MISC.

HOUSE

RESOURCES

Comm.

1975

GREATER ANCHORAGE CHAMBER OF COMMERCE

TESTIMONY DELIVERED BY BOB HARTIG

BEFORE THE HOUSE RESOURCES COMMITTEE

JUNEAU, ALASKA

APRIL 16, 1975 AT 8:00 A.M.

RE: 1975 STATE TAX REVENUES

MR. CHAIRMAN AND MEMBERS OF THE COMMITTEE:

I AM ROBERT L. HARTIG OF ANCHORAGE. I AM SPEAKING ON BEHALF OF THE GREATER ANCHORAGE CHAMBER OF COMMERCE.

MAY I BEGIN BY SIMPLY SAYING THAT I RECOGNIZE THE STATE'S NEED FOR SUBSTANTIAL ADDITIONAL REVENUES BETWEEN NOW AND MID-1977 OVER AND ABOVE THOSE PRESENTLY EXPECTED, JUST TO COVER THE STATE'S PROJECTED BUDGETS AND WITHOUT ADDING NEW PROGRAMS REQUIRING ADDITIONAL STATE EXPENDITURES.

WHILE I CAN ACKNOWLEDGE OUR NEED FOR SUBSTANTIAL ADDITIONAL NEAR-TERM REVENUES, I MUST ALSO RECOGNIZE THAT THE PROBLEM WE NOW HAVE IS ONE WHICH FOR THE MOST PART WE HAVE CREATED OURSELVES. WE HAVE LET OUR STATE BUDGETS DRIFT UPWARDS IN THE LAST FIVE YEARS AND BY VERY SUBSTANTIAL AMOUNTS EACH YEAR. WE HAVE TALKED FISCAL RESPONSIBILITY BUT HAVE NOT DONE WHAT WE SAID. WE HAVE ASSUMED AND ARE STILL ASSUMING THAT SOMEHOW ALL OUR BILLS WILL BE PAID BY SOMEBODY ELSE.

MAKE NO MISTAKE. I AM NOT HERE TODAY ON BEHALF OF THE OIL COMPANIES. I AM SPEAKING FOR ALASKAN BUSINESSMEN WHO KNOW, IF YOU'LL PARDON THE EXPRESSION, THAT "YOU CANNOT GO TO THE SAME WELL TOO OFTEN OR YOU BEGIN TO DRY IT UP." THESE SAME BUSINESSMEN KNOW THE RISKS OF CONTINUALLY LIVING BEYOND OUR MEANS. THEY CANNOT DO IT NOR CAN ANY OF US DO IT FOR VERY LONG. THEY ARE DEEPLY CONCERNED ABOUT THE FUTURE OF THIS STATE WITH GOVERNMENT AND GOVERNMENT PROGRAMS GROWING IN SO MANY DIRECTIONS. THEY ARE WORRIED ABOUT THE NEGATIVE IMPACT SUCH A COURSE WILL HAVE ON THE LONGER RUN ECONOMIC HEALTH AND STABILITY OF ALASKA.

CERTAINLY ONE THING THAT IS NEEDED TODAY IS EVERY EFFORT ON THE PART OF THE ADMINISTRATION AND THE LEGISLATURE TO HOLD THE LINE AND EVEN PUSH IT BACK A LITTLE IF YOU CAN. PERHAPS ALASKAN BUSINESSMEN COULD PROVIDE SOME CONSTRUCTIVE COUNSEL TO THE STATE ON THIS, IF THEY WERE ASKED TO DO SO. THIS WOULD HELP, BUT BY ITSELF, IT IS NOT LIKELY TO SOLVE THE NEAR-TERM NEED OF THE STATE FOR SUBSTANTIAL ADDITIONAL REVENUE.

WHAT THEN, ARE THE PRACTICABLE ALTERNATIVES FOR FILLING THE STATE'S REVENUE GAP? ONE IS BEFORE YOU IN THE FORM OF ALTERNATIVE BILLS TO TAX OIL AND GAS RESERVES IN PLACE FOR A COUPLE OF YEARS. THIS WAS THE FIFTH OF FIVE ALTERNATIVES IDENTIFIED BY GOVERNOR HAMMOND ON MARCH 14TH, AND WAS APPARENTLY MENTIONED AS THE STATE'S "LAST RESORT". WITH THE EXCEPTION OF A VERY FEW, EVERYONE FROM THE GOVERNOR ON DOWN IN THE ADMINISTRATION, MANY IN THIS LEGISLATURE, BOTH OF ALASKA'S U.S. SENATORS AND ITS CONGRESSMAN, THIS LEGISLATURE'S ADVISOR MILTON LIPTON, VARIOUS NATIVE CORPORATIONS AND GROUPS, MANY ALASKAN BUSINESSMEN AND BANKERS, AND OUR PRESS HAVE SAID THAT THIS IS A BAD TAX, THAT THEY DON'T LIKE IT, AND THAT IT WOULD HAVE A REGRESSIVE EFFECT ON THE PROPER DEVELOPMENT OF THE STATE. YET HERE WE ARE GIVING THIS "LAST RESORT" FIRST CONSIDERATION!

IN PAST LEGISLATURES, MENTION WAS MADE FROM TIME TO TIME OF THE FAIRNESS OF TAXING BUSINESS, INCLUDING THE OIL AND GAS INDUSTRY, ONCE THEIR BUSINESS WAS UNDERWAY AND THERE WAS CASH FLOW BEING GENERATED TO PAY TAXES. THE DETERRENT EFFECT OF SUBSTANTIAL TAXES DURING THE DEVELOPMENT STAGE OF A BUSINESS SEEMED APPARENT THEN AND STILL IS. IT ALMOST BEGS THE PURSUIT OF ANY OTHER PRACTICABLE REVENUE ALTERNATIVES WHICH MAY BE OPEN TO THE STATE.

BUT IT'S NOT JUST A MATTER OF FAIRNESS OR INCENTIVES IN THE PROPER DEVELOPMENT OF THE STATE. THE CERTAINTY OF REVENUES IS ESSENTIAL, AND I DON'T BELIEVE THAT A RESERVES TAX OFFERS ANY GUARANTEE OF CERTAINTY. THESE LEGISLATIVE PROPOSALS ARE OBVIOUSLY ON THE HORNS OF A DILEMMA. IF THE RESERVES MADE SUBJECT TO THE TAX ARE DEFINED BROADLY ENOUGH TO BE NONDISCRIMINATORY, THE TAX WOULD PROBABLY NOT BE PASSED BY THE LEGISLATURE. ON THE OTHER HAND, IF THE TAX IS NARROWED, AS SEEMS TO BE THE INTENT OF THE BILLS BEING CONSIDERED, TO PLACE SUBSTANTIALLY ALL OF THE BURDEN ON A FEW COMPANIES IN ONE FIELD, THE DISCRIMINATORY ASPECT RAISES SUBSTANTIAL QUESTIONS UNDER THE STATE'S CONSTITUTION AND THE U.S. CONSTITUTION AND INVITES LITIGATION LIKELY TO DELAY PAYMENT OF THE TAX. THE SUBJECT OF RESERVES TAXES HAS BEEN HEAVILY LITIGATED IN OTHER JURISDICTIONS AND THERE IS NO REASON TO BELIEVE THAT ALASKA WILL BE EXEMPT FROM SUCH LITIGATION.

ONE MIGHT ASSUME THAT THESE TAXES WOULD BE PAID UNDER PROTEST AND THUS BE AVAILABLE TO THE STATE WHILE ANY LITIGATION GRINDS ON. IN THE ORDINARY CASE INVOLVING A FEW DOLLARS, THAT MIGHT BE SO. HERE, SOME OF THE AMOUNTS TO BE RAISED ARE SO LARGE THAT MAJOR FINANCING ARRANGEMENTS WOULD HAVE TO BE UNDERTAKEN. THERE IS A REAL QUESTION WHETHER SUCH FUNDS COULD BE BORROWED WHEN THEIR PURPOSE IS TO PAY A TAX WHOSE VALIDITY IS UNDER SERIOUS CHALLENGE BY SOMEONE, WHETHER IT IS BY A PARTICULAR TAXPAYER OR NOT. LENDERS MIGHT ALSO QUESTION THE ABILITY OF THE STATE TO REPAY SUCH TAXES IF IT LOSES THE LITIGATION. SOME ACTION TO ENJOIN THE PAYMENT OF ANY RESERVES TAX SHOULD SEEM LIKELY.

THESE ARE NOT HAPPY THOUGHTS. THE TROUBLE WITH THIS KIND OF LITIGATION IS THAT YOU DON'T KNOW WHERE YOU STAND UNTIL YOU'RE DONE. IN ANY EVENT, IT WOULD BE DIFFICULT TO ARRANGE FINANCING UNDER ANY REASONABLE TERMS WHEN A BURDEN HAS BEEN PLACED FOR THE PAYMENT OF TAXES SUCH AS THESE UPON A SEGMENT OF OUR INDUSTRY BEFORE A PROJECT HAS EVEN BEGUN.

I THINK IT IS IMPORTANT IN THIS REGARD TO RECOGNIZE THAT THE FUTURE ECONOMIC VIABILITY OF ALASKA IS DEPENDENT TO A GREAT EXTENT UPON THE WISE DEVELOPMENT OF THE STATE'S NATURAL RESOURCES. WE SHOULD ALSO BE MINDFUL THAT, CONTRARY TO SOME BELIEFS, THESE RESOURCES DO NOT OCCUR EVERYWHERE WITHIN THE SUBSURFACE OF THE STATE. THE RESOURCES MUST BE EXPLORED, DEVELOPED, PRODUCED AND MARKETED. IN THIS RESPECT, ALASKA, A RECOGNIZED HIGH-COST EXPLORATION AREA, MUST VIE FOR THESE INDUSTRY DOLLARS IN COMPETITION WITH OTHER MINERAL POTENTIAL AREAS OF THE WORLD.

WHILE IT IS RECOGNIZED THAT REVENUES FROM OUR STATE RESOURCES MUST BE MAXIMIZED, LET'S NOT PLACE UNREASONABLE BURDENS UPON THE OIL AND GAS INDUSTRY WHICH WOULD THWART ALASKAN DEVELOPMENT AND CAUSE THESE DOLLARS TO BE SPENT ELSEWHERE.

FOR THESE REASONS, THE OTHER ALTERNATIVES MENTIONED BY THE GOVERNOR A MONTH AGO DESERVE SERIOUS CONSIDERATION BY HIS ADMINISTRATION AND ENCOURAGEMENT BY THE LEGISLATURE.

OIL AND GAS LEASE SALES

OF THE $400 MILLION NEEDED THROUGH MID-1977, FIGURES FROM $200 MILLION TO UPWARDS OF ONE BILLION DOLLARS HAVE BEEN MENTIONED AS THE POSSIBLE RANGE OF PROCEEDS FROM A BEAUFORT SEA LEASE SALE. IT WOULD APPEAR THAT SOMETHING SUBSTANTIALLY IN EXCESS OF $200 MILLION IS LIKELY, AND THAT THIS IS AN ATTRACTIVE NEAR TERM MEANS FOR THE STATE,

LEGALLY AND WITHOUT ADDITIONAL LEGISLATION, TO COVER MOST OF ITS REVENUE NEEDS, I SHOULD ADD THAT IT'S HARD TO UNDERSTAND WHY PROCEEDS FROM SUCH A SALE SHOULD BE RESTRICTED IN USE BY H.B. 324 WHEN THE NEEDS OF THE STATE ARE REAL AND THE POTENTIAL OF A RESERVES TAX IS FRAUGHT WITH PROBLEMS.

PLANNING SHOULD BE COMPLETED FOR AN EARLY LEASE SALE IN THE LOWER PART OF COOK INLET FOLLOWING THE SUCCESSFUL DETERMINATION BY THE UNITED STATES SUPREME COURT OF THE STATE'S OWNERSHIP TO THESE SUBMERGED LANDS. REDUCED LOGISTICAL PROBLEMS, GREATER ACCESSIBILITY OF MARKETS, FAVORABLE NATURAL GAS PRICES AND THE AVAILABILITY OF CURRENT GEOLOGICAL INFORMATION MARKS THIS GEOLOGICAL PROVINCE AS A PRIME AREA FOR THE RECEIPT OF SUBSTANTIAL LEASE BONUS.

CONSIDERATION SHOULD ALSO BE GIVEN TO A COORDINATED FEDERAL-STATE LEASE SALE IN THE GULF OF ALASKA. PRESENT SCHEDULING CALLS FOR A LEASE SALE OF THE SUBMERGED LANDS BEYOND THE THREE MILE TERRITORIAL SEA IN LATE 1976 OR EARLY 1976 BY THE DEPARTMENT OF THE INTERIOR.

SALE OF ROYALTY GAS

ANOTHER ALTERNATIVE MENTIONED BY THE GOVERNOR AND ONE WHICH MAY BE RECEIVING ACTIVE CONSIDERATION BY HIS ADMINISTRATION AND THE ALASKA ROYALTY OIL AND GAS ADVISORY BOARD, IS THE POSSIBLE ADVANCE SALE OF PART OF THE STATE'S ROYALTY GAS. SUCH A SALE COULD PROVIDE THE STATE WITH FUNDS ON THE ORDER OF $200 MILLION WHEN IT NEEDS THEM AND DO SO ON THE BASIS THAT THE ADVANCE WOULD BE APPLIED AGAINST THE ACTUAL MARKET PRICE OF THE GAS AT THE TIME IT IS ACTUALLY PRODUCED.

THIS ALTERNATIVE AND THE BEAUFORT SEA LEASE SALE WOULD APPEAR TO COVER THE STATE'S NEEDS AND MORE SO, AND WITHOUT ADDITIONAL LEGISLATION OR THE LIKELIHOOD OF LITIGATION, IF THE ADMINISTRATION WILL JUST MOVE AHEAD.

SALE OF ROYALTY OIL

YET ANOTHER ALTERNATIVE INDICATED BY THE GOVERNOR IS THE ADVANCE SALE OF A PART OF THE STATE'S ROYALTY OIL INTEREST IN PRUDHOE BAY. THE POTENTIAL FOR SUBSTANTIAL ADDITIONAL REVENUES, IF NEEDED, IS REASSURING, PARTICULARLY IF THE ROYALTY BOARD CAN ARRANGE SUCH A TRANSACTION TO PROTECT THE STATE'S INTEREST IN ANY APPRECIATION IN FUTURE OIL VALUES, TO MINIMIZE THE INTEREST COST TO THE STATE, AND TO RESERVE MOST OF THE REVENUE POTENTIAL FROM THIS SOURCE FOR FUTURE YEARS.

GIVEN THESE ALTERNATIVES, THE TIME HAS COME FOR THE GOVERNOR AND HIS ADMINISTRATION TO MOVE AND TO MOVE POSITIVELY. ONE OR MORE OF THE THREE ALTERNATIVES NOTED CAN AND SHOULD BE PURSUED NOW WHILE PIPELINE CONSTRUCTION IS IN FULL SWING. THE PROBABILITY OF THEIR SUCCESS SEEMS HIGH, AND NO REASON FOR US TO PANIC.

THE POSSIBILITY OF PIPELINE DELAY CONCERNS US ALL. IT MAY NOT OCCUR, AND WE WILL KNOW A GOOD DEAL MORE ABOUT THAT NEAR THE END OF THIS CONSTRUCTION SEASON. IF THERE IS DELAY, IT WILL AFFECT STATE REVENUES IN FISCAL YEAR 1978, AND CAN BE FULLY CONSIDERED BY THE 1976 SEASON OF THIS LEGISLATURE. I BELIEVE THAT PRUDENCE SAYS WE MUST WATCH THIS CLOSELY, BUT NOT CREATE PROBLEMS FOR OURSELVES.

IN ANY EVENT, THE NEAR TERM REVENUE NEEDS MUST BE MET, AND I URGE YOU TO URGE THE GOVERNOR TO ACT FORTHRIGHTLY.

THANK YOU.

TESTIMONY ON THE PROPOSED WILDLIFE REFUGE AREAS

For the Senate and House Resource Committee Hearings

Mr. Chairman and members. I would like to thank you in advance for this opportunity to present testimony regarding the proposed state game refuges.

My name is Dimitri Bader and I have been with the Alaska Department of Fish and Game for 8 1/2 years; I am presently serving as a regional habitat biologist with the department's Habitat Protection Section. My duties include field and management level statewide responsibilities involving refuges, sanctuaries, critical habitats and game management areas.

The Alaska Department of Fish and Game strongly supports the refuge nominations of the Susitna Flats, Trading Bay, Redoubt Bay and Yakutat-Dry Bay areas.

These areas have a variety of valuable wildlife species, however, the waterfowl resource is our major concern in supporting these proposals.

As you all probably know Alaskan waterfowl are of international importance. The 6-7 million ducks, geese, swans, and 20+ million shorebirds that come to Alaska, with some continuing on to Russia and Canada, nest and produce young which go to South America, Mexico, Asia, Canada and most of the other 49 states.

These waterfowl generally funnel through two major pathways when migrating to Alaska before dispursing to the large Tundra, Arctic and river delta

nesting grounds. These two pathways are identified for the purposes of this hearing as the interior path and the Alaskan coast.

The Yakutat-Dry Bay and Cook Inlet areas are very important waterfowl migration habitats as well as significant nesting areas on the Alaskan coastal migration pathway.

These millions of waterfowl and shorebirds are on a critical climatic and physiological time table during the spring season. Many of the birds have already paired, bred, and are ready to lay eggs as soon as they arrive on the nesting grounds. If there is a significant delay in nest initiation such as caused by late spring breakup or a severe spring storm, the birds begin to reabsorb their unlaid eggs. If they nest at all reproduction is minimal.

A loss or reduction of our major migration areas - such as the refuges we are supporting - would delay the birds timely arrival on their nesting grounds. This could result in a significant reduction of the waterfowl populations in the Central and Pacific Flyways.

During the fall and after the interior areas freeze up, these coastal habitats provide good feeding places where the birds can rest, feed and gain strength before their long flight south.

We view the purposes in designating these areas as refuges as: (1) to protect, preserve and improve the natural habitat and associated fish

and wildlife populations; (2) to protect and preserve existing and projected public demands for hunting; (3) to provide the vehicle for intensive wildlife management as existing and projected public demands dictate; and under certain future situations (4) to provide specialized viewing opportunities in addition to other public wildlife related recreation activities.

The Susitna Flats, Trading Bay, Redoubt Bay, the Yakutat-Dry Bay areas were nominated because they represent some of the best coastal waterfowl areas in the state that the four purposes just mentioned address.

More specifically I will summarize the values and importance of each area as we seem them.

The Susitna Flats

The land status of the proposed refuge includes approximately 391 acres of private property; 60,620 acres of borough selected lands and 240,936 acres of state owned land of which 38,550 acres are classified as mental health lands; this totals approximately 301,947 acres including tidelands, uplands and submerged lands.

The wildlife resources of the Susitna Flats are the most abundant and varied found on any of the present or proposed state refuge areas in Cook Inlet. An estimated 1/2 million ducks, geese, swans and cranes use this area during spring and fall migration periods and about 8,000 ducks, 150 Canada Geese and 25 Trumpeter Swans nest here. Several hundred moose, from at least two (2) different game management units,

winter and calve here. There are at least seven salmon spawning and rearing streams located here. Brown and black bear come from the surrounding mountains and forests to utilize the young spring vegetation, prey on the numerous moose calves as well as on the fall spawned salmon. A variety of small game, furbearers and non game birds, eagles and mammals also exist here in significant numbers.

Hunting, fishing, trapping and viewing are the most popular resource activities occurring in this area. Hunting, specifically for waterfowl, is the greatest public use. The Susitna Flats experiences the highest level of hunter use, as well as ducks harvested, of any location in the State of Alaska. It is also the 6th highest statewide goose harvest area as well as the 3rd highest in South Central Alaska.

The Susitna Flats are used by people statewide, but are most important to the residents from the Matanuska Valley, the Municipality of Anchorage, the Kenai Peninsula and the settlements located on the East side of Cook Inlet.

Many individuals including air charter and guide services have built duck cabins here for the purpose of providing overnight facilities for waterfowl hunters. We are in favor of having such duck cabins, but at the same time quality public hunting can't be maintained if cabins are too concentrated/or located in the prime hunting areas. Other unregulated hunting related development, including short air strips, storage areas and additional cabins, appears annually.

Approximately 15 salmon set net sites, about 391.2 acres of private land and numerous oil and gas leases occur within this area. These refuge lands would naturally be subject to pre-existing lease or ownership rights.

As we see it, the importance of the Susitna Flats refuge designation is to: (1) protect the wildlife habitat and related game populations for the public; (2) to control access and cabin development; (3) to increase wildlife production and hunter use through habitat development; and (4) to provide for anticipated increases in public demands on wildlife resources associated with the increases in human populations related to Alaska's present and future oil and mineral development.

Trading Bay

The land status of the proposed refuge includes approximately five (5) acres of private property and 168,993 acres of state owned lands of which 3,840 acres are classified as mental health lands; this totals approximately 168,998 acres including tidelands, uplands and submerged lands.

The wildlife resources of Trading Bay are varied and include brown bear, black bear, moose, furbearers, small game and waterfowl. Many of the waterfowl that utilize Cook Inlet utilize Trading Bay. There are between 3 and 5,000 ducks that nest here. There are at least five salmon spawning and rearing streams within the area. More than a hundred moose winter and calve here. Brown and black bear utilize the spring vegetation as well as prey on the numerous moose calves and fall spawned salmon.

Hunting, fishing and trapping are the most popular public activities with waterfowl hunting being the most significant. Trading Bay has provided the 9th highest statewide duck harvest and 5th highest South Central (S.C.) Alaska duck harvest. This area is also a significant goose harvest area. Trading Bay is used primarily by people from the Kenai Peninsula and Tyonek; however, people from Anchorage go there specifically for the excellent duck and goose hunting. Several privately built cabins are present. The values of classifying this area a refuge are similar to those of the Susitna Flats.

Several (less than 5) salmon set net sites, about 5 acres of private land and numerous oil and gas leases occur within this area. The refuge classification of these lands would naturally be subject to the pre-existing lease or ownership rights.

Redoubt Bay

The land status of the proposed refuge includes approximately 889 acres of private property; 640 acres of borough selected lands and 205,247 acres of state owned land of which none are classified as mental health or University lands; this totals approximately 206,776 acres including tidelands, uplands and submerged lands.

The wildlife resources of Redoubt Bay include black and brown bear, moose, salmon, small game, furbearers and waterfowl. Of all the waterfowl areas in Cook Inlet, Redoubt Bay has, in addition to Canadian Geese, the only summer resident population (1,000 - 1,500) of white-fronted geese.

Hunting, fishing and trapping are the most popular activities occurring here. Limited aircraft landing areas, however, have prevented the public from utilizing the wildlife resources at levels comparable to Susitna Flats or Trading Bay.

The Alaska Department of Fish and Game anticipates increased demands for wildlife resource utilization here as the human population on the Kenai Peninsula and in Anchorage grows. Redoubt Bay's importance as a refuge lies in preserving and perpetuating the wildlife habitat and game resources for the public; the potential development of wildlife habitat to increase wildlife production and hunter use; and improving additional access necessary to satisfy future public demands.

Less than five (5) salmon set net sites, about 889 acres of private lands and several oil and gas leases exist within this area. The classification of this land would naturally be subject to the pre-existing lease or ownership rights.

Yakutat-Dry Bay

The status of the land within the proposed refuge includes approximately 15 acres of private land; 58,515 acres of National forest service land and 46,403 acres of state owned land of which none are classified as mental health or University lands. This totals approximately 104,934 acres including tidelands, uplands and submerged lands.

Since Senate Bill 637 addresses state owned lands, including tide and submerged land and all those lands acquired in the future, federal lands

included within the Senate Bill 637 description would not be affected by this classification.

The wildlife resources of the Yakutat-Dry Bay area are as varied as found on any of the present or proposed refuge areas in Alaska and includes black and brown bear, moose, salmon, furbearers, harbor seals, small game and waterfowl.

This area is important in providing habitat for most of these wildlife species, but is especially important in protecting critical moose winter habitat and waterfowl migration habitat. Millions of waterfowl and shorebirds utilize this area during the spring, summer and fall seasons.

Hunting, commercial and sport fishing and trapping are presently the most significant resource activities. This area has provided the 10th highest statewide goose harvest as well as the 3rd highest goose harvest in Southeastern Alaska. It is also the 4th highest hunter use and duck harvest area in Southeastern Alaska.

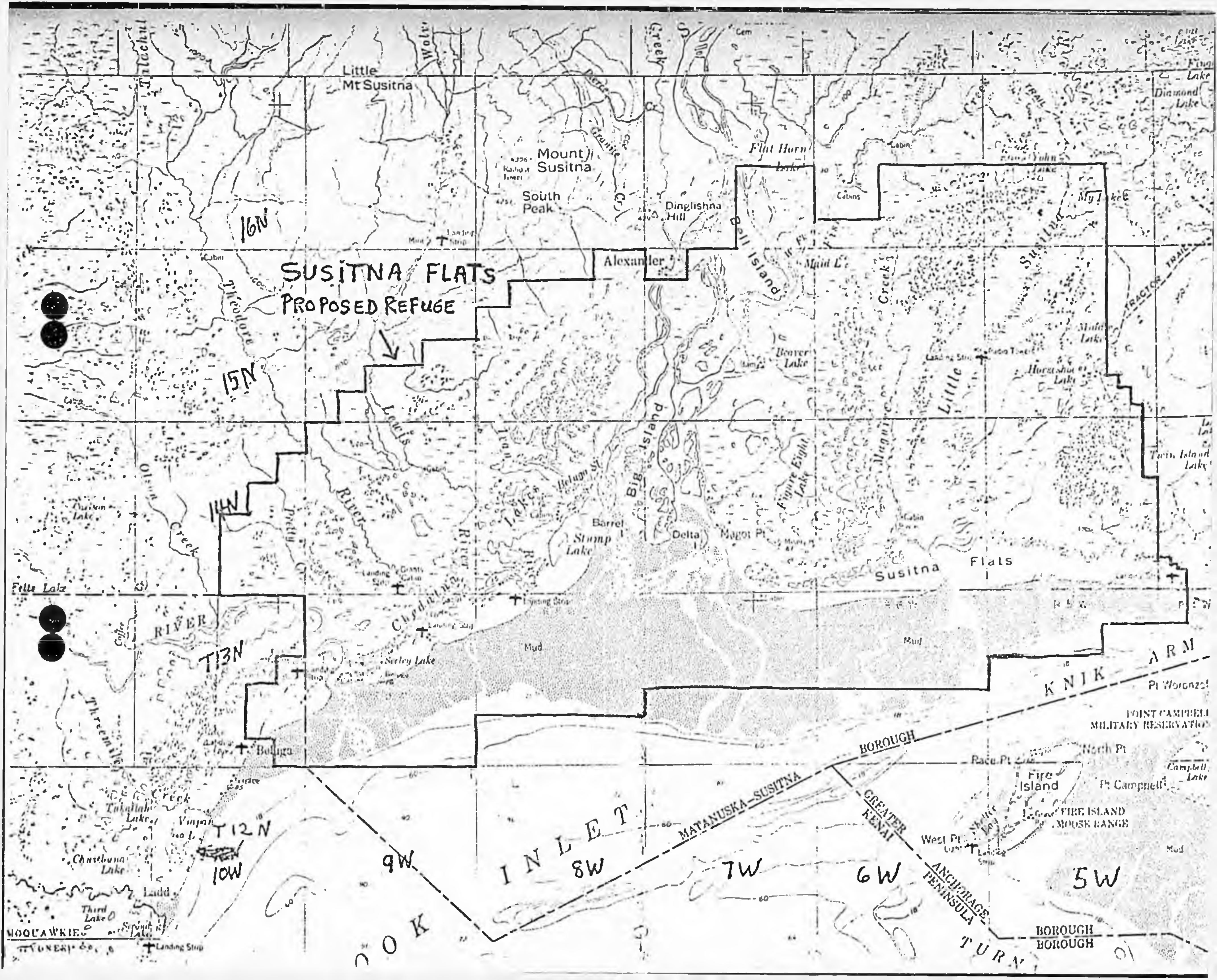
Some of the hunting effort and public interest orginates from the city of Yakutat, but additional hunters come from Juneau and other Southeastern Alaska settlements. Although total human use is now low, it is well known that this area has a future laced with oil development and human population growth.

Our department anticipates significant increases in public demand for wildlife utilization, construction of cabins and commercial uses on wildlife habitats. Therefore, we view the importance of the Yakutat-Dry

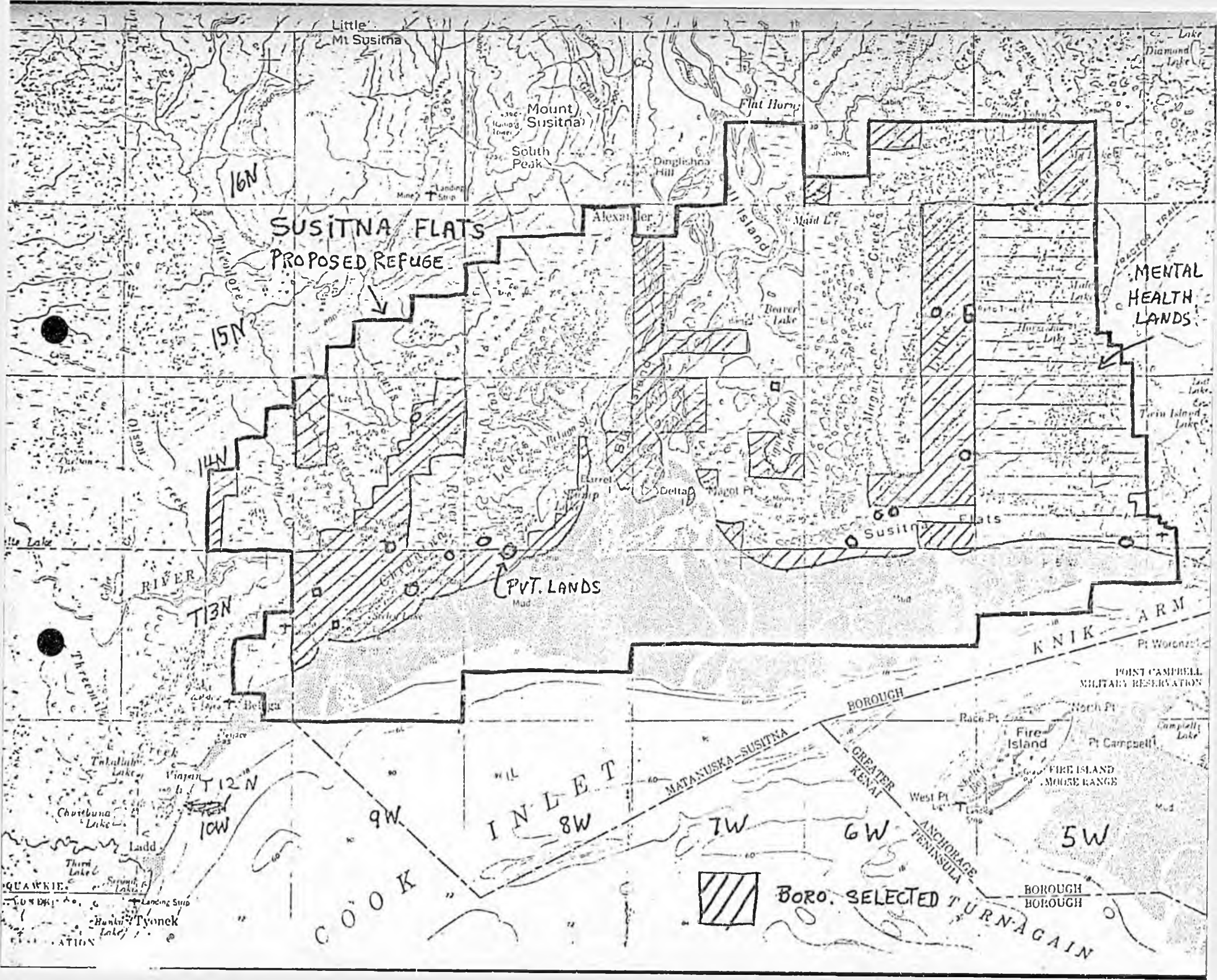
Bay's refuge designation as habitat protection, and providing for the increased public hunting and other user demands associated with future oil development.

Before we draft final refuge management plans our department anticipates holding public meetings for each refuge area to determine what uses Alaskan residents desire. Such a meeting has already been held for the Potter Refuge at Anchorage which resulted in valuable public input for the direction of the areas present and future management.

Mr. Chairman and committee members I would like to thank you again for allowing me this opportunity to bring this information before you today.



SUSITNA FLATS
PROPOSED REFUGE
Little Mt Susitna
Mount Susitna
South Peak
Dinglishna Hill
Flat Horn Lake
Alexander
Bell Island
Theodore
Lewis River
Big Island
Figure Eight Lake
Beaver Lake
Little Susitna
Horseshoe Lake
Twin Island Lake
Middle Lake
Diamond Lake
My Lake
Barrel
Stump Lake
Delta
Susitna Flats
Chuitna
Olson Creek
Pretty Creek
River
Seeley Lake
Beluga
Mud
16N
15N
14N
T13N
T12N
10W
9W
8W
7W
6W
5W
COOK INLET
KNIK ARM
MATANUSKA–SUSITNA BOROUGH
GREATER ANCHORAGE
KENAI PENINSULA
BOROUGH
Fire Island
FIRE ISLAND MOOSE RANGE
West Pt
North Pt
Race Pt
Pt Campbell
Campbell Lake
Pt Woronzof
POINT CAMPBELL MILITARY RESERVATION
TRACTOR TRAIL
Landing Strip
Ladd
Third Lake
Chuitbuna Lake
Threemile Creek
Cabin


SUSITNA FLATS
PROPOSED REFUGE
MENTAL HEALTH LANDS
PVT. LANDS
BORO. SELECTED
TURN AGAIN
Little Mt Susitna
Mount Susitna
South Peak
Flat Horn
Alexander
Maid Lk
Beaver Lake
Susitna Flats
Delta
Point Campbell Military Reservation
Fire Island
Pt Campbell
Fire Island Moose Range
Ladd
Tyonek
Cook Inlet
Matanuska-Susitna Borough
Greater Kenai
Anchorage Peninsula
Knik Arm
16N
15N
14N
13N
12N
10W
9W
8W
7W
6W
5W

T12N

T11N

T10N

T9N

R17W

R16W

R15W

R14W

R13W

G.S.

MH

TRADIN BAY

Proposed REFUGE

PVT

Boro

G.S. = General Selection

MH. = Mental Health Selection

REDOUBT BAY Proposed REFUGE

OIL ABC

MEMORANDUM

March 14, 1975

Re: Advance Sale of Royalty Oil by the State of Alaska

This memorandum and the three agreements attached hereto supplement several brief memoranda dated February 20, 1975, generally describing the structuring of a transaction pursuant to which the State of Alaska could sell its rights to receive a portion of the future production of royalty oil from selected North Slope leases and thereby receive advance payment of the purchase price. The February 20 memoranda are attached hereto for convenient reference; the attached agreements have been prepared in order to further illustrate the transaction described in the memoranda.

As indicated in the February 20 memoranda, the transaction is likely to involve at least three parties:

1. The State of Alaska, which, as seller, would contract to sell a portion of its royalty oil to a buyer for delivery as and when produced.

2. A Buyer which would contractually agree to purchase such royalty oil and to pay the purchase price in advance. The buyer could be an oil company which has use for the oil or some other substantial person or entity; however, there may be relatively few, if any, companies which have funds available to pay the purchase price of the magnitude required by the State or which are willing to incur the debt necessary to pay the purchase price in advance. Therefore, the buyer is likely to be a corporation created for the purpose of serving as the financing vehicle for the transaction. Since the transaction could be structured to provide some financial return to the buyer, that corporation might be owned by a charitable organization or native corporation which could derive some financial benefits from being a party to the transaction without itself

incurring any financial or other obligations which it might be unable to fulfill.

3. A Lender to provide funds to the Buyer in order to pay the purchase price to the State in advance.

Inasmuch as the Buyer is likely to be an entity having neither use for the oil nor the capability of disposing of it, the Buyer would have to make arrangements for disposition of the royalty oil which it is entitled to receive under its agreement with the State. Disposition of the Buyer's share of royalty oil could be accomplished by authorizing an agent to sell the oil on its behalf.

As indicated in the February 20 memoranda, three agreements may be required to effect the transaction discussed therein:

1. An Agreement For the Sale and Purchase of Royalty Oil pursuant to which the State agrees to sell a portion of its royalty oil to the Buyer and the Buyer agrees to pay the purchase price in advance. An example of an agreement illustrating that contractual arrangement is attached hereto as Exhibit I and is hereinafter called the "Purchase Agreement" for convenient reference.

2. A Loan Agreement pursuant to which the Buyer obtains a loan from a lender, presumably a bank or group of banks, to enable it to make the advance payment of the purchase price to the State. A loan agreement so providing is attached hereto as Exhibit II. The loan itself would be evidenced by a note or notes, examples of which are attached to the loan agreement. The Lender would probably require that the notes be secured by a collateral assignment of the Buyer's rights under the Purchase Agreement and the agency agreement pursuant to which the oil would be sold for the Buyer.

3. An Agency Agreement pursuant to which the Buyer would authorize an agent to sell on behalf of the Buyer the royalty oil purchased from the State. Under that agreement, the agent would be required to remit the proceeds of sale to the Buyer which the latter would in turn apply toward liquidation of its loan. The agency agreement would presumably be required if the Buyer did not have the capability or facilities to dispose of the

oil which it is purchasing. The agent could be the State of Alaska or an agency thereof or any private person or corporation, including an oil company. An example of an Agency Agreement is attached hereto as Exhibit III.

There are a number of variables in structuring the transaction which should be considered and merit special comment, particularly insofar as the terms of the Purchase Agreement are concerned. The Purchase Agreement is the keystone to the supporting agreements, i.e., the Loan Agreement and the Agency Agreement.

The Purchase Agreement (Exhibit I) contemplates that the purchase price will be paid in advance to the State in one payment. Alternatively, the agreement could provide for advance payment of the purchase price in installments over a period of time. Installment payments of the purchase price might reduce the total interest costs incurred by the Buyer, but it would probably require payment of commitment fees to the Lender since the Lender would be required to earmark funds for future disbursement of the loan. If the State requires funds in installments, the transaction might be structured to provide for a series of advance sales (by separate purchase agreements) of smaller portions (i.e. smaller percentages or fewer leases) of royalty oil.

Under Section 2 of the Purchase Agreement, only a stated percentage of the royalty oil produced from the lands covered by the leases described therein is sold to the Buyer. Inasmuch as the Alaska Native Claims Settlement Fund is entitled to receive 2% of the gross value of the oil produced from the State's leases, the applicable percentage of the royalty oil sold to the Buyer cannot exceed 98%. The stated percentage of royalty oil sold to the Buyer would presumably be much less and would depend upon the number of leases covered by the Purchase Agreement, the anticipated production schedule, the anticipated field market price of oil and the Lender's requirements for repayment of its

loan to the Buyer.

