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ALASKA STATE LEGISLATURE

MEETING OF THE JOINT GAS PIPELINE COMMITTEE ON ALPETCO

DATE: April 28, 1980

PLACE: Juneau, Alaska

ALPETCO REPRESENTATIVES TESTIFYING:

Dudley Parker, General Manager
Willard Hanzlik, Vice-President, Finance
Ron Dagon, Manager, Environmental Programs and Permitting
Jim Frances, Attorney for ALPETCO
Richard Barnes, Vice-President and Alaska Manager

COMMITTEE MEMBERS:

Bill Miles, Co-Chairman
Mike Colletta, Co-Chairman
Hugh Malone
Samuel R. Cotten
Joseph H. McKinnon
C. V. Chatterton
Joe L. Hayes
John C. Sackett
Terry Gardiner
Frank Ferguson

OTHERS PRESENT:

Mike Miller

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P R O C E E D I N G S

BY: CHAIRMAN MILES

Okay, we'll call this meeting back to order. This is the continuation of the Joint Gas Pipeline Committee Hearing on ALPETCO. We have Mr. Parker, the General Manager of ALPETCO and perhaps you'd like to introduce your people and commence your presentation, sir.

BY: DUDLEY PARKER

Thank you. My name is Dudley Parker, I am the General Manager of the ALPETCO Company. I also am an Executive Vice-President of Charter Oil Company and this is the first time I've had an opportunity to appear before any legislative body or committee in the State of Alaska. I'm looking forward to it. I hope from the standpoint that I get to know each of you better. We have prepared a program which we think will bring you up to date on the status of the ALPETCO project in quite a bit of detail and hopefully put to rest some of the questions that may be in your mind at this point in time. Rather than go into a lot of specific things on my part right now, I will introduce the people. On my right -- far right, is Dick Barnes, who is Vice-President and Alaska Manager. Next to Dick is Jim Frances, who is a partner with Smith, Ozie, Swabby and Nichols (ph), the legal counsel for ALPETCO. On my left here is Willard Hanzlik, who is the Vice President of Finance for ALPETCO and then Ron Dagon, and Ron is the Manager

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1 of Environmental Programs and Permitting. And Ron is the one
2 that will put on the slide show presentation. After that we
3 will be glad to answer any questions that the committee would
4 like to ask. With that, Ron.

5 BY: RON DAGON

6 Mr. Chairman, ...

7 BY: MR. MILES

8 How long is the slide presentation going to take?

9 BY: MR. DAGON

10 About 15 minutes, if you want to see it.

11 (Discussion among unidentified speakers re slide presentation)

12 BY: MR. DAGON

13 It does answer, or I think, directs itself to some of Mary's
14 questions. Basically, the first one was the one of ownership
15 and I think now everybody understands where that ownership sits
16 today. Charter Oil of Alaska is 70%, Alaska Petrochemical at
17 23.4, E. F. Hutton at 6.6 and Alaska Petrochemical, of course,
18 is continuously owned by 75% Alaska Interstate, 22% Sea Train
19 and 3% is the shares of the Alaska Native corporations, the
20 six regional corporations.

21 BY: MR. MILES

22 That's down from how much ...

23 BY: MR. DAGON

24 Willard's going to give you an update on that financing package
25 and can address how that happens. But basically the percent-
age share of the Native corporations has been frozen

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1 as they've made no further contribution to capital and in
2 fact we're carrying them to some extent and Willard will hit
3 that. But that's a minimum number that never decreases.
4 BY: MR. MILES
5 Weren't they projected a couple of years ago
6 BY: MR. DAGON
7 Willard can answer that ...
8 BY: MR. MILES
9 ... 10%, 8%, something like that?
10 BY: MR. WILLARD HANZLIK
11 The Native corporations were shareholders in Alaska Consoli-
12 dated Shipping, which started out with a 20% interest. As
13 funds were required to meet the project's expenditures, that
14 group declined to make further contributions and therefore,
15 by virtue of other partners, other shareholders, investing in
16 shares of the company, their interest declined below 2%. In
17 recognition of the contributions that the Native corporations
18 have made to the project, the shareholders of Alaska Petro-
19 chemical Company agreed to give the 6 Native corporations a
20 3% -- what is called a carried interest. That is, they will
21 make no contributions, but will still be entitled to 3% of
22 the benefits of stock ownership in Alaska Petrochemical
23 Company.
24 BY: MR. MILES
25 You said they declined to make further contributions. Were

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1 they offered? Did they have the opportunity?

2 BY: MR. HANZLIK

3 Yes.

4 BY: MR. DAGON

5 They do retain the 51% ownership of Alaska Consolidated Ship-
6 ping, of which Sea Train is a 49%.

7 BY: MR. MILES

8 Why did they decline?

9 BY: MR. HANZLIK

10 They either didn't have the funds or declined to make a
11 contribution.

12 BY: MR. DAGON

13 A quick glance at the current policy committee, so everybody
14 does know the players, ALPETCO Company is a joint venture.
15 Dudley Parker is General Manager. Alaska Petrochemical is
16 represented by Charles Honig, who you all know, Bill
17 Anderson and Hanzlik. Charter Oil of Alaska is represented by
18 Jack Donnell, President of Charter Oil and E. F. Hutton
19 Alaska, Inc. is represented, of course, by Jim Lott (ph), who
20 you've all heard here on numerous occasions. I said we'd
21 run through this quickly and we will. There was a question
22 asked about the status of the project in terms of its
23 authority to proceed. We did go through a major permitting
24 procedure over 18 months. The final EIS was published last
25 Friday in the Federal Register. The major Federal permits

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1 have been issued. State actions have been taken. The major
2 two state air and water permits are issued. Coastal Zone
3 Management consistency has been filed. Pending, and by pend-
4 ing I mean within weeks, the Corps of Engineer's permits for
5 docks and wetlands, the pipeline right-of-way lease with the
6 Department of Natural Resources, with essentially the product
7 lines from the plant site to the dock is currently being
8 negotiated between us and DNR. And, of course, the ground lease
9 and a permit, essentially a super building permit with the
10 city of Valdez. For the record, the cost of that environ-
11 mental program and permitting takes somewhere in excess
12 of about 4-1/2 million dollars, not quite complete. Inciden-
13 tally, it will be the first major energy facility permit-
14 ted in the United States in about 7 years, I believe. A
15 quick review for those not familiar with what's going on. The
16 chosen ALPETCO site is approximately 1500 acres east of town,
17 6-1/2 miles of the new town of Valdez. You're talking
18 essentially about a project that occupies this ground adjacent
19 to the Valdez airport. The pipeline route which takes crude
20 from the Alyeska line approximately here, enters the plant,
21 the process areas and back out the same corridor product
22 streams to a dock which is about a mile and a half, if you
23 will, east of the Alyeska terminal. Just to show you quick
24 what we're talking about, this is a U-2 shot of the
25 Port of Valdez and the project site sits here adjacent to the

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1 airport. This is the Alyeska terminal, in fact, two 225,000,
2 I believe, ton tankers are loading. The new town of Valdez, the
3 Alyeska pipeline is this white or blue corridor. From a
4 Hop-in here, moving along the highway into the site, back
5 out of the site, down and to a dock which sits adjacent to,
6 for those who are familiar with it, the Solomon Gulch Hydro
7 Project. This is the site itself. In the past year we have
8 spent approximately a half a million dollars in drilling,
9 probably another 200,000 in route access and construction,
10 pump test and this sort of thing. The site is currently
11 being surveyed, actually in anticipation of clearing it
12 sometime in July. (indisc.) This is a photo of the site
13 itself looking back towards the town of Valdez. It's flat,
14 1500 acres on good gravel, site seismically stable. Another
15 view looking over it from the Richardson Highway, looking up
16 towards and in back of the Valdez Glacier.

17 BY: MR. MILES

18 Mr. Gardiner, did you have a question?

19 BY: MR. GARDINER

20 Is that over the top of -- the river seems to go right through
21 the middle of it?

22 BY: MR. DAGON

23 I'm sorry. This is the Valdez River, Valdez Glacier Stream
24 has a flow from 0 to about 130 cfs. depending upon what month
25 you take it. There is a (indisc.) of a small (indisc.) levy which
would keep it in its channel, but essentially it just goes on by.

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BY: MR. MILES

The refinery will be on this side?

BY: MR. DEGAN

The refinery's on this piece of property.

BY: MR. COTTEN

You have a crossing of the river bed though, don't you?

BY: MR. DAGON

Well there's a road crossing and bridge involved, and that sort of thing. It's not a major issue. Well here it is. This is looking directly across the stream into the plant site. And that's probably June, a year ago or something. That's a better shot of the stream itself. (Brief discussion re Valdez runway -- indisc. for the most part) That's the reason I brought the slides along. Some people really didn't know. And these are just three quick shots of the site. This is typical of it, low trees; it is wooded, basically it's gravel. It's an old glacier outflow or (indisc.). The gravel was as deep as 500 feet, good foundation, adequate water. This is a stream that runs along the south edge of the property. It'll stay in place. Just a shot of the site, typical drilling rig out there. And that's in there just because one of the costs associated with the project -- we spent approximately a million two just air quality analysis, about 300 of that in monitoring and the rest in modeling,

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1 computer modeling. But there is room and it's an adequate
2 place to build. And just to give you a feel for what that
3 occupies, remember I described the site as about 1500 acres.
4 The area within the boundary is that -- the area within this
5 fence line is probably close to about 960 acres. This process
6 area for scale is probably 65 with 90 acreage (indisc.). The
7 rest is really tank farm and a big wastewater treatment
8 facility. The ballast water treatment facility for the dock
9 is on the plant site itself, so that's where we're at. Now we
10 get down to where it's a little more exciting. The one that
11 gives us the most trouble and only I could come up with this
12 slide when everybody's having numbered days with the wrong
13 numbers, that's a 3. But basically, this is the product
14 slate that's currently contemplated. To answer earlier Mr.
15 Chatterton's question, we are counting naptha as obviously
16 a chemical feed stock in this process slate. And we are
17 addressing the issue as given in previous testimony and as
18 you can see, we are looking at a major front-end fuels
19 facility right here. There's no question about it.

20 BY: MR. MILES

21 That's what's represented in your agreement with Charter?

22 BY: MR. DAGON

23 You mean in terms of sales?

24 BY: MR. MILES

25 Yeah.

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1 BY: MR. DAGON

2 I wasn't really sure what you were leading up to.

3 BY: MR. MILES

4 15 years.

5 BY: MR. DAGON

6 The Charter sales agreement that (indisc.-- people whisper-
7 ing) 70% of the current product slate and really that puts
8 them in the marketing line instead of the owner of the facility.
9 We'll come back to this when we talk about what we're doing,
10 but really, North Slope crude does make good aromatics.
11 There's no question that we're pulling a large number of them
12 out. We'll look at the processing scheme that was submitted
13 to the commissioner.

14 BY: MR. PARKER

15 Ron, you ought to point out that there is no fuel oil produced
16 in that facility.

17 BY: MR. DAGON

18 I'm sorry. Back again to what people were talking about, you
19 talk about existing in-state refiners, you take either middle
20 or upper cuts of that barrel of oil and the majority of it,
21 the residuals, if you will, which is a product in the sense
22 that it's being sold, certainly, leaves the state. This is
23 based on 150,000 barrels. This is approximately 143,000 barrels of
24 product. The other 7, of course, have been lost either in
25 plant operation or refinery fuels. We have no residual fuels,

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1 we have no bunker with the heavy bottoms. Now you pay a
2 tremendous capital price to do that. Because what you're
3 really talking about in the chemical business or the refining
4 business is that as you get further and further, if you will,
5 toward the heavy end of the barrel, you're paying more and
6 more for either pressure, temperature or a combination of
7 both. And for example, this plant is fueled primarily with
8 refinery fuel gasses that come off the unit called a flexi-
9 coker, which is really just real large thermal backer.
10 And just to give you a scale, that's a 48 foot diameter tube
11 with 17-1/2 inches of steel. You're dealing with tremendous
12 pressure and tremendous heat and you pay a large capital
13 price. The only thing you have left over, in effect, at the
14 bottom of the barrel is 190 tons of sulfuric acid, 190 to
15 210, depending on the actual feed stock. And that process
16 scheme essentially, or that product slate, comes from this
17 process scheme. And the question that was raised
18 earlier about a recent change really didn't change the
19 products that were contemplated on December 18 in that
20 submittal, they only changed the mix. In that December 18
21 submittal, there was a small Cat Cracker sitting about here
22 which basically produced a lot of very expensive unleaded
23 gasoline. I had a whole bunch of little plants that make
24 that gas. The addition of a large hydro-cracker, in effect
25 crude oil hydro-crackers gives you more flexibility and lets

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1 you meet the market demands, that really look like they're
2 coming, which are basically based on a decrease in the need
3 for gasoline, not only in-state in that sense, but in the
4 Western U. S. and a large increase in the middle of the
5 barrel, diesel fuel, both in Alaska and on the West Coast,
6 and jet fuel. And that's what that did. It's an engineering
7 change within the context. There's no question that it's
8 different than the December 18, but the product list remains
9 the same. And I'll show you one in a minute. There were
10 some reasons we did that and among them I think we can list
11 these as the five. We're going, again now, we're talking --
12 the change is only from December to now, not questions you
13 may have raised for 1978 and backwards. So we're increas-
14 ing jet and diesel, we're decreasing gasoline, we didn't
15 make much, but we eliminated entirely any residual fuel oil.
16 We do increase with the hydro-cracker the ability to pull
17 more aromatics out of the stream. The aromatics are de-
18 pending on where we go. There is an improvement in the
19 total environmental aspect of the operation because
20 the cat cracker was a major SO2 producer and it gives you
21 some problems because of a HF (indisc.). It does reduce
22 the total number of units in the plant. For example,
23 this HF, which really does decrease the number of
24 permanent jobs in the plant at that stage of the operation.
25 But it does increase the capital costs. Finally, as I said,

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1 it makes us we think responsive to exactly what we think the
2 market is going to be in 1984 and I think everybody agrees,
3 the exercise still is to make this an economically viable
4 operation. We have not, as was hinted, abandoned the idea
5 and the concept and even the intent of going further. And
6 this list, which I won't even dwell on, is based on the sub-
7 mittals to the state and I'd be glad to give you more copies
8 or whatever. But basically, this is where you're heading
9 with this plant. Recover propylenes, take the propylene and
10 mix it with benzene, you're into toumene, you're into the
11 phenolbusiness. You upgrade the benzine, pull the ethylene
12 out at the stream with the flexicoker and you're basically heading
13 towards styrene and plastic. This, incidentally, is the one
14 that makes a good deal of sense for this part of the country.
15 You can go to conversions and you can produce methanol.
16 They're not listed in any order, but they are the real
17 possibilities that we're currently working on and that's the
18 way the plant should develop. There is absolutely no way
19 you can get to here without building what we just saw on the
20 screen a minute ago. Just a list. We're obviously in the
21 same place everybody else who's been here today is, we're
22 looking for additional feed stock and the opportunity for
23 additional feed stocks. The plant is designed, obviously, to
24 run on sour crude, based only on the royalty oil feed stocks
25 which are available to us now. I'm just going to throw this

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1 up to show you where that happens, because I'm going to (indisc.) on the
2 interest. Remember, we are pooling. Out of this naptha stream, we are
3 extracting through a series of plants benzene, tyramine, xylene. I didn't
4 want somebody to be left with the impression that when you take a cut out of
5 the barrel, be it Fairbanks or Kenai or what have you and the "resid" leaves
6 town, it definitely leaves in them, but we're paying a big price to get them
7 out, is the point. I think there's a processing stream involved. Ethylene
8 pulled out by the flexicoker leads you into the mixes we talked about and
9 (indisc.) and to styrene. There's a little more xylene when you do that,
10 but there is a concept, there is a phase 2, there is an idea
11 that we're going on and that's where we are at that point in
12 time. The subject is projected employment. You certainly can't
13 say that we weren't all around at the same time in the same sets
14 of hearings, the same numbers, so there's no misunderstanding, these
15 numbers are relatively what appeared in that EIS. They are also
16 a real approximation of what we think the plant will have in
17 place in permanent jobs in 1984. And they're out there wherever
18 they extend. This number is Valdez only. This refers to the
19 marketing and whatever's in the (indisc.) In terms of
20 construction jobs and construction impacts, it really hasn't
21 changed that much. The total number has gone down and I don't
22 want anybody to nail us to this kind of thing. But basically
23 this schedule shows what really happens—
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25

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1 if we stick to the training schedule that's currently in focus
2 now Foster Wheeler-Thyssen, as you are well aware, are coming up
3 with a fixed price for a turnkey project and that schedule
4 will change depending on how they make their numbers on it.
5 But these are fairly good numbers on what would be built and
6 you'll notice they anticipate starting sometime in the summer
7 and build into a peak that really reaches about 2,800 to
8 2,900 in late '82 and then really starts to taper right
9 back down through to '84. There's about a 3,000 man peak
10 on construction jobs in Valdez. Those numbers are so -- a
11 considerable amount of fabrication. Someone on the West
12 Coast of the United States, before they get here, basically
13 because that's where they were. I don't know why he's gone
14 to that slide which is almost unreadable. (indisc.) And
15 where are we now and what are we doing? I'll run through
16 this quickly for you. Basically these are the kinds of
17 activities that are taking place right now and what I'd
18 really like to do sir is skip -- to show you, I think, how
19 many people are working for ALPETCO right now and where are
20 they. We have under contract right now, in addition to the
21 funds that have already been extended and incidentally that
22 number is approximately 16-1/2 million to date, with the
23 anticipation that it will be in excess of 100 million by
24 June 30th. Part of that is tied to approximately 18-19
25 million dollars of current engineering and there was a

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1 question asked, I think, of staff, as to do we have a plan
2 and the answer was, there's a conceptual drawing similar to
3 the one we just showed on the screen. Mr. Chairman, on the
4 December 18th submittals there's a complete engineering docu-
5 tation, called a set of SS documents. They're long, lengthy,
6 heavy, bound. They are available, obviously, to everybody.

7 BY: MR. MILES

8 Are these construction documents?

9 BY: MR. DAGON

10 These are construction documents for an engineering cost
11 estimate, estimated at plus or minus 15%. That's what they
12 were produced. They were produced by UOP and C.E. Lummus and
13 they are at the level that you could make a 15% plus or minus
14 cost estimate to decide whether you were going to proceed
15 with the plan and at that stage, that's exactly what was done.
16 You went on to Foster Wheeler Thyssen...

17 BY: MR. MILES

18 What is the cost estimate?

19 BY: MR. PARKER

20 Ron, let's clarify that what he's talking about there are
21 engineering documents for the purpose to give you a magni-
22 tude of costs.

23 BY: MR. DAGON

24 That's what I'm saying.

25 BY: MR. PARKER

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1 BY: MR. PARKER
2 Okay, there is no way that engineering is sufficient to build
3 that facility.
4 BY: MR. DAGON
5 That's what I'm leading up to. In fact, it's worse than that,
6 we as a company will spend somewhere in here, in a variety
7 of ways, approximately 18 million dollars, have a fixed price
8 for that project and still not be finished with the engineer-
9 ing drawings.
10 BY: MR. GARDINER
11 In this regard, my question is what is the cost, plus or
12 minus?
13 BY: MR. PARKER
14 Of what, the facility.
15 BY: MR. DAGON
16 The total project?
17 BY: MR. GARDINER
18 Well, based on those documents?
19 BY: MR. DAGON
20 We're estimating a billion and a half to a billion seven.
21 BY: MR. PARKER
22 Let me ask you a question. We're trying to get a fixed price
23 contract gentlemen. And from that standpoint, if we say
24 we've got to spend a billion and a half dollars and we've
25 got a contractor out there that's going to give us a bid, you

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1 can see why we are hesitant to say the cost is a billion and
2 a half. Because there's no way he's going to come up with
3 less than that. Now you just put us in a position if we
4 continue to say, what is that cost, we're paying thirteen
5 million dollars or sixteen million dollars to Foster, Wheeler
6 to give us a firm price contract. Now that firm price con-
7 tract, hopefully, we will get the full benefit. We do not
8 want to pay a billion and a half for a 800 million dollar
9 plant. But if we keep saying you've got to have a billion
10 and a half, then I worry about what price comes into it. And
11 our concern is with all of these engineers, is to scope that
12 project to where that when they give us a fixed price, that
13 they are obligated to produce it. Just like when you build
14 a house, if you build a house and you draw your plans and
15 you get ready to change this and your wife wants to change
16 that, each time you do it, you add additional costs to it.
17 So our emphasis is not to try to make an estimate at this point
18 in time. We want that estimate from Foster Wheeler. We're
19 trying to define it to where we can tie it down to an actual
20 cost of a project. Therefore, we're not withholding some-
21 thing from you, saying, we think that's what it is because
22 they are under contract to supply to us as the royalty oil
23 contract said, you need some type of 15% or so estimate. But
24 we're now asking them to give us an absolute firm price bid
25 for this project.

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1 BY: MR. GARDINER

2 What's the schedule for them to give that estimate?

3 BY: MR. PARKER

4 Okay, let me tell you. The documentation that's going to come
5 off of all of these contractors is due to be given to Foster,
6 Wheeler on May the 30th and the books in bound volumes will
7 probably fill a room twelve by twelve of actual specifications,
8 drawings, volumes of paper and so forth, of which then Foster,
9 Wheeler will take that data and do the very best that they
10 can to give you a firm price estimate. They have indicated
11 to us that they would give us a preliminary look at the end
12 of September -- 1st of September, but would take until
13 November the 3rd to absolutely come up with a firm price.
14 Now you can press those people into a firm price in a lot
15 lesser period of time, and for them to do that, you merely
16 force contingency upon contingency and you drive the
17 project out of a feasible economic project.

