



Alaska State Legislature

SENATE Resources Committee

Official Business

BETTYE FAHRENKAMP, Chairman
VIC FISCHER, Vice-Chairman
BRAD BRADLEY
DICK ELIASON
DON GILMAN
BOB MULCAHY
ARLISS STURGULEWSKI

POUCH V
STATE CAPITOL
JUNEAU, ALASKA 99811
(907) 465-3834
(907) 465-3835

March 25, 1982
5:00 p.m.

House Finance Committee Room
Room 519 - Capitol Building

Meeting with House Joint Committee on Oil and Gas

MEMBERS PRESENT

Senator Fahrenkamp
Senator Gilman
Senator Fischer
Senator Mulcahy
Senator Sturgulewski

Representative Halford
Representative Cotten
Representative Randolph
Representative Rogers
Representative Fanning

Hearing: Presentation by the Department of Natural Resources, the Alaska Royalty Oil and Gas Development Advisory Board, Doyon, Ltd., and Tesoro Alaska Petroleum Co., on the proposed Alaska royalty oil contracts.

The meeting was called to order by Rep. Halford, Chairman.

Dick Lyon, Chairman, Alaska Royalty Oil and Gas Development Advisory Board, presented two resolutions passed by the Board, recommending that the Legislature approve the Tesoro contract, and disapprove the Doyon contract. Mr. Lyon stated that the function of the Board was to make the extensive contract negotiations as public as possible while still holding private negotiations. The conclusions of both resolutions were read into the record.

John Katz, Commissioner, Department of Natural Resources, presented the Tesoro contract for approval, with the full support of the administration. The Commissioner stated that the Department agrees with Board's recommendation on the Doyon contract, while disagreeing with one of their premises for the recommendation.

Mr. Katz outlined the procedural criteria used by the Department in its contract negotiations: that the decisions must be fair and be perceived to be fair by all participants and the public; that there should be an effort to institutionalize the royalty oil and gas decision-making process; that there should be a clear paper trail documenting the decision-making process; that the process should

AGC 785903 +

increase the knowledge of state royalty oil and gas decision makers; that the standard form for royalty oil and gas contracts should be improved; that the Department should improve its working relationship with the Board.

The culmination of the effort was a very tough, workable contract form and the findings document.

Commissioner Katz testified that when he came on-board, the Department revised the pending solicitation to reflect the in-state preference in the statutes. They received 29 responses. In a winnowing process, they met with all respondents who wanted to, made a series of findings, and allowed rejected respondents a chance to refute the Department's conclusions. They continued negotiations with 8 or 9 serious proposals.

Mr. Katz reviewed the policies applied in the negotiations:

- 1) a clear--but not absolute--preference for in-state taking of royalty oil and gas;
- 2) parity between all parties in terms of major contract conditions;
- 3) adopting a weighted average field pricing system for the North Slope, with contractual adjustments pending the result of the Amerada Hess litigation, with 3% above the higher of the state treasury rate or the prime rate to be paid;
- 4) a twelve year term;
- 5) retain a significant uncommitted volume for future options;
- 6) establish an option fee to be paid on contractually committed oil not taken by the processor;
- 7) no interim taking--no state oil to finance a project that wouldn't be otherwise financable;
- 8) the state is willing to be the 100% supplier of royalty oil to in-state processors, to provide a secure base for operations and future expansion;
- 9) return oil--oil that is left at the end of the refining process--requires the payment of a quality penalty if put back in the trans Alaska pipeline for downstream use;
- 10) attempted to gain concessions for rural Alaska;
- 11) attempt to use royalty oil to complement coal development through the development of petrocake.
- 12) there is a definite negative impact on in-value price and severance taxes from Alaskan oil due to displacement of west coast oil, that could amount to \$10 million per year, as a rough estimate, but that this possible loss to the state is outweighed by other benefits;
- 13) royalty oil should not be used as leverage to enter into other than the petroleum market;
- 14) all contracts should have adequate security.

March 25, 1982

Page 3

Commissioner Katz made the following observations:

- 1) that the Department was negotiating the contracts at a time when their leverage for negotiation couldn't have been worse; there is an oversupply of oil, and potential purchasers have alternative sources of supply; however, the state had a satisfactory alternative in that the state could let the producers take the oil in-value and sell it for the state; the producers are the best long-term marketers of Alaskan crude oil;
- 2) in some situations it would be to the state's advantage to offer royalty oil for purchase by competitive auction, but two factors work against it; first, auctioned oil would displace west coast oil, with a negative effect on in-value and well-head price; second, while the state did well in some competitive solicitations last summer, oil producers are still the best long-term marketers of oil.

Commissioner Katz summarized the current status of the contract negotiations. There are five contracts still pending. The Tesoro contract is recommended for approval. The Doyon contract will be recommended for approval if they can have the financing in place in a few weeks. There are three other good possibilities being negotiated, with Chevron, Provident Oil, and Suneel. There are a number of questions to be answered on the Provident and Suneel contract proposals. The state intends to commit itself to a written process to address these questions, preparatory to further contractual negotiations.

Bob Maynard, Assistant Alaska Attorney General, addressed the issue of pricing systems. The "exhibit B" purchasing system attached to the Alpetco contract presents a regrettable position with respect to the Amerada Hess litigation, requiring the purchaser to pay the higher of either the price reported to the state by the producer, or the average of all other producer prices, resulting in a term higher than the weighted average price but lower than the highest price.

The basic difference between the exhibit B pricing and the system used in the proposed Tesoro contract is that by the exhibit B system, Alpetco paid the state as if the state had won the lawsuit, and Alaska will have to pay them back if the case is lost; Tesoro will pay the state as if the state had lost the lawsuit, and pay the state the difference should the state win.

Commissioner Katz, in response to a question from Senator Fischer, addressed the issue of alternative pricing systems. There are negative impacts on state revenues by using the weighted average field price, but the contractual adjustments pending resolution of the Amerada Hess litigation, with the 3% above prime aspect will recapture the difference.

All pricing system alternatives were examined, and exhibit B pricing was rejected for two basic reasons: first, the recapture mechanism currently being used is good; second, exhibit B pricing impairs in-state oil utilization because of the uncertainty regarding the price

for long periods after the actual transaction. To serve in-kind taking, the Department felt the state should deviate from exhibit B pricing, recognizing that there will be adjustments in the aftermath of the Amerada Hess litigation.

Jeff Haynes, Deputy Commissioner of Natural Resources, stated that the market situation has changed considerably in the last twelve years, and would change considerably in the next twelve. The basic decision regarding the pricing was to tie it to the price that seven-eighth's of North Slope crude was sold for. The two-tier pricing system is in place for specific and economically justifiable reasons. It is possible that exhibit B pricing without the Amerada Hess adjustment could be a premium price in twelve years; the situation could change; it is hard to predict. Given the market influences, however, it is more likely to be less. The Department believes that its estimates are as accurate as possible.

Commissioner Katz, in response to a question from Senator Fahrenkamp, stated that there is no direct assurance that the lower price to processors will be reflected in consumer costs. That sort of guarantee would be difficult to negotiate. That is why the Department continues to negotiate with Doyon--it is good for the state to promote competition, to increase benefits to consumers.

In response to comments from Rep. Halford, Commissioner Katz pointed out that there is an inherent statutory conflict between maximum revenues for the state and the preference for in-state use. In the case of the Doyon contract, there is no question that another refinery would lead to significant price competition in the greater railbelt area. The trade-offs are difficult to quantify, but the Department will provide the legislature with such figures for cost-benefit analysis as are available.

In response to questions from Rep. Rogers, Commissioner Katz stated the legislature should enact a statute to approve the contracts. If Doyon can get financing satisfactorily in place in the next few weeks, the Department would recommend legislative approval. If, however, the legislature enacted legislation approving the Doyon contract without adequate financing in place, the Department would recommend that the Governor veto the bill.

In response to further questioning, Mr. Katz stated that if the Doyon contract is not approved this session, the Department would continue to pursue it over the interim. The Attorney General's office advises the Department that this solicitation can continue until terminated at the Commissioner's discretion. Commissioner Katz would like to bring this solicitation to a conclusion in the next few months, with an outside limit at the end of Governor Hammond's current term. After that conditions will change, and warrant a new solicitation.

The Department has been advised that Tesoro would have to enter a new solicitation for additional oil for expanded facilities, such as a hydrocoker. This is also relevant in the light of the policy only to provide royalty oil for "imminent" projects; which is another reason the Department wants to terminate this solicitation in a timely manner. It was with this situation in mind that the Department retained a quantity of oil for future options.

Deputy Commissioner Haynes pointed out that paragraph 2.13 of the Tesoro contract contains a provision recognizing the statutory preference for in-state use of royalty oil and the manufacture of petroleum products; which means that Tesoro would automatically be involved in future solicitations.

Commissioner Katz stated that the current solicitation could be amended simply, to allow continued negotiations with Tesoro, and that the statutes, while favoring mass solicitations, do allow for individual negotiations, which could be used to allow for supply for further Tesoro expansion.

Bob Maynard pointed out that it is a problem of wording; Tesoro's expansion can't come under the current solicitation, but the solicitation can be amended to allow for it.

Commissioner Katz, in response to question from Rep. Rogers, pointed out that if the state wanted to renegotiate the contract with Doyon, they could go about it two ways: (1) withdraw the contract, make the desired changes, and send it back through the Board process; or (2) the Legislature could waive that procedure in the enacting legislation for the renegotiated contract.

Mr. Katz stated that the return oil situation was not as serious a problem for processors on the trans-Alaska pipeline, who can put residual oil back into the line. The state has a good policy of selling all title to royalty oil at Pump Station #1. The Department looked at cooperative agreements for Doyon to sell the return oil to a downstream processor, but the arrangement did not work out. Chevron dropping out of the negotiations had a real effect on the Doyon contract.

Mapco's return oil under existing contracts is owned and sold by them. Depending on market conditions, this can either be a benefit or a drag to the processor.

Deputy Commissioner Haynes stated that it depended on the market; in the case of the Fairbanks refinery, they can dump residual oil back into the pipeline, and pay a quality penalty, but then sell it as Alaska North Slope (ANS) crude at Valdez, in competition with the producers. It has been both a good and bad deal for them in past years. With the failure of the Chevron to buy the return oil, Doyon will have to sell ANS crude.

John Katz, in response to a question from Rep. Cotten, pointed out that although he did not agree that it is constitutionally required, the Governor has set a clear policy that he wants a legislative decision for

the approval or disapproval of royalty oil contracts.

Bob Maynard pointed out an additional advantage to statutory approval, that in doing so, the Legislature would be "ratifying" the contracts, curing any procedural faults that may have occurred up to that point.

John Katz stated that the state is selling at the weighted average of what all North Slope producers charge. Sohio made an offer to buy most of the royalty oil at a greater than weighted average price for resale to in-state processors, but policy dictated that the state couldn't allow a private concern to make what should properly be public decisions regarding state royalty oil.

In response to a question from Senator Fahrenkamp, the Commissioner stated that the Suneel proposal is still active, but not the highest priority. The unanswered questions on this project will not be resolved in time for consideration by this Legislature. If the questions could be resolved in time, the Legislature would have the option of allowing the contract to go through the usual royalty oil procedure, or waiving the process in enacting legislation this session.

Senator Halford noted that the Department recommends that the Legislature approve the Tesoro contract, and approve the Doyon contract, with a four-year moratorium on option fees, if a financing package goes through. Two separate pieces of enacting legislation should be introduced.

Jeff Haynes presented a summary of highlights of both contracts:

The Tesoro contract calls for the purchase of 46,000 barrels per day, which is about the maximum the Tesoro refinery can handle. Tesoro also currently contracts for about 8,500 barrels per day of royalty oil from the Cook Inlet. These reserves are declining. Tesoro can vary the amount to be taken, up to 46,000 barrels per day, on six month's notice. The state can impose a permanent top-limit equal to the greatest amount taken in the first five years of the contract. Tesoro can permanently terminate the contract on nine months notice. The price is the producer's weighted average field price, subject to adjustment as a result of the Amerada Hess litigation. Any money owed the state would be paid at the higher of the state treasury rate or the prime rate plus three percent. The contract term is twelve years, and the oil is to be processed in-state, with an equal-value exchange provision. The oil will have to be processed at the Nikiski refinery, and there are standards for how much of certain products they shall produce. Tesoro is committed to completion of feasibility studies for expansion, to include a petroleum coker. The state retains an option on the residual oil and petrocoker, and can assign its use. The performance and guarantee reservation structure is a fee paid to the state on contractually committed oil, if not actually taken--about fifteen cents per barrel per day. The security terms require a letter of credit worth two month's supply of oil. The Attorney General's Office thinks that the local hire provision in the contract goes as far as the state is constitutionally allowed.

Doyon had two contracts in the course of negotiations: one to purchase the Mapco refinery; one to build a new refinery. The contract to take over the Mapco refinery was withdrawn.

The volume of the Doyon contract is 50,000 barrels per day; the price and term are the same. The in-state processing provision is similar, except that it includes a definition of a required schedule; they are required to build, open and operate a new refinery by December 1, 1983, or the contract will terminate. The contract contains a provision for a future new refinery or new royalty oil contracts, and contingencies to cover the state's interests should Doyon acquire the Mapco refinery.

In response to Senator Sturgulewski, Mr. Haynes stated that unlike the Charter Oil contract, which had many complexities and procedures for legislative review of the fulfillment of the conditions of the contract, the Doyon proposal was not for a world-class facility, and was simpler to track.

Bob Maynard pointed out that the contracts have a conflict clause, similar to the procedure for administrative review of regulations, whereby contract disputes or ambiguities regarding a term of the contract shall be determined by the Commissioner first, and that the buyer must adhere to the Commissioner's decision, unless there is a preponderance of evidence to the contrary.

The Committee adjourned at 7:00 p.m.



Alaska State Legislature

SENATE Resources Committee

Official Business

BETTYE FAHRENKAMP, Chairman
VIC FISCHER, Vice-Chairman
BRAD BRADLEY
DICK ELIASON
DON GILMAN
BOB MULCAHY
ARLISS STURGULEWSKI

POUCH V
STATE CAPITOL
JUNEAU, ALASKA 99811
(907) 465-3834
(907) 465-3835

March 26, 1982
8:15 a.m.

House Finance Committee Room
Room 519 - Capitol Building

Meeting with House Joint Committee on Oil and Gas

Members Present

Senator Fahrenkamp
Senator Gilman
Senator Sturgulewski

Representative Halford
Representative Cotten
Representative Kandolph
Representative Rogers

Agenda: Presentation by the Department of Natural Resources, the Alaska Royalty Oil and Gas Development Advisory Board, Doyon, Ltd., and Tesoro Alaska Petroleum Co., on the proposed Alaska royalty oil contracts (continuation from March 25, 1982).

The meeting was called to order by Rep. Halford, Chairman.

Avrum Gross, General Counsel for Doyon, Ltd., stated that the contract had been negotiated by Dick Edwards and Marco Pignalberi. Doyon has worked since its inception to put together a competing refinery in Fairbanks. They have acquired the equipment and completed the engineering and land-acquisition work, simultaneously negotiating with the state for the last five or six months.

Mr. Gross became involved in early January. At that point, Doyon had the opportunity to negotiate to purchase the North Pole refinery, and switched over to negotiating both contracts with the state. Negotiations for purchase collapsed after about six weeks. By this time, the status of the refinery construction financing had changed. The financiers had pushed Doyon to pick-up the refinery. The return oil was the main problem in negotiations; for every 30,000 barrels to pass through the refinery, 20,000 barrels are returned to the pipeline, and would have to be sold by Doyon. Marketing that amount of oil without a substantial loss is difficult. They were originally intending to dispose of return oil to Chevron under contract, but that contract fell through. This has been the major snag in obtaining financing; Doyon will have

March 26, 1982

Page 2

a much better idea of their ability to dispose of return oil in two to three weeks.

Mr. Gross noted that this is not a contract like the Alpetco contract, where Doyon could market oil as it sees fit. The contract requires Doyon to build a refinery and get it on line by December 1, 1983. As a new project, it is difficult, amounting to a \$100 million investment in a world oil situation not conducive to major investment.

Mr. Gross suggested that the Legislature put the Doyon contract on hold for two or three weeks, and Doyon will make another presentation to the Legislature at that time.

In response to a question from Rep. Halford, Mr. Gross stated that he was surprised at the Advisory Board's reaction to the four-year waiver on option fees. Mr. Tim Wallace, President of Doyon, testified before the Board in Fairbanks, and was asked no question regarding the waiver. The negotiations for the contract took 5 months, and Doyon made trade-offs to gain this concession. The only way to determine if the clause is indeed anti-competitive would be to do an analysis of Mapco's situation. To come "out of the blue" and pick on one term without considering the other factors and the conditions of the Mapco contract is not a correct procedure.

In response to Senator Fahrenkamp, Mr. Gross recommended that the Legislature put the contract into legislation, and hold in committee, awaiting financing. At some point, the Legislature will have to make a judgement on the good-faith and viability of the Doyon proposal. In the interim until the refinery is completed, the royalty oil would be marketed by the producers, at no loss to the state.

In response to Rep. Randolph, Mr. Gross stated that the financing for refinery construction had been in place with the Continental Bank in Chicago. As the emphasis shifted to negotiating for the Mapco refinery, the bank made a financial commitment to the purchase, and withdrew its commitment to construction. When it became clear that the purchase might not go through, the situation for construction had changed. Continental wanted to change the terms and seek involvement by others in the financing, primarily because of the risk involved with the return oil. Return oil has been the major drain on the North Pole refinery profits. When Mr. Gross last spoke to Continental, they were willing to finance a major portion of the project, insisting on the financial involvement of others. If Doyon can find a way to dispose of the return oil, he sees no problem in putting together a financing package.

In response to Rep. Rogers, Mr. Gross stated that provision had been made to store the purchased equipment until financing was available, and that on-site work had been shut down for the time being. If Doyon is able to continue work in this construction season, they could have the refinery in place before the December 1983 deadline.

In response to Rep. Cotten, Mr. Gross stated that not having the contract approved until the next legislative session would create a problem, in that the contract is an integral part of the financing package. However, the Doyon proposal is not a speculative proposition; they are committed to follow through on the project.