The Purchase Agreement does not specify the number of barrels of oil purchased by the Buyer. The quantity of oil purchased is to be determined pursuant to the formula provided in Section 4 and is that quantity the proceeds of sale which equal the purchase price plus (i) any taxes paid or other expenses incurred by the Buyer in connection with the transaction and (ii) an interest factor (the so-called "Applicable Computation rate") in order to provide funds for payment of interest on the loan which enabled Buyer to pay the Purchase Price and the taxes and expenses incurred as a result of the transaction. When the proceeds of the royalty oil delivered to the Buyer equal the aggregate of the Purchase Price and the amounts added thereto, the Purchase Agreement and the Buyer's right to oil will terminate. Only at that time will the total quantity of oil purchased and sold be known. Thus, the quantity of oil purchased is a function of, among other things, the cost of the loan, the time when oil is produced and delivered and the market price of oil from time to time during the term of this Agreement. The determination of the quantity of oil to be delivered is made by adjusting the Purchase Price upward by the expense and interest factors and downward by application of the sale proceeds of royalty oil actually produced and delivered to the Buyer until such time as the unapplied balance of the purchase price, as so adjusted, is reduced to zero.

The Applicable Computation Rate provided for in Section 1(g) of the Purchase Agreement is a fraction (1/16 for illustrative purposes) of 1% above the prime rate charged from time to time by the Lender. This fractional percentage increase above an assumed interest rate on the loan is designed to provide an economic return to the Buyer which, as indicated above, might be owned by a charitable organization or native corporation.

Section 8(d) of the Purchase Agreement provides that so long as

the agreement continues in existence, the State would not require the lessee to pay royalties in the form of money (rather the delivery of royalty oil in kind) at least to the extent of the percentage of the royalty oil purchased by the Buyer under that agreement.

Most of the other provisions of the Purchase Agreement are self-explanatory.

The Loan Agreement is an example of a loan agreement used by a major U.S. bank in a similar transaction and assumes that the interest rate will be the Lender's prime rate. If compensating balances are not provided by the borrower, the rate charged by the Lender will generally involve an increment of interest in excess of prime.

Sale by the State of Alaska of Rights to Receive Future Production of Royalty Oil and Gas

State of Alaska legislation in 1974 provides a procedure with respect to the sale of the State's royalty oil and gas. The Commissioner of Natural Resources of the State can sell royalty oil and gas received in kind at the time of its production. He can also sell the State's rights to receive future royalty oil and gas production and receive payment for all or part of it now in the form of an advance sale.

Such sales must be made with the prior written approval of the Alaskan Royalty Oil and Gas Development Advisory Board and with the prior approval of the Legislature. These sales are not sales of oil or gas in place. The Constitution of Alaska prohibits sales in place.

If the State made a sale of its rights to receive future production of royalty oil or gas, the following questions come up:

1. How would such a deal be structured?

2. Would the State lose any of the increased market value of oil sold in this way between the time of sale and the time of production?

3. What portion of the State's royalty from Prudhoe Bay would have to be committed to the repayment of, say, $100 million, over a 3½ year period, commencing with the startup of production?

Structure of the Transaction

A transaction of this type would involve at least three parties--seller, buyer and a financial institution. The State of Alaska, as the Seller, would contract to sell oil to a Buyer and deliver it as it is produced. The Buyer would contract to buy the oil and would pay for

it in advance. Since it is quite unlikely the Buyer would have money available for such an advance payment, he would very likely borrow it from a group of banks. The Seller and the banks can be readily identified. However, a Buyer cannot be so readily identified.

The Buyer could be an oil company who has use for the oil, however, it is doubtful that there are companies with the money available, or the willingness to incur the debt necessary for such an advance payment. Therefore, the Buyer would likely be a financial vehicle created for this purpose, perhaps a company owned by a charitable organization.

If the Buyer is owned by a charitable organization, the questions arise as to why it would be in such a transaction, and how it would use this oil. It would be in the transaction for the financial gain it would realize. It would probably enter into an agreement with another party, a fourth party in this transaction, to sell the oil as its agent. Such fourth party might well be the working interest owner of the properties from which the oil will be produced. This overall arrangement is outlined on the attached exhibit.

Market Value of Oil

The State should lose nothing in terms of market value by making such a sale. The terms of the agreement would be somewhat as follows: "Seller agrees to sell to the Buyer that quantity of crude oil representing __ percent of its royalty interest in leases _____, _____, and _____, until the market value of that oil at the time it is produced is equal to $_____." The quantity of oil to be delivered would include oil to cover interest for the use of the money which the Seller receives in advance and for any profits which the Buyer would make on the transaction. Such profits would be small in terms of the whole transaction.

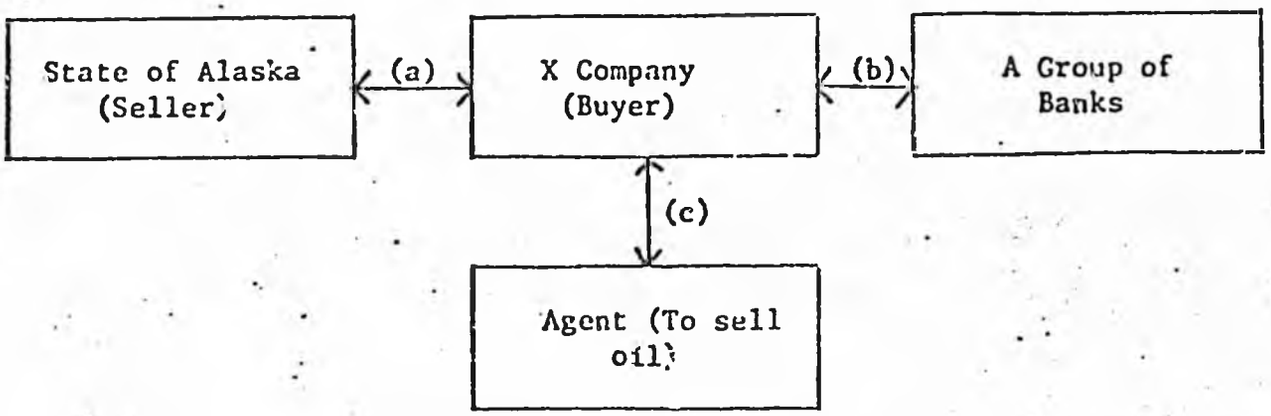
Portion of Royalty Dedicated to the Sale

If a sale of $100 million of Prudhoe Bay royalty oil were made on July 1, 1976, and if production commenced at Prudhoe Bay on July 1, 1977, the advance could be paid out of about 15 percent of the State's royalties during the period July 1, 1977 to December 31, 1980--that is, a period of three and one-half years. The 15 percent applies to the State's royalty after payment of 2 percent into the Native Claims Fund. A wellhead value of the oil of $5 per barrel and a production rate of 600,000 barrels per day for the first six months and 1.2 million barrels per day thereafter have been assumed. With an assumed interest rate of 8 percent, the State would deliver 25.1 million barrels--20 million to repay principal and 5.1 to pay interest. Thus, about 20 percent of the 15 percent dedication (or 3 percent) would go to interest.

2/20/75

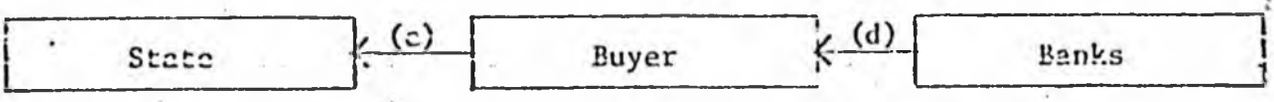
ADVANCE ROYALTY SALE BY STATE OF ALASKA

1. Agreements



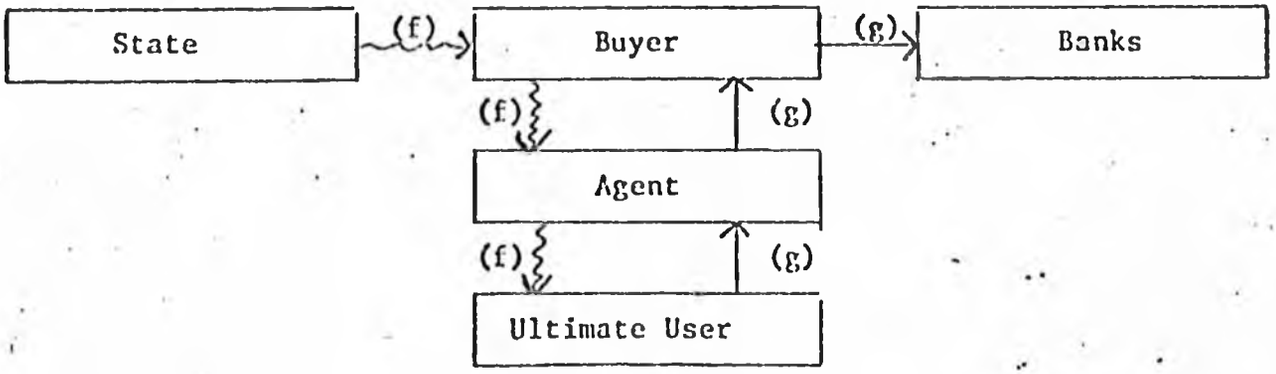
(a) State agrees to sell oil to Buyer.
(b) Buyer makes credit agreement with Banks.
(c) Buyer appoints agent to resell oil to ultimate user.

2. Flow of Money on 7/1/76 (e.g.)



(d) Banks lend money to Buyer.
(e) Buyer makes advance payment to State.

3. Delivery of Oil (~~~~>) and Flow of Money (——>)--7/1/77 to 12/31/80



(f) State delivers oil to Buyer who resells and delivers it to the ultimate user, by using an agent to make the sale.
(g) User pays for the oil and Buyer repays the bank.

2/20/75

PRUDHOE BAY ROYALTY AND SEVERANCE
PRODUCTION COMMENCING 7/1/77; 600 M B/D
AVERAGE FIRST SIX MONTHS, THEN 1.2 M B/D
(Millions)

	1976	1977	1978	1979	1980	1981
1. Production (B/D)	0	0.6	1.2	1.2	1.2	1.2
2. Wellhead Value Per Barrel (a)		$5	$5	$5	$5	$5
3. State Income-- No Advance Sale						
Royalty (b)	0	69	274	274	274	274
Severance (8%)	0	38	153	153	153	153
Total	0	107	427	427	427	427
4. Effect of Advance Sale on State's Royalty Income	+100	-10	-39	-39	-38	0
5. State Income-- With Advance Sale						
Royalty (b)	100	59	235	235	236	274
Severance (8%)	0	38	153	153	153	153
Total	100	97	388	388	389	427

(a) Project Independence Blueprint of the Federal Energy Administration makes reference to "Minimum Acceptable Prices" of $5.16 to $6.15 per barrel at the wellhead to stimulate development in "special regions," (including the North Slope of Alaska). See Table B-1 in Part 2 of FEA publication dated November 1974 entitled "Task Force Report - Finance."

(b) Includes portion going to Native Claims.

2/20/75

[SAMPLE FORM]

AGREEMENT FOR SALE AND PURCHASE OF ROYALTY OIL

THIS AGREEMENT made as of _____, 1975, between THE STATE OF ALASKA, acting by and through its Commissioner of Natural Resources, (hereinafter called the "State"), and _____ _____, a corporation organized and existing under the laws of the State of _____ (hereinafter called "Buyer").

W I T N E S S E T H:

The State, as lessor, has executed and delivered the oil and gas leases listed and described in Exhibit A attached hereto and made a part hereof covering certain lands in the Prudhoe Bay Area of the North Slope of Alaska and is entitled to receive royalties on production of oil, gas and associated substances produced and saved from such lands as provided in such leases. The State wishes to sell the percentage hereinafter specified of the Royalty Oil (as hereinafter defined) to which the State is entitled under the leases described in Exhibit A for a limited period of time and Buyer is willing to purchase such Royalty Oil upon the terms and conditions hereinafter set forth.

NOW, THEREFORE, the State and Buyer have agreed and do hereby agree as follows:

1. Certain Definitions. The following terms as used in this Agreement shall have the meanings given below:

(a) "Exhibit A" shall mean the schedule or list of Leases attached to this Agreement and marked "Exhibit A".

(b) "Lease" shall mean any one of the oil and gas leases listed and described in Exhibit A, and "Leases" shall mean all thereof.

(c) "Oil" shall mean crude petroleum oil and other hydro-

carbons regardless of gravity which are produced and saved in liquid form at the well by ordinary production methods.

(d) "Barrel" shall mean a barrel of 42 standard United States gallons.

(e) "Commissioner" shall mean the Commissioner of Natural Resources of the State of Alaska.

(f) "Board" shall mean the Alaska Royalty Oil and Gas Development Advisory Board.

(g) "Applicable Computation Rate" shall mean, as to any period, a rate per annum equal to 1/16 of 1% above the best rate of interest being charged during such period by _____ Bank for new credits of ninety (90) days to responsible and substantial commercial borrowers, any change in such best rate of interest which may be made by said bank from time to time shall be reflected in the Applicable Computation Rate as of the date of the change in such best rate of interest.

(h) "Effective Date" shall mean _____ A.M., Anchorage, Alaska time, on the date first written above.

(i) "Purchase Price" shall mean the total sum required to be paid by Buyer to the State pursuant to Section 3 hereof concurrently with the execution and delivery of this Agreement and "Adjusted Purchase Price" as of any date shall mean the Purchase Price paid to the State on such date plus all additions to the Purchase Price or Adjusted Purchase Price, as the case may be, required to be made under Section 4 hereof.

(j) "Royalty Oil" shall mean the Oil which the State is entitled to take as royalty in kind under the Leases.

(k) "Assigned Royalty Oil" shall mean the percentage of Royalty Oil specified in Section 2 hereof sold to Buyer under this Agreement.

(l) "Market Price of Oil" means the price actually paid or agreed to be paid to the Buyer at the well by the purchaser of the Assigned Royalty Oil if such Assigned Royalty Oil is resold by the Buyer directly or through an agent. If the Assigned Royalty Oil is not resold by the Buyer, "Market Price of Oil" shall be the field market price or value of Royalty Oil as required to be determined under the provisions of the Leases (in most such Leases, the applicable provision is numbered paragraph 16).

(m) "Proceeds" when used herein with reference to the value of Assigned Royalty Oil delivered to or for the account of Buyer hereunder shall mean the number of barrels so delivered in any delivery or during any period multiplied by the appropriate Market Price of Oil.

2. Royalty Oil Sale and Purchase Obligations. Subject to the terms and provisions of this Agreement, the State hereby agrees, during the period of this Agreement, to sell to the Buyer and the Buyer agrees to purchase and pay for in the manner herein provided _____ percent (_____%) of all Royalty Oil produced and saved and removed on and after the Effective Date from the lands covered by the Leases until expiration of this Agreement as hereinafter provided in Section 5. Title to the Assigned Royalty Oil delivered to or for the account of Buyer under this Agreement shall pass to Buyer at the time when the Assigned Royalty Oil is delivered to or for the account of Buyer by the lessee pursuant to numbered paragraph 14 of the Leases.

3. Purchase Price. As consideration for the foregoing sale by the State to Buyer of the Assigned Royalty Oil, Buyer shall pay to the State in immediately available U.S. funds at the office of the _____ Bank, _____ _____, the sum of _____ Dollars ($_____) concurrently with the execution and delivery of

this Agreement.

4. Amount of Assigned Royalty Oil Sold to Buyer. The total barrels of Assigned Royalty Oil purchased by and to be delivered to or for the account of Buyer hereunder, as and when produced from the Leases, shall be that quantity the Proceeds of which determined as hereinbefore provided and which are to be applied under Section 6 hereof equal the aggregate of the following:

(a) the amount of the Purchase Price; plus

(b) an amount equal to the aggregate of all amounts paid or payable by or for the account of Buyer from time to time to the United States and to any state or political subdivision thereof on account of ad valorem, gross receipts, gross income, gross revenue, occupation, sales, franchise and other taxes and assessments of any kind whatsoever (but excluding net income, net profits and capital gain taxes of the Buyer) including penalties and interest thereon, imposed or assessed with respect to or measured by or charged against or attributable to payment of the Purchase Price by the Buyer under this Agreement (and/or any additions thereto), the purchase of the Assigned Royalty Oil by the Buyer hereunder, sales by or for the account of the Buyer of such Assigned Royalty Oil or the proceeds thereof, or the acquisition, ownership, sale, assignment, transfer or other disposition by the Buyer in whole or in part of this Agreement or any of its rights hereunder; provided, however, that the State shall have the right at its expense to contest any such taxes or assessments in good faith on behalf of the Buyer; plus

(c) An amount equal to the aggregate of all reasonable expenses of the Buyer incidental to its purchase, ownership, pledging or transferring of the Assigned Royalty Oil or any part thereof, the obtaining of any loan required to enable Buyer to purchase the Assigned Royalty Oil and the receipt and disbursement of funds (including, without limitation, all fees and expenses of accountants and counsel for the Buyer and of counsel for any lender making any such loan) and all other fees in connection with and all expenses and costs of litigation and the contest, release or discharge of any adverse claim or demand made or proceeding instituted by any person affecting in any manner whatsoever the Buyer's rights to the Assigned Royalty Oil hereunder, which shall have been paid or incurred by the Buyer from time to time until termination of this Agreement; plus

(d) As to any period amounts computed (on the basis of a 365-day year) from time to time on the aggregate of the amounts referred to and described in the preceding subparagraphs (a), (b) and (c) of this Section 4 outstanding during such period as reduced from time to time during such period by the application (as provided in Section 6 hereof) of the Proceeds of the Assigned Royalty Oil delivered to or for the account of Buyer, such computations to be made as of the first day of each calendar year quarter occurring after the Effective Date at the Applicable Computation Rate and in accordance with the following provisions:

(i) The first such computation shall be made as of the first day of the calendar year quarter next succeeding the Effective Date for the period commencing with (and including) the Effective Date to (but not including) such first day of such first calendar year quarter.

(ii) Subsequent computations shall be made quarterly thereafter on the first day of each succeeding calendar year quarter and such computations together shall cover the period commencing on the date of the first computation under the preceding clause (i) and ending with the calendar year quarter in which this Agreement is terminated. Each separate quarterly computation shall cover the calendar year quarter immediately preceding the date as of which each successive computation is required to be made and the first days of such calendar year quarters as of which computations are required to be made are sometimes hereinafter referred to in this section as "Computation Dates".

(iii) The computations required to be made on the successive Computation Dates under the preceding clauses (i) and (ii) shall take into account the amounts, if any, paid or becoming payable by the Buyer under the provisions of subparagraphs (b) and (c) of this Section 4 and not previously reflected in the totals arrived at under such subparagraphs, and shall also take into account and reflect, as of the date of application by the Buyer under Section 6 hereof, the amount of Proceeds of Assigned Royalty Oil applied or deemed to have been applied pursuant to Section 6 hereof during the period embraced in each such computation.

5. Termination of Agreement. When Proceeds equal to the full aggregate amounts specified in subparagraphs (a), (b), (c) and (d) of Section 4 of this Agreement have been received by the Buyer, this Agreement and all rights of Buyer to receive Royalty Oil shall immediately terminate. The Buyer agrees that, if so requested by the State at any time or from time to time after the termination of this Agreement, it will execute or cause to be executed such instruments as may be necessary or appropriate to evidence the termination of this Agreement and of Buyer's rights to receive Royalty Oil.

6. Application of Proceeds of Assigned Royalty Oil Received by Buyer. The Proceeds of Assigned Royalty Oil delivered to or for the account of Buyer shall be applied toward liquidation of the Adjusted Purchase Price in accordance with the provisions of this Section 6. The Proceeds of Assigned Royalty Oil used by Buyer or resold by it in any calendar month shall be deemed to have been received by Buyer on the date of actual use thereof or actual receipt from the purchaser or on the last day of the next succeeding calendar month following the month of delivery, whichever is the earlier date, and such Proceeds shall be deemed to have been applied immediately after the opening of business on the next succeeding day. If any date of application specified above shall be a Saturday, Sunday or legal holiday under the law of the jurisdiction in which such Proceeds are actually received or deemed to have been received by the Buyer, such proceeds shall be deemed to have been received and applied as of the close of business on the last business day next preceding such Saturday, Sunday or legal holiday in such jurisdiction. Proceeds remitted to an assignee designated by the Buyer shall be deemed to have been received by the Buyer on the date of receipt by such assignee.

7. No Property Rights in Leases in Favor of the Buyer. Nothing contained in this Agreement shall be construed as granting to or vesting in the Buyer any property rights or interests, legal or equitable, or any economic interests, in any of the Leases or the properties described therein,

or in the crude oil reserves capable of being produced from such properties.

8. Representation by and Certain Agreements of the State. The State hereby makes the following representations to the Buyer and also makes the following agreements, among others, with the Buyer:

(a) The terms, provisions and conditions set forth herein and the execution and delivery of this Agreement by the Commissioner on behalf of the State have been approved in writing by the Board and have also been approved by the legislature of the State by a concurrent resolution concurred in by a majority of the members of each house in compliance with the provisions of Sections 38.06050 and 38.06055 of the Alaska statutes.

(b) All of the Leases were validly issued by the State and are in full force and effect on the date hereof.

(c) Each of the Leases provides for the payment by the lessee to the State of a royalty of Twelve and one-half percent (12.5%) in amount or value of Oil produced and saved and removed or sold from the lands covered by the Leases

(d) The State has not heretofore exercised the option given to it in Paragraph 15 of each Lease to require the lessee to pay to the State the fair market price or value at the well of all royalty with respect to Oil but has exercised the option given to it in Paragraph 14 of each Lease to take in kind the royalty payable with respect to Oil. The State hereby agrees with the Buyer that such election will not be revoked or changed with respect to the Assigned Royalty Oil without the written consent of the Buyer at any time prior to the termination of this Agreement.

(e) The State will not, without the prior written consent of Buyer, agree to reduction of its royalty under the Leases at any time prior to termination of this Agreement.

9. No Obligation of State With Respect to Assigned Royalty Oil. Prior to termination of this Agreement, the Buyer shall be entitled to receive all Assigned Royalty Oil directly from the lessees under the Leases and the State shall have no obligation to the Buyer to receive, store or otherwise deal with the Assigned Royalty Oil.

10. Access to Leases. The State shall permit any one or more representatives designated by the Buyer, but at the Buyer's risk and expense, to inspect the Leases and, to the extent available to the State and/or permissible under the Leases, any logs and test data relating to wells drilled pursuant thereto, any records relating to production and disposition of Royalty Oil produced from the lands covered by the Leases and such other information relating to this Agreement as the Buyer may reasonably request from time to time.

11. Reports to the State. Within twenty (20) days after the close of each calendar month during the period of this Agreement, the Buyer shall furnish or cause to be furnished to the State a written statement showing with respect to such calendar month, the amount of the Purchase Price or Adjusted Purchase Price at the beginning of such month, all additions to the Purchase Price or Adjusted Purchase Price, all applications of Proceeds thereto, and the unliquidated balance of the Adjusted Purchase Price as of the close of such month.

12. Transfers of the Rights of State. Nothing contained in this Agreement shall be construed to limit or restrict in any way the right of the State to sell, transfer or pledge any portion of the Royalty Oil other than the Assigned Royalty Oil sold to Buyer under this Agreement.

13. Transfers of the Rights of Buyer. Nothing contained in this Agreement shall be construed to limit or restrict in any way the right of the Buyer to sell, transfer, assign or pledge its rights under this Agreement,

in whole or in part.

14. Rights of Assignee or Secured Party. If the Buyer shall at any time execute an assignment or security agreement covering all or part of the Buyer's rights under this Agreement as security for any obligation of the Buyer, the assignee or secured party therein named or the holder of any obligation secured thereby shall be entitled, to the extent such assignment or security agreement so provides, to exercise all of the rights, remedies, powers and privileges conferred upon the Buyer by the terms of this Agreement and to give or withhold all consents required to be obtained hereunder by the State, but the provisions of this Section 13 shall in no way be deemed or construed to impose upon the State any obligation or liability undertaken by the Buyer under such assignment or security agreement or under the obligation of Buyer secured thereby.

15. Notices. Any notice, request, demand, report or other instrument which may be required or permitted to be given or furnished to or served upon either party hereto shall be deemed sufficiently given or furnished and served if in writing and delivered to such party or person or to an officer of such party or person or deposited in the United States mail in a sealed envelope, with postage prepaid for certified or registered mail, addressed if to the State in care of _____

_____

and if to Buyer at _____

or to such other address or such other person as the party or person to be addressed shall have designated by written notice to the other party or person.

16. Governing Laws. This Agreement shall be construed and interpreted under and in accordance with the laws of the State of Alaska.

17. Headings. Section headings in this Agreement are for convenience only and shall not affect the construction of this Agreement.

IN WITNESS WHEREOF, the parties have caused this Agreement to be duly executed as of the date first above stated, in several counterparts

(one of which with all property descriptions included in Exhibit A is on file at the office of State), each of which is an original and all of which are identical. Each of the counterparts of this Agreement so executed shall for all purposes be deemed to be an original, and all such counterparts together shall constitute but one and the same Agreement.

STATE OF ALASKA

By:_____
Commissioner of Natural Resources

_____

By:_____
Buyer

EXHIBIT A
TO
AGREEMENT FOR SALE AND PURCHASE OF ROYALTY OIL

SCHEDULE OF LEASES

[SAMPLE FORM]

LOAN AGREEMENT

LOAN AGREEMENT, dated as of _____, 1975, between _____, a _____ corporation (the "Company"), and _____ BANK, a national banking association (the "Bank").

R E C I T A L S

A. By an Agreement entitled "Agreement For Sale and Purchase of Royalty Oil", dated as of the date of this Agreement (the "Purchase Agreement"), between the State of Alaska (the "State"), as Seller and the Company, as Buyer, a true copy of which has been furnished to the Bank, the State sold to Buyer and the Company purchased from the State a percentage of the Royalty Oil (as defined in the Purchase Agreement) produced and saved from the lands described in the Leases (as defined in the Purchase Agreement) for a limited period of time. The Purchase Agreement requires the Company to pay to the State the sum of _____ Dollars ($_____) for the Royalty Oil purchased and sold thereunder.

B. By an Agreement entitled "Agency Agreement" dated as of the date of this Agreement (the "Agency Agreement") between the Company, as principal, and _____, as Agent ("Agent"), a true copy of which has been furnished to the Bank, the Company appointed the Agent to act as its agent for the sale of all Royalty Oil to which the Company shall become entitled under the Purchase Agreement and the Agent accepted such appointment for such purpose.

C. The Company has requested the Bank to make a loan to it to enable it to pay to the State the purchase price of the Royalty Oil purchased and sold under the Purchase Agreement.

NOW, THEREFORE, in consideration of the mutual agreements herein contained, the Company and the Bank have agreed and do hereby agree as follows:

1. Commitment of the Bank. Subject to the terms and conditions of this Agreement the Bank agrees to lend to the Company on the date hereof the sum of _____ Dollars ($_____) in order to pay to the State the purchase price of the Royalty Oil purchased by the Company pursuant to the Purchase Agreement and to pay the other obligations of the Company described in Section 3 below. The advances so to be made by the Bank are herein collectively called the loan.

2. Notes and Interest. The loan shall be evidenced by (i) a promissory note of the Company (the "Loan Note") in the principal amount of _____ Dollars ($_____), and (ii) certain additional notes to be executed and delivered from time to time as provided in Section 3 below (singly called an "Additional Note" and, collectively, "Additional Notes"). The Loan Note shall be dated the date hereof, shall mature and bear interest as provided in, and shall otherwise be in the form of, Exhibit A hereto. Each Additional Note shall be dated the date of its issue as provided in Section 3, shall

mature and bear interest as provided in, and shall otherwise be in the form of, Exhibit B hereto.

3. Advances on Account of Loan. Pending receipt by the Company from time to time of the Proceeds (as defined in the Purchase Agreement) from the sale of the Royalty Oil purchased from the State and to be sold by the Agent pursuant to the Agency Agreement, the Bank will, on the first day of each Accounting month, commencing , 1975, advance to the Company, against delivery to the Bank of an Additional Note in a principal amount equal to the amount to be advanced, an amount sufficient to enable the Company to pay, to the extent they cannot be paid out of such Proceeds: (i) Interest accrued to said date on the Loan Note, and (ii) Interest accrued to said date on all Additional Notes.

4. Security for the Notes. The Loan Note and the Additional Note (collectively, the "Notes") shall be secured by an Assignment of even date with the Loan Note from the Company to , as Trustees (the "Assignment"), by which the Company's rights under the Purchase Agreement and under the Agency Agreement are collaterally assigned to the Trustees for the benefit of the Bank and the Proceeds from the sale of Royalty Oil are collaterally assigned to the Bank. The Assignment shall be in substance and form satisfactory to the Bank.

5. Representations and Warranties by the Company. The Company represents and warrants that:

(a) The Company is a corporation duly organized and existing under the laws of the State of .

(b) The Company has the power and authority under its charter and laws of the State of to execute the Purchase Agreement, the Agency Agreement, this Agreement, the Loan Note, the Additional Notes and the Assignment, and the performance of its obligations thereunder does not and will not conflict with any provision of law or of its charter or by-laws or of any agreement binding upon it; and

(c) The Purchase Agreement, Agency Agreement and this Agreement have been duly authorized, executed and delivered by, and constitute legal, valid and binding agreements of, the Company.

All representations and warranties herein shall survive the consummation of the transactions contemplated by this Agreement.

6. Covenant of the Company. The Company agrees with the Bank that from and after the date of this Agreement and until the delivery of the Assignment, the Company will not, without the written consent of the Bank, agree to any material change in the provisions of the Purchase Agreement or the Agency Agreement or give any consents thereunder.

7. Conditions Precedent to Loan Disbursement. The obligation of the

Bank to make the loan is subject, in the discretion of the Bank, to the following conditions precedent:

(a) No default shall have occurred and be continuing in the performance of any of the Company's covenants or agreements herein set forth, nor shall any representation or warranty made by the Company herein be untrue in any material respect;

(b) No order, writ or injunction of any court or administrative agency shall be in effect prohibiting the transactions contemplated by the Purchase Agreement, Agency Agreement or this Agreement;

(c) This Agreement, the Assignment, the Loan Note and the Additional Notes shall have been duly authorized and, with the exception of the Additional Notes, executed and delivered, and the form and substance of each thereof shall be satisfactory to the Bank;

(d) The Purchase Agreement shall have been executed and delivered by the parties thereto;

(e) The Agency Agreement shall have been executed and delivered by the parties thereto; and

(f) The Bank shall have received from Messrs. counsel for the Company, an opinion in scope and substance satisfactory to the Bank and its counsel as to:

(1) the matters referred to in 5(a), 5(b) and 5(c);

(2) the legality, validity and enforceability of this Agreement, the Assignment, the Loan Note and the Additional Notes (if and when delivered) as against the Company in accordance with their respective terms; and

(3) such other matters incidental to the transactions contemplated hereby as the Bank and its counsel may reasonably request.

(g) The Bank shall have received from counsel for the State and the Agent, an opinion in scope and substance satisfactory to the Bank and its counsel as to the legality, validity and enforceability of the Purchase Agreement and the Agency Agreement against the parties thereto in accordance with the respective terms thereof.

8. Expenses. The Company will pay (i) all expenses incurred in connection with the loan provided for herein, including the fees and disbursements of its counsel, printing or reproducing costs, recording fees, stamp or transfer

taxes, if any, and all other expenses incurred by it in purchasing and selling the Royalty Oil or incurred by it in connection with the transactions contemplated by this Agreement, (ii) the out-of-pocket expenses of counsel for the Bank, and (iii) the out-of-pocket expenses of the Bank incurred in connection with the aforesaid loan.

9. Notices. Any notice or communication required or permitted hereunder shall be given in writing and delivered by hand or sent by United States mail, postage prepaid, or by prepaid telegram, addressed as follows:

To the Company: To the Bank:

10. Miscellaneous.

(a) All covenants and provisions of this Agreement by or for the benefit of the parties hereto shall bind and inure to the benefit of their respective successors and assigns.

(b) This Agreement and the Notes shall be deemed to be contracts entered into under the laws of the State of and for all purposes shall be construed in accordance with the laws of that State.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed as of the date hereinabove first written.

By:_____

BANK

By:_____

EXHIBIT A

LOAN NOTE

$ 1975

On or before , 19 , the undersigned, , a corporation, (herein called the "Company") promises to pay to BANK (the "Bank"), or its order, at the office of said Bank in , the principal sum of DOLLARS ($), together with interest on the balance of principal remaining from time to time unpaid from the date hereof until maturity at a rate per annum which is equal to the Bank's prime rate (being the best rate of interest the Bank charges for new credits of ninety days to responsible and substantial commercial borrowers at its office in) in effect from time to time as publicly announced by the Bank.

This Note evidences a Bank loan made to the Company by the Bank under, and is subject to the terms and provisions of, a Loan Agreement, dated as of , 19 (and, if amended, all amendments thereto), between the Company and the Bank and is secured by an Assignment (the "Assignment") of even date herewith from the Company to , as Trustees, assigning to the Trustees the rights of the Company under the Purchase Agreement and the Agency Agreement (as such terms are defined in the Loan Agreement) and the Proceeds of sale of Oil to be sold by the agent under the Agency Agreement. Reference is made to the Loan Agreement for a statement of its terms and provisions and to the Assignment for a description of the rights assigned, the nature and extent of the security and the rights of the Trustees, the Bank and the Company in respect of such security.

By_____

President

Attachment to Loan Note, dated , 19 , in the principal amount of $, made by and payable to the order of Bank.

ADVANCES AND PAYMENTS OF PRINCIPAL

Date	Amount of Advance	Amount of Principal Paid or Prepaid	Unpaid Principal Balance	Notation Made By

EXHIBIT B

ADDITIONAL NOTE

$ 19

On or before December 31, 19 , the undersigned, , a corporation (herein called the "Company") promises to pay to BANK (the "Bank"), or its order, at the office of said Bank in , the principal sum of , together with interest on the balance of principal remaining from time to time unpaid from the date hereof until maturity at a rate per annum which is equal to the Bank's prime rate (being the best rate of interest which the Bank charges for new credits of ninety days to responsible and substantial commercial borrowers at its office in) in effect from time to time as publicly announced by the Bank.

This Note is one of the Additional Notes referred to in, and is subject to the terms and provisions of, a Loan Agreement, dated as of 19 (and, if amended, all amendments thereto), between the Company and the Bank. This Note is also secured by an Assignment (the "Assignment") dated , 19 from the Company to , as Trustees, assigning to the Trustees the rights of the Company under the Purchase Agreement and the Agency Agreement (as such terms are defined in the Loan Agreement) and the Proceeds of sale of Oil to be sold by the agent pursuant to the Agency Agreement. Reference is made to the Loan Agreement for a statement of its terms and provisions as they apply to this Note and to the Assignment for a description of the rights assigned, the nature and extent of the security and the rights of the Trustees, the Bank and the Company in respect of such security.

By_____
President

AGENCY AGREEMENT

THIS AGREEMENT entered into as of the day of , 1975, by and between , a corporation (herein called the "Principal"), and , (herein called the "Agent"):

W I T N E S S E T H, T H A T

WHEREAS, the State of Alaska as the seller entered into an "Agreement for Sale and Purchase of Royalty Oil" (herein called the "Agreement") with the Principal, therein called the "Buyer" dated as of the date of this Agency Agreement, whereunder the State agreed to sell and deliver certain percentage of the Royalty Oil produced and saved from the Leases (as those terms are defined in the Agreement) in the Prudhoe Bay Area of the North Slope of Alaska during a period commencing on the date of the Agreement and continuing thereafter until the said Agreement by its terms shall have terminated; and

WHEREAS, the Principal desires to have the Agent act as its agent for the sale of all of the Oil to which the Principal shall become entitled under the aforesaid Agreement with the authority, powers, rights and duties hereinafter set forth and the Agent is willing to act for the Principal in such capacity.

NOW, THEREFORE, the parties hereunder have agreed and do by these presents agree as follows:

1. The Principal hereby designates and appoints the Agent as its agent, on its behalf and for its account, to enter into contracts from time to time with a purchaser or purchasers, selected or approved by the Agent, for the sale and delivery of all of the Oil to which the Principal may become entitled under the Agreement. In its capacity as agent the Agent shall have full power and authority to determine and agree upon the terms and conditions to be contained in any such contract or contracts including, but not limited to, the selling price or prices per barrel, the terms of payment and the point of delivery (which may be either in the field where produced or at some other point), to arrange for transportation of the Oil from the Prudhoe Bay Area to the point or points of delivery, to collect the selling price of all of the Principal's Oil so sold and out of such funds to pay for the account of the Principal any taxes of the kind referred to in Paragraph 8 hereof which are required to be paid by the Principal, the gathering charges, if any, for the gathering of the Oil in the field where produced and all transportation charges, if any, for transporting the Oil from the field where produced to the point of delivery.

2. The Agent hereby accepts its appointment as agent of the Principal and agrees to act as Agent for the Principal and to use its best efforts to sell the Oil which the Principal will be entitled to receive under the Agreement at a price or prices per barrel which, after deducting the

transportation costs, if any, incurred in transporting such Oil from the field where produced to the point of delivery, will fairly represent the going field price per barrel in the field where produced at the time of the delivery of such Oil to the purchaser or purchasers in the field or at the time of the delivery of such Oil to a common carrier pipeline in the field for transportation to some other delivery point.

3. In entering into a contract or contracts for the sale of Oil for the account of the Principal the Agent may, but need not, disclose the fact that it is acting as agent for the Principal. Any such contract or contracts may relate solely to the sale of the Principal's Oil. However, the Agent may have, during the period of this Agreement, quantities of Oil of its own to market. Under these circumstances the Agent is hereby authorized, if it shall see fit so to do, to enter into contracts with a purchaser or purchasers for the sale of quantities of Oil produced in the Prudhoe Bay Area, and to fulfill such contract or contracts by delivering to the purchaser or purchasers in part the Principal's Oil and in part the Agent's own Oil. However, in making contracts for the sale of Oil and in making deliveries of Oil to the purchaser or purchasers under such contracts, the Agent shall give no preference or priority to its own Oil as against the Oil sold by the Agent for the account of the Principal.

4. The Agent further agrees to extend credit only to purchasers having acceptable credit ratings, and to make collection for the account of the Principal of the selling price for all of the Principal's Oil sold hereunder. In view of the latitude of the Agent under this Agreement in the selection of a purchaser or purchasers, and in determining credit terms and approving credit ratings, the Agent assumes the risk of collection.

5. The Agent shall, from time to time, remit to the Principal or to a collection agent (which shall be a bank which is a member of the New York Clearing House Association and with which Principal shall maintain an account) designated in writing by the Principal, and to such address as the Principal shall instruct in writing, the Net Proceeds of the Oil sold and delivered by the Agent for the account of the Principal. The term "Net Proceeds" as used herein shall mean the selling price less taxes, if any, of the kind referred to in Paragraph 8 hereof, imposed on the Principal and which the Agent may be obligated to pay under the provisions of said Paragraph 8 for the account of the Principal, and less transportation charges, if any, incurred by the Agent for the Principal.

For accounting purposes under this Agreement and under the Agreement, the Principal shall treat the accrued taxes, which were deducted by the Agent in arriving at the Net Proceeds included in a remittance, as though the Principal had paid such taxes directly to the taxing authority and had been immediately reimbursed therefor.

Remittances by the Agent to the Principal or its collection agent

shall be made on the last day of each calendar month and the Agent shall remit on such day all Net Proceeds applicable to deliveries of the Principal's Oil made during the preceding Accounting Period (as hereinafter defined), whether or not the full sale price of the Principal's Oil shall have actually been collected by the Agent prior to the remittance date and whether or not the taxes and/or transportation charges, if any, payable by the Agent for the account of the Principal have actually been paid by the Agent. If through error or inadvertence the Agent should remit to or for the account of the Principal, for any accounting Period, a sum or sums aggregating more or less than the Net Proceeds which the Principal is entitled to receive for Oil of the Principal delivered in such Accounting Period, the Agent shall make the necessary adjustment on the next remittance date. As used in this Agreement the term "Accounting Period" shall mean the period commencing with and including the first day of the calendar month preceding the month in which applicable remittance date occurs and ending with and including the last day of the calendar month preceding the month in which the applicable remittance date occurs.