18 BY: MR. MILES

19 The benchmark H calls for the project cost estimate within
20 15% and our research indicates you submitted something on
21 December, '79 to the commissioner that he accepted as in
22 compliance. What did you submit? What price? Did you sub-
23 mit a price?

24 MR. HANZLIK

25 Excuse me, Mr. Miles, number H, if it is read, says "complete

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1 plant design and optimization necessary to obtain a
2 project cost estimate. It says nothing about giving the
3 definitive cost estimate.

4 BY: MR. DAGON
5 And we don't have one.

6 BY: MR. PARKER
7 It's talking about giving a design to where one could be ex-
8 tracted from it -- produced from it. And again, that -- in
9 any normal routine of building a project, if you're going to
10 go cost plus, you may not be worried about it. But if you'
11 trying to tie your costs down, you've got to develop the
12 scheme in which you want them to bid on, but don't tell them
13 what your price has got to be.

14 BY: MR. MILES
15 Mr. Parr.

16 BY: MR. PARR
17 You know, you've got to settle it down for a country boy
18 You're going to have to get some kind of a price within 1
19 plus or minus, right?

20 BY: MR. PARKER
21 No, we're going to

22 BY: MR. PARR
23 That's what this optimization design thing is in the company
24 Okay, within 15%, isn't that right?

25 BY: MR. PARKER
No, it says give ...

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1 BY: MR. PARR

2 They tell me you can't bid a design unless you know what
3 you're going to do. This gentleman was telling us a while
4 ago -- those chemicals -- those petrochemicals that had poten-
5 tial up there -- he didn't have the actual ones we might --
6 what might be the ones developed here, and I'm not an engineer,
7 maybe it doesn't cost any different price to produce one
8 petrochemical than it does another. But I'd be kind of sur-
9 prised. If you don't know what petrochemicals you're going
10 to produce, how can you come up with your 15%, plus or minus
11 estimate?

12 BY: MR. PARKER

13 Because what we did was to give a configuration that was
14 going to be built first. And what that estimate is coming on
15 is what is committed to be built.

16 BY: MR. PARR

17 In other words, not the complete project? Minus all the in-
18 sides of the building, or what?

19 BY: MR. PARKER

20 I think when you say complete project, I think that you heard
21 today, that I question whether you ever finish a processing
22 plant such as this. You heard Tesoro looking at adding
23 additional units from a yield standpoint. You're talking
24 about the other refineries -- that we could add this, add
25 this and extract. It's a continuing process. It doesn't make

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1 feasible sense to try to start up a complete facility that
2 has everything in it. Instead, you must build it in stages
3 and that's exactly what was contemplated in the testimony
4 and that's exactly what the crude oil royalty contract
5 addresses itself to. And from that standpoint, we feel that
6 we are in compliance and we're preceeding just as fast as we
7 can to bring this to a conclusion.

8 BY: MR. PARR

9 Mr. Chairman. Perhaps I'm just not very bright today but what I
10 don't understand is, how you can come within 15%. We don't
11 want to know -- I don't even know your figure, but for H in the
12 contract, you were to complete plant design and optimization
13 necessary to get a definitive project cost estimate ...

14 BY: MR. PARKER

15 To get one.

16 BY: MR. PARR

17 I know, sir. Definitive says, within no more than 15%
18 variance, right? And you're telling me you did that and you
19 don't even know what petrochemicals you're going to produce
20 yet.

21 BY: MR. PARKER

22 No, we don't.

23 BY: MR. PARR

24 That's what I have trouble believing.

25 BY: MR. PARKER

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1 We know exactly what we're going to build.

2 BY: MR. DAGON

3 I misled you then. I misled you.

4 BY: MR. PARR

5 (Indisc.--simult. speech) I saw it and the way you talked

6 about it, you did not specify which petrochemicals?

7 BY: MR. DAGON

8 I'm sorry, sir. I misled you then, because we have asked

9 for an engineering estimate, a definitive bid -- not a

10 definitive bid, a fixed price for this plant.

11 BY: MR. PARR

12 Go back to the chart that had the petrochemicals on it. Not

13 that one. Go back to the chart that has English words on it.

14 Look at the top of that chart and see what it says and think

15 back about what you said about it, which was you didn't know

16 which petrochemicals you were going to produce yet.

17 BY: MR. DAGON

18 Oh, I set that right here. (indisc.) Excuse me. [looking

19 through papers] Mr. Parr, is that the list you mean?

20 BY: MR. PARR

21 Yes, I believe that's right. Would you drop it just a frac-

22 tion? What does it say up at the top? Potential.

23 BY: MR. DAGON

24 We fixed the design and that's why the letter to the Commis-

25 sioner, the most recent letter. It is that configuration

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1 that is currently roughly about 18 million dollars worth of
2 engineering effort on that project. And a whole bunch of
3 other people are looking at what you do next. So we're trying
4 to get a fixed price on the phase 1 plant, the scheme that
5 we just looked at. Does that -- it may not satisfy you, but
6 does it answer the question?

7 BY: MR. PARR

8 I'm afraid it doesn't answer the question.

9 BY: MR. DAGON

10 Say it again, sir.

11 BY: MR. PARR

12 Okay, suppose when phase 2 time comes around, you have changed
13 your mind. You aren't going to produce a single one of those
14 things, right. You go to something else instead, instead of
15 those five or so you've got there and perhaps, why would it
16 differ, as long as it all comes out of crude oil. And that's
17 not going to make any significant change in the cost of your
18 plant?

19 BY: MR. DAGON

20 The cost of taking ethylene out of the flexicoker.

21 BY: MR. PARKER

22 Wait, Ron, the cost estimates you're getting does not include
23 any of this. And once you start this you will get another
24 cost estimate. You will go exactly through this same process
25 that you're going through now.

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1 BY: MR. PARR

2 Perhaps it's a matter, Mr. Chairman, of how I interpreted this
3 requirement number H. Let's let it ride for now.

4 BY: MR. DAGON

5 Is there anything else about petroleum by-products?

6 [various speakers indicating not now]

7 BY: MR. MALONE

8 I'd like to get a copy of the slide you showed of the product
9 slate. [affirmative response]

10 BY: MR. DAGON

11 Sure, basically that brings us up to where we are, and what we're
12 doing. Now I'd only like to show you one other slide that
13 we got off the track on. And that relates to the issue --
14 we have two, interim crude and financing. Willard's going to
15 talk about where we are in the financing and Mr. Parker will
16 address anything that has to do with the interim crude, but
17 everybody we meet in town on the street, the newspapers, say
18 what are you going to do with this interim crude and that is
19 probably as best a summary as we can make today. It says we
20 are going to try to sell, exchange it or process it to do two
21 or three things; one, to make money; two, to lead into a
22 product exchange and three, we're still talking about process-
23 ing agreements in-state with some of the in-state refineries.
24 That's roughly where we are and I'll be glad to get slides
25 for you that relate to processing. Sir?

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1 BY: MR. MILES

2 Mr. Gardiner?

3 BY: MR. GARDINER

4 Are you presently negotiating with in-state processors in
5 terms of making sales to them?

6 BY: MR. DAGON

7 I think Willard can answer that, right up to and including
8 the last Royalty Oil Board.

9 BY: MR. WILLARD HANZLIK

10 We had, during the negotiations of the Royalty Board with
11 various potential purchasers of royalty oil for the 17-day
12 window period and beyond, had given a written undertaking to
13 the commissioner that we would be willing to make portions of
14 the oil purchased by ALPETCO available to any in-state
15 refiner who could demonstrate two things, one, that the oil
16 would be used in-state and two, that it would be taken on
17 volumes that were consistent, i.e., we did not want to be
18 put in a position whereby we would sell 5,000 barrels one
19 day and 10,000 the next. It had to be a constant stream and
20 there were, as I understand it, no responses indicating an
21 interest by any of the in-state refiners to that offer.

22 BY: MR. GARDINER

23 Why do you think they wouldn't be interested if they tell us --
24 they've been telling the state they need crude supply, but
25 you offered them crude and they're not interested?

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1 BY: MR. HANZLIK
2 Your guess is probably as good as mine.
3 BY: MR. PARKER
4 You should ask them.
5 BY: MR. GARDINER
6 You mean you really don't have an idea? I mean I will ask
7 them but I would think that you guys were in the business,
8 you should know more than I do.
9 BY: MR. PARKER
10 No, I don't. No, I don't.
11 BY: MR. DAGON
12 Willard, would you like to bring us up to date?
13 BY: MR. HANZLIK
14 Let me take a moment -- there was considerable discussion
15 earlier today on the various aspects of the project financing.
16 I think there may be some misunderstandings or misconceptions
17 of it. Let me give you as complete an update as I can at
18 this time and hopefully this will answer your questions. To
19 simplify or to restate, there are three major pieces to the
20 financing plan. One is foreign credits, that is, sources of
21 debt financing obtained outside the United States; two, U. S.
22 debt, and this would be both taxable corporate debt and tax-
23 exempt financing issued under section 103 of the Internal
24 Revenue Service Code and, three, equity supplied by the
25 investors or partners in the project. Further, there will be

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1 interim construction financing that has been earlier discussed,
2 and, in addition, there will be operating or working capital
3 requirements for the facility of a significant amount. As
4 you know, ALPETCO has commitments for each of the long-term
5 pieces and for the interim construction financing. The 750
6 million dollar commitment to arrange financing from Thyssen,
7 Rheinstahl, Technik, is the largest single piece,
8 followed by the City of Valdez, backed by the Underwriting
9 Syndicate, led by E. F. Hutton, for up to 600 million and
10 the equity supplied by the partners of 350, for a total of
11 1.7 billion. In addition, two U. S. commercial banks have
12 given a commitment for 150 million interim financing, plus
13 there is a back-up to that given to us by Thyssen, that
14 if for some reason the financing were not available from these
15 banks, Thyssen would similarly arrange it. Let me digress a
16 moment -- before I get into the status of each of these and
17 discuss for a moment our relationship with Thyssen and why we
18 have taken this path. From the very beginnings of attempting
19 to put this project together in Alaska, critics have said
20 and people have testified before your committee and others
21 that the risks of building a project of this size in Alaska
22 are far too great and that it can't be done. We have felt
23 all along that risks of construction nature, completion nature
24 and performance, had to be covered in some manner. While
25 there may be other ways to solve these problems and provide

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1 for this risk, the route we chose, was to seek a major inter-
2 national engineering construction contractor or, in this case,
3 two contractors, who would combine and give us a fixed price,
4 turnkey construction contract to complete this facility.
5 Now I'll be very quick to tell you there are no U. S. companies,
6 to my knowledge, who would undertake to do this. We have
7 spoken to virtually all of them, at least all of them that
8 are of a size and whose financial statements would support
9 this kind of an undertaking. There are, however, corpora-
10 tions operating in the international environment who not only
11 are willing to do it, but who have experience in doing it and
12 Thyssen is one of these. Thyssen has built within the last
13 10 years, 2 or 3 plants of comparable size in perhaps as
14 hostile an environment as the cold weather of Alaska, although
15 this has been -- these have been primarily middle eastern
16 projects and just the complement of cold weather -- in which
17 Thyssen has undertaken basically to do the same thing for us
18 as they have done for other projects. That is, give in a
19 reasonable period of time, a fixed price, arrange the financ-
20 ing for it and complete by delivering a project to the owners
21 that is started up with a completion and performance guarantee
22 provided. Now clearly there is a price to be paid for this
23 kind of a procedure. It is not the same as going to a Fluor
24 or a Bechtel, or any comparable major and capable U. S.
25 contractor, giving them a set of specifications and going out

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1 on a cost plus basis as will most major projects be done today
2 in this country. This is a completely different approach.
3 It's an approach that we feel makes sense and one which fits
4 the project because it is not being undertaken by a major oil
5 company. Now, why Thyssen in particular? Mainly because they
6 offered to put together all the ingredients of this program
7 that we felt were essential. We talked with several other
8 companies, both in Europe and outside of Europe and in the
9 end, Thyssen came forward with the most aggressive and complete
10 proposal. And I would like to comment that in light of
11 recent credit problems with the Federal Reserve and other
12 credit restraints imposed by our government, that it is
13 fortuitous that our commitments were, in fact, from Thyssen,
14 because had they been from domestic financial sources, it is
15 conceivable that the project may have been impaired. And I
16 will restate that it is not only usual, but customary for
17 Thyssen to undertake projects this way.

18 BY: MR. MILES

19 Mr. Gardiner.

20 BY: MR. GARDINER

21 You said that you would pay a premium for doing this type
22 of turnkey operation. What is that premium?

23 BY: MR. HANZLIK

24 It's the price that the contractor, in this case Thyssen and
25 Foster, Wheeler, who have formed a joint venture -- it will

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1 be a price they feel will compensate them for taking the
2 risks that we're not willing to take, i.e., that the costs
3 will be what they say they're going to be, that there will be
4 no interference or interruptions to the work program and that
5 everything, when it's put together, will operate as they say
6 it will and no one knows what that contingency will be.

7 BY: MR. GARDINER

8 So basically, you're going to pay more, but you feel you're
9 getting more because they're guaranteeing an end product.

10 BY: MR. HANZLIK

11 That's right.

12 BY: MR. PARKER

13 That's why the point I made is so imperative that you scope
14 that project so that you don't end up starting out with yes,
15 we'll do this and end up with a change and have to pay the
16 price for change orders. And whatever they charge will come
17 out in this firm price bid.

18 BY: MR. MILES

19 I have some questions on the whole subject of commitment,
20 Mr. Hanzlik. The consultants, what have you, for the State
21 have indicated certain basic elements which commitments will
22 contain if they're legitimate. That comes right out of his
23 memo. The amount of the primary loan, I guess -- I presume
24 we're talking about 750 million, is that ...

25 BY: MR. HANZLIK

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1 I don't know what you're referring to, Bill, I'm sorry.
2 BY: MR. MILES
3 Well, I'm talking about the Thyssen commitment, that you ...
4 BY: MR. HANZLIK
5 Yes, that's correct.
6 BY: MR. MILES
7 The amount is 750 that they'll arrange. They'll arrange
8 that. That's their language.
9 BY: MR. HANZLIK
10 Yes, that's right.
11 BY: MR. MILES
12 Is there any secondary or contingency funds available? He
13 just gives a list of things. I'd just like to see if they're
14 in the commitment.
15 BY: MR. HANZLIK
16 I guess I don't understand your question. The answer is no,
17 Thyssen has undertaken to provide us up to 750 million dollars
18 worth of financing from export sources for the project and
19 as far as -- if more than 750 is needed, will they provide
20 more? That isn't what it says. It say 750.
21 BY: MR. MILES
22 Is there a drawdown schedule?
23 BY: MR. HANZLIK
24 No, there is not.
25 BY: MR. MILES

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1 Are there terms?

2 BY: MR. HANZLIK

3 No, there are not. If you'll let me complete my statement as
4 to where we are on each piece of these financings, perhaps
5 that will help you. Because there is a considerable amount
6 of work being done on each of these areas by my staff, the
7 lawyers and myself which are on an ongoing basis. As far as
8 the foreign loans go, which is being undertaken and managed
9 by the Thyssen financing group in Dusseldorf, West Germany,
10 they, together with our lawyers, lawyers for the trustee,
11 lawyer for their U. S. financial advisors, are working on and
12 preparing and are now on probably their third generation of
13 indenture documents, which are probably 4 or 5 inches thick,
14 having to do with the mechanisms of putting together the
15 necessary security packages and the necessary handling of the
16 various funds for disbursements, the terms of the loan and
17 whatnot. Thyssen is meeting actively with financial institu-
18 tions, not only in Europe, but also in the Far East and work-
19 ing together with the governmental agencies to define the
20 support that these various agencies can give in guaranteeing
21 various pieces of this financing. We have named, together
22 with Thyssen, the trustee for the financing which is a major
23 U. S. financial institution, and this work is on a very fast
24 track. In fact, Jim Frances and I are returning this week to
25 complete the next series of documents on this. The goal from

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1 Thyssen is to move this along so that by mid-summer or late
2 summer, we'll have in place the known pieces of exactly where
3 each piece of this financing will come from. Now the second
4 item, major item, is the bond financing. And I'd like to
5 clarify something on this. The number 600 million is used
6 in the materials submitted on the 18th of December. It is a
7 number which is consistent with the Internal Revenue Service
8 ruling request which will be filed later this week in Washing-
9 ton by counsel to the underwriter. And it is an aggressive
10 approach to the Internal Revenue Service which is typical of
11 projects of this or any other sort, for every possible --
12 every certain and every probable -- item which may qualify
13 for tax exempt financing is listed and defended and the
14 Internal Revenue Service comes back and declares whether or
15 not items qualify. To the extent that items qualify, then
16 very attractive interest rates are available through this
17 mechanism. To the extent that the IRS declares that an item
18 does not qualify, then Hutton will underwrite on a taxable
19 basis the same amount of financing. So there isn't any
20 diminution of funds at all. It's simply we're striving to
21 minimize the financing costs by maximizing the portions of
22 tax exempt financing available. There's a possibility that
23 we may want to issue one batch of these tax exempt bonds as
24 early as this summer. There's a provision in the Internal
25 Revenue Service regulations that provides for early sales of

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1 these bonds and permits companies to use these for purposes
2 other than tax exempt, later to be refunded for tax exemption,
3 so there are some attractive timing availabilities here.

4 BY: MR. COTTEN

5 On your own prediction, what portion of that 600 million
6 dollars do you think will qualify?

7 BY: MR. HANZLIK

8 We think that 450 is dead certain. And the balance of 150
9 are items which, depending upon the current way the wind is
10 blowing in the Treasury Department, may or may not qualify.
11 And it's what the lawyers call a grey area.

12 BY: MR. COTTEN

13 Of that 450, I assume that by that you mean they are very
14 specifically delineated in Section 103 of the IRS Code that
15 those projects would qualify.

16 BY: MR. HANZLIK

17 Absolutely. Absolutely.

18 BY: MR. COTTEN

19 Would you mind giving a few examples?

20 BY: MR. HANZLIK

21 I'm sorry I left -- I don't have a copy of the ruling request.
22 We'd be happy to make that available publicly as soon as
23 it's filed. Basically, it includes product storage, marine
24 facilities, power generation facilities, pollution control
25 equipment, certain costs related to the development of an

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1 industrial site. There may be something else. I can't give
2 you the numbers for each of those categories, because I'm
3 just not -- I don't have them on the tip of my tongue. There
4 hasn't been any change in the plans regarding equity for the
5 project -- each partner has given its undertaking which has
6 been referred to earlier today. We have also given to the
7 commissioner and supplied in writing each partner's obliga-
8 tion to reinvest the profits earned as a result of taking
9 crude oil early in July to the project in fulfillment of the
10 equity requirement for the project. Now there's one point
11 I'd like to make quite clear and I guess you learn from
12 experience and I'm distressed to see excerpts taken out of
13 contracts and said, well, this is what you said you were
14 going to do then, but things have changed now. Let me make
15 something clear on this financing. You all have observed
16 the unfoldment of the other major project that you're re-
17 viewing, the gas pipeline. You've seen many changes in
18 direction as far as the financing plan, as far as who the
19 participants are and even as far as the scope of the project,
20 regardless of the size or the costs related to the project.
21 While this project is a lot different than that in most
22 regards, in fact is further along in its project definition,
23 I think, the ultimate financing of how this project gets put
24 together late this year may be different from what I've just
25 articulated to you because financial markets are changing.

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1 They're changeable. Thirty days ago, after the president of
2 the Federal Reserve Bank made a statement which scared most
3 U. S. financial institutions, we were frankly concerned that
4 aspects of the financing might be jeopardized because U. S.
5 financial institutions might not be able to make -- fulfill
6 their commitments to lend. That picture has changed about
7 180° in the last month. In addition, foreign financing
8 sources have opened up. We're involved right now with putting
9 hopefully, the finishing touches on the financing to be
10 acquired by a syndication in Eurodollars in Europe before June
11 to fulfill other requirements for the additional monies needed
12 to make expenditures by the end of June. That initially was
13 being arranged in the U. S. We had to move outside the U. S.
14 because that's where the capital markets would supply funds.
15 I guess what I'm saying is that as market conditions change
16 and problems and opportunities arise, we will always seek
17 the most efficient and lowest cost financing tools available
18 in order to make this project even more viable. So I trust
19 that no one will say, well, you said you were going to sell
20 600 million dollars worth of bonds, you didn't do that. The
21 point is, the project will be financed and it's our job to
22 do it in the most efficient way.

23 BY: MR. MILES

24 I think we understand that as the project goes forward, it
25 will be financed and that there may be certain things that

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1 have to change. However, we're coming to a watershed. We're
2 coming to an Armageddon -- there's a bridge that's going to
3 be stepped over here in a couple of months and it seems, at
4 least from what research has been done thus far and that's
5 the purpose of these hearings, that the project has gone 180°
6 from petrochemicals to a refinery. The financing question has
7 gone from a 2-1/2 billion dollar project to a 1-1/2 billion
8 dollar project. The number of full-time, permanent jobs has
9 been reduced by 75%. The revenue of the state is dropping.
10 It seems like almost every major aspect has substantially
11 changed from where we were a year and a half ago and we under-
12 stand that the price of oil changes and financial markets
13 change and everything else changes, but nevertheless, we're
14 being asked to make that commitment. So you have to under-
15 stand our concern.