Mr. Gross stated that Tim Wallace was negotiating with several oil companies for a contract for the return oil. There is the problem caused by the current oil glut. Doyon is not concerned with making a profit on the return oil, but with avoiding a loss. The North Pole refinery has had enormous losses in the past, but has recently made arrangements to avoid more serious losses.

Jeff Haynes stated that the Department made the four-year option waiver concession to Doyon as a new entrant. The most difficult philosophical question in the negotiations was reconciling being totally market neutral and yet encouraging competition. The bottom line for the Doyon contract is the Mapco contract. Doyon would prefer to have the Mapco contract for competitive reasons, but the Mapco contract has provisions that are not recognized as being in the best interest of the state at this time. The Department was under intense pressure from Doyon throughout the negotiations to make concessions; but the only significant concession was the waiver on reservation fees.

Mr. Haynes stated that there was an advantage to a refinery on the transAlaska pipeline, in terms of return oil. They have to sell Alaska North Slope crude oil with a quality penalty, rather than residual oil, which is a bigger problem. The Department tried to work out a deal with Chevron to use the residual oil from the Mapco refinery, which would have been to Doyon's advantage on some occasions, but Mapco didn't want to give up their absolute rights to the return oil, so the contract fell through.

Deputy Commissioner Haynes stated that in terms of Doyon's financing, the Department was applying the criteria that they would contract for royalty oil only for projects that were operating now or were imminent. The Department concurs with the Advisory Board's recommendation to postpone the Doyon contract if financing is not in place in short order, but disagrees with the Board's stand on the reservation fee issue.

In response to Senator Fischer, Mr. Haynes stated that it might not be appropriate for the Legislature to pass an approval bill for the Doyon contract, conditioned on a finding by the Commissioner or Governor that financing was in place, because the Department does not want to see a group with a supply contract but no deal put together, using the contract as leverage for financing. They prefer to have the issue settled in the course of the Legislature.

Avrum Gross pointed out that the contract has a built-in time limit. With the construction season in Fairbanks being what it is, if Doyon

March 26, 1982

Page 4

cannot begin construction next year, the new refinery might not happen. If the Legislature were to approve the contract the time limit for completion is built-in.

Jeff Haynes, in response to questions, stated that there could be problems with conditional legislative approval of the contract. At some point after this session, stretching the solicitation procedure out would be unfair to other parties to the negotiations. The Department has used the standard that processing facilities must either be operating or imminent. A supply contract will not make a project viable if it were not viable otherwise. In terms of conditional approval, the state has to look at the other proposals. Others wanted more barrels for expansion, which could yield more competition. The total amount requested added up to more than the state has available; the state rejected their proposals. It would be unfair to them to extend the time for Doyon too long.

Dick Lyons, Chairman, Alaska Royalty Oil and Gas Development Board, stated that in the Board's perspective, the imminency of a project was a concern. They did not want to commit state crude to any project which wasn't going forward. There was the issue of competition. Both proposed contracts--Tesoro and Doyon--involve about \$1 million per day in royalty oil. The crude would be sold for dissimilar prices under similar conditions and terms. If it were a private supplier, and not the state, federal law would prohibit it.

In response to Rep. Halford, Mr. Lyons stated that if the Legislature were to introduce bills for both contracts, the Board could meet in short order to consider a financing package for the Doyon project, if one were to come forward.

Rep. Halford stated that the Legislature should move forward with both proposals this session, and hear from the Department of Natural Resources and the Advisory Board on the financing package for Doyon, if one is forthcoming.

Mr. Gross stated that the Legislature is probably just as qualified to judge on the merits of a financing package as the Board and could speed the decision process by waiving Board review.

Dennis Jurin, President, Tesoro Alaska Petroleum Company, testified that Tesoro has the capacity to supply over 100 percent of the gasoline required in the state at present. The company started in 1969 with an 18,000 barrel per day capacity refinery in Kenai, and has expanded it to almost 50,000 barrels per day. They did it on the basis of a relatively small Cook Inlet royalty oil contract, and each expansion after inception had no other subsidy than an opportunity to buy royalty oil on a competitive basis.

Mr. Jurin stated that Tesoro was a respondent in the 1977, when the North Pole refinery requested a contract. The Tesoro proposal was not approved, and Tesoro did not push the issue, which, in hind-sight, the company should have. Due to rapid growth through aggressive marketing, Tesoro has placed itself in a vulnerable position, with most of their

March 26, 1982

Page 5

supply of crude coming from foreign sources and spot market purchases. The Cook Inlet supply is dropping at a rate of about one percent per month. The majority of the supply is either foreign or domestic short-term contracts, subject to interruption. Tesoro wants a relatively secure long-term supply contract not subject to rapid changes.

Mr. Jurin stated that Tesoro is considering expansion of their facilities. They began research in November, 1981 on market growth in Alaska, the probable product-mix and preliminary engineering. It is possible that as much as 70,000 barrels per day could not be fully utilized until 1995 and Tesoro might settle on about 55,000 to 60,000 barrels per day. One primary consideration in their planning is what happens to the Advisory Board recommendations here. A gasoline producing refinery in Fairbanks would effectively close that market to Tesoro in the Interior, as is the diesel and turbine fuel market already, due to production by the North Pole refinery. It costs Tesoro eight to nine cents per barrel to transport gasoline to the Interior and an on-site refinery there would have an unbeatable competitive edge. Therefore the decisions here have a lot to do with what Tesoro builds in the Kenai.

Mr. Jurin discussed the return oil situation. The west coast utilities are the largest users of residual oil; they will have abundant supplies from other sources. Tesoro intends to convert the residual oil to petrocake or use a hydrogenation process to convert it to turbine or diesel fuel. They are currently running a pilot plant project on their feedstocks to test the processes. Union Oil Research is the licensor of Tesoro's first hydrocracker in Kenai; they are negotiating with them for a possible second facility, and have engaged engineers for design investigation.

Mr. Jurin stated that Tesoro's corporate finance group is meeting with financial institutions to determine the best way to finance the expansion. All the decisions will probably be made this year. The proposed contract requires Tesoro to periodically report to the Commissioner on the progress of evaluation, planning and development of the project. The contract would remove a degree of vulnerability in supply, and help maintain Tesoro as a formidable competitor in Alaska. The difference between the Tesoro proposal and others is that Tesoro is not planning to go ahead in the future, but are proceeding with the project on its own merits at this time, not because of the benefit of some sort of subsidy. Tesoro has an unblemished record in dealing with the state on its existing contract.

Senator Fahrenkamp stated that estimates of the price break for a processor buying royalty oil from the state run from one to three dollars per barrel, and asked if a long-term contract would result in cost reductions passed on to consumers.

March 26, 1982

Page 6

Mr. Jurin replied that he didn't know what the future price situation would be; the cost of raw materials is not the only factor. A long-term contract would mitigate abrupt shortages in supply, which have been brought on in the past by economic supply shortages, requiring that Tesoro reduce production runs. Tesoro will do whatever possible to maintain the competitive or below market pricing.

In response to Rep. Halford, Mr. Jurin stated that Tesoro currently supplies 27 to 28 percent of the market directly, with the remainder being supplied by Chevron, Union, Texaco and independent operators. Tesoro will probably never supply the whole state, due to competitive differentials in transportation costs. Tesoro serves mainly the lower railbelt and Kenai area. They provide 78 percent of the turbine fuel at the Anchorage International Airport, and will probably supply more with an arrangement for another hydrocracker plant. The potential loss to the state by the west coast offset may change; the gulf coast prices have been traditionally higher than the west coast. Tesoro would not be looking for a long-term contract if they thought that there would be an ample future supply of oil. Projections predict that there will be more shortages than surpluses over the long run.

In response to Rep. Cotten, Mr. Jurin stated that Tesoro has a contract with San Deigo Gas and Electric to purchase the return oil. The contract began in 1972, and has been renewed through 1984. Tesoro intends to expand their facilities to process the return oil. They don't have a guaranteed market in the pipeline.

Jim Smith, President, Tesoro Alaka Crude Oil Company, in response to Rep. Cotten, stated that whether the price Tesoro would pay for oil would be greater than the average weighted price, if they purchased it from a producer other than the state depends upon variable market conditions. Tesoro is currently buying ANS crude from Sohio on the spot market, probably paying more than they would pay other producers, but the other producers are not willing to sell.

The Committee was adjourned at 9:50 a.m.

HOUSE OIL AND GAS COMMITTEE
AND
SENATE RESOURCES COMMITTEE

JOINT MEETING ON ROYALTY OIL DISPOSITION

March 25, 1982

CHAIRMAN HALFORD: The joint meeting of the House Oil and Gas Committee and the Senate Resources Committee, would you please come to order? Present we have the Senate Resources Committee chairman, Bettye Fahrenkamp. We also have Senator Fischer, Senator Mulcahy, and Senator Gilman. Present on the House Oil and Gas Committee are Representative Cotten, Representative Randolph, Representative Rogers, and myself, Rick Halford. We are here to consider the proposal of contracts for disposal of a portion of Alaska's royalty oil, and our agenda calls for the first presentation to be from the Alaska Royalty Oil and Gas Development Advisory Board. If Dick Lyon would come forward and present us with those recommendations.

MR. LYON: Thank you very much, Representative Halford, Senator Fahrenkamp, and other members. I don't have a formal presentation. I have copies of the two resolutions which the Alaska Royalty Oil and Gas Development Advisory Board just passed this afternoon, and I don't know to what extent you want me to go into detail about what the board has done concerning the string of negotiations, or the series of negotiations,

that the Department of Natural Resources has been doing. I'm sure that Commissioner Katz is going to bring you along in good detail. These are his findings, and basically the board's deliberations. I don't know if you have copies or not, but the board's deliberations included dealing with the findings which are quite extensive and detailed and give you an excellent and very strong background about why he has concluded what he has concluded. The board's actions were to recommend that the legislature approve the contract with Tesoro and not at this time approve the contract proposed with Doyon. If you'd like I can read the resolutions, or if you just want them entered into the record, I can perhaps read the pertinent parts about the basis of the conclusions.

CHAIRMAN HALFORD: We have copies of the resolutions. I don't know if ...

OFF RECORD: [Discussion among committee members regarding whether or not they have copies.]

CHAIRMAN HALFORD: Are the whereases the same until you get back down to the last page?

MR. LYON: Let's see. The first two pages of whereases are. Correct. I'm not sure if -- At one public hearing - the Anchorage public hearing - there was no testimony.

At the Fairbanks public hearing there was testimony, and if that's in the whereases, then that's the only distinction between the whereases.

CHAIRMAN HALFORD: Okay, and the first one deals with Tesoro and the second one deals with Doyon?

MR. LYON: Yes, that's correct.

CHAIRMAN HALFORD: I guess it might be appropriate to just go ahead and read into the record just the therefores at this time.

OFF RECORD: [Discussion among committee members about having copies.]

MR. LYON: Let me say, as just prefatory remarks, that the commissioner has met with the board regarding these contracts on, let's see, at least half a dozen occasions. The function of the board involves exposing the negotiation process to the public to the extent that it is possible to do so and still have a private negotiation, but the board has been brought along as the negotiations have proceeded.

The conclusion on the Tesoro Alaska contract is as follows: The Commissioner of Natural Resources has followed the board policies and applicable statutes and regulations relating to the disposal of oil and gas royalty interests; two, that the board agrees that the sale of royalty oil interests to Tesoro Alaska

Petroleum Company, as per the agreement, is in the best interest of the state because (a) the oil is to be refined or processed or traded for other oil to be processed in the existing Tesoro refinery near Kenai, Alaska; (b) Tesoro Alaska's in-state refinery supplies products to the Alaska market with price or supply benefits to state citizens; (c) the price that the state will receive for this royalty interest appears to be substantially equivalent to or greater than the price the state would receive by taking this royalty in value; (d) that Tesoro Alaska is a highly qualified company who has been operating its refinery to produce products for the Alaska market for over thirteen years; (e) that adequate security provisions have been included in the agreement; (f) that this agreement is consistent with the criteria outlined in AS 38.06.070. Therefore, be it resolved that the Alaska Royalty Oil and Gas Development Advisory Board recommends to the Twelfth Alaska Legislature that the agreement for the sale and purchase of royalty oil between the State of Alaska and Tesoro Alaska Petroleum Company dated February 26, 1982, be approved.

The motion carried unanimously. Would you like to deal with the two contracts separately?

CHAIRMAN HALFORD: I think we're going to deal with the contracts once we get ...

MR. LYON: All the information. Okay.

CHAIRMAN HALFORD: ... [indiscern.; simultaneous conversation]
... introductions, but if you would go through the
findings section on the second contract ...

MR. LYON: Surely.

CHAIRMAN HALFORD: ... [indiscern.] ... resolutions .

MR. LYON: All right. The motion ends by saying: The board
finds as follows: (1) that the Commissioner of Natural
Resources has followed the board policies and
applicable statutes and regulations relating to the
disposal of oil and gas royalty interests; (2) that the
board favors increased in-state use of its royalty
interests, such as construction of a new refinery; (3)
that the board disagrees that the sale of the royalty
oil interests to Doyon, Ltd. as per the agreement, is
in the best interests of the state because (a) the
financing and therefore, timing, of the proposed
project is currently uncertain, and it is not in the
state's best interests to conclude a contract until the
project is ready to move forward; (b) the provision for
delayed payment of the reservation fee according to
paragraph 2.10 of the contract creates an unacceptable
bias against competitors. And therefore, be it
resolved that the Alaska Royalty Oil and Gas
Development Advisory Board recommends to the Twelfth
Alaska Legislature that the agreement for the sale and

purchase of royalty oil between the State of Alaska and Doyton, Ltd. dated February 26, 1982, be disapproved.

This motion carried unanimously. However, the record should reflect that Commissioner Williams, who seconded the Doyon contract resolution, was unable to continue and be present at the time of the vote. He had a meeting conflict.

CHAIRMAN HALFORD: Okay. I think at this time we can just go on. I think the Department of Natural Resources can really give us the biggest piece of the background and the conditions of the negotiations, and also the statutory provisions under which the negotiations were conducted, and what the intents were; and then when we get down to the contracts, we'd like to have you possibly come back to respond to anything on the specific contract proposals for Tesoro and Doyon. Representative Cotten?

REP. COTTEN: You said that Tom Williams had seconded the motion to approve the contract?

MR. LYON: Yes. He ...

REP. COTTEN: Who made the motion to approve it?

MR. LYON: The motion to approve it was made by Dr. Triplehorn.

REP. COTTEN: But then he ended up voting against it, didn't he?

MR. LYON: No, no. What we did was we prepared two resolutions for each contract so that we would be prepared to move: one resolution to approve - to recommend approval - and one resolution to recommend disapproval; so the motion recommended disapproval.

SENATOR MULCAHY: Mr. Chairman, I don't know about anybody else, but I've only got one resolution.

OFF RECORD: [Discussion among committee members; waiting for arrival of copies.]

MR. LYON: Are you finished with me?

CHAIRMAN HALFORD: Yes, thank you.

SENATOR FAHRENKAMP: But not forever.

REP. ROGERS: Mr. Chairman?

CHAIRMAN HALFORD: Representative Rogers?

REP. ROGERS: It's fairly obvious to me from the -- now receiving it, that there were some substantial -- that they had a proposal, but it all -- all the findings got rewritten as they went through. Maybe I'll look through the [indiscern.], but I would like to ask some questions about the ...

CHAIRMAN HALFORD: Yes, I have some questions on, particularly, the second resolution, but I thought we would hear from Doyon, and then go through the questions with the royalty board.

REP. ROGERS: Okay. Apparently there were some other changes very late in the process.

CHAIRMAN HALFORD: Um-hum. Mr. Katz, if you would go through the entire process?

MR. KATZ: Thank you, Mr. Chairman. I am pleased to present to you today the Tesoro contract which has the full support of the administration. In the case of the Doyon contract, as I'll indicate a little further on in my testimony, we agree with the result of the royalty oil and gas board. We agree with one of the premises for that conclusion, and we disagree with the other. With your indulgence, Mr. Chairman, I am going to take just a few minutes and run through the process we used and the underlying policies that guided our negotiations of all the contracts because this is the one point I think in the legislative process where that would be appropriate.

The first thing I want to deal with is process. We set several criteria for ourselves, and these, among others, are ones that hopefully you will utilize in ascertaining whether the process meets your requirements. The first is that the process be fair to all participants and be perceived by them and by the public as being fair. Secondly, that we make a real effort to institutionalize a decision-making process in the Department of Natural Resources for making royalty oil

decisions; in a sense to depersonalize that process, and to create an interdisciplinary presence with respect to examination of royalty oil issues. Next, that from start to finish we create a paper trail that documents each and every point in the decision-making process, and why we chose to go one route as opposed to another. Next, that we increase the knowledge of the key decision makers in the royalty oil area through the process, and in fact we did that through a number of means. Next, that we improve upon the standard form royalty oil contract. That involved an inter-administration examination of the prior contract, and a very significant effort at amendment, and then just to cross check what we'd done, we exposed our contract to one of the best commercial law firms in our judgment in the United States, and to some people who trade in royalty oil just to get their judgment. I think that the net result was a very tough contract, but a contract that I think serious royalty oil bidders were willing to sign. The next goal that we had in mind procedurally was to improve our DNR's - relationship with the royalty oil and gas board, and I think we've done that. They in our judgment represent a real reservoir of knowledge and expertise on royalty oil, and we sought to take advantage of that expertise at each stage in the process. The culmination of all of

these procedural efforts is the findings document that has been presented to the committee, consisting of over two hundred pages of background and findings and conclusions. We have sought to summarize that document in a fourteen-page briefing paper which has been previously provided to the committee.

