quite apparent that the investor who is buying that stock is either speculating in it on a prospect of making money buying, selling, short or otherwise, probably not in this instance; or he's buying it for the long term because he feels our prospects for earnings are quite good. We haven't raised our dividends in four years, we just today lost 40 thousand barrels out of Libya, we arn't running our refineries to capacity. The stock price does not reflect current situation or any concern at all over how the management is going to solve its problems over the next several years. These factors will probably have some influence, but its based on the future and the speculations of different investors vary. Its wild.

CROFT: I did also notice that over 10% of your common stock is owned by institutions.

SPAHR: Oh, yes. I think now that substantially more than 10% is now owned by institutions. But we still have a very substantial individual ownership, last time I looked at it, it was well over 40%.

CROFT: I understood in your remarks today that whether construction started today was contingent on a least five things: the final action by the U.S. Congress; the approval of the permit under that legislation by the Secretary of the Interior; the action of the Alaska Legislature; and then I think you added two more that I hadn't heard of: the Corps of Engineers and the EPA requirements on air and water emissions. What is the status of your application for a Corps Permit, and when do you anticipate that that might be approved. This is for the crossing of the rivers, is it not?

SPAHR: Yes. I can't answer you Senator. I'm sure the answers can be obtained from the Alyeska officials who are responsible for that and there are men in this room with me who can get that information.

CROFT: Have those permits been applied for?

SPAHR: I don't know. I am sure that all the things that have to be done for an application have been done to the extent that they could be. I have a sneaking recollection that the requirements that have to be met haven't been

clearly enunciated by the Corps yet so the application hasn't been totally presentable.

CROFT: So it may not have been applied for?

SPAHR: I don't think so. Not because of lack of diligence but because of lack of definition of what has to be contained in it.

CROFT: Have the EPA certificates been applied for?

SPAHR: I don't know.

CROFT: And those are essential before the pipeline construction can begin?

SPAHR: I think so. One of the things that concerns me is a matter that stems from a Supreme Court decision of earlier this year, as I recall, which made it clear that it was going to be non-permissible to indulge in industrial or other kinds of development in the undeveloped parts of our country in a way that would result in deterioration, of the atmosphere for example, from what it now is. The pressful problem that we face, other than during the construction phase which is temporary, and which concerns me in relation to this filing, is Valdez. Valdez is a high volume terminal, and the plans call for a sophisticated <sup>vapor</sup> recovery system and a lot of other things that are designed to minimize pollution of the atmosphere. I am no longer up to date as an engineer, but it is beyond my conception to visualize a possibility where there

will be no venting of any fuel, under any conditions, at Valdez. Without a lawyers advice, it is beyond my imagination to se how, technically, Valdez can conform to the apparent decision of the Supreme Court. Thus, I begin to worry, is Valdez a potential trouble source, with the trouble originating with those who do not want to see the trans-Alaska pipeline built. I think my concern is quite related to the EPA problem. What is their latitude in interpreting that Supreme Court decision? I don't know. Even though approaches have been made, I doubt, at the present time, that the applications have been put in to be formally acted upon. I expect that they have been very substantially prepared, and will be ready at the appropriate time. Now, I might find out that I'm wrong, and they've been submitted.

CROFT: Have you discussed with the various attorneys for SOHIO and Alyeska, whether or not there might be additional suits once those permits are applied for, under the Environmental Protection Act.

SPAHR: Oh, yes.

CROFT: Did they indicate that there is any possibility that that might happen?

SPAHR: For the most part and until recently, I think they had to hedge and say - well we have to be wary about what our predictions are. As I understand the content<sup>of the bill</sup> that's come out of the conference yesterday, which I have not seen, there

is a provision in there that requires anyone who is going to oppose the pipeline, on grounds of the kind we are talking about, to file within 60 days, on either the issue of a permit or the passage of a law, I'm not sure what this says yet. And then there is a provision that such a suit will be heard by a U.S. District Court, and a further provision that any appeal therefrom will be directed to the Supreme Court. I don't think our lawyers could bring me any more up to date than that. With the passage of this law, presumably, we'll soon find out what our problems are.