16 BY: MR. PARKER

17 Sure.

18 BY: MR. GARDINER

19 The problem isn't that just they're changing, it's like they
20 are all changing on the negative side, right. Nobody's
21 proposing to increase any of the benefits to the state that
22 we talked about. These are changing and the answer is now,
23 well, the petrochemical facility is kind of phase 2, when we
24 get there.

25 BY: MR. PARKER

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1 You know, we sort of disagree that it's changing, as such.
2 Maybe I have not done the research that maybe your staff has,
3 but I have done some research in reference to the testimony.
4 And I think, without a doubt, it's very clear, the intention
5 of this thing being put together in a phase-type approach.
6 I go back to Gordon Cain's testimony. The core of this
7 operation will be an oil refinery which is shown on the left
8 side of the screen. And this refinery will be, for all
9 practical purposes, the same as any other refineries that
10 have been proposed to be built. The one difference is that
11 it will take that part of the gasoline fraction that is not
12 necessary for the Alaskan market and some part of the heavy
13 fuel and convert into petrochemical feed stocks. Now from
14 this point on, precisely, we do not -- we do, precisely,
15 what we do is not clear because this will be determined by
16 the market and by the nature of the partners that we get.
17 So what they're really talking about, that is the core of
18 that thing. We're not trying to basically mislead from that
19 standpoint.

20 BY: MR. MILES

21 Mr. Chatterton.

22 BY: MR. CHAT CHATTERTON

23 Thank you, Mr. Chairman. I'd just like to say my recollec-
24 tion of the testimony.--we're speaking to 30,000 barrels a
25 day that was going to be processed ... (indisc.simult. speech)

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1 BY: MR. PARKER

2 Let me tell you, when you process 30,000 barrels a day, you
3 don't get 30,000 barrels a day of fuel products and you don't
4 get 30,000 barrels a day of petrochemicals. You process
5 150,000 barrels a day or 30,000 barrels a day and depending
6 on the hardware that you build, has a direct bearing on what
7 the yield that comes out of it. So it's not like saying
8 you're going to process 30,000 barrels a day for a day.
9 Every petrochemical plant, I think, in existence, has to
10 start with a feed stock. The majority of them buy those
11 feed stocks coming out of a refinery and/or they use natural
12 gas liquids. We got to have the building plot, we got to
13 get the thing started. We got to be to the point where we
14 can go to other partners, if necessary, to build downstream.
15 And I think that was the intent in the testimony to begin
16 with. I think that is the intent from the standpoint of
17 what the contract says, when it defines a petrochemical
18 facility and there is a definition of fuels refinery that is
19 recognized by the industry. And there's a definition of a
20 petrochemical facility that is defined by the industry.

21 BY: MR. GARDINER

22 What is that definition?

23 BY: MR. PARKER

24 Do we have at Ron?

25 BY: MR. DAGON

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1 Yeah. Well, in general -- we permitted, for example, we
2 talk about the EIS -- in excess of 15% of the feed stock in
3 chemicals or chemical feed stocks qualifies as a petrochemical
4 facility, but that's a contest I'm not sure you want to get
5 in because then you have to define naphtha. I'm not sure how
6 you do that. We obviously consider it a feed stock and are
7 looking for more.

8 BY: MR. MILES

9 Anything over 15%, is considered a petrochemical, is that what you're sayin

10 BY: MR. DAGON

11 Yes, sir.

12 BY: MR. MILES

13 ... is considered a petrochemical facility?

14 BY: MR. DAGON

15 ... facility. There's a category of ...

16 BY: MR. GARDINER

17 Whose definition is that?

18 BY: MR. DAGON

19 That's EPA's.

20 BY: MR. GARDINER

21 We thought we were talking about an industry definition, not --
22 EPA isn't exactly the industry.

23 BY: MR. DAGON

24 I'm sorry. No, actually it's not. (indisc.)

25 BY: MR. PARKER

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1 That's not an industry definition?

2 BY: MR. DAGON

3 Well, yeah, it's established by the American Petroleum
4 Institute.

5 BY: MR. GARDINER

6 You know, I mean basically, it seems in my mind -- I get the
7 argument that like, right, we're going to build a refinery
8 now and later after we get that done, then we'll go on to a
9 petrochemical facility because obviously only a small percen-
10 tage is going into petrochemical facilities at this point and
11 you show phase 2, right? That's where you're going to get in
12 petrochemicals. But, I think like, if it's only producing
13 15% petrochemicals out of it -- I wouldn't call it a petro-
14 chemical facility. I mean, it seems like only common sense
15 that if you're producing 80 or 85% refined fuels, then I'd
16 title it a refined fuel plant. Or whatever it's producing,
17 that's what it is, right? And I don't see how you can call
18 it a petrochemical facility. And I think as Mr. Chatterton
19 said, at the time when the contract was approved, people
20 were hearing numbers like -- well the only refined products
21 we're going to make are going to be marketed here in Alaska
22 and the rest of it was going to be in petrochemicals. But
23 we spent all the time talking about ethylene and benzene and ...

24 BY: MR. PARKER

25 Let me finish. I didn't make my point. There is other

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1 testimony in there where they talk about -- it shows the
2 various ways that ALPETCO can work with others in putting
3 together in Alaska this type of a facility. They're talking
4 about petrochemicals downstream. It says as Gordon said,
5 we might bring in a big partner, a chemical company, who
6 might agree to build additional olefins plants, as an
7 example. Those are the type things and to be honest with
8 you, we are to go to Valdez tomorrow. Dow Chemical is going
9 to be in Valdez tomorrow to talk to us. Now the contempla-
10 tion of building this facility and continuing on with it,
11 I think, was the intent and all we're trying to do is get
12 that building block and go forward.

13 BY: MR. MILES

14 I think I can understand that something has to be done in
15 building blocks, but I guess I don't understand that phase
16 2 doesn't begin for 15 years and that seems to be what you're
17 saying.

18 BY: MR. PARKER

19 We didn't say that.

20 BY: MR. MILES

21 There's a 15 year proposed contract for the -- can I finish
22 please? ... for the existing proposed product mix which is
23 80% fuels. So if we're going to get into serious petro-
24 chemicals, it seems like it's not going to happen for 15
25 years or so. And I don't think that's what the people of

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1 Alaska or my constituency thought they would get.

2 BY: UNIDENTIFIED SPEAKER

3 May I respond to that?

4 BY: MR. MILES

5 Yes.

6 BY: UNIDENTIFIED SPEAKER

7 I think I can see where there may be an area where --
8 without having all the benefit of where we are, it's possible
9 that one could be led, perhaps, to the wrong conclusion.
10 Let me try to explain it by saying that the 70% product offtake
11 contract entered into by Charter was entered into because
12 Charter is a major marketer of all the products, chemical
13 and fuels, that will be built by this facility from the very
14 beginning. And this gives us the flexibility of calling on
15 Charter's literally world-wide marketing experience -- they
16 market about 400,000 barrels of product a day--it enables us
17 to call on their expertise and have the flexibility, as soon
18 as the markets permit, to enter into contracts for other
19 products with other parties. If this contract had been
20 entered into with say one of the major oil companies, then it
21 would be a binding contract which could not be unilaterally
22 changed. The fact that the products are being taken and
23 marketed by the most financially capable partner within this
24 group, gives the project the flexibility that we think is
25 important. And so don't be misled that the fact that

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1 Charter's entered into the products, doesn't mean that there
2 can't be changes in what those products are over time.

3 BY: MR. PARKER

4 The other point, I think, without a doubt -- we believe --
5 we believe that the current configuration that will be
6 built in the first stage, qualifies as a petrochemical com-
7 plex.

8 BY: MR. PARR

9 Mr. Chairman?

10 BY: MR. MILES

11 Mr. Parr.

12 BY: MR. PARR

13 This information was also furnished by ALPETCO in '78
14 called "Case LE-1" . And as I read it, this ALPETCO was going to
15 be producing 4% of U.S. plus Pacific Basin requirements
16 in benzene, toluene and xylene in 1985, 3% of those require-
17 ments in ethylene, propylene and butadiene, and 600 million
18 pounds a year -- what's the other one -- different figure;
19 1.2 billion pounds a year -- that's what it said in ethylene,
20 .7 of a billion in propylene and a billion in benzene. And
21 so I'm not really quite sure, it looks like it's a fairly
22 firm understanding that you know, chemicals, you only
23 produce at the time the plant is completed. 'Cause I don't
24 expect you're -- you don't expect to have it completed much
25 before 1985. Now, and I realize -- I heard what the

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1 gentleman said awhile ago, but you never really get it
2 completed, you keep going. I understood that. But the
3 point is that we were given to understand that this was
4 a petrochemical plant and a refinery. That the reason --
5 the only reason they could make the case for making it in
6 Alaska, with higher Alaskan costs, was the fact that it was
7 a petrochemical plant, instead of a refinery because you
8 had this Alaskan cost disadvantage -- but there was more
9 money in petrochemicals because the value added was there.
10 And that the state would profit more by it because petro-
11 chemical plants use more people than did refineries. So
12 when Mr. Chairman was talking awhile ago, that was what we
13 understood. There was certainly a clear understanding
14 on the part of the legislators -- I can't speak for the
15 administration -- that we were getting a petrochemical
16 facility and not a refinery.

17 BY: MR. PARKER

18 I'll go back again. You have a petrochemical facility.
19 You have additional processes of petrochemicals that will
20 be added as time goes on. That's not going to change it from
21 being a petrochemical facility.

22 BY: MR. PARR

23 Is that plants that are going to be producing about 4% of
24 the U. S. plus Pacific Basin requirements for those things
25 in 1985?

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1 BY: MR. PARKER

2 I do not know. I think, as I read you, it depended on
3 partners and market conditions as to what you ended up with
4 and that represents basing -- on my reading of it ...

5 BY: MR. PARR

6 These -- I see these from 1978 and they're copies of slides
7 used by ALPETCO in 1978 ...

8 BY: MR. PARKER

9 And I apologize. I did not see those. I read the testimony
10 and in the testimony it indicates from the standpoint that
11 that was a scenario that was given just like the proposed
12 phase 2 could be another scenario. There could probably be
13 100 scenarios put up there as to what you finally end up of
14 continuing on to upgrade product that is coming out of that
15 refinery. But the significant thing in that first configura-
16 tion is, there isn't any fuel oil and you heard testimony
17 today to where you swap two barrels of crude for one. If
18 you'd calculated the numbers as well, take the cost of the
19 loss in the refining fuels out of there and the fuel oil
20 that's shipped out of the state, for every 100 barrels you
21 give them, you keep 22 barrels in the state. That is the
22 difference between when I say a fuels type refinery and what
23 you're having built here. A fuels refinery is nothing more
24 than a topping plant and makes very, very limited products
25 and I will assure you this is -- if not the -- one of the

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1 most complex facilities that have been built from scratch
2 at one time that has ever been undertaken in the U. S.

3 BY: MR. MILES

4 Okay, we're going to call a halt from the meeting right now,
5 we've got -- most of the members have other meetings begin-
6 ing at 7:00 o'clock. We'll reconvene here at 2:00 tomorrow.
7 I'll give you a chance for a last short in just a second, Mr. Parker, if there
8 are any questions prior to the wrapup statement or summary
9 that ALPETCO may like to give.....

10 BY: MR. MILLER

11 I'm just kind of curious. You said that this would be a
12 petrochemical facility. Would you call this a world class
13 petrochemical facility?

14 BY: MR. PARKER

15 To start one. When you say a world class ...

16 BY: MR. MILLER

17 That's the figure that you used -- the term that is used
18 frequently ...

19 BY: MR. PARKER

20 When you say world class, in most cases that's one unit in
21 there. In other words, that unit that produces x amount of
22 pound a year of one product. It doesn't take the entire
23 process. It takes from the standpoint that you've got an
24 ethylene plant or you've got some other plant and depending
25 on the size of that plant, is one unit is what it denotes,

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1 whether in the connotation of being a world size ethylene
2 plant or world size olefins plant. So those are the things
3 that you get into not looking at the scale of it. I'd like
4 to make one other point. Being associated with one of the
5 other in-state refiners here as a partner in the Bahamas,
6 we own jointly a 500,000 barrel a day refinery down there.
7 It's on an island and the total complement of people down
8 there is about 700 people. There's the difference from
9 the standpoint when you start looking at a simple fuels
10 refinery as to the magnitude of people.

11 BY: MR. GARDINER

12 What do you call this if that's a fuels refinery and this is
13 a ...

14 BY: MR. PARKER

15 This is a petrochemical facility.

16 BY: MR. GARDINER

17 But then there's like -- there's something at the end right
18 after -- let's say you've got after phase 2 is completed --
19 that's a petrochemical facility too.

20 BY: MR. PARKER

21 You can continue on. You can go on and on and on and on
22 down there.

23 BY: MR. GARDINER

24 In the industry terminology is there a distinction between
25 this -- the phase 1 and what you have at phase 2? They're

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1 the same thing?

2 BY: MR. PARKER

3 There is none. And you should look. You all do a good job
4 -- the Resource Board does and the legislators looking at
5 the ...

6 BY: MR. PARR

7 (indisc.)

8 BY: MR. PARKER

9 And you're talking to a country boy, full-fledged, from a
10 town of 4,000 people. Conroe, Texas, probably never heard
11 of it. But anyway, you've got other potential. You've got
12 coal here, you've got your gas liquids which can be combined
13 with some of the products that are produced in this facility
14 and you may end up needing some of your fuel to be mixed
15 with that as a coal slurry for export purposes. I'm saying
16 take this as another addition and an excellent addition to
17 the refining petrochemical capacity of the State of Alaska
18 and help us build it.

19 BY: MR. HANZLIK

20 Mr. Miles.

21 BY: MR. MILES

22 Mr. Hanzlik.

23 BY: MR. HANZLIK

24 We tried -- attempted on several occasions, to find the
25 scope of this meeting in order that we could be as helpful

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1 as possible and as late as Friday, the best indication we
2 had was that the hearing would be conducted today and this
3 evening, at the latest. As a consequence -- I think all of
4 us have commitments to be literally out of state beginning
5 tomorrow and are planning to leave. Is there anything we
6 can do to provide you with additional material this evening
7 to facilitate your hearing?

8 BY: MR. MILES

9 Well, what time are you leaving?

10 BY: MR. HANZLIK

11 6:00 a.m.

12 BY: MR. MILES

13 You're leaving at 6:00 tomorrow morning?

14 BY: MR. HANZLIK

15 Yes, sir.

16 BY: MR. PARKER

17 I could stay beyond 6:00 in the morning, but not a helluva
18 lot longer.

19 BY: MR. MILES

20 Well, I think there's a number of questions that the committee
21 members have. We've raised a number of issues, but we
22 haven't asked any number of questions that absolutely demand
23 answering. [whispering among legislators] There's been
24 a suggestion that you might come back at a later date.
25 Mr. Chatterton.

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1 BY: MR. CHATTERTON
2 Just to give them an idea, I have 55 questions to ask you
3 on a subject we haven't even addressed yet.
4 BY: MR. PARKER
5 Could we have dinner and return?
6 BY: MR. CHATTERTON
7 I don't know whether you can have dinner or not.
8 BY: MR. PARKER
9 I'm talking about returning tonight.
10 BY: MR. MILES
11 As an alternative, then, I'll cancel Resources and we'll
12 take an hour break and we'll come back here at 7:30.
13 BY: MR. PARKER
14 Thank you.
15 BY: MR. MILES
16 Okay, 7:30.
17 (OFF RECORD)
18 (ON RECORD)
19 BY: MR. MILES
20 We'll call this meeting back to order. Mr. Parker, did you --
21 you or your colleagues, have additional comments to make
22 right off the bat?
23 BY: MR. PARKER
24 No, I think we're ready for your questions. We appreciate
25 your reconvening tonight, rather than postponing it.

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1 BY: MR. MILES

2 Okay, that being the case then, you folks do have a few
3 questions I know. Do you want to start first?

4
5 Nobody ready to go. We'll adjourn then.

6
7 Mr. Gardiner.

8 BY: MR. GARDINER

9 One area that I think there's some concern about is that you
10 did mention briefly is, what happens to the crude oil once
11 you take it on July 18th and I think the information you
12 presented was that you'd make as much profit off it as you
13 could, which I think is very reasonable -- admirable, but
14 do you have any -- I mean there's been a lot of speculation
15 about it and you know, information that's appeared in
16 journals and I think that's probably speculative in nature
17 too, but I wondered if you could present us any more informa-
18 tion.

19 BY: MR. PARKER

20 Well what the statement said was that we would either process,
21 sell or refine that product to make the maximum profitability
22 under the existing DOE regulations. And they do have a
23 bearing on it. And when you get down to it, it'll be
24 probably a combination of all three of those. However,
25 we're talking to more than one company to do different

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1 arrangements and deals with. So from the standpoint, I'd
2 rather not say, you know, we're going to do this or this or
3 that because it has not been, at this point in time, actual
4 finalization been achieved to the actual physical handling
5 and which other companies that we will make our arrangements
6 with. And we're dealing with more than one and it probably
7 will be split among more than one. So, I'm still vague and
8 I'm being vague on purpose. I guess from the standpoint
9 that we have not spent the time and effort to look at saying,
10 okay, what is and what should we be doing and is that the
11 number 1 priority. I think you can see, based on trying to
12 scope the project, trying to make sure that the financing
13 falls in place, has been a much more priority than trying to
14 arrange some short time deal with the crude oil per se. So .

15 BY: MR. GARDINER

16 It's going to be a little more than a short term. I mean
17 you've got several years until you have your facility
18 completed so you'd have to make arrangements, but I think
19 there's some concern that since you don't know what you're
20 going to do with it, you can't tell us, then that brings up
21 the question well maybe you won't have it arranged on July
22 18th either?

23 BY: MR. PARKER

24 We will have it arranged on July the 18th. It's just a
25 question that -- and I'll give you some examples. If you

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1 sold the crude, if Charter sells the crude or their share
2 of it, we're bound by reseller regulations and we've got a
3 margin that we can charge. I mean, it is fixed DOE regula-
4 tion and that probably is not the most profitable thing that
5 we could do with it. If we could go process some of it with
6 some of the refineries in the State of Alaska, each one of
7 them wants to look at what their economics are and what type
8 of arrangement they'll make with you. If you go into the
9 West Coast, you process in the West Coast, you become sub-
10 ject to a taxing arrangement in California that we're look-
11 ing at, do we really, at this point in time, want to jeopard-
12 ize all of the other operations of Charter to that Califor-
13 nia tax which is 9% and been proposed to go to 18%. So
14 these are the factors that are involved when you start
15 looking at where do I place that crude. Some statement
16 was made today that, you know, we offered to pay \$3.00 a
17 barrel premium and if somebody could pay \$3.00 a barrel
18 premium for the decontrolled crude, we'd probably like to
19 talk to them.

20 BY: MR. MILES

21 Willard, we started on some questions on financing commit-
22 ments and you probably finished your presentation. I'd
23 just like to get back to them because I don't feel that I
24 understand what a commitment is or, according to what you say,
25 ... It seems to me in reading what the state's consultants

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1 have had to say about a financial commitment that it has
2 got to have a number of things and we talked -- a number
3 of components -- and we talked about those components
4 earlier, a specified amount. I think we were talking about
5 insofar as the Thyssen commitment goes, 750 million dollars.
6 That's really about where it stops and Thyssen doesn't
7 commit to come up with that, it commits to arrange it for
8 750. Isn't that right?

9 BY: MR. HANZLIK

10 That's correct.

11 BY: MR. MILES

12 But the other basic elements of a commitment, at least,
13 again, this is according to one lawyer, the contingency
14 funds, the drawdown schedule, the commitment fee, terms,
15 none of those other things are present.

16 BY: MR. HANZLIK

17 Those are all present in the Valdez piece that Hutton has
18 prepared.

19 BY: MR. MILES

20 No, I'm talking -- we're just talking Thyssen right now.

21 BY: MR. HANZLIK

22 But they're not included in that.

23 BY: MR. MILES

24 In fact, are there binding contracts between the buyer and
25 the lenders -- investors?

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1 BY: MR. HANZLIK
2 The what?
3 BY: MR. MILES
4 Are there binding contracts?
5 BY: MR. HANZLIK
6 Between who?
7 BY: MR. MILES
8 Between the buyer and the lenders, between you and lenders?
9 BY: MR. HANZLIK
10 Between us and Thyssen?
11 BY: MR. MILES
12 Yeah.
13 BY: MR. HANZLIK
14 Yes, absolutely, as confirmed by Dr. Gischwend's telex, which
15 is included in the materials that ...
16 BY: MR. MILES
17 But the extent of that commitment is to arrange financing,
18 some of it?
19 BY: MR. HANZLIK
20 We have a binding contract with Thyssen to perform certain
21 things, including arranging financing, including providing
22 a fixed price, etc.
23 BY: MR. MILES
24 Okay.
25 BY: MR. HANZLIK

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1 Let me ...

2 BY: MR. MILES

3 But the actual, the terms of the 750 are not -- haven't been
4

5 BY: MR. HANZLIK

6 No, sir, they're not. Let me perhaps remark on one thing,
7 Bill. You mentioned the state's advisors. Perhaps you've
8 seen a letter dated March 20th from Lazard Freres, the
9 state's investment banker and financial advisor on the
10 project in which a Mr. Peter Lewis, who is the state's
11 financial representative to review all the materials sub-
12 mitted of a financial nature, wrote to the commissioner and
13 I'll quote two paragraphs from the letter. "One, it was our
14 opinion that at the time the letters referred to above taken
15 as a whole could be considered to be a reasonable financial
16 commitment under the special circumstances of this project."
17 The last paragraph says, and just the last sentence says,
18 "From a point of view of a member of the financial community,
19 however, we believed that these oral and written statements"
20 which he refers to in his letter, "were, in a practical
21 sense, as firm as could be realistically have been anticipated
22 at the time." And I think we stand on those statements.