6. Notwithstanding any other provisions of this Agreement, if the Agent shall in any Accounting Period sell and deliver to any purchaser Oil belonging to the Principal and also shall sell and deliver to the same purchaser Oil produced from the Leases and belonging to the Agent, the obligation of the Agent hereunder to make remittances of the Net Proceeds of such sales of the Principal's Oil shall be deemed satisfied in all respects if the Agent shall account for and shall remit to the Principal in accordance with Paragraph 5 hereof an amount per barrel equal to the weighted average amount per barrel of the net proceeds accruing to the Agent for the account of the Principal and for its own account from the total quantity of Oil produced from the Leases and delivered to each such purchaser by the Agent in such Accounting Period. If the Agent shall in any Accounting Period sell and deliver to any purchaser Oil of the Principal but shall not sell and deliver to the same purchaser any Oil produced from the Leases and belonging to the Agent, the Agent shall remit to the Principal the actual Net Proceeds per barrel from such sale or sales.

7. From and after the date on which deliveries shall first be made of Oil of the Principal to a purchaser or purchasers, the Agent for and on behalf of the Principal, and if and to the extent that Agent may lawfully do so, shall pay or cause to be paid punctually before the same shall become delinquent (or as to any thereof which are being contested in good faith, promptly after the determination of such contest) to the United States and to any state or political subdivision thereof all ad valorem, gross receipts, gross income, gross revenue, occupation, sales, franchise and other taxes and assessments of any kind whatsoever (but excluding net income, net profits and capital gain taxes of the Principal) including penalties and interest thereon, imposed or assessed with respect to or measured by or chargeable against or attributable to the Purchase Price paid by the Principal to the State under the Agreement (and/or any additions thereto), the purchases of Oil by the Principal, sales by or for the account of the Principal of such Oil or the proceeds thereof, or the acquisition, ownership, sale, assignment, transfer or other disposition by the Principal in whole or in part of the Agreement or any of the Principal's rights thereunder.

8. From and after the commencement date referred to in Paragraph 7 hereof, and continuing until this Agreement shall terminate, the Agent shall promptly after the close of each calendar month furnish to the Principal a statement showing the number of barrels of Principal's Oil delivered to a purchaser or purchasers and the computation of the Net Proceeds applicable to such barrels.

All monetary computations and reporting required of the Agent under this Agreement shall be in U. S. dollars and all remittances of Net Proceeds made by the Agent to or for the account of the Principal shall be in immediately available funds.

9. This Agreement shall continue in effect so long as the Agreement continues in effect and until such time thereafter as the Agent shall have made all required remittances of proceeds to the Principal and all other undertakings of the Agent hereunder shall have been fulfilled. The Principal may terminate this Agreement at any time by giving written notice of termination to the Agent not less than ninety (90) days prior to a date of termination specified in such notice or if the Agent shall default in the performance of any of its undertakings hereunder and such default shall continue unremedied for a period of thirty (30) days after written notice thereof shall have been given by the Principal to the Agent, or if such default cannot be remedied within such period, the Agent shall not have commenced to remedy such default within such period after receipt of such notice, or having commenced to remedy such default within such period shall not thereafter continuously and diligently pursue the remedying of the same until cured. Written notice of any such termination by the Principal shall be given to the Agent and shall specify therein the effective date of termination, but any such termination shall be subject to all uncompleted contracts for the sale of Principal's Oil entered into by the Agent and existing at the effective date of the termination of this Agreement.

10. The Principal may hereafter assign in whole or in part its rights under the Agreement. If the Principal shall make such an assignment, then the Principal shall assign this Agreement in whole or in part to the same party, and prompt written notice thereof shall be given to the Agent. Such notice shall specify the effective date of the assignment of the rights under the Agreement and under this Agreement, the name and address of the assignee and the portion and extent of the rights assigned by the Principal to such party. If the Principal shall make such an assignment of rights under this Agreement, then by acceptance of such assignment, the assignee shall be deemed to have appointed the Agent as its agent for the purposes of this Agreement and shall be bound by the terms and provisions hereof, and Agent hereby agrees to act as Agent of such assignee. In such case the word "Principal" as used herein shall mean and include such assignee. The Agent shall not assign this Agreement without the prior written consent of the Principal.

11. The Agent shall make no charge for its services in marketing the Principal's Oil or for its services in collecting the proceeds from sales thereof or in accounting for and remitting the Net Proceeds to the Principal. No deductions from the selling price in arriving at Net Proceeds, other than those hereinbefore authorized, shall be made by the Agent.

12. Any notice, request, demand, report or other instrument which may be required or permitted to be given or furnished to or served upon either party hereto shall be deemed sufficiently given or furnished or served if in writing and delivered to such party or person or to an officer of such party or person or deposited in the U. S. Mail in a sealed envelope, registered, with postage prepaid, addressed if to the Principal to

, and if to the Agent to

, or to such other address as the party or person to be addressed shall have designated by written notice to the party or person giving such notice or furnishing such report or making such request or demand.

All agreements and undertakings of the several parties hereto shall be binding upon, and inure to the benefit of, the respective parties hereto and their respective successors and assigns. No amendment, change or modification of this Agreement shall be binding upon the parties hereto unless made in writing and signed by both parties hereto.

13. The construction and interpretation of this Agreement shall be governed by the laws of the State of Alaska.

IN WITNESS WHEREOF, the parties have caused these presents to be executed as of the day and year first above written.

By _____
President

PRINCIPAL

By _____
President

AGENT

STATEMENT ON AD VALOREM TAXATION OF OIL AND GAS PRODUCING PROPERTIES

Robert H. Paschall
April, 1975

I. DEFINITIONS

A. "Ad valorem" means "according to value" of the property. In regard to oil and gas properties, "ad valorem" does not mean or imply a given gross income or a given proven reserve of oil or gas. It means the best estimate of the price that might prevail in a sales transaction between two willing and knowledgeable parties. That and nothing more.

B. An ad valorem tax on oil and gas properties is not a "tax on reserves" or a "tax on oil (or gas) in place." It is, instead, a tax on the value of the leasehold or other mineral interests which properly implies a tax on the value of the right to produce the oil and gas.

II. SOME HISTORY AND COMPARISONS

A. Oilfields in California have been subject to ad valorem taxation for 60 years. Assessment and tax collection is done locally. In addition, the state levies an income tax that is 50-60 percent as large as the property (ad valorem) tax. The state does not levy a gross production tax.

B. Oil and gas field values are reviewed and revised annually by professional staffs. The market value of all fields in California in 1974 was about $4.7 billion, and ad valorem taxes were about $115 million.

C. Oil and gas field valuation (which is the assessor's main task relative to these properties) is actually less troublesome than the appraisal of heavy manufacturing plants, e.g., cement plants, steel mills, oil refineries. Put another way, the valuation of any complex property is a challenge, but not at all impossible. In fact--and this is a most important consideration--industry itself regularly makes appraisals. Every major oil company has a properties acquisition department and that department commonly must appraise oil and gas fields in all stages of development.

III. ELEMENTS OF AN INCOME-TYPE VALUATION

A. Definitions

1. The goal sought by the valuation engineer is the present worth of anticipated future net income.
2. Net income is gross income less the out-of-pocket expenses incurred in producing the gross income, that is, in producing the oil and gas.
3. "Present worth" is derived by discounting the future net income at an interest (discount) rate that reflects investors' goal of return on investment.

B. Elements Required by the Appraiser

1. Estimate of oil and gas reserves
2. Future rate of production
3. Prices of oil and gas
4. Operating expenses
5. Discount rate

IV. OBSERVATIONS ON VALUE AND ON AD VALOREM TAXATION

A. Value is only a fraction of ultimate gross income (which in turn equals the barrels of oil or the MCF of gas multiplied

by their respective prices). My 1973 Prudhoe Bay value estimate was only 14% of ultimate gross income.

B. Ad valorem taxes are directly tied to the profitability of a producing oil field. Since "profit" and "net income" are essentially synonymous, the higher the future net income, the higher the present value.

C. The net effect of "B," above, is that a well administered ad valorem tax has the same effect on a producing oil field as a perfectly graduated severance tax. That is, when the field is new and has its highest value, the ad valorem tax might be 10 percent or more of gross income, and would then decline over the life of the field to zero when the field reaches its economic limit.

D. Ad valorem taxation tends to stimulate development of any type of property, oil or other, not retard it. For example, it is notorious in South America that potentially productive farm land lies idle because it is subject to little or no property taxation.

Actually, economic analysts have criticized an ad valorem tax on oil as an undue stimulus to development and production. So statements that an ad valorem tax might hinder development of an oil discovery are incorrect.

E. Distant income has little present value. If the discount rate is 15 percent, $1.00 to be received in 1995 has a present worth of less than 7¢. This means that oil reserves estimates need not be precise if the reserve is to be produced over a relatively long period. For example, I cut off my Prudhoe Bay appraisal at the 20-year mark, although 600 million barrels of oil and 15 trillion cubic feet still remained. But the value shortfall that resulted amounted to

only a fraction of one percent. (A declining rate of production was also influential in this case, as well as the matter of diminishing present worth.)

F. Some Misconceptions on the Part of Senate Witnesses

1. One witness stated his belief that two fields with reserves of 150 million barrels each would both be appraised at the same value, even though one is difficult to produce and will last 30 years, and the other is easy to produce and will last just 15 years. Not so. The net effects of (a) different rates of production, (b) different operating expenses, and (c) different discounting to present worth make it evident that the shorter-life field would have a greater value than the longer-life field--in fact, the value of the one would be about three times that of the value of the other.

2. Another witness was under the impression that gross income and value were the same, so his "estimate of value"--if it can be called that--was 8 to 23 times higher than reality, depending on whether one considered the tax on the total property interest or on only a native corporation's net profits interest in the property.

G. Many precedents exist for the assessment and levying of ad valorem tax on shut-in oil and gas properties. Specifically, a shut-in gas field awaiting pipeline connection is now going into its third year of assessment in California. No one protested its taxability or the $15 million that went on the assessment roll.

H. A guide exists for the appraisal of oil and gas properties for ad valorem tax purposes. It is the California State

Board of Equalization's 266-page Assessors' Handbook 566, Valuation of Oil and Gas Producing Properties. That volume was subjected to lengthy and critical review by the oil industry ten years ago, and has since been used as an appraisal manual by all state and county valuation engineers.

V. ECONOMICS OF ADMINISTRATION IN CALIFORNIA

1974 Fair Market Value of Oil and Gas Fields	$4.7 Billion
1974 Taxes	$115.0 Million

Estimated Cost of Administration

Appraisal Staffs	$345,000	
Enrollment	68,000	
Tax Collection	135,000	
TOTAL		$548,000
Costs as Percent of Taxes		.48 of 1%
Or Conversely, Net Tax Collection		99.52%

LA RUE, MOORE & SCHAFER
PETROLEUM CONSULTANTS
SUITE 3318 2001 BRYAN TOWER
DALLAS, TEXAS 75201
214/747-7705
TELEX 73-321

March 19, 1976

Alaska Federation of Natives, Inc.
670 West Fireweed Lane
Anchorage, Alaska 99503

Attention: Mr. Sam Kito, Jr.
President

Gentlemen:

In accordance with your request I have reviewed a report to the Alaska State Legislature entitled "Alaska's Prudhoe Bay Oil, Profitability and Taxation Potential," prepared by Dr. Michael Tanzer of Tanzer Economic Associates and dated January 9, 1976. This study reaches the following basic conclusions:

1. Operators developing the Prudhoe Bay field will reap unearned and undeserved profits because of increased world oil prices and these profits benefit the operators disproportionately and therefore should be taxed at a rate of 50 percent.

2. Profits past 1985 are of little value to the producing company and can be taxed at an even higher rate of 80 percent.

3. Imposition of these taxes would not deter oil exploration in Alaska.

4. The State of Alaska should assume an active participation in oil exploration.

Dr. Tanzer's report is a near-perfect blueprint for disaster -- both for producers working in the State and for the State itself. There can be no surer way to bring petroleum exploration on State and private lands to a complete stop than to implement Tanzer's proposals. Moreover, great and perhaps irrevocable damage to the State's credibility and the ability to finance Alaskan projects has been done in the eyes of many firms by actually introducing Tanzer-type taxation bills into the legislature.

I very much disagree with Dr. Tanzer's analysis, his economics, his conclusions, and his moral justification of taking property by fiat because some foreign nation has done so. The following is a discussion of the basis for this disagreement and includes a commentary on relationship of the Prudhoe Bay field to

way of comparison, an American Petroleum Institute study on 90-day productive capacity shows that none of the fields in the lower 48 states will support this high a rate on an individual well basis utilizing their present equipment. While a few of the lower 48 fields, if so developed and equipped, could produce at rates required by Alaskan frontier economics, most could not; likewise, a great number of Alaska oil discoveries in frontier areas will prove to be non-commercial because of size and rate.

Exploration Objectives, Alaska Frontier

Because of the extremely high cost and risk of exploring on the North Slope and interior areas of Alaska, only the largest prospects are attractive to explorationists. Minimum size field prospect to be of interest at this time is probably between one-half billion and one billion barrels, and must appear capable of producing at rates of around 3,000 barrels per day per well. Probably the minimum rate of return acceptable for an exploration venture of this nature would be 40 to 50 percent. This high rate of return is required by operators in the screening process because the successful ventures must pay for the failures on a company-wide basis regardless of where expenditures are made. If a field is discovered it will hopefully yield this type of return. If not, development will proceed assuming that the lesser rate of return is satisfactory as an investment to company management, but eventually a better field must be found to average out with the failures or the firm must cease exploration.

Prudhoe Bay Economics

Capital costs of 3 billion reported in the Tanzer study for development of the Prudhoe Bay field appear low by a factor of at least 2. But even if his numbers were right and discounted future net revenues derived therefrom were correct, the conclusions drawn are fallacious. Taxing the Prudhoe Bay field to the point where the rate of return on that particular venture is minimally satisfactory to the operator would have two very undesirable effects. First, it would provide no margin for exploration failures in the company's ventures because any failure would reduce the overall rate of return to levels below acceptable limits. Second, it would mean that if a field similar in reserves to Prudhoe Bay were found, but with only one-half of the well productivity, this new field could be below minimum economic standards.

What ensues, therefore, from setting Alaska tax policy on the basis of one giant field is that it becomes impossible to look for any field which is not economically superior to the Prudhoe Bay field. By way of example, if the proposed taxation caused the minimum acceptable prospect to move from 1 billion barrels to 2 billion barrels of reserves, and the Alaska field size distribution is similar to the United States or even the world distribution, the chance of finding such a field is diminished by a factor of about 2.

severance and ad valorem taxes required by the state to provide services for all residents, including commercial concerns. Combined severance and ad valorem taxes in oil and gas producing states reaches a maximum of 12 percent and averages about 9 percent. These taxes have not been discriminatory and are at such a level that they do not generally prevent development of oil properties.

Virtually all the oil producing states, including Alaska, have highly qualified petroleum experts in their state regulatory agencies and most have state lands. The states have found, nevertheless, that it is far better for governments to collect revenues through reasonable taxation and royalties where state lands are involved than to enter into risk ventures. Many of the foreign governments which have plunged into the oil business have found very quickly that it is more economical and efficient to permit private companies to develop properties through leasing arrangements. Others have not come to this conclusion and are still struggling to obtain some measure of success within the constraints imposed by all government bureaucracies. Most observers do not view the nationalization of industry by Great Britain and government management of those industries with Dr. Tanzer's enthusiasm.

Effect of New Taxes on Exploration

Clearly, the addition of any new taxes on Alaskan oil production will work to the detriment of exploration activity in the frontier areas in proportion to the burden. Whatever tax policy is followed it must be stable because instability means political risk to the companies engaged in exploration. Both the North Slope and the interior areas of Alaska are just beginning what promises to be a long and successful period of petroleum exploration development. If taxes such as those proposed by Dr. Tanzer were to become effective in these frontier areas the door would simply close on exploration activity.

It would seem more prudent, if the State is desirous of additional petroleum revenues, to encourage the orderly exploration and development of lands within the State's boundaries and levy taxes in a manner consistent with those which have evolved in other states having long term petroleum experience. The revenues to be gained by the State under this procedure, together with royalties, bonuses and rentals from State lands and taxes on private lands, will no doubt outweigh any one time benefit which might be gained by a confiscatory tax on the nation's largest field. If, after some period of time, the revenues accruing to the State from fields as yet undiscovered do not equal those which might be generated by the "Tanzer taxes," the State could always reverse its position and tax the exploring companies out of business.

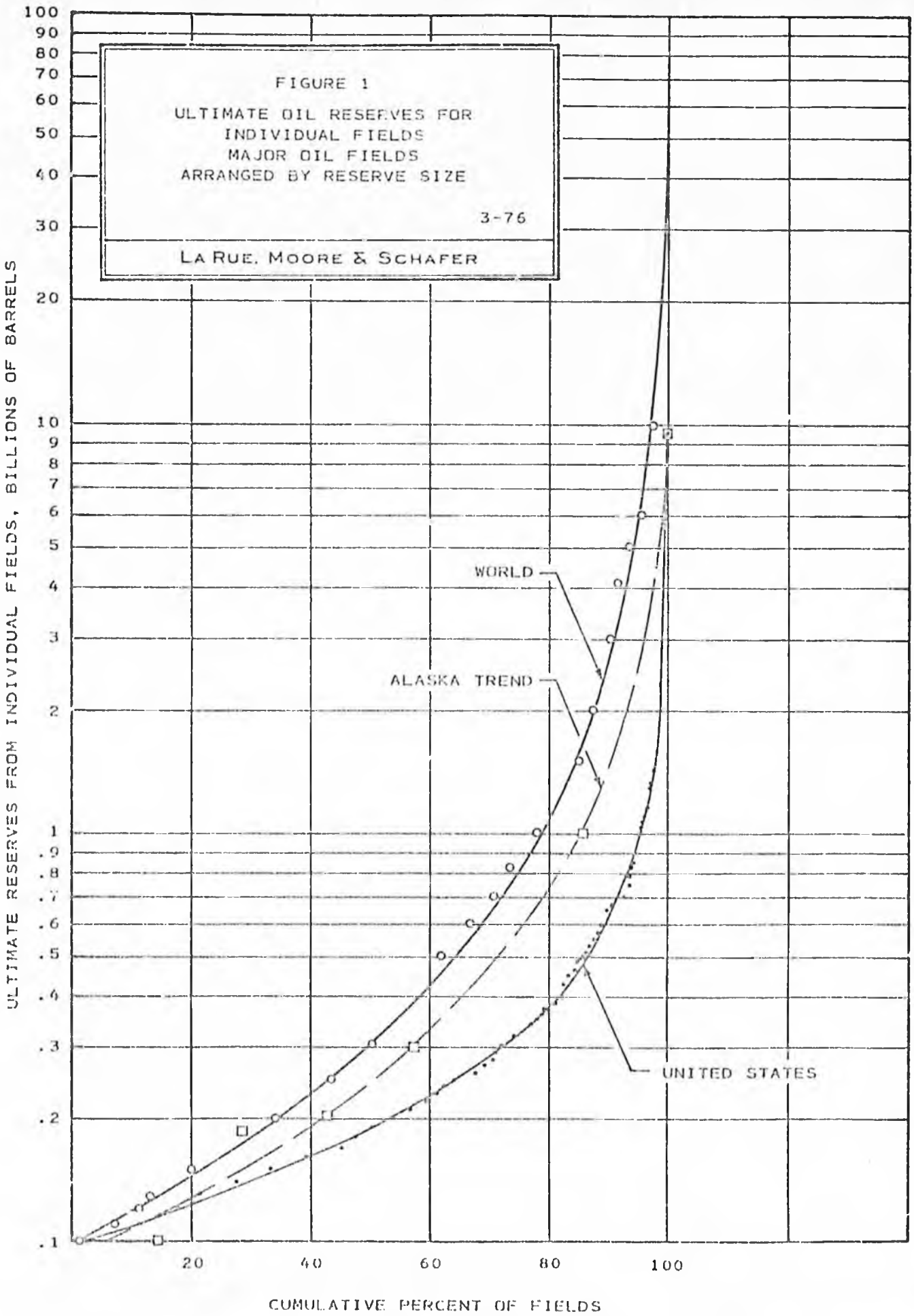
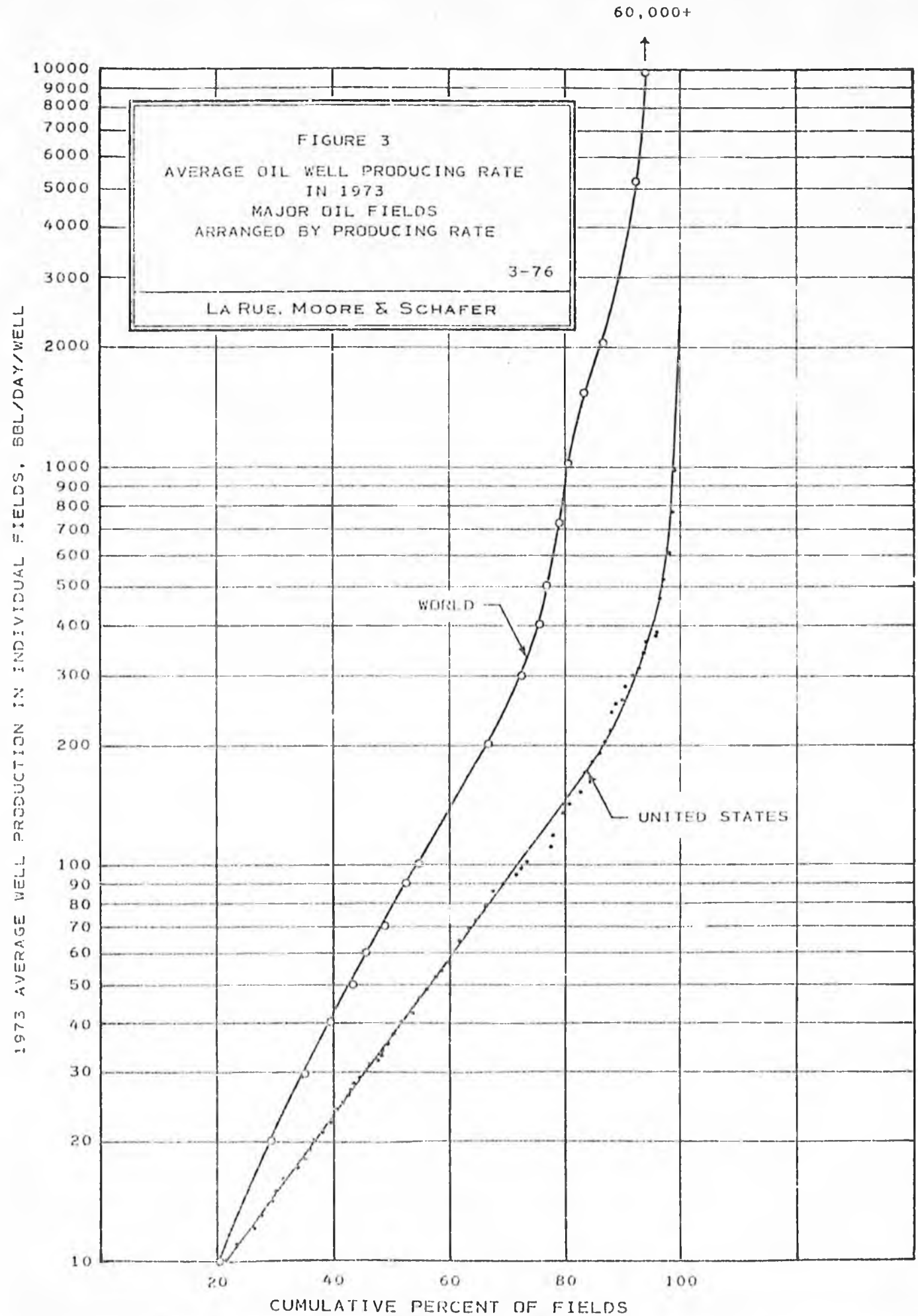


FIGURE 1
ULTIMATE OIL RESERVES FOR
INDIVIDUAL FIELDS
MAJOR OIL FIELDS
ARRANGED BY RESERVE SIZE
3-76
LA RUE, MOORE & SCHAFER
ULTIMATE RESERVES FROM INDIVIDUAL FIELDS, BILLIONS OF BARRELS
100
90
80
70
60
50
40
30
20
10
9
8
7
6
5
4
3
2
1
.9
.8
.7
.6
.5
.4
.3
.2
.1
WORLD
ALASKA TREND
UNITED STATES
20
40
60
80
100
CUMULATIVE PERCENT OF FIELDS


60,000+
FIGURE 3
AVERAGE OIL WELL PRODUCING RATE
IN 1973
MAJOR OIL FIELDS
ARRANGED BY PRODUCING RATE
3-76
LA RUE, MOORE & SCHAFER
1973 AVERAGE WELL PRODUCTION IN INDIVIDUAL FIELDS, BBL/DAY/WELL
10000
9000
8000
7000
6000
5000
4000
3000
2000
1000
900
800
700
600
500
400
300
200
100
90
80
70
60
50
40
30
20
10
WORLD
UNITED STATES
20
40
60
80
100
CUMULATIVE PERCENT OF FIELDS

Tape 7 Side 2 2642 - end
Tape 8 Side 1 0 - 1402

HOUSE RESOURCE COMMITTEE - Minutes - March 4, 1976

Present were Huntington, Hershberger, Rhode, Osterback, Smith, Brown Swanson, Staff Assistant Van Doren and Chairman Anderson

Subject: HB 769, HB 580

Sponsor Gardiner began. The basic problem is that a two-year time frame imposed on the salvage operations is unworkable. This bill would cut down the time-frame to 30 days with an extension possible. A loss would be recorded by the Department, then after 30 days, if salvage was still desired, but had not begun, an extension would be available. The desire is to make salvage possible of logs the timber industry is not interested in. The Dept. of Natural Resources does not have a policy on the sale of logs from beaches. Permits now are tied up in paperwork--so salvage takes place "illegally". Under HB 769, the state doesn't have to respond to a request for a permit. Automatic approval is granted if no response. Also, the bill would set up a federal-state log agreement. Most salvage logs are above the mean high water--which is federal land. Regarding brands--each business has its own brand.

(2783) According to Gardiner, there would not be any added administrative problem under this proposed legislation.

Chairman Anderson asked whether there was now a problem with permits. Answer: Yes, the process is cumbersome. The timing in the proposed bill is based on the current abandoned log status.

In answer to a question as to what happens to undistinguishable brands on abandoned timber, statement was made that it is now salvageable under permit. Gardiner also stressed that there is no magic in the 30-day timing in the bill. Time is needed to retreive the logs, but the longer you wait the more "junk" accumulates in the logs. They then become unusable in the mills.

Osterback stated that logs are a hazard to boats. The bill would be an aid to fishermen.

Mr. Smith asked whether there might be another solution to the problem. The proposed bill still presents a cumbersome proposition.

Rep. Gardiner stated that the "sign off" procedure in the bill for the state could speed up the process. Basically the industry is interested only in the larger amounts of logs. They don't bother reporting the smaller amounts. The state does nothing to or with reported losses. It only files them. It is up to the salvager to "do something".

Mr. Miller, co-sponsor of the bill, stated that, as Gardiner had said, the two-year waiting period was the hassel. (Miller referred to letters from Mr. Yates, and Mr. Dutton, copies of which are in committee folders)

Mr. Jim Clark, representing Alaska Lumber and Pulp, presented testimony on HB769. He stated that people will be here Fri., Mar. 5, who could present additional testimony on this bill. Mr. Clark stated that the problem is not when the title passes, although there could be a constitutional problem involved, but the problem is finding people who are willing to salvage the logs.

Mr. Clark elaborated on the title problem. Probably the logs belong to the Forest Service until they are scaled--which is when the actual number of board feet in the contract is known.

Contracting for beach salvage logging is difficult. Tides are a problem--no one has ever "made it" as a beach logger in Southeast. The companies end up getting people from down south to do the salvaging. Industry would "like to have a contract with a beach logger".

Chairman Anderson asked how industry now reflects salvage loss. Mr. Clark stated that it shows up on the books as a loss--the monitoring program shows the loss.

Mr. Clark stated that floating logs are comparatively easy to get. Beached logs are much harder to get. In answer to a question on what the market is for beached logs, Mr. Clark answered that it depends on the condition of the logs. Clark also stated that 30 days was not long enough for industry--people cannot be brought up fast enough to recover the logs in the 30-days.

Chairman Anderson asked whether a 1:30 p.m. meeting Friday would be acceptable with the industry people. The meeting was then set.

Mr. Clark stated additional industry concerns--under the failure to report clause, the term "lost logs" should be used, not "timber property". Also, clarification of "immediate" is needed. Also, there is an unclear relationship between the sections of the proposed Act. Clark made reference to the "Uniform Commercial Code" and its requirements.

Rep. Smith asked that there be clear title passage wording in the Act.

Mr. Anderson asked who owned the logs while they were being pulled down the channel. Mr. Clark answered that the Forest Service says that they own them at that time. However, the question is very real, as to who owns break-away logs. The industry and government have been working under "understandings". Now they are attempting to ascertain "definite" ownership criteria.

Rep. Miller stated that the title problem has nothing to do with the bill.

Clark continued--Industry does bear the risk of loss--they are concerned about the right to get their logs back.

Mr. Huntington asked whether in industry's opinion the present law giving 2 years was o.k. Clark answered "not necessarily, but 30 days is too short".

Rep. Brown referred to the "Uniform Commercial Code", and stated that problems in the proposed legislation could be amended. He stated that others must have had similar problems--and they must have solved them. It would be helpful to have law reference from other jurisdictions.

Mr. Smith asked why the log salvage had become an issue.

Mr. Larry Dutton, State Forester, presented testimony. He said that the state has been attempting to solve the salvage problems since at least 1970. Evidently the bill as presented would preclude sale of salvagable timber. The problem with permits is that the state should be able to recover administrative costs of the program. A fee is needed--either a flat fee or a volume-based fee. Also, the state has to know how much is actually being salvaged. Mr. Dutton felt that the permit system is burdensome. Also, the problem of logs above high water necessitates agreement with the federal people. An estimated value of the logs in question is necessary, with a price.

(Tape 8, Side 1) It is difficult to award a sale without watching out for protection of wildlife habitat. Cooperation with Fish and Game is thus necessary. Also, if 2 or more are applying for the same salvage logs, who gets it? Not enough information is provided. Mr. Dutton stated that large sales are not advertised--they are negotiated. He stated approval of the cooperative agreement that would be forthcoming under the bill between the federal and state governments.

Discussion of salvage problems included: Only 5 to 6 months per year can be used for salvage. Also, only 5 to 6 months [illegible]ear are covered by insurance on log-towing. Initial recovery period should be for at least 90 days. If industry attempts salvage, it will begin within 30 days. The total time needed would not be more than 90 days.

Mr. Smith asked about research on a state "Log Patrol". The answer was that in 1970 one was tried, but had a lack of support from the timber industry.

According to Mr. Dutton, Alaskan people are in the majority in applying for salvage permits.

Mr. Osterback asked whether if the insurance company has paid for the lost logs, then do they no longer belong to industry? Answer: Maybe.

As to what the insurance company is actually insuring, answer was that this is all or part of the question on when title passes.

Mr. Dutton added that a tremendous amount of money is involved in each log from the minute cutting starts. What the brand means is that that company has an interest in that log, even if the ownership at a given time is not clear.

Mr. Brown elaborated, stating that an example would be the sale of property (land) under contract. Lots can happen before the title

actually passes to the next party.

Mr. John Raynor, U.S.F.S., Div. of Timber Management, testified. (Tape 8 Side 1 0474--0595)

Form 421 is used to report the tree count to the Forest Service. When the raft arrives at the scaling point, a recount is made. If there is a significant difference, a check is made. If the check indicates that adverse conditions of weather or raft were present, adjustments might be made on the basis of comparing with the logs shipped.

Mr. Huntington asked why, if the Forest Service has been selling logs for over 20 years, how come no solution has been reached yet. Also, if the logs are on your beach, why wouldn't they be your logs. Answer was made that ownership of the brands goes for two years, with a 1 year extension possible. That's why this bill is necessary. After a three-year period, the logs are worthless.

A problem was stated as to combining state and federal logs in any one sale.

Mr. Anderson asked how come the problem hasn't been solved (salvage) yet, at least on federal lands. He also asked whether the federal government could charge industry a rental fee for space the logs take up. There was no concrete answer.

A question regarding navigation problems, ascertained that if the logs are not on National Forest lands, they are not the responsibility of the Forest Service.

Mr. Brown stated that the Federal Government has control of the navigable areas through the Coast Guard.

In answer to a question from Mr. Huntington as to what other states do about this situation, reply was made that the magnitude of the problems other states face is not as great as ours.

It was stated that there is support for the state and federal governments working together on this problem. As to progress on a proposed state-federal agreement alluded to, Mr. Raynor answered that only the concept has been discussed, with no agreement proposed yet. The bill would accelerate the process of getting agreement finalized. Probably three years would be necessary to complete the agreement.

Chairman Anderson stated that we definitely need to move on the waste problem.

Mr. Dutton quoted a memorandum to Roger Lewis re: a governor's log salvage bill. Evidently it is not going to be available. If HB 769 is passed, and if sale is involved, wording from the memorandum needs to be included.

Mr. Clark added information on timing. The logs go from the U.S.F.S. to the insurance company (if lost) and possibly a "reasonable" time needs to be specified for each step of the process. Chairman Anderson felt that this problem could be solved by regulations. Clark stated that regulations might be better than law for timing.

Mr. Brown asked whether the bill could refer not to the owner of the logs, but the owner of interest in the logs? Clark answered--"Probably".

Action on HB769 was recessed until 1:30 p.m. Friday, Mar. 5, 1976.

Announcement was made that status platts are to be sent on SB444 from Anchorage.

Mr. Smith moved that HB580 be passed with No Recommendation to Finance. Motion passed.

HOUSE RESOURCE COMMITTEE - Minutes - March 5, 1976
1:30 P.M.

Tape 8 Side 1
2730 to end
Side 2-0 to 1321

Present were Eliason, Huntington, Rhode, Smith, Osterback and Brown, with Staff Assistant Van Doren and Chairman Anderson.

Subject: HB 769

Mr. Smith began continuation of the hearing on HB 769 by asking whether a tidelands lease was really necessary to salvage logs.

Mr Jim Clark, of Alaska Lumber and Pulp Co. (counsel) stated affirmatively. The state still has some requests for permits from a year ago. In order to salvage the logs, a rafting area must be established. The "killer" is that the Corps of Engineers require a permit for a rafting area. This problem could use up the entire 30 days plus an extension proposed in HB 769.

Mr. Smith stated that short term permits only are necessary for such as rafting procedures. That wouldn't take as much time.

Rep. Mike Miller stated that an entire raft breakup would not be usual. Small breakups are the common occurrence.

Mr. Walt Begalka, of Ketchikan Pulp Co., stated that he has worked with permits at least since 1958. Originally much leeway was allowed. Now permits are required for everytrhing. If a change of as little as one-half mile is incurred from the original permit, a new permit must be obtained.

Question: What is the feasability of logging salvage?
Answer: If "everything" was picked up, it could be profitable.
Question: How soon do you have to get wood for it to be saleable?
Answer: The biggest problem is iron and rocks in the wood.

Mr. Jim Rynearson, of Ketchikan Pulp, stated that salvageability depends upon when the logs were lost. If the logs are originally washed up high on the beach, they may be good for at least 3 years. However, if they are washed up at low tide, they probably will be battered.

Question: How can salvage operations be improved?
Answer: There are many problems--legal problems. So far, private ownership situations are no problem, but when the native ownership takes over additional problems will occur.
Also, the Corps of Engineers permits take up large amounts of time. Temporary permits used to be offered, but now only permanent permits are available.
British Columbia operations have been observed for several years, and many ways have been tried to solve the salvage problem. No profitable solution has yet been found.
Question: Why are there no Alaskan salvage operators?
Answer: Possibly because of the ownership problem (ownership of the logs). But basically, because of the cumbersome salvage permit system.

Mr. Begalka stated that many ways have been tried. Many losses are incurred at this time of year when it is impossible to retreive lost logs.

Mr. Huntington asked for a suggestion of a proper time frame for the bill. The answer was maybe a year, but some agencies don't move very fast. A year after the permit was awarded would be plenty of time.

In answer to a question as to how long a salvage permit lasts, answer was one year. It can be renewed, but a new fee is necessary. Also, total areas are not necessarily covered. There may be large open spaces between areas covered by the permit.

Discussion:

Rewrite the bill to fit time constraints. That would be a positive advance.
Eighty percent of logs are left above mean high tide.
Certain types of logs simply can't be used--no metal, no holes, no cedar, no rocks.
Logs used to be moved in flat rafts--logs left the rafts. It was/is difficult to bundle the logs.
The only real way to log after their being stranded on a beach is to load them with an A-frame or a loading machine. They must be bundled.

Regarding title: Title stays with the U.S.F.S. until the logs are scaled. Once rafts are paid for under loss, insurance company would own the logs. (right of subragation)

The industry's loss on an annual basis is possibly 2,000,000 feet a year. or $300,000.00. (Begalka)

Mr. Dutton stated that the Administration wouldn't object to a one-year limit if the subject company notified the state if at any time it actually abandoned the logs.

Discussion of the time involved to deliver logs from their source to their mill elicited that a possible 4 knots could be attained with rafts in good conditions. But the total situation is unpredictable. Logs are started in the South, transfered to northern tugs, then wait for a favorable tide at Sitka.

Mr. Dutton stated that the proposed bill requires an immediate report of log loss, whereas industry doesn't know a loss has been sustained until the scaling of the logs at the destination.

Mr. Begalka stated that any logs not accounted for at the destination must be paid for to the Forest Service.

Mr. Miller stated that the two-year period is generally agreed to be too long, both by government and by industry. But he expressed concern as to the "smoke screens" being raised on the issue. The problem is not title--it's time. Possible 45 days could be allowed for reporting, with no absolute outside limit for recovery. (3485) "If your are going to recover them, we don't care how long it takes".

Miller (cont.) Originally industry was not behind the bill because too much money was involved with little return. Now the main problem may be a need for legal counsel overview to clear up any problems that have been incurred.

Chairman Anderson: There is a problem--If industry is required to retreive logs, then the profitability decreases--is that correct? Mr. Begalka answered that at least 10% of wood on beaches is Douglas fir. Also on beaches is cottonwood and pine. The Forest Service won't allow any logs to be taken unless all are taken. (180). A concerted effort by industry and government is needed to recover the wood.

_____, representing the U.S.F.S., stated that the salvage problem has been recognized for many years--at least since 1957. Many of the stranded logs are not of Alaskan origin. (He will have more facts on this by next week). Probably only 2% to 3% are uprooted trees. The rest were once logs. Brands are unrecognizeable in 96% of the logs beached. Cedar comprises 21% of the useable lumber--and cedar is unuseable in pulp. There is lots of hemlock on the beaches, also. The longer the logs are on the beaches, the more the brands will disappear. There is also a trespass problem in recovering the logs. This problem will also be researched for the committee.

Chairman Anderson asked what was done with the logs no one wanted? Answer: There is no good solution at this time.

The representative of the Forest Service stated that at the time of an adjustment for lost logs, title passes. In effect, scaling is then accomplished.

Anderson--It doesn't appear to hurt industry if a few logs are lost. What is industry losing? The federal government should be able to go ahead and say to a salvager in such a situation "Get rid of it".