Very briefly, here are the major policies that underlie all of our negotiations. First, that we recognize -- Let me start back just one step and give you a feel for how that process works pragmatically. We revised our pending solicitation when I came on board to more, in my judgment, accurately reflect the in-state preference that exists in the state statutes. That solicitation was put out on the street in the period from August 1 to September 1. We got some twenty-nine responses to the state solicitation. We then began a winnowing process. We met with everybody that desired to meet with the state to back up orally their written proposal. Later we made a series of findings of our own and gave the parties who we rejected at that point in the process the opportunity to refute our conclusions, and in two or three cases we reconsidered, although coming to the same conclusion. We then continued on in our negotiations with the people that we felt presented serious proposals. There were some eight or nine in number at that point in

time. Regrettably, those negotiations continued beyond the time frame that we had originally projected, and I apologize for that in terms of the very stringent deadlines that I know that all of you have set for yourselves, but it really wasn't possible I think in the pragmatic business world to move much quicker than we did. Unlike a situation where two private parties are dealing with each other, we could not negotiate, in my judgment, a contract with one party, and then move on and negotiate another contract with another party, and so forth all the way through the process. The reason for that is that all of the people that we were dealing with in one way or another compete with each other. and we didn't want to purposefully or inadvertently create a competitive advantage or disadvantage by negotiating a contract with one and then going on separately, so while we maintained confidentiality in all of our negotiations, we tried to move everybody forward together; and we learned on the basis of that experience, and will profit in the future, that it simply takes more time than we projected for that to occur.

Now on to the substantive policies. As I began to indicate, we reflected a clear preference for in-state taking. That preference, in our judgment, though not absolute, and we did not treat it as

absolute, is reflected in the Alaska Statutes. Secondly, we sought to achieve parity among all the parties that were negotiating for state royalty oil in terms of all the major provisions. Obviously, each proposal reflects a different set of circumstances, but in terms of term and price and those kinds of major elements, we sought to achieve parity. The one instance where we deviated from that was to grant a four-year moratorium on an option fee that I will explain later in our discussion, in the case of the Doyon refinery proposal; and we did that very consciously. That decision involved a conflict of a number of competing policies which in isolation all of us, I think, would endorse, but in this situation they came together in conflict. One of those was to achieve parity among all participants, but another one, in our judgment, was to help facilitate entry into the market to increase competition, and thereby hopefully achieve benefits for a broader range of Alaska citizens. I don't want right this second to go into any further detail on that, except to indicate that that was a very conscious decision on our part, and it is the only point where we are in conscious disagreement with the decisions of the royalty oil and gas board.

The next issue was price. We departed from the older exhibit B price mechanism. Instead we adopted

the weighted average field price on the North Slope, but with a contractual adjustment for whatever occurs in the pending Amerada Hess litigation and with a three percent above prime, or above the treasury rate, sum to be paid over and above whatever the results of Amerada Hess may be. The decision to depart from the exhibit B price was very conscious on our part. For one thing, that price does penalize in-state takers, because it is very difficult for them to know what the price is until a period of about sixty days after the transactions occur. That uncertainty makes it very difficult for them to plan. Also, given the pendency of the Amerada Hess litigation, we felt that a court will make a definitive decision, hopefully in the not-too-distant future, and whatever decision that is, it will govern these contracts. In the interim, we preferred a solution which gave us the three-percent-above-prime approach, rather than the alternative which would otherwise existed where we would have had to pay a percent and a quarter above prime if we were to lose in a situation where most of the state's investments don't achieve that objective.

The next decision related to term. We decided on a twelve-year term. We looked at other alternatives; for example, terminating all these contracts on the day of Prudhoe Bay wind down. But the twelve-year

term does make sense in terms of what will -- what the supply situation is likely to be at that point in time. We wanted to maximize the options that were available to future legislatures and governors at some point in time, and the twelve-year time frame was virtually as good as the eight-year time frame, in our judgment.

The next decision was respecting volume. We wanted to retain a significant uncommitted volume, no matter what occurred in the solicitation, in order not to preclude options that may materialize two or three years from now, and that we simply cannot foresee; and whether or not the Doyon contract is approved, I think that we will achieve that objective.

The next issue relates to what we called the option fee. We felt that there was a significant benefit to people in the commitment of oil by the state, and conversely, the state lost certain opportunities once that commitment occurred, even if oil were not provided, and so an element of our contractual negotiations was to obtain a fee once our oil was committed if that volume of oil were not taken at any given point in time. As Chairman Lyon indicated, the one exception to that was a four-year moratorium in the Doyon contract, which we did as a concession to a new entrant. We picked four years because that's the

period of time in which Mapco has had an opportunity to penetrate the market.

The next policy that we adopted was a very conscious decision against interim taking. We did not want state royalty oil to be the vehicle for financing a project that was otherwise not financeable. Trying to draw on the experience of the past, our policy in all instances was to supply oil only to projects that were imminent and at the time the refinery door opened. Here is where we began to have trouble in the Doyon arrangement and so did the royalty oil board today. At the time we negotiated the contract with Doyon, Ltd., their construction financing was in place. They had spent a considerable amount of money in the purchase of equipment, and they had acquired a site across the street from the Mapco refinery. Given that movement forward, we felt that it was not necessary for the government to interpose benchmarks that would have been very difficult, as they would have been in the Alpetco situation, for the government to really monitor properly; and given that substantial commitment by a private concern of its own money, operating in its own self interest, it had every impetus to move forward. Since the contract was negotiated, however, for reasons that perhaps Doyon will choose to explain, their construction financing has lapsed, and at this point in

time does not exist. They are doing everything within their capacity to reacquire construction financing, so it was not a speculative sort of venture that we chose to negotiate with, in our judgment. At the time we negotiated the contract, everything was in place. On that basis, we would have, and did, advise the royalty oil and gas board of our discomfort. We would have indicated that to you as well. In our judgment, if the financing situation comes together conclusively within the next couple of weeks and prior to final legislative approval, then if we were certain that that were the case on the basis of our own independent analysis, we could then recommend to you in good conscience that the contract be approved, but not unless and until that occurs.

The next decision that we made was to be willing to be a one-hundred-percent supplier of royalty oil to in-state refiners. The reasons for that were a couple. First, the state statutes do provide a preference for in-state refining and processing. Secondly, we considered a sort of arbitrary approach of saying: Well, we won't provide more than eighty percent or seventy percent to a refinery; but that would have significantly provided a significant detriment to the companies involved without really giving the state, in our judgment, a real benefit. The difference in volume

was not all that great, and one of the things that we were trying to do, particularly for example in the case of Tesoro, was to provide a really secure foundation for their present operation and for their hope for future development. Some of the companies that we were dealing with have had to be out on the world market, constantly searching for oil, and that's not a very secure situation to permit a real commitment to the state and a commitment to the future.

The next issue that we dealt with was return oil. I will touch on that only briefly. Return oil is oil that in a pipeline refinery like Mapco comes out at the other end of their process. They pay a quality penalty, and the return oil in theory is available for other uses further downstream. We tried to maximize the volume that the state was dealing with by incorporating the return oil as well as the Pump Station One oil in our discussions and deliberations. For a number of reasons that didn't work out, and so Doyon would be responsible for selling the return oil as a result of its refinery operation, unless the state on a one-time basis chose to exercise an option to take that oil, but it would not be initially ours.

Next, although nobody was willing to construct a refinery in rural Alaska, we in every set of negotiations tried to obtain concessions that we thought would

be for the benefit of rural Alaska. Unfortunately, some of the contractual discussions that would have best yielded that result fell through for other reasons, but I think that that should be an objective of every set of negotiations that the state enters into.

The next thing was petroleum coke. Unfortunately, in my judgment, the discussion of petrocoke has tended to dominate the discussion of some of these other issues, and I think that some of these other policy issues relating to the disposition of state royalty oil are at least as important, if not more important, than petrocoke. But we did adopt a policy in the department of trying to use royalty oil to complement the development of another state resource, which was coal, and we felt that if the technology existed to blend petrocoke with royalty oil - I mean, excuse me, with coal - somewhere on the Pacific Rim, and that that would accelerate the development of Alaska coal, that was a very important policy for us. We chose to approach that policy on the basis of developing contractual provisions that would have provided a benefit to any concern that was mining Alaska coal, rather than providing royalty oil to any one concern. Unfortunately, the generalized discussions fell through, and at this point in time we

don't have a contract to present to you which provides the petrocoking approach.

The next matter that I want to raise with the committee concerns the impact on the end value price which results from in-kind taking of Alaska oil. We document this fully in our findings, and frankly, it represents -- raising this issue with you represents the way that we have approached the legislature on all issues since I've been here and I think, hopefully, and I know the department has done it before that. We are not approaching these contracts in a hard advocacy vein, to the point of denying you access to information, to negative information, that would bear upon these contracts; and there is no question that any in-kind taking has a negative impact on the end-value price of Alaska oil because, or in most instances, that will be the case, not necessarily in all instances. The basic reason for that, without going into a whole lot of detail, is that there is a two-tier price system now for ANS [Alaska North Slope] crude. The West Coast price is higher than the Gulf Coast price. In most scenarios, but not all scenarios, it is likely that in-kind taking, of the kind that is authorized by our statutes, will replace oil from the West Coast. The West Coast price is higher. Therefore, it will have an impact both on severance taxes and on the in-value

price. It is for that reason that we chose not to dispose of all of our royalty oil in this solicitation. The exact impact of that kind of effect is not really ascertainable with any certainty because it involves a number of factors and those factors constantly fluctuate, including the differential between the West Coast price and the Gulf Coast price. We think that the best figure to apply to this, and it's my understanding that we've discussed it with legislative staff people as well, is that if you were to adopt both the Doyon contract and the Tesoro contract, the impact on severance taxes and the in-value price would be about \$10 million a year. It would be roughly half if you adopt one contract or the other. We considered that in our findings. We found that other considerations overweighed that negative consideration, but we wanted you to be aware of it. And of course, our state statutes reflect a preference for in-state -- in-kind taking for in-state use, and therefore, at least implicitly, the legislature considered that in enacting the original statutes.

Second we were -- Next, we were determined that Alaska royalty oil not be used as market leverage for something that was really unrelated to royalty oil. There is no question that a company building widgets would like to use Alaska royalty oil as a lever to get

into the widget market, but we didn't necessarily think that that was in the state's best interest. The thing that we did feel was in the state's best interest, as I mentioned before, was to try to use royalty oil to aid and abet the coal industry in ways that we thought were more related to each other.

The next thing that we were determined to have was adequate security, particularly given the situation that confronted Jeff Haynes and me last summer in the aftermath of the competitive solicitation that the state held at that time. We do have, in our judgment, adequate security in these contracts in the form of letters of credit and other legal mechanisms. For me this was a legal question. The two issues that I posed to the attorney general's office were, one, you tell me when you think that we have both adequate security now and that that security is readily assessable, and it was only when they felt comfortable in the security provision that we signed off.

I next just want to conclude this statement of policy very briefly by making a couple of observations. One is that we negotiated these contracts at a point in time when frankly our negotiating leverage couldn't have been any worse. There is an oversupply of oil in the world, as all of you know. That oil is readily accessible to most people that were involved in our

solicitation, and they had lots of alternatives. Conversely, we had what in my judgment is a very satisfactory alternative, and that is to permit the producers to take that oil in value and to sell it for us. Really, pragmatically speaking, the producers are going to be better marketers of our oil than we do. They have hundreds and thousands of people doing what we have basically four or five people doing, and the price -- They have a motive in terms of their own economic self interest, in terms of the seven-eighths of it that they own, and we tax along with the one-eighth that we own; and given that and the negative impact on in-state taking, we felt that the in-value alternative for the oil that we have elected not to propose to you for sale at this point was a very viable alternative on our part, and I think it will be the case in the next one to two or three years that the market conditions will harden a little bit and the state will be in a much better position to negotiate tough contracts.

Another thing that members have posed to me is a question that I just thought I would deal with very briefly, and that is: Why don't we just sort of auction all this oil on a competitive bid basis? There are circumstances where I think it is clearly in the state's interest to auction on a competitive bid basis,

but there are a couple of factors that I think we ought to note in response to that question. One is that oil that is auctioned in that manner usually results in the displacement effect on the West Coast that I mentioned earlier, and therefore has a negative impact on the in-value price and the wellhead price and if we auctioned a lot of our oil on that basis, the price would of course be exacerbated. Secondly, while there is no question that in certain instances we did well in the competitive solicitation last summer, over any longer term arrangement, for better or worse it is true that the major producers are going to be probably the best marketers of oil; and unless there is some really anomalous situation other folks, particularly the small folks that bid in our last competitive solicitation, aren't going to be able to hold a candle in the long term to that marketing situation.

So where are we now? We have in essence five proposals still pending. The first one is the Tesoro contract that we feel very comfortable in recommending to you in its present form, and believe that it properly and adequately protects the public's interest. The second is the Doyon contract. If the financing situation can be definitively resolved on a very short-term basis, we would feel comfortable in the legislature adopting that contract. Doyon has been

very forthcoming with the state, and we've been able to monitor their efforts pretty carefully. They are not there right now. The only other policy issue that I know of in connection with the Doyon contract is the one that Dick Lyon mentioned about whether there ought to be a four-year moratorium on this opportunity cost fee that we have in there, and you all are in a very good position to judge the major policy considerations in this fee, entering of a new market versus possibly some negative impact in terms of the competitive situation. As I say, we felt in total result that it was in the state's best interest to negotiate that contract.

In addition, we have ongoing discussions with three other firms that we want to bring to your attention just so that you know where we are. We will not be presenting royalty oil contracts to you with respect to any of these firms in this legislature and we have so advised the parties involved. However, if we are successful in resolving the concerns that we have now, we would feel comfortable in supplementing our findings and recommending to the next governor and the legislature that the contracts be approved or not at that point in time. The first of those firms is the Chevron Corporation. We had a series of very amicable negotiations with Chevron. In fact, frankly I feel

that all of our discussions have been on that same plane, and hopefully that will be reflected to you by other participants in this process. In the case of Chevron, we were willing immediately to recommend to you that we supply 18,000 barrels of oil today to the Nikiski refinery for in-state refining and processing. Another 20,000 barrels was under discussion. That would have been exported from Alaska to California with a return in terms of product. The state statute on that score requires a special price or supply benefit. We did not feel that the state was receiving enough consideration at this point in time for the extra 20,000 barrels. The discussion tended to surround the petrocoke option, but in my judgment it was broader than that, just an inquiry about the consideration that the state would receive, so that the offer that's on the table now is for 18,000, and the other 20,000 will remain for further discussion and we're hopeful that we will be able to consummate an arrangement with Chevron later.

The second firm that I want to mention to you briefly is the Provident Oil Company. Provident and Koniag have a joint venture arrangement that involves construction of a refinery in Arizona. That proposal involves export of oil, and as I indicated earlier that was not a preferred policy in the array of policies

that I have discussed with you. However, they have been willing to offer such a premium price for the export of oil that we did not feel that we could reject that proposal without further consideration. However, we feel that there are a number of fundamental questions that have to be addressed and have not addressed. We have provided I think now a letter that we sent to the Provident people outlining those questions and indicating that we believe that either we in some instances, or we and they in others, must address those questions before the state could really consider any arrangement of that sort.

The last pending proposal is the Suneel proposal for royalty oil to be used as leverage to obtain petrocoke from California, to transship petrocoke from California and coal from Alaska for blending in refineries in the Orient. Again, we felt that there were a number of questions that needed to be addressed. Perhaps they can be addressed, but we did not have time to do it within the confines of this negotiation, given the fact that we were pursuing what we felt was a more general and equitable alternative prior to recently; that is, an arrangement that would have made petrocoke available to any firm in Suneel's situation. The questions that we are pursuing with Suneel now are, first, the technology of blending petrocoke with coal.

Suneel feels that there are some good answers to that, but there are at least two schools of opinion and we feel that we need to know more about it. Secondly, we need to examine with Suneel the West Coast market and determine why it is not sufficient to just purchase with cash petrocoke that we think is available. Again, Suneel has done a lot of research on the West Coast market, and is prepared I think to provide those answers. The third thing about Suneel is the imminence of their proposal. Certain factors have materialized recently that we think at least require some further exploration before the state would enter into any definitive arrangement. With respect to Provident and Suneel, we intend to commit ourselves with those two firms to a process which will be embodied in writing, where we systematically seek to address the outstanding questions and by some date certain to come to a conclusion which would then lead to the serious contractual negotiations or to a decision to reject the contract.

With that sort of overblown explanation of everything, Mr. Chairman, I think I'll stop and see if the committee has questions.

CHAIRMAN HALFORD: Representative Cotten?

REP. COTTEN: You mentioned something that -- I'm not sure what the definition of exhibit B price is, and I had a

question about the pricing, but I wasn't sure what exhibit B price was.

MR. KATZ: Just so that you have it absolutely accurate in terms of our current litigation in Alaska, Bob Maynard will explain what we mean.

MR. MAYNARD [Not at a microphone]: Exhibit B was originally attached to the Alpetco contract. In their contract we've always been wanting in-value prices, but the question of what in value is, of what the methodology is for the producers ... [indiscern.] ... the prices ... in value is in litigation right now. Exhibit B was attached to the Alpetco contract and is attached to all other contracts, and basically presents a position that we will ... [indiscern.] ... position in the Amerada Hess litigation. It's basically a case of the higher alternative of what the producer reports to us or the weighted average of all other producers, so that ... is the higher of two prices, so it ... result of ... price term, which is higher than the weighted average of the in-value price, but lower than the highest price reported, somewhere in between -- ratcheted up ...

REP. COTTEN: So it would be higher than the actual producers' weighted average?

MR. MAYNARD: Yes.

REP. COTTEN: That was all that we ... [end of tape].

MR. MAYNARD: The basic difference between the Alpetco contract price term and this contract price term is in the Alpetco contract price term, Alpetco paid us as if we won the lawsuit, and we would pay them back if we lost. In this price term they pay us as if we lost the lawsuit, but would pay us back if we win.

REP. COTTEN: Under these contracts?

MR. MAYNARD: Yes.

MR. KATZ: And the premium that they pay us back with is much higher than what we would -- than the reverse situation if we had won.

REP. COTTEN: Okay. So you get the weighted average unless you win the lawsuit. In that case you get the actual -- the exhibit B price.

MR. MAYNARD: Right. Exactly.

REP. COTTEN: Okay. That's what you meant when you said that you'd get a higher price than what we're getting for it now.

MR. MAYNARD: Yes, sir.