23 BY: MR. MILES

24 In spite of the fact that there are no terms, there are no
25 conditions?

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1 BY: MR. HANZLIK

2 That is correct.

3 BY: MR. MILES

4 I see, okay. Mr. Gardiner.

5 BY: MR. GARDINER

6 Is basically the problem like -- maybe our expectation of
7 what a lending commitment is is something different than
8 you have or what was possible. But is the basic problem,
9 nobody's really going to commit to lend until there would
10 be a fixed design and a fixed cost? Isn't that basically
11 the problem? And that's the same thing that's on the gas
12 line. Everybody has these letters. They showed us three
13 years ago on the gas line, it said, you know, Bank of
14 America is interested in lending but, as Mr. Chatterton told
15 us three years ago, until they had a design and a fixed cost,
16 nobody's going to give a commitment to lend. And it seems
17 to be the same situation you were in on December 18th and
18 probably still are at this point. Is that correct?

19 BY: MR. HANZLIK

20 I wouldn't agree with that.

21 BY: MR. GARDINER

22 I mean like nobody -- the financial people aren't committing
23 to lend. You have a commitment of an agent for you. Like
24 I could commit to arrange the financing, right, but nobody
25 would probably believe me. But, I mean, I'm not the bank,

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1 right? I'm not the insurance company, or I'm not the person
2 buying the bond.

3 BY: MR. HANZLIK

4 You're not -- excuse me, you're not a company that has had
5 substantial experience doing this as their line of business
6 with four billion dollars of net worth behind you.

7 BY: MR. GARDINER

8 That's why I said ...

9 BY: MR. HANZLIK

10 That's why Thyssen's commitment means something.

11 BY: MR. PARKER

12 You've got to remember, Thyssen is not necessarily the
13 constructing arm, construction arm for this. They are
14 probably recognized as one of the major buyers worldwide.
15 So for them to be in a position to give you that fixed price
16 contract and go out in various countries to buy equipment
17 that has to go into that project, is a strong portion of
18 why there are no terms at this point in time.

19 BY: MR. GARDINER

20 But at some point you will try to get a commitment from the
21 lenders themselves, not just Thyssen, I assume.

22 BY: MR. HANZLIK

23 We have a requirement in the contract and I think it's --
24 what works out to the December 18th, 1980, commitment, to
25 obtain definitive -- execute definitive long-term loan

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1 documents, is approximately the language. That's when the
2 definitive financing is put in place.

3 BY: MR. PARKER

4 By December ...

5 BY: MR. HANZLIK

6 ... of this year. And the fact that you don't have a
7 financial institution ready to take down funds as you would
8 the day before you close on your residence, if you're buy-
9 ing it, is completely ordinary -- this is no different than
10 any other major project. You don't have the kinds of text-
11 book mortgages and security packages as referred to by the
12 lawyer you referred to. You do in a small industrial
13 building or a residence, but you don't in a multi-million
14 dollar facility such as this. You've got to understand
15 this in the context of the project.

16 BY: MR. MILES

17 Mr. Cotten.

18 BY: MR. COTTEN

19 Yeah, I came in a couple of minutes late, so maybe you
20 already went over the definition of what it means to arrange
21 financing. Did you already go over that?

22 BY: MR. MILES

23 No, we went over the substance of a commitment, but not
24 that specific arrangement.

25 BY: MR. COTTEN

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1 (indisc.) Maybe you could explain exactly what it means to
2 commit to arrange financing and what would -- what would
3 happen if that commitment to arrange financing didn't come
4 about. What if Thyssen didn't "arrange to finance"?

5 BY: MR. HANZLIK

6 Let me read you in answer to your question -- if I can find
7 this -- these are two points in a telex dated 21 December
8 to Mr. Cain. But it was referred by telex to Dr. LeResche
9 from Dr. Gischwend, the Chairman of Thyssen. "The purpose of
10 this telex is to contribute further to the clarification
11 of our involvement in this important project. Please permit
12 the following comments: (1) ALPETCO has entered into a
13 binding contract with a joint venture consisting of Foster
14 Wheeler Energy Corporation and Thyssen, Rheinstahl, Technik
15 for the engineering, supply and construction of a turnkey,
16 fixed price basis of the refinery and petrochemical facility
17 at Valdez. This contract permits and obliges us to start
18 work on the project immediately. (2) In view of this
19 engineering and construction contract, there is a binding
20 commitment on our part to arrange financing for the project
21 to the extent considered to the conditions expressed in our
22 pertinent letter. In view of the fact that definitive long-
23 term documents are not to be executed until December 18,
24 1980, our present commitments to ALPETCO are substantially
25 stronger than would usually be expected at this stage of

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1 the project.

2 BY: MR. COTTEN

3 Sir, what does it mean that they've committed to arrange

4 financing? If they don't arrange financing, they probably

5 won't have a contract to complete those engineering projects

6 and so forth. I'm just not sure -- I'm still not sure what

7 it means when they say, they commit to arrange financing.

8 They're committing to you to arrange financing, I understand.

9 BY: MR. HANZLIK

10 That's right.

11 BY: MR. COTTEN

12 And if they don't come through with that commitment, that

13 just means you're not going to give them the contract. Is

14 that what that means?

15 BY: MR. HANZLIK

16 It means further, the contract we have with the State of

17 Alaska would be terminated because we will not be in ful-

18 fillment of the benchmark requirement in December of this

19 year.

20 BY: MR. MILES

21 The amendment requirement that was passed by the legislature

22 with the contract -- the actual expenditure of 100 million

23 dollars prior to taking, let's assume for a moment that

24 things bump along and you may say you want to take the oil

25 on July 18th. You've expended 16-1/2 million dollars in

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1 the project over the last two years. What's going to com-
2 prise the expenditure over the next 90 days that would allow
3 you to meet this -- meet the amendment?

4 BY: MR. HANZLIK

5 As you will recall, we had notified the commissioner that
6 based on his 18 December decision that we -- and he has
7 notified the state -- we have notified of our intent to take
8 the oil and have committed to spend 100 million dollars.
9 These are parent company guaranties, commitments. Now the
10 items for which expenditure will be made will be an assort-
11 ment of items purchased for the project through the contrac-
12 tor. Financing of this is in the final stages of being
13 arranged and it consists of items for which we want to
14 establish immediately the fixed price of, so that we don't
15 bear further escalation on -- and items for which there is
16 a long lead time and failure to buy now will result in poten-
17 tial delays in the project. These are items related to
18 power generation, to some of the marine terminal facilities,
19 some of the tankage -- specialized tankage facilities and
20 other items like that. There's a large amount of specialized
21 equipment which the engineer's-contractor, have gone out
22 for bid on and expect to have orders placed and these
23 purchases closed by mid-June.

24 BY: MR. MILES

25 Orders placed by mid-June ...

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1 BY: MR. HANZLIK

2 No, ...

3 BY: MR. MILES

4 ... and you've gone out for that -- that's 85 million
5 dollars worth of bids?

6 BY: MR. HANZLIK

7 Yes, sir. 80 million.

8 BY: MR. PARKER

9 Let's clarify it. And this is an important point. The
10 money will be expended, but the money will be expended in
11 the same manner that this project will be handled and
12 completed. Thyssen is the one that has the buying power.
13 They have the responsibility to come back to us, to a lump
14 sum price and the lower that lump sum price, the more likeli-
15 hood the project of being viable. So we expect them when
16 they spend that money on our behalf, which we will pay to
17 them, that they don't just go out there and spend it. We
18 want to get the maximum benefit from those dollars spent is
19 what Willard is talking about. If we've got the time, which
20 they've been working on this for an extended period of time,
21 to have competitive bidding, whatever they can do. So that
22 when we buy an item, whatever that item is, that we get the
23 best price we can possibly get out of it. And that's the
24 way that the -- whatever the balance is -- the 80 million
25 dollars or to come up to that 100 million dollars, is going

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1 to be expended.

2 BY: MR. MILES

3 So Thyssen will spend that then -- is that what you're
4 saying, Thyssen will spend that, or ALPETCO?

5 BY: MR. HANZLIK

6 Well we will pay for it.

7 BY: MR. PARKER

8 We will pay for it.

9 BY: MR. HANZLIK

10 But the orders will be place by the contractor, just as if
11 you were having a home built, you wouldn't go straight to
12 the plumber and buy the plumbing equipment, you'd have it
13 through your contract.

14 BY: MR. MILES

15 You'd pay for it by -- for these various power generation
16 things by July 18th?

17 BY: HANZLIK

18 June 30th.

19 BY: MR. PARKER

20 June 30th is the date.

21 BY: MR. MILES

22 Joe.

23 BY: MR. MCKINNON

24 You've indicated that Thyssen's been involved in two or
25 three similar projects recently. What were those projects?

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1 BY: MR. HANZLIK

2 They have built two that I know of. Mr. McKinnon, there's
3 one other that I can't identify for sure. There was an Iraqi
4 refinery built and I can't give you the name of the city, it
5 was a 200,000 barrel a day facility, which had -- it was a
6 relatively similar facility. It was an export refinery and
7 they also did one in Iran prior to -- it was completed in the
8 middle of last year. And I can get you specific names, but
9 I don't have them on the tip of my tongue. Those were joint
10 ventures between -- this is interesting. These were joint
11 ventures between Thyssen, as the managing contractor and
12 C. E. Loomis, which is a major U. S. contractor and Thyssen's
13 experience in the past has been that they rely on a U. S.
14 contractor for the engineering expertise and they provide the
15 procurement expertise, as Mr. Parker has indicated earlier,
16 in order to utilize their worldwide buying strengths to
17 procure equipment at attractive prices. Thyssen, in both of
18 these instances I've cited, bore the cost overrun risk by giving a
19 fixed price guaranteed project to the customer. And it was
20 through our knowledge of those projects that we initially came
21 into contact with Thyssen over 18 months ago.

22 BY: MR. MCKINNON

23 Those were fixed cost projects?

24 BY: MR. HANZLIK

25 Those were fixed -- just like this one. They were performance

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1 guaranteed completion with a fixed price.

2 BY: MR. MCKINNON

3 After earlier testimony, I'm not sure I understand the differ-
4 ence anymore, but were these refineries or petrochemical plants?

5 BY: MR. HANZLIK

6 They were petrochemical plants.

7 BY: MR. COTTEN

8 He called it an export refinery a second ago. I was con-
9 fused on it too.

10 BY: MR. HANZLIK

11 Well, there is not a captive demand in Iraq for the products
12 from this facility. It's for export to the European market.
13 It doesn't really matter what the configuration of that
14 refinery was.

15 BY: MR. DAGON

16 They were in excess of 2 billion dollars.

17 BY: MR. HANZLIK

18 Ron says they were -- he says they were two billion dollar
19 projects. That's probably a reasonable number.

20 BY: MR. MCKINNON

21 Who were these projects constructed for?

22 BY: MR. HANZLIK

23 I can't tell you the client. But, as I said, one was in Iran
24 and one was in Iraq. They were probably government oil
25 companies since that's the way you do business in those two

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1 countries.
2 BY: MR. McKINNON
3 It was unlikely that they arranged them with the financing.
4 BY: MR. HANZLIK
5 Yes, they did.
6 BY: MR. McKINNON
7 They did?
8 BY: MR. HANZLIK
9 Yes, they did.
10 BY: MR. McKINNON
11 Where the government's involved?
12 BY: MR. HANZLIK
13 The governments I'm sure were involved, but I do not know the
14 specifics of how those projects were financed.
15 BY: DAGON
16 The significant thing is the cost guarantee.
17 BY: MR. McKINNON
18 Now you selected -- I was under the assumption from your
19 testimony that you selected Thyssen because of their experience
20 in arranging financing on this type of a project.
21 BY: MR. HANZLIK
22 We did. We did.
23 BY: MR. McKINNON
24 But you're not sure how these projects were financed?
25 BY: MR. HANZLIK

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1 I see what you're saying. I don't think my statement is at
2 all in conflict. Thyssen, in their communication to the
3 commissioner, has cited examples of projects they have arranged
4 financing for. They are in this -- this is the business they
5 are in. They are major facilities -- contractors -- and
6 their business is to arrange financing. Whether or not they
7 arrange the final pieces of financing for one facility or
8 another is extraneous as far as we're concerned. The fact is,
9 they put their commitment behind this project and we think
10 that speaks well for the State of Alaska that they're willing
11 to come into this new territory.

12 BY: MR. MCKINNON

13 You're not sure what the source of the funding was?

14 BY: MR. HANZLIK

15 No, sir, I'm not.

16 BY: MR. MILES

17 Mr. Malone.

18 BY: MR. MALONE

19 Thank you, Mr. Chairman. There might -- along with Mr.
20 McKinnon's point here -- there might have been, of course,
21 other communications to the commissioner. This one we have dated
22 21 December, '79, to Commissioner LeResche signed by
23 Schwartz and Schray (ph), I guess is how you say it, lists
24 something in Poland. It says a workshop, 300 million dollars.
25 Another item in Poland, a polyester foils plant, 120 million

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1 dollars and something in Argentina. I don't know if it's two
2 million or two thousand million dollars, which are shipyards.
3 I don't know what a polyester foils plant is, as a matter of
4 fact, but I don't see these other projects that are being
5 talked about in this communication.

6 BY: MR. HANZLIK

7 Then none of it was telexed obviously.

8 BY: MR. MILES

9 Mr. Malone.

10 BY: MR. MALONE

11 Mr. Chairman, if the commitment that's set out in arranging
12 the financing for -- by Thyssen is 750 million dollars, if
13 that financing isn't arranged, what recourse does ALPETCO
14 have against Thyssen?

15 BY: MR. JIM FRANCES

16 I'll answer that question. In my opinion, the responsibility
17 would be the same as if they committed to actually lend the
18 money.

19 BY: MR. MILES

20 Would you state your name for the record?

21 BY: MR. FRANCES

22 Jim Frances.

23 BY: MR. MILES

24 Thank you, Jim.

25 BY: MR. MALONE

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1 So what would the recourse be then? Specific performance?

2 BY: MR. FRANCES

3 I don't believe you'd get specific performance. Neither
4 could you if they committed to lend the money either.

5 BY: MR. MALONE

6 So what's the answer to the question then?

7 BY: MR. FRANCES

8 The answer to the question is the responsibility is identical
9 to the responsibility had they committed to lend the money.

10 BY: MR. MALONE

11 Well, Mr. Chairman, I'll have to cogitate on that a bit. I
12 presume that some recourse would be available but -- in a
13 case like that, but the point I'm trying to get at is, you
14 know, how is that element of the financing scheme or plan,
15 rather, as presented December 18th, comport with the contract
16 requirement that -- a commitment is required to lend or
17 invest by contractually bound third parties and what is the
18 binding contract and what is the recourse against the contract
19 is what I was going to ask? But I'll rephrase the question
20 and ask it again in a moment, thank you.

21 BY: MR. MILES

22 Mr. Gardiner.

23 BY: MR. GARDINER

24 Yeah, on the same subject of financing. When did you start
25 trying to make arrangements for financing?

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1 BY: MR. HANZLIK

2 19th of June, 1978.

3 BY: MR. GARDINER

4 Were you in communications or negotiations with other people
5 besides?

6 BY: MR. HANZLIK

7 Absolutely.

8 BY: MR. GARDINER

9 What kind of proposals? I guess what I'm wondering is --
10 there's some consideration of -- I think you've given some
11 reasons for why you selected Thyssen, but there was some
12 talk about contracts with Japanese and other major petro-
13 chemical firms and that. I think, at least, there was some
14 talk about that; testimony that these were the kinds of
15 people you would go to and try to get involved in the project
16 and hence those kind of companies would probably -- because
17 they're involved in the project, contribute to the financing.
18 Did you have proposals from these kinds of companies?

19 BY: MR. HANZLIK

20 Yes.

21 BY: MR. GARDINER

22 They weren't as good or ...

23 BY: MR. HANZLIK

24 No, they were not. I'm sorry. I'm not prepared to discuss
25 the details of the negotiations which led up to our selection

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1 of Thyssen or any other party with whom we are doing business.
2 And I don't mean to be belligerent about it, but it simply
3 isn't proper to operate this or any other business in a fish
4 bowl.

5 BY: MR. GARDINER

6 I wasn't asking the names of the companies. I just wondered
7 if there was other companies that you were involved with?

8 BY: MR. HANZLIK

9 Most certainly.

10 BY: MR. GARDINER

11 And these were like petrochemical companies?

12 BY: MR. HANZLIK

13 Sure.

14 BY: MR. GARDINER

15 Companies of this nature? But they weren't willing to give
16 commitments to financing?

17 BY: MR. HANZLIK

18 Mr. Gardiner, when you're in a commercial enterprise, after
19 long tears and negotiations, you choose what makes the best
20 sense under all the circumstances and in one instance you may
21 have a -- you may have things that are attractive with one
22 offer or one line of negotiations which make -- things aren't
23 necessarily parallel at all. The fact that the culmination
24 of a year and a half of effort resulted in Thyssen, simply
25 speaks to the -- I think -- to the strength of their proposal.

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1 There were several that we pursued which didn't materialize,
2 that weren't either interested in investing in Alaska or the
3 terms of which we weren't interested in having as investors.
4 There's a long list of those.

5 BY: MR. MILES

6 Well how do you know Thyssen is better when you don't know the
7 terms, when there are no terms in their commitment to arrange?

8 BY: MR. HANZLIK

9 I know that they are better for our requirements because of
10 what they were able to bring to this project?

11 BY: MR. MILES

12 Yeah, but from a financing standpoint, there are no financing
13 terms insofar as your arrangement with Thyssen.

14 BY: MR. HANZLIK

15 That's right.

16 BY: MR. MILES

17 So I guess, how can you say -- I don't understand how you can
18 say that it's a better deal for you.

19 BY: MR. HANZLIK

20 Well, I guess that's our risk.

21 BY: MR. MILES

22 Well, it may be our risk if we're plunking down 150,000
23 barrels of oil.

24 BY: MR. MILES

25 Mr. Gardiner.

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1 BY: MR. GARDINER

2 Just to explain, I mean, the point of the line of questioning
3 is this. It's pretty obvious why you'd try to get tax exempt
4 bonds. That's a good deal for financing, right. I mean any-
5 body can figure that out, right, because you know that you're
6 going to be at substantially below market rates of interest
7 that you might get from any commercial lender or whoever.
8 Okay, so there has -- you know, there is a question about the
9 viability of the project. Okay, well economists and business
10 people always tell us that well, you know, that's one reason
11 you keep government out of these -- financing of projects and
12 stuff is so that there's a market test. So that's why we
13 asked the question because Thyssen has said, give me a commit-
14 ment to arrange financing which, in my book, isn't nearly as
15 strong as somebody committing to lend, even though they make
16 it contingent. Normally, as it's been explained to me, the
17 lender would say, fine, we'll commit to finance upon these
18 conditions, right, and then when all those conditions are met,
19 everybody sits around the table and signs the line, right.
20 Well, you're a step back from that. You have somebody that's
21 going to go to those lenders at some future point, right.
22 And so we don't know those terms so therefore there isn't
23 that, you know, the same kind of market test at this point
24 and that's the reason for the line of questioning.

25 BY: MR. PARKER

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1 Let me -- Willard let me answer this question. Willard is the
2 finance expert and I'm not. But Thyssen does bring to the
3 table a fixed price contract, included in that fixed price
4 contract has got to be the construction interest and the
5 carrying costs and etc. that's involved in it. So, when you
6 say, okay, what is their rate or what are those terms -- maybe
7 you don't know that at this point in time, but I will guarantee
8 you in a period of time where you've got inflation that we
9 have, if you're able to tie something down on a fixed bid
10 contract, it's got to have a value to it. And the real
11 question comes, they arrange the financing, they come in with a
12 fixed price contract and at that point in time, there is where
13 the evaluation as to whether our risk in going with them
14 was good or bad. And I agree with Willard in that we may have
15 talked to numerous other financing agencies, countries, etc.,
16 some of which Thyssen may go back and talk to. And we're
17 not going to sit here today and cover the details of our
18 discussions with them.

19 BY: MR. HANZLIK

20 I think I can be of some help to you. You've asked the
21 question and I think I answered it accurately. What were the
22 terms of Thyssen's commitment to arrange. And the answer is,
23 they are not included in that commitment. But let me tell
24 you where we are as far as the terms of the export credit
25 financing and that may help you ...

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1 BY: MR. MILES

2 The what?

3 BY: MR. HANZLIK

4 The export credit financing, which is what Thyssen is arrang-
5 ing. So that you can appreciate the financial environment
6 that this is being done under, as far as term of the contract,
7 export credits are generally five to seven years after comple-
8 tion of the facility. It's our understanding that that will
9 be the appropriate term for negotiating for as long a term as
10 possible. The rate will be the then market rate for export
11 credits.

12 BY: MR. MILES

13 Is this a -- I don't understand exactly this part. Is this
14 the 750 million we're talking about?

15 BY: MR. HANZLIK

16 Yes, sir.

17 BY: MR. MILES

18 This is all the 750?

19 BY: MR. HANZLIK

20 That's right.

21 BY: MR. MILES

22 Okay.

23 BY: MR. HANZLIK

24 Export credits are -- the terms and conditions of them are estab-
25 lished jointly by agencies of governments, the U. S. participates

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1 in this. But obviously this would not be an export credit for
2 U. S. source, but the rates are going to be comparable whether
3 the money is sourced out of France, Germany, Italy, Japan,
4 Belgium or wherever. These export agencies confer among them-
5 selves and arrive jointly at rates and terms and they all comply
6 with this, once they've set a mutually agreeable set of condi-
7 tions.