CROFT: I would assume then that even if Congress approves the trans-Alaska pipeline bill as is indicated, and the President signs it, and the Secretary issues the permit, and the Alaska Legislature would concur in this package, that you could make no real assurance that construction could begin this spring because there are two essential permits that not only haven't been granted, but as far as you know haven't even been applied for?

SPAHR: You sound as if you might be trying to corner me. I believe I said that, with respect to timing, on those first three items: the Washington legislation, Alaskan legislation and the issue of the permit; in order that we might be assured of the best prospects of starting next spring, that the actions on those three things ought to be taken as soon as possible. I really believe that all three have to be taken, including the Interior permit, before we have any prospects of seeking

and getting action from the Corps, or from EPA. We have nothing to apply for really, until we get a right-of-way permit from the Department of the Interior. We'd promptly follow through as soon as we had that permit, if the permit is one that we can accept and go to work on.

CROFT: I understood two years ago when we talked to the Department of Interior officials that even after the right-of-way permit is issued that no construction can begin until after a construction authorization certificate is issued. They told me at that time that it was their intention to require the final detailed engineering design and specifications to be submitted, and that they would have a period of 90 to 180 days after that before they would issue the certificate to proceed with construction, and that if there were any significant changes in the plans or specifications that the period of time would commence running again. Do you know if that is still their intention?

SPAHR: I have no reason to believe anything has substantially changed their intention, other than perhaps that they too will try to minimize the amount of time they need to review those kind of things in light of our country's . . .

CROFT: Have those detailed plans and specifications been submitted finally, complete.

SPAHR: That again I can't answer exactly because I don't keep that close watch on Alyeska, but I'm quite certain

that a very great part, if not all, of that has been done. There has been a process of submittal, suggested amendment, re-submittal going on for quite a long time. And I really believe the work is very largely all done, to the extent it can be already. There is still a question, in our mind as to what the final stipulations attached to the basic permit will be.

CROFT: Regarding what?

SPAHR: All kinds of design requirements, regulations, liability provisions, things of that kind. The Department of Interior's administrative department has quite a lot of latitude under the law that will be passed I think to specify the requirements that we might want to debate with them.

CROFT: That might cause a delay in itself.

SPAHR: It might, but I think there would be a great compulsion on the part of both of us to get the debates over and done with and conclusions reached. I don't really think it will result in much delay, no.

ERICKSON: Did you say that the ownership interests in the line would be adjusted to equal the interests in the oil?

SPAHR: They may be adjusted at a time a nomination for

capacity . . . rease step is made. Then they will be adjusted only if the nominations for space total as much as 100% or more.

ERICKSON: There will be adjustments possibly made before you arrange financing though, as well. Is that a possibility or a certainty.

SPAHR: I think its a necessity.

ERICKSON: And this is to bring ownership interests into approximate line with what the companies think they have?

SPAHR: To illustrate, our present ownership is approximately 28% of the pipeline. Somebody might think that if that doesn't change we are getting a free ride on investment requirements and so on since our proportion of the oil field up there is substantially greater.

ERICKSON: So Humble, for instance, who might have an excess of pipeline capacity, wants you to take over some of that capacity.

SPAHR: Very likely. They would remind you that the name is now Exxon.

SACKETT: Would it be possible to make available to this Committee these agreements that you have on the option?

SPAHR: I would want to refer that question for advice to our lawyers.

RADER: When I was talking about the utility regulation, I was thinking of whether on a contractual basis, instead of a fee, like we were talking about on our right-of-way, for the purchase of the land, that we would contract with you that instead of paying a fee or a scale or something like that our rental that you would agree that the rate would not exceed that of a normal utility, on a utility type of accounting. That was what I was suggesting.

SPAHR: Yes, and for such an agreement we would get permission to use the land.

RADER: We would also assure you that the taxes we'd impose or anything else would not jeopardize a fair rate of return.

TUSSING: Mr. Chairman, for a point of information, the bill reported out by the House Senate Conference Committee requires the parties who are applicants to a pipeline permit to disclose all these operating agreements and agreements for change in shares