REP. COTTEN: And actually the people who would be buying the oil would be paying -- In this case, Tesoro, if they were buying it from the producers they would have to pay more than they would be paying the state under this contract.

MR. MAYNARD: If we were successful in the litigation.

REP. COTTEN: No, it has nothing to do with the litigation, does it? Like, if Tesoro had to buy right now from -- We were getting ...

MR. MAYNARD: Oh. Yeah.

REP. COTTEN: ... Exxon is taking oil and selling it to Tesoro. Tesoro has to pay more ... [indiscern.] ... if they bought it from the state. By a factor of how much? Is that something that's easily determined?

MR. MAYNARD: That's correct. That's not specifically Exhibit B, that's just the way ...

REP. COTTEN: No, it has nothing to do with exhibit B. I understand that the West Coast price is cheaper.

MR. MAYNARD: Correct.

REP. COTTEN: How much does that amount to?

MR. MAYNARD: Right now it's two to three dollars.

REP. COTTEN: Two to three dollars. So actually if we were -- if we could find a buyer, and we were selling it, if Tesoro were still willing to buy it from us we could probably get two to three more dollars per barrel.

MR. HAYNES [Not at a microphone]: Well, I don't think that's the case, because first of all it depends on which producer you're buying it from. Secondly, unless we just flatly lose out on the Amerada Hess case, which I don't believe we're going to do, the adjustment that comes from that is going to bring it closer to whatever the West Coast commercial price is to the producer; so

there is some difference ... [indiscern.] ...
particular position on the Amerada Hess case is going
to recapture

REP. COTTEN: I think your fourteen-page memo suggested about
a dollar a barrel. I wonder if that was ...

MR. HAYNES: I think that's probably more realistic.

MR. MAYNARD: That's exhibit B over weighted average in value.

REP. COTTEN: [Indiscern.]

MR. HAYNES: It's very hard to tell because our royalty
reports don't show what the West Coast commercial price
is ... [indiscern.] ... but we don't actually know

CHAIRMAN HALFORD: Senator Fischer?

SENATOR FISCHER: Mr. Chairman, pursuing the same intent, we
have been trying to figure out exactly what's going on
here, and the -- You mentioned before, John, that the
-- if you took both the Tesoro and the Doyon contracts,
it might cost the state -- the difference might be
about \$10 million, and taking, let's say, Doyon only,
it would be about \$4 or 5 million which is sort of
taking a minimal position, which would be more than
\$50 million over the period of the contract. If you
take the difference between in value and exhibit B over
a different period -- Let's say we looked at April
through September 1980, the difference averaged \$1.47,
which just statistically for Doyon alone would come to
\$20 million a year, and close to \$250 million for the

life of the project. If you took both Doyon and Tesoro at the higher differential, you come to more than half a billion dollars difference over the life of the contract. Now, would it not be possible, or appropriate even, to set the sales price at exhibit B regardless of the outcome of Amerada Hess?

MR. KATZ: Well, let me respond in this way to your question. As you have pointed out, you're really dealing, I think, with two separate factors. The first is the difference between the weighted average field price and the exhibit B price, which, you know, in terms of the contracts that we have negotiated would be adjusted in terms of Amerada Hess, and with the three percent above prime aspect we think we'll really recapture that. There is no question, as we point out in our findings, that there is a negative impact in terms of the in-kind taking aspect, and you, in our judgment, accurately articulated that. Could you mention just -- You ended your observations with a very specific question.

SENATOR FISCHER: My point basically is that if, let's say the differential becomes the same as it was in 1980, we may be leaving just for Doyon alone a quarter of a billion dollars on the table. For the two contracts, we may be leaving a half a billion dollars on the table, simply because my assumption is that these companies, when they are negotiating with the state are taking into account

the possibility that they will be paying exhibit B prices, so that essentially it would be just leaving that money on the table.

MR. KATZ: We looked at just the alternative of maintaining the exhibit B price term really carefully. The first thing we did in this whole effort was to look at every possible alternative for pricing our oil. We looked, for example, at using market crudes, market basket crudes. We looked at evergreen kinds of arrangements, the kinds that the companies sometimes use, and looked very carefully at exhibit B also. We rejected that I think for a couple of reasons, and Jeff may want to elaborate. One is that we felt that the recapturing mechanism we were using was a good one - the one that we described earlier. Secondly, the exhibit B price approach really does impair in-state utilization of oil, because of the uncertainty about the price for a very long period after transactions occur, and we felt that if we were really going to do more than pay lip service to in-kind taking, that we ought to think about deviating from that approach, recognizing that adjustments would occur in the aftermath of Amerada Hess.

CHAIRMAN HALFORD: [Indiscern.]

MR. HAYNES [Not at microphone]: Only that the purpose of laying this information out with regard to these dispositions is to show you all of the factors that we

tried to consider in making these dispositions, and to perhaps, a more important point, and that is to not look at a contract in isolation. You have to look at the ... [indiscern.; someone coughing] ... to see what's going on. These are the current market conditions. But remember again that these are twelve-year contracts. Now, twelve years ago it was 1970 and nobody had heard of OPEC or ever heard of oil embargoes or anything like that. Circumstances were very different then. I think we can probably all agree on one thing, and that is twelve years from now they will be very different. For example, up until the first of February everybody might have agreed that maybe the state should hike its prices to agree with, say, OPEC country prices. Well, that's fine unless the United States government puts an import fee on foreign crude, and all of a sudden domestic crude prices are higher than foreign crude, which they were in fact in the late 1960s, and then that doesn't work. I think our basic decision was to tie the prices ... to where seven-eighths of the oil was going or what seven-eighths of the oil is going for. That two-tier pricing system is there now for a number of specific and frankly justifiable economic reasons, but those reasons could disappear, and they could even reverse under certain circumstances, if we do something else. So we tried to

come as close as we could; but charging, say, exhibit B without an Amerada Hess adjustment could very easily end up being a premium over that twelve-year period. It could end up penalizing the companies that we're selling to. It's just very hard to predict exactly what the market is going to do, and, you know, those figures that you used are theoretically possible, but given the influence of the market it is more likely it will be way, way less than that, and we think that our estimates are accurate, or as close as we can come.

SENATOR FISCHER: You don't feel then that you're in effect leaving money on the table because the companies assume that they will ... [indiscern.; someone coughing] ... are likely to pay the exhibit B prices?

MR. HAYNES: I don't have that feeling.

CHAIRMAN HALFORD: Senator Fahrenkamp?

SENATOR FAHRENKAMP: John, I agree wholeheartedly, even if we were leaving money on the table with the concept of the in-state use and that type of thing. I think you are aware of the sensitivity, especially in my area, concerning the pricing of the products, and I'm wondering if we have any assurances at all - if there is any way of achieving assurances - that with not using the pricing, with using this type of approach, we can have some of that lessening of price that goes to the companies reflected in the prices here in the state.

MR. KATZ: There is no direct assurance in the contract to that effect. I think that might have been very difficult to articulate and negotiate, but certainly the situation that you described was the principal reason for our continuing on with the Doyon negotiations through some fairly tough sledding from time to time on the theory that without intervening more than was appropriate in the marketplace, the best thing that the government could do was sort of promote competition and while it may be true that over the long haul two refineries could not survive in interior Alaska unless they significantly expand their markets, the public would have a significant benefit in the interim, and that benefit might even be long term if they could both survive.

CHAIRMAN HALFORD: Just to try and figure out where we are on the cost figures, I think what you're saying is that there isn't any reduction in state revenue except through the West Coast offset. The companies that are buying, may be buying at a lower price than they can buy it from the producers, but they are buying it at the same price that we would be selling it.

MR. KATZ: I think that's what we're saying.

CHAIRMAN HALFORD: So they are getting a benefit that is not a cost to us, except for the West Coast offset which is a

potential cost to us depending on how much of that oil is really offset from the West Coast ...

MR. KATZ: That's correct.

CHAIRMAN HALFORD: ... which is an unknown factor.

MR. KATZ: And in recognition, Mr. Chairman, of the consideration that Senator Fischer raised before, and I agree with the conclusions that you came to that the -- it's not out of our pocket, but there is a significant benefit, and in recognition of that benefit we were frankly a little tougher in some of these negotiations than we would have been had we not been aware of that, and I think that may be why at least one firm that I can think of walked away from the table. We wanted to see something in exchange for what we knew was a benefit to them, even though not a cost to us.

CHAIRMAN HALFORD: Okay. 38.05.182 and 183 kind of conflict with each other in the way they say that there is a preference for maximum dollar yield and there's also a preference for in-state use. There seems to be some conflict there, but if we're talking basically a potential maximum loss of \$5 million in each of these contracts, the statute requires an assessment of benefits and how they relate to that cost. I wonder if you could go through that assessment, or who would be appropriate to go through that assessment of benefits: if it comes back down to dollars per job, dollars per

supply, this sort of thing - if we could get some kind of a cost-benefit analysis on that.

MR. KATZ: Okay, let me start that analysis and then I'll ask my colleague to the right here of me to elaborate. You're correct that there is an inherent conflict in our statutes, and something that ought to occur in the longer term - I don't think that the time exists this year, and certainly all of our efforts have been devoted to this solicitation - would be for the administration and the legislature to cooperatively take an overview of our royalty statutes and see if in the light of experience that there are things that we might choose to change. The way we rationalized that conflict for now was that at this point in time it was in the state's best interest to look at a solicitation in which price was not the only factor. Price was a very important factor in our negotiations, but we were trying to look at other things. I think in the case of both refinery situations it's very hard to quantify, and we'll certainly do as much as you want us to try to do to accomplish that. The Tesoro refinery is an existing operation, so the people are there, the supply contracts are there, et cetera. Nevertheless, I think that there is a very significant benefit for the state that is perhaps not quantifiable in dollars. What we are doing is really assuring Tesoro's commitment to the

State of Alaska. We are giving them a security that they have rarely had in their existence, where for the most part they have been in and out of the world market trying to find supplies on a short-term arrangement, and I think that we have set a secure basis, or laid a secure basis, that is going to assure not only their existing commitment, but I think will be a premise to really serious discussions and planning for future expansion. We didn't feel in the context of this negotiation that we could compel a private concern to do something like expansion, that it would not at this point have independently determined was in its own economic self interest, but we tried to do the second best in terms of the best efforts clauses, et cetera, and I think that the economic basis of the existing contract that we're proposing will significantly help in that. In terms of Doyon, being a new entrant I think the situation is a little different. For one thing, there is no question that there would be significant price competition, and our studies indicate that price competition would occur not only in interior Alaska, but as already occurs in the case of Mapco, would extend through the greater railbelt area, and both concerns would be likely to compete in an area where more than seventy-five percent of the state's citizens live. Now, I don't know what the

differentials would be or anything because the factors, as Jeff indicated before, are uncertain. Secondly, they would be constructing a new refinery, and would, as most of the regional corporations do, give a preference to in-state residents. They would also be seeking, I'm sure, to utilize in-state people in the operation of the refinery. So that one is more readily ascertainable at this moment in time. Do you have anything to add to that?

MR. HAYNES [Not at microphone]: Only that that royalty statute was written strictly on the basis of, you know, competitive bid type of work, and what we've presented to you is a ledger with a bunch of entries and a dollar figure at the end, but that is not what it says, and it certainly conflicts that -- There are both quantifiable and unquantifiable benefits ... [indiscern.]. Tesoro provides a tax base; it provides jobs; it provides security of supply; it provides competition in state for other companies that are really just in-state suppliers; and that goes into the equation as well, and again, it was our opinion that although there, at least now, the way ... [indiscern.] ... right now ... price break or, I should say, some displacement which you mentioned, of West Coast sales by our in-kind taking, therefore having an effect on the way that the royalties and severance taxes are calculated. That

isn't enough to outweigh the benefits ... the way the statute is written

CHAIRMAN HALFORD: Basically, I think you said it's difficult to quantify, and yet I think we've got to have some way to understand just what you use to quantify that to some degree anyway. I mean, for example, in the Doyon contract what kind of construction work force is it going to take? What kind of operational work force is it going to take? What kind kind of capital is it going to require? Where is that capital going to come from? I think we at least need some kind of a feel for those benefits in a little bit more specific way.

MR. KATZ: Well, we can seek to do that. Certainly our findings document was an effort to put all that we considered in our deliberations out in a public form for everybody to look at. We can certainly try to get some of the figures that you're talking about, but it is very difficult to quantify some of the factors that should be relevant.

CHAIRMAN HALFORD: For my own sake, I'd like to have as much of that as possible, realizing that it's difficult, but at least the best indications that you can get.

MR. KATZ: Sure.

CHAIRMAN HALFORD: Representative Rogers?

REP. ROGERS: I just have a couple of questions on the process from here on. Does the administration believe that the

legislature needs to pass a resolution or a statute ...
[indiscern.]

MR. KATZ: We believe that you need to pass a statute and we're going to submit separate statutes so that you will have the opportunity to consider each one individually.

REP. ROGERS: Okay, and on the Doyon proposal - that's going to be interesting to see how it gets introduced into the house - when you -- You still have it in as a -- even though you're now -- you said that you agree with the results of the royalty board. I assume that's so that if they do come up with the financing, you can proceed and it doesn't get held up for a year. Is that correct?

MR. KATZ: That's right. We agree with the conclusion of the royalty board and one of the two premises. What we want to avoid, though, is a situation, you know, where there's sort of a last-minute revelation - you know, now we have the financing type of thing, and nobody has the chance really to analyze that assertion before you all go home, but, you know, you all are in a very good position to judge for yourselves whether that's a valid assertion at the time and we'll certainly do our best to independently help you do that. I have not talked to the governor, to be honest, in the aftermath of our discussions with the royalty board today. I presume

that as long as he knows that you all are aware of the conclusions that both we and the royalty board have come to that procedurally he would feel comfortable putting the contract before you so long as you knew what the problems were.

REP. ROGERS: At what point, if any, would you withdraw the contract from consideration? Are you saying that you will, even if no financing comes up, you know, as of the last day of the session, that that bill would still be in and ...?

MR. KATZ: I don't know mechanically how it would work, but I was prepared before and prepared and felt duty bound. I would recommend that you not enact that statute unless we all have independently determined that really secure financing is available.

REP. ROGERS: And yet we'll have an administration bill before us through the very end that could be acted upon, and the legislature could pass on. Would the governor then veto it?

MR. KATZ: Well, I can't speak for him. I think that in the way he likes to do business with the legislature, if you all, knowing of the risk, were to pass it in any event, that he might view that as sort of the collective judgment. For whatever its worth, if the financing situation were as it is today, we would

recommend -- Jeff Haynes and I would recommend that he veto it.

REP. ROGERS: Is there any time period that you would think would be necessary once Doyon came in? If Doyon were to come in with a statement saying here's the financing, how much time do you think it would take to review that to where you felt secure? You know, in other words, at some point we should -- What you're saying is at some point we should stop considering the Doyon contract. It may be that a week is enough time to analyze it; maybe two weeks. From whatever the end of the session is working backward, there is some time at which point it would seem to me that we shouldn't pay any more attention to it, following

MR. KATZ: Well, I would agree. In deference to Doyon, they are out even as we speak, you know, working with and contacting possible equity partners and financiers, and they are, in my judgment, making a really sincere effort to put this together. I cannot give you a precise day because it depends to some extent on who the partner might be and what sort of financing arrangement. The more obvious it is that they have achieved a threshold level, you know, the less I'm concerned about the time that would be needed to check it out before you went home. If they came in with a really, really substantial equity partner in the

aftermath of letting the financing lapse now, and really secure commitments from the banks that we could review very quickly, that would be easy. If it were less certain than that, we'd need more time, and I guess that's, at least in our way of suggesting to the legislature that you appropriate, that's sort of Doyon's risk.

REP. ROGERS: Thank you, Mr. Chairman.

CHAIRMAN HALFORD: Representative Cotten.

REP. COTTEN: What can you tell us about what happened to their financing? Was it the [indiscern.] problem? I understand there may be some sensitive areas there, but if it were a problem with the person who was supplying the money, that would be one question, and if it were a problem with Doyon, that would be another question. What can you tell us about that?

MR. KATZ: Well, let me say as much as I feel comfortable saying, given the confidentiality that we are required to bring to our negotiations, and Doyon's attorney is here, and hopefully might be prepared to elaborate where he feels comfortable. They had construction financing secure in the form of a very respectable bank that we thought was very capable of providing the requisite financing. For reasons that are best known to Doyon, that construction financing lapsed, and I think it may have been a couple of factors, but I would

prefer that they speak on that. Sort of simultaneously with that, they had purchased some very expensive equipment that made us think that they were really seriously moving toward the construction of the refinery.

REP. COTTEN: They still have that equipment?

MR. KATZ: Yes, they do.

REP. COTTEN: The construction financing lapsed. They had a commitment for a certain period of time?

MR. KATZ: Yes, sir.

REP. COTTEN: And then when that time period came, well then it wasn't renewed? Was that the arrangement, that it had to have been renewed?

MR. KATZ: Here's where I would prefer that you hear from them, but it's my understanding without being too detailed that it wasn't as conscious as that - that it wasn't, you know, that the bank looked at Doyon and said: No, there's a project that's really gone sour; I want to get out. It was less purposeful and more inadvertent than that.

CHAIRMAN HALFORD: Senator Mulcahy.

SENATOR MULCAHY: Mr. Chairman. Commissioner, I would then understand, or am I correct in assuming, that Doyon then would fall into the ranks of the other three and there would be four that you would be pursuing over the

interim, and one that you'd be approving to go forward at this time, or would it just fall out completely?

MR. KATZ: No, sir. I think it would be more the former. We would continue to believe that there is a real advantage to the railbelt area in having another refinery. We felt that other than the financing issue we negotiated a contract that was in the public interest, and having gotten this far down the road it would at least be my judgment that we not reject them but rather see what we could do in terms of presenting something to the next legislature and the governor. We have, as I indicated earlier, retained a substantial volume of oil, not only for those kinds of contingencies but for anything else that the legislature and the next governor might think is sound public policy.

SENATOR MULCAHY: Thank you.

CHAIRMAN HALFORD: Senator Gilman.

SENATOR GILMAN: Commissioner, would that also include Chevron and Suneel during the interim?