8 BY: MR. GARDINER

9 Is this like an EEC deal or something?

10 BY: MR. HANZLIK

11 Exactly. So we're talking about the going market rate and
12 today if that were done, it would probably be 9-3/4% fully
13 loaded. Now we hope it will be less than that. It may be
14 more than that. We're planning for the worst. We're planning
15 that it may be well above that. I mentioned the term, 5 to
16 7 years, and the drawdown of these instruments typically are
17 in progress payments as required to supply the equipment. So
18 beyond that, we can't be more specific because Thyssen doesn't
19 know whether it's going to be buying specific items of equip-
20 ment in France or in Japan or Germany or wherever. Once it
21 determines these things, then the respective export agencies
22 will come forward and those pieces will be put into the puzzle.

23 BY: MR. GARDINER

24 Is there some connection between the utilization of this
25 export credit financing and purchasing products -- material

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1 from the foreign countries?

2 BY: MR. HANZLIK

3 Products from the refinery or products as in equipment from

4 the countries?

5 BY: MR. GARDINER

6 That's part of the deal ...

7 BY: MR. HANZLIK

8 Oh, it's directly related. Absolutely hand in glove.

9 BY: MR. GARDINER

10 They're happy to give you financing as long as you're buying

11 products from them.

12 BY: MR. HANZLIK

13 Absolutely, just as the United States does that.

14 BY: MR. BARNES

15 You're promoting their exports.

16 BY: MR. GARDINER

17 Right, so does this more or less presume that if 750 million

18 dollars of financing was arranged that some amounts in that

19 magnitude would be used -- I mean, is there some kind of

20 ratio or does that mean you have to purchase 750 million

21 worth of equipment from European sources?

22 BY: MR. HANZLIK

23 Not necessarily. It's different in each instance. But

24 generally, for purposes of what we're talking about right

25 now, financing follows the securing of equipment. They are

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1 directly related.

2 BY: MR. PARKER

3 And has a direct bearing on the quote which Foster Wheeler --
4 or Thyssen can give you as far as the cost of that project.

5
6 BY: MR. HANZLIK

7 Yeah, one other point on these export credits that's obviously
8 critical, is that they're government sponsored. And the reason
9 the rates and terms are attractive, is that individual govern-
10 ments and this is much more the instance outside the U. S.
11 than in this country, foreign governments are promoting exports
12 of their industry and they, therefore, in essence subsidize
13 the financing by making -- by giving government guarantees
14 and other assurances to commercial institutions, financial
15 institutions which in turn actually make the loans.

16 BY: MR. GARDINER

17 They guarantee that?

18 BY: MR. HANZLIK

19 The government will guarantee so that a commercial bank with-
20 in one of these nations will actually make the disbursement
21 of funds. Now, at one point in time, ALPETCO was working,
22 I would say, 90% of this financing -- this export financing,
23 from Japan. And for a number of reasons, principally that
24 there has developed some very attractive financing sources
25 in Europe, we are now at a point of probably getting 50-50.

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1 And this is a good example of responding to changes in the
2 marketplace.

3 BY: MR. MILES

4 I don't understand export financing.

5 BY: MR. GARDINER

6 I'll explain it to you sometime.

7 BY: MR. MILES

8 Would you like to do it right now?

9 BY: MR. GARDINER

10 I've really got it.

11 BY: MR. MILES

12 Okay, on the 750 million dollar commitment from Thyssen, it's
13 going to be somehow tied in with this export financing which
14 is a government subsidy and you're hoping to get this money
15 at 9-3/4 short-term, 5 to 7 years. Which government is going
16 to subsidize?

17 BY: MR. HANZLIK

18 It's not true a government subsidy, Mr. Miles, it's a matter --
19 foreign governments and the U. S. government have established
20 procedures whereby for a fee paid by the borrower, an agency
21 of these respective governments will give loan insurance
22 to their respective lending commercial banks and generally
23 it's a quarter point. Sometimes it's a half point. But it's
24 a matter that they in turn assure the bank that's in their
25 respective countries, that if there's anything about a project

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1 or a loan which jeopardizes the repayment, then the government
2 of that respective country steps in and makes good on the
3 loan.

4 BY: MR. MILES

5 Which government are we talking about. I guess, are we talking
6 about ...

7 BY: MR. HANZLIK

8 France, Germany, Britain, Japan ...

9 BY: MR. MILES

10 Well, no, insofar as the Thyssen and the 750 million.

11

12 BY: MR. DAGON

13 Same list.

14 BY: MR. MILES

15 We're talking about ...

16 BY: MR. HANZLIK

17 All those countries.

18 BY: MR. DAGON

19 Same list.

20 BY: MR. MILES

21 All the countries are going ...

22 BY: MR. PARKER

23 Possibly.

24 BY: MR. MILES

25 ... give that -- make that assurance or set up the guaranty?

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1 BY: MR. PARKER
2 It depends on, you know, they'll go out with bids to see
3 what that can buy and what's the best deal they can make,
4 both including purchase and the financing of it.
5 BY: MR. HANZLIK
6 That's right.
7 BY: MR. MILES
8 I see, so from whatever -- whoever buys ...
9 BY: MR. PARKER
10 Whatever country.
11 BY: MR. MILES
12 ... the 100 million of the 750, that particular government
13 will guarantee for an insurance premium of a half a percent
14 or whatever percent.
15 BY: MR. PARKER
16 Well, what it does, it creates employment work in that given
17 country, doesn't it? I mean that's the theory behind it.
18 BY: MR. DAGON
19 This isn't exotic is what you're trying to say.
20 BY: MR. PARKER
21 No. It's done all the time.
22 BY: MR. DAGON
23 This isn't some exotic plan. It's a common method of
24 financing very large project -- very small projects, as far
25 as that's concerned.

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1 BY: MR. PARKER
2 And the U. S. Government will do that, won't it?
3 BY: MR. HANZLIK
4 Sure.
5 BY: MR. PARKER
6 For construction projects of other countries. They won't
7 do it for a domestic project.
8 BY: MR. MILES
9 Mr. McKinnon.
10 BY: MR. MCKINNON
11 If last December 18th you had gone to Commissioner LeResche
12 and said the financing we've arranged is 600 million in
13 bonds from the City of Valdez and we've got 350 million in
14 equity and we intend to go out during the next year and
15 arrange an additional 750 million dollars worth of loans,
16 would that have met the benchmark?
17 BY: MR. HANZLIK
18 No.
19 BY: MR. MCKINNON
20 And you're contending that's like contractually obligating
21 somebody to do what wouldn't have met the benchmark if you
22 yourself had done it, you've met the benchmark.
23 BY: MR. HANZLIK
24 Exactly. Sure.
25 BY: MR. MCKINNON

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1 I don't see the logic there.

2 BY: MR. HANZLIK

3 You don't see the logic in ...

4 BY: MR. McKINNON

5 I can't understand how ...

6 BY: MR. HANZLIK

7 Because I can't demonstrate to you and I'm having some diffi-
8 culty, I guess, even explaining it, but I can't demonstrate
9 to you that we have the expertise and experience and history
10 of arranging major financing for projects like this or like
11 any other project, because that's not the business we're in.
12 That is the business that Thyssen is in.

13 BY: MR. PARKER

14 But I think there's one point. Rather than answer hypothetical
15 questions, I think really somebody needs to look at the
16 December benchmark 1979 and the December benchmark 1980,
17 because 1980 says you will have signed documents, as such.
18 And you can't back up the signed documents, terms and condi-
19 tions and everything else back to 1979. That's what that
20 year was contemplated for. I mean, if that's the case, why
21 did you need a December 1980 benchmark?

22 BY: MR. McKINNON

23 My understanding was that the '79 benchmark was to get firm
24 commitments to lend and to have executed the loans by Decem-
25 ber of '80.

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1 BY: MR. PARKER

2 And they got firm commitments. The question is, you will work
3 out the terms, conditions and etc. and get your signed docu-
4 ments by 1980. That's really what was intended.

5 BY: MR. MCKINNON

6 I don't see a commitment to lend anywhere in there.

7 BY: MR. HANZLIK

8 Well, again, I'll just say one more time, my point and my
9 statement on this whole issue on the state's investment
10 banker, who has given his opinion, that under the circumstances,
11 taking the whole situation in context, he believes there's
12 been a commitment rendered. And we've acted in good faith
13 based on these issues.

14 BY: MR. PARKER

15 And we believe a commitment has been made.

16 BY: MR. HANZLIK

17 Absolutely.

18 BY: MR. MILES

19 Mr. Malone.

20 BY: MR. MALONE

21 Thank you, Mr. Chairman. I'm not accusing anybody of not
22 acting in good faith, but it seems to me that in the so-
23 called 18 month benchmark, or within 18 months after the
24 effective date, we do have an item sub -- (d) that says,
25 obtain or cause contractually bound third parties to obtain

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written commitments to lend or invest a billion and a half dollars for total project costs. Now, it's my belief that the reason that was in there at the 18 month benchmark is that the financability of the project would be demonstrated prior to the date when the royalty oil is to be turned over to ALPETCO and that's the reason that I've been asking these questions, is because I want to make a determination in my mind whether or not that financability has been demonstrated. And I think that's the only reason for having that in the contract. Now maybe that's a matter of interpretation. But -- so ... It's not a question of accusing anybody of bad faith. It's just a matter of getting information.

MR. PARKER

We believe that and we think Thyssen believes that and that's the reason why they issued their commitment in our opinion.

MR. MILES

I think it should be noted that the letter that Mr. Hanzlik referred to in the first sentence of that last paragraph allows as how Lazare Freres (ph) offers no opinion as to whether or not the statements of Thyssen, the sponsors and E.F.Hutton constitute a binding legal commitment. Other questions?

Mr. Chatterton.

MR. CHATTERTON

Yeah, I'm going to shift gears, if I may, a little bit. I promised you 55, but I won't hold with that because actually you know

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1 Ron sort of mentioned here -- he pleaded with us when he
2 started putting up his signs here that he didn't want us to
3 nail them down. Of course, for over two years now I found
4 out from a practical standpoint, I can't nail you down, you're
5 too fast a moving target. So, don't worry, I won't try and
6 nail you down. But really, to get to practical aspects,
7 could you tell me -- you're about 75 days away from lifting
8 150,000 barrels a day of oil from Valdez or Valdez terminal,
9 could you tell me how you're going to do it, where's it
10 going, who's going to buy it and so forth and so on. Seventy-
11 five days is a short while and I know you've made tanker
12 arrangements and things.

13 BY: MR. PARKER

14 We have not made tanker arrangements, to be honest with you.

15 BY: MR. CHATTERTON

16 You have not?

17 BY: MR. PARKER

18 We have not.

19 BY: MR. CHATTERTON

20 You have to be kidding.

21 BY: MR. PARKER

22 Well, let me just ask you something. First of all, to move
23 that oil out of there, where it's split between the
24 two porters, do you know the rules and regulations of TAPS
25 from the standpoint that you're looking at moving product

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1 out of there. You've got 5-1/2 days storage, okay? You can
2 size the ship based on 5-1/2 days and that's not the way we
3 ought to move it. We ought to be exchanging it in some form
4 or fashion with people who currently have tonnage. So,
5 again, these are the kinds -- the practical matters of us
6 being able to handle that type of oil. There are penalties,
7 severe penalties if you don't move it within that time frame,
8 providing that the level of product, crude, in TAPS exceeds
9 -- I don't remember -- it was 75% of the operating capacity,
10 they can charge you \$.20 a barrel per day. And we really
11 at this point in time don't want to sign up with enough
12 ships to take it out of there on every 5-1/2 days at that
13 size ship. And you can look at Alaska Interstate, where
14 they've got 45,000 barrels a day. Now we can tell you this,
15 our problem is we're trying to negotiate a deal that is
16 viable and you're talking about producers and people that
17 testify that may not want us to have that crude oil. Dammit,
18 we are bootstrappin it up as best we can to make this project
19 go. So we don't and have not signed up. We have talked to
20 Sea Train and so forth as within the next week, as to sit
21 down and talk to them about shipping. We may have to fall
22 back to that. But the most logical thing is to come in with
23 some type of exchange that allows us to operate in the same
24 manner that the majors do in taking their crude oil out of
25 the terminal at Valdez. We have been down to their meetings

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1 where they set up the shipping and so forth. We believe in
2 this being a viable project and are doing everything we can.
3 But again, we don't like to run our business in a fish bowl
4 of saying who we're talking to and let them realize what type
5 of binds we're in, to try to move it. And we will move it.
6 If we got to move it, if we've got to sell it back to one of
7 them and make a penny a barrel, we'll have to do that. But
8 we will move that crude oil.

9 BY: MR. CHATTERTON

10 Make a penny a barrel, what if you lost a penny a barrel?

11 BY: MR. PARKER

12 If we lost a penny a barrel, we'll lose a penny a barrel.

13 BY: MR. CHATTERTON

14 What risk, if you say you will, like you've said many things,
15 what if you don't though? What's the risk to the state if you
16 don't lift it, if you physically can't, if you can't get a
17 contract bottom anyplace, an American flag contract bottom?

18 BY: MR. PARKER

19 Well, I think your biggest risk would be to decide which one
20 of the ones knocking on your door you'd peddle it to. Because
21 I guarantee you that I think, and you'll have to ask LeResche,
22 but I believe from the standpoint that anybody currently
23 taking that crude, would immediately take that crude off his
24 hands.

25 BY: MR. CHATTERTON

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1 What if they -- Mr. Chairman. I can't help but worry, to be
2 very honest with you -- now here I am as -- I have titles to
3 some oil coming down the pipeline and I have my tankers all
4 scheduled, good, American flag, Jones Act tankers.

5 BY: MR. PARKER

6 Okay.

7 BY: MR. CHATTERTON

8 And I'm moving it. And here, suddenly, the State of Alaska
9 tells me, well, you're going to get 1/8 less from now on.
10 Well, I'm going to start talking to my tanker people and say
11 well we're going to be lifting a little bit less and I'm
12 going to change my schedule.

13 BY: MR. PARKER

14 Okay.

15 BY: MR. CHATTERTON

16 All right, because Joe Dokes is going to start lifting that.
17 And then what happens if Joe Dokes doesn't lift it? I can't
18 change my tanker schedule in that fashion.

19 BY: MR. PARKER

20 Well, I think that what you'll find, as a practical matter,
21 in the oil business, is that you've got -- all of these
22 companies have got the same problem, maybe a ship slips some-
23 time. They exchange with each other, pick up, loan, lend,
24 so forth. There again is developing a relationship and I
25 guess it's second nature to us. We run a refinery in Houston,

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1 we run a refinery in the Bahamas. We have been shipping crude
2 oil from West Texas by pipeline for -- since, I guess, 25
3 years that I'm aware of and we have never run out of crude
4 oil in that refinery yet. We have had to borrow. We've had
5 to loan. We've been in cases to where somebody ends up with
6 their crude unit going down with a fire. We've offered from
7 the standpoint to assist them to take their crude. We've had
8 the same offers from them. You know, you don't stand out
9 there as an island. You're part of the oil industry.

10 BY: MR. CHATTERTON

11 Thank you. Mr. Chairman. I guess then what you're telling
12 me is that I have nothing to fear. You are going to lift
13 your 150 plus thousand barrels a day starting July the 18th,
14 1980 and I have nothing to worry about. You're going to get
15 the job done.

16 BY: MR. PARKER

17 We will get the job done. We may not start July the 18th,
18 because I think there's a line fill involved on it, but when
19 it comes time for us to lift it, we will, in some form or
20 fashion, make arrangements to move it.

21 BY: MR. CHATTERTON

22 Thank you.

23 BY: MR. PARKER

24 I appreciate you worrying. But I also from the standpoint,
25 if we don't move it, they may replace me see.

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1 BY:
2 You've got some worrying to do.
3 BY: MR. PARKER
4 So I also worry about that.
5 BY: MR. FERGUSON
6 Mr. Chairman.
7 BY: MR. MILES
8 Senator Ferguson.
9 BY: MR. FERGUSON
10 I'd like for someone to answer me -- I'm sorry I wasn't here
11 earlier, Mr. Chairman. The corporate structure that you have
12 set up now, what companies do you have, who owns what?
13 BY: MR. HANZLIK
14 Mr. Dagon can help you ...
15 BY: MR. PARKER
16 Let's just give him a page that was shown as a slide and then
17 we can answer any questions.
18 BY: MR. FERGUSON
19 Mr. Chairman.
20 BY: MR. MILES
21 Senator Ferguson.
22 BY: MR. FERGUSON
23 Charter Oil of Alaska, Inc., it's an Alaska corporation,
24 right?
25 BY: MR. PARKER
It is.

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1 BY: MR. FRANCES
2 It's a Florida corporation, excuse me.
3 BY: MR. FERGUSON
4 What was that?
5 BY: MR. FRANCES
6 It's a Florida corporation.
7 BY: MR. PARKER
8 Legally. Legally, from the standpoint it was incorporated
9 in the State of Florida.
10 BY: MR. FRANCES
11 It's qualified to do business in the state ..
12 BY: MR. PARKER
13 It's qualified to do business in the State of Alaska.
14 BY: MR. FERGUSON
15 It's a paper corporation here in Alaska.
16 BY: MR. PARKER
17 It's a subsidiary of the Charter Company.
18 BY: MR. FERGUSON
19 In this paper transaction, does this lessen your tax obliga-
20 tion in the State of Alaska?
21 BY: MR. HANZLIK
22 Let me answer this. You've used the term paper corporation.
23 Charter Oil of Alaska is a partner in a joint venture that
24 has assets in excess of 16 million dollars. And I don't
25 consider that to be a paper corporation. And it's backed by

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the -- a guarantee that the person who has the guarantee
which has assets of -- has net worth of over 650 million
dollars.

MR. FERGUSON

My question was ...

MR. HANZLIK

These ventures have no income in the State of Alaska, the
State of Florida or the State of Texas. The 16 million dollars
that we have spent is all a loss and therefore there are no
taxes paid either to the Federal Government or any state
government at this time.

MR. FERGUSON

Is there a tax burden to your employer at any time?

: MR. HANZLIK

I think the question that you're headed to -- if I can jump
ahead of you, is will these companies pay taxes in the State
of Alaska and the answer is yes, they will.

Y: MR. FERGUSON

On what portion of the product?

BY: MR. HANZLIK

The same way that -- my understanding, I'm not a tax expert,
but the same way Chevron, for instance, just to use an example c
Exxon or anybody else pays taxes in the State of Alaska. They are
not incorporated here, but they operate here, they do business
here and they pay taxes here.

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1 BY: MR. FERGUSON

2 It seems to me you're selling from one company to another,
3 one based in Florida and one based in Alaska and yet it's
4 the same company, yet they own different assets so-called,
5 is that true?

6 BY: MR. HANZLIK

7 Not exactly. There will be no gain or loss in a transaction
8 between the partnership, the ALPETCO Company, and the sale
9 of crude oil to the Charter Company, Charter Oil Alaska. But
10 the transaction in which Charter Oil of Alaska makes, will
11 be -- it will be operating within the jurisdiction of the
12 State of Alaska.

13 BY: MR. FERGUSON

14 Mr. Chairman. I don't mean to be rude here, but I think this
15 question needs to go to someone that can give us a direct
16 answer. Is the makeup of Charter Oil of Alaska, Inc. and
17 the owner in Florida, is there a loss to the State of Alaska
18 with the Alaska tax structure and the Florida tax structure
19 and with this corporation set up the way it is. I'd like to
20 find out?

21 BY: MR. FRANCES

22 I don't think anyone here knows the answer to your question.
23 I know Charter Oil of Alaska is not incorporated in Florida
24 to avoid paying taxes. But, in answer to your question ...

25 BY: MR. FERGUSON

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1 I'm not saying avoid, I'm saying do you have to pay taxes in
2 Florida? Is there a difference between their tax structure
3 and our tax structure?

4 BY: MR. FRANCES

5 I don't know the answer to that question.

6 BY: MR. PARKER

7 It would still be based on the where the business that was
8 transacted.

9 BY: MR. FRANCES

10 That's correct.

11 BY: MR. PARKER

12 Let's clarify one thing. Charter, being the size company it
13 is, there are numerous subsidiaries, wholly owned subsidiaries;
14 the one in Houston, Charter International, it owns the Houston
15 refinery, is a subsidiary. It's a separate corporation. Our
16 marketing arm, the service stations, which is housed in
17 Hammond, Louisiana, is a separate corporation. Our crude oil
18 company is a separate corporation. None of that is designed
19 from the standpoint to affect a tax structure.

20 BY: MR. FERGUSON

21 Mr. Chairman. The question that I asked earlier was Charter
22 Oil of Alaska, Inc., is it an Alaska corporation? The answer
23 that I received, and correct me if I'm wrong, yes, it is an
24 Alaska corporation. Yet, it's also a Florida company.