Mr. Al Anderson, of Alaska Wood Products, stated that just because the logs are insured doesn't mean that industry doesn't care what happens. Insurance rates go up. In answer to a question as to whether an insurance company will go out and gather up logs it has paid for, answer was "Maybe".

Mr. Miller asked how often there was a major spill. Mr. Begalka answered that Ketchikan Pulp has had two major breakups in 20 years. Al Anderson stated that an insurance company had recovered 900,000 out of 1,400,000 b/f in their most recent spill.

Mr. Begalka stated that the problem of lost logs is compounded by count inaccuracies.

Roger Allington, of Sealaska Corporation, testified to future problems foreseen by the native corporations. The corporations will be industry, but will also own the land. There is a problem with what the government

can do, versus what a private land owner can do. For instance, a private land owner cannot condemn property. Also trespass is a problem--there is a need for clarification on when a private owner can handle log property--in other words, who owns and for how long?

Mr. Miller stated that he sees it as a good deal for the private owner. If 30 days goes by they are already your logs by right of possession.

Chairman Anderson informed the committee that the bill will be addressed again after the information is in from Dutton.-- with a tentative date of March 19 for the rehearing. Staff was advised to get in touch with insurance companies for the timber industry.

Meeting adjourned.

Tape 10 Side 2
0479 - 1525

HOUSE RESOURCE COMMITTEE - Minutes - March 18, 1976

Present were Huntington, Swanson, Hershberger, Rhode, Smith and Brown; : Staff Assistant Van Doren and Chairman Anderson.

Subject: CS SCR 83 am
CS HB 769
HB 863

Motion was made to Pass CS SCR 83 am out of committee. Swanson made objection. General discussion cleared up the objection by Swanson. Motion carried to recommend Do Pass on CS SCR 83 am.

RE: HB 769. Joel Bennett gave a general resume of the changes in the committee substitute from the original bill. 1) there is now a 90-day salvage clause. 2) there is addition of good faith wording as applied to salvage attempts. 3) there is addition of "rightful transporter" wording.

Mr. Brown asked whether there might be a need for a definition of "rightful transporter".

Mr. Bennett answered that "rightful transporter" is to help clarify responsibility. Bennett also mentioned that the criminal provision of the original bill has been removed at request of the sponsor. Guidelines for the "good faith effort" will be in draft regulations.

Brown stated that regulations wouldn't be needed--"good faith" is familiar in the law. Brown presented a possible definition of "rightful transporter", (approx.) a person having an executory contract or interest in the logs, or his designee, or one who in normal process of trade transports or causes to be transported the logs. (0955)

Swanson expressed concern with regulations--they might present the catch in the bill.

Huntington stated the problem of logs the state owns that are under salvage contract, but the salvagers haven't done the job.

Brown suggested that there might be a need for another phrase covering "good faith" in the salvage operation.

Swanson mentioned situations in which it was impossible to retreive logs because of adverse tides. There is "alot to salvage besides "floating" the log".

Mr. Smith presented a possible "good faith" wording--"good faith effort includes the fact that effects of weather, tide, etc., might preclude salvage operations" (approx.)

Motion was made to include Mr. Smith's "good faith" wording and Mr. Browns "rightful transporter" wording in the Committee Substitute. Motion passed.

Motion for Do Pass recommendation of CS for HB 769 carried unanimously.

Mr. Brown suggested that a bill be presented by the Resources Committee addressing the salvage owner problem. Chairman Anderson requested the staff to handle this as expeditiously as possible.

It was requested that HB 863, scheduled for Monday morning, be brought before the committee for consideration. Committee agreed.

Pending receipt of a fiscal note, the Committee moved a Do Pass recommendation on HB863. Motion carried. If there is an adverse impact reflected in the note, the committee will reconsider the bill.

Meeting adjourned.

day, it's the average rate of return on the net assets of the stockholders, it can be an internal rate of return, it can be the marginal efficiency. These are technical things about which economists will argue endlessly. The point is that it is the prospective profitability which the State may want to look at but the tax system should be such that it is not triggered in any case until the potential profitability is realized. One doesn't tax on the basis of projections of profitability.

Therefore, if you are looking at the taxation system of Alaska, which encompasses already a severance tax, a normal corporate income tax, which we find faulty for reasons I will not discuss again but which I think should be fixed up in any case, and the proposals for some form of supplementary tax. How high the supplementary tax should be, how you determine what income is subject to supplementary tax -- we will discuss all of these things a little later. But, if you took at the entire tax system of Alaska and possible amendments to it, I'd say there are several things you must keep in mind which are absolutely basic if the tax system is to serve the interests of Alaska. First of all, it should not discourage exploration. There should be nothing in your tax system which discourages continuing exploration. You, yourself, will determine what kind of exploration and how it should be done by your leasing policy itself, but you should not use a tax system to discourage exploration and you wouldn't want anything in your tax system which does discourage exploration. That is to say, don't push back the margin of exploration. If there are prospects that industry would be well to explore, the tax system should encourage them, not discourage them from the exploration. Secondly, that the tax system should not impinge unduly on the prospects for profits and profitabilty of successful fields. On the prospects for profit and profitability of successful fields! Don't confront the industry in advance with a full knowledge that the tax system works in that way. Third, and this follows from what I said before, that the tax system, particularly if there is to be some form of surtax, or surcharge, that it should not be based on the assumption of superior profits, but it may well come into effect and apply when the fact, the evidence and the knowledge, the reality of superior profitability becomes evident. This is what I mean by not misinterpreting my remarks about DCF calculations, about Prudhoe Bay. I don't think the State has to close its eyes to the potential profitability of Prudhoe Bay, but if the potential profitability is established and a fact, then I think it is perfectly reasonable within certain guidelines, for the State to say that this is a proper avenue for taxation amongst all of the other decisions by the Legislature as to what the spending and disbursement policy of the State is, what the total revenue policy of the State is, but, certainly one cannot say _____ that one can ignore this as a potential avenue for revenue.

So the critical question then becomes, "Should there be, in Alaska, such a thing as a surtax." In other words, if in addition to your normal income tax, which is paid by every corporation based upon its taxable income within the State of Alaska, should there be for

the oil industry, first of all and I'd like to get this in as often as I could, a restructuring of your income tax of the oil industry at least pays the same nine plus percent tax on its producing profits as it would if it were any other type of industry in the state. But beyond that, should there be a surtax? This absolutely must fall within the discretion of the Legislature. No one can say, from the standpoint of economic policy, from the standpoint of the pros and cons of the industry's position, you must do it, or you dare not do it. It depends upon the whole structure of the Legislature's own thinking about the needs for revenue, about the alternative sources of revenue and is this something which ranks as a high priority rank in the minds of the Legislators as a source of revenue. Let me assume for a moment, for purposes of our discussion, that the answer is yes, that the Legislature is inclined to look upon the income from oil producing operations in the State of Alaska, separate and apart from the income of other economic activity in Alaska. It may chose not to do so, but if you do, what are the guidelines to the kind of tax that might then appropriately be levied?

First, I think the most important thing, such a surtax should not be effected before the company that is producing in Alaska and the income of that company from oil producing operations in Alaska is clearly beyond the average profitability. That is to say, the profitability is not estimated, is not imputed, is not guessed at, but it has been clearly established. Secondly, that the surtax should, under no circumstances, become effective for anything which is close to marginal exploration. That is to say, anyone who is looking at an exploration prospect here, and says, in the State of Alaska there is a surtax on certain types of oil producing income, must know that if what he finds is a marginal field, if it is barely worth developing, or if it is going to give him modest profit as well, that he is not discouraged either from looking at the prospect in advance and taking a lease, or having taken a lease because he thinks its going to be a real good prospect and finding out that it is very very marginal -- is the candle worth the burning -- should we develop that field or shouldn't we -- there should be nothing in the tax structure that discourages that.

This means, in effect, that the price which the United States Government is holding out to the State of Alaska and which determines the value of oil produced in Alaska, this price that the U.S. government is setting, the upper tier price, the price for new oil, which is designed as an incentive thrust to encourage people to go in and explore farther, explore harder, that there is nothing in the Alaska tax system which cuts away any of the incentives under that price. The full price is basically available as the incentive to exploration in Alaska as much as it is to exploration in any other state in the union, as much as it is to exploration in the Outer Continental Shelf or on federal lands.

It seems to me that the criticism which we may have of the bills that are now before the Legislature, which in one form or another involves surtax, the excess value surtax which is House Bill 703 and Senate Bill 621 and the oil production income tax which is House Bill 803, at least in the version that we have seen, and I am not sure we have seen all of the sponsor's amendments to them, but at least in the version that we have them, our criticism of these bills would be that to expose profits on production to a surtax before this superior profitability has really been established. In other words, they are anticipating that. One can object to them in principle also, there should or shouldn't be a surtax. I think I have covered that -- I suppose I should repeat it every once in a while because it gets lost. On the assumption that there is willingness on the part of the Legislature to consider at least the principle of the surtax. Our basic criticism of these bills is that they trigger the exposure of producing profitability to a surtax at a time when we feel is previous, unnecessary and possibly introduces all kinds of disincentives towards the exploration operation.

I suggested in my testimony yesterday morning, that there might be a alternative. I'm sure there are many alternatives. But there is one that we threw out and we put it out on the floor of the Joint Committee -- I will mention it here also because I think it is worth something as a basis for discussion by staffs and by legislators too. And this was the idea that if there is to be a surtax that what determines the breaking point between the time when a producing company pays no more than the regular state corporate income tax on his profits and when he is exposed to some surtax or some surcharge on his continuing profits from the producing operation in Alaska, should be the principle of capital recovery. That is to say, for purposes of the state income tax he continues as is normal under your state law and under your revenue department's regulations, he takes depreciation as it is allowed, expenses as it is allowed and so on. But for purposes for determining whether or not there is any producing income liable to surtax and if so, how much income there is liable to surtax, he shall be able to charge against his producing income as fast as he has revenues to do so, all of his capital costs necessary to achieve that production. Which means the lease acquisition costs, exploration costs, development costs and so on, and capital costs plus. That is to say, some markup of those capital costs, charged against his producing revenue. This means that for some length of time, even the most prolific field will probably not be susceptible or liable to any surtax. How long depends upon how much production is coming out of the field and what the costs were. But for a while there is no exposure to the surtax. For marginal fields, where it may take the life of the entire operation to recover all of the capital costs, there would never be any surtax so that it has no effect upon the marginal whatsoever. For the fields of modest profitability, not by guesswork, I am talking about at the end of the day, at the end of the life, there may or may not be exposure to surtax, depending upon what the capital cost ratios are. Now, capital recovery plus how much? I don't want to offer

a number at the present time. I might suggest for example that where there is such a tax system in practice, which is in the U.K. North Sea, they allow 1.75 times the capital recovery. I am not proposing the State of Alaska consider the U.K. tax regime, far from it. In our Bicentennial Year, I am not going to suggest that the United States look at a British tax system 200 years after they fought against the Stamp Act and got our independence. But there are some features which are similar and I think this is worthy of discussion because it meets one very important criterion, and that criterion is that it does not or should not have any affect upon the incentive for exploration and it really doesn't become effective until superior profitability is established.

Whether or not this would yield any revenues from Prudhoe Bay depends upon many circumstances. Nevermind the DCF calculations about Prudhoe Bay. What is the margin of profit? That is to say, the cents per barrel that would be made. This depends upon an awful lot of factors. None of us really know what the price is going to be and so on. But it all falls into place so that over time there is very substantial profitability in Prudhoe Bay, I would say, yes, it probably will be _____. If things go wrong in Prudhoe Bay, incidentally, -- if things so right it works well. Suppose things go wrong. What can go wrong? The _____ for example -- in the timing of the start of the production -- or the ability to move from 600,000 barrels per day to 1.2 million barrels per day -- experience in the first few years of producing operations. Nothing else should go wrong in Prudhoe Bay, enough has gone wrong already. But there has been no real experience with the affect of producing operations upon reservoir pressures but the industry has tremendous confidence and so on. But the economics of Prudhoe Bay, probably at this stage of the game, depend more than anything else upon well producability and the ability of wells with an average producability of four or five, six thousand barrels a day, but this has to carry forward. If it turns out that it is going to take a tremendous amount of additional drilling of producing wells after several years of operation in order to sustain the producability of Prudhoe Bay, then something else has gone wrong and that begins very seriously to interfere with the flow of the barrel profits and the ultimate profitability. So you see, what this principle of capital recovery costs does is it says to the oil company, "Up to the day you produce the first barrel, you've taken all of the risks. You took risks when you first took a lease from us and paid bonuses." They weren't so large in '64, '65 and '66, but they were pretty big in '69. "You took exploration expenses and they could have been dry holes. You started to develop" -- and development costs in Alaska typically must run tremendously high -- "You've taken all of the risks and now the first barrel is being produced. We the State, will pick up some of the risk now. That is to say, if there is to be a surtax, that surtax is not going to touch you for some period of time. You are now going to recover your capital which you have invested and for taking all these risks. After that period, your risks have become very little. You have recovered your capital. The State feels that if a superior profitability" -- now that doesn't mean that the industry shouldn't be compensated several times over for the

risks that they took. This has to do with the rates of return and what you expect if you are taking all these risks. The State says at least, "We are not going to even touch you with any kind of a surtax until -- we are taking the risk here and if things go wrong in a producing field so that you incur greater expenses, okay, then we are going to allow you the recovery of that also before a surtax comes into effect." In the producing operation which may be very profitable for a while but in order to sustain production it is going to require reworking of wells, a secondary recovery, these become capital outlays and the State says, "Fine. If you do this to sustain production, our surtax becomes abated until you recover that as well." But it does say that "If at some point in time you have very superior successes in Alaska, the State will not ignore that this is something vital, this industry is vital to Alaska, we do everything to sustain it but at that point in time we do not close our eyes to the fact that there can be superior profitability and this is the way in which we propose to tax."

Secondly. If the State is considering a surtax -- I think this is tremendously important -- what is the rate of the surtax? If you move from the state income tax at a little over 9% which you must strengthen so you make sure you get that 9.3% severance tax. But if you move to a surtax, the surtax rates cannot be oppressive. If the surtax rate is oppressive I think it does violence to three tremendously important features of a state tax policy.

First of all, an oppressive surtax cuts into, it cuts too deeply into the superior profit which the most successful are expected to earn and have to earn if they are going to pay for the marginal fields and for all of the losses. In other words, the tax system should not imply that suddenly all of this added profitability is surplus profits, windfall profit, or in the language of the economist, all economic rent, and therefore you can tax all of it away. That is to say, do not leave one unnecessary dollar with an oil company. I don't think this should be the policy of state taxation. You can't have excess profitability until you recognize that there are sufficient losses. You can't have windfall profits until you recognize that there are windfall losses. And there is no such thing as an economic rent on an oil field. There is only an economic rent in an entire oil producing product. You simply cannot measure economic rent on an individual oil field. You ahve to have a margin of superior profitability. This is what brings people into the exploration game. Nobody really looks to find a marginal oil field. Nobody really looks to drill dry holes -- of course not. Nobody looks to discover a marginal oil field -- the real incentive to exploration is the attraction of the bonanza, of the great discovery. And a certain amount of that must always be the expectation, and it must always be the realization. So the rate of surtax has to attune itself to the fact that there is going to be superior profitability which remains with the most successful company.

Secondly, I think you must be very, very concerned, careful, as to how deeply the State's rate of taxation cuts into the federal tax _____. I would hate to suggest to the Alaskans that they take their taxes after the federal government. You obviously have first claim. I don't think it is in the interest of Alaska completely to ignore the fact that when they are taxing with a surtax, the profits of companies, they are also taxing the income of the federal government. The federal government picks up a part. You take that into account when you reckon what the net cost is to an oil producing company to pay taxes to Alaska. I don't think you can really ignore how much you are taxing the federal government, when you establish a tax system in Alaska. You may weigh this how you will but the fact is that Alaskan oil producing operations are very much a part of the U. S. oil producing area. They are in many different ways. The most particular one and of relevance to you is that under our present energy act, the value of oil in Alaska is determined by the federal government. The producers at Prudhoe Bay suffered as many of the _____ and misfortunes as any successful explore could have been confronted with. Between the time of the discovery well and their first barrel of production there have been delays, there have been run up of costs, there has been misadventure after misadventure. All the risks that a private company should take, and have taken all of those risks, the profitability of Prudhoe Bay may have been driven down to an infinitesimal figure if they hadn't been bailed out. What happened in the interim was the tremendous run up of world oil prices by OPEC. This did not bail out the producers of Prudhoe Bay because the world congress which authorized the construction of the Alyeska system forbid, without special approval, the export of a single barrel of North Slope oil. You may be able to get $15 a barrel in world markets but you are not allowed to do it. What has bailed out Prudhoe Bay has been the policy of the federal government, which has said, even under conditions of price control that we are establishing price incentives for new exploration ventures. Whereas before, at the time of the discovery well, the average price of crude oil to the United States was about $3.40 a barrel, under normal circumstances it might have gone up five percent a year -- seven percent a year. $5.00 oil in the lower 48 states would have left Prudhoe Bay a poor venture indeed. But the federal government said that, "despite the fact that we maintain price control, we are allowing an upper tier price for new oil." Prices today as high $11.28 and they are going to go higher. But this is all pursuant to federal policy. And the purpose of this federal policy is to _____ exploration. And I don't think the state of Alaska would want to do anything which says in effect that the pricing policy of the federal government was designed to achieve certain purposes, shall not be fully appreciated here in Alaska, and we will ignore this by an undue level of taxation.

I have been quoted to the effect that, "If Alaska isn't careful, the FEA, the Federal Energy Administration, is going to lower the price of North Slope oil." I never said that. I think that is nonsense. I don't think the difficulty that may emerge between Alaska and the Federal government if you go to an exaggerated tax

system is going to depress the price of your oil. I think that is silly. That would be cutting their nose to spite their face. There is uncertainty as to what the price of North Slope oil is going to be for a lot of different reasons. But the problem has to do less with whether there is going to be specific retaliation, but more in the nature of how does Alaska as a state fit into the whole concept of our federal system and where does one draw the line between what the state takes first and what is left thereafter.

Third, it has to do with the implications of your surtax rate for the export of capital. Let me explain what I mean by that .... And if you don't allow the expensing of dry holes in Texas, you should allow the export of capital as well. That is to say, Alaska has benefited from the willingness of companies to come in and explore in Alaska on the basis of the superior earnings of their exploration efforts elsewhere. When you look at your rate of surcharge, what that tax rate is, you must be perfectly willing to allow that there are superior profits. You've given them an incentive to invest superior profits in Alaska. But they should not be denied superior profits even if they want to export the capital out of the State. In other words, you admit that you are part of the United States and you are not trying to tax away every dollar of superior profitability unless it stays in the State of Alaska. The principle then that I am addressing myself to is that if there is to be any such thing as a surtax, called by whatever name it is, if there is to be, (1) It should hold marginal and modest exploration efforts harmless against any surtax; (2) it should not come into effect in any case until superior profitability has been well established - one to one criterion is the recovery plus of capital; and (3) when it is applied, the tax rate shall not become onerous, it shall be a tax rate which is reasonable in terms of the presumed profitability so it does not attempt to simply siphon off all of that profitability, but it remains cognizant, aware of, and sensitive to the fact that a superior exploration effort must continue to earn superior profitability, even though it becomes subject to and liable for some surtax in Alaska.

SENATOR JOE ORSINI: If we had a regular corporation profit tax of 9 percent, which would actually tax them, as you pointed out numerous times in past years, that you are actually taxing at nine percent. Would we then also have the severance tax or should we drop the severance tax if we had sufficient regular corporation tax?

MILTON LIPTON: I think that a corporate income tax at the level that you have it, coupled with a severance tax is absolutely appropriate. I see no reason why the State of Alaska, if it subjects the oil industry to nothing more than normal corporate income, should give up principles of taxation which have been adopted in every other state -- either a combination

of severance tax, gross production tax, advalorem taxes and so on. I think that your attention of the severance tax is absolutely appropriate. It is not unreasonable for you to consider possible increases or restructuring of your severance tax rates in light of what has happened. I wouldn't want you to go ahead and decide on a whole new set of severance tax rates before you've made a decision on so many of the other tax bills that are before the legislature.

SENATOR JOE ORSINI: Then you recommend against then, to have the advalorem tax?

MILTON LIPTON: You are quite right. I should have said yes and dropped it. But I want to draw an analogy. Our criticism of the advalorem reserve tax was in effect, that it was a tax on profits before the first profit was being had. What we are trying to suggest to you is that if you go the surtax route, that again, you don't assume that there are superior profits until the evidence of superior profits is in hand. Of course the evidence is in hand after there has been this degree of capital recovery. And after the risks have been largely removed and you are saying to the company, "You have taken all the risks up to now, we will take the risk now." The criticism of the advalorem tax was that you tax normal profits before they began. If you are going to have a surtax, I don't think you would want to tax superior profits until the fact of superior profitability is clearly evidenced and not because somebody has computed, no matter how correctly, a DCF rate of return.

SENATOR JOE ORSINI: If we are going to change our regular corporation tax structure to adequately get the oil company, do we have the mechanisms now to allow the various costs involved to be amortized over a period of time?

MILTON LIPTON: I think that if you go ahead with a revision of the corporate income tax. For example, the net proceeds tax proposal is essentially, as I understand it, an attempt to transform the companies' options under the tax law, to a new method of calculating what the profit is on oil production per se, and subject them to the same rate of taxation as they would have if the present income tax could reach out and identify producing profits, which we don't think it can. The net proceeds tax would involve a certain form of revenue accounting to your Revenue Department. But so would it today if the companies filed on the basis of income -- that

is direct accounting under your present law would require them to show gross proceeds from sales in Alaska, allocation of costs, proper allocation of depreciation according to the nature of the property and so on. All of that would have to be done. The reason it really isn't done is because the companies don't fill out more than the first line - gross revenue from sales in Alaska - None. Nothing else is necessary and you can't touch oil producing profits in the State of Alaska. You could go to the allocation _____, we think that is sufficient. Now, whether you go the net proceeds bill -- I think your Revenue Department will comment on that net proceeds bill -- if you want us to we can also. Or the Revenue Department may come up with its own way of doing direct accounting. But if once you have that kind of accounting for purposes of the regular corporate income tax, there is not a lot more of accounting which is going to be necessary to determine whether a company is liable to surtax or if so to what extent it is liable to surtax. But I don't think this involves a bureaucratic nightmare.

SENATOR JOE ORSINI: You haven't then, looked at the net proceeds tax proposal? As I understood, you weren't prepared to comment on the specifics.

MILTON LIPTON: Yes, I have looked at the net proceeds tax. Yes, we would be glad to comment on the specifics if you like us to. I don't know if you are at that point.

(QUESTION INDISCERNIBLE)

MILTON LIPTON: Our major objection to the net proceeds bill as it is written, is that it makes the determination of gross value, which is the starting point of everything else, we think unduly cumbersome. It says, "FOB price at the Alaska border or other convenient point or as determined by the Department" and so on. The idea here is to separate out a company's income tax liability on account of profits from oil operations from all other forms of income because the feeling is that this is the one thing that gets most badly hidden in your present tax regime. If that were the case, it seems to us the most convenient and the most representative place to calculate the value before everything else is computed is at the wellhead. It has to be calculated at the wellhead in any case for reasons of severance tax and for reasons of royalty payments. And there would be as much or as little dispute about wellhead value for these purposes as it would be for income purposes. Indeed, if you could, under your present tax laws,

say, "Line 1 of direct accounting for income in Alaska." If you could legally say, "Gross revenues from sales in Alaska or in the case of oil producing operations, wellhead value of oil produced in Alaska", then you could go with your present tax law, you wouldn't have any problems. I think that for that purpose, it would make an awful lot of sense to start with a wellhead value since the purpose is to separate the income from oil producing operations from everything else so that it becomes identified and susceptible to the normal income tax rate.

There are some problems about the deduction of drilling costs and capital expenditures. It is not clear what this definition of property is, whether these allowances are by lease or what provision is made for dry hole expenditures. I think there are technical things in here that one has to look at very carefully. There may be easier ways to go about it but this is the sort of thing that the Revenue Department can probably speak to quite quickly.

SENATOR CHANCY CROFT: With the changes that you've suggested with regard to the net proceeds tax, do you think it is a reasonable approach?

MILTON LIPTON: The net proceeds tax? Yes. If we understand the intent and purpose of the net proceeds tax -- is to say that there shall be in effect a direct accounting of income from oil producing operations in Alaska. We are going to _____ at it this way, it's by indirection, but we are going to get it out this way and we are going to subject it to the same rate of taxation as if it fell under the perview of the regular corporate income tax law. This is not literally true. The minute you segregate out one piece of income from another piece of income, the two taxes don't work exactly the same. I have no real criticism of this approach. If this is the way in which you insure that oil producing profits in Alaska are subject to the normal state income tax rate, all well and good. Certain things happen. For example, you cannot reduce your liability for corporate income tax on the profits of Prudhoe Bay by money you lose in a gasoline station. On the other hand you can't reduce your tax liability for profits you make on gasoline by a dry hole somewhere else. You are separating it out. I don't think that is an abomination. I think the most important thing is that the oil producing income is reasonably subject to a corporate income tax. This is whether or not you have a surtax. If there is an easier way of doing it, I would like to to be done an easier way.

SENATOR CHANCY CROFT: Do you know of an easier way of doing it?

MILTON LIPTON: The easier way depends upon legality. My feeling is that if you could simply have all companies report either gross value of sales in Alaska or in the case of any product -- I hate to get involved in things which may involve other industries -- but if you're willing to say that in the case of oil producing operations, if you can simply _____ either the value of sales in Alaska or the value at the wellhead. The value at the wellhead presumably represents a net _____ from the value of the sale whereever it took place. If you can do that legally, I think that is the easiest and simplest way. If not, then you have to go the round about way and if it involves this kind of segregation, which means that you are separating out the profits in oil production from the profits elsewhere, you are separating out the losses in oil production from losses elsewhere, then you've done that kind of artificial division. I don't think there is anything terribly wrong about that.

SENATOR CHANCY CROFT: Just so that I understand it, its one thing to say there's nothing terribly wrong about it, but its another to say that....

MILTON LIPTON: I will be much more positive. I think that if this is the way that you can insure that Alaska collects its normal rate of corporate taxation of oil producing profits, then I think it is a good piece of legislation. I cannot say that there may not be a simpler way. But, per se, I think it is certainly an appropriate way of going about this.

SENATOR CHANCY CROFT: I know that you _____ money, but I think that you have had a chance to see, to at least talk to, some of the people on the staff and it seems to me that it was their opinion that the reason for taking this approach was that legally you had substantial problems with any other method. I think it was because of the legal concerns that you discussed that this method was proposed.

What about the question of severance tax? Do you think we should consider changes in the severance tax rate at this time?

MILTON LIPTON: Yes, but I don't think that you should do it independently of your decision as to how to dispose of the other tax legislation. I think it is perfectly appropriate to consider revisions in your severance tax from a lot of different standpoints. You may want to consider what the effect of higher rates

may be, you may want to change the steps schedule, you may want to continue or abandon the cents per barrel feature which I think has worked in a rather uncertain way, sometimes to the detriment of the industry sometimes to the detriment of the state. I well remember the reason for it having been put in. The merits of the reasons at that time are no longer merits today. I think an awful lot has happened since those severance tax rates were established. You will remember that when this aspect of severance taxation was introduced and was being discussed, we talked about them excessively for keeping severance taxation in Alaska reasonably in line with severance taxation elsewhere taking into account also, where there is or is not advalorem property tax. Alaska has found a range of advalorem property taxes in the interim which they have added to it. When we say, reasonably in line, it doesn't necessarily mean that a barrel of oil produced in Alaska shall pay no more in severance tax and advalorem tax than a barrel of oil produced somewhere else. What it means is that if a severance tax in Alaska were adopted by all 48 states, would it make sense or would it _____. Now the feature of the severance tax which we feel is most progressive is the step schedule, which says in effect that the State of Alaska is prepared to tax, as a percent of the gross value of oil at the wellhead, certain producing operations, less than virtually any other state in the union. It is prepared to tax as a percent of wellhead value for certain operations more than many states in the union but not more than some. To consider, at this stage of the game, with a vast change in the circumstances of costs, prices, values and everything else, to reconsider these severance taxes -- I think it is appropriate. My only suggestion at this moment for the committee is that the decision on the severance tax not be the first decision taken but it be taken in the context of how the other tax legislation is disposed of.

SENATOR CHANCY CROFT: Just so that we might have it in perspective. You mentioned that the problems and the risks that the owners of the Prudhoe Bay fields have taken, and it is true that from their original estimate of some 900 million dollars to build the pipeline, they are now talking close to 10 billion dollars at this point -- a tenfold increase in that item of cost alone. But shouldn't we also keep in prospective the increase in the value of Prudhoe Bay. At the time they were talking about $900 million, they were talking about $3 00 a barrel oil?

MILTON LIPTON: The expectation is that by the time it is produced it might be on the order of $5.00 a barrel.

SENATOR CHANCY CROFT: And now we are talking about over $10.00 a barrel.

MILTON LIPTON: The net effect of everything that has happened in the interim upon Prudhoe Bay, per se, is certain or uncertain depending upon how you measure the net effect. If you measure it in terms of the rate of return on their investment -- it depends upon what calculation you use. By our basis of calculation, and we are not prepared to utilize the industry's arguments that all capital investments including the pipeline and tankers will all have to be paid out of the profits of Prudhoe Bay. But by our calculations, it would appear that -- and again, say that the assumptions about the future, and you are right about those assumptions, that the rate of return on Prudhoe is probably lower today than what? This is the important thing. Than might have been estimated in 1970 on the basis of what then were reasonable assumptions about the future. And people made different kinds of estimates then. We think that the rate of return may well be lower. Especially if you use the DCF calculation. But the aggregate profitability is going to be ever so much higher. The dollars per barrel that will be earned on production should be much greater today than one might have assumed before, dollars per barrel. Which means that if your profitability on one -- if your rate of return on one Prudhoe Bay has gone down, if you now have a lower rate of return on several Prudhoe Bays, because the rate of return is now being calculated on a multiplied capital investment. In a sense, the rate of return on Prudhoe Bay has gone down but because of the acceleration in prices and so on -- it is not as though the rate of return on Prudhoe Bay has gone down, but it is as though the companies have now found oil field A, oil field B, and oil field C, all of which have somewhat _____ rates in tax. I don't know what you make of this as a principle of taxation. I don't think it is really relevant for formulating what kind of tax policy the state should follow.

If you take into account what has happened to costs and to prices, then in general it would seem, that because of the tremendous inflation would -- When the costs that were inflated are capital costs, it takes a hell of a lot of earning to maintain a rate of return. But you may still have a very, very large increase margin of profit per barrel. This

is the net effect of what has happened in between. I would guess that the oil industry could probably demonstrate to you that the rate of return has gone down to very much lower than what has been assumed. And they argue that the margin per barrel has not increased as much. This is a matter of judgement. The profitability rate of return is probably lower, the total profit per barrel, and multiplied by all the barrels at Prudhoe Bay are very considerably larger.

QUESTION: Larger? Is it fair to say that the rate of return on Prudhoe Bay has gone down and other fields have gone up, since 1974 of world ....

MILTON LIPTON: Yes. The rate of return on most existing oil producing operations will have been improved because the capital base remains unchanged. Operating costs have gone up somewhat owing to inflation but it is relatively unimportant. But if the price under which the oil is sold is very much higher, and this is true even for a large number of established oil fields that are operating under the old price ceiling, these can be very, very profitable. When the price which you get goes from $3.40 to $5.25, and even taking into account the loss of the depletion allowance in the interim, it looks as though, on the average, the profitability of oil fields has improved.

I'm not sure the net effect would have been in the Cook Inlet because while their capital base has remained the same, it's an old established thing, and the prices have gone up somewhat, the State of Alaska has really subjected them to a high rate of severance taxation. Quite independent of the increase in their own wellhead price. In Cook Inlet they are paying on the basis of cents per barrel and the cents per barrel has gone up under your severance tax escalation clause not only because the price of old oil has gone up but it's based upon the wholesale price index of crude oil and that raised the combination of new oil prices and old oil prices. And when the new oil price started going up, as it did last month up to about $13.00 a barrel, that pulled the wholesale price index up. The wholesale price index escalated your cents per barrel severance tax and for over a year their own wellhead price is under old oil price control. This stuff stayed here, the cents per barrel tax came up and you were collecting windfall profits which the state had never anticipated. The state thought the cents per barrel would go up as the posting at Cook Inlet would go up. "Don't let the oil companies fool around too much with their posting, we are going to make sure they're honest. To get back to your question, I would guess that for -- Your question really needs two

different answers. What the effect of a relationship between higher prices and higher costs will be on an exploration venture in Alaska today. I would guess that it is favorable for the exploration venture and for profitability. Although costs have multiplied several fold, there has really been quite a rapid run-up in the new oil price, the upper tier price, and it is still going higher. I think it should be very favorable for exploration incentives and for the profitability of successful ventures. The second part of my answer deals with something I discussed on Tuesday morning and I think it is very well worth bearing in mind. In any aspect of your consideration of taxation, if in fact there has been a favorable impact on the profitability of exploration ventures, this is absolutely essential. It is essential because this higher price which gives you the higher profitability on successful exploration ventures was intended to bring the industry in to more exploration than they otherwise would have done. And more exploration means taking leases where they otherwise would not have. Taking leases on inferior prospects. Drilling more dry holes. Abandoning more leases. Doing seismic work and then saying, "No we are not going to drill." It means that the high price is an inducement to the industry to lose more money. "We give you this high price with the complete expectation that you will lose more money in unsuccessful ventures." If the industry doesn't, then the whole U.S. policy falls apart. But how do you induce industries to lose more money? Because the high price says that when you are successful you will make more profit than you would have if you were successful with a five dollar price or a four dollar price. In other words, although the new price cost relationship should be favorable for profitability, they very well better be, if the industry is going to do the kind of exploration and suffer the kind of risks which the high price is designed to encourage. So there are two balanced aspects of it. I think this is part and parcel of the intention of our oil policy and the idea of giving out a higher price will support the objectives of policy only in so far as it works that way. Only in so far as the industry is prepared to take on greater risks than they otherwise would have before, when they are successful to earn somewhat higher prices to pay for the greater number of losses. This is one of the things I said that the State should take into account when they say, "Well, where is the measure of superior profitability. What rate would we, if we do at all impose a surtax on them."

SENATOR CHANCY CROFT: I am also curious with regard to the question of the profitability of Prudhoe Bay and that analysis. There is some indicaton that the oil industry is again moving the point at which it plans to maximize its profit from its integrated operations. It has moved it historically through several different stages of the process and there is an indication again, with the loss of the depletion allowance that industry is moving their profits from the production stage to the refining and marketing stage. I wonder if you might care to comment on that?

MILTON LIPTON: It is pretty difficult to generalize about what the industry is doing when each company strikes its own _____ and it does it only within the limits of what it is permitted to do by tax laws. The profitability of the producing venture is supported by prices. Prices have gone up even though your depletion allowance has been eliminated. Profitability, historically had been very low in refined marketing. One of the reasons of course is that the competition is very intense. Competition is intense because of the structure of operation. Not only the structure of the industry, there are more firms in refining marketing, but it is the structure of the operation too. The fact that if you have capital invested in a refinery and the refinery operates at 80% of capacity, you've got 20% of refining capacity, you utilize it. Then the marginal processing is very much lower than the _____.. When you can measure capacity in the refinery -- you can't measure capacity. You certainly can't measure unutilized capacity in distribution plants and gasoline stations. Historically, you've got so much unutilized capacity in that feature of the industry -- you put investment in gasoline stations, you want to get volume, turnover, and so the oil company operates a gasoline station, like a department store, you want to get as many people walking through, you want to sell as many units of your product as you can. And historically the companies could survive if there was intense competition at that end, provided they had some form of superior profitability in the producing end. Whether it was because of the depletion allowance on U. S. operations, or high unit profitability on foreign operations. That is pretty much out of the window now. Now the industry is faced with the need to obtain competitive profitability in virtually every function of their operation. There really isn't one thing that is going to support the other. A great deal of the profitability in foreign operations has been very much reduced. So that you find a tendancy, a trend towards the strengthening of product prices out of the sheer necessity to make them profitable

so that you can support them, insofar as competition permits it. It is not happening in Europe yet, that is for sure. In the United States, of course, there has been a reduction in product prices but this is part of the _____. I would say over the next few years, I would expect that refining and marketing profits will improve here. I don't think it is a matter of shifting so much. I think in Alaska we have always been very much concerned about the _____ of integrated profitability as between the producing function and the transportation function. Because the profits on the pipeline is virtually assured so long as operations continue and they are protected against the rate of taxation in that, so in effect, if the profit goes into the pipeline, which reduces the wellhead value, they are protected against any higher rate of taxation on a dollar of producing profit than it would have on a dollar of transportation profit. This is one of the things that the state would presume to maintain surveillance over, is Alaska Pipe Company.

SENATOR CHANCY CROFT: You were very critical yesterday of the discounted cash flow method of analysis that has been utilized in attempting to analyze profitability. Several of us in the legislature have been told that is the method by which the industry itself often evaluates a venture before they commit themselves to it, is the discounted cash flow. It also seems to me that you're suggestion with regard to a capital recovery mechanism in the surtax proposal is somewhat similar to a discounted cash flow method of analysis, that what you are ensuring is that there is a rate of return based on a level of expenditures.

MILTON LIPTON: I am not critical of DCF calculation. I am critical of some of the ways in which DCF calculations have been used or interpreted in connection with analyses of Prudhoe Bay. How can you critize a DCF calculation? It is a piece of arithmetic, that's all it is. Does the industry use DCF calculations? The industry must speak for itself, company by company must speak for itself. Let me tell you what our experience has been with oil companies, insofar as we are consultants with oil companies. The DCF calculation is used typically, to array alternative investments. If you have a DCF rate of return of 35 that goes here, if it is 30 it goes here, if it is 15 it goes down here. It permits you to array. Secondly, when you say that this is higher in the array and this is lower in the array, you've got to look at what your nature of the investment is. DCF calculations become reasonably comparable and are useful for purposes of array if two things hold true. If the intensity of capital

investment is approximately the same and if the lifetime of the investment is approximately the same I don't think any oil company would ever array a 31 percent DCF rate of return on an exploration venture, side by side with a 31 percent DCF rate of return on a refining venture. It wouldn't go into the arrays even. These DCF rates of return are not comparable. Now, if you talk about exploration ventures, I would suggest that most oil companies in an exploration _____ utilize DCF calculations. This is one way of pulling together all of the facts which are necessary to make a judgement. To my knowledge, an oil company would not, having made a DCF calculation, determine what its bonus bid is going to be on a lease. They might use it as one of the pieces of evidence, but they would not say that under this DCF calculation ... I am being more specific than I ought to be, but if a DCF calculation on a particular exploratory prospect comes out 50% and the company has as a rough criterion for yes, no, do we take a crack at the lease or don't we take a crack at the lease. _____ and then say okay, if I take the difference between 50% and X percent and I can translate that into a bonus payment and that is what I'm going to bid. And I wouldn't bid a penny more because if I do that I ruin the rate of return and I wouldn't bid a penny less because I have to be competitive. The DCF rate of return is one tool that serves a purpose. But you see, I would have been equally critical about the utilization of a rate of return calculation on Prudhoe Bay for tax purposes whether a DCF rate of return or were it an average return on net assets over the lifetime of the field, whether it was the marginal efficiency of capital or anything else. My real quarrel with the rates of return is that presumptive rates of return ought not to be the basis for taxation. These are presumptive rates of return. Even if it were the end of the day, I think it would be very difficult to look back and say, "Yes, there is superior profitability, but the superior profitability, because it yielded a return of 48% is exactly this much because it should have yielded only 24%." You may be able to calculate the 48% at the end of the day, but you really don't know what it ought to have been. The economic rent is over the whole area of the oil exploration operation.