MR. KATZ: Yes, sir.

SENATOR GILMAN: Then I have a question. That is, then, under the same - essentially the same - offering of oil? You would not be anticipating that you go back for another round, so to speak, and have another seventy people bid or whatever?

MR. KATZ: At some point in time I think that's going to become required as the circumstances really change, but we are advised by the attorney general's office that as a matter of law we can permit this solicitation to move forward as I've described for a period of time, and it is basically within the commissioner's discretion about when to terminate it. I would like to bring all of these things that are sort of blowing in the wind to a definitive conclusion in the next few months no matter what, and it will be at some point, I guess a little bit beyond that, where I suspect that circumstances will change not only in the market but also in some of the companies that either didn't participate in the solicitation the first time around, or who we rejected, recognizing that they had a sound proposal that just hadn't gone far enough, and I think at that point in time to do equity to them we'd have to terminate the solicitation and start a new one.

SENATOR GILMAN: Would that also then include the additional oil that Tesoro had in their original -- I'm not saying the entire amount; I'm saying additional oil. If for instance they came in and said it looks like it's in the cards for a coker, you would -- The point I'm getting to is they then would not have to go back through the entire process again, as long as it's still in this ...

MR. KATZ: I'm advised that we would have to do that in that circumstance because we've negotiated a contract at this point in time. We discussed this with Tesoro as the process went forward, and we had policies, and still do, of providing royalty oil only to really imminent sorts of projects, and it is for that reason, among others, that I would not want to let the solicitation elongate itself very far, or that I would feel comfortable with a Doyon royalty contract that is sort of out there but with no firm financing after the legislature goes home; so I think that would be part of a new solicitation, but it was partly with that in mind that we retained a pretty high quantity of oil, knowing of Tesoro's plans.

SENATOR GILMAN: So, if that were the case, the only potential method for, under this solicitation of oil, for coking, would be the Suneel contract. Is that correct?

MR. KATZ: Yes, sir. Jeff reminds me too that there's a contractual provision relating to future disposition that I think aids to some extent. Why don't you just briefly explain that, Jeff?

MR. HAYNES: Well, I'll just read it.

SENATOR GILMAN: Which piece of paper are you referring to?

MR. HAYNES: The actual Tesoro contract, paragraph 2.13.

SENATOR GILMAN: Paragraph -- No, I don't have the contract.

MR. HAYNES: Okay. It's real short, so ...

SENATOR GILMAN: It isn't that I don't trust you. [Pause.]

What reference?

MR. HAYNES: Okay. It's on page twelve, paragraph 2.13: The seller recognizes that AS 38.05.183, which governs disposition of royalty oil by the State of Alaska, establishes a statutory preference for disposition proposing (1) in-state processing of royalty oil and (2) in-state supply of products generated from processing of royalty oil, in that order. The seller represents that, in conjunction with future dispositions of royalty oil, purchaser will be afforded the consideration contemplated by that statute. This means that in any future solicitation, that Tesoro is automatically brought to the table to discuss the sale. It is not a guarantee that there will be a sale, but it is a recognition that the state processors are going to be part of any future solicitation.

MR. KATZ: Senator, in further response to your question, our lawyer here advises me of two things which I think are important. One is that the current solicitation, I'm told, can be amended very simply, and that sort of amendment, which Bob estimates might take no more than a week, would permit us to continue on with our negotiations with Tesoro. Also, it's worth noting under the statute that while I favor generally the disposition of oil through a process like this, because I think it

does basic equity to a number of folks that either are distant competitors or might potentially compete against each other, that we are permitted under the statutes to enter into individual negotiations for the sale of royalty oil; and frankly, if we're going to deviate from the current approach of these, you know, sort of grandiose solicitations, I could think of no better instance to do it than in a situation where an existing refiner wanted and was prepared to undertake immediate expansion.

SENATOR GILMAN: It sounded to me like I got two conflicting answers then. The first time I asked is there some -- would there be a method for Tesoro to have consideration for additional oil and I thought the answer was no, and then Maynard said something else, or maybe he didn't.

MR. MAYNARD: Senator, it's a problem more of wording than it is a practicality. The original question was, could they come in ... [indiscern.]. No, but it would be extremely easy to amend it, and do some other procedural mechanism ...

SENATOR GILMAN: Okay, amend what?

MR. MAYNARD: Amend our present solicitation.

SENATOR GILMAN: Oh, amend the present ...

MR. MAYNARD: The present document that started these negotiation processes is called a solicitation ...

SENATOR GILMAN: Yes?

MR. MAYNARD: ... [indiscern.] by the commissioner, and it has certain conditions. That can be amended very quickly. In fact it's already been amended once, so ...

SENATOR GILMAN: But if you amend the solicitation, then all the parties that have come to the table under that solicitation have to be given the same ...

MR. MAYNARD: ... to come back in again.

SENATOR GILMAN: How long is this solicitation going to be laying out there on the table? And that goes back to the discussion I suppose of Doyon and others. It's going to be a matter of three or four months - maybe; six months - maybe; sometime before next session - maybe.

MR. KATZ: No, it's certainly not -- I don't know what my future is - personal future - but it's not a set of loose ends that I'm going to leave on the table for some subsequent governor and legislature. I feel an obligation to tie it up one way or the other, and if the next governor wants to pursue the same or a different course, he'll be free to do that. So that I would say that the outward extremity of the solicitation is Governor Hammond's current term, and I'd like to wind it up before that.

CHAIRMAN HALFORD: Going back to price terms, it was fairly late in the process that the effect of the West Coast-

Gulf Coast offset became apparent in terms of dollars. Now I wonder if that had been apparent earlier in the negotiations would the price term have been negotiated any differently?

MR. KATZ: No, and Mr. Chairman I think it was something that we were apprised of virtually from day one because two of the three producers as I recall in the very first set of discussions we had with them apprised us in very general terms of that kind of impact and we could not discuss it further. Because of antitrust problems that could of involved us all we did not, but both that and our own knowledge, both Maynard and Haynes' very detailed knowledge of the situation, it is in fact the case that that was before us at the very beginning, and I don't think that it would have changed our deliberations on the price term because, as I indicated in response to a prior question, we really went through every possible permutation that we could think of in an effort to find a term that was fair to the state and fair to the companies involved, and for whatever it's worth, after that whole process this is the one we came up with.

MR. HAYNES: In fact we did send out, at one point, at least a sort of discussion draft price ... [indiscern.] ... on top of the ... weighted average ... universal conclusion. We sent those to all of the people who we

were dealing with in the solicitation. The universal conclusion was that that made a complicated situation even more complicated ... [indiscern.] ... present mechanism, at least. Really the only way that you can get at the kind of problem that we're talking about is to use a different mechanism.

CHAIRMAN HALFORD: Representative Rogers.

REP. ROGERS: Yes, I'd like to get back to the profit question, and then I have a couple of others. The royalty board has recommended no on the Doyon contract for two reasons, one of which is that four years. If you chose to, and you've indicated that you disagree with the royalty board, but if you wanted to renegotiate, what would be the process? Could you negotiate an amendment that might involve other things as well and then re-present that to the royalty board and re-present it to the legislature, or ...?

MR. KATZ: I think there are two ways to go on that. One of them is that if that were a strong sentiment, we would have to withdraw the contract at that term and then send the contract through the whole process again, involving the royalty board et cetera. That would inevitably I think go beyond this session of the legislature. The other one, and it's not something we'd recommend under normal circumstances, but the legislature is always free in essence to draft

legislation to do what it wants, and you could specifically waive that whole process in the preamble to whatever statute you enacted and then in that way circumvent the more lengthy process.

REP. ROGERS: And, if you'd refresh my memory, can we give conditional approval?

MR. KATZ: No, it's my understanding, Representative Rogers, that your vote is up or down on these contracts.

REP. ROGERS: As you were going through the, oh, about a dozen different issues you were going for, one of them was on return oil, and you said you were trying to maximize the return oil in discussions that did not work out. Doyon would have to sell the return oil, according to my notes here.

MR. KATZ: Yes.

REP. ROGERS: Does Tesoro have to sell the return oil?

MR. KATZ: No, the ...

REP. ROGERS: No, or ...

MR. KATZ: The return oil problem only arises in connection with pipeline refineries, either Mapco or Doyon, and it results from their putting the oil back into the pipeline. The state has always had a policy of - and I think it's a good policy - of giving up custody, title, and jurisdiction of Pump Station One, but what we were looking to is mutual arrangements that could have involved either Tesoro or Chevron further downstream to

make use of the Doyon or, when we were negotiating with Mapco, Mapco return oil; so in essence, the gross refinery charge in Fairbanks would have been X amount, but Doyon or Mapco would only have used a certain amount in its refining process. Y amount would have come out the back end and then that Y amount could have been available to Tesoro or Chevron further downstream to utilize and Doyon and Mapco would pay a quality penalty to put that oil back in the pipeline, but that was the only really negative impact; and so we did explore those reciprocal arrangements, but it didn't work out, particularly when Chevron dropped out.

REP. ROGERS: So Chevron's dropping out has a fairly material effect, then, on the Doyon contract as well?

MR. KATZ: Yes, sir.

REP. ROGERS: And what happens with Mapco? What happens to their return oil on the existing contract?

MR. KATZ: It's theirs.

REP. ROGERS: It's theirs and they market it.

MR. KATZ: Yes, sir.

REP. ROGERS: How about -- Well, that's it. Thank you, Mr. Chairman.

MR. KATZ: And depending on what year and what day it is that the marketing occurs, it's either a significant benefit or a significant drag. I think it was true at a point in time that it was very significant for a company to

retain the return oil and sell it itself. Given the current market situation, I don't think that's the case any longer.

REP. ROGERS: Do you have any idea what the projections might be in the coming few years? Obviously, the further out on anything on oil that you get, the less the ... [indiscern.]. What is the direction of return oil? I mean, is it getting worse for a refiner or better for a refiner?

MR. HAYNES: Well, it's really the same situation as oil generally, because the sort of unique twist to the Fairbanks refinery is that they can -- Everybody has residual oil that's left over after they process. In the case of Tesoro, they have residual oil they actually have to sell as residual oil, which is not a real great thing to have to do these days. In the case of the Fairbanks refinery, with the pipeline they are able to basically dump the resid back into the pipeline. They pay a quality penalty, but when it comes out at Valdez it's ... [indiscern.] ... crude oil, so depending on what the prospects are for selling ANS crude oil, that's how valuable or nonvaluable ... [indiscern.; coughing]. But, of course, they are competing with the producers as a marketer of crude oil at Valdez, and, basically, to answer your question, over the last twelve years there have been a couple of

two-year periods when it's been a real good deal, and there have been other times when it's been a bad deal.

REP. ROGERS: So, with the failure, then, of the Chevron contract, Loyon is in the position of having to sell ANS crude?

MR. KATZ: Yes.

REP. ROGERS: Thank you, Mr. Chairman.

CHAIRMAN HALFORD: Representative Cotten?

REP. COTTEN: Yes, I have a couple of questions here, and Brian asked one of them, and I don't want to make it a -- or dwell on any jurisdictional questions here, but do you agree with the requirements of 055? Do you agree that the legislature really does have to approve these contracts if they're for over a year? I mean, is that the administration's position, that it's a -- that we have to, or are you just going along with this?

[Laughter.]

MR. KATZ: We'd never do that. [Laughter.] We don't agree that as a matter of constitutional law the legislature can enact that statute. This governor firmly believes that - as a matter of policy - that he wants the legislature to vote yea or nay on these contracts, that they in his view and in my view reflect major resource allocation decisions that the people who have selected representatives ought to have a role in deciding. Bob says that ...

MR. MAYNARD: And it goes to Representative Rogers' prior statement about amending the contract or whatever. Another advantage of having the legislature pass a statute is you are ratifying the contract, and by doing so you are curing any procedural defects that these contracts may have incurred along the line of the ... [indiscern.]. There is, for example, some confusion in the statute even if that position is constitutional ... [end of tape].

REP. COTTEN: I've got a couple of quick ones here on [indiscern.]. The -- No, I can find that out later. Wait a minute. I lost my question. I'll pass.

CHAIRMAN HALFORD: Representative Rogers.

REP. ROGERS: As we're passing a law, then, in this case, then, in the same law that we approve the contracts we could clean up at least the resolution versus ... [indiscern] ... statute.

CHAIRMAN HALFORD: Representative Cotten.

REP. COTTEN: Okay. This is, again, sort of a -- Well, I'm not sure whether it's a statement or a question, but it appears to me that if we - and we are technically a producer, since we own that portion of oil, so as we make a business decision to sell this, we're really not doing it totally on a business basis, because we're not selling it for as much as the other people who own oil

are selling it for. We're selling at a lower rate. Is that a correct analysis of what we're doing?

MR. KATZ: I don't think that is. We are, in essence, by adopting the weighted average field price approach, selling it exactly at what a weighted average of all the producers on the North Slope can get for that oil.

REP. COTTEN: Well, I mean -- I'll give you an example. One of the producers probably sells more on the West Coast -- a higher percentage of his oil on the West Coast than in Galveston or on the East Coast, so that person has one weighted average ... [indiscern.] ... that company compared as to another company, compared to a third company, so each of them had a different weighted average, or ...

MR. KATZ: In the interest of full disclosure, I should mention that, you know, of all those producers, some, you know, some obviously outmarket the others. The company that over time seems to market its oil at least as well as anybody is Sohio, and Sohio did make a proposal to us in the context of these negotiations. Basically we sell most of the solicitation to them. They would have paid a price which could have been no less than the weighted average field price, but would have been their price in most circumstances, and their price is higher than the weighted average field price. That would have been a way for us to get more ...

[indiscern.; coughing] ... is the weighted average price. They were then willing to resell oil to bona fide in-state users, and we rejected that approach, not on the price mechanism, which would have been more favorable than anything else we could have negotiated, but rather because we just didn't feel that the state could permit any private company, even one as well motivated as Sohio, to sort of make its policy within certain parameters by reselling to in-state uses.

REP. ROGERS: To make its policy -- What was that again?

MR. KATZ: Well, you know, we could have put in some contractual provisions that would have sought to limit or expand what Sohio would otherwise have sought to do with its oil, you know, in reselling, but we couldn't predict everything that would occur and we felt real uncomfortable putting the government in that sort of position vis-à-vis a private concern; so, in essence we saw the fatal flaw in that, as really allowing any private company to make decisions that more appropriately on that basis should have been made in a public form.

REP. ROGERS: Okay.

MR. HAYNES: Just, if I could add one more thing to that.

Again, when we're talking about this concept of West Coast displacement and so forth, we're talking about, you know, hundreds of transactions in the two markets,

the West Coast and the Gulf Coast. There's probably thirteen companies who are producers, and although the average West Coast weighted average price is higher than the average Gulf Coast weighted average price, the prices are not all the same. They vary considerably, and they vary considerably on the West Coast; and so, therefore, somebody, you know, an in-state refiner from Alaska, conceivably maybe Sohio's been their supplier, and maybe they're paying a higher price than they would be to the state. On the other hand, they might be supplying from somebody who's now selling their oil in the Gulf, you know, for a different price. It just depends on what their circumstances are now. The other element to add in is that crude oil transactions are very, very complicated. Again it depends on the individual companies. The most common part of it that you don't think about right away is the fact that an awful lot of it is exchanged. Something like a third of the ANS crude oil that is marketed is exchanged for another crude oil. Sometimes the crude oils in the course of one transaction will be exchanged six or eight or ten or twelve times for other crude oils back to -- before it finally shows up in a refinery, so it's very -- although we can talk about averages here, it's very difficult to make too many categorical statements because it really depends on the circumstances of the

individual purchaser, and that's one of the reasons why, although there are some really serious scenarios that you can draw up, that we don't feel that they're valid.

CHAIRMAN HALFORD: Senator Fahrenkamp.

SENATOR FAHRENKAMP: John, if -- In light of the fact that individual contracts can proceed or that amendments can be made after offering, would there still then be consideration of Suneel and their proposal, or at this point would that be considered dead?

MR. KATZ: No, it isn't dead. I think, though, that -- and we frankly -- no, not put that on the back burner, but not on the front burner, because we focused our primary attention on the contracts we knew we were going to provide. Now, you know, we have a little bit more breathing space. I don't think that the questions that, and perhaps I'm wrong, I'd like to be proven wrong, but I don't think that the questions that we've posed can be answered in the next couple of weeks in time to get that contract to you, but we are going to propose a process to Suneel and pursue it as vigorously as we can. If we were able successfully to answer all our questions and feel comfortable, you would then, Senator, have the choice, I guess, as I indicated to Representative Rogers before, of awaiting the usual royalty oil process which would put it I think beyond

this legislature, or waiving that process and trying to get a contract out this time, which is within the legislature's prerogative to do.

CHAIRMAN HALFORD: Well, if we could move on, just by way of summary: You are going to provide us with a cost-benefit analysis ...

MR. KATZ: We'll do the best we can on that.

CHAIRMAN HALFORD: ... on -- well, not only Tesoro?

MR. KATZ: Yes.

CHAIRMAN HALFORD: Okay, and your recommendation is that we approve Tesoro, approve Doyon if they can get a financing package together, and your recommendation is in favor of the four-year holdover on any fee for commitment of royalty oil, basically?

MR. KATZ: Yes, sir. That's an accurate summary.

CHAIRMAN HALFORD: And your recommendation is that we do it by two separate bills?

MR. KATZ: Yes.

CHAIRMAN HALFORD: Okay, I would appreciate it if we get that back. The next thing that we had on the schedule was a legal review now. Bob, of course, has been here answering legal questions all the way along. If we could just take about five minutes maybe and have Bob Maynard and Tom Sumphe [ph], we'll get a look at it from the legislative attorney's perspective, and it's not really the same perspective as a policy decision,

but just go through and maybe an interchange between the two of you could explain legal provisions of the contract.

MR. KATZ: Mr. Chairman, would it be helpful to you in what you call the legal portion of this to -- Jeff has gotten real good at providing a very quick summary of the two contracts. I don't know if that's what ...

CHAIRMAN HALFORD: That would be fine. Yes.