25 BY: MR. FRANCES

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1 No, no. The answer to your question is, it is a Florida
2 corporation, it is not an Alaska corporation.
3 BY: MR. HANZLIK
4 But it's licensed to do business in Alaska.
5 BY: MR. FERGUSON
6 Licensed to do business.
7 BY: MR. HANZLIK
8 Right. In other words, it's registered with -- what is it --
9 the Department of Commerce, I think is the agency.
10 BY: MR. MILES
11 Senator?
12 BY: MR. FERGUSON
13 I'm finished now but I'd still like to get an answer between
14 the tax structure in Florida and the tax structure here and I think we
15 could find someone that knows the answer.
16 BY: MR. MILES
17 If worse comes to worse and the worst possible thing happens,
18 ALPETCO goes belly up, what happens?
19 BY: MR. DAGON
20 Without being funny, does he mean individually or collectively?
21 BY: MR. PARKER
22 Well, you know, that's ...
23 BY: MR. MILES
24 Well, I guess I'm mainly concerned about the state's resource,
25 the 150,000 barrels a day, what happens to that?

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1 BY: MR. HANZLIK

2 Let me try a crack at it. The contract has very specific
3 security requirements that must be in place prior to the
4 taking of any of the state's oil. At all times the state is
5 protected either by letter of credit or other approved
6 alternate security. I can't cite you to the contract but
7 there's about 8 or 10 pages about the form of security that
8 must be provided to the state. And at all times the state is
9 100% protected.

10 BY: MR. MILES

11 Are you saying then that if ALPETCO goes bankrupt or Chapter
12 11 or something along those lines, that it has no claim
13 whatsoever to the oil? That's what you're saying?

14 BY: MR. PARKER

15 You posed a different question. You said if you went ...

16 BY: MR. FRANCES

17 What Willard said is that you are secured and that you
18 would get paid for the oil.

19 BY: MR. MILES

20 Well, what I'm saying -- if there is no more plans, if
21 ALPETCO is a corporation, let me rephrase it then. If
22 ALPETCO as a corporation goes bankrupt, neither Charter, nor
23 ALPETCO, nor the ownership in the claimed oil reverts
24 to the state.

25 BY: MR. DAGON

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1 I'm sorry. You're talking about your plant is up, operating
2 and now ...
3 BY: MR. MILES
4 Well maybe it's not. Maybe a year from now before it's done
5 it goes belly up.
6 BY: MR. FRANCES
7 It provides on page 41 of the Royalty Oil Contract ...
8 BY: MR. MILES
9 Well, could you just tell me 'cause I
10 BY: MR. FRANCES
11 It's a default. If the buyer goes into bankruptcy, it is a
12 default entitling the state to terminate the supply of crude
13 oil.
14 BY: MR. MILES
15 Okay, you're saying then if ALPETCO does go bankrupt, the
16 state gets the oil back?
17 BY: MR. FRANCES
18 That's what the contract provides.
19 BY: MR. MILES
20 Yes or no. Can you give me a yes or no?
21 BY: MR. FRANCES
22 The contract provides that when the buyer become insolvent or
23 commits an act of bankruptcy, the seller can terminate the
24 supply of crude oil.
25 BY: MR. MILES

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1 Okay, well I interpret that to mean that if ALPETCO goes
2 bankrupt, the state gets the oil back. Is that right?
3 BY: MR. FRANCES
4 I think that's right. That's what the contract provides.
5 BY: MR. MILES
6 Okay. That's what we all mean. Nobody's disputing that,
7 that that's what we mean.
8 BY: MR. FRANCES
9 The person that you want to fight with about it, is going to
10 be the trustee in bankruptcy.
11 BY: MR. MILES
12 Well, you're disputing that. Are you disputing that?
13 BY: MR. FRANCES
14 I don't know the answer to the question. I know the contract
15 provides that you get the oil back. And if that provision
16 of the contract is enforceable, you get the oil back. But
17 I'm not going to -- I don't know what the bankruptcy law is.
18 BY: MR. PARKER
19 That's what he's in. He doesn't know the bankruptcy laws and
20 I am no attorney, but I would say this. If it went into
21 bankruptcy, you can forget about the Charter Oil of Alaska
22 having that crude oil. It's going to be between you and the
23 bankruptcy court. So if you're looking from the standpoint
24 of that a means of going bankruptcy and continuing to take
25 the oil on Charter's part or ALPETCO's project, that ...

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1 BY: MR. MILES

2 It's a resource that belongs to all the people of Alaska and
3 I think it's a legitimate question, one that we don't seem to
4 be getting a real definitive answer to, although I think you're
5 saying, that yeah, if ALPETCO goes bankrupt, the state gets
6 the oil back. I guess that's what you're saying.

7 BY: MR. PARKER

8 Well, but what you're asking there though, is a contract that
9 was negotiated and I'm sure reviewed by the legal counsel in
10 some form or fashion of the State of Alaska and they're the
11 ones that you ought to tell you that in their opinion that's
12 what would take place.

13 BY: MR. MILES

14 Well, contracts are all just lawyers' ways of laying out what
15 the intent means and I was just trying to get your intent,
16 'cause you guys are the signees [sic].

17 BY: MR. PARKER

18 Right, and you're the signors [sic].

19 BY: MR. MILES

20 Not me. The state had more than one attorney. Mr. Parr.

21 BY: MR. PARR

22 Mr. Chairman. I'd like to come back to a simple question, get
23 away from the high finance here. When we were getting a
24 briefing over on the slides, we were given some figures on
25 employment going up to about 2900 and I guess I had a little

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1 trouble there because we had gotten a figure of five hundred
2 and something out of the environmental impact statement, which
3 is fairly recent, and I guess the obvious question is, which
4 is right, you know, is your environmental impact statement
5 or your slide? So you go up to 2900 and something on your
6 slide and 579 on the impact statement.

7 BY: MR. HANZLIK

8 Let's have Ron answer the question. I learned something --
9 I've been involved in the financing and I did not have any-
10 thing to do with the writing of the environmental impact state-
11 ment. And I learned something that I found -- that I didn't
12 know, I learned today, and that is we didn't prepare the
13 environmental impact statement and Ron can tell you who did.
14 But statements that are made of -- they said the taxes were
15 this or whatever, is based on the consultants hired by who --
16 the EPA and the state? They were not in conjunction -- we
17 did not have the ability to review, approve, edit, change,
18 whatnot, these documents. Okay this is a third party objective
19 environmental ...

20 BY: MR. PARR

21 It does say Alaska Petrochemical Company on the cover ...

22 BY: MR. HANZLIK

23 Yes, sir. We did not write that.

24 BY: MR. PARR

25 Are you disclaiming then any -- are you disclaiming that?

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1 BY: MR. HANZLIK
2 No, no.
3 BY: MR. PARR
4 Well, what is the point that you're making when you say you
5 didn't do it?
6 BY: MR. HANZLIK
7 I'm saying it was prepared by an independent group and Ron
8 can explain who these people were.
9 BY: MR. PARR
10 Yes, sir. I understand that. You know, you didn't take
11 petroleum engineers and have them do the impact statement.
12 I understand that, sir. It was done by people who specialize
13 in this work. But you paid them for it. One presumes, it
14 has your name on the cover, that you accept it. Are you say-
15 ing that -- what you were saying awhile ago, you know, you all
16 didn't do it, so if you don't really want to be bound by what
17 is in it -- which way -- you can't have both ways, one or the
18 other?
19 BY: MR. HANZLIK
20 I can't argue with your point and we bear responsibility for
21 this.
22 BY: MR. PARR
23 Either one way or the other, I don't care which way.
24 BY: MR. PARKER
25 We accept it.

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1 BY: MR. HANZLIK
2 We accept the responsibility.
3 BY: MR. PARKER
4 We accept it.
5 BY: MR. PARR
6 Now let's get back to my question then about the 579 jobs which
7 are shown there which disturbed us so much after we had been
8 told, you know, 2500, maybe 3,000 jobs, then the environmental
9 impact statement says 579, and, of course, a lot of us get
10 very unhappy. So maybe you could explain that now.
11 BY: MR. DAGON
12 Sir, I think we can explain that one simply, unless somebody
13 else help me and correct me, two charts, the 579 figure is
14 the permanent employment in Valdez for a phase 1 basic facil-
15 ity, whatever you want to call it.
16 BY: MR. PARR
17 A refinery.
18 BY: MR. PARKER
19 A petrochemical facility.
20 BY: MR. DAGON
21 Petrochemical facility.
22 BY: MR. PARR
23 A refinery, topping plant.
24 BY: MR. DAGON
25 It would be a pretty expensive topping plant.

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PARR

ll, now I've got a chemical complex, we hope.

PARKER

's a petrochemical facility.

DAGON

think it is, sir. But the 2500 number or the 2900 number refers to the construction peak of employment and I believe the time frame is 1982 on that slide.

MR. PARR

the 2900 figure you gave us over there was construction?

MR. DAGON

es, sir.

MR. PARR

Not operational.

MR. DAGON

That's correct, sir.

MR. PARR

(Indisc. simultaneous speech).

MR. DAGON

Showed it starting at zero in June of this year and going quickly to 2900.

MR. PARR

Okay, what are you anticipating now as plant employees, not talking about construction? What is your anticipated number?

MR. DAGON

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1 Approximately 575, about 575 to 579, plus an additional 200
2 that are in sort of turn around projects, this sort of thing,
3 plus 75 outside Valdez.

4 BY: MR. PARR

5 I guess we never did quite understand the tremendous differ-
6 ence there between that and the 2500 or so that we were being
7 given when ALPETCO was trying to sell this project. Now, we
8 understand you may have changed your direction somewhat and
9 you're going to sell a lot more gasoline and a lot less of
10 propylene, okay. Does that account for that much difference
11 in personnel?

12 BY: MR. DAGON

13 To some extent it accounts for it. In fact, I thought I was
14 incurring your wrath when I pointed out that making the change,
15 just the configuration change we discussed here today between
16 cat cracking and hydrocracking, you have an increase in
17 capital costs in the facility and an actual decrease in the
18 number of employees in the plant.

19 BY: MR. PARR

20 I don't remember you giving any numbers of people along with
21 that, you might have.

22 BY: MR. DAGON

23 Well, roughly 75, right in there.

24 BY: MR. PARR

25 How much?

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1 BY: MR. DAGON
2 Roughly 75.
3 BY: MR. PARR
4 Well, see we're talking about 2500 versus say 600, though.
5 You know, 75 isn't significant in that range.
6 BY: MR. DAGON
7 I think the only way I can answer that, sir, is every time you
8 add -- if you build this base facility, every time you add
9 another process, you add jobs. And it's that simple.
10 BY: MR. PARR
11 I'm sorry. I did exag -- I don't guess I did exaggerate. The
12 total permanent jobs given this thing, I guess, was 2175
13 minimum and 2825 maximum and refining was 450 to 550, so
14 when I called that thing a refinery instead of a petrochemical
15 plant awhile ago, at least as far as personnel was concerned,
16 I was just right. You extimated 450 to 550 just for refining,
17 now you're talking about 550, but you aren't going to call it
18 a refinery. You're going to call it a petrochemical plant.
19 It's a little -- something doesn't quite jive in there.
20 BY: MR. DAGON
21 If that was a refinery as you're contemplating it right now, you
22 wouldn't need 575 people to run it.
23 BY: MR. PARR
24 I'm just using the figures you got here, 450 to 550 for
25 refining.

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1 BY: MR. MILES

2 These are your figures. These are your figures here and it
3 says total permanent jobs, a low of 2175, like Mr. Parr says,
4 and a high of 2825. But yet, the environmental impact state-
5 ment you filed listed 579. To go over to your chart again,
6 you show 500 employees for a, basically a refinery, and 2200.
7 And I think, at least it was most of our intentions, that we
8 were going to get the 2200 person job package, not the 500.
9 If we're not, if we're only going to get, as the environmental
10 impact statement says, a 579 job package to start with, when
11 are we going to get up to the 2200, which we thought we were
12 going to get?

13 BY: MR. DAGON

14 Okay, that's a legitimate question and you can tell them.

15 BY: MR. PARKER

16 Does that mean you want me to answer the legitimate questions?

17 BY: MR. DAGON

18 Well, clearly, if you took the phase 2 numbers -- or the phase
19 2 scheme that you're looking at up there and start that job
20 based on process units, I can't answer how quickly you'd get
21 there and I don't think anybody else can. But I can give you
22 an example, if you found a partner ...

23 BY: MR. MILES

24 We do have a 15 year commitment for 70% of the product which
25 is going to be 80% fuels.

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1 BY: MR. DAGON

2 I think we set a straw man up there and I still don't under-
3 stand that question, unless you guys are smarter than I am.
4 I don't understand how that 70% somehow puts a limit on doing
5 something different inside the plant. But let me come back
6 to that. If, for an example, and it's one dear to the hearts
7 of some of the people sitting in this room, suppose you had
8 the gas liquids involved for an olefins plant built by some-
9 body else. That immediately doubles the size of this employ-
10 ment? It's the satellite facilities that make more jobs and
11 I'm not trying to go back in 2100 and 2500, but every time
12 you add a process unit, you add jobs. And complex process
13 units add more jobs than big simple things. And an olefins
14 plant, for example, would be a very complex operation. That's
15 about the only way I can answer that.

16 BY: MR. GARDINER

17 Sir, I think the problem is that you have to think about the
18 context in which the legislature was presented this proposal
19 was, as this proposal or something else, right? If you didn't
20 do this you could do something else. That's still the case.
21 If we don't do this, we can do something else, right? And
22 what was -- the argument was, look how much better this
23 project is than this other thing called the refinery which
24 gives you 550 jobs and now what you sold is -- now you call
25 it the same thing, but it looks like what the other guys

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1 were proposing that you said wasn't near as good, right? So
2 that's real hard for anybody to swallow. It's amazing how
3 close the numbers come out, right? Instead of 550, it's 579.
4 But I think just to explain what Bill's question is about this
5 70% product, you have made a deal with your own company or
6 the company that owns ALPETCO, a large share of ALPETCO, has
7 made a deal with ALPETCO to buy its products, right? And I
8 assume that's premised on the products slate that you put out
9 here. So why is that company ever going to want to change?
10 And since it owns a controlling interest, it may like it just
11 the way it is and may just continue the way it is and so
12 where's phase 2. And I think that's why Bill's referring to
13 that. If there was a -- if there was an intention to develop
14 a petrochemical facility, it seems like we would see some-
15 thing stronger than, you know, a little chart that says poten-
16 tial, right. We would see something that was more of a commit-
17 ment than that, than, you know, what is really offered to us
18 only as kind of a promise, maybe in five years in the future,
19 if it works out, we'll change the product output. I mean it's
20 really -- I mean, you show me what's a binding commitment to
21 phase 2. I mean I don't see it. Is there anything binding?

22 BY: MR. DAGON

23 If you take that in the order you went through it real fast,
24 I find it hard to believe that a facility that will by contract
25 have invested in it 1.5 billion dollars, and creates somewhere

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1 between 7 and 800 jobs in this state, isn't some sort of
2 commitment.
3 BY: MR. GARDINER
4 Well, no, I mean where's the -- that's a commitment to do
5 that.
6 BY: MR. DAGON
7 That's a helluva commitment.
8 BY: MR. GARDINER
9 I'm sure it is, but I'm saying, where is the binding commit-
10 ment to phase 2?
11 BY: MR. DAGON
12 I'd look silly if I asked that one.
13 BY: MR. GARDINER
14 That's okay. I mean is there a binding commitment to phase
15 2 or is it simply a promise five years down the line that may
16 be, you know?
17 BY: MR. PARKER
18 There -- I don't know how you define a binding commitment.
19 Before I answer that question I'd like to clarify one thing
20 in your mind. That is apparently you're hung up on why
21 Charter would take 70%, thereby eliminating any possibility
22 of going downstream or doing anything else with it. Okay?
23 Because you're in it with a 15 year contract. To ease your
24 mind, first of all, that there is a joint venture agreement
25 of where the partners have agreed the need for this product

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1 to make this project viable and financeable and continue on,
2 they give that product back. That's number 1. So get it out
3 of your mind that that's some deceit of not going on with the
4 project. The second reason why we did that, we've got exper-
5 tise in marketing product, 400,000 barrels a day, many of the
6 products that will be produced in this refinery. We market
7 petrochemicals on the West Coast as a matter of fact. The
8 second thing, if you come in now and start talking to people
9 about taking those products, they're going to be talking
10 you about favorable prices and a longer, from the standpoint,
11 balance sheet, other financing with equipment, export credits
12 and so forth is going to add to the economic value of this
13 project. Some of the debt can continue to be assumed by the
14 partners themselves. So the reasoning for doing that is not
15 to continue to build a complex up here that has the economic
16 market conditions dictating what ought to be built. And that's
17 exactly what the testimony testifies to and that's exactly the
18 requirement within the crude oil royalty contract. That's
19 what the people said. We'll put this together. It will change
20 as time goes on with partners and etc. and that is our inten-
21 tion. So, from the standpoint of looking at the take of that
22 product -- sooner or later we're going to have to pay back,
23 whether it's 1.5 or 2 billion dollars and the only way we're
24 going to pay that back, is that we've got to make enough money
25 out of that project to do that.

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1 BY: MR. GARDINER

2 Okay, is there a binding commitment to phase 2 though?

3 BY: MR. PARKER

4 I don't even recognize a phase 2, a phase 3 or a phase 4. The
5 contract says that what you will do is you will build a
6 petrochemical facility. The petrochemical facility has been
7 built. It is on the drawing board, it is being spec'd, it
8 is going to be entered into a construction contract and that
9 meets that contract. What you read is a scenario that they
10 gave you of what you could continue to do and go on down-
11 stream. And my gosh I hope you all create the atmosphere up
12 here for partners to join us downstream because that absolu-
13 tely was contemplated in that agreement and in the testimony
14 in the past.

15 BY: MR. GARDINER

16 Well, let me phrase the situation that brings the question to
17 mind.

18 BY: MR. PARKER

19 Okay.

20 BY: MR. GARDINER

21 Okay, you've got a proposal for "phase 1", right, which you
22 call a petrochemical facility now and probably will cost a
23 billion and a half dollars. You produce products, about 80%
24 of which are fuels, okay, you are doing fine doing that.
25 From the state's standpoint, you're using 150,000 barrels a

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1 day to do that, right? The whole point of the petrochemical
2 proposal and all the advantages that are laid out are because
3 of the added value to the state, right? But if you're making
4 money doing that, why switch, right? Maybe that's what it
5 says, so that's why I say, maybe there has to be a binding
6 commitment to go on with those other phases. Maybe these
7 other partners don't want to come up here for whatever reason.

8 BY: MR. PARKER

9 Can I ask you -- are you saying

10 BY: MR. GARDINER

11 So that's why I say, how do we know we're eventually going to
12 get there, other than ...

13 BY: MR. PARKER

14 What if it was a binding -- are you looking for a binding
15 commitment to continue to build this, this, this, this, of
16 which they are not profitable, you put them together in a
17 project and the company folds. Is that what you're saying was
18 the intention when you put it together? I mean ...

19 BY: MR. GARDINER

20 I was not the one that made the promises about so many jobs
21 and a petrochemical facility.

22 BY: MR. PARKER

23 We built a petrochemical facility. We have met that benchmark,
24 we qualify as a petrochemical facility. We have said in the
25 testimony that we will bring partners, we will continue to go

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1 on, we will add additional things. But there is not a binding
2 commitment in there that you continue to build things that
3 create to where it is not an economically viable project. And
4 I think that you can read in there the testimony that the
5 market conditions and partners would dictate what you built
6 after that and don't take -- again, Charter as being a partner
7 that has limited that by setting up a purchase contract for
8 15 years.

9 BY: MR. GARDINER

10 Okay, what if in 1985 I came in and said, hey, you're not
11 following through. Won't your answer to me be, hey, we built
12 a petrochemical facility, we don't have to do any more? I
13 mean you just got done saying that this meets the commitment,
14 right? So your ...

15 BY: MR. PARKER

16 I think I made a statement earlier that I have yet to see a
17 processing facility that was ever considered to be completed
18 and you've had testimony today of additional units being put
19 on there and the reason why they're being put in that refinery
20 is 'cause they've got an economic payout. And the value --
21 and the value of this refinery, long haul, of having a
22 guaranteed crude supply ought to establish a foundation to
23 where you can continue to add to it and market that product.

24 BY: MR. GARDINER

25 That's all.

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1 BY: MR. MILES
2 Mr. Malone, did you have ...
3 BY: MR. MALONE
4 Well, Mr. Chairman, it's along the line of questioning that
5 Mr. Gardiner was pursuing. Mr. Parker said we were looking
6 at a scenario, one scenario where Mr. Miles showed this chart.
7 But that scenario was the scenario on which the judgment was
8 originally made in the contract and now it seems to me that
9 you're saying that petrochemicals are not a feasible --
10 economically feasible product for the short range market, so
11
12 BY: MR. PARKER
13 I didn't say that at all. I didn't say that at all.
14 BY: MR. MALONE
15 Well, we're talking about a refinery, basically it's going to
16 be this 80% fuels from the crude stocks.
17 BY: MR. PARKER
18 I didn't say that petrochemicals were not viable. I told you
19 from the standpoint that you've got to start with a feedstock.
20 We've got to produce that feedstock. That's what we are trying
21 to build, is something to come up with a building block to go
22 forward. That was contemplated based on market conditions and
23 partners and configurations, as such. And I think you will
24 find there were diagrams in there that show that, that the
25 branching out of that core to build. And that's exactly what

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1 has been done and you've even gone further. You've gone far
2 enough in the first building block that you have met the
3 requirements of a petrochemical facility. And to refer to it
4 as a topping plant is absolutely ridiculous. Sorry about
5 that, but that's true.

6 BY: MR. MALONE

7 (indisc. mumbling).