MILTON LIPTON: I would like to suggest that perhaps you would like on Friday, to at least devote a little time to the question of leasing policy. This has been an old issue and I know that the native corporations have raised the whole subject of leasing policy as something which is vital to how the state reviews both tax policy and leasing policy. There is a bill that is before the legislature on leasing policy and I think it might be worth spending at least a few minutes if it is of interest to you now.

SENATE RESOURCES COMMITTEE

TESTIMONY OF MILTON LIPTON

LEGISLATIVE CONSULTANT ON OIL & GAS

March 26, 1976

Members in attendance were Senator Kay Poland, Chairman, Senator Joseph Orsini, Senator John Butrovich, Senator Chancy Croft and Senator Pete Meland.

SENATOR KAY POLAND: We have Mr. Lipton with us again today. And although Senator Croft will be along in five minutes, I think we will go ahead and start. Mr. Lipton?

MILTON LIPTON:

I don't propose to repeat our discussion of Wednesday. I would like to pick up approximately where we left off, but in the context of a great deal of the testimony that has been presented to the two resource committees in the intervening days. I suspect that there has been more discussion here this week on the subject of capital risks, profits, and tax policy than has probably taken place anywhere else outside of the University classroom. There has been a lot of divergence as to attitudes, _____. I wish I could select the few pippy words and resolve all of the controversy. There is just no way of doing it. But I am struck by the fact that the evidence that has been put on the record in the last few days, by the companies, indicates that the rates of return to date in Cook Inlet are not nearly as fullsome as some of the previous studies have indicated. It is difficult really, to judge even historical data without access to the specific numbers. I found extremely striking the ARCO representation that the operating costs per barrel in Cook Inlet were on the order of $1.35 per barrel. If this is the case, and definitions of operating costs are elusive until one sees exactly what goes into it, but if this is the case, and considering the very high capital investment per barrel in Cook Inlet where you have very heavy platform costs and only a few hundred barrels per day in production, this would indicate that perhaps the returns in Cook Inlet, at least thus far, are not all that exhuberant. Looking ahead, of course, it depends upon what is going to happen in the future to the prices that they will be able to get for Cook Inlet oil.

Prudhoe Bay is much of the same story. The evidence as put down before you that quite apart from some of the very high rates of return which earlier studies had indicated, at least individual

companies estimate that at best, their rates of return now after the run-up in prices, but having to compensate for the increase in costs, at best are only as good as they were in 1969 when they first looked at Prudhoe. And since the rates of return now, they suggest, are going to be fairly low -- on the order of 16% -- they suggest that these companies are really quite heroic in having entered into the fantastic cost of development and pipeline construction and everything else. In 1969, with the expectations of no more than a 16% rate of return. Everything remains for the future. I don't believe that any government can really devise a tax policy or even a schedule of tax rates on the basis of anticipation. The principle of taxation can be laid down well in advance. It may or may not raise the revenue for the government or for the state, depending upon what future results are in terms of production and profitability of the field. For example, if you go back to Prudhoe. If in fact, it should take, at Prudhoe, five, six, seven years to recover all of their capital costs, to obtain the leases, to explore, to develop and to establish the production capacity -- if it should take five, six, seven years to recover their costs and thereafter their per barrel costs, the margin between the price, the value of the oil at the wellhead and their royalties, severance taxes, operating costs and state income tax -- if that margin is slim and it takes five to six to seven years to recover costs, then, in fact, Prudhoe Bay will not be anything like the bonanza that they or the world or we might have anticipated.

On the other hand, if it turns out that the capital costs associated with Prudhoe Bay development can be recovered in two to three years and thereafter there is a relatively large margin between the value of the oil at the wellhead and all the continuing costs of production, royalties, severance tax, operating costs and so on, then I would say that the superior profitability of Prudhoe Bay will have been established. The industry's position throughout has been that any proposed changes in taxation look to take more than the industry would like to surrender to the state. There are others who believe that under the existing forms of taxation, the state may get less than is probably fair to the state. This is really more a theological debate than anything else. What is fair cannot be defined. What is right or what is wrong cannot be defined except in theological terms, which I am disinclined, under any circumstances to argue. But certainly with respect to the oil industry where theology was very much thrown into the balance in the middle east, the industry argued the Christian ethic in terms of sanctity of contract, and lost the theological argument very, very quickly because the answer was "If Allah wanted you to have the oil he would have given it to you. He gave it to us." You cannot argue theology when the islamic world has the reserves.

But what is interesting is whether or not the state can devise a tax structure which is not necessarily destructive of incentives for exploration or for marginal development. This brings us back to the discussion that we had on Wednesday as to what are the effects and implications of the tax. Not what is fair. Not what is right or what is wrong. But if the state is willing to consider

a form of taxation upon the oil industry which is separate and apart from other industries. Whether it should do it or not, you must decide for yourself. There are pros and cons in that. The pro is the source of revenue. The con is that you select this industry and you raise very serious questions about the stability of your tax rates in the future even though the tax system is very good. But if you propose to do it, then it should be done in such a way that if it raises revenue for the state in the first instance, it does not run counter to the long run incentives to development. If, in fact, the industry's return on Cook Inlet turns out to be as poor as has been indicated in recent submissions, and on Prudhoe Bay as lacking in "oomph" as the DCF studies by the industry indicate, then it is terribly important that the state maintain exploration because how else can industry get its money back except from future successes to pay for the failures in Cook Inlet and the failures in Prudhoe Bay, if this is the fact.

I do think that you can seriously consider other forms of taxation if this is the interest and direction the legislature wants to take, providing only that you appreciate that it is done in such a way as it does not destroy incentive.

Now I go back to my main theme, capital risks, profits and tax policy. The second thing which has run through the discussion before the committees this week is that you just can't look at Prudhoe Bay itself. After all, the investments in the pipeline have been ever so much greater even than the investment in the discovery and development of Prudhoe Bay. These pipeline expenditures involve not only capital outlays but they involve risks as well and you must take into account the risks in the pipeline outlay, the pipeline construction, when you consider whether or not the potential profitability in Prudhoe is average, superior or very, very superior. I don't believe that this is really a cogent argument. This is one of the problems also when you use DCF rates of return. Throughout the oil industry there are different orders of risks that an operating company is confronted with. The greatest risk is the risk that is incurred when a lease is taken and exploration is mounted. These are outlays by the industry which may be completely lost if it turns out that the exploration is unsuccessful -- the lease will be abandoned, the costs of that lease whether it be bonus payments, or dead _____ in the interim, all of the spending on dry holes, on the geophysical work that had taken place -- all of these are completely lost. This is the greatest risk to which the industry is subjected.

If you look at the North Slope, the second order of capital expenditures was much greater than the exploration expenditures. These are the tremendously large capital expenditures necessary to develop the productive capacity of a field which has close on to ten billion barrels of reserves, hopefully, recoverable reserves. At this point, the risks are different. The risk is not so much of losing all of one's money. The risk has to do with what will be all the future costs? What will be the prices in the future?

In other words, the risks have to do with whether or not you get a nominal return on your capital investment or you get a very large return on your capital investment. These are the commercial and economic risks, not the risks that nature imposes upon the industry. So when the companies decided to develop Prudhoe Bay, they were gambling a tremendous amount of capital, they were gambling on whether it would be marginally or better or superior profitability.

The pipeline investment is quite a different story. The pipeline investment involving perhaps seven billion dollars of outlays over a very considerabe length of time represents an investment for which the risk, in fact, is not very great. Why is it not very great? All of the investment in the pipeline, of the seven billion dollars, will be repaid in due course out of the value of the oil, not in Prudhoe Bay, out of the value of the oil in Valdez. The first claim upon the value of the oil in Valdez will be to meet the operating costs of the pipeline. After that the banks, the insurance companies, the lenders who have, through their lending, financed about 85% of the construction costs of the pipeline, will have a claim so that they will not only be paid their interest, but they will recover their capital as well. And, out of the value of the oil in Valdez, through the pipeline tariff, the companies will as well, pay all of their tax liabilities. Both to the state of Alaska, advalorem and income taxes and to the Federal government. And the tariff that obtains will still be high enough to give them a profit on the total investment and a multiple profit on their own equit . This is ensured unless there should be a complete failure of Prudhoe Bay production, or such a severe decline in Prudhoe Bay production over time, that they couldn't possibly conceive of a tariff high enough to cover it. But so long as the oil continues to flow and so long as the value in Valdez is satisfactory, the companies pipeline investment will be recovered and the profit will be made. When they knew that they had some ten billion barrels of reserves in Prudhoe Bay, at that point there were tremendous outlays, long waiting, certain uncertainties, but the profitability from the pipeline is more sure than the profitability in an exploration venture or even in a development program. And it is for that reason that I do not believe it is appropriate for the industry to say that when you judge the profitability of Prudhoe Bay, take into account the tremendous costs and risks of pipeline investment. Exploration is one order of risk, development is a second order of risk, the pipeline investment is still quite a different order of risk. This is not to say that the companies participating in the pipeline who are also producers at Prudhoe do not suffer from the high cost of pipeline construction. They certainly do, just as the state does. The run up in pipeline costs is going to diminish the value of oil in Prudhoe Bay. And if it diminishes the value of oil in Prudhoe Bay they will make less money on their wellhead value and the state money will make less money on its royalty, on its severance tax and on its income tax. But once that is taken into account, in other words, the profitability of the pipeline has been charged against the value of the oil in Valdez, I do not think it is correct to say that when you judge the profitability of Prudhoe,

take into account the great risks which we the operating companies assume when we undertook to build this mammoth construction project.

Well, I thought I would just mention these points as apropos of the debate over capital risks, profits and tax policy, an extention of the discussion which we had on Wednesday and then leave it to you to decide if you wanted to pick up the whole question of specific tax bills or general tax policy.

SENATOR POLAND: Are you familiar with Senate Bill 295 that they had in last year on the severance tax?

MILTON LIPTON: Was that Senate Bill 295 last year? I was certainly familiar with it last year. I'm not sure I can identify it this year. Oh yes. This is the one that added brackets to the severance tax structure and increased the tax rate in the two additional brackets of average well producability. I see that in the schedule of severance taxation. Added is a tax on gas and gas liquids. There was a bill before the legislature last session to increase the severance tax on gas to 10%. Did you have a specific question about this Senator Poland?

SENATOR POLAND: Well, I wondered how you felt about this type of production at this time?

MILTON LIPTON: We testified, I believe, before the legislature last session. I know we wrote a memorandum to all of the committee chairmen toward the end of the session and sent it from New York. We responded also to a letter from Senator Croft on the subject of severance taxation. My reply on all three occasions was that in principle, we do think it is quite appropriate for the state to consider the rates of severance taxation, on oil specifically. Gas is, in a sense, a separate question because for a good portion of your gas, any increase in severance tax will be paid by Alaskan consumers. You will have to consider whether or not yo[illegible]t to increase the state's revenues from gas pr[illegible], both from the Japanese and from Petro Chemical Industry and from the Kenai-Anchorage consumers simultaneously. We felt that it was appropriate considering only that one is careful that the increases shall come not of the lower producability wells but towards the top brackets. Which means possibly adding some brackets and providing also that even at the top that the rates of severance taxation, since it is on gross wellhead value not on profits, do not become unduly onerous.

I would like to call to your attention to the way in which your cents per barrel tax for example on Cook Inlet has operated. In your present severance tax as a percent of value, the rate of the percent of value, for a well up to 300 barrels a day, the current tax, as a percentage of wellhead value would come out to about 4.4%. That is on gross barrels. The 20 million cents per barrel which is actually being paid works out to 6.1% of wellhead value. That is to say, that where you have put the floor under it to your cents per barrel costs because of the esclation of your floor every month until February with some decline already built into it, the result was that on a well in this bracket they were actually paying 6.1% instead of 4.4%. If you take a well of 1,000 barrels a day or over, the percent of value rate of taxation, in your present law, calls for seven percent on the net barrel, whereas the cents per barrel payment, 46 cents a barrel works out to 9.8%. You are already getting higher severance taxes which are a higher percent of wellhead value that the percentages that are built into your severance tax law.

I do believe that all things considered, including the fact that we are almost certainly, but not inevitably, in a rising trend of wellhead values in North America that it might be appropriate now, judiciously to look at a stretching out of the bracket and some increases in the severance tax at the top bracket. You felt that way then. You responded to interogatories and in my first testimony I repeated that with the admonition that if you are looking at a whole tax package, I would hate to see the legislature decide upon changes in the severance tax law before they had resolved the issue of what is to become of the surtax legislation which has been laid before you.

COMMENT: I'm sure you have noticed that in the Committee Substitute that we have lowered the tax on the first 200 barrels.

SENATOR POLAND: Where there any questions any of the committee members had with regard to that that they wanted to ask Mr. Lipton right now?

SENATOR CHANCY CROFT: The tax on the gas taking it from 4 to 10 percent -- some states have run into the problem of taxing residents, in effect -- the domestic use of gas more by going to that rather than some type of cents per MCF. Do you see any problem like that

here? I'm not sure whether we're at that stage yet or not with Cook Inlet gas production.

MILTON LIPTON: Well, I think that any increase in the growth production tax on gas, under the contracts as I recall them, can be passed on to the consumer. Which means that although the state would be getting greater revenue, it would be getting greater revenue in part from consumers outside the state, in part, if other contracts don't provide for escalation for severance tax, in part, out of producer's profits but I think that is unlikely, but in part out of the prices paid by Alaskan consumers.

SENATOR CHANCY CROFT: As I recall, in Texas, the intrastate sale of gas was at a higher price than the interstate sale because the interstate sale was regulated so that if you used a percentage approach, Texans were paying with the pass-through provision more cents per MCF than were people in other states. And that if you went to a cents per MCF then you, in effect, tax the interstate gas at a higher rate. Is that something we should consider in Alaska? Is there that much difference in gas prices?

MILTON LIPTON: I really don't know. The last I had heard there was a very appreciable increase in their intrastate gas prices. Their interstate prices went up also. There is another aspect to this. And that is whether or not the state can, by indirection, relieve its consumers of the added burden of an increase in the severance tax. Louisiana for many years has had a device -- although they are not allowed to charge a lower severance tax for gas used within the state from gas that is exported, they in effect had a state system of _____ for industry so that the state coffers would know stuff about the severance tax but the costs of energy to Louisiana industry carried a certain state _____.

I have no idea whether the magnitudes we are talking about here warrant a shift from percent of wellhead value to cents per barrel. I don't think, particularly in the case of oil, it makes too makes sense to continue the floor by virtue of cents per barrel. I think you should very seriously consider whether you want to get rid of this one or the other alternative as a means by which the producer pays his taxes. But cents per barrel, especially the way it appears in existing law, and as it may if there is escalation in the future, means that the producer and the state is at the mercy of the vagaries of lower 48 state Prudhoe prices. An for a long period of time, the producers in Cook Inlet found that

their severance taxes were going up, not because their own wellhead prices were going up, not because old oil prices were going up, because the wholesale price index for crude produced in the United States was going up because the new crude price was decontrolled and it was going up very, very rapidly. That pulled the average up. The average lifted your cents per barrel floor and the producers, caught with a fixed old oil price, were paying a progressively higher severance tax. In February, suddenly, it worked to the advantage of the producer and to the disadvantage of the state because the government under the energy act rolled new oil prices back from around $13 a barrel to $11.28 a barrel, which reduces the wholesale price and makes your floor go down and all of a sudden you have an entirely different severance tax. I don't think this is a particularly healthy situation. There are too many uncertainties in it.

The cents per barrel was introduced into the severance tax at a late moment in the legislature's deliberation and the basic incentive to it at that time to provide a certain guarantee to the Department of Revenue that the revenue projection through 1977 and so on, would not be upset by the possible failure of the Prudhoe Bay wellhead price to reach the level that had been estimated or projected in their projections. I sense that the revenue projections, released as revenue needs got out of kilter for a lot of other reasons in the intervening years. I don't know that there is any particular merit in maintaining the cents per barrel. This you must consider whether you still want a floor somewhere.

SENATOR CHANCY CROFT: You have also looked at Senate Bill 567, which is also the production tax by the interim committee. I was just wondering with regard to either of these two bills and the rate does vary between the two of them, and the tax on gas is certainly different. But is there is any problem that you see with the state enacting either one of those two bills?

MILTON LIPTON: I would not presume to pass judgement on the relative merit of a particular tax, rates and their various brackets. I think in a way there may be a certain virtue in reducing the tax rate in the very low brackets. How high you go in the upper bracket, this is a matter of judgement. I think we were a little concerned with the cents per barrel floor that was put into the sponsor's substitute.

SENATOR CHANCY CROFT: Before we get to that. Just with regard to the percentage.

MILTON LIPTON: No real recommendation to make. One as compared to the other.

SENATOR CROFT: And considering both of them, do you think either one of them goes too far?

MILTON LIPTON: If I say no, neither one of them goes too far, the next question is should you go to 14.5 percent. No I don't think either goes too far.

SENATOR CROFT: Secondly, are they realistic considering the changes that have taken place, the things that you have described to us. Do they still establish a realistic and responsible level of taxation for the state at this point.

MILTON LIPTON: I think so. Basically, although some of these rates look to be higher than, say Louisiana where the top rate is 12.5%, the fact remains that if you go to 12.5% or 14.5%, this is part of the step schedule. And the effective rate is an averaging of what the producer will pay for the first 300 for the next 700 or 1,000, and so on. I wouldn't think that the rates, per se, are horrendously out of line. Furthermore I would say that if either one of these severance tax bills were enacted into law and then Colorado or Texas or California were prepared to say that we will adopt that as a model. I don't think they would. Louisiana might not raise their revenues very much if they take that as a model because Louisiana would have to give up 12.5% on a hell of a lot of oil of their production before they could pick up 14% on the kind of wells that you are apt to have here. The only thing I would add is that you are still talking about a percentage of gross wellhead value and although this step schedule gives you a certain sensitivity because you are looking at average production per well, there is a time when you have to cry halt. This is not an endless device which you can constantly increase because eventually, what you are doing is when you tax the percentage of gross wellhead value you are taxing the percentage of net much higher than that. How much higher depends upon the margin of cost. The fact remains that it may very well be that the cost of the percentage of gross wellhead value will obviously differ field by field in this state, among the two areas you already have and a third which you will hopefully discover within a year or so and all the other fields to come. There has to be somewhere a realization that

you are taxing gross wellhead value. Within the limits of these qualifications, I don't think that these are, per se, _____.

DICK: I think Milton's comments were really directed to the percentage of value as they appear in this law. If you look at the cents per barrel tax in the law, and apply the wholesale price index _____ one comes up with very substantially higher rates of taxation than the percentage of values..

MILTON LIPTON: That is the sponsor substitute? If you talk about the percent of wellhead value you get one set of answers. If you look at the cents per barrel, it changes, and the kind of escalation which takes place, then you get a much heavier rate of taxation than is _____ by the percent of _____.

SENATOR CROFT: What, with regard to committee substitute for Senate Bill 295, those since ...

MILTON LIPTON: We haven't looked at those. We were just given this but we haven't looked at them too carefully. We can run a quick check on them this afternoon.

QUESTION: I would guess that they would be very much -- they look to be relatively _____ percentage of value and the escalation I noticed does not go back to the summer of 73, it starts as of today _____.

SENATOR CROFT: The last step is higher than in 567 but it is more as you mentioned before?

MILTON LIPTON: Senator, it is very difficult. And I think it would be irresponsible for us to make quick judgements until we can do some calculations on this. For example, I hadn't read the text and I'm not quite sure how these would apply and so on. We do know that in the Sponsor's Substitute there is a much more rapid run up in the tax liability when computed on the cents per barrel basis than when computed on the potential wellhead value.

SENATOR CROFT: Could you also look through both of these bills and see if there are any particular provisions to see if they cause you any concern because I assume, as you indicated Tuesday, that you have advised us that we should consider the revision of our severance tax both in terms of reducing the severance in the lower range and substantially increasing it in the upper range and I would assume that both of these bills were in line with that general suggestion. Is that correct?

MILTON LIPTON: Yes.

SENATOR JOE ORSINI: Maybe I am getting something wrong here. As I understand it, your basic premise is not to have the lowered value -- your perception of national policy is to have lower value wells put into production, so as to get more oil...

MILTON LIPTON: Yes. By all means, if you are producing, don't let the well become uneconomical. Try to maintain the greatest possible recovery out of your discovered reserves. Absolutely.

SENATOR ORSINI: In that regard then by going to a gross production tax, either percentage or cents per barrel, are we accomplishing that end or should we go to some sort of a net and somehow tax on the net rather than the gross. Is that a practical approach -- to tax on the net?

MILTON LIPTON: If you start taxing net, you've got an income tax. And the question is, what form of an income tax do you want to use? You have a gross production tax at the present time. And I think that the relatively low rate of severance taxation that you have at the present time tends to encourage the maintenance and production out of these low producability wells. I think if you lower the severance tax a bit more, it also works in that direction. You know you have in your state statutes the rights of the commission to abate royalty, if it is necessary to sustain production. I think the state in general has put together an attitude toward producing operations which is conducive to optimum recovery of reserves. This is just on the side, one of the difficulties that we have and it is in our recent report to the state, was royalty bidding. That rate was a danger and in due course the bidding of high royalties may discourage the optimum or certainly the maximum recovery of oil from discovered reserves. But short of abandoning altogether a gross production tax and going entirely to another form of income tax, I don't think that what you have on the books or what is being proposed really is going to inhibit the maintenance of operations in your fields or optimum recovery from those reserves.

QUESTION: On Senate Bill 620, net proceeds tax. Kind of tieing in with Senator Orsini's comments...

MILTON LIPTON: The two things that we had commented on before when we were asked was (1) the definition of gross value, which is the beginning of the whole concept

of net proceeds; and there gross value is defined as the FPB price at the Alaska border or other convenient point or as determined by the Department. We simply felt all along that the logical and the easiest way of operating is if gross value was value at the wellhead. And there, working with the same figure whether it's for royalty purposes, severance tax purposes or net proceeds purposes. Now there may be a legal reason for this and if there is that is well worth looking into.

The other thing has to do on page three, section 040, the deducting of drilling costs and capital expenditures, there is a problem of the definition of property in there and whether it is by lease or by field or what, and the treatment of dry hole expenditures, I think those have to be looked at rather carefully. The department, in computing the allowable amortization of the exploration costs shall allow up to 7% of the exploration cost per year. I would think that in the treatment of capital expenditures and drilling costs in the net proceeds bill, you ought to hold this as carefully as possible for what has already been the regulations of the department on it. How have they been treating these things in the past. But in general, we think that if this is the way to get at producing income in the state, to identify it and therefore to make it liable and susceptible to income taxation, then the approach is certainly worth trying. I should say though, the bill starts out by saying that it is really in lieu of the state income tax. This is what it is meant to be. It is not strictly an in lieu of income tax bill. I think you must all understand that. That under the income tax law, it is the corporation that is being taxed presumably for all of its activities in Alaska. It will merge all of its revenues from all activities. It will deduct all of its costs from all activities and presumably come up with a net profit on account of operations in Alaska. Either directly accountable or by allocation or whatever the case may be.

What the net proceeds bill does is it separates the oil producing operation from oil. That means, in effect, that if there are losses on producing operations, they can be deducted only from profits on producing operations. They cannot be deducted from profits on refining or marketing or real estate speculation or anything else. If there are losses on marketing in Alaska, they cannot be deducted from profits in producing. What you said in effect, a corporation now is going to be taxed

on its income or on its profits from producing operations, separate, apart and independent of all other activities that they may or may not take on in this state. I don't quarrel with that at all. But you must know that this is what you are doing. It means that there is less of an incentive for somebody to put profits from the supermarket business in Alaska into oil exploration because if he loses his money in a dry hole, he can't charge it off against his taxes on profits in the supermarket in Alaska. You have separated these things apart. I say this because you must appreciate that this is what the bill does. The purpose of the bill is to enable you to identify and tax the profits on production -- the way the bill does act is to cut off the business of oil exploration and oil production in the state from every other economic activity.

SENATOR ORSINI: My understanding is that you have advocated this for a long time as what we should do.

MILTON LIPTON: I have advocated for a long time that you must be able, within your income tax law, to identify producing profit in the state, not have them imputed because either the old fashioned direct accounting or now, the imputing of profit by the formula is not going to give you a handle on what the profits may be. You have to be very careful because now the industry is telling of very few profits in Cook Inlet and hardly anything coming up on Prudhoe Bay. But maybe there will be a more successful field someday. And this is quite apart from anything else you do with your tax legislation. I think it is very important for the state that you are able, as a state, to identify the profitability of producing operations here. I don't think it is appropriate that oil that is produced in Alaska and sent out of the state without any sale here in a sense should escape a proper allocation of the profitability of that production. It may be sold in Los Angeles or it may be shipped to Texas or whatever the case may be, but there is a value at the wellhead of that oil having been discovered and produced in Alaska and that value and the profit on the value should be susceptible to your taxation.

QUESTION: How else could you do this other than the approach that is presented in this bill?

MILTON LIPTON: I don't know. I presume that your Revenue Department will be testifying. They may have other ideas.

QUESTION: As far as you know, are there other viable approaches?

MILTON LIPTON: I always felt that the easiest approach, if it could be legally handled, would be if when the company reports on his gross proceeds in the state, gross proceeds are defined either as the revenue from all sales in the state or the value of production in the state if it is exported and not sold in the State. That way everything after that could follow. And then you have all of the cost deductions, all the amortizations of capital and everything. If that could be legally done -- I gather that there might be some problems. If your tax committee and its stand feel it must go this route.

QUESTION: Your feeling as to the optimum way would be to, on our regular tax laws, would be to define the gross proceeds as you just have, in lieu of normally a business would be of gross income. But if there is some legal problems with that, then you see this type of vehicle as a suitable vehicle for...?

MILTON LIPTON: This is a round about device and I gather the reason for it being round about is because there are legal problems. I would rather not talk to the legal problems, you have your own revenue department and your own AG and your own committee that are much better informed about that than we are.

QUESTION: Have you had a chance to look, study this fairly closely? Given that we have to use this type of vehicle, are you satisfied that other than the things you've mentioned here...

MILTON LIPTON: Yes. Yes, we have looked over it very carefully.

Dick calls my attention to line numbers 28 and 29 on page two. The actual cost of transporting the product from the well to the FOB point. What is meant by the actual cost? Is it the cost of service of a company who is both a shipper and owner of the pipeline or is it a tariff? My own feeling is that if you didn't do it on the basis where it says gross value -- if you use wellhead, you avoid all of that.

QUESTION: Do you think the various allowances of costs, expensing deductions and capital expenditures over ten years, etc., these are reasonable?

MILTON LIPTON: I think you would be better advised to get the Revenue Department's evaluation of that because they already have regulations for the rates of which amortization is charged against various

categories and I don't see any particular reason, if you are going this route, why the regulations just have to be changed because you go net proceeds instead of income tax. And there, I think the Revenue Department has had a policy about this for a long time and you should probably talk to them about that.

QUESTION: What about this combination of this type of approach in conjunction with existing _____ we're proposing some applications be advalorem. Do you see those as meshing together?

MILTON LIPTON: Yes.

QUESTION: You have mentioned previously that some of the costs involved in general exploration such as geophysical testing and this kind of thing are legitimate expenses. Of course the problem is that a lot of this work is done outside the state. How would you suggest we get at that kind of a thing? Rely on direct evidence from the involved companies? Or can you think of some rough handle, some percentage of something else is a good measure or how would that...?

MILTON LIPTON: The bill does provide that the deduction shall not include any expenditures for the salary of a person that actually engaged in the operation of the well, or office and engineering work in the state necessary in connection with the operation. On the other hand I don't think that you can disallow services which are purchased from people outside of the state such as geophysical services.

QUESTION: A company may use its own computer, its own staff, who are not in the state for work that is taking place in the state.

MILTON LIPTON: The bill does not allow them to charge the salaries of the people directly. I don't think the bill would deny them the right to bill operations here where the service is rendered. I don't think that you want to be so restrictive that you deny any right to charge legitimate costs for Alaskan operations.

QUESTION: If those kind of costs were not included in that piece of legislation, you're suggesting that we do do those things?

MILTON LIPTON: Yes. I am certain it is perfectly legitimate that the costs associated with exploration and producing

operations in Alaska, if they are performed _____. I am not sure what percentage of home office overhead you would like to allow applied to Alaska.

QUESTION: Is there any rule of thumb that you can think of? I see a lot of hassle for the companies involved to go separating out 10 percent of this guy's salary and two percent of somebody else's salary and so many square feet of floor space, six months per year or something like that....

MILTON LIPTON: I would think that the -- what can be done of course is if you have an operating company in Alaska who buys a service and he gets billed for it and he pays. It is done as though -- what you would pay for it if it was at arm's length and if it was done in house you pay what otherwise would have been at arm's length price.

QUESTION: Another way to use a rule of thumb -- for every well drilled it is going to cost you the cost of that well plus 20 percent or something. Is that a viable approach or not?

MILTON LIPTON: No. I don't think so. I shouldn't speak so quickly. You may want to give a statutory allowance for costs not otherwise allocable because they were performed elsewhere. You may want to give it statutory allowance which is some small fraction of all costs incurred. That kind of statutory allowance...

QUESTION: It may be worth saving to the administration just to be able to say a flat percentage of some sort. I was looking for something to tie that percentage in to.

MILTON LIPTON: I would guess, again, that the Department of Revenue must have some figures on that. Within the state, what are these small unidentifiable items. Allow the same thing whether its in or out of the state. You are talking about a small fraction of one percent of all the eligible costs.

SENATOR ORSINI: Does this committee have the bills on the state gas pipeline?

SENATOR POLAND: No. You are certainly welcome to ask any questions you want to about those bills because they may be coming to this committee.

QUESTION: We have legislation with respect to gas, to build our own gas pipeline. I was wondering if you had gotten to that at all, if you had anything you were..?

ANSWER: I don't think we do.

QUESTION: Have you had a chance to look at Senate Bill 525 with regard to taking oil or gas from the state, in terms of conditions under which that can be done that is substantially similar with the Texas statute except for obvious changes in regard to...

MILTON LIPTON: This is the one that requires lease restrictions on oil and gas export. I think the only reaction that we had to it was in 180 on lines 14 and 15, that the oil and natural gas is not required to meet the existing need for fuel or raw material. The question is, what is meant by "required". How do you define requirements? I would say too, that one should think very, very carefully about whether or not this is necessary to protect the interests of the state to the extent that you want to put it into a lease. Because the more restrictions you put into a lease, the less attractive the lease becomes. If it is necessary to protect the interests of the state that is one thing. But then you must ask yourself, given the mounting energy requirements of the state, _____ oil and gas reserves and the tremendous hydroelectric development that it's going to get over the next 14 years, does the state really have to worry about running out of energy. All I am saying is that if there is a real concern, one should define in one's mind, how real is this concern, how far does it go. If it is necessary to put it into a lease, okay, but otherwise if you encumber a lease with unnecessary restrictions I think you do a disservice, basically, to the exploration incentive. I cannot speak for a company. But if I were a company going to bid, however I bid, whether it is bonus or net profit carry interest, or anything else, for oil and gas exploration in the state and there were restrictions on the disposition of the oil and gas, I don't think I would be very much worried. It is pretty difficult to conceive that in the state of Alaska internal needs, if they are precisely defined, are ever going to come anywhere close to impinging upon the ability to exploit to a more profitable markets. Companies may feel differently, particularly if they find out that under the lease that each one is required to leave a certain portion of their oil or gas within the state. I would think that the use of royalty oil and gas within the state would probably give as much protection to the state's energy requirements as restrictions on the export. You have to make projections of what the state's future energy needs would be. I personally can't see that this is an urgent requirement, but I may be wrong.

SENATOR CROFT: Part of the background had to do with the concern over gas, that it might give the state a stronger position with regard to the federal Power Commission as a result of some work ...

MILTON LIPTON: Yes, but that would be for the future. This is an attempt to achieve through the leasing -- with a restrictive covenant in the lease which you could not do as the state of Alaska in placing an embargo on exports from the state.

QUESTION: Another bill was Senate Bill 706 (INDISCERNIBLE)

MILTON LIPTON: We have not seen 706.

QUESTION: Once you have a chance to look at that sometime, and maybe you could make some comments on it?

MILTON LIPTON: We'll certainly do that on the severance tax.

SENATOR POLAND: Any other questions for Mr Lipton? Thank you very much Mr. Lipton.

UNITED STATES DEPARTMENT OF AGRICULTURE
FOREST SERVICE

U.S. FOREST SERVICE COMMENTS ON THE JOINT RESOLUTION (SENATE NO. 12/HOUSE NO. 13) RELATING TO THE PERENOSA TIMBER SALE ON AFOGNAK ISLAND INTRODUCED FEBRUARY 20, 1975.

Introduction

The Perenosa Timber Sale was prepared to further establish Afognak Island as an integral portion of the timber management plan for the Chugach National Forest. A task force, appointed by former Alaska Governor Walter J. Hickel and consisting of State and Federal land managers and timber industry leaders, also studied the potential for new timber industry development in Alaska. The timber task force considered the Kodiak-Afognak-Shuyak Island group as a potential economic opportunity for the development of a new timber based industry in Alaska. The Forest Service and the task force recognized that:

a. No timber industry existed in this island group.

b. An estimated sustained yield of 40-50 MMBF 1/ per year was available from the Kodiak Island-Afognak Island-Shuyak Island group.

c. A ready market existed for Alaskan timber.

The intent of the Forest Service and the State of Alaska in selling the Perenosa Timber Sale and the adjacent State timber on Shuyak Island

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1/ MMBF = million board feet

was to establish a new permanent industry in the Kodiak Island group to bring under management an undeveloped timber resource and diversify the economy of that area.

Preparation of the Perenosa Timber Sale began in 1966, and was completed in 1967, proposing a sale of 525 MMBF under a 15-year contract. The gross sale area included approximately 120,000 acres with just 21,000 acres actually scheduled for harvest in 73 clearcut units. The anticipated annual harvest on the sale was to be 35 MMBF. The sale was carried out by oral auction on June 4, 1968, and awarded in July 1968 for a bid price of $27.05/MBF [1/] to Columbia Lumber Company of Alaska.

The purchaser took no action on the sale during 1968. The export market began to drop during 1968-1969. On July 15, 1969, Columbia Lumber Company entered into a third-party agreement with the Afognak Timber Company who then became the company to operate under the sale contract. Recently it has changed hands again and is now held by the Kodiak Lumber Mills.

The Forest Service took advantage of these changes in purchasers, realizing that additional measures could be taken in the sale to protect or enhance other forest resources, and developed a Draft Environmental Impact Statement which considered alternatives to the original sale. A Final Environmental Impact Statement was filed with the Council on Environmental Quality April 5, 1974.

The decision resulting from the Environmental Statement process was to proceed with a greatly modified timber sale contract. Major changes included a timber volume reduction of about 40 percent, an average cutting

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1/ MBF = thousand board feet

unit size reduction to 100 acres, and added resource coordination requirements. A table illustrating the changes follows:

Table 1

Comparison of Original Timber Sale with the Revised Sale

Item		Original Sale	Revised Sale
1.	Total sale volume, MBF 1/	525,000	332,329
2.	Total sale area (acres)	120,000	120,000
3.	Total area logged (clearcut areas)	21,000	12,074
4.	Total number of clearcut units	73	121
5.	Average unit size (acres)	288	100
6.	Maximum unit size (acres)	905	228
7.	Smallest unit size (acres)	51	34
8.	Roads (miles)	114.0	140.3
9.	Volume logged to water for transport via log rafts in water, MMBF 2/	172	0
10.	Logging period, years	15	10
11.	Volume logged per year, MMBF 2/	35.0	33.2
12.	Acres logged per year	1,400	1,200

1/ MBF = thousand board feet.

2/ MMBF = million board feet.

Comments

The following are some specific comments on wording of the resolution:

WHEREAS the Perenosa timber sale on Afognak Island is presently being pursued in the face of widespread opposition from the public, the Kodiak Borough, local legislators, and Koniag, Inc., the local Native corporation.

COMMENT: Responses in the Final Environmental Impact Statement show support from several State agencies. Other individuals and groups in Kodiak were in favor of economic diversity; however, due to several reasons, they prefer to remain non-vocal in public. Recent correspondence from the Natives indicate they are not in favor of the resolution.

WHEREAS questions raised in administrative appeals, including the uncertainty of reforestation, the effect of herbicides, insecticides, and road building on salmon spawning streams, and the elimination of critical elk and bear habitat, have never been satisfactorily answered by the Forest Service.

COMMENT: Multiple use means wise use of a blend of resources. Recreation is one of the main activities on the Chugach National Forest of which Afognak is a part. The wildlife, the fish, the scenery, water, and soils are also valuable resources. For example, we believe increased use and management of the wildlife and fish resources will result from the sale. To date, surveys to determine improvement potential of wildlife and fish habitat have been limited primarily to the coastal area on salmon streams capable of producing commercial salmon and on lakes having a potential for sport fisheries. More intensive management of the wildlife and fish resources will take place as access becomes easier and more use is made of them.

The combination of forage and cover which exists around the edge of clearcut blocks is known as "edge effect" and is beneficial habitat for deer and elk.

More of the fishing and hunting potential of the interior of the island will be realized if the sale is completed and the planned permanent roads are built.

WHEREAS repeated requests for a stay of activities pending appeal were turned down by the Forest Service.

COMMENT: An appeal to the Secretary of Agriculture was considered by him, and he upheld the decision to proceed with the modified sale. The Forest Service is in agreement with the Secretary.

WHEREAS the wildlife, commercial and sport fish, and recreational resources within the sale area are extremely valuable to the citizens of the state and will be particularly important in satisfying the growing recreational demands of Anchorage and the entire southcentral area.

COMMENT: We agree. We believe completion of the proposed sale would result in an increase in the recreation opportunity for developed recreation sites on a road system.

More of the fishing and hunting potential of the interior of the island will be realized if the sale is completed and the planned permanent roads are built.

WHEREAS since the sale was made, land selections by Native corporations on Afognak seriously limit the amount of suitable land available for general public use and further question the advisability of committing 120,000 acres to single purpose use at this time.

COMMENT: A portion of the 12,000 acres designated for harvesting has been or is expected to be selected by Native corporations. This was provided for in the Alaska Native Claims Settlement Act, and timber sale alternatives prescribed by the Act can be chosen which will meet the needs of the public.

Only 12,000 acres, not 120,000 acres, is committed to timber activities. Even on these acres, single use is not the apporpriate term. Elk,

deer, bear, and many other forms of wildlife use cutover areas as do hunters, picnickers, and others. We have also observed that roads improve access for such big game animals as deer and bear, as well as for humans.

WHEREAS the Forest Service's own Forestry Sciences Laboratory, which cautioned against large-scale logging on Afognak until more is known about the island's soil instability and special reforestation problems, was largely ignored.

COMMENT: Studies have shown that most of the areas logged in the past on Afognak Island have been adequately re-stocked with natural tree regeneration (over 90 percent stocked). However, there may be some tree regeneration difficulties because of competing grass and shrubs. The Forestry Sciences Laboratory is in agreement that what is now planned is responsive to the silvicultural needs of the sale area. The regeneration plans and their coordination with the other resources are discussed in the Environmental Impact Statement. The Forestry Sciences Laboratory research publication (PNW-176) recommended we ". . . proceed cautiously with large-scale timber harvesting. . . ." The sale as modified is a much more cautious approach and size of cutting units are scaled down.