MR. HAYNES: Okay. I'll just try to do it in about five minutes here, and I'll stick primarily with the highlights of the contracts. We just mentioned some of the ... [indiscern.] ... so I won't go into The Tesoro contract is for the sale of 46,000 barrels a day. Again, our total production right now is about 187,500 of Prudhoe production, another 10,000 from [indiscern.], and about 28,000 barrels is under current contract to Mapco, so it's 46,000 barrels a day that Tesoro has got - their refinery charge the maximum they can run through. The only catch in that is that Tesoro also has a current contract for all of the state's Cook Inlet royalty crude, which is about 8,500 barrels a day now. The amount of Cook Inlet crude they are getting from us at any given time is subtracted from the ANS that they would be getting from us. Cook Inlet is [indiscern.], so it's predominantly ANS crude. Tesoro is not required to take all 46,000 at any given

time. They can vary it up or down, up to 46,000 on nine months notice, and after five years the state is permitted to permanently decrease their maximum volume under the contract to the highest amount actually taken. It's kind of a conservation measure on our part. Tesoro is also permitted to permanently decrease the volume under their contract ... [indiscern.; coughing] ... nine months notice. The price term, as the commissioner mentioned, is the producers' weighted average field price subject to the outcome of the Amerada Hess case, and any amounts owed to us would be paid to us at the higher of the state's treasury rate or the prime rate plus three percent. The term of the contract is twelve years. The contract requires that the oil be processed in state, although in the case of Tesoro, in all the contracts, there is an exchange provision that permits them to exchange royalty oil for other oil on basically an equal value basis, recognizing that in their refinery they cannot physically run one hundred percent ANS crude oil through that refinery. The exchange provision is on an equal basis, so it's not a profit-generating venture. They do have to run it through the Nikiski refinery and there are some standards in the contract on how much in the way of products they have to use their best efforts to produce. Now, Tesoro is also committed to at least

continue their feasibility studies regarding expansion - other refineries including especially a petroleum coker. We've retained an option - the state has - on all the residual oil coming from the refinery as well as any petroleum coke produced, which is assignable on our part, so if there were opportunities to use that for coal blending or something we would be able to take that. The performance guarantee and reservation fee structure is basically a fee that is paid to us on the barrels that are permitted to them under contract but not used at any given time, recognizing that we have that oil tied up and can't really do anything else with it. Without going into all the details, there is about fifteen cents per barrel per day on the amount that is not being used at any given time.

CHAIRMAN HALFORD: Okay. Just to interrupt. This is the feature that is not included in the Doyon contract?

MR. HAYNES: It's there, but it's deferred for four years the first four years of the twelve years of the contract.

CHAIRMAN HALFORD: What is the value of this feature?

MR. HAYNES: The value depends on how much ...

CHAIRMAN HALFORD: Over a four-year period at 40,000 barrels.

MR. HAYNES: Well, it depends on how much they are taking. It's not on the whole 40,000. Let's say if they're taking -- their contract volume is 46,000 and they were

taking only 36,000, then that reservation fee would apply to the 10,000, which is the difference, so it would be fifteen cents a barrel a day on 10,000 barrels for however long that unuse of that was ...

OFF RECORD: [Committee members calculating reservation fee; mostly indiscern.]

MR. HAYNES: Okay, but again, part of the reason we were doing that, is we don't really have the ability to go in and look at how much a refinery can physically run, so we're trying to encourage people to buy only what they can use.

The delivery terms, which is of interest to you primarily for security reasons, does make the purchaser responsible once they take custody ... [indiscern.] ... risk and they're responsible for transportation and they have an absolute obligation to take custody of the oil and to pay us, regardless of any force majeure situation that might come up. There is a statutory recognition of the preference that's in section .183 that I read earlier in response to Senator Gilman's question. The security terms -- they have provided us with a letter of credit worth two months of the oil, which has been the approach that we have used recently but not included in the older contracts. That means we

have that amount actually in the bank, and if something happens we can collect on it. There's a local hire provision that represents what the attorney general's office feels is the constitutional limit that we can go to currently. Then there are a number of boiler plates relating to default, billings, payments, assignments, force majeure, dispute resolution, records, and legal remedies, and things like that.

The Doyon contract, and I'm calling this the Doyon I contract, because there were two, one of which was withdrawn. The Doyon I contract is aimed at building a new refinery. The Doyon II contract, which was withdrawn, was contingent on their acquiring the Mapco refinery. Those negotiations are dead; they have withdrawn that contract. The volume under this contract is 50,000 barrels a day. Originally, with that exchange, or that return oil, provision in there it would have been a net 19,000 barrels a day, but since we have no downstream purchaser, it's going to be the gross volume which is 50,000. Price term and the [indiscern.] are the same as in the Tesoro contract. The in-state processing provision is similar. The only difference is that there is a sort of a definition there of how much they have to run and how many days of the year, whatever, that we offered to the other party that didn't take it. It's basically, again, the

standards for in-state processing to make sure that we get the benefit of the bargain. Under this contract they are required to build and open and operate a new refinery by December 1 of 1983, and if they do not, the contract automatically terminates. There is also a provision in here which recognizes that at some stage conceivably Doyon might acquire another refinery or royalty contract. That's basically on the likelihood or contingency that it might be Mapco's, and we have some provisions in there to cover us under those circumstances, since Mapco also has an existing royalty contract in the state, and it would basically mean that they'd acquired two contracts. They would have to terminate one of them, and their volume, if they took the Mapco oil under this contract, which would be permitted, would be the maximum capacity of both facilities. It would be subject to the reservation fee structure, then, because the new entry then would no longer be the case. [Indiscern.] ... state access to the return oil on a one-time basis. Again the boiler plate is all the same.

CHAIRMAN HALFORD: Senator Fahrenkamp.

SENATOR STURGULEWSKI: Jeff, just one question. There was a lot of criticism during the [indiscern.] contract about the state making a determination as to whether the terms of the contract were actually being adhered to,

and it involved a lot of difficulty. What -- Do you feel that these contracts, particularly the Doyon, which has quite a number of conditions that have to be met -- Do you feel that these contracts that you are proposing have a mechanism in there for the state to see that there are -- the contracts adhered?

MR. HAYNES [Not at microphone]: Again, one of the problems with the Alpetco contract was that there were a lot of ... [indiscern.] ... arranging the financing, arranging the construction contract, and so forth, that were very difficult to ... [indiscern.]. In the case of the Doyon contract, ... [indiscern.] ... so it's not something ... [indiscern.] ... not a world-class refinery ... [indiscern.].

MR. MAYNARD: Plus, Senator, there's one thing that Jeff ... [indiscern.] ... boiler plate that I think is a significant addition to prior contracts. Usually, as a matter of contract law, if we disagreed with Alpetco, and there was an argument that, you know, that the ... [indiscern.] ... an equal shot at what our arguments were. These contracts have a clause in it that if an ambiguity arises, or a disagreement about a term, that the commissioner gets the first shot at interpreting that after hearing the other person's argument, and the buyer is required to follow the commissioner's determination of that, unless there's substantial evidence

otherwise, basically like a review of an administrative regulation or whatever.

SENATOR STURGULEWSKI: And there's no role for the legislature other than the initial approval, then ... [indiscern.] ... arrangements

MR. MAYNARD: That's correct. Right.

CHAIRMAN HALFORD: Okay, that's got it. I think that's probably a pretty good review of the terms of the contracts. If we don't need to go into a legal -- We have in the packet a copy of a request that I made to Tom Sumple [ph] that just went through some of the details of the contracts. I think we can review that from the packet. At this time if we can go on to the Doycn contract, then.

REP. COTTEN: Mr. Chairman, are you going to quit at seven o'clock?

CHAIRMAN HALFORD: We were planning on quitting at seven. I hate to have this many people come in and not go -- I'll stay, but it's up to the pleasure of the committees.

REP. COTTEN: Well, I don't want to miss anything, but if you're going to quit at seven, it seems like we're almost there, and to get -- You might want to break with these guys and then come back in. I had a couple of more questions I wanted to hit these guys with, but

I could wait, I suppose, if you'd rather get something else finished. Are you going to ...

OFF RECORD: [Discussion about how long to continue the meeting and when to reconvene.]

CHAIRMAN HALFORD: Okay. We'll come back in at 8:15 in the morning in this room.

CONTINUATION OF JOINT MEETING
ON ROYALTY OIL DISPOSITION

March 26, 1982

CHAIRMAN HALFORD: Will the joint meeting of the House Oil and Gas Committee and the Senate Resources Committee please come to order? Present we have Senator Fahrenkamp, Senate Resources Committee chairman, and Senator Gilman and Senator Sturgulewski. Present on the house side are Representative Cotten, Representative Rogers, Representative Randolph, and myself; I'm Representative Halford.

Last night we were down to the consideration of the Doyon contract. What I'd like to do at this time to make that go as fast as possible is to put Av Gross in front of us as Doyon's representative, and then go back and forth between Doyon, the royalty board, and

the Department of Natural Resources, so that we've got the forum for the differences of opinion right at the cable in front of us and just run through that, so if all three of you will come to the table together we'll go ahead and let Av Gross start it off.

MR. GROSS: Mr. Halford and other members of the committee, I'm Avrum Gross, and I'm general counsel for Doyon. Let me say at the outset that I was not the party who negotiated this contract for Doyon. That was done by Dick Edwards, an Anchorage attorney, and Marco Pigialberi from Doyon. They carried the major negotiating burden, and what my purpose is is to bring you up to date on the status of the Doyon refinery, and hopefully ask your indulgence for a little while on the actual in-depth analysis of the contract, because of the present status. The present status is simply this, that since its inception, Doyon has worked rather hard to put together a competing refinery in Fairbanks with the North Pole refinery. They have acquired the land; they have acquired the equipment to build a refinery; they have done their engineering work and the land acquisition work; and are prepared to go ahead. At the same time they were of course negotiating this contract with the state which took I think roughly five to six months of fairly constant negotiations. I mention that so that when you deal with the individual terms of the

contract you will realize that they are all inter-related and the results of rather hard bargaining over long periods of time between the parties, all of whom were advancing their own interests, including the state of course. In the -- I became involved in the project in early January. At that point, for a number of reasons Doyon, through its financial advisors and on the advice of its financial advisors and others was afforded the opportunity to negotiate to purchase the North Pole refinery. They entered into negotiations to purchase the North Pole refinery. We advised the state of that fact in the middle of our contract negotiations, and as a result, we immediately switched in the negotiations with the state to negotiating not one contract but two. That was Doyon I and Doyon II. The Doyon II would have covered what would have happened had Doyon proceeded to purchase the North Pole refinery. Those negotiations took place for roughly a period of a month and a half; rather extensive negotiations with North Pole. The parties were extremely close. In the last, closing hours of the negotiation they collapsed. As a result, Doyon was back again dealing with the construction of its own refinery on the so-called Doyon I contract. Then the -- By that time, the situation had somewhat changed in relation to the construction of Doyon's refinery. The financing

had become less certain than it had been in the past due to a number of features, one of which was that the bank which originally had made the commitments to finance were now less certain about the carrying through of those commitments for a numbers of reasons. One of them was that they were -- I think they had pushed Doyon I think to try to pick up the North Pole refinery. Another one was the royalty oil, the return oil, which is the major problem in this transaction. As you probably know, for every 30,000 barrels a day you put through the refinery, 20,000 come out the other side, and in crude oil, which goes back into the pipeline and under the terms of the contract with the state has to be disposed of by Doyon, and selling 20,000 barrels of crude oil today is not the easiest thing in the world to do without a substantial loss. North Pole has had a great deal of trouble I think disposing of its own return oil, and now Doyon is in a position of having to dispose of its return oil because originally under the contract the state would have made a contract with Chevron where Doyon would have been able to dispose of all of its return oil to Chevron. Now, the Chevron contract fell through and Doyon was left with a substantial amount of return oil to dispose of. That is the major snag in the continued financing of the Doyon project at the present time. When that became

apparent, Doyon made enormous efforts and is continuing to make those efforts to arrive at a contract for the disposal of the return oil. Tim Wallis, who is the president of the company, has been in a series of meetings with oil companies and such to try to make some contract by which the return oil can be released, and that is the major, I think, actively the major financial snag to continuing with the project. Doyon has, as I'm sure you know, a good deal of [indiscern.] funds in the contract. It has every incentive to continue with the contract. I would say that within the next two to three weeks, we will have a much clearer picture as to the ability to get rid of the return oil and make the project a successful one at this time. This is not, obviously, a good time in the world oil market to be dealing with 20,000 barrels of crude oil. The state's having enough problems, much less Doyon. In any event, we are doing that at the present time.

I want to point out that this contract -- The
of Alpetco keeps stalking the legislative halls,
I simply want to point out that this is not an
Alpetco contract in any sense of the word. This is not
a contract by which Doyon can take oil and basically
market it as it sees fit. The contract is quite clear
that Doyon must construct a refinery. It does not have

a right to take the oil until it does take a refinery or build a refinery, and that refinery must be completed by December 1 of 1983. The thing that was pointed out to me this morning by someone - I think it was the royalty board - very wisely, was that this is a new project, it's -- we're trying to get a competitive refinery going in Fairbanks, which I think is what the Department of Natural Resources was in favor of, and I think the legislature is in favor of as well. It's not easy to do. It's not a simple thing to get together. We're talking about basically a hundred-million-dollar investment in a world oil situation which is not conducive to major investments at the present time, and it isn't easy, and it's not surprising that everybody isn't rushing to buy the return oil and come forward with all the money [indiscern.] if necessary. We're working very hard on it. What I would like to suggest, if at all possible, is that since you have at least, I assume, a month and maybe longer in session, that on the Doyon contract you sort of put it on hold for a couple of weeks, until the president, Mr. Wallis, and Dick Edwards, who negotiated the contract, can come down. Mr. Edwards can take you through it term by term if you would like, and Mr. Wallis can bring you up to date on basically what the status of the refinery is.

Beyond that, I think it would probably be better if I just could answer questions from the committee.

CHAIRMAN HALFORD: You've addressed yourself primarily to the financing question. There was another question brought out by the royalty board, that being the pre-commitment waiver for the first four years. I wonder if you could address yourself to that as well.

MR. GROSS: Just very briefly, I -- The presentation -- This was a term that frankly surprised me a little bit, Mr. Halford, for this reason: Mr. Wallis testified in Fairbanks at the royalty board hearing and he made a statement and to my knowledge he was asked no questions by the board. Yesterday, the board took up the issue and, at the suggestion of I think it was Mr. Lyon, felt that this was an unfair clause in the contract. All I can say about that, without having sat at the negotiations myself, is that as I said, these negotiations took place over five months. To get that term in the contract, Doyon gave up things. Moreover, if you're going to talk about whether that clause is anticompetitive, it seems to me the only way you could tell that would be to do an analysis of the Mapco refinery in Fairbanks, to determine whether or not this clause in reality would be seriously injurious to that company, or whether it would not be. What are the terms of the original Mapco contract? Is Doyon going to be

receiving oil under sufficiently beneficial terms that would compare with the original contract under which Mapco receives oil from the state? But to come out of the blue and basically pick one term out of a contract, without any analysis of it whatsoever, and say -- In our mind that seems a little unfair to other people. Without analyzing what other people have, or the circumstances under which the clause was negotiated, that seems to me a bit unfair, but as I say I was not in the negotiations. Mr. Haynes was. I think -- I doubt that he would have negotiated a term which he felt which was contrary to either the public interest or unfair to anyone else within the department felt, and I think it would be probably best if you let him explain that, and if you would like to have it in depth from Doyon's side, I think what you need is the negotiator who actually negotiated the term for Doyon. It was my understanding that this was going to be just a preliminary informational hearing - that you would not go through the terms one by one, and if you wish to do that, we could have someone here this afternoon if necessary, but as I say, I think due to the status of the project it might make more sense to try and hold it for a couple of weeks and then have it laid out for you in detail, not only as to the terms but as to the status of the project.

CHAIRMAN HALFORD: Because that particular term was brought into question -- It's the only other term that has been brought into question, and it's something that I think we probably want to pursue. Senator Fahrenkamp?

SENATOR FAHRENKAMP: Mr. Chairman, I understand that we'd [indiscern.] up or down on the contract. So, as far as I'm concerned, maybe that would help people to make their decisions, whether it's up or down or not. My question I guess to you, Av, is: Are you recommending then that we go ahead with putting the contract in to the bill status, and not just holding it in committee until we find out how the financing comes along?

MR. GROSS: Yes, and I think what you are going to have to do, I suppose, is make a judgment eventually, Senator Fahrenkamp, on whether you think that there is enough good faith commitment to this project, rather than just simply wishful thinking (tying the oil up), to favor it and let it go ahead. It's going to take your judgment as to whether all your interests in getting a competing refinery going, whether it's a desirable sale from the state's standpoint, whether the state would lose anything by letting them proceed. I don't see that it does, frankly, but when you know what the status of the contract is - in other words the status of the negotiations to get rid of the return oil, all these things - you'll have to make I suppose a judgment as to whether

you think that it is in fact a viable project, and I think you can get a little better picture of that a little further down the line.

SENATOR FAHRENKAMP: And as I understand it, then, in the interim, while the plant would be built - is being built, if it were built - the oil would still be going the 30 or how many ever barrels are concerned. Would the -- at that time still going through the line and being sold by whomever or somehow?

MR. GROSS: That's correct.

SENATOR FAHRENKAMP: And so the state is not in fact losing money doing that ...

MR. GROSS: Not a penny.

SENATOR FAHRENKAMP: Thank you very much.

CHAIRMAN HALFORD: Representative Randolph, you have a question?

REP. RANDOLPH: Yes. Av, yesterday we heard testimony from the department that at one point this financing was going to be all in place, and that they were satisfied that it was a go project, and now there's some problems with that, so what extent can you elaborate on that, as to who that was with and why it was firm enough at one point that DNR thought it was a go deal and still then how did it dissolve?