8 BY: MR. PARR

9 Mr. Hanzlik could best express himself, he commented back
10 at one time or another that a fuels refinery would employ
11 about 500 direct employees, but the ALPETCO facility "is
12 shown to be substantially greater in terms of assets invested,
13 therefore the tax base and also the number of employees was
14 substantially greater -- several times greater in fact". I
15 realize this is not a topping plant you're talking about, but
16 it's just about as close to being a topping plant as it is to
17 being a petrochemical facility from what we've been told so
18 far. You've got to take your choice, which end do you want
19 to exaggerate on.

20 BY: MR. PARKER

21 I won't argue that point because I don't agree with you.

22 BY: MR. PARR

23 Mr. Chairman, I have one minor question. It doesn't deal
24 with the benchmarks or anything. There is a thing in the
25 contract and I may be too early, I'd just like to get a simple

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1 answer on it, about training, local training ALPETCO's
2 going to be conducting. Is any of that started yet?

3 BY: MR. DAGON

4 Dick, why don't you -- can you answer that?

5 BY: MR. DICK BARNES

6 We've had discussions with Prince William Sound Community
7 College. We will have a couple of one night courses this
8 spring down in Valdez for local residents. We intend to call
9 upon Charter personnel, which is one of the Charter companies
10 out of Houston, which has specific training programs and they
11 have also done training down in the Bahamas to bring on the
12 local residents in o that refinery and to employ them as ...

13 BY: MILES

14 Cotten and I want to apply.

15 BY: MR. BARNES

16 ... Nearly the total employment of that plant. So we're headed
17 in that direction. It's early. Later on we're going to have
18 a massive training program that we'll really have to start
19 approximately nine months to a year, just prior to start-up,
20 because construction of the plant will take three years. It
21 will be a massive effort down there and realistically you
22 can't train somebody to do some of the jobs too far ahead of
23 time. It just wouldn't be feasible.

24 BY: MR. PARR

25 I did say, I realize it might be too early yet. Thank you.

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1 BY: MR. MILES

2 Mr. Chatterton.

3 BY: MR. CHATTERTON

4 Thank you, Mr. Chairman. As we all know, Arctic Slope crude
5 is a bargain basement commodity in this day and age because
6 of the price controls and because of the entitlements program.
7 And we further know, that probably in about 18 months, I think
8 in October, why it might not be just a bargain basement -- it
9 might be only of value because of its assured long-term supply.
10 Now you've told us about numbers that Thyssen and so forth
11 and so on are going to be up around December, and things
12 of that nature. They indicated the rose is going to be
13 completely wilted in 18 months. The blush is going to be
14 pretty well off of it in 9 months. Have I your assurance you
15 plan to build anything at Valdez?

16 BY: MR. HANZLIK

17 I don't understand the question?

18 BY: MR. CHATTERTON

19 Exactly that. Do you ever plan to build anything at Valdez?

20 BY: MR. HANZLIK

21 Absolutely.

22 BY: MR. CHATTERTON

23 You would not, along about December of 1980, decide that it's
24 an uneconomic situation. Thyssen comes back with numbers
25 that are just blowing your mind and you can't get there from

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1 here and you decide you just want to scrap it. There's not a
2 chance in the world of that happening, is there?

3 BY: MR. HANZLIK

4 There's not a chance in the world that those events wouldn't
5 happen or those events aren't contemplated?

6 BY: MR. CHATTERTON

7 I'm asking you, is there a chance of that happening? I mean
8 you've told me that there's not a chance in the world that
9 you won't lift oil on July the 18th, and I've accepted that.
10 Now I'm asking you -- there's no chance in the world that
11 you're going to back out of building something at Valdez, is
12 there?

13 BY: MR. HANZLIK

14 I find the question, or the way you've phrased it, to be one
15 which I think rather difficult to answer, to be very frank with
16 you, Mr. Chatterton. You know very well that there are events
17 that can transpire between now and tomorrow morning which
18 would result in something you plan to do not transpiring.
19 You've asked me a loaded question. If I said yes, there are
20 events that could transpire, you'll, I expect, turn around and
21 suggest that was what we contemplated. And I'll tell you that
22 is not what we contemplated.

23 BY: MR. PARKER

24 We have a royalty oil contract. We have a commitment to build.
25 We will abide by the rules and regulations in that contract.

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1 BY: MR. CHATTERTON

2 Thank you. That's all I want to hear. Thank you, Mr. Chairman.

3 BY: MR. MILES

4 Mr. McKinnon.

5 BY: MR. MCKINNON

6 We've had a lot of problems with false expectations on what
7 was promised. I'm not sure whether they're false expectations
8 or they were reasonable expectations to have. For one reason
9 or another, we have a (indisc.) of opinion over what (indisc.)
10 the project would be in. You perhaps intended to tell us
11 what it was going to be or ... There's perhaps false expecta-
12 tions on what commitments to lend or invest mean. So I want
13 to make it clear as to what the next -- what the next bench-
14 mark, what's going to happen to meet the next benchmark. My
15 concern came about because some of the comments you made when
16 we were talking about the Thyssen arrangement. It was my
17 understanding from your comments and let me talk about my
18 original understanding of what this benchmark was, but my
19 understanding of it now is that this benchmark will be met
20 by Thyssen placing purchase orders for certain materials or
21 equipment.

22 BY: MR. PARKER

23 Paying money.

24 BY: MR. HANZLIK

25

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1 BY: MR. McKINNON
2 They will be paying money.
3 BY: MR. HANZLIK
4 It will be met by our expending funds in the aggregate, in
5 excess of 100 million dollars.
6 BY: MR. McKINNON
7 It will be an actual expenditure of money ...
8 BY: MR. HANZLIK
9 Yes, sir.
10 BY: MR. McKINNON
11 ... to purchase equipment.
12 BY: MR. PARKER
13 That's what the contract says, expend it.
14 BY: MR. McKINNON
15 The contract says commit to expend or (indisc) to expend on
16 contractually bound third parties.
17 [simultaneous speech by various parties]
18 BY: MR. PARKER
19 It was amended.
20 BY: MR. HANZLIK
21 Read the amendment.
22 BY: MR. PARKER
23 The amendment says, it must be expended.
24 BY: MR. McKINNON
25 Okay.

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1 BY: MR. PARR

2 The amendment says literally, I think, Mr. Chairman, contrac-
3 tually binding agreements, contracts and purchase orders.

4 BY: MR. MCKINNON

5 So this benchmark will be met by your directly -- your writing
6 a check to Thyssen who will purchase materials. And what is
7 the nature of those materials?

8 BY: MR. HANZLIK

9 The engineers have been undertaking to obtain bids on a fixed
10 price basis for items which we have selected to be purchased
11 and they are going out for bid on that right now and we'll have
12 it back by the end of May.

13 BY: MR. MILES

14 Mr. Gardiner.

15 BY: MR. GARDINER

16 I was wondering. Do you think that now that you've been into
17 the project for awhile, since it was approved, that the bench-
18 marks that are in the contract are realistic? I mean it seems
19 to me from some of the testimony and some of the information
20 produced, that maybe they are like putting a lot of pressure
21 on the project. I mean like the gas line project is a really
22 good example of, you know, I don't know who it was a good
23 example of, the government at work or the private sector at
24 work, I can't tell. But, I mean that project has obviously
25 taken a lot longer than anybody predicted and if we'd had

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1 benchmarks in that, or whatever, right, they would have blown
2 it about 20 times. And so that's why I ask the question as
3 to, well, both parties, the state and ALPETCO, way back when
4 said, yeah, sure, we can meet that. That's realistic. I'm
5 wondering now, looking at the benchmarks, as to whether they
6 are. I'll bring up one good example. Well, right at this
7 time you do not have the final, you know, design, which gives
8 you the definitive cost which you can then go get the actual
9 financing commitments. It's got to come in some order like
10 that, right? I mean it's unrealistic, I think, for anybody
11 to say you should have the financing now when you know you
12 don't really have the final design and costs. You have pre-
13 liminary design and cost estimates, but not something that
14 the lenders would commit on until they know what it is. But
15 yet, for instance, if you're going to take the crude on July
16 18th, you've got to spend 100 million dollars. You're in the
17 position of where it seems okay to spend money on design work
18 but you're going to spend like 80 million dollars to buy
19 equipment when you haven't finalized the design and got a
20 price and that, if I was you, I'd think that that is kind of
21 like -- I don't know if it's an unnecessary burden, but it's
22 kind of putting the cart before the horse, so that if you
23 had your druthers about it, would you really be purchasing
24 that equipment before you got the design completed?

25 BY: MR. PARKER

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1 Let me say -- whether they're realistic or unrealistic,
2 they are real as far as this contract is concerned. They are
3 a benchmark. We have met the benchmarks to date. We intend
4 to continue to meet those benchmarks. So I think it's
5 irrelevant for us to talk about whether they're realistic or
6 unrealistic.

7 BY: MR. GARDINER

8 I don't think it's irrelevant. If you could change it, maybe
9 it would be -- if they were unrealistic, it would be to
10 the advantage of both ALPETCO and the state to change them.
11 I mean ...

12 BY: MR. PARKER

13 It might be more realistic if the state wanted to waive all
14 the benchmarks.

15 BY: MR. HANZLIK

16 I think in retrospect, the fact that these were done -- what
17 is this April? They were done over two years ago at a period
18 where not nearly as much was known about the project or the
19 economic environment we're operating in. I think it's sur-
20 prising that the state -- I don't mean this -- this isn't
21 going to sound right. I think it is surprising they are as
22 appropriate as they are. And I think that they're reasonable
23 and we find them -- while they're strenuous, we don't find
24 any objection to them.

25 BY: MR. PARKER

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1 We have a project to complete. These are just some milestones
2 along the way and even though they're major, they are not the
3 most major concerns that we have.

4 BY: MR. MILES

5 Mr. Malone.

6 BY: MR. MALONE

7 Thank you, Mr. Chairman. I just have two points I wanted to
8 go over so I can make sure of what the answers were on them.
9 Do you anticipate, Mr. Parker, at this point at least, that
10 ALPETCO will be in a position to start taking the oil and
11 lifting the oil on July 18th?

12 BY: MR. PARKER

13 Do I anticipate that we will be? We have an obligation to
14 do that.

15 BY: MR. MALONE

16 But you haven't made arrangements for the disposition of that
17 crude yet, is that right?

18 BY: MR. PARKER

19 We have not signed an agreement at this point in time. There
20 have been discussions with numerous companies. We are still
21 discussing. Each partner's taking his crude separately and
22 from the standpoint -- I'm sure Willard can explain the same
23 thing, that you're in the final stages of completing your
24 arrangements.

-- Tape Change

(OFF RECORD)

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(ON RECORD)

BY: MR. PARKER

... it came on board and I guess Dick is closer to it. I understand TAPS pipeline requires you to nominate the crude you're going to take on a weekly basis, six weeks in advance.

BY: MR. CHATTERTON

Well, you've nominated, have you not, sir?

BY: MR. PARKER

Tendered. Tendered through the pipeline, if you want to go that way.

BY: MR. CHATTERTON

Thank you, Mr. Chairman.

BY: MR. MILES

Mr. Malone?

BY: MR. MALONE

Mr. Chairman, my next question is related. If I were the Commissioner of Resources under those conditions, I might be interested in what was going on. Are you keeping the Commissioner apprised of the status or the proposed disposition of the crude, even though that may be confidential information?

BY: MR. PARKER

We have not discussed details as far as an agreement, as such. I have kept him informed that we would commit -- that we would take that crude. And if there was any indication that

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we wouldn't take that crude. I would inform him of that.

1 BY: MR. DAGON; There's no obligation (indisc.)
2 BY: MR. MALONE

3 I don't have any more questions on that subject, but on the
4 same set of benchmarks, what we're calling benchmarks, in the
5 contract under 10 - 3 - H, back to where it says complete
6 plant design optimization necessary to obtain definitive
7 project cost estimates where definitive means a cost estimate
8 containing no more than 15% variance in anticipated costs.
9 Now judging by the earlier testimony, if I understood it
10 correctly, that benchmark was complied with on time, Decem-
11 ber 18th, is that right?

12 BY: MR. PARKER

13 That's right.

14 BY: MR. MALONE

15 So at that time you had the necessary plant design and
16 optimization to come up with the projects costs within 15%
17 plus or minus, I would take it?

18 BY: MR. PARKER

19 That's right.

20 BY: MR. MALONE

21 And if I took the meaning of the comments offered earlier
22 in the testimony, there are some sort of competitive reasons
23 for not revealing that cost estimate, is that right or is
24 that estimate public information?

25 BY: MR. PARKER

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1 Not public information.

2 BY: MR. MALONE

3 Okay. Has the Commissioner been apprised of what that estimate is?

4 BY: MR. HANZLIK: There's no reason to.

5 BY: MR. PARKER

6 Let me ask you a question. You read that, it says, complete
7 plant design and optimization necessary to obtain a definitive
8 cost estimate. Let me change that sentence around. What
9 would you think -- there would be a different meaning if it
10 says obtain complete plant design and optimization to -- or
11 let me redo that. Or say obtain a definitive project cost
12 estimate. What that says is you've got to give them a design
13 in sufficient detail -- you've got to tell them what you're
14 going to build. And to get a 15% estimate or a 20% estimate,
15 they can do this from a shelf deal. They can do it with
16 curves and they can do it on the basis of a Nelson Index of
17 taking this unit that's been built and they've built x number
18 of them. They built the last one in 1968 and they can take
19 the inflation factor and then come up with estimates. What
20 that benchmark says is, you come up with a configuration to
21 where you could give it to somebody to obtain. It didn't
22 say obtain. You aren't required to come up with an estimate.

23 BY: MR. MALONE

24 So that according to the way you read sub H there, it doesn't
25 require a definitive project cost estimate?

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1 BY: MR. PARKER

2 That's the way I read it.

3 BY: MR. MALONE

4 So because of that interpretation then, there was no need to
5 provide such an estimate to the Commissioner at the time of
6 December 18?

7 BY: MR. PARKER

8 That's right and that's why we hate to talk about the 1.5
9 billion dollars, because if we didn't come up with that, we're
10 out there trying to get people to give us an estimate. That's
11 what I explained earlier. There was no obligation to do that
12 at this point in time and then you tell them you've got to
13 spend 1.5. If you were a contractor who was going to give
14 an estimate, what would your estimate be?

15 BY: MR. MALONE

16 The only -- final question I've got then is, what do you
17 suppose, Mr. Parker, what do you suppose the purpose then
18 might have been in putting 10 - 3 - H into the contract?

19 BY: MR. PARKER

20 I think to where it would cause you to go out, spend you some
21 engineering money, make sure that you were planning to build
22 some facility. I think the question was asked, are you going
23 to tell me I ain't going to build anything. So I think what
24 they're saying is you had to have a configuration so defined
25 that an engineering firm could take that and come up with a

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1 definitive estimate, 15% plus or minus. And that requires
2 a certain amount of work. And that's the reason it was there.

3 BY: MR. MALONE

4 Okay, then, since that benchmark was met then I assume that
5 ALPETCO, at least, had this estimate plus or minus 15% or
6 has it? Or is that wrong?

7 BY: MR. PARKER

8 There have been some estimates prepared back in the past.
9 Those are not estimates of which I would go to the bank with
10 and I don't think that ALPETCO would like to say they have
11 an estimate in hand that would come anywhere near being --
12 meeting that -- that it would be within a 15% plus or minus.
13 I don't want to mislead you. Any time you look at a project,
14 you've got to look at the economics of that project. So on
15 that basis, you will come up with some type of estimates as
16 such. Whether that is sufficient to give you a plus or minus
17 of 15%, that may or may not be true. You run the sensitivity
18 studies. Okay, what happens if capital costs goes up this
19 amount or down this amount? What happens if product prices
20 vary and so forth? So you don't really have to be that
21 finite in the beginning of determining the economics of your
22 project. So I don't want to mislead you that we haven't
23 done some estimating work. But we do not have, to my knowledge,
24 an estimate that I would go with that would meet that 15%
25 plus or minus.

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1 BY: MR. MALONE

2 I didn't want to interrupt. So the -- that section of
3 benchmark 10 - 3, within 18 months after the effective date,
4 there's different items there, really doesn't then have a
5 whole lot to do with the way you read it with the billion
6 and a half under item D.

7 BY: MR. PARKER

8 That's right.

9 BY: MR. MALONE

10 Mr. Chairman, I admit that this is a complex document that
11 may be capable of different interpretations, but I think I,
12 you know, I'm not an attorney but my reading of sub 10 - 3
13 and the sub-paragraphs are that certain of those are related
14 and they are all aimed at the same thing. But I have to say
15 that, you know, I disagree with you, Mr. Parker, as to what
16 H means. I think it means you're supposed to come up with
17 an estimate within 15% and certainly you probably have access
18 to better legal counsel than I do on the question. But I
19 would say if it doesn't mean that, it doesn't mean anything
20 at all.

21 BY: MR. PARKER

22 Well, I don't agree with that because I think from the stand-
23 point, the determination of a configuration of a plan or what
24 you're going to build, does mean something. It has a
25 different meaning of coming up to a definitive estimate of

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1 15% plus or minus.
2 BY: MR. MALONE
3 Thank you, Mr. Chairman.
4 BY: MR. MILES
5 Mr. Parker, how does the crude entitlements program affect
6 distribution or disposition of the oil?
7 BY: MR. PARKER
8 Not ...
9 BY: MR. MILES
10 Does that have any effect at all -- the entitlements program?
11 BY: MR. PARKER
12 The entitlements program in the disposition ...
13 BY: MR. MILES
14 Disposition of the oil insofar as ALPETCO's concerned?
15 BY: MR. PARKER
16 Interim crude?
17 BY: MR. MILES
18 Yep.
19 BY: MR. PARKER
20 Well, I think the entitlements program as it now stands
21 makes the Alaskan crude, at least that controlled portion,
22 very valuable. I think from the standpoint, as you are
23 aware I'm sure, there has been rumblings from the standpoint
24 that maybe the entitlements program, as it now applies to
25 the Alaska North Slope, should be changed. I think the

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1 entitlements program pertaining to North Slope will have an
2 impact on whether you sell the crude or whether you process
3 the crude. So to answer your question, the entitlements
4 program has an effect on the disposition of Alaskan crude.

5 BY: MR. MILES

6 Mr. Cotten.

7 BY: MR. COTTEN

8 I have a couple of questions on the City of Valdez' bonding
9 and this is probably a little lighter questioning here to give
10 you a little break.

11 BY: MR. PARKER

12 Oh, they've all been light. That's no problem.

13 BY: MR. COTTEN

14 What's happened? Has the city council authorized the bonds
15 of the 600 million dollars, is that right? I'm not sure.
16 Maybe you could quickly tell me exactly what happened in
17 Valdez that allowed that to be part of the commitment.

18 BY: MR. PARKER

19 Let me ask you a question. We have the mayor, the city
20 manager, the city councilmen and they're much more familiar
21 with the bond situation in Valdez. Would you mind, if they
22 would agree, would they answer that question?

23 BY: MR. COTTEN

24 I think -- well, it's just -- I think you probably have the
25 answer to it. I don't care who answers it. But it's just --

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1 I've got a few other questions that don't have anything to do
2 with the City of Valdez.

3 BY: MR. HANZLIK

4 Procedurally what happens is the city adopts enabling resolu-
5 tions into their charter, which they have done in a proper
6 manner, which authorizes the city council to enter into a
7 loan agreement and the loan agreement is based on the sale of
8 the bonds themselves by the Underwriting Syndicate, which has
9 been formed for this purpose. And the city has an under-
10 writing commitment from E. F. Hutton and Company to underwrite
11 this and it's backed up by the syndication, among major U. S.
12 banking firms. I believe there are 55 or 60 investment bank-
13 ing firms in the syndicate. So the city council last, I think
14 it was, November took the appropriate steps and passed the
15 resolutions to put all this into motion.

16 BY: MR. COTTEN

17 And the first part of the expectation is that these bonds will
18 qualify under Section 103 of the IRS Code, you already went
19 over that and you even mentioned that in the event that they
20 didn't qualify or for some reason perhaps Congress were to
21 change the provisions of Section 103, or for some reason they
22 weren't able to access the tax free market that E. F. Hutton
23 -- that's part of the commitment in the agreement too, is it --
24 E. F. Hutton has committed to market these bonds, in any
25 event, even if they had to go to the taxable markets.

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1 BY: MR. HANZLIK

2 Yes, that's correct. The only difference between the instru-
3 ments is the interest rate and the fact that under one, the
4 less desirable from our standpoint, is that the bonds -- to the
5 purchaser of the bonds, would be a taxable -- it would be
6 taxable income. As issued, as we contemplate it, it would be
7 tax free to the owner of the bond.

8 BY: MR. COTTEN

9 Right.

10 BY: MR. HANZLIK

11 The City Manager of Valdez reminds me that this is parallel
12 to and identical procedurally with about a billion two of
13 the same issues that have been issued through the conduit of
14 the city for the construction of the marine terminal in Valdez.
15 There literally is no difference.

16 BY: MR. COTTEN

17 There's been a lot of reports about that and we've had, you
18 know -- there's been -- I think most of the members of the
19 legislature are aware of that and what happened in some of
20 their comments (indisc.) Is there any time table -- when
21 would these bonds be sold or does it matter?

22 BY: MR. HANZLIK

23 Well, it's difficult to sell them all in one piece and what
24 we are planning now is to serialize them in probably two to
25 three, what they call "trunches" that is series of take-downs,

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1 but they'll be sold all at once, but taken down over time with
2 then existing rates.