WHEREAS large-scale cutting of Afognak timber, bound for Japan, ignores the larger public need for a balanced utilization of Alaska resources and provides little more than a minimal dollar return for Alaskans.

COMMENT: The capital investment necessary to start a new industry and the payroll for 120 or more employees are important to the State. Locally, an annual direct payroll of about $2,000,000 is quite significant. In addition, many economists believe that the Nation's ability to maintain a healthy balance of payments is critical. Export of the manufactured products from this sale can help this balance. Trees,

unlike oil and minerals, are renewable, thus harvesting now will actually insure more wood products for the future.

WHEREAS this return, only 25 percent of the net sale price, is only a token amount considering the probability of having to hand plant seedlings, the loss of recreational resources to the state, the added services required, and the degradation of critical commercial crab and salmon spawning and rearing areas.

COMMENT: As mentioned in our comment on the fourth WHEREAS, recreational resources will be increased. The only resource loss is wilderness. Added community services are looked upon as a benefit by some. We believe the revised sale requirements adequately protect crab and salmon spawning and rearing areas.

Any action recommended in a resolution should be realistic. A bilateral cancellation of the contract requires agreement of the purchaser as well as the Government. It is doubtful he would agree unless indemnified. There are no changed circumstances of consequence since June 13, 1974, when the purchaser and the Forest Service signed the modified contract. The contract has already been modified to better protect the environment and other resources. This included an elaborate restructuring of the size and location of cutting areas. Contract clauses are designed to more adequately protect waters from pollution.

To summarize, the Forest Service, obligated by a valid timber sale contract signed in 1968 and which was fostered by the State, voluntarily undertook a bilateral modification with full involvement and participation by the public and the purchaser in 1973. The decision to modify the contract and to proceed with the sale was announced on May 16, 1974. Correction of every personal concern for management was not possible, but most all concerns expressed during this effort were addressed in

this decision-making process. We believe that the National Environmental Policy Act has been complied with, resulting in a contract much more in tune with the public thinking. We were fortunate in having a sale purchaser who was cooperative and willing to give a great deal in the public interest. It is our recommendation that the Legislature stand by the decision to proceed with the sale and not pass the resolution as proposed.

C. A. Yates

C. A. YATES
Regional Forester

Supplemental Statement to accompany U. S. Forest Service Comments on Joint Resolutions (Senate No. 12/House No. 13), Relating to the Perenosa Timber Sale on Afognak Island, which was presented to House Resource Committee on March 11, 1975.

LANDSCAPE, SOILS, AND EROSION HAZARD

In this discussion we are mainly concerned with the N.E. portion of Afognak Island. It is this area which is proposed for timber harvest under the Perenosa Timber Sale Contract.

Landscape

Except for one mountain and several small, somewhat lower hills, all of the sale area is below 1,200 foot elevation. For the most part it is rolling terrain (slopes $< 20\%$) with many lakes, ponds, and muskegs.

The geologic history of the area is quite complex. Bedrock consists mainly of metamorphic rock types. During the last ice age most of the sale area, except possibly for the highest mountain area, was covered by ice. This glaciation resulted in coating the underlying bedrock with glacial till.

During and since the melting of the ice, volcanic ash has been falling on Afognak Island. These ash falls culminated with the last major fall in 1912 which originated from the Mt. Katmai Area.

Supplemental Statement presented before House Resources Committee, Juneau, Alaska, by Tom Sheehy, Soil Scientist, Chugach National Forest, April 3, 1975.

Although many people tend to think of the 1912 ash fall as the volcanic Ash on Afognak and Kodiak, in reality it is only one of many falls which have occurred. Field evidence indicates there have been at least 16 significant (significant meaning visible) ash falls since this last great ice age. Except for the 1912 fall, layers of ash range in thickness from just visible to about 1 inch. The 1912 ash fall ranges from 4-6" thick. Textures range from silt to coarse sand. Total thickness of all the ash layers is approximately 14 inches.

Soils

The soils of Afognak can be broadly divided into two groups - mineral and organic. Mineral soils in turn can be subdivided based on type of material below the soil profile.

Group I - Mineral Soils

Subgroup I

These are the major productive soils of the Island. Generally they are about 20" thick and overlay glacial till or windblown silt. A brief description shows:

Surface organic - 2"

1912 Ash layer - 4"

Buried organic - 2"

Silt loam weathered mineral material - 12" over unweathered glacial materials.

It is interesting to note that in most soils the only ash layer visible is the 1912 ash fall.

Subgroup II

These soils are similar to Group I but are thinner and overlie bedrock at a depth of 20" or less.

Subgroup III

Small areas of uplifted beaches are found along the coast. Soils consist of:

Surface organic - 2"

1912 Ash - 4"

Over coarse, angular beach fragments

Group II - Organic Soils

Lowlying areas throughout the Island have a covering of organic sedge and sphagnum peats ranging in depth from a few inches to 8 feet.

Summary

The landscape of the area of the Perenosa Timber Sale is in the main gently rolling terrain with many muskegs, lakes, and gentle ridges.

Only the upper portion of the soils have been derived from volcanic ash. Total ash thickness is generally less than 14 inches. The remaining portion of the soil is either glacial till, windblown silt or beach cobbles. Only the 1912 ash layer is distinctively visible in the mineral soil profiles, other ash layers having been weathered and incorporated into the lower parts of the soil.

Erosion Hazard

"Volcanic ash is highly erodible" is a statement often heard. One must ask the question-under what circumstances is it and is it not. Factors to consider in this determination are:

1. Slope
2. Particle size of the ash.
3. Amount of weathering or breakdown of ash into smaller components.
4. Exposure of the volcanic ash to the elements, especially water.

Consider these factors in terms of the Perenosa Timber Sale area:

1. Slopes within the proposed sale area are generally gentle. This means minimal landslides and slump hazards. Road construction will require fewer cuts and most construction will be the overlay type (overlay road - a method of construction whereby brush, trees, etc., are removed from the road area and fill material such as rock or gravel is placed over the soil. This material then serves as a road surface). This type of construction on gentle slopes leaves the soil essentially undisturbed and protects it.

2. Particle size of the ash - Particle size defines the size of the grains or individual constituants which make up the material. In other words, the finer the material the more easily it is eroded, particularly by moving water and wind. It takes a large volume of fast flowing water to move a boulder, less to move sand and lest to move clay material.

The 1912 ash fall is the uppermost ash fall on Afognak and the one most likely to be disturbed during high-lead logging and road building operations. It is also composed of the largest particle sizes, mainly silt and sand, and is not highly erosive on gentle slopes and under rainfall conditions found in the proposed timber sale area. If water is concentrated in the form of rivulets, however, erosion can occur. Proper culvert installation will prevent this.

3. Amount of weathering - originally the material may have been quite coarse, perhaps sand in size, but because of the break down by chemical and physical weathering the particles become smaller and smaller with time. There has been some breakdown of 1912 ash particles but the material is still very coarse. The old buried ash falls are highly weathered and composed of fine particle sizes which are highly erosive. Fortunately these ash materials are quite thin (generally less than 12 inches) and are protected by a buried organic layer and a surface organic layer as well as the coarse 1912 ash fall.

4. Exposure of volcanic materials to the elements - if the ash material has a protective vegetative cover which prevents moving surface water from contacting it directly, it's stability is maintained. If the protective cover is removed, erosion can occur because water comes directly in contact with the ash. The more weathering, the smaller the particle size and the greater potential for erosion.

Summary - Erodibility and Protection of Afognak Soils

Let us now consider the soils of Afognak in the light of the above discussion to determine their erodibility under the proposed management conditions, namely high-lead logging with overlay access roads.

First, except for the 1912 ash fall, all the ash falls on Afognak have been weathered and incorporated into the soil profile in mineral soils. This weathered ash has small particle size, is highly weathered and very

erosive. At the same time it is protected by the buried organic layer, which prevents erosion.

Second, above the buried organic layer is the 1912 ash fall which has undergone some weathering but still has fairly large particle sizes. This in turn is protected by the new organic layer developed since 1912.

The key to preventing soil erosion and in turn sediment production is to minimize the soil disturbance, particularly the buried, highly erodible ashey soil material.

The best way to do this is by limiting disturbance of the soil. This is done by using high-lead logging methods with overlay access roads.

These logging methods will be used on the Perenosa Timber Sale.

Professional Opinion

It is my professional opinion as a Soil Scientist that by using high-lead logging methods, overlay roads and professional timber sale administration that soil erosion and loss of soil productivity will be minimal on the Perenosa Timber Sale.

Thomas J. Sheehy

TOM SHEEHY

Soil Scientist

ALASKA FEDERATION OF NATIVES, INC.

BEFORE THE

HOUSE AND SENATE NATURAL RESOURCES COMMITTEES,

ALASKA STATE LEGISLATURE

MARCH 23, 1976

MR. CHAIRMAN, MEMBERS OF THE COMMITTEES, I AM SAM KITO, JR., PRESIDENT, ALASKA FEDERATION OF NATIVES. I TAKE THIS OPPORTUNITY TO PRESENT TO YOU, THROUGH THE OFFICES OF THE AFN, THE VIEWS OF THE REGIONAL CORPORATIONS CONCERNING THE OIL AND GAS TAXING LEGISLATION PENDING THIS SESSION.

THE ALASKA FEDERATION OF NATIVES, SPEAKING FOR THE REGIONAL CORPORATIONS, OPPOSES PASSAGE DURING THIS SESSION OF LEGISLATION WHICH ALTERS THE PRESENT METHOD OF TAXING REVENUES DERIVED FROM OIL AND GAS PRODUCTION. THE AFN OPPOSES ANY SUCH LEGISLATION FOR MANY REASONS, AMONG WHICH ARE:

- SUCH PROPOSED LEGISLATION IS UNTIMELY, IN THAT ANY RESULTING INCREASED TAX REVENUES WILL NOT OCCUR FOR SEVERAL YEARS.

- SUCH LEGISLATION IS PREMATURE, IN THAT COMPREHENSIVE REVENUE POLICIES TREATING OIL AND GAS PRODUCTION ARE BEING, AND NEED TO BE, DEVELOPED.

- SUCH PROPOSED LEGISLATION HAS THE NEGATIVE EFFECT OF INHIBITING THE FORMULATION OF A NEEDED COMPREHENSIVE STATE OIL AND GAS REVENUE POLICY.

- SUCH PROPOSED LEGISLATION DOES NOT ALLOW THE REGIONAL CORPORATIONS ADEQUATE TIME TO CONSIDER AND PLAN FOR THE MANAGEMENT OF THEIR RESOURCE LANDS.

- SUCH LEGISLATION WILL BE A STRONG DETERRENT TO INVESTMENT FOR THE NEEDED EXPLORATION AND DEVELOPMENT OF NATIVE RESOURCE LANDS.

- THE LEGISLATION YOU ARE CONSIDERING ALSO COMPLETELY OVERLOOKS THE VERY IMPORTANT DISTINCTIONS (IN THE OWNERSHIP OR OPERATION OF RESOURCE LANDS) BETWEEN PROFIT-ORIENTED REGIONAL CORPORATIONS AND PROFIT-ORIENTED OIL CORPORATIONS.

- SUCH PROPOSED LEGISLATION IS NARROW, SEEMINGLY INTENDED TO APPLY GENERALLY, BUT IN EFFECT BENEFITTING THE STATE THROUGH ITS OWNERSHIP OF LANDS WHILE RESTRICTING BENEFITS TO THE REGIONAL CORPORATIONS FROM THE OWNERSHIP OF THEIR LANDS.

At the beginning it must be stated that the position we are taking is not intended to reject the notion that the regional corporations, like other interests, must assume a reasonable tax burden on revenues resulting from production of mineral resources located on their lands. We state emphatically that the Regional corporations find the notion of special exemption unsettling. Our opposition to the legislation pending will not be mollified by the grant of a special exemption. We question whether an exemption can be given.

We oppose the legislation because it's not in our best interest to approve a taxing scheme which is geared specifically for Prudhoe Bay production. We do not feel that the ramifications upon regional corporations resource lands and upon the future of the regional

CORPORATIONS HAVE BEEN CONSIDERED BY THIS LEGISLATION. WE DO NOT BELIEVE IT IS IN THE STATE'S BEST INTEREST TO ENTER INTO A TAXING SCHEME WHICH TENDS TO INHIBIT THE FORMULATION OF A MORE COMPREHENSIVE POLICY FOR SECURING TO THE STATE INCREASED REVENUES FROM OIL AND GAS PRODUCTION WE HOLD THAT IT IS INCUMBENT UPON THIS LEGISLATURE AND THE PRESENT ADMINISTRATION TO DEVELOP INNOVATIVE RESOURCE REVENUE POLICIES, RATHER THAN RESORTING, AS HAS BEEN TRUE THE PAST SEVERAL YEARS, TO PATCHWORK EFFORTS. WE WILL REFER TO SOME ALTERNATE POLICY FOR SECURING ADDITIONAL REVENUES FROM MINERAL LEASING AND PRODUCTION. WE WILL WORK WITH THE STATE AND INDUSTRY, TO CONCEPTUALIZE COMPREHENSIVE, INNOVATIVE POLICY. WE CANNOT, HOWEVER, SUPPORT THE STOP-GAP TAXING SCHEME NOW BEFORE THE LEGISLATURE.

OUR TESTIMONY IS GIVEN DIRECTLY ON BEHALF OF APPROXIMATELY TWENTY PER CENT (20%) OF THE PEOPLE IN ALASKA - ONE FIFTH (1/5) THE POPULATION OF THE STATE - AND INDIRECTLY ON BEHALF OF ALL ALASKANS, SINCE ALL ALASKANS WILL BENEFIT OVER THE LONG HAUL FROM SELF-SUFFICIENT SOUND FINANCIALLY MANAGED REGIONAL CORPORATIONS. THE ONE-FIFTH (1/5) ALASKANS DIRECTLY REPRESENTED IN MINERAL RESOURCE REVENUE LANDS BY THE REGIONAL CORPORATIONS ARE ALASKANS WITH ROOTS GENERATIONS ROUND AND WITH ASPIRATIONS PERMANENTLY TIED TO THIS LAND. THE MINERAL LANDS MANAGED BY THE NATIVE PEOPLE, THROUGH THEIR REGIONAL CORPORATIONS, INCLUDE POSSIBLY THE LARGEST ACREAGE BLOC OF LAND WITH STRONG POTENTIAL FOR MINERAL RESOURCE DEVELOPMENT. YET, IN A MATTER OF MAJOR CONSEQUENCE RELATING TO THESE LANDS - THE REVENUE FROM THE USE OF THEIR LANDS -- THE NATIVE PEOPLE WERE NOT ASKED TO PARTICIPATE IN THE DELIBERATIONS WHICH RESULTED IN THE LEGISLATION PRESENTED. HAD WE THE

OPPORTUNITY, WE WOULD EARLY ON HAVE ADVISED THAT THE TAXING SCHEMES HERE PRESENTED FAIL TO RESOLVE THE PROBLEM OF HOW TO SECURE TO THE STATE THE LARGEST SHARE OF REVENUES FROM ITS MINERAL RESOURCE LANDS. ESSENTIALLY, TAXING IS NOT THE METHOD MOST DESIRED TO SECURE SUCH REVENUES, SINCE TAXING IS HERE PROPOSED SETS UP DIVISIONS BETWEEN THE VARIOUS INTERESTS INVOLVED. THIS LEGISLATURE MUST BE CONCERNED WITH NOT CREATING SUCH DIVISIONS. IT MUST LOOK TO METHODS WHICH ENABLE THE VARIOUS INTERESTS (STATE, REGIONAL CORPORATIONS, AND INDUSTRY) TO WORK HARMONIOUSLY. SUCH TAXING BY THE STATE TO INCREASE ITS REVENUES FROM ITS LANDS IS DETRIMENTAL TO THE DEVELOPMENT OF WISE LEASING POLICIES BY THE REGIONAL CORPORATIONS FOR THEIR LANDS. LITTLE CONSIDERATION IS GIVEN BY THIS LEGISLATION TO THE EFFECT IT WOULD HAVE UPON THE ABILITY OF THE REGIONAL CORPORATIONS TO DEVELOP LONG-TERM COMPREHENSIVE POLICIES FOR THE OPERATION OF THEIR MINERAL RESOURCE LANDS - - NO CONSIDERATION OTHER THAN POSSIBLY GRANT OF AN EXEMPTION SPECIFICALLY DEVISED FOR THE NATIVE OWNERSHIP, WHICH KNOWLEDGEABLE OBSERVORS CONSIDER SHORT-SIGHTED AND CONSTITUTIONALLY UNSUPPORTABLE.

THERE ARE SIGNIFICANT DIFFERENCES BETWEEN THE REGIONAL CORPORATIONS AND THE VARIOUS OIL CORPORATIONS, WHICH THE PROPOSED BILLS DO NOT TAKE INTO CONSIDERATION. THE REGIONAL CORPORATIONS ARE ALASKAN CORPORATIONS. THEIR INVESTMENTS ARE GENERALLY ALASKA INVESTMENTS, AND THEIR ASSETS ARE IN ALASKA. THEIR BUSINESS GROWTH AND SUCCESSES EFFECTUATE A MULTIPLYING FACTOR IN ALASKAN INVESTMENTS, RESULTING IN INCREASED EMPLOYMENT OF ALASKANS. UNDERLYING THIS INVESTMENT POSSIBILITY, AND HELPING TO CREATE AN ATMOSPHERE FOR CONTINUING ORDERLY

GROWTH, IS THE MANAGEMENT OF REGIONAL RESOURCE LANDS. THE DISTRIBUTION OF PROFITS, PURSUANT TO SECTION 7(I) OF THE CLAIMS ACT, IS NECESSARY TO ASSIST THE BUSINESS AND INVESTMENT POTENTIAL OF REGIONS WHOSE RESOURCES ARE SLIGHT. THE PROFITS EXPECTED FROM THE LEASING POLICIES WHICH ARE PRESENTLY IN EFFECT IN MANY OIL AND GAS AGREEMENTS THE REGIONAL CORPORATIONS HAVE WITH INDUSTRY ARE BEING RELIED UPON BY ALL THE CORPORATIONS TO CONTRIBUTE TO THEIR DEVELOPMENT.

ONE MUST CONSIDER THAT IF THE STATE TAXING SCHEME AS PROPOSED WERE ENACTED, THE POSSIBILITY IS REAL THAT, ASIDE FROM PRUDHOE BAY, INDUSTRY MAY FIND IT MORE TO ITS LIKING TO INVEST ELSEWHERE, EITHER IN FEDERAL LEASES ONSHORE OR OFF, OR IN OTHER AREAS. THIS WOULD HAVE A SERIOUS DETRIMENTAL EFFECT, BOTH ON THE CONDITION OF THE PRESENT ARRANGEMENTS THE CORPORATIONS HAVE WITH INDUSTRY, AND WITH THE POSSIBILITY OF EXPLORING AND DEVELOPING LANDS NOT COVERED BY AGREEMENT. IT IS OBVIOUS THAT THE REGIONAL CORPORATIONS NEED THE ASSISTANCE, FINANCIAL AND TECHNICAL, OF THE OIL INDUSTRY TO BEGIN THE DEVELOPMENT OF THEIR RESOURCE LANDS. THE PROPOSED TAX WOULD WORK AGAINST INDUSTRY PARTICIPATION. IT WOULD DISCOURAGE CONTINUED AND FUTURE PARTICIPATION. IT WOULD DIMINISH THE ABILITY OF THE REGIONAL CORPORATIONS TO GET INTO A POSITION TO DEVELOP THEIR LANDS THEMSELVES, IF NECESSARY.

WHAT WOULD BE THE MOST DIRECT OVERALL IMPACT OF LEGISLATION OF THIS TYPE? REMEMBERING THAT THE REGIONAL COPPORATIONS ARE UNIQUELY ALASKAN IN NATURE, NOT HAVING THE OPTION TO MOVE ASSETS AND DEVELOPMENT

CAPABILITIES TO OTHER GEOGRAPHIC AREAS AS CAN THE OIL CORPORATIONS, THE IMPACT WOULD BE HIGHLY NEGATIVE. THE STATE WOULD VIRTUALLY DESTROY THE OPPORTUNITY TO BUILD LARGE-SCALE TRUE ALASKA CORPORATIONS, CORPORATIONS WHOSE ASSETS AND SHAREHOLDERS ARE IN ALASKA, AND WILL REMAIN IN ALASKA. GREAT OPPORTUNITIES FOR DEVELOPMENT OVER THE NEXT FEW DECADES OF PERMANENT EMPLOYMENT FOR ALASKANS, OF MONEY DEPOSITS IN ALASKAN INSTITUTIONS, AND OF LEADERSHIP OF NATIVE ALASKANS, JUST TO MENTION A FEW BENEFITS, WOULD BE LOST.

A QUICK HISTORICAL REVIEW WOULD REVEAL THAT THE STATE, OVER THE PAST TWENTY YEARS, HAS ENCOURAGED THE ESTABLISHMENT OF BUSINESSES WHICH WOULD HAVE PERMANENCE HERE. THE REGIONAL CORPORATIONS CONSTITUTE THE FIRST MAJOR RESPONSE TO THIS ENCOURAGEMENT. IT IS RARE THAT THE STATE CAN REALIZE THE ESTABLISHMENT OF BUSINESS INSTITUTIONS WITH SUCH CHARACTER SUITABLE FOR PERMANENT GROWTH. THE REGIONAL CORPORATIONS OFFER THIS. BUT, SINCE THEIR GROWTH DEPENDS UPON THE WISE AND PRODUCTIVE MANAGEMENT OF THE SUBSURFACE ESTATES, STATE ACTION WHICH WOULD DISCOURAGE INVESTMENT IN THEIR RESOURCE LANDS OUGHT NOT TO HAPPEN. PASSAGE OF THE TAX BILLS BEFORE YOU WOULD DISCOURAGE INVESTMENT BY INDUSTRY IN REGIONAL CORPORATION LANDS AS WELL AS STATE LANDS.

HOW WOULD THEY DO THIS? AS THERE IS A MULTIPLYING FACTOR IN EVERY DOLLAR RETURNED TO A REGIONAL CORPORATION FOR INVESTING IN RESOURCE LANDS IN OIL DEVELOPMENT, THERE IS SIMILARLY A REVERSE EFFECT WHEN INVESTMENT OPPORTUNITIES ARE DENIED, BECAUSE OF TAXES AS PROPOSED. THE COMPER AND HUBER BILLS, ESSENTIALLY, ESTABLISH PRUDHOE BAY WITH A RETURN ON INVESTMENT CONSIDERED BY THE AUTHORS AS "FAIR". IN DOING SO, THEY SET UP PRUDHOE BAY AS AN ECONOMIC UNIT, WITH CRITERIA DEFINED

REGARDING RETURN ON INVESTMENT. IT THEREBY ESTABLISHES FIELDS OF MUCH SMALLER SIZE AS UNECONOMIC UNITS; THAT IS, THE CRITERIA FOR INVESTMENT SIZE AND RETURN ESPECIALLY DESIGNED FOR PRUDHOE BAY WILL NOT ENCOURAGE EXPLORATION AND DEVELOPMENT OF SMALLER FIELDS. THE PROFITS JUST WILL NOT BE ATTRACTIVE TO ENTICE INDUSTRY TO EXPLORE AND DEVELOP. SINCE NATIVE RESOURCE LANDS ARE 'FRONTIER' LANDS, IN TERMS OF COSTS OF EXPLORATION AND DEVELOPMENT, THESE LANDS, UNDER TAXATION AS PROPOSED, WILL BE REQUIRED TO OFFER ENORMOUS PROSPECTS TO ENTICE INVESTOR FUNDS. ENORMOUS PROSPECTS ARE RARE. WHAT WOULD BE EXPLORED ELSEWHERE WILL BE PASSED ON.

EVERYONE AGREES THAT THE SIZE OF PRUDHOE BAY IS UNUSUALLY LARGE. THE LIKELIHOOD IS THAT POTENTIAL FINDS UNDER REGIONAL LANDS WILL NOT APPROXIMATE THE SIZE OF PRUDHOE BAY. FOR ILLUSTRATION PURPOSES, WE WILL CONSIDER A 600 MILLION BARREL FIELD. UNDER THE PROPOSED LEGISLATION, SUCH A FIELD BECOMES MUCH LESS DESIRABLE TO DEVELOP. IT BECOMES MARGINAL IN TERMS OF ATTRACTIVENESS. IT WILL RECEIVE NEGATIVE EXPLORATION AND DEVELOPMENT RESPONSES FROM INDUSTRY, FOR THE PRINCIPLE REASON THAT, WITH THE PASSAGE OF THE PROPOSED TAXES, INDUSTRY WILL NEED AND WILL FIND MORE ATTRACTIVE PLACES TO INVEST. IT CAN EASILY CHANNEL AVAILABLE EXPLORATION MONEY INTO OFFSHORE PROSPECTS, OR TO AREAS WHERE THE RETURN IS MORE ATTRACTIVE. IN ADDITION, SINCE REGIONAL LANDS ARE USUALLY LET TO INDUSTRY ON SOME PART OF PROFIT PARTICIPATION FORMULA, NATIVE LANDS WOULD BECOME THE LEAST DESIRABLE BETWEEN FEDERAL, STATE AND NATIVE LANDS.

COMPOUND THIS FACTOR WITH THE FACT THAT REGIONAL CORPORATIONS DO NOT HAVE INDUSTRY'S FLEXIBILITY TO MOVE ASSETS AND INVESTMENTS TO MORE DESIRABLE AREAS, AND YOU REACH THE CONCLUSION THAT THE MULTIPLYING

NEGATIVE EFFECT OF THE PROPOSED LEGISLATION IS NOT ONLY DEVASTATING, BUT IS ONE WHICH THIS LEGISLATION COMPLETELY OVERLOOKS. WE MUST THEN CONSIDER THIS NEGATIVE IMPACT IN LIGHT OF THE FACT THAT THE REGIONAL RESOURCE LANDS ARE A MAIN BASE FROM WHICH CORPORATIONS WHICH ARE UNIQUELY ALASKAN ARE EXPECTED TO GROW. WE MUST ALSO CONSIDER THIS NEGATIVE IMPACT IN LIGHT OF THE EXPECTATIONS THAT THE CONGRESS IMPLIED WHEN IT GAVE THE MANAGEMENT OF THE SUBSURFACE ESTATE TO APPROXIMATELY 40 MILLION ACRES TO THE REGIONAL CORPORATIONS.

WHEN PUT ALL TOGETHER, WE CAN SAY TO YOU, AS A MATTER OF REASONED PERSPECTIVE, THAT THE POTENTIAL FOR USING NATIVE RESOURCE LAND AS A BASE FOR GROWTH OF THE REGIONAL CORPORATIONS WILL HAVE BEEN SEVERELY LIMITED BY THE PASSAGE OF THE PROPOSED LEGISLATION. YOU WILL HAVE WEAKENED THE REGIONAL CORPORATIONS, BY MAKING THEIR LANDS WEAK IN ATTRACTIVENESS. SINCE, AS MENTIONED EARLIER, THE REGIONAL CORPORATIONS REPRESENT A UNIQUE EFFORT IN THE DEVELOPMENT OF LARGE-SCALE, PERMANENT CORPORATE ACTIVITY WHICH IS COMPLETELY ALASKAN IN OWNERSHIP AND MAKEUP, YOU WILL HAVE SEVERELY DAMAGED THIS EFFORT. IF, AS INDUSTRY WILL PROBABLY TESTIFY, THE PROPOSED LEGISLATION WILL CUT INVESTMENT RETURN BY A HIGH PERCENTAGE, CONSIDER THAT THE ATTRACTIVENESS OF NATIVE RESOURCE LANDS WILL HAVE BEEN REDUCED BY A PERCENTAGE FAR, FAR GREATER.

IN ADDITION TO POINTING OUT THE DETERRENT EFFECT THIS LEGISLATION WILL HAVE ON THE INVESTMENT POTENTIAL FOR NATIVE RESOURCE LANDS, AND THE DIFFERING NATURE AND CONCERNS BETWEEN THE REGIONAL CORPORATIONS AND THE OIL CORPORATIONS, I SHOULD REMARK THAT THIS LEGISLATION AUTOMATICALLY WOULD PUT INDUSTRY IN A FAR MORE COMMANDING

POSITION IN BARGAINING WITH THE REGIONAL CORPORATIONS FOR NATIVE RESOURCE LANDS.

ONE OTHER POINT SHOULD BE MENTIONED HERE, SINCE IT IS HISTORIC, AND HAS A FURTHER COMPOUNDING EFFECT UPON WEAKENING THE REGIONAL CORPORATIONS' ABILITY TO DEAL WITH THEIR RESOURCE LANDS. HISTORICALLY, THERE HAVE BEEN OIL AND GAS TAX CHANGES PROPOSED, AND ENACTED, EACH OF THE PAST SEVERAL LEGISLATIVE SESSIONS. THE EFFECT ON INVESTORS IS INCREASING. PASSING THIS LEGISLATION WILL NOT ONLY INCREASE THIS CONCERN TO THE DAMAGING POINT BUT IT WILL ALSO REQUIRE ITS OWN SUCCESSOR LEGISLATION, THUS COMPOUNDING THE CONCERN AND FEAR IN THE INVESTOR.

EACH SUCCEEDING SESSION WILL HAVE TO ADJUST THE ENTIRE OIL AND GAS TAXING SCHEME. IT IS INEVITABLE. CONDITIONS WILL REQUIRE IT. IT IS BAD ENOUGH THAT THE PROPOSED LEGISLATION IS CREATING SUCH A NEGATIVE IMPRESSION IN MOST QUARTERS; IT IS WORSE WHEN WE REALIZE IT IS ONLY THE BEGINNING OF THE TAX UNCERTAINTY. THE FEAR OF INVESTORS WILL BE JUSTIFIABLY REAL, AND WE SHARE IT.

WHY, THEREFORE, IS THE LEGISLATIVE EFFORT NOT DIRECTED TO LONG-TERM REVENUE SATISFACTION FROM THE USE OF STATE LANDS? WHY, IN ORDER TO INCREASE REVENUES FROM STATE LANDS, DOES THIS LEGISLATURE SEEK TO DAMAGE AND RENDER WEAK THE OWNERSHIP OF NATIVE LANDS? THE BILLS BEFORE YOU MAKE THE WISE MANAGEMENT OF NATIVE RESOURCE LANDS DIFFICULT. ANY SUCH TAXING SCHEMES WILL, FOR THEY ARE NARROW IN PURPOSE, BROAD-REACHING IN THEIR ILL-EFFECTS, SHORT-SIGHTED AND SHORT-LIVED (THERE HAVE BEEN DOZENS OF OIL AND GAS TAX BILLS PRESENTED TO THIS BODY IN

THE LAST FIVE YEARS), AND TOTALLY LACKING IN OIL AND GAS REVENUE POLICY CONSIDERATION. WHY DOES THIS LEGISLATURE NOT ACT POSITIVELY TO INCREASE REVENUES FROM ITS LANDS, POSSIBLY BY CHANGING ITS LEASING PROVISIONS?

THE LEGISLATION FAILS TO REALIZE THAT THE STATE GOVERNMENT IS NOT THE ONLY LAND INTEREST INVOLVED IN OIL AND GAS RESOURCES. IT FAILS TO APPRECIATE THE RESPONSIBILITY REGIONAL CORPORATIONS HAVE HAD PLACED UPON THEM BY THE UNITED STATES CONGRESS TO MANAGE SUBSURFACE ESTATES. AND, THAT THIS RESPONSIBILITY IS ONE DIRECTLY PLACED UPON THE REGIONAL CORPORATIONS; THE RESPONSIBILITY FOR THE WISE MANAGEMENT OF NATIVE RESOURCES (WITH RESULTING BENEFITS EXPECTED TO THE NATIVE PEOPLE) IS NOT ONE THE CONGRESS SHARED WITH THE STATE GOVERNMENT. ACTION BY THE STATE GOVERNMENT SHOULD NOT UNDERMINE OR THWART THE REGIONAL CORPORATIONS' ABILITY TO CARRY OUT THEIR RESPONSIBILITIES. FOR OUR PART, WE ENCOURAGE STATE EFFORT TO MAXIMIZE REVENUE FROM ITS RESOURCE LANDS IN A WAY WHICH WILL ALLOW EACH INSTITUTIONAL FORCE (THE STATE AND THE NATIVE MOVEMENT) TO CARRY OUT ITS RESPECTIVE RESPONSIBILITIES TO ITS PEOPLE IN THE MANNER IT BEST SEES FIT. WE ASK YOU TO CONSIDER THAT NEW RESOURCE REVENUE POLICY BE DEVISED WHICH WILL ACCOMMODATE THE STATE'S INTEREST AND THE NATIVE PEOPLES' INTEREST, AND AVOID DIVIDING US. FROM OUR VIEWPOINT, ALASKA DOES NOT NEED, NOR CAN IT AFFORD, PIECEMEAL OIL AND GAS TAXATION.

TO BEGIN, THIS LEGISLATION IS UNTIMELY. NONE OF THE BILLS HAS THE EFFECT OF BRINGING SIGNIFICANT INCREASED REVENUE INTO THE STATE TREASURY BEFORE THE FLOW OF PRUDHOE BAY OIL, WHICH, ACCORDING TO THE EARLIEST ESTIMATES, WILL BE 1977-1978, EXCEPT POSSIBLY FOR

INCREASED REVENUE FROM INCREASED SEVERANCE TAXES ON COOK INLET PRODUCTION.

THE TIME BETWEEN NOW AND 1977-1978 COULD WELL BE USED BY THE STATE AND INDUSTRY, IF IT WISHES TO PARTICIPATE, TO DEVELOP NEW ROYALTY AND LEASING POLICIES WHICH WOULD RESULT IN INCREASED REVENUES TO THE STATE FROM THE USE OF ITS RESOURCE LANDS. WE SUGGEST, THEREFORE, THAT THIS LEGISLATURE RESOLVE TO CAUSE A STUDY TO BE UNDERTAKEN TO DEVELOP A NEW, SUITABLE LEASING POLICY FOR STATE LANDS.

THE LEGISLATION IS ALSO PREMATURE. SEVERAL VOICES, INCLUDING ARN'S, WOULD ADVOCATE FOR CHANGES IN THE STATE'S LEASING POLICY, CHANGES WHICH WILL GUARANTEE TO THE STATE INCREASED REVENUES FROM THE USE OF ITS RESOURCE LANDS, AND DO SO WITHOUT INTERFERING WITH THE VARIOUS METHODS OF LEASING USED BY THE REGIONAL CORPORATIONS IN THE USE OF THEIR RESOURCE LANDS.

NEW LEASING POLICY COULD BE PREPARED AND PRESENTED TO THE NEXT SESSION OF THE LEGISLATURE. WHILE NEW LEASING POLICIES WOULD NOT NECESSARILY INCREASE REVENUES FROM PRUDHOE BAY PRODUCTION, THEY COULD STABILIZE STATE LEASING RELATIONSHIPS WITH INDUSTRY AT A SUFFICIENTLY HIGH LEVEL TO PRECLUDE THE NECESSITY FOR ANNUAL REVIEW OF THE LEVEL OF TAXATION. BESIDES SUBMITTING NEW LEASING POLICIES TO THE NEXT SESSION, APPROVED INCREASES IN THE SEVERANCE TAX COULD BE SUBMITTED. THE TWOFOLD EFFECT WOULD BE TO GIVE THE STATE SOME SORT OF EQUITY OR PARTICIPATORY INTEREST IN FUTURE LEASING OF STATE LANDS, WHILE SECURING GREATER DOLLAR REVENUE FROM PRUDHOE BAY PRODUCTION.

Besides being premature, passage of legislation such as the designated Huber package or the Comper Bill would have the negative effect of inhibiting the formulation by the State of new policy to derive greater revenue from its resource lands. Clearly, the need is present to develop such new policy. Royalty bidding and methods of acquiring equity participation are being suggested. Passage of the tax legislation before you will virtually kill any chance the State could have to work with industry to develop new policy. It should be kept in mind that the oil industry is no stranger to various participation schemes in leasing oil-rich lands. Long-term satisfactory income producing policy might come about through a good working relationship between the State and the industry, such as would obviate the annual necessity of changing the tax measures on oil and gas production. It is the threat of this latter possibility which makes uncertain a climate for continuing investment in all resource lands in Alaska. The potential enormous oil wealth within Alaska, both on State and Native lands, to an extent influences the strength of the bargaining positions of the State and the regional corporations in the leasing of their respective lands. Industry is not unaware of this. Surely, historic changes in leasing policy could come about here, where they could not possibly in other producing states. This is what the State should be about, not about some band-aid taxing scheme geared to the production from one large field.

What are some of the possibilities for new policy? They include royalty bidding, with fixed or bid cash bonuses; fixed royalty with net profits bidding and fixed or bid cash bonuses; no royalty, with fixed net profits share and fixed or bid cash bonuses; no

ROYALTY, WITH NET PROFITS SHARE BIDDING AND FIXED OR BID CASH BONUSES. THERE CAN BE CONTRACTS WHICH ENCOURAGE EXPLORATION BUT RETAIN TO THE STATE OWNERSHIP RIGHTS, AS PRESENTLY PROPOSED. THE POSSIBILITIES, WHILE NOT ENDLESS, ARE MANY FOR THE STATE TO INSURE INCREASED REVENUES FOR OIL AND GAS PRODUCTION. NONE OF THE ABOVE PROHIBITS REASONABLE INCREASES IN THE SEVERANCE TAX. IMPORTANT, HOWEVER, IS THE FLEXIBILITY THE NEW POLICY WOULD PROVIDE, BY WAY OF SUITABLE RENT-INCOME FORMULAS, TO ALLOW FOR THE EXPLORATION AND DEVELOPMENT OF MARGINAL STATE LANDS.

THE VALUE TO DEVELOPING NEW POLICY, IS, AGAIN THAT INSURED INCREASED REVENUES TO THE STATE, WHICH OBVIATE THE NEED TO ATTEMPT TO PASS ANNUAL TAX LEGISLATION CREATE A STABILITY WHICH IS DEARLY SOUGHT BY INDUSTRY.

INDUSTRY, NO DOUBT, WILL TESTIFY HERE ON THE NEGATIVE IMPACT THIS TAXING LEGISLATION WILL HAVE ON ITS ABILITY TO RAISE CAPITAL FOR FUTURE INVESTMENTS. REASONS INCLUDE THE UNCERTAINTY OF RETURN ON INVESTMENT RESULTING FROM AN UNSTABLE POLITICAL CLIMATE. WE ECHO THIS FEAR. THE REGIONAL CORPORATIONS COMPETE IN THE MARKET PLACE FOR INVESTMENT CAPITAL AND RELATIONSHIPS. MANY OF THE RELATIONSHIPS ARE WITH THE OIL INDUSTRY. EXORBITANT TAXING MEASURES, AS NOW BEFORE YOU, ARE DISGUISED EXPROPRIATION SCHEMES THEY WILL INFLUENCE INVESTORS TO MORE APPEALING AREAS.

AFN PREFERS TO TAKE A POSITIVE APPROACH TO THE REVENUE PROBLEM. WE BELIEVE THE STATE AND INDUSTRY CAN FIND A LEASING POLICY ACCEPTABLE TO EACH OTHER. WE DO NOT THINK THAT SUBSTITUTING NEW LEASING POLICY FOR EXORBITANT TAXING PROVISIONS IS A MATTER OF POLEMICS; RATHER, WE BELIEVE

IT IS A MATTER OF NECESSITY, TO CREATE A HEALTHY CLIMATE FOR CONTINUING DEVELOPMENT OF STATE AND, NOT INCIDENTALLY, NATIVE LANDS.