MR. GROSS: Well, I can tell you something about it, Representative Randolph. The financing was in place

with the Continental Bank in Chicago. As the negotiations shifted to the possibility of picking up the Mapco refinery directly and then the bank made a commitment on that one. At that point it backed off the commitment on the other one. Then, when it became clear that the Mapco negotiations might not go through again, then the bank was approached in terms of refinancing the original refinery. By this time, though, circumstances had changed sufficiently that they wanted to change the terms of the financing, and were seeking other involvement in the refinery project, or development by others. That was primarily due to the fact that the return oil posed a substantial risk at that point. The experience with North Pole has been that the major drain on their making a profit (since they have been making a profit, but keeping their profits down to only large levels) has been primarily the drain caused by the return oil. I think two years ago -- one year ago I read one article that they lost something like \$30 million on the return oil alone, and that was in a better market than I think you have today, so it is an enormous problem.

REP. RANDOLPH: Just one further question.

MR. GROSS: Sure.

REP. RANDOLPH: The commissioner - I think he used the term that he felt that the financing had become uncertain

inadvertently, not through purposeful action, but it was just something that just kind of slipped through the cracks. That's kind of what I got from it. Was that a fair understanding on my part of what he said, or can you elaborate on that, or what?

MR. GROSS: Well, I'm only the attorney for the company, Mr. Randolph, and I think when you get into the actual internal operations of Doyon and what happened, it would probably be better to talk directly to the chairman, Mr. Wallis, and he will be delighted, I'm sure, to appear here. It was -- I can say from what I know of it, and I was not there, that it was the result of a shift in emphasis as to what they were going to do and in the course of that, the original commitment, advertently or inadvertently, was lost; but I think that, knowing commitment letters from banks and the kind of commitment letters that I've seen, it really doesn't matter because most banks keep out in the end anyway, and they'll make a commitment to you should circumstances continue to warrant the project or something like that, so there's always some out for them. I don't think it really would help to assess blame as to why it happened, but the fact of the matter is that the original commitment on the Doyon refinery - on their own refinery - has now, from that bank at least, become modified. They are willing to -- When I

last spoke to them, they were willing to finance a large portion of the refinery, but now they are insisting on certain other provisions too: the involvement of others, different commitments of cash, and one thing or another. But mainly that causes a problem because we can't get rid of the return oil at the moment, and that's been the nature of the negotiations for the last few weeks. We can do that, and the negotiations on that have been extensive. I don't think there will be problems putting together the final package.

CHAIRMAN HALFORD: Representative Rogers.

REP. ROGERS: What is the status of the refinery itself? You said the land had been acquired, they began site preparation and purchasing their equipment. What's happening today?

MR. GROSS: Right now the equipment is being -- provisions are being made to store the equipment until the package can be finally put together.

REP. ROGERS: No work is proceeding at the site?

MR. GROSS: At the moment, to my knowledge, the site work has been shut down. At the moment. It was going until -- I mean very recently, but I think for the moment it has been stopped pending the final conclusion of the negotiations.

REP. ROGERS: December 1983 is a fairly tight time schedule, it seems to me, to build a refinery. If there is a point at which it is physically impossible to get there, do you know when that point is?

MR. GROSS: I believe that Doyon believed that could it continue construction this year -- All the preparation has been done, and what we're looking at now is the construction. I think Doyon was under the belief that if they could continue their work this year the refinery would be in place in December of 1982, so what we are talking about is a time lag of a year - a period of up till next -- during this year to put together the remaining portions of the project, and again I stress that Doyon can receive no oil until the refinery is constructed.

REP. ROGERS: I realize that the state's protected there, and even if -- I suppose if the refinery is a day late coming into operation, it's several tens of thousand of barrels short, but is what you're saying, if they could -- if they were able to continue this year the refinery would be done in December of this year, you're saying that -- No, he said December of '82.

MR. GROSS: If they had been able to proceed on schedule this year, the refinery would have been completed in December of '82. Now if ...

REP. ROGERS: So that if they can get financing by January of '83 they can finish the refinery in December of '83?

MR. GROSS: I think that's a fair assessment. Everything is ready to be put on the site.

REP. ROGERS: Okay, and ...

MR. GROSS: Probably sooner, Representative Rogers, because what you've done is you've lost all of -- you've lost a part of the construction season. They need the whole construction season to do it, so if they can use half of this construction season and half of the next construction season, you may see it done in the summer of next year.

REP. ROGERS: Well, it seems to me that the issue of financing is - in terms of the legislature approving this - because of the protection of the refinery having to be on line in December of '83, it seems like that's a fairly strong protection for the state, and obviously ... [indiscern.]. Thank you.

CHAIRMAN HALFORD: Representative Cotten, did you have a question?

REP. COTTEN: I just have one follow-up on that. Does that mean he can wait till next January to get the contract approved, and still have a successful ... [indiscern.]?

MR. GROSS: The problem is, Representative Cotten, that the contract itself is an integral part of putting together the package. When you go to bankers, and you're

discussing it with them, it's one thing to say that the state traditionally will furnish oil, or that the legislature is reasonable in the way it acts on oil contracts and one thing or another. It's another thing to actually have a contract for the provision of oil. Bankers are not -- they want to have all the pieces in place.

REP. COTTEN: Do you think that that's an advantage, that the other people wouldn't have been able to enjoy, or were there other firms that were seeking the oil, or trying to make a decision as to whether to build a refinery and go through with a project like this? If they had had a contract in hand -- I'm trying to decide or discover whether it was a competitive advantage, or whether there would be now a competitive advantage to somebody to have a contract in hand.

MR. CROSS: I think Mr. Haynes could probably elucidate on that better, but the kind of decisions they made in narrowing down the field -- My impression is that when Doyon approached the state this was not a speculative proposition. I mean, they have committed a good deal of their own funds to this already. They have purchased the equipment; they have purchased the land. This is a going project. It's not, give us a contract and we'll go out and put together a project. This is a specific project with commitment of funds, and all the

like. It's a contract -- It's a project which was solid. It's a little less solid now, but it's being put back ... [end of tape].

REP. COTTEN: Well, from listening to you, it sounds like the financing probably will come along. You seem optimistic about that, but you dwell on the fact that there is an enormous problem with the disposition of the return oil ...

MR. GROSS: There is.

REP. COTTEN: ... and it's difficult for me to understand or to determine how successful you're going to be, where you are in that regard. It sounds like Chevron's contract not going through really played a heavy role here and it may or may not have, but it doesn't look like Chevron's contract is going to be even considered by the royalty board in the time the legislature could approve it, so that's one thing that's gone, right?

MR. GROSS: Correct.

REP. COTTEN: So maybe you don't have an answer as to what's on the horizon. What is your next move as far as disposition?

MR. GROSS: Well, I can tell you that Mr. Wallis has been negotiating with a number of oil companies. He was in Seattle last week trying to get a contract with them for the disposition of the return oil, with a number of oil companies. I don't want to use the names if I can:

avoid it, but I can assure you that the negotiations have been very serious. The problem is, as you know, there is a glut of oil on the market right now, and I think Doyon is in the position where it's not interested necessarily in making a profit on the return oil. It just wants to avoid a loss on it. I think it would be best to have him tell you directly the negotiations that he has undergone, because I have not undertaken those negotiations. He's done them directly. I can tell you they are intensive.

REP. COTTEN: You say Mapco lost what? Isn't it a losing proposition? So it seems like it's going to be even more difficult for Doyon to improve on that situation.

MR. GROSS: They did lose a substantial amount of money. They have cut those losses enormously. They have certain contracts, which I'm not at liberty to disclose, for the disposition of the oil right now which has changed that situation substantially, and it would -- I think it is not impossible to get rid of the return oil, but the Chevron situation obviously made it much easier, and when you went to bankers and they said, you know, what are you going to do with the return oil, we were in a position to say, well here's a contract with Chevron which is going to take, you know, all the oil we produce, and get rid of it. When that fell through now we have got -- I mean the state basically provided

that market for us, and now that the state is unable to provide that market, through no fault of them, we have to find our own, and it's more difficult. That's all I can tell you.

SENATOR GILMAN: I don't want to take up the whole time, but I was wondering if you were having the other people at the table make observations on the same topic, or ...

CHAIRMAN HALFORD: What I had intended to do is to see if we had any questions for Av first and then we'll go back to the whole table.

SENATOR GILMAN: All right. I don't have anything.

CHAIRMAN HALFORD: Are there any other questions before we move on to the next thing which is to go ahead and have Jeff Haynes respond to the same line that Av presented?

MR. HAYNES [Not at a microphone]: Mr. Chairman, members of the committee, my name is Jeff Haynes, Deputy Commissioner of Natural Resources, and I'd like to talk about three things. Number one is the four-year deferral on the reservation fee. Number two, I'd like to talk about the return oil, and number three, about the financing. It's hard to recapture six months of negotiations with twenty-seven different companies and explain why you did something at any given time, but the fact that we did make this one concession to Doyon as a new entrant is something that we're still ... [indiscern.]. The most difficult philosophical part of

these negotiations was reconciled ... [indiscern.] ... and on the other hand you've heard from the competition ... [indiscern.] ... what we'll probably spend more time now in thinking about and negotiating than anything else. In the case of the Doyon contract, the bottom line is the Mapco contract, because although Doyon or any Fairbanks refiner is to some degree competing with other in-state refiners and suppliers, the company that is going to be right across the street is the one they are most directly in competition with. Now, I don't mean to say anything disparaging about the Mapco contract, but it is ... [indiscern.] ... was the same as the Alpetco contract, and there are some provisions in that contract that since then we would no longer negotiate as a matter of state's interest. One is the term, ... 2,004 ... [indiscern.] well beyond Prudhoe ... just call on future royalties in that contract. The security arrangement is ... [indiscern.] security ... sixty-day letter of credit and naturally, Doyon, in order to compete with Mapco would prefer to have their contract. Certainly it would have been easiest for us if we xeroxed the Mapco contract and handed it in ... and said sign here ... we could not do that. Consequently, we had to assess, on the one hand, what was in the state's interest as far as the royalty contracts, and concurrently what was necessary - and I

mean absolutely necessary - for a new entrant such as Doyon to be able to compete with ... [indiscern.]. I can tell you that throughout the negotiations we were under intense pressure with Doyon and that is, again, to make lots of concessions in the contract ...

[indiscern.]. On virtually all of those we made no concessions. They have to -- There is a provision in there requiring a letter of credit - sixty-day letter of credit. For that much oil - 50,000 barrels of oil - that's a lot of money. That's cash outlay to get a letter of credit, so that's something that puts them in some kind of competitive disadvantage ... [indiscern.]. They were wanting additional concessions from us, and just pulling down some of the things I remember, on the term, security provisions on the return oil, processing requirements, reservation fees, and so forth. The only one that we made any kind of a significant concession on was the reservation fee itself because Mapco ...

[indiscern.]. You remember also we were negotiating with Mapco ... period of time ... wanted us to supply them with ... complications ... [indiscern.]. I guess the bottom line is that we felt that that one concession was one that was justified. It was one we did not give until we had talked with them for five months about it, and I ... [indiscern.].

I also want to talk about the return oil. I will say that from time to time the return oil may be a problem, but I will also say that from time to time through the negotiations Doyon very much wanted the return oil; and I think if I was to [indiscern.] some of the times Mr. Gross made there, pointing out the principal reason for having a refinery in Fairbanks - the principal advantage of having a refinery in Fairbanks - is you have the Trans Alaska Pipeline which is a garbage can for the resale. You can ask any refiner anywhere in the United States or anywhere else what their biggest problem is, and the problem is getting rid of the heavy end of the barrel - the residual oil. That's what is driving a lot of the refineries out of business. On the West Coast especially, whether you're talking about California crude or Alaska North Slope crude, you have an excess of heavy ends unless you've got one of those fancy refineries that uses ninety-five percent of the barrel, which we're not talking about here. In the case of a refinery like Tesoro, they don't have a garbage can to put it in, so they have to make arrangements to ship it south and have it cracked or sold or whatever, and that's an economic inconvenience at best, so, frankly, although there are times when there's a market glut ... any heavy ends, whether it's in the form of return oil

or residual oil, it's going to be an economic problem. It's basically an advantage to have that Trans Alaska Pipeline there because at least you're selling, ultimately, virgin barrels of ANS after paying a quality differential [indiscern.] residual oil, which is a big problem. We tried to work out something with Chevron with respect to being able to use the oil twice. Under some circumstances that would be an advantage to Doyon, but on the other hand, in negotiating with Mapco I can tell you that they did not want to give up the absolute rights to return oil and that's what caused our agreement with them to fail; so, I think you can say the return oil can be [indiscern.] as valuable as well as it is in ... at least in terms of the arrangement that ... [indiscern.] ... Fairbanks with respect to the pipeline.

On financing, all I can really do is repeat what the commissioner said yesterday, and that is: The criteria that we used for selling oil to companies with solicitation was whether they were able to use that crude oil either now or imminently; in other words, whether they had made a commitment to build a facility to use the oil. Since the time when we pursued this contract the circumstances have changed for Doyon, and that imminency is not there at the moment because of the financing situation. I am certainly not privy to

exactly what Doyon is doing in terms of arranging financing. I may be optimistic. They're the ones to speak of that, but I feel constrained to point out that getting financing for a refinery these days is not easy. It's not a business people are rushing into. In many parts of the world, it's a business people are rushing out of in a hurry, and the only way that a refinery can really operate these days unless it's a highly sophisticated one, is if there's some kind of ... [indiscern.] ... on with it and take advantage of it. I think it's fair to say that that's what's going to happen ... [indiscern.] ... anybody who's financing that project, but we do feel that they ought to be given a chance here in the next few weeks it would take to look at that and see if there's something that they could come up with; but we also concur with the views of the royalty board, and if that is not apparent within a reasonable period during this legislative session we ... [indiscern.], but I still wish to distinguish ourselves from the royalty board on the reservation fee issue which is their second grounds for disapproval ... [indiscern.].

CHAIRMAN HALFORD: Senator Fischer?

SENATOR FISCHER: Subject to the financing, you're still satisfied, then, with the contract?

MR. HAYNES: Yes, sir.

SENATOR FISCHER: Now, Commissioner Katz yesterday said that the legislature should not enact a bill of approval of the contract until such time as everything is in place. I was wondering if it may, however, be appropriate to pass a bill if everything looked like it's coming together toward the end, even if isn't totally together, which makes the final determination - final implementation - of the act subject to a finding by the governor or by the commissioner with or without royalty board ... [indiscern.], so that the legislature can say, this contract is approved subject to. Do you feel that would be an appropriate action?

MR. HAYNES: Well, I guess that what I would encourage there is that, since we're submitting these contracts to the legislature we prefer to have the legislature make a judgment on that project. If the financing comes together, we're prepared to support it. If it does not, we're prepared to oppose it, and I think there's an important reason for that. To go back to I think some questions that were raised originally by Representative Cotten, one of the things we do not want to see I think particularly at this stage is to have somebody who has a supply contract with no deal put together - at least going through the financial markets for a long period of time trying to use the supply contract to put the thing together. That was one of

the problems that we had originally with the last oil company, and it's a problem I think you'll want to avoid. Circumstances here are a little bit complicated because the financing situation with respect to Doyon has at least deteriorated since the time we negotiated the contract but there's a possibility to [indiscern.] over a reasonable period of time. It's an Alaskan corporation and it's a project that conceptually we're in favor of; but again, I think we prefer to see that happen here in the course of this legislature - to find out one way or the other.

MR. GROSS: Senator Fischer, I wonder if I might say -- This contract of course has a built-in limitation on it. I think Jeff is absolutely right in the basic policy of not having people wandering through the financial markets waving royalty contracts around, but at the same time, this contract forbids Doyon from receiving any oil until their refinery is operative, and of course, with the construction season in Fairbanks being what it is, there is a built-in deadline on the contract that if this is not put together by the end of this year, as a practical matter they will be unable to have a refinery in Fairbanks by December 1 of '83, which means that the contract terminates; so, this is not some open-ended commitment by the state of royalty oil in some undefined project. This is a defined

project for which there has to be a refinery in Fairbanks operative by December 1 of '83 or the contract ends, and that means that it has to be in construction by early next year or it's not going to happen. It's impossible for it to.

SENATOR FISCHER: Mr. Chairman, my thought was it simply means that what happens during the interim -- now take for instance thirty days after the legislature adjourns, the financing all comes together, it wouldn't be very appropriate to have to wait until next February, March or April, whenever the legislature might get around, so if there could be some kind of a limited approval subject to expiring in January or whatever of '83 when the session starts again, that might be something to consider.

MR. GROSS: The point I'm making, Senator Fischer, is that even if the legislature doesn't have that power, which I don't want to get into anymore, having done it for six or seven years, the contract itself fills in that limitation, so if you approve it, you in essence have built that condition in through the approval of the way the Department of Natural Resources wrote the contract.

CHAIRMAN HALFORD: Senator Gilman, do you have a question?

SENATOR GILMAN: My question has partially been answered, Representative Halford, but as long as we're talking about -- I think I hear Mr. Haynes saying that at this

point in time it's the department's position that if there is no contract approved by this legislature, there probably isn't going to be a contract entered into. Is that correct?

MR. HAYNES: Um-hum.

SENATOR GILMAN: Yes.

MR. HAYNES: [Indiscern.].

SENATOR GILMAN: Pardon?

MR. HAYNES: You say if the contract is not approved ...

SENATOR GILMAN: If the contract is not approved by this legislature, then -- Maybe I should rephrase it. Any contract that would be consummated would wait for the next legislature? Is that your recommendation?

MR. HAYNES: That's correct.

SENATOR GILMAN: Okay. Then, but if we did approve it subject to some contract being consummated in the interim, would that also then force you into doing the same thing with other companies?

MR. HAYNES [Not at microphone]: Well, I think one of the points I was about to make is that at some point this stretches beyond the session, it becomes unfair to some of the other parties we are dealing with, because if our standard had been, we'll give you a contract, you've got a year to put together a deal for a project ... [indiscern.] ... in some cases ... and that's the thing -- The problem that we have here I think ...