3 BY: MR. COTTEN

4 Another thing that I recall -- correct me if I misunderstood
5 you -- but you mentioned that if for some reason you weren't
6 able -- you weren't able to sell the bonds or you weren't able
7 to raise the money through that method of financing, that you'd
8 want to be held to that. In other words, you said well, if
9 this doesn't work, we can do something else to obtain the
10 financing. So at least you had in the back of your mind, at
11 least a possibility that that method wouldn't work, is that
12 right? At least that

13 BY: MR. HANZLIK

14 No, actually I feel very, very comfortable about -- I mentioned
15 to you that there's -- we're applying to the Treasury Depart-
16 ment for 600 million dollars worth of qualifications. We
17 feel, under advice of counsel experienced in this, that 450
18 is as near a sure thing as you can apply for.

19 BY: MR. COTTEN

20 For the tax free section?

21 BY: MR. HANZLIK

22 That's right. Now -- and we can't think of a more attractive
23 way to finance than that. For the balance of what's left
24 over, there are some, some innovative and creative instruments
25 which may fit this project and we will probably pursue them.

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1 Now whether they'll be straight corporate bond issues or they'll
2 be bonds that have some peculiarities to fit the project, I
3 don't know yet. But this is something that we're continuing
4 to work on.

5 BY: MR. COTTEN

6 Okay, I guess I did misunderstand you because I thought you'd
7 said that if you weren't able to raise the money by the sale
8 of the bonds, that you didn't want to be held to that. You
9 know, said that you're going to be able to raise 600 million
10 dollars by selling bonds -- if that didn't work, you might
11 try another way of raising money. I guess I did misunderstand
12 that. For instance, if you weren't -- suddenly if you were
13 able to determine you weren't able to raise the money by sell-
14 ing bonds, then that commitment would be gone and there would
15 be a gap there. Do you see what I'm getting at? You'd
16 suddenly be without that commitment for some reason?

17 BY: MR. HANZLIK

18 No, I don't think that's the case at all. The point I'm
19 trying to make is the fact that that is our present intention
20 should not preclude us from exploring and utilizing something
21 more attractive.

22 BY: MR. COTTEN

23 It's more than just your present intention. It's one of the
24 items you've used to meet the benchmark.

25 BY: MR. HANZLIK

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1 The company.

2 BY: MR. COTTEN

3 The company would.

4 BY: MR. PARKER

5 I think what Willard is saying is, you know, is there is a
6 financing commitment together. If you can improve on that
7 and still meet the December, 1980 benchmark, then we ought
8 to improve on that. That's basically what he's saying. Or
9 if you need less financing, is another point.

10 BY: MR. COTTEN

11 Thank you, Mr. Chairman.

12 BY: MR. MILES

13 Mr. McKinnon.

14 BY: MR. MCKINNON

15 You've indicated this was identical to the Alyeska Dock situa-
16 tion. Wasn't the situation there that the city actually
17 built the dock and leases it back or something like that. Is
18 that the case?

19 BY: MR. HANZLIK

20 Clarify that Sam.

21 BY:

22 We don't own the dock. Alyeska owns the dock. It's just a
23 lease back. The city acts as a -- merely as a financing
24 vehicle, so to speak.

25 BY: MR. MCKINNON

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1 Sure. Sure.

2 BY: MR. COTTEN

3 So if you suddenly didn't have that one, you would be in a

4 situation where you aren't in compliance with the benchmark.

5 BY: MR. HANZLIK

6 That's right. That's right. And the provision of the contract

7 calls for it being terminated.

8 BY: MR. PARKER

9 If you didn't have the total funds, not just the fact that

10 you didn't have 600 million dollars worth of bonds doesn't

11 terminate the contract.

12 BY: MR. HANZLIK

13 Okay, you're right.

14 BY: MR. COTTEN

15 Which is it now?

16 BY: MR. HANZLIK

17 Well, Mr. Parker's saying that the obligation we have is to

18 come up with the financing -- the long-term loan documents

19 in December. Now if those end up being a different mix than

20 what we think today is going to be, then that still qualifies

21 in our interpretation, that is the financing.

22 BY: MR. COTTEN

23 Thank you. Who would own the facilities that were purchased

24 with the proceeds of the bonds?

25 BY: MR. HANZLIK

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1 You were mentioning innovative and creative methods of
2 and financing and I think peculiarity is the word you used,
3 to fit the circumstances of this arrangement. Are you talking
4 about anything other than some sort of, you know, revenue
5 bond or something tied to the operations of the petrochemical
6 plant?

7 BY: MR. HANZLIK

8 No. No. I don't want to mislead you either. There is --
9 investments in large energy projects are difficult to come
10 by in some investor circles and it's possible that there may
11 be some ways to offer to substantial investors, I'm talking
12 about institutional investors, participations in the debt
13 financing which, you know, will fit the needs of this facility.
14 I'm talking about major insurance companies and whatnot.
15 These are just fine tuning of financings.

16 BY: MR. MCKINNON

17 It's not going to be anything that's going to punch 150,000
18 barrels of oil a day is it?

19 BY: MR. HANZLIK

20 No, no.

21 BY: MR. MCKINNON

22 This bond issue is contingent on a number of -- or E. F.
23 Hutton's is basically contingent on another -- a number of
24 things. One of these bonds get an investment grade rating,
25 what is that?

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1 BY: MR. HANZLIK
2 Investment grade rating simply means that they qualify under
3 Standard and Poor Corporation's analysis of the appropriate-
4 ness of the underlying security of the bonds to the various
5 categories of buyers and it's a common parlance in this industry.
6 BY: MR. MCKINNON
7 Has there been any -- at what point are these issues rated?
8 BY: MR. HANZLIK
9 Generally it's in the 30 days or so prior to the take-down.
10 It's a -- you know, you read in the newspaper about Standard
11 and Poor Corporation changing its ratings on Chrysler Corpora-
12 tion over time. You see it up and down, both ways. Bond
13 ratings are -- happen over time. It's not static. So if they
14 gave a grade rating today, it wouldn't be binding on anybody
15 in the future. So it's a thing that has to happen fairly soon
16 or close to the time of an actual take-down. I'm guessing
17 it's 30 days, but it may be 60 days.
18 BY: MR. MCKINNON
19 Thirty days from now?
20 BY: MR. HANZLIK
21 No, no.
22 BY: MR. MCKINNON
23 Oh, 30 days before the sale?
24 BY: MR. HANZLIK
25 Yes, this is next fall, okay.

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1 BY: MR. MCKINNON
2 Next fall, right.
3 BY: MR. HANZLIK
4 October or November.
5 BY: MR. MCKINNON
6 Oh, I thought earlier you'd made some kind of a reference to
7 trying to sell part of it this summer. And it's going to be
8 the fall?
9 BY: MR. HANZLIK
10 There may be a small part of this tax exempt financing which
11 we would place as early as this summer. That will require
12 its own investment grade rating. The larger piece coming
13 later will also require an investment grade rating. In both
14 instances, these ratings come in a period of thirty to sixty
15 days before the take-down.
16 BY: MR. MCKINNON
17 Now E. F. Hutton is underwriting an issue. What does an under-
18 writer do?
19 BY: MR. HANZLIK
20 They have the obligation to purchase all the bonds from the
21 City of Valdez and resell them.
22 BY: MR. MCKINNON
23 Now they're contractually committed to purchase those bonds?
24 BY: MR. HANZLIK
25 Yes, sir.

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1 BY: MR. MCKINNON
2 But the condition is that ...
3 BY: MR. HANZLIK
4 Excuse me, they don't take all the risk themselves. What they
5 do is form a syndicate, which they have done ...
6 BY: MR. MCKINNON
7 Excuse me, 55 to 60 ...
8 BY: MR. HANZLIK
9 55 to 60 firms and each of these firms will enter into an
10 agreement or have entered an agreement -- I don't know which --
11 with Hutton to purchase from Hutton so that Hutton doesn't
12 bear the full risk on this.
13 BY: MR. MCKINNON
14 Now the condition on this though, is that E. F. Hutton will
15 not purchase the bonds 'til it's sort of guaranteed itself
16 that there's somebody to buy them?
17 BY: MR. HANZLIK
18 That's right. That's absolutely garden variety, typical way
19 this is done.
20 BY: MR. MCKINNON
21 Okay. It'll find purchasers to buy the bonds and sell them
22 to them.
23 BY: MR. HANZLIK
24 It's already in the marketplace as far as lining up those
25 purchasers right now. It's not the sort of an instrument

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1 that at the last minute you go around knocking on doors and
2 say, do you want to buy 50 million dollars of these things.
3 I mean, it's something that you line up -- in fact they've
4 started to have these discussions already.

5 BY: MR. MILES

6 Mr. Cotten.

7 BY: MR. COTTEN

8 I was just checking. The thing I was getting at a little
9 earlier on the bonds and the obligation to obtain or cause
10 contractually bound third parties to obtain written commit-
11 ments, that was a December of '79 benchmark, right?
12 That's what the commitment by the City of Valdez to come up
13 with the 600 million dollars. That was part of meeting the
14 December of '79 benchmark. That's why I asked if for some
15 reason that fell through, what would the situation be and
16 you answered, the contract -- you would be in default, right?

17 BY: MR. HANZLIK

18 No, I didn't ... If I said that, I didn't mean that.

19 BY: MR. COTTEN

20 Well you said that and then you got nudged and he said well ...

21 BY: MR. HANZLIK

22 Well, I obviously didn't understand the question.

23 BY: MR. COTTEN

24 So I'm still a little confused because I felt like that was
25 what it took to -- partially -- to meet the December of '79

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1 benchmark and if for some reason that commitment fell through,
2 well then you would not be in compliance any longer and
3 therefore you wouldn't have the billion and a half worth of
4 commitments.

5 BY: MR. HANZLIK

6 Let me yield to counsel on that one. Are you following what
7 Mr. Cotten is saying?

8 BY: MR. FRANCES

9 Yes.

10 BY: MR. HANZLIK

11 I don't ...

12 BY: MR. FRANCES

13 I think that once you meet the benchmark you've met it and
14 you've passed it. You don't need all that financing. You don't
15 have to have the commitment, if you want to change your
16 financing around ...

17 BY: MR. COTTEN

18 Oh, I see. So suddenly, if—Thyssen could just back out now
19 too then. Since you've met it in December, they could say well,
20 we've decided against it now. Is that what you're saying?
21 Since you met it at the time ...

22 BY: MR. FRANCES

23 No, they can't back out.

24 BY: MR. COTTEN

25 ... and then I'm talking -- I'm not trying to use any funny

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1 words by saying backing out or anything else like that. I'm
2 asking you that if for some reason these people decide not to
3 commit any longer, for one reason or another, what's the situa-
4 tion there?
5 BY: MR. FRANCES
6 They're still committed.
7 BY: MR. COTTEN
8 Pardon..
9 BY: MR. FRANCES
10 They're still committed. If we want to change the financing
11 though, we can change the financing. If Willard has a better
12 way of doing the financing, he can modify the commitment, get
13 a new commitment ...
14 BY: MR. COTTEN
15 For less money, hunh?
16 BY: MR. FRANCES
17 Sure. If we need less money to do the project in the way of
18 financing, we ought to do it that way.
19 BY: MR. COTTEN
20 Oh, go ahead.
21 BY: MR. GARDINER
22 I think that Sam's case though -- the way it originally started
23 out was with the bonds, right? Well, you say they're still
24 committed. What if they can't meet their commitment, does
25 that throw you out of compliance? I assume -- what one of

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1 the answers was, well, we could substitute some other form of
2 financing and we'd still be in compliance. That seems reason-
3 able.

4 BY: MR. FRANCES

5 If E. F. Hutton went into bankruptcy or something.

6 BY: MR. GARDINER

7 What if, you know, what if, for some reason, for instance,
8 we have heard that after the 1.2 billion for Alyeska, there
9 were people in IRS and other things, you know, in New York and
10 Washington, D. C. who said we're never going to let that
11 happen again. That was a raid on the Federal Treasury and
12 that wasn't what tax exempt bonds were intended for. You
13 know, I don't know what IRS is going to do. IRS has said
14 they're not going to let Susitna be built with tax exempt
15 bonds, some people say. So I don't know what IRS might say
16 either, right. We've had this -- the gas line people said
17 we want to use tax exempt bonds to build part of the
18 gas line. But then they told us we'd have to get an amend-
19 ment to Section 103 to do it. So there could be a situation
20 besides bankruptcy where they couldn't come through on their
21 commitment, right?

22 BY: MR. FRANCES

23 Because the condition was not satisfied.

24 BY: MR. GARDINER

25 Yeah, you know, whatever. So I think that gets to Sam's

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1 point about whether then, you know, is the benchmark then
2 un-met by that?
3 BY: MR. FRANCES
4 I don't believe so, no.
5 BY: MR. COTTEN
6 Oh, you don't believe so?
7 BY: MR. FRANCES
8 I do not believe that the benchmark is un-met.
9 BY: MR. COTTEN
10 Once it's been met, that's all you have to do. After that,
11 anything can happen?
12 BY: MR. FRANCES
13 That's right.
14 BY: MR. COTTEN
15 I don't understand that myself. I'll let it fly for the
16 time being. Then they could decide to build something
17 different at a much lower cost after that, is that the way
18 you understand that?
19 BY:
20 I think that's what he's saying. That's not my understanding.
21 BY: MR. COTTEN
22 No, they don't have to spend a billion and a half. They
23 might decide that they can build it for, you know, a hundred
24 dollars.
25 [conversation among legislators]
BY: MR. MILES: Yes, they do. They've got it in the contract. They've got
it in every benchmark that's coming along.

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1 BY: MR. FRANCES

2 We always have the other benchmarks. We have to spend a
3 billion and a half and we also have to build a petrochemical
4 facility. These benchmarks, I think, were put in there to
5 show that you are making progress -- the ALPETCO Company is
6 making progress.

7 BY: MR. COTTEN

8 I got distracted there. The point I was trying to make was,
9 if you suddenly lost one of those commitments at this point
10 today, would that put you out of compliance?

11 BY: MR. FRANCES

12 No.

13 BY: MR. COTTEN

14 You don't feel that it would, so that's the answer to my
15 question, I think. Thank you, Mr. Chairman.

16 BY: MR. MILES

17 Mr. Malone.

18 BY: MR. MALONE

19 Yeah, Mr. Chairman. This is just a point that was mentioned
20 earlier, I think, by Mr. Hanzlik and I wanted to make sure of
21 what I heard on it and that was, according to the information
22 that I see here about these Valdez bonds, that there was an
23 addition here that the condition that says that neither the
24 Congress nor the U. S. or the IRS or anybody else, shall --
25 proposed or enacted any legislation or proposed or adopted any

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1 regulation which would adversely affect the tax exempt status
2 of the interests on the bonds. That was a letter from E. F.
3 Hutton to Billy Walker of Valdez, dated November 19, '79,
4 signed by James Lott. And in your earlier statements you said
5 though that this commitment extended even though the bonds --
6 even though not all the 600 million may be tax exempt, is
7 that right?

8 BY: MR. HANZLIK

9 I did say that Hutton has given us a commitment to sell them
10 on a taxable basis as well as on a tax exempt basis, that's
11 correct. And that's a representation that Hutton can clarify
12 that matter if it's not clear by that.

13 BY: MR. MALONE

14 Okay, I wanted to verify that. Thank you, Mr. Chairman.

15 BY: MR. MILES

16 Mr. Chatterton.

17 BY: MR. CHATTERTON

18 Yeah, Mr. Chairman. Willard, what's the faith and credit
19 behind the bond issue for the 600 million?

20 BY: MR. HANZLIK

21 It is a collateral pool form for all lenders that is -- the
22 lenders will be Perry Passu (ph), that is the export credits
23 and the domestic credit and there will be a mortgage on the
24 facility; right, title and interest to the facility and the
25 pledge of the various sales contracts.

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1 BY: MR. CHATTERTON

2 Thanks. Thanks, Mr. Chairman.

3 BY: MR. MILES

4 On the Hutton commitment, is there -- we talked about the
5 Thyssen commitment several hours ago, or days ago, whatever,
6 a long time ago -- the terms and conditions. Are there any
7 conditions, any terms, that have been agreed to on the Hutton
8 commitment?

9 BY: MR. HANZLIK

10 You should have -- I'm not sure that I have here -- there
11 was a follow-up from Hutton in an effort to help on this
12 very point dated December 21, to Mayor Walker -- I have it
13 here -- which sets forth ...

14 BY: MR. MILES

15 Was there an interest rate? Is there an interest rate?

16 BY: MR. HANZLIK

17 There is not an interest rate. That's something that frankly,
18 if you are a corporation going to market next week you would
19 set on the night before going to market, so it would not be
20 customary or reasonable to have an interest rate. There is
21 a term sheet which lists the various -- description of the
22 revenue bonds, putting redemption provisions, maturities,
23 amounts of designations and whatnot which, if you don't have,
24 you should. We can make the copies.

25 BY: MR. MILES

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1 What if Hutton is, as an example, one of the state's consul-
2 tants cites, what if Hutton sets that rate at 30%?
3 BY: MR. HANZLIK
4 It would be very easy to sell the bonds and be very difficult
5 to pay them off.
6 BY: MR. MILES
7 Okay, so that would tube their participation, then?
8 BY: MR. HANZLIK
9 Well, interest rates aren't arbitrarily set by an underwriter.
10 They're set by the client and the underwriter together.
11 BY: MR. MILES
12 And they're going to turn around and loan that money to you
13 guys.
14 BY: MR. HANZLIK
15 No, they're not. No, sir.
16 BY: MR. MILES
17 Basically.
18 BY: MR. HANZLIK
19 Hutton is a financial conduit. They are among the most ex-
20 perienced underwriters of tax exempt securities in this
21 country and I can't cite you the numbers, but they probably
22 did 10 billion dollars worth of these last year alone.
23 BY: MR. MILES
24 I understand that Hutton is.
25 BY: MR. HANZLIK

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1 So, the procedure on this is not one in which it's, you
2 know, cavalier of setting a ridiculous interest rate. They'll
3 set a rate which is appropriate given an analysis of the risks
4 involved to attract investors in the bonds. And so long as
5 it's an interest rate which is acceptable to the project and
6 ...

7 BY: MR. MILES

8 What if it's not, though. My question is what if it's not
9 acceptable to the project?

10 BY: MR. HANZLIK

11 Then we won't enter into the definitive long-term loan agree-
12 ments.

13 BY: MR. MILES

14 Then you don't have a commitment?

15 BY: MR. HANZLIK

16 No, that's not -- no, then we don't have a definitive long-
17 term loan agreement.

18 BY: MR. MILES

19 Okay, then you don't have the money?

20 BY: MR. HANZLIK

21 That's right.

22 BY: MR. MILES

23 Okay. Mr. Malone.

24 BY: MR. MALONE

25 Thank you. None of the benchmark or the contract requirements

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1 in 10 - 3 -- there's one that's been discussed already to
2 some extent and that's 10 - 3 - C, which is that ALPETCO is
3 to enter into contracts for sale of at least 70% of the pro-
4 duct output from the petrochemical facility and there's been
5 a contract executed with Charter Alaska for 70% of the output
6 of the petrochemical facility to comply with that benchmark
7 and one of the terms of that contract, Article 5, 501 Term,
8 provides that the agreement is subject to buyers' final
9 approval of definitive documents relative to long-term loan
10 of funds for the refinery, the terminal and related facili-
11 ties and to the execution by December 18th, 1980 of such
12 documents by ALPETCO and the lenders providing such funds.
13 How come in a sales contract we have that sort of condition?
14 Why is it in the sales contract?

15 BY: MR. HANZLIK

16 The reason it's in the sales contract -- one reason is and
17 Mr. Frances may have an amplification on that -- has to do
18 with the form of the sales contract and the fact that the
19 buyer is obligated to meet the operating costs of the facility
20 as part of this sales contract. Which means, they must meet
21 their percentage of the principal and interest payments on
22 the financing. If they did not have a say as to what those
23 terms of financing were, then the company could enter into
24 financings which made the sales contract virtually unacceptable.
25 And I think that's the principle reason.

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1 BY: MR. PARKER

2 Take or pay contract.

3 BY: MR. HANZLIK

4 The critical thing in a financing of this type project is
5 that there is sufficient positive cash flow to service the
6 debt and the duration of the amortization of the loan and
7 the interest rate are factors that we watch very carefully
8 to assure that there is satisfactory cash flow.

9 BY: MR. MILES

10 Other questions? Final statements? Any final statements?

11 BY: MR. PARKER

12 Well, I think that I would like to, first of all, say I
13 appreciate the opportunity to appear before this body and I
14 hope that we have established the fact of the commitment on
15 the behalf of the partners and the sincerity of building --
16 by building I mean completing -- of this petrochemical
17 facility. And we definitely need all the help we can get.
18 We call on you as the leaders of this state to help us and
19 put that atmosphere here to where that it can be complete
20 and maybe we have been wrong in that we haven't given you
21 a chance to meet us and to see the progress that has been
22 made, but without a doubt we are committed to this project
23 and believe it to be a good project for the State of Alaska.
24 And we want to tell you that we'll give it our best shot.
25 Thank you.

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1 BY: MR. MILES

2 Mr. Parker, we certainly appreciate you and your colleagues
3 coming with us. You, at least as far as I'm concerned, have
4 answered some of the questions. Others, I think as you can
5 tell by the line of question, haven't been answered to any-
6 body's satisfaction 100% but we do appreciate the effort and
7 we will -- we do stand ready to help, I think.

8 BY: MR. PARKER

9 We appreciate it.

10 BY: MR. MILES

11 Thank you. We stand adjourned.

12

13 END OF MEETING

14

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