WE AT AFN LOOK TO A LARGE AND PROSPEROUS FUTURE IN THE LEASING OF NATIVE RESOURCE LANDS; WE ARE NOT HUNG TO THE NARROW OPINION THAT PRUDHOE BAY IS THE END-ALL OF OIL PRODUCTION IN ALASKA. THEREFORE, WE LOOK TO THE DEVELOPMENT AND ENLARGEMENT OF LEASING POLICIES WHICH WILL ALLOW US TO BENEFIT IN THE GREATEST MEASURE FROM OUR LANDS.

AS MENTIONED EARLIER, THE REGIONAL CORPORATIONS ARE IN THE PROCESS OF DEVELOPING RESOURCE LAND LEASING PROVISIONS WHICH ARE SUITABLE TO THEIR CIRCUMSTANCES. OBVIOUSLY, EACH CORPORATION HAS NEEDS DIFFERENT FROM EACH OTHER CORPORATION. MANY OF THE PROVISIONS FOUND IN VARIOUS LEASING AGREEMENTS WITH THE INDUSTRY NEVER CONTEMPLATED, AND, THEREFORE WERE NOT STRUCTURED TO ACCOMMODATE SUCH AN INVASION OF PRIVATE EQUITY RIGHTS AS IS INTENDED HERE UNDER THE DISGUISE OF THE PROPOSED TAX LEGISLATION. WE CANNOT PROSPER UNDER SUCH AN INVASION. WE MUST HAVE THE TIME AND CLIMATE IN WHICH TO DEVELOP LEASING POLICIES WHICH ALLOW US TO CARRY OUT OUR RESPONSIBILITIES TO USE OUR NATIVE-OWNED RESOURCE LANDS IN THE MOST PRODUCTIVE MANNER POSSIBLE. OUR ATTEMPT IS COMPLETELY THWARTED BY THE TAX ON PROFITS.

THE UNITED STATES CONGRESS DETERMINED IN PASSING THE ALASKA NATIVE CLAIMS SETTLEMENT ACT THAT, TO CORRECT PAST ABUSES WITH RESPECT TO LAND HISTORICALLY CLAIMED AND USED BY THE NATIVE PEOPLE OF ALASKA, THE CONTROL OF CERTAIN LANDS IN ALASKA BE GIVEN TO THE NATIVE PEOPLE OF ALASKA, AND TO NO OTHER GROUP, PARTICULARLY NOT TO THE GOVERNMENT OF THE STATE OF ALASKA. THAT ACT WAS AND IS BASICALLY A LAND CLAIMS ACT.

PURSUANT TO THIS DETERMINATION, THE CONGRESS GRANTED TO THE NATIVE PEOPLE OF ALASKA THE RIGHT TO TITLE TO AND THE RIGHT TO CONTROL APPROXIMATELY FORTY MILLION ACRES OF LAND IN ALASKA, WITH THE RIGHT TO THE SUBSURFACE ESTATE TO MOST OF THIS ACREAGE TO REST IN THE REGIONAL CORPORATIONS. CERTAIN EXPECTATIONS ARE INHERENT IN CONGRESS' REPOSING SUCH MANAGEMENT RESPONSIBILITY IN THE REGIONAL CORPORATIONS FOR THE SUBSURFACE ESTATES. THE MOST OBVIOUS IS THAT THE SUBSURFACE ESTATES BE MANAGED PROFITABLY, SINCE THE PROFITS ARE TO BE DISTRIBUTED ANNUALLY AMONG ALL THE REGIONS. THESE ARE EXPECTATIONS WHICH WILL BE DISAPPOINTED IF THE PROPOSED TAX LEGISLATION IS ENACTED.

WE, THEREFORE, URGE YOU TO CONSIDER THAT THE STATE SHOULD NOT ENACT TAXING SCHEMES FOR ITS OWN BENEFIT WHICH HAVE THE EFFECT OF INTERFERING WITH OR DESTROYING THE ABILITY OF THE REGIONAL CORPORATIONS TO MANAGE WISELY THEIR RESOURCE LANDS. THAT THE EXPECTED RESULT OF THE REGIONAL CORPORATIONS' POLICIES CAN BE UPSET BY THE EXORBITANT USE OF A TAXING POWER BY THE STATE IS AN ODIOUS THOUGHT. ALL THE MORE SO, IF THE END SOUGHT BY THE STATE (INCREASED REVENUE FOR ITS OWN BENEFIT) CAN BE REASONABLY ATTAINED BY FORMULATION OF POLICY TO ACHIEVE THAT END, WITHOUT DETRIMENTAL EFFECT TO THE LEASING POLICIES OF THE REGIONAL CORPORATIONS.

IT IS NOT THE INCREASED NUMBER OF DOLLARS THAT WOULD GO INTO THE STATE'S TREASURY THAT THE REGIONAL CORPORATIONS OBJECT TO; NO, WE ENCOURAGE THE STATE TO SECURE GREATER REVENUES, BY WAY OF NEW LEASING POLICY. HOWEVER, THE STATE DOES NOT HAVE TO DESTROY THE REGIONAL CORPORATIONS' ABILITY TO DEVELOP PRODUCTIVELY THEIR RESOURCE LANDS IN ORDER TO SECURE THE GREATER REVENUES.

SENATE BILLS 620 (TAX ON NET PROCEEDS) AND 621 (TAX ON EXCESS PROFITS) (THE HUBER PACKAGE) AND THE COMPER BILL, HOUSE BILL 803, ARE CUMBERSOME, AWKWARD BILLS. SB 620 INTERFERS WITH THE STATE INCOME TAX SCHEME, WELL ESTABLISHED UNDER TITLE 43. IT REQUIRES EACH REGIONAL CORPORATION, WHETHER THAT CORPORATION ACTUALLY OWNS THE RESOURCE LANDS LEASED OR NOT, TO FILE GROSS VALUE PRODUCTION AND NET PROCEEDS STATEMENTS ANNUALLY. THAT IS BECAUSE UNDER SECTION 7(i) OF THE CLAIMS ACT, EACH REGIONAL CORPORATION ANNUALLY MUST SHARE ITS REVENUES RECEIVED FROM USE OF ITS SUBSURFACE ESTATES WITH EACH OF THE TWELVE REGIONAL CORPORATIONS, AND SB 620 REQUIRES EACH "RECIPIENT" OF ROYALTY PAYMENTS, WHICH INCLUDES PERSONS OWNING OR CLAIMING INTERESTS, TO FILE SUCH STATEMENTS, AND ALSO TO FILE STATEMENTS SHOWING "THE LESSEES RESPONSIBLE FOR TAXES DUE IN CONNECTION WITH THE WELLS FOR FIELDS" INCLUDED IN THE EARLIER STATEMENTS. THE COMPER BILL HAS SIMILAR REQUIREMENTS. THIS IS A HEAVY ADMINISTRATIVE BURDEN. THE PAYMENT OF THE TAX, HOWEVER, IS DIRECTED TO THE REGIONAL CORPORATION FROM WHOSE LANDS THE PRODUCTION FLOWS, AND THE TAX IS ON THE "ASSESSED VALUE OF PRODUCTION WHICH IS SEVERED OR SOLD FROM EACH WELL OR FIELD". AS THE BILL IS PRESENTLY DRAFTED, REGIONAL CORPORATION X, FOR EXAMPLE, WOULD BE REQUIRED TO PAY TAX BASED ON "THE ASSESSED VALUE OF PRODUCTION WHICH IS SEVERED AND SOLD FROM EACH WELL OR FIELD" IN ITS REGION, EVEN THOUGH REGIONAL CORPORATION X IS REQUIRED BY THE CLAIMS ACT TO DISTRIBUTE SEVENTY PER CENT (70%) OF ITS SHARE OF THE "ASSESSED VALUE OF PRODUCTION" TO ELEVEN OTHER REGIONAL CORPORATIONS. PUT ANOTHER WAY, THE "INCOME", AS DEFINED AND TAXED UNDER SB 620, IS NOT TRUE INCOME TO REGIONAL CORPORATION X; BY INTERFERING WITH THE PRESENT INCOME TAX SCHEME, SB 620 OVERTAXES THOSE REGIONAL CORPORATIONS WITH RESOURCE LANDS. AT THE SAME TIME, IT BURDENS EACH REGIONAL CORPORATION WITH INCREASED ANNUAL ADMINISTRATIVE WORK, WHICH COSTS EACH REGIONAL CORPORATION TIME AND MONEY.

IT IS QUESTIONABLE WHETHER THE REGIONAL CORPORATIONS COULD COMPLY WITH THE PROVISIONS OF SB 620.

SB 620 HAS THE FURTHER POSSIBLE EFFECT OF REQUIRING REGIONAL CORPORATIONS TO FINANCE THEIR OWN ALASKA NATIVE FUND.

WHILE THE ACTUAL EFFECTS OF THESE BILLS WILL VARY ACCORDING TO THE AGREEMENTS THE SEVERAL REGIONAL CORPORATIONS HAVE WITH INDUSTRY FOR THE OPERATION OF RESOURCE LANDS, THE OVERALL NEGATIVE EFFECT IS THE FAILURE TO TAKE INTO ACCOUNT THE REASONS INDIVIDUAL REGIONAL CORPORATIONS AGREE TO DIFFERENT LEASING PROVISIONS. THE STATE CAN LEASE ITS LANDS UNDER A SOMEWHAT UNIFORM SET OF LEASING PROVISIONS; THE REGIONAL CORPORATIONS CANNOT, FOR THE FACTORS INFLUENCING THE DETERMINATION OF REGIONAL CORPORATIONS LEASING PROVISIONS VARY GREATLY FROM REGION TO REGION. IN MANY INSTANCES, REGIONAL CORPORATIONS MAY BE PARTNERS WITH INDUSTRY IN FIELD PRODUCTION.

IN ADDITION TO THE NEGATIVE IMPACT PASSAGE OF THESE BILLS WILL HAVE ON THE REGIONAL CORPORATIONS, FOR REASONS JUST STATED, THERE WILL BE OTHER UNDESIRABLE RESULTS FLOWING FROM THESE BILLS.

THE BILLS LACK DEFINITION. ADMINISTRATIVELY, THE TAX SYSTEM WILL BE CONFUSED. A TAX BUREAUCRACY WILL BE NECESSARY. THE STATED PURPOSE OF SB 620, USED FOR EXAMPLE, IS "TO PROVIDE EFFICIENT ADMINISTRATION AND COLLECTION OF" A TAX; THESE BILLS ARE NOT ENGINEERED TO PROVIDE FOR AN EFFICIENT TAX ADMINISTRATION - JUST THE OPPOSITE IS THE LIKELY RESULT.

There are more things AFN could say about the proposed bills. For example, what consideration was given in drafting the legislation to the impact passage would have on this body's expressed desire to influence the routing of a gas line through Alaska. Or, how will this legislation hamper the exploration for and development of oil and gas resources on State lands, which by one U.S.G.S. estimate could amount to over 10 billion barrles. It seems unrealistic to think you can extract increased revenues from Prudhoe Bay State lands by profit-taxing and yet encourage continued exploration on other State lands. What does this do to the State planning policy? What consideration has been given to the possibility that such profit-taxing will find industry relief through higher pipeline tariffs, thus reducing well-head value, and State income?

Another valid criticism is that these proposals, being taxing measures, lack relevance to tested objectives; at least, there should be some demonstration that the tax is needed to govern. As it is, no such objective is presented, other than to amend the original lease (by taxation) to improve the State's bargain. If this can be done now, there is no reason for the regional corporations, their investors, and industry to believe anything the State says about this being the last tax.

We are here today to tell you what the concerns are of the regional corporations to the proposals before you. We appreciate the opportunity, and courtesies, extended to us. On our part, we see problems which will have direct impact upon the lives of many Alaskans. It is our obligation to discuss these concerns with you. Under no conditions would we wish to characterize our thoughts, or have them

CHARACTERIZED, AS OPPOSITION TO THE APPARENT DESIRE OF THE STATE TO INCREASE ITS REVENUES FOR OIL AND GAS RESOURCES.

ON THE CONTRARY, AS MENTIONED EARLIER, WE ENCOURAGE EFFORTS WHICH HAVE THE LONG-TERM EFFECT OF INCREASING STATE REVENUES. WE BELIEVE THIS CAN BE DONE.

TO CONCLUDE, I WOULD LIKE TO SUMMARIZE THE BASIC CONCERN WE HAVE. IT IS DIFFICULT TO CONVEY FULLY TO YOU THE IMPORTANCE OF OUR BASIC CONCERN, WHICH IS: THE NEGATIVE IMPACT THIS LEGISLATION WILL HAVE ON THE ORDERLY DEVELOPMENT OF NATIVE RESOURCE LANDS.

MOST OF THESE LANDS ARE YET TO RECEIVE ATTENTION. THEIR DEVELOPMENT IS NECESSARY TO THE GROWTH AND FUNCTIONING CAPABILITIES OF THE REGIONAL CORPORATIONS, PARTICULARLY TO THOSE REGIONS WHICH ARE SCARCE WITH RESOURCE LANDS. THE PASSAGE OF THIS LEGISLATION WILL AUTOMATICALLY MAKE NATIVE RESOURCE LANDS THE LEAST DESIRABLE AMONG STATE, FEDERAL, AND NATIVE LANDS. FOR EXAMPLE, WITH THIS LEGISLATION ON THE BOOKS, SUCCESSFUL EXPLORATION OF NAVAL PETROLEUM RESERVE #4 WILL BRING INVESTOR MONEY INTO THOSE FEDERAL LANDS, CREATING A LARGE ATTRACTIVE COMPETITIVE RESERVE OF FEDERAL OIL LANDS IN THE MIDST OF NATIVE RESOURCE LANDS. IT WILL BRING INCREASED INVESTOR ATTENTION AND MONEY TO OFFSHORE FEDERAL LANDS, AT THE EXPENSE OF NATIVE RESOURCE LANDS. IT WILL RENDER THE ATTRACTIVENESS OF NATIVE RESOURCE LANDS MARGINAL, OR LESS SO.

THE STATE CAN INCREASE ITS REVENUES WITHOUT DAMAGING THE

NATIVE PEOPLE. THE STATE CAN EFFECTUATE LONG-TERM OIL AND GAS REVENUE POLICY, IF IT SO DESIRES. THE IRONY PRESENT IS THAT THE LEGISLATION BEFORE YOU FAILS TO ACCOMPLISH EITHER RESULT.

IN CLOSING, MAY I REMARK THAT THE NATIVE PEOPLE OF ALASKA ARE NOT SAYING HERE THAT WE WANT SPECIAL TAX PRIVILEGES. ABSOLUTELY NOT. WE WILL PAY FAIR TAXES.

ALL WE ASK IS THAT THE STATE NOT TAX OUR LANDS OUT OF EXISTENCE.

THE FOLLOWING PAGES WERE TREATED AS
A UNIT IN THE ORIGINAL FILE.

COOK INLET REGION, INC.

1211 WEST 27th AVE. ANCHORAGE, ALASKA 99503
TELEPHONE 274-8638

December 22, 1975

Mr. Nels Anderson
Chairman - House Resource Committee
State of Alaska
120 West Fourth Street
Juneau, Alaska 99701

Dear Nels:

Please find enclosed a copy of the legislation and the document entitled, "Terms and Conditions for Land Consolidation and Management in the Cook Inlet Area", as presented to the Committee on the Interior and Insular Affiars. It passed the House Committee on December 16, 1975 essentially as outlined.

We will provide you with copies of the final legislation as soon as we receive them.

If you have any questions, please do not hesitate to call me.

Sincerely,

COOK INLET REGION, INC.

Roy M. Huhndorf
President

RMH:bf

Enclosure

M E M O R A N D U M

The attached document entitled "Terms and Conditions for Land Consolidation and Management in the Cook Inlet Area" is incorporated by this reference as if set out herein. Having determined that the proposed "Terms and Conditions" would facilitate land management in the Cook Inlet basin by effecting land consolidations and encouraging settlement and development on appropriate lands, and that it would serve as an equitable resolution by the United States of Cook Inlet Region's entitlement under ANCSA, the undersigned hereby agree to support federal legislation incorporating the content of the proposed "Terms and Conditions". In the event that such legislation becomes law, the undersigned agree to recommend that the State of Alaska notify the Secretary within sixty days of the commencement of the 1976 session of the Alaska State Legislature of its assent to be bound by the requirements of the proposed "Terms and Conditions".

It is understood and agreed between the undersigned that the proposed "Terms and Conditions" will be referred to the Alaska State Legislature for its approval within 60 days of the commencement of the 1976 session, such approval to be expressed either affirmatively by action thereon or constructively by inaction.

Cook Inlet Region, Inc., in consideration of the promise both to support such federal legislation and to recommend that the Secretary be notified, as indicated above, agrees now to be bound by the "Terms and Conditions" subject to the enactment of federal legislation and the final consent of the State of Alaska.

DATED THE TENTH DAY OF DECEMBER, 1975, AT WASHINGTON, D. C.

COOK INLET REGION, INC.

by_____
Roy M. Huhndorf, President
for the Cook Inlet Region,
Incorporated

_____
Michael C. T. Smith
Director, Division of Lands

Concur:

_____
Guy R. Martin
Commissioner, Department
of Natural Resources

adopted [illegible]
w/ amendment on
distribution of
by Young.

AMENDMENT to H.R. 6644, viz: On page 21, line 7, through page 23, line 18, delete section 12 and insert the following in lieu thereof:

Sec. 12. Cook Inlet Settlement. (a) The purpose of this section is to provide for the settlement of certain claims, and in so doing to consolidate ownership among the United States, the Cook Inlet Region, Incorporated ("Region" hereinafter), and the State of Alaska, within the Cook Inlet area of Alaska in order to facilitate land management and to create land ownership patterns which encourage settlement and development in appropriate areas. The provisions of this section shall take effect at such time as all of the following have taken place:

(1) The State of Alaska has conveyed or irrevocably obligated itself to convey lands to the United States for exchange, hereby authorized, with the Region in accordance with the document referred to in subsection (b);

(2) The Region and all plaintiffs/appellants have withdrawn from Cook Inlet v. Kleppe, No. 75-2232, 9th Circuit, and such proceedings have been dismissed with prejudice, and

(3) All Native village selections under section 12 of the Alaska Native Claims Settlement Act of the lands within Lake Clark, Lake Kontrashibuna, and Mulchatna River deficiency withdrawals have been irrevocably withdrawn and waived.

The conveyances described in paragraph (1) of this subsection shall not be subject to the provisions of section 6(i) of the Alaska Statehood Act (72 Stat. 339).

(b) The Secretary shall make the following conveyances to the Region, in accordance with the specific terms, conditions, procedures, covenants, reservations, and other restrictions set forth in the document entitled "Terms and Conditions for Land Consolidation and Management in Cook Inlet Area," which was submitted to the House Committee on Interior and Insular Affairs on December 10, 1975, and which is set forth with particularity in House Report No. 94- , the terms of which are hereby ratified as to the duties and obligations of the United States set forth therein:

(1) Approximately 10,240 acres of land within the Kenai National Moose Range; except that there shall be no conveyance of the bed of Lake Tustamena, or the mineral estate in the water-front zone described in the document referred to in this subsection.

(2) Title to oil and gas and coal in not to exceed 9.5 townships within the Kenai National Moose Range;

(3) Federal interests in townships 10 South, Range 9 West, F.M., and township 20 North, Range 9 East, S.M.;

(4) Township 1 South, Range 21 West, S.M.: secs. 3-10, 15-22, 29 and 30; and rights to metalliferous minerals in the following sections in township 1 North, Range 21 West, S.M.: secs. 13, 14, 15, 22, 23, 24, 25, 26, 27, 28, 32, 33, 34, 35, 36;

(5) Twenty-nine and sixty-six hundredths townships of land outside the boundaries of Cook Inlet Region; unless pursuant to the document referred to in this subsection a greater or lesser entitlement shall exist, in which case the Secretary shall convey such entitlement;

(6) Lands selected by the Region from a pool which shall be established by the Secretary and the Administrator of General Services: Provided, That conveyances pursuant to this paragraph shall not be subject to the provisions of section 22(1) of the Alaska Native Claims Settlement Act: Provided further, That conveyances pursuant to this paragraph shall be made in exchange for lands or rights to select lands outside the boundaries of Cook Inlet Region as described in paragraph (5) of this subsection and on the basis of values determined by agreement among the parties, notwithstanding any other provision of law.

Effective upon their conveyance, the lands referred to in paragraph (1) of this subsection are excluded from the Kenai National Moose Range, but they shall automatically become part of the Range and subject to the laws and regulations applicable thereto upon title thereafter vesting in the United States. The Secretary is authorized to acquire lands formerly within the Range with the concurrence of the owner. Section 22(e) of the Alaska Native Claims Settlement Act, concerning refuge replacement, shall apply with respect to lands conveyed pursuant to paragraphs (1) and (2) of this subsection, except that the Secretary may designate for replacement land twice the amount of any land without restriction to a native corporation.

No lands without the exterior boundaries of Cook Inlet Region, which were as of December 15, 1975, withdrawn for the purposes of section 11(a)(1) of the Alaska Native Claims Settlement Act, or lands adjacent to lands selected under section 11(a)(3) of the Alaska Native Claims Settlement Act, shall be conveyed to Cook Inland Region, Inc., without the concurrence of the Region in which such land is located, and the concurrence of any native village whose section 11(a)(3) or 11(a)(1) selections are adjacent to the subject lands.

(c) The lands and interests conveyed to the Region under the foregoing subsections of this section and the lands provided by the State exchange under subsectio: (a)(1) of this section, shall be considered and treated as conveyances under the Alaska Native Claims Settlement Act unless otherwise provided, and shall constitute the Region's full entitlement under sections 12(c) and 14(h)(8) of the Alaska Native Claims Settlement Act. Of such lands, 3.5 townships of subsurface in the Kenai National Moose Range shall constitute the full surface and subsurface entitlement of the Region under section 14(h)(8). The lands which would comprise the difference in acreage between the lands actually conveyed under and referred to in the foregoing subsections of this section, and any final determination of what the Region's acreage rights under sections 12(c) and 14(h)(8) of the Alaska Native Claims Settlement Act would have been, if the conveyances set forth in this section to the Region had not been executed, shall be retained by the United States and shall not be available for conveyance to any regional corporation or village corporation, notwithstanding any provisions of the Alaska Native Claims Settlement Act to the contrary.

(d)(1) The Secretary shall convey to the State of Alaska, all right, title and interest of the United States in and to all of the following lands:

(i) At least 22.8 townships and no more than 27.0 townships of land from those presently withdrawn under section 17(d)(2) of the Alaska Native Claims Settlement Act in the Lake Iliamna area and within the Nushagak River or Koksetna River drainages near lands heretofore selected by the State, the amount and identities of which shall be determined pursuant to the document referred to in subsection (b); and

(ii) Twenty-six townships of lands in the Talkeetna Mountains, Kamishak Bay, and Tutna Lake areas, the identities of which are set forth in the document referred to in subsection (b).

All lands granted to the State of Alaska pursuant to this subsection shall be regarded for all purposes as if conveyed to the State under and pursuant to section 6 of the Alaska Statehood Act: Provided, however, that this grant of lands shall not constitute a charge against the total acreage to which the State is entitled under section 6(b) of the Alaska Statehood Act.

(2) The Secretary is authorized and directed to convey to the State of Alaska, without consideration, all right, title and interest of the United States in and to all of that tract generally known as the Campbell Tract and more particularly identified in the document referred to in subsection (b) except for one compact unit of land which he determines, after consultation with the State of Alaska, is actually needed by the

Bureau of Land Management for its present operations: Provided, That in no event shall the unit of land so excepted exceed 1,000 acres in size. The land authorized to be conveyed pursuant to this paragraph shall be used for public parks and recreational purposes and other compatible public purposes in accordance with the generalized land use plan outlined in the Greater Anchorage Area Borough's Far North Bicentennial Park Master Development Plan of September 1974: Provided, That if the land is not used for the above purposes it shall revert to the United States. Except as provided otherwise in this paragraph, in making the conveyance authorized and required by this paragraph, the Secretary shall utilize the procedures of the Recreation and Public Purposes Act (44 Stat. 741), as amended, and regulations developed pursuant to that Act: Provided, however, that the acreage limitation provided by section 1(b) of that Act, as amended by the Act of June 4, 1954 (68 Stat. 173), shall not apply to this conveyance, nor shall the lands conveyed pursuant to this paragraph be counted against that acreage limitation with respect to the State of Alaska or any subdivision thereof.

(3) The Secretary is authorized and directed to make available for selection by the State, in its discretion, under section 6 of the Alaska Statehood Act, 12.4 townships of land to be selected from lands within the Talkeetna Mountains and Koksetna River areas as described in the document referred to in subsection (b).

(c) The Secretary may, notwithstanding any other provision of law to the contrary, convey title to lands and interests in lands selected by Native corporations within the exterior boundaries of Power Site Classification 443, February 13, 1958, to such corporations, subject to the reservations required by section 24 of the Federal Power Act.

(f) All conveyances of lands made or to be made by the State of Alaska in satisfaction of the terms and conditions of the document referred to in subsection (b) of this section shall pass all of the State's right, title, and interest in such lands, including the minerals therein, as if those conveyances were made pursuant to section 22(f) of the Alaska Native Claims Settlement Act, except that dedicated or platted section line easements and highway and other rights-of-way may be reserved to the State.

(g) The Secretary through the National Park Service, shall provide financial assistance, not to exceed $25,000, hereby authorized to be appropriated, and technical assistance to the Region for the purpose of developing and implementing a land-use plan for the West side of Cook Inlet, including an analysis of alternative uses of such lands.

(h) Village corporations within the Cook Inlet Region shall have until December 18, 1976, to file selections under section 12(b) of the Alaska Native Claims Settlement Act, notwithstanding any provision of that act to the contrary.

(i) The Secretary shall report to the Congress by April 15, 1976, on the implementation of this section. If the State fails to agree to engage in a transfer with the Federal Government, pursuant to subsection (a)(1), the Secretary shall prior to December 18, 1976, make no conveyance of the lands that were to be conveyed to the Region in this section, nor shall he convey prior to such date the Point Campbell, Point Woronzof and Campbell tracts, so that the Congress is not precluded from fashioning

TERMS AND CONDITIONS FOR LAND CONSOLIDATION AND MANAGEMENT

IN THE COOK INLET AREA

December 10, 1975

I. The United States shall convey to Cook Inlet Region, Inc., the following lands:

A. Sixteen sections of land, as described in Appendix A, presently within the boundaries of the Kenai National Moose Range, but to be removed from the boundaries of the Range. The conveyance of these lands shall be subject to the following conditions:

(1) Included in the lands described in this paragraph shall be a restricted zone of lake front and river front lands, not to exceed an average of 160 acres per linear mile, to be measured from the high water line, the exact boundaries to be determined by mutual agreement between CIRI and the Secretary no later than September 1, 1976. The conveyance of the lands within this zone shall contain the following restrictions so long as Lake Tustumena remains a part of the Range:

(a) A restrictive covenant running with the land which provides that no development shall take place or facilities be constructed within the zone, except those which are directly necessary to support water dependent activities, such as a boat dock, airplane tie-up and marina. Reasonable access to these facilities will be permitted. It is contemplated that a lodge may also be located within the restricted zone, provided, however, that the lodge shall be of such a design, size and at a location agreed upon by the United States

Fish and Wildlife Service. CIRI must submit a request in writing to the Fish and Wildlife Service for approval of any construction or development within the zone, which approval will not be unreasonably withheld. The Fish and Wildlife Service will notify CIRI of its decision on any such request within 120 days of receipt of such request, and failure of any response will be considered as approval.

(b) a provision that CIRI will not sell the lands to any third party for a period of 25 years from the date of the conveyance, without the consent of the Secretary.

(c) a provision that CIRI and its assigns will offer the United States the right of first refusal to purchase the lands if the lands are ever sold. The right of first refusal shall be for a period of 120 days from the date of notice in writing to the United States that the owner of the land has received a bonafide offer of purchase. The United States shall exercise such right of first refusal by written notice to the owner within such 120 day period. The United States shall not be deemed to have exercised its right of first refusal if the owner does not consummate this sale in accordance with notice to the United States.

(d) the conveyance of the lands comprising this restricted zone shall only convey the surface estate to CIRI. The United States shall retain the rights in oil and gas and all minerals, including but not limited to common varieties of minerals.

(e) the United States reserves the right of re-entry on these lands to be exercised upon occurrence of the following conditions:

(1) The United States obtains a final judgment in a proceeding in law or equity to enforce in whole or in part the restrictive covenants contained in the conveyance of the lands described in this section; and

(2) subsequent to such final judgment, the United States institutes proceedings in law or equity to enforce the provisions of the restrictive covenants which were the subject of the final judgment obtained in subparagraph (1) of this paragraph. The right of re-entry shall be asserted in such subsequent action but may not be actually exercised except upon and in accordance with the final judgment in favor of the United States in such subsequent action.

(3) such right of re-entry shall be limited, in any case, to the lands which were the subject of the final judgment referred to in subparagraph (1) hereof.

(2) The remainder of the lands described in Appendix A shall be conveyed to CIRI without restriction, other than the reservation of those easements authorized by 17(b) of ANCSA or other applicable federal statutes. The conveyance of such remainder shall include both the surface and the subsurface estates to such lands.

B. Three and fifty-eight one hundreds townships of the subsurface estate to oil and gas and coal as identified in Appendix B; provided that the United States shall retain all other minerals including but not limited to common varieties of minerals; and provided that the right to extract coal shall be conditioned upon the opening for the extraction of coal of that portion of the Range in which these lands are located, and provided further, that coal shall only be extracted in a liquid or gaseous state. The extraction of oil and gas and coal shall be conducted in accordance with a surface use plan approved by the Secretary. Such extraction shall be undertaken in accordance with the most advanced technology commercially available at that time and causing the least practicable temporary and permanent harm to the fish and wildlife habitats of the Range. Any surface damage caused by the exercise of the rights herein must be repaired or reclaimed by CIRI, its successors and assigns, as rapidly as practicable without unreasonable interference with the rights of extraction. The United States shall make available to CIRI, its successors and assigns, sand and gravel as is reasonably necessary for the construction of facilities and rights of way appurtenant to the exercise of the rights conveyed under this section, pursuant to the provisions of 30 U.S.C. 601 et. seq., and the regulations implementing that statute which are then in effect. By mutual consent of CIRI and the Secretary, CIRI may exchange any interest described in this paragraph for other mineral interests of equal value outside the boundaries of the Kenai National Moose Range.

(1) All federal lands and interests in lands within the following:

(a) T. 10 S., R. 9 W., F. M. (Healy); and

(b) T. 20 N., R. 9 E., S. M. (Glenn Highway).

(2) T 1 N R 21 W, S. M. (sections 13, 14, 15, 22, 23, 24, 25, 26, 27, 28, 32, 33, 34, 35, 36).

The Secretary shall only convey the rights to metalliferous minerals in the land herein described. Extraction of such minerals shall be subject to a surface use plan submitted by CIRI and approved by the Secretary. Surface use for the purposes of exploration, extraction, access and benefaction shall be conducted in accordance with the most advanced technology commercially available at that time consistent with the exercise of the rights conveyed under this subparagraph. CIRI, its successors and assigns, shall be required to repair and reclaim any surface damage as rapidly as practicable consistent with the reasonable exercise of such mineral rights.

(3) T 1 S, R 21 W, S. M. (Sections 3-10, 15-22, 29 and 30).

The Secretary shall transfer to CIRI the above described lands in fee simple. Such conveyance shall be subject to a restrictive covenant, running with the land, providing that the surface shall only be used for purposes reasonably incident to mineral extraction, including processing and transportation. The Secretary shall also convey to CIRI, an easement for a port which shall reasonably provide for receiving, shipping, storage and incidental handling, and incidental facilities thereto, of the minerals extracted from the lands conveyed under this subparagraph. The Secretary shall also convey to CIRI a transportation easement to provide for transportation by road, rail or pipeline, of the minerals from the above described lands to the port easement. The Secretary and CIRI shall mutually agree upon the location of the port and transportation easements.

C. (1) Twenty nine and sixty six one hundredths townships from any federal public lands withdrawn under sections 11(a)(1), 11(a)(3), and 17(d)(1) without the exterior boundaries of Cook Inlet Region; to be identified in the manner herein provided; provided that if CIRI's total entitlement under Section 12(c) of ANCSA is determined to be greater or less than 54 townships, the number of townships to be conveyed under this paragraph (hereinafter out-of-Region entitlement) shall be increased or decreased one for one.

(a) lands to be nominated and conveyed under this paragraph C-1 shall be limited as follows: The entitlement shall be satisfied from lands within Ahtna Region, Bristol Bay Region, Calista Region, Chugach Region, and Doyon Region. With the concurrence of the Secretary and the State and any affected Region other than those described above, selections may be made from one or more of the other Regions, on the basis hereinafter described or on such other basis as the parties shall contemporaneously agree. CIRI shall not nominate any of the following:

(1) lands located west of the 161 degree west longitude of Greenwich Meridian

(2) lands within Areas of Environmental Concern as described in the Secretary's 1973 Four Systems proposals to Congress

(3) lands within any of the Secretary's 1973 Four Systems proposals to Congress

(4) lands made available to the State for selection pursuant to Sections 2 and 5 of the State-Federal Agreement of September 1, 1972.

(b) By May 1, 1976 the Secretary shall, after consultation with the State, submit to CIRI a list of areas where approval of out-of-Region selections is unlikely. CIRI may thereafter nominate to the Secretary, with simultaneous notice to the State, a township or townsl for selection. Within 120 days after such nomination, the Secretary after consultation with the State shall approve or disapprove it for withdrawal for placement in the selection pool as described herein. By October 18, 1978 CIRI must nominate at least 6 times its remaining out-of-Region entitlement. If the Secretary fails to approve a pool of three times that remaining out-of-Region entitlement from said nominations, then he and CIRI, by mutual consultation and study, shall agree by January 18, 1979 on sufficient additional townships to compose that number. The Secretary must, on that date, report to Congress as to the operation of this selection mechanism, and the need for remedial legislation, if required. Upon completion of the pool, the State and CIRI shall commence a striking and selecting process. The State may strike ten percent of the pool and the Region may select a number of townships equal to ten percent of the original pool. Alternate strikes and selections of five percent of the original pool shall continue until CIRI's out-of-Region entitlement is, as defined in this paragraph, satisfied. The State and CIRI must complete this process no later than May 18, 1979. Notwithstanding the foregoing, with the consent of the United States, State of Alaska, and CIRI, lands may be conveyed without resort

to the pool and striking mechanism herein provided, or in the manner described in subparagraph 2 of this paragraph C, in which case the number of townships to be nominated, pooled, struck and selected, shall be reduced proportionately.

(c) The State may continue to select lands under the Statehood Act which may be affected by this paragraph C, provided however, that any Regional nomination made hereunder shall be superior to and take precedence over any such State selection made after July 18, 1975. None of those lands selected by the State under the Statehood Act after July 18, 1975, and also nominated by CIRI pursuant to this paragraph C, shall be tentatively approved for patent to the State by the Department of the Interior for so long as these lands are potentially available to CIRI under this subparagraph or unless CIRI has consented to such tentative approval.

(d) Lands approved by the Secretary for the out-of-Region pool shall, as of the date of such approval, be withdrawn from all forms of entry and location under the Public Land Laws including the mining and mineral leasing laws, but not from selection by the State, for so long as the said lands shall be included in the said pool.

(e) Prior to nomination of any townships for secretarial approval, the Region shall obtain the consent of other Native Corporations where applicable, and a copy of such consent shall be attached to such nomination.

(f) CIRI shall select its out-of-Region entitlement in blocks no less than 36 sections in size, along section

lines, with no segment of an exterior line less than six miles in length, unless the Secretary specifically authorizes another manner of selection.

(g) CIRI may, with the consent of the Secretary and the State, select that portion of the mineral estate reserved by the United States in a township if the remainder of the estate may not be legally or readily available for selection, in which case, however, such substitute selection shall be treated as full satisfaction of the entitlement represented by the acreage involved and no additional selection rights shall arise by reason of the lack of conveyance of the entire estate.

(h) It is the intent of the Secretary and the State that all out-of-Region selections shall be as compact as is practicable, and that wherever possible, CIRI shall select lands which are contiguous to privately-owned lands.

(i) Nothing in this paragraph shall be construed as limiting any Congressional review and approval of the Secretary's 1973 four systems proposals to Congress.

2 (a) The Secretary, in conjunction with the General Services Administrator, shall promptly identify and take the necessary steps by January 15, 1978, to create a selection pool which shall consist of all the following lands within the exterior boundaries of the Cook Inlet Region now in existence or hereafter coming into existence by January 15, 1978:

(i) abandoned or unperfected public land entries, provided

however, that the United States shall not be obligated to initiate any adversary proceedings other than an adjudication by the BLM to determine if such entries are abandoned or unperfected, and the burden of identifying such lands shall be on CIRI;

(ii) federal surplus property;

(iii) revoked federal reserves;

(iv) cancelled or revoked power site reserves, with the exception of the Bradley Lake reserve in the Lake Clark proposal, and the Chakachamna Lake reserve, if ever cancelled or revoked;

(v) public lands created by the reduction of federal installations as defined in Section 3(e) of ANCSA, except that, if such lands are within a Section 11(a)(1) withdrawal area, they shall be subject to prior Village Corporation selections properly filed prior to December 18, 1975; and

(vi) any other federal lands as agreed by the State the Region and the Secretary, including but not limited to lands withdrawn under Section 17(d)(1) of ANCSA and not withdrawn for any other purpose.

The Secretary shall notify CIRI after any above-described lands have been placed in the pool. With the concurrence of CIRI, the State and any other concurrence that may be required under paragraph I-C(1)(e) of this Document, the Secretary may, in his discretion, contribute to such pool properties of one or more of the foregoing categories from without the boundaries of the Cook Inlet Region, provided that properties described in subparagraphs (2)(a)(ii) and (2)(a)(iii) of this paragraph

shall be removed from the pool if not selected by CIRI within 90 days after the Secretary notifies CIRI that such properties have been placed in the pool or valued by the Secretary in Subparagraph 2(c) of this document whichever date is later.

(b) The State shall be advised of all properties located within the exterior boundaries of Cook Inlet Region to be placed in the pool described in subparagraph 2(a) and may require Secretarial consultation with the Joint Land Use Planning Commission with respect to any specific piece of property so included, except those in subparagraph 2(a)(i) hereof, to determine whether private ownership of such property would be incompatible with reasonable land-management principles; provided, that the Secretary shall not be bound by any recommendation of the Joint Land Use Planning Commission: The Secretary shall notify the State, CIRI and the Commission of his decision in writing. The State may conclusively object to the inclusion in the pool of up to 1,500 of the acres, described in paragraph 2(a)(i) and 2(a)(iv), and additional lands within these two categories may be excluded from the pool upon replacement by the State with lands of equal values. Lands not included in the pool as result of the State's conclusive objection or lands which have been replaced by the State under this subparagraph shall, immediately upon their exclusion or replacement from the pool thereby, be made available by the Secretary to the State for selection under the Alaska Statehood Act for a period of 90 days to the exclusion of all competing claims or parties.

(c) Unless specifically excepted by the Secretary, all tracts of land and improvements thereto in said pool shall be appraised by one or more appraisers mutually agreeable to CIRI and the Secretary.