[indiscern.] ... is that we are all interested in having a review ... and the department has bent over backwards to try to accommodate businesses ... Doyon and ... by several months. This was right at the end of our -- before we sent the contracts to the royalty board in the course of a week we negotiated a second contract with Doyon based on a brand new contingency, but, as I said, if the standard that we used throughout these negotiations was you've got to be able to use the oil now or you must have made a go decision on a facility [indiscern.], and if you haven't done that you will not [indiscern.], and what's happened is that at the time we signed the Doyon contract they made that decision and they were in that position. Since that time they are no longer in that position, so it just seems to us that unless that condition reinstates itself very soon, during this session, then we really shouldn't ... [indiscern.], because they don't have ... [indiscern.], but that doesn't prevent, you know, another solicitation later this year or whatever ... next session; but I think in fairness to the other parties that we dealt with to whom we said no, we will not sell you oil because you are not ... use it now ... I mean it's not fair to them.

SENATOR GILMAN: Could it come under the same solicitation if it's modified?

MR. HAYNES: Substantially, sir, yes, that's correct.

[Indiscern.] ... modified solicitation.

CHAIRMAN HALFORD: Okay, what I'd hoped to do was get a response from Dick Lyon to the same three questions, and if you want to ask some questions before that, go ahead ...

REP. ROGERS: I wanted to ask Jeff about ...

CHAIRMAN HALFORD: ... because they're all going to stay.

REP. ROGERS: You said that you're absolutely confident about the contract, that you're comfortable with the contract with the one exception of financing now, but unless this financing is in effect before the end of the legislative session, you're not comfortable with it. I'm curious. You don't think that the requirement of a refinery by December 1, '83 is enough of a protection for the state?

MR. HAYNES: Well, I think there are two [indiscern.]. One is the contract itself -- I mean the contract language ... [indiscern.] ... contract language is fine in terms of the [indiscern.]. The other question is the premises on which it is negotiated, and what I'm saying is that the premises on which it was negotiated, one major one is not currently in effect ... suspension, and that's financing ... basically this is an imminent project, and that is not the case now.

REP. ROGERS: And one of the purposes of the solicitation and one of the purposes of this round of royalty oil sales was to add a second refinery in Fairbanks?

MR. HAYNES: Well, our purpose was to ...

REP. ROGERS: To increase ...

MR. HAYNES: ... the premise that, you know, the preference of the royalty statute for in-state processing was to [indiscern.] proposals for ...

REP. ROGERS: Well, no. The commissioner said yesterday that one of them was increased competition in the domestic market, and ...

MR. HAYNES: Correct.

REP. ROGERS: ... that was one of the purposes, and that your department has generally taken the position that a second refinery in the railbelt would tend to serve that competitive situation. The only way right now that we have -- The only way we have prior to the next legislative session, and the only opportunity for that competitive situation - for increasing that competitive situation - is this royalty sale because there will be no other sales presented to the legislature. Is that right?

MR. HAYNES: Um-hum.

REP. ROGERS: And in your mind, not the royalty board's, the only impediment is the financing. I guess the question I would have, and following on Senator Fischer's

question, is: If the legislature were to approve the contract with a delayed effective date, with an effective date taking effect the day after the governor or the Commissioner of Natural Resources finds that the financing is in place (it would require a larger vote of the legislature, obviously, to approve a separate effective date clause), would that alleviate your concern, or do you still feel that the issue of having financing in place in the next two weeks is more important than the competitive advantage of having a second refinery?

MR. HAYNES: Well, again, I want to think about that a little bit, but the premise of the negotiation itself was imminency, and not -- Again, I don't know what Doyon's financing situation is, but I want to point out that, for the same reason, that the return oil is not necessarily easy to get rid of, that a crude oil supply contract is not going to make a refinery viable if that operation is not viable. I mean they have to have a supply contract, but that operation has to be profitable, and I think that there is a misconception that having a secure source of supply necessarily makes something economic, and it may not -- It isn't going to do that, and so I would not overemphasize the value of that supply contract as being, you know, an advantage in financing, so ...

REP. ROGERS: But what we've heard from Doyon today is that up until sometime late this year or early next year financing is in place, they can have a refinery by December 1 of '83, and maybe I understand the contract wrong, that - I'm not sure - can they take oil if they have the refinery built earlier than that?

MR. HAYNES: Yes.

REP. ROGERS: Okay, so it's possible that financing might be obtained a month after the legislature gets out of session and they could have refinery in place by July of '83, or October of '83, or sometime prior to December 1. If there's no contract with Doyon this session, or any other buyer, then there's no chance that there would be a second refinery built?

MR. HAYNES: No, I don't think that's true, because we only sell one-eighth of the oil. We aren't selling seven-eighths of the oil. We're not the only supplier of crude oil.

REP. ROGERS: Okay, but using, say, royalty oil, there would be none. It just seems to me that given the -- I mean if the only problem is the financing, and if the legislature gives you an okay subject to financing, I don't see what problem the department would have.

MR. HAYNES [Not at microphone]: Well, again we have to look at the other ... [indiscern.] ... and I'll get specific ... look at the other contracts we have before us, and

that's ... [indiscern.]. They wanted another 23,700 barrels ... expansion, but they had not decided for sure that they were going to go ahead ... [indiscern.] ... for them to do it. If they had that additional volume, then go into the market, maybe their financing might be easier, whatever. Chevron wanted an additional 7,000 barrels over what we sold them, for possible expansion. Mapco wanted additional barrels ... [indiscern.] ... above what they could use now contingent on some possible expansion. We told all of them no. In other words, the reason we told them no was at the time all four of those parties - Doyon, Mapco, Chevron, and Tesoro - plus at that time Sealaska, those were all in favor of refining projects, and the total volume of barrels that they wanted for both [indiscern.] use and expansion added up to I think 245,000 barrels a day, which is a little more than we have, and so we had to -- and there was also just a policy question of whether we ought to sort of sell to somebody on account as opposed to having something that is in fact in place; and I really think that if it extends beyond this session that we are really being unfair, especially to Tesoro which has a contract before you today - a very, very good contract; it's a very, very good project with very high benefit to the state - that we're being inconsistent in how we're

dealing with them. Again, we've tried to accommodate everything we can with Doyon. I don't think not approving the contract this session by any means destroys the project. The department has not rejected their project. It's signed the contract with them, and if circumstances change, [indiscern.], you know, they are treated favorably in the future. The fact is the project just is not coming together right now.

REP. ROGERS: Thank you, Mr. Chairman.

MR. GROSS: May I just point out in response, Representative Rogers, that this is not an issue of whether Doyon wishes to proceed. There's no question that Doyon has a commitment to proceed on this refinery and will do so if they can put the financing in place, and the return oil issue can be taken care of. It's not a judgment [indiscern.] more as far as Doyon is concerned. They have their own money into this project now as well, and plan to consider. You know, I'm a little hesitant -- I feel a little bad here because I think Doyon may be paying the price of candor. We have, I think as Jeff will testify, have kept the department completely aware of the entire status of the project ever since the first contract was negotiated, and the alternative was to sign the contract and never come back, and then come in ... [indiscern.; someone coughing] ... have everybody operate under the assumption that the refinery was

going to -- that the construction was going to start two weeks ago now, have the contract approved and walk away; and I think in an effort to be absolutely candid with the state and open, we have told the Department of Natural Resources every inch of the way as to the status of the project. It's not that we're backing off, but the problems that have come up in developing the project, and I'd hate to be penalized for that.

Thank you, Mr. Chairman.

CHAIRMAN HALFORD: Okay, if we can -- We're going to run out of time to go into Tesoro. If we can, I'd like to have Dick Lyon respond to the two basic questions: one the financing, and the other the pre-commitment, before we get anymore questions, unless you just have to catch a question on that [indiscern.]. Representative Cotten.

REP. COTTEN: There is a point there that I'd like to just go over and try to understand. There were two contracts that the state approved ... [indiscern.]. Pardon me?

MR. HAYNES: Yes, sir.

REP. COTTEN: With Doyon?

MR. HAYNES: That's right.

REP. COTTEN: And you put them both in front of the royalty board at the same time?

MR. HAYNES: That's correct.

REP. COTTEN: But according to Av, they had their financing in place with one, and then the [indiscern.; coughing]

pulled off and went with the other one, so this one didn't have the financial backing. After they switched from building a refinery to buying a refinery, the financing was not in place for the original contract. It never has been since.

MR. HAYNES: [Indiscern.]

REP. COTTEN: So this ...

MR. HAYNES: I'm not quite sure I understand. The Doyon II contract was the Mapco acquisition.

REP. COTTEN: Right.

MR. HAYNES: That fell through so that contract has been withdrawn.

REP. COTTEN: I know, but after -- According to Av, originally the financing was in place for the Doyon I, and then they got the commitment for Doyon II, but as a condition, they didn't have it for Doyon I anymore.

MR. HAYNES: Um-hum.

REP. COTTEN: So that contract's been faulty for quite some time.

MR. HAYNES: That contract has not been around. It was withdrawn last ... [indiscern.] ... I beg your pardon?

SENATOR FAHRENKAMP [?]: II.

MR. HAYNES: It was Doyon II.

REP. COTTEN: Doyon I.

MR. GROSS: You're correct, Representative Cotten. When the financing switched to the Doyon II contract, then the

[indiscern.] Doyon I and Doyon II were submitted to the board as basically options. Then, as soon as Doyon became clear on the fact that they were not going to acquire the Mapco refinery, they wrote a letter to the commissioner withdrawing Doyon II and refocused on Doyon I to put the financing back in place on Doyon I. That's where we are now, but when it was submitted the financing was not completely in place, that's correct.

CHAIRMAN HALFORD: Representative Rogers.

REP. ROGERS: I would like to follow up with the deputy commissioner, because it seems to me that if Doyon is able to put it together, your position would be to resubmit it next year, but there is going to be a change of administration between now and the next legislative session. That administration could pull out of the contract at that time, right? Even though -- I mean, if Doyon were to put it together I suppose the contract would still be tentatively before us until the new administration pulled it out. At that point it seems like Doyon is the victim of a short legislative session perhaps.

MR. HAYNES: [Indiscern.; simultaneous conversation.]

REP. ROGERS: I guess I don't understand why if the financing is the only issue ...

MR. HAYNES: The only thing I can say is the financing is a real big issue. I mean that may be the only issue, but

that's a pretty big issue, and if you're having trouble getting financing for your project, you have to ask what that means. Why is that? You know, I'm not going to presume to give a financial analysis of the Doyon refinery, because I really am not capable of it, but nevertheless, if it's just a matter of going out and getting financing, it's -- [indiscern.] nobody wants to finance the project right now. They haven't been able to put that together, and I think that's a pretty serious consideration as far as whether or not that project is going to go or not.

MR. GROSS: You meant the next regular legislative session.

REP. ROGERS: That's right. I suppose we do have opportunities with a special session.

SENATOR FAHRENKAMP: Not me. I'm excused. [Laughter.]

MR. HAYNES: Well, at some point you could make the same argument for Suneel, for Chevron, for Provident, and you could go on with the process forever, but it's been hard enough to get these contracts this far. We expected to see them a lot sooner in this session than we are seeing them.

REP. ROGERS: If the department had negotiated those contracts I'd be making the same argument.

CHAIRMAN HALFORD: Dick, could you basically respond to the financing question and also the pre-commitment question from the royalty board's perspective?

MR. LYON: Okay. From the royalty board's perspective the question of the financing simply has to do with, as Mr. Haynes said, the imminency of the project. Is this something that's really going to go forward, or is the state committing its crude oil to a use which will never be consummated? I think that's the basis of the concern. There has been some criticism in the past ... [indiscern.; coughing] ... Av Gross ... Alpetco contract ... useful way. I'm not convinced that the implication is correct. The Alpetco contract was a result of the third offering of crude oil by the State of Alaska - the third general offering. The first two general offerings had brought forth no respondents who were willing to say that they were willing to construct an in-state use of crude oil. Finally, in the third offering which resulted in the Alpetco contract, there were eight initial offerors, and through the process of negotiation the department came down to the Alpetco contract, so the fact that it failed I think doesn't mean that it shouldn't have started, and while people are of two different opinions, it's certainly possible that circumstances changed during the life of -- the brief life of the project. It didn't do what it intended to do, but nonetheless, that was -- We have to look at the world and say: Who wants to use the crude oil? The fact that there are a lot of offerors,

doesn't mean that there are going to be a lot of users. I mean Alpetco ... [indiscern.] ... as in this case. Both Tesoro and Doyon have reached the end - the finish line; so the concern the board has is that we don't want to commit the crude under any circumstances except to a project which is in fact moving forward.

As to the competitive question, Av gave us a little bit of a red herring I think to say that it's just Mapco and Doyon, because you have before you two contracts which involve - each of which involves - about a million dollars a day worth of crude oil, and the Doyon contract is larger than the Tesoro contract. The way it's currently presented to you it's for about 50,000 barrels a day. So the crude lifted under those two contracts will be sold at dissimilar prices under essentially similar terms and conditions. If you were a private offeror, federal law would prevent you from doing that because you're selling it to competitors at different prices; and that troubles me as a business person. I think that you really shouldn't be doing that, because both Tesoro and the Doyon refinery will be serving the same market, at least in some regard. That's why I don't think that the fee should be waived, although I think it's the basis of the board's conclusion.

CHAIRMAN HALFORD: Wasn't there a tax incentive granted to Tesoro for the first ten years of their operation?

MR. LYON: Not to my recollection, and in fact, the Mapco - the North Pole refinery - was started on private crude. The state came in after the facility was already functioning.

SENATOR GILMAN [?]: Mr. Chairman, to clarify that point, the Chevron, or the Tesoro, refinery did not have a tax incentive. Of the three or four facilities that were on the Kenai, that was the one that did not have a tax incentive. It started after that ...

SENATOR STURGULEWSKI: Had expired.

SENATOR GILMAN [?]: ... had been repealed. Is that correct?

MR. HAYNES: That's right.

CHAIRMAN HALFORD: Okay, going back to the financing package, if, for example, it were the recommendation of these two committees that we introduce two bills and had them available, it might be two weeks before those bills were before a committee hearing. Is there a format through which the royalty board could look at a financing package and make some recommendation based on that financing package on that kind of notice?

MR. LYON: I think the only constraints we have are the -- The thirty-day limitation comes about because the Commissioner of Natural Resources desired to cooperate with the royalty board and certainly there's nothing to

prevent the royalty board from quickly assembling itself and passing judgment on whatever the legislature would like it to do. We are your -- We're functioning, hopefully, to give the legislature advice, which you're free to take or not take, but we'll respond to what you want.

CHAIRMAN HALFORD: It would seem that in order to give as much time as possible and yet still address it from this legislative session, that we should probably go forward with both proposals, and then get an assessment from both DNR and from the royalty board on any potential changes in the financing package as far as the Doyon contract is concerned.

MR. LYON: Well, we'd be happy to do that. We're lay people basically, just three public members and two commissioners, and I don't think we presume to be petroleum economists, but we'd be happy to ...
[indiscern.; coughing].

CHAIRMAN HALFORD: Representative, you have a question?

REP. COTTEN: I think in assessing this situation I think that having the royalty board having made its decision - the financing is a material aspect of this - that I think, and Dick would probably agree with me, that, knowing that, you're probably as good a judge as to whether the financing package is realistic as the royalty board is, and just to save time going back to the board and one

thing or another, I think a presentation could certainly be made to you, and I think what you're probably going to see is, you're going to see people coming in giving you the status of the financing situation, and you're going to have to make your own assessment as to whether or not that's coming together finally, or whether it's just a pipe dream, and I don't know, maybe Dick disagrees, but I think that -- I don't think there is any particular expertise in just judging the financing package [indiscern.] the royalty board as there is in this committee.

MR. LYON: Mr. Chairman, I think that the current function of the board is to provide as much public exposure as we can to the process, and to the extent the legislature finds it useful, I think the royalty board would be happy to cooperate. If you wish to accelerate things, I don't think the board would have any problem. We've stated where we stand on the contracts.

CHAIRMAN HALFORD: Do you have anything to add to that, Jeff?

MR. HAYNES: No, the only thing I would add is that the commissioner did say yesterday that within a reasonable period of time during the legislative session that Doyon should have the opportunity to put together the financing, and we're satisfied that that makes it an imminent project again and we would be prepared to say go ahead with it. But on the other hand, one of the

things we deliberately did not want to visit upon the legislature as a result of these solicitations was some rather complex show of, you know, [indiscern.] and bringing bankers through here and displaying circumstances it would be very difficult to handle under very short notice, not only for you, but for us. Now, ... [indiscern.] ... contract to go through, the financing has to be in place, and that a showing to that effect should be a clear concern and the caveat I would put on that is that we think rather than having or subjecting the committee to what amounts to an analysis process of the financial circumstances ... [indiscern.].

CHAIRMAN HALFORD: If we could go on, I think we've isolated the two questions with regard to Doyon. If we could go on, and just quickly switch from Doyon to Tesoro, and try and move as quickly as we can on that one so we can break by about quarter of. I think we'd like to have both the royalty board and DNR stay and just switch. Dick and Jeff, if you'd both come back to the table we're ready. If you want to go ahead, start on the Tesoro contract.

MR. JUREN: Representative Halford and Senator Fahrenkamp, and members of the committee, my name is Dennis Juren. I'm president of Tesoro Alaska Petroleum Company. I have here with me Mr. Jim Smith, who is president of Tesoro Crude Oil Company, Mr. Reed Williams, who is vice

president of the working [indiscern.]. In the event you have any specific questions on crude oil, I'll ask him to answer those. In the interests of conserving time and on the presumption that perhaps we'll have the opportunity during committee hearings in the future to go into greater detail on this, I'll just make very brief comments and ask you to ask me questions, and perhaps that communication dialogue would be the most efficient way.

Tesoro Alaska is a very formidable competitive force in Alaska. We supply or have the capacity to supply over a hundred percent of the gasoline that is required in the state currently. We started with an 18,000-barrel-a-day refinery in Kenai in 1969 and expanded it to almost 50,000 barrels a day currently. We did this on the basis of a relatively small Cook Inlet royalty contract, and each expansion thereafter was not accompanied by a request for any kind of subsidy, any kind of assistance, other than the opportunity to be able to buy royalty oil at a price competitive with what other in-state refiners were paying for royalty crude. This effort to get a royalty crude contract is not our first. As a matter of fact, we were a respondent in 1977 at the same time that North Pole Refining requested royalty crude