(d) CIRI shall be entitled to select any tract of land from said pool in exchange for its out-of-Region selection rights, in part or in whole and pro tanto, in satisfaction thereof, in the following manner:

(1) any tract of land and improvements thereto specifically excepted from appraisal by the Secretary as described in subparagraph (c) of this paragraph may be exchanged acre for acre;

(2) any tract of land and improvements thereto valued by CIRI and the Secretary after review of the appraisals, at less than $500 per acre at fair market value may be exchanged acre for acre;

(3) any tract of land and improvements thereto valued by CIRI and the Secretary after review of the appraisals at $500 per acre or more at fair market value shall be exchanged as follows:

(i) for each acre of land in said tract, each valued increment of $500 or proportion thereof shall be considered an acre of land or proportion thereof, in the same proportion, hereinafter called an "acre/equivalent"; and

(ii) any acre/equivalents may be exchanged for any acres of CIRI's out-of-region entitlement.

(e) Anything in the foregoing provisions notwithstanding, the selection pool created hereunder shall not include or affect lands within the Point Woronzof, Point Campbell, Goose Lake, and Campbell tracts, to which CIRI waives any claim which it may have had and such lands shall be reserved by the United States for early conveyance to the State as an integral part of the consideration for this Document.

(f) The Secretary shall utilize his best efforts to maximize the pool through the use of all available properties within the described categories in order to augment the opportunity for the land exchanges described herein. If, by January 15, 1978, the Secretary and the General Services Administrator have not identified for the pool at least 138,240 acres, or acre/equivalents of lands within the exterior boundaries of Cook Inlet Region, the Secretary shall add to the pool an amount equal to the difference between 138,240 acres, or acre/equivalents, and the number of acres so identified from the following:

(1) with the consent of the State, lands located within the boundaries of the Region, withdrawn for the purposes of section 17(d)(1) of ANCSA, and valued by the Secretary and CIRI at $200 per acre, or more.

(2) with the consent of the State and CIRI, lands described in subparagraph I-C(3)(a) of this Document from without the exterior boundaries of Cook Inlet Region.

CIRI must select all lands in the pool located within the

Region which are valued by the Secretary and CIRI at $200 per acre, or more, until CIRI has selected 138,240 acres, or acre/equivalents as described in subparagraph 3(i) of this paragraph.

(g) No later than 90 days following the conclusion of the period for creation of the pool as specified in subparagraph (1) hereof, the Secretary shall, with the assistance of the General Services Administrator, report to Congress on the status of the conveyances under paragraph C and the need for remedial legislation, if required.

(h) Conveyances under this subparagraph I-C(2) shall not be subject to the provisions of Section 22(j) of ANCSA.

II. Upon final consent by the State of Alaska to be bound by the terms and conditions of this Document, which consent must be given, if at all, within 60 days of the commencement of the 1976 Session of the Alaska State Legislature, the State of Alaska shall convey to the United States for reconveyance to CIRI the lands described in Appendix C to this Document. Said lands shall be considered State lands until the United States accepts the State deed of title. Upon acceptance of a State deed of title, the Secretary shall withdraw the lands conveyed thereby, subject to valid existing rights, from all forms of appropriation under the public land laws, including the mining and mineral leasing laws, and from selection under the Alaska Statehood Act, as amended; such withdrawal to expire upon reconveyance of said lands to CIRI.

III. A. The Secretary shall convey to the State of Alaska all right, title and interest of the United States in and to all of the following lands:

(i) At least 22.8 townships and no more than 27.0 townships of land from those presently withdrawn under section 17(d)(2) of the Alaska Native Claims Settlement Act in the Lake Iliamna area and within the Nushagak River drainage near lands heretofore selected by the State, the amount and identities of which shall be determined pursuant to Appendix D hereof; and

(ii) Twenty-six townships of lands in the Talkeetna Mountains, Kamishak Bay, and Tutna Lake areas, the identities of which are set forth in Appendix E hereof.

All lands granted to the State of Alaska pursuant to this subsection shall be regarded for all purposes as if conveyed to the State under and pursuant to section 6 of the Alaska Statehood Act; provided, however, that this grant of lands shall not constitute a charge against the total acreage to which the State is entitled under section 6(b) of the Alaska Statehood Act.

B. The Secretary shall convey to the State of Alaska, without consideration, all right, title and interest of the United States in and to all of that tract generally known as the Campbell Tract and more particularly identified in Appendix F hereof except for one compact unit of land which he determines, after consultation by the State of Alaska, is actually needed by the Bureau of Land Management for its present operations; provided, that in no event shall the unit of land so excepted exceed 1,000 acres in size. The land authorized to be conveyed pursuant to this paragraph shall be used for public parks and recreational purposes and other compatible public purposes in conformance with the generalized land use plan outlined in the Far North Bicentennial

Park master development plan of September, 1974. Provided, that that portion of the tract identified in the document referred to in subsection (d) may be used for any public purpose which is compatible with the public parks, recreational and other compatible public purposes for which the balance of the tract is conveyed. Except as provided otherwise in this paragraph, the Secretary shall utilize the procedures of the Recreation and Public Purposes Act (44 Stat. 741), as amended, and regulations developed pursuant to that Act; provided, however, that the acreage limitation provided by section 1(b) of that Act, as amended by the Act of June 4, 1954 (68 Stat. 173), shall not apply to this conveyance, nor shall the lands conveyed pursuant to this paragraph be counted against that acreage limitation with respect to the State of Alaska or any subdivision thereof.

C. The Secretary shall make available for selection by the State, in its discretion, under section 6 of the Alaska Statehood Act, 12.4 townships of land to be selected from lands within the Talkeetna Mountains and Koksetna River areas as described in Appendix G.

IV. The lands and interests conveyed to CIRI under paragraphs I and II of this Document shall constitute CIRI's full entitlement under Section 12(c) of ANCSA, except that the mineral estate conveyed pursuant to subparagraph I-B of this Document shall constitute full entitlement of CIRI's surface and subsurface entitlement under Section 14(h)(8) of ANCSA. The lands which would comprise the difference in acreage between the lands actually conveyed under paragraphs I and II of this Document, and any final determination of what CIRI's acreage rights under Section 12(c) and 14(h)(8) of ANCSA would have been notwithstanding the provisions and this Document, shall be retained by the United States,

and this Document shall create no right or interest in any other Regional Corporation or Village Corporation notwithstanding any provisions of ANCSA to the contrary. To the extent that CIRI is or becomes entitled to subsurface rights;

(a) As a result of Section 12(a) of ANCSA, selections by Village Corporations within the Kenai National Moose Range, or

(b) as a result of any section 14(h)(1)(?) or (5) of ANCSA selections within the Kenai National Moose Range or within the Secretary's 1973 Lake Clark proposal; and

(c) to the extent that CIRI's section 12(a) of ANCSA subsurface rights are reduced by virtue of exchanges between village corporations and the State resulting in the relinquishment of village selections in the Secretary's 1973 Lake Clark proposal, CIRI shall take, in lieu thereof, an equal acreage from the following:

(1) The subsurface estate to oil and gas and coal in those lands described in Appendix B to the extent that such interests are not transferred under paragraph 1-B of this Document, and are subject to the restrictions there described.

(2) Up to 46,080 acres of lands within section 11(a)(3) of ANCSA withdrawals in the Talkeetna Mountains; provided CIRI shall make all 12(b) selections in this withdrawal contiguous to existing 12(a) selections, first selecting all over-selected 12(a) lands in this withdrawal.

(3) If sufficient acreage to satisfy any such selections does not exist in those areas described in subparagraphs (1) and (2) of this paragraph, the Secretary shall make available lands outside the Region, in his discretion, for selection by CIRI.

V. The Secretary, CIRI, and the State shall seek legislation authorizing the Secretary to convey title to those selections by Native Corporations within the exterior boundaries of Power Site Classification 443, February 13, 1958, provided however, that the patents conveying the above described lands shall contain the reservations required by Section 24 of the Federal Power Act, 16 U.S.C. 818.

VI. A. The State shall not select any of the following lands, so that such lands may be added to a management unit in the Lake Clark Area.

T 4 S R 23 W (N 1/2)

T 3 S R 20-24 W

T 2 S R 24-25 W

T 1 S R 24-26 W

T 1 S R 27 W (sections 1-6, 8-15, 23-25)

T 1 S R 28 W (sections 1-6)

T 1 S R 29 W (sections 1-6)

T 1 N R 24-29 W

T 2 N R 24-30 W

T 3 N R 28-30 W and 31 W (E 1/2)

T 4 N R 30 W and 31 W (E 1/2)

B. The Secretary, CIRI and the State recognize that there are nationally significant resources in the Lake Clark area. Management of this area should be flexible and recognize the scenic, recreational, and inspirational resources that should be preserved as well as State and local interests including subsistence and sport hunting.

VII. In fulfillment of its obligation to equitably reallocate acreage among villages pursuant to section 12(b) of the Act, CIRI shall allocate section 12(b) selections to the following areas:

A. Four and one-half townships in the Talkeetna Mountain withdrawals, provided that such selections shall be compact and contiguous to 12(a) selection in said withdrawals and 12(a) over-selections shall be selected first.

B. All lands that will not otherwise be conveyed to the villages under 12(a) on the Iniskin Peninsular

C. To the extent necessary to fulfill any remaining 12(b) entitlement lands within the following:

T 7 S, R 25 & 26 (Except Secs. 29-31) W, S.M.

T 6 S, R 25 W and 26 (E½) W, S.M.

T 5 S, R 25 W, S.M.

T 4 S, R 24 W (S½), S.M.

T 4 N, R 19 W, S.M.

T 4 N, R 20 W (E½) S.M.

T 4 N, R 18 W (W½) S.M.

T 3 N, R 17-20 W, S.M.

T 3 N, R 21 W (Secs. 31-36, and 25-30 in the Tuxedni River Watershed)

T 2 N, R 18-20 W, S.M.

T 2 N; R 21 W (North and East of the Tuxedni River and Bay)

D. By mutual consent of the Secretary and CIRI, Village Corporations within the Region may exchange selections or selection rights under section 12 of ANCSA for acres, or acre/equivalents contained in the pools established under paragraphs 1-C 2(a)(3)(i) of this document, of lands in the pool established out in paragraph 1-C(2)(a) of this document.

E. Up to two townships without the exterior boundaries of Cook Inlet Region to be mutually agreed upon by the Secretary, CIRI, and the State may be made available for 12(b) selection. To the extent acreage is allocated to a Native village pursuant to this subparagraph E. The village must have an equal amount of acreage, in

section units, from 12(a) selections in the hereinafter described acres on an acre-for-acre basis outlined in this subparagraph in the out of Region townships identified in this paragraph.

T 4 S, R 23 W ($N\frac{1}{2}$) S.M.

T 3 S, R 20, 21, and 23 W, S.M.

T 2 S, R 19-21 W, S.M.

T 1 S, R 19-21 W, S.M.

T 1 N, R 20 W, S.M.

Provided that should the respective village not have any 12(a) selections in the above, 12(a) selection for the following shall be traded under the provision of this paragraph.

T 2 N, R 18-21 W, S.M.

T 3 N, R 18-20 W, S.M.

T 4 N, R 19-21 W, S.M.

T 5 N, R 19-20 W, S.M.

VIII. A. CIRI and the Secretary shall publicly support the establishment of a unit of the National Park System surrounding the Lake Clark area including those lands withdrawn under section 17(d)(2) of ANCSA and those lands described in paragraph VI-A of this agreement. The Secretary and CIRI shall also agree to seek a provision in said legislation that would provide that before entering into any contract arrangement to provide new revenue producing services within the proposed Lake Clark Unit of the National Park System within the boundaries of the Cook Inlet Region, the Secretary shall offer to CIRI in cooperation with Village Corporations within the Region when appropriate, the right of first refusal to provide such services, the right to remain open for a period of ninety days. CIRI and the Secretary shall recommend that such legislation provide that the United States may acquire lands selected by Village Corporations within the boundaries of the Lake Clark proposal, but only with the consent of the appropriate Village Corporation.

B. CIRI and the Secretary shall publicly support the establishment of the Caribou Hills, Swanson River, Mystery Creek, and Andy Simons Wilderness Areas within the Kenai National Moose Range. CIRI and the Secretary shall seek a provision in such legislation that would provide that before entering into any contract or agreement to provide new revenue producing services within the Kenai National Moose Range, the Secretary shall offer to CIRI in cooperation with Village Corpoations within the Region when appropriate, the right of first refusal to provide such services, the right to remain open for a period of ninety days.

IX. Lands conveyed to CIRI and/or its Village and Group Corporations in accordance with this document, notwithstanding their source (whether Federal or State), shall upon conveyance to CIRI and/or the appropriate Village or Group Corporation, be considered and treated as conveyances under and pursuant to ANCSA, except as may be expressly provided otherwise in this document.

X. As soon as practicable after any estate or interest in Federal lands to be patented to CIRI in accordance with this document is identified, CIRI and the Secretary shall review all leases, contracts, permits, rights-of-way and easements covering or concerning such estate or interest to determine whether the administration thereof may be waived by the Secretary, in his discretion, in accordance with the provisions of section 17(g) of ANCSA.

XI. Effective the date that State lands to be conveyed for CIRI are designated by CIRI pursuant of paragraph II of this document, the State, if so authorized, shall place all revenues received from such lands in escrow to be transferred to the Region when appropriate. The administration of all leases, contracts, permits, rights-of-way and easements prior to the conveyance of such lands to the United States shall be by the State, except that all decisions concerning modification, conversion, or renewal or appraisal of such interests will be with the concurrence of the Region. Effective the date of conveyance of such lands from the State to the Secretary, the State shall waive in favor of CIRI administration of all

leases, contracts, permits, rights-of-way and easements totalling embraced by such lands. The State shall give timely written notice of the change of ownership and administration to the holders of rights on such lands.

XII. The responsibilities and benefits accruing to the Secretary, the State and CIRI under this document shall become binding only when such legislation as is necessary to effect this agreement has been enacted. Upon passage of such legislation, CIRI and all plaintiffs/appellants shall, with the consent of the Secretary, dismiss its pending appeal in Cook Inlet Region vs. Kleppe, No. 75-2232, (9th Cir.) by executing and filing pursuant to Rule 42(b) of the Federal Rules of Appellate procedure an agreement that the proceeding may be dismissed.

XIII. For the purposes of this document, a township shall be considered 23,040 acres.

APPENDIX A

T. 1 N., R 11 W S.M.	Secs. 1-4, 9-12, 16, W½S17-comprising approx. 6,050 acres, more or less
T. 2 N., R 11 W S.M.	Sec. 9, approx. 70 acres in the SW¼ lying south and west of the high water mark on the south and west bank of the Kasilof River
	Sec. 16, approx.430 acres comprising all moose range lands in this section lying south and west of the high water mark on the south and west bank of the Kasilof River.
	Sec. 21, all
	Sec. 22, approx. 130 acres comprising all moose range lands in this section lying south and west of the high water mark on the south and west bank of the Kasilof River
	Sec. 27, approx. 330 acres comprising all moose range lands in this section lying west of the high water mark on the west bank of the Kasilof River and those lands in this section lying south and west of the high water line on the south and west shore of Tustemena Lake
	Sec. 28, all
	Sec. 33, all
	Sec. 34, approx. 600 acres comprising all moose range lands in this section lying south and west of the high water line on the south shore and west shore of Tustemena Lake
	Sec. 35, approx. 290 acres comprising all moose range lands in this section lying south of the high water line on the south shore of Tustemena Lake

Appendix A (continued)

Sec. 36, approx. 360 acres comprising all moose range lands in this section lying south of the high water line on the south shore of Tustemena Lake

Comprising approximately 4,160 acres, more or less.

APPENDIX B

Appendix B-1

82,560 acres of the specified mineral estate to be selected from the following described lands*

Priority		
1	T. 8 N., R. 9 W.,	Secs. 1-8; Sec. 9 excluding E/2 SE/4, NW/4 SE/4, SE/4 NE/4; Sec. 10 excluding SW/4, S/2 SE/4, NW/4 SE/4, S/2 NW/4, NW/4 NW/4; Secs. 11-14; Sec. 16 W/2; Secs. 17-20; Sec. 21 excluding NE/4, E/2 NW/4, NE/4 SW/4, N/2 SE/4, SE/4 SE/4; Secs. 23-26; Sec. 27 excluding N/2, SW/4, W/2 SE/4; Sec. 28 excluding SE/4, E/2 SW/4, E/2 NE/4, SW/4 NE/4; Secs. 29-31; Sec. 32 excluding S/2 SE/4, NE/4 SE/4, Sec. 33 excluding S/2, NE/4, S/2 NW/4, NE/4 NW/4; Sec. 34 excluding W/2, W/2 NE/4; Secs. 35-36-comprising approx. 18,440 acres
1	T. 8 N., R. 10 W.,	Secs. 1; 12-14; 23-26; 32-36-comprising approx. 7,680 acres
1	T. 7 N., R. 9 W.,	Sec. 3, E/2; Sec. 5 excluding S/2, NE/4; Secs. 6; 7; 8 excluding E/2, E/2 SW/4, E/2 NW/4, NW/4 NE/4; Sec. 10 excluding W/2 SW/4, W/2 NW/4, NE/4 NW/4; Sec. 14 excluding NE- /4; Sec. 15; Sec. 16 excluding NW/4, E/2 NE/4, SW/4 NE/4; Sec. 17 excluding NE/4 NE/4; Secs. 18-36-comprising approx. 16,560 acres
1	T. 7 N., R 10 W.,	Secs. 1-5; 7-25; Sec. 26 excluding W 1/2 SW 1/4; Sec. 27 excluding S 1/2 N 1/2; Sec. 28 excluding S 1/2 NE 1/4, SE 1/4, E 1/2 SW 1/4; Secs. 29-32; Sec. 35 excluding W 1/2, S 36 comprising approx. 19,920 acres
2	T. 6 N., R 10 W,	Sec. 1; Sec. 2 excluding W/2 NW/4; Sec. 4 excluding N/2, SE/4, E/2 SW/4; Sec. 5-8; Sec. 9 excluding N/2 NE/4; Sec. 12; 16-17; 20-21-comprising approx. 7,600 acres.
4	T. 7 N., R 11 W.,	Sec. 23-26; 35; 36-comprising approx. 3,840 acres

Appendix B-1 (continued)

3	T. 6 N., R 11 W	Sec. 1-2; 11-14-comprising approx. 3,840 acres
3	T. 10 N., R 7 W	Sec. 19-21; 23 (N/2); 29-32-comprising approx. 4,800 acres

*These lands total approximately 82,680 acres (3.58 townships). Any unselected portions of the above described lands shall be first priority selection for in-lieu selections from appendix B-2 below.

Appendix B-2

Up to 138,240 acres (6.0 townships) of specified mineral in lieu estate to be selected from the following described lands by priority ranking and in the order listed.

Priority

2	T. 9N., R 9 W	Sec. 13; 23 excluding SE/4 SE/4; Sec. 24 excluding W/2 SE/4, SW/4; Sec. 25 excluding W/2 E/2, W/2; Sec. 26 excluding E/2 E/2; Sec. 27; Sec. 34 E/2; Sec. 32-35; Sec. 36 excluding W/2 SE/4, NW/4, and N/2 SW/4-comprising approx. 6,120 acres
3	T. 9 N., R 8 W	Sec. 1-5; 7-36-comprising approx. 22,400 acres
2	T. 6 N., R 9 W	Sec. 1-17; 20-29; 34-36-comprising approx. 19,200 acres
3	T. 8 N., R 8 W	All-comprising approx. 23,040 acres
2	T. 4 N., R 10 W	Sec. 9-10; 13-36-comprising approx. 16,640 acres
2	T. 4 N., R 11 W	Sec. 25; 36-comprising approx. 1,280 acres
3	T. 1 N., R 11 W	Sec. 17 (E/2): Sec. 21-28; Sec. 33-36-comprising approx. 6,720 acres
3	T. 3 N., R 11 W	Sec. 1; 12-15; 22-27; 34-35-comprising approx. 8,320 acres
3	T. 3 N., R 10 W	Sec. 1-30-comprising approx. 19,200 acres
3	T. 4 N., R 9 W	Sec. 2 excluding SE/4; 3-10; 11 excluding E/2; Sec. 14 excluding E/2; 15-20; 21 excluding SE/4; 29-34-comprising approx. 12,480 acres

APPENDIX C

If and only if CIRI has on or before January 12, 1976 presented evidence satisfactory to the State that the villages of Knik, Chickaloon, Alexander Creek, Ninilchik and Salamatof have withdrawn selection applications for and relinquished all claims to land in the Lake Clark, Lake Kontrashibuna and Mulchatna River areas, the State shall convey under Part II of this document to the United States for reconveyance to CIRI all of the state lands identified or to be identified in this Appendix C. All conveyances of lands made in accord with this document shall pass all of the State's right, title and interest in the lands, including the minerals therein, as if these conveyances were made pursuant to section 22(f) of the Alaska Native Claims Settlement Act, except that dedicated or platted section line easements and highway or other rights-of-way may be reserved to the State.

1. Acreage from each of the five pools identified in this paragraph in the amounts therein set forth. Out of each such pool, the required acreage shall be determined to the extent possible by mutual agreement of the State and CIRI. For so many of the required acres as have not been so determined by agreement in each pool within eighteen months following implementation of this document, those remaining required acres shall be identified by CIRI's selecting acreage in that remaining amount from an array of 1½ that many acres within the pool, said array to be identified to CIRI by the State.

A. Point McKenzie. 3,200 acres must be identified from state lands within the following areas:

T 15 N, R3 W through 5W, S.M.

T 14 N, R4 W through 5W, S.M.

T 13 N, R4 W S.M. (North of Knik Arm)

B. Knik-Willow Pool. 4,480 acres must be identified from state lands within the following areas:

T 16 N through 18 N, R 2W through 5W, S.M.

C. Kahuitna Pool. 38,400 acres must be identified from state lands within the following areas:

T 21 N through 25 N, R3W and 4W, S.M.
(or other necessary lands)

D. Chickaloon Pool. 4, 480 acres must be identified from state lands within the following areas:

T 19 N, R3 E through 5E, S.M.

T 20 N, R4 E through 7E, S.M.

E. Kenai Pool. 115,200 acres must be identified from state lands on the Kenai Peninsula.

Provided however that the State may with CIRI's concurrence supplant acreage otherwise to be identified from the Kenai pool in subparagraph E on an acre-for-acre basis with lands chosen in respect of acres attributable to Alexander Creek, Ninilchik and Salamatof in the manner described by

paragraph 3 of this Appendix. Supplanting lands may not exceed that number to which the State is obligated under paragraph 3 to provide in respect of each of those three villages.

2.(a) Thirteen and one-half townships of lands in the Beluga Area Townships listed in this paragraph. The identity of those lands shall be determined by CIRI within eighteen months following the implementation of this document by nomination of compact units no less than 1/4 township in size lying along township lines, provided that where constrained by selection pool boundaries or water bodies they may be smaller; Provided, However that if Tyonek Corporation desires to trade the surface estate it holds in the Kenai National Moose Range for State surface lands within the vicinity of its village lands but within CIRI's selection pool, it may obtain up to one township of such lands. If Tyonek Corporation does trade for CIRI's selection pool lands, CIRI shall select an equivalent acreage of other surface estate from within its selection pool.

T. 16 N., R. 14 W., S.M.;

T. 16 N., R. 13 W., S.M.;

T. 16 N., R. 12 W., S.M., Secs. 7, 16, 17, 18, 19, 20, 21, 22, 25, 26, 27, 28, 29, 30, 31, 32, 33, 34, 35, 36;

T. 16 N., R. 11 W., S.M., Secs. 20, 21, 25, 26, 27, 28, 29, 30, 31, 32, 33, 34, 35, 36;

T. 15 N., R. 14 W., S.M.;

T. 15 N., R. 13 W., S.M.;

T. 15 N., R. 12 W., S.M.;

T. 15 N., R. 11 W., S.M.;

T. 15 N., R. 10 W., S.M., W-1/2, excluding Sec. 4;

T. 14 N., R. 15 W., S.M.;

T. 14 N., R. 14 W., S.M.;

T. 14 N., R. 13 W., S.M., W-1/2;

T. 14 N., R. 11 W., S.M.;

T. 14 N., R. 10 W., S.M., W-1/2;

T. 13 N., R. 15 W., S.M.;

T. 13 N., R. 14 W., S.M.

T. 13 N., R. 10 W., S.M., E-1/2 excluding lands east of the west bank of the Beluga River

T. 12 N., R. 15 W., S.M.;

T. 12 N., R. 14 W., S.M., excluding Secs. 23, 24, 25, 26, 29, 31, 32, 33, 36

T. 12 N., R. 10 W., S.M.;

T. 11 N., R. 13 W., S.M., Secs. 12, 13 excluding W-1/2 SW-1/4; 24 NE/4 NE/4.

T. 11 N., R. 12 W., S.M., Secs. 18, 19 excluding SW-1/4, S-1/2 SE/4; 20.

(b) Provided, However, that the following described lands shall not be available for CIRI's selection of subsurface estate:

Beluga

T. 13 N., R. 10 W., S.M., Secs. 11, E-1/2; 12, 13, 14, 22, 23, 24, 25, 26, 27, 34, 35, 36.

T. 12 N., R. 10 W., S.M., Secs. 2, 3, 4, 5, 8, 9, 10;

Nicolaick

T. 11 N., R. 12 W., S.M., Secs. 16, SW-1/4; 17, SW-1/2; 18, SE-1/4; 19, E-1/2, E-1/2 W-1/2; 20; 21, W-1/2; 28, W-1/2; 29, 30, 31, 32.

(c) The State shall provide a floating, public, 300 foot wide transportation easement from T. 13 N., R. 14 W., S.M. to the shore of Cook Inlet in T. 11 N., R. 12 W., S.M. Said easement to be determined upon the ground at such future time as a need exists and there are adequate field data available upon which the State may finally plan and locate the corridor.

3. Lands in an amount equal to 1/4 of the acres to which each of the villages of Knik, Chickaloon, Alexander Creek, Ninilchik, and Salamstof are or would be entitled under ANCSA Sec. 12(a), under selection applications on file with the BLM as of July 18, 1975, in the Lake Clark, Lake Kartrashibuna and Hulchatna River areas. Each acre identified for conveyance by the State hereunder must be located within or near the 11(a)(1) withdrawal of the village to which the displaced ANCSA acreage to which that acre corresponds would otherwise have passed under ANCSA. The lands so identified in respect to displaced acres attributable to Alexander Creek and Salamstof shall be conveyed by the State if and only if the village to which the displaced acres are attributable retains its village eligibility status under ANCSA.

APPENDIX D

LANDS IN THE LAKE
ILIAMNA AREA AND IN THE
NUSHAGAK RIVER AND LAKE CLARK DRAINAGES
(paragraph (1))

I. The Secretary shall convey to the State at least 22.8 townships and no more than 27.0 townships of land from those presently withdrawn under section 17(d)(2) of the Alaska Native Claims Settlement Act in the Lake Iliamna area and within the Nushagak River or Lake Clark drainages near lands heretofore selected by the State.

II. The following townships shall be conveyed to the State as part of the minimum of 22.8 townships to be conveyed to the State from lands identified in paragraph I.

T 4N, R 36 W, S.M.

T 3N, R 36 W, S.M.

T 2N, R 36 W, S.M.

T 1N, R 36 W, S.M.

T 1S, R 37 and 38 W, S.M.

T 2S, R 37 and 38 W, S.M.

T 3S, R 37 and 38 W, S.M.

T 4S, R 37-39 W, S.M.

T 5S, R 40-42 W, S.M.

T 6S, R 40 W, S.M. (except 21-28, 33-36)

T 6S, R 41 and 42 W, S.M.

T 7S, R 42 W, S.M. (secs. 3-10, 15-18)

III. For each acre of valid village 12(a) selections relinquished in the Lake Clark, Lake Kontrashibuna and Mulchatna River areas pursuant to paragraph II of the document to which this forms an Appendix, the

Secretary shall convey to the State, on an acre for acre basis, lands from within the 17(d)(2) area described in Paragraph 1 up to a total of 4.2 townships.

IV. To the extent that lands to be conveyed to the State pursuant to Paragraphs II and III above are not specifically identified in this Appendix, they shall be identified by mutual consent of the State and the Secretary from lands described in Paragraph I within 60 days of the date the State becomes bound to this document, or within 60 days of the date that any entitlement vests in the State pursuant to Paragraph III of this Appendix, whichever shall come first.

V. All lands granted to the State of Alaska pursuant to this Appendix D shall be regarded for all purposes as if conveyed to the State under and pursuant to section 6 of the Alaska Statehood Act: Provided, however, that this grant of lands shall not constitute a charge against the total acreage to which the State is entitled under section 6(b) of the Alaska Statehood Act.

Appendix B-1 (continued)

4	T. 3 N., R 9 W	Sec. 3-6; Sec. 7 excluding SE/4-comprising approx. 3,040 acres

All townships in Appendix B are Seward Meridian.

APPENDIX E

LANDS IN THE
TALKEETNA MOUNTAINS, KAMISHAK BAY
AND TUTNA LAKES AREAS
(paragraph (2))

The Secretary shall convey to the State the following described lands, subject to valid village selections under section 12(a), but not 12(b), of ANCSA.

T 22N, R 2W, S.M.

T 23N, R 2W, S.M.

T 24N, R 1 and 2 W, S.M.

T 26N, R 1 and 2 W, S.M.

T 27N, R 2W, S.M.

T 29N, R 2W, S.M.

T 7S, R 26W, S.M. secs. 29-31

T 7S, R 27-29 W, S.M.

T 8S, R 26-29 W, S.M.

T 9S, R 26-30W, S.M.

T 10S, R 28-30 W, S.M.

T 11S, R 28-30 W, S.M.

T 4N, R 33-35 W, S.M.

T 3N, R 34 and 35 W, S.M.

T 2N, R 34 and 35 W, S.M.

APPENDIX F

(Far North Bicentennial Park)

T 12 N, R 3 W, S.M.

Section 1

Section 2

Section 3 (except SW 1/4)

Section 10 (except S 1/2)

Section 11 (except S 1/2)

Section 12

T 13 N, R 3 W, S.M.

Section 34 (except N 1/2 NE 1/4 NE 1/4)

Section 35 (except NW 1/4, N 1/2 SW 1/4 NE 1/4 NE 1/4)

Section 36 (except NE 1/4 SE 1/4 SE 1/4 NE 1/4)

APPENDIX G

TALKEETNA MOUNTAINS - KOKSETNA RIVER LANDS

(paragraph (e))

The Secretary is authorized and directed to make available for selection by the State, in its discretion, under section 6 of the Alaska Statehood Act, 12.4 townships of land to be selected from lands within the Talkeetna Mountains and Koksetna River areas as described below.

T 4N, R 31 W, S.M. (W 1/2)

T 4N, R 32 W, S.M.

T 3N, R 31 W, S.M. (W 1/2)

T 3N, R 32 and 33 W, S.M.

T 2N, R 31-33 W. S.M.

Subject to valid village 12(a) and 12(b) selections under ANCSA, the following lands located south of the Susitna River:

T 29N, R 11E - 2 W, S.M.

T 30N, R 11E - 2 W, S.M.

T 31N, R 9E - 2 W, S.M.

THE PRECEDING PAGES WERE TREATED AS
A UNIT IN THE ORIGINAL FILE.

Alaska State Legislature

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REPRESENTING DISTRICT 10
BRISTOL BAY - LOWER KUSKOKWIM

CHAIRMAN
RESOURCES COMMITTEE

House of Representatives

MEMORANDUM

To: The House Resource Committee

From: Nels A. Anderson, Jr.
Chairman-House Resource Committee

Subject: Limited Entry hearings in Dillingham, Togiak, Naknek, Nondalton.

INFORMATION

DILLINGHAM— Attendance- 40 people

A. 23 people testifying
1. In favor of limited entry
   a. felt that it was needed
2. Worried about the fact that there was no provision for young people to enter into fisheries.
3. Not in favor of moritorium
4. Suggested an alternate source of income for the young similar to Farmers Subsidy.

B. Wood-River Tickchik proposed park

15 people testifying

1. Alaskan bulk of the people against
2. Feel they subsistence hunting and fishing might be hurt
   a. Feel that vigerous use of the area is not in the best interest of the local people
   b. Against the master plan- Feels that it is much different than the bill as written.
   c. Returns from the park would not be worth the possible economic gains
   d. Spoke toward "Local Control" of the park
   e. Discussed the functions of Fish and Game Division vs. the State Park System in the state park.

C. Wanton waste bill and committee substitute

10 people testifying

1. People in favor of the committee substitute
2. Make it illegal to transport horns at all
   a. do away with trophy hunting completley.
   b. "Airborn on the same day" makes it difficult for subsistence hunter.
   c. Make subsistence hunting and fishing a priority over trophy hunting and sport fishing.
   d. Guides who accompany hunters who violate the law should be heavily penalized.
      1. 1st time heavy fine and revokation of license for one year
      2. 2nd time completely revoke license
   e. Make sure bill provides that meat can be left in the village
   f. Create mandatory check points
   g. More protection officers.

TOGIAK-- Attendance- 40 people

A. Limited Entry

1. Many questions
2. Make sure young people can get into fisheries
3. More points for where a person was born
4. All Bristol Bay watershed area residents receive permits
5. Native pople felt that laws were passed before Natives had a chance to review them- No hearings held- no imput from the people.

B. Wanton waste of game meat

1. Feels that Fish and Game leave trophy hunters alone and pick on natives
2. Natives are not used to having a licence.

NAKNEK-- Attendance- 33 people

A. Limited Entry

1. Testimony on why Limited Entry treats all parts of the state the same, not by individual areas.
2. Allow young people to enter the fishing industry
3. Any person born and raised in the Bristol Bay watershed area should be issued a lifetime permit.
4. Why should non-residents be equal to a resident
5. Alaska Dept. of Fish and Game and Limited Entry Commission should be based in Naknek where the fisheries are, on year round basis

6. Japanese fisheries was discussed
7. Feels Limited Entry has disrupted a way of life
8. People are tired of no public input from the smaller of the state, especially when the bills affect the local areas
9. Lifetime permits for proven residents of the area
10. Why doesn't the state conduct its own research instead of using University of Washington staff

B. Wanton waste of game meat.

1. In favor of bill
2. Increase surveilance personnel to enforce regualtions

NEW HALEN- (People attending from: Kokhanok, Pedro Bay, Illiamna, Igiugig, Nondalton)

Attendance- 27 people

A. Limited Entry

1. In favor of Limited Entry
2. Wanton provision for young people

B. Wanton waste of game meat

1. Last year was the worst year ever for the slaughter of animals in Illianma-Nondalton area. Not much meat was seen
2. Should be a limit on the number of animals taken.
3. Should establish a radius around a village where trophy hunting is not allowed
4. Asked for more enforcement officers
5. The villages want the meat if the hunters and guides don't
6. Mandatory check points
7. Discussed the amount of animal slaughtered when hunting and transporting were allowed on the same day - caribou especially
8. Only allow two caribou per day to be taken

NONDALTON- Attendance 16 people

A. Limited Entry

1. Questioned how much money was spent on helping people outside the state with Limited Entry
2. Watershed people should be allowed permits
3. Basically for Limited Entry, but allow the young people to enter the fisheries

B. Wanton waste of game meat

1. Radius around village where there should be no trophy hunting
2. Price of trophy tags should be raised
3. Department should keep track of how many animals are taken out

out of a lodge.
4. If game is short stop trophy hunting and allow only subsistence
5. For the bill, but with more controls and enforcement personnel

From
Bristol Bay
By-Lines, Mar. 20
'75

ANDERSON HOLDS HEARING

The Controversial Limited Entry Law was strongly supported by Dillingham area residents at a hearing held last week at the Youth Center, in Dillingham. Representative Nels Anderson, of the House Resources Committee, had come to Bristol Bay to seek advice on a proposed year moratorium on implementation of the law. The statements heard not only rejected the moratorium, but questioned the results of such an act.

Forty people attended the meeting, which also aired statements on the Proposed Woodriver-Tikchiks State Park and Wanton Waste Legislation. Representative Ted Smith of Anchorage, a major proponent of the proposed park, chaired that hearing.

Also attending the hearings were Darwin Biwer of the Limited Entry Commission, and Guy Van Doren, Representative Anderson's Staff Assistant.

Among those speaking in opposition to the year moratorium were Trefon Angasan, Jr., Executive Director, BBNA; Henry A. Cavallera, Alaska Legal Services; Jake Gregory, Egegik Village Council, and Sam Fortier, BBNA.

Mr. Angasan stated that the position of Bristol Bay Native Association is unalterably opposed to the proposed year moratorium. He cited the delay in implementing the law, and the damages to the Bristol Bay region already incurred. Mr. Angasan also stated that there is a need to develop a program to include young fishermen, and outlined the lengthy years of apprenticeship most young fishermen of Bristol Bay must pass through. He also stated that the real concern of the BBNA is the young fisherman who may not qualify. No solution exists, but the people of Bristol Bay, traditionally fishermen, must be afforded some chance to continue their chosen life styles. The Limited Entry Law was seen by Mr. Angasan as perhaps the only way to save the fisheries.

Mr. Nick D. Gregory of Egegik, expressed concern for future generations of Bristol Bay fishermen. He also mentioned the old people who have not held gear licenses in many years, emphasizing the part they played in the development of a Bristol Bay fishing community. Mr. Gregory stated that he did support the law as a means of stabilizing the fishery. (Cont. on Pg. 9, Col 1)

The Commission representative, Darwin Biwer, was questioned by Henry Cavellera and Sam Fortier. Cavellera requested that the Commission comply with letters asking information on status of applications. Fortier pointed out that while the letters were duly signed by all applicants wishing BBNA to receive the information, compliance appeared arbitrary.

Opposition to the Woodriver-Tikchiks State Park was strong. Representative Ted Smith, who chaired that portion of the hearings, heard statements from Bristol Bay Native Association; Choggiung, Ltd; Henry Cavallera on behalf of New Stuyahok; Fred Torrissi of Alaska Legal Services, and Dan O'Brien.

Bristol Bay Native Association stated opposition to the Park because development in the area would destroy the subsistence economy, be an avenue to bring roads and pipelines from Anchorage, and because the plan did not answer the needs of the local economy. Bristol Bay Native Association resolution 75-17, calling for opposition to the park, and opposition to further development that would hinder the life styles and local control of the Bristol Bay area. BBNA spokesman stated that the Park proposal is not justified either from a human resources or economic view, and that the expansion of the park authorities into the area would "bring about detrimental effects to the prosperity and happiness of the people."

Choggiung statements in opposition to the Park were read by Nels Anderson. It was stated that the detrimental effects of such a proposal would far outweigh any gains, and that the ready access of roads would spell the end of any real choice and development. Choggiung stated that the State domination was resented; that the proposal disallowed the people from making decisions that would effect their lives and generations to come. "It was further stated that "preservation, promotion, and subsistence don't mix."

William Johnson of Choggiung said that the tourism would have adverse effects on salmon and meat sources, and opposed the park plan.

Henry Cavallera, speaking for New Stuyahok, summarized the issue; the State must determine what is to be done with renewable food resources, the game and fish of the area. He also stated that the claim by the state that tourism would enrich the state is patently false; that very little real income would be realized, and that the plan is vague.

Fred Torrissi, Alaska Legal Services, questioned Rep. Ted Smith on the status of allotments in the proposed park. Smith was unable to provide an answer.

Mr. Dan O'Brien, speaking as a resident stated that the basic structure of the Master Plan presented very real questions. He stated "artificial growth and use is brought forth by advertising, and advertising brings tourists, and encourges more and more people to come to the area."

The Park was opposed by all speakers; tourism and roads were opposed, and concern raised for the people and land.

Representative Smith promised to take comments into consideration.

The Wanton Waste Legislation, sponsored by Nels A. Anderson received support. Anderson's bill would make it difficult for people to trophy hunt, and further, to lighten Title 16 to Alaska Statutes so that meat would not be wasted.

Speakers pointed out that meat was a resource, a food supply. The legislation should require all meat be used, and impose stiff fines on misuse of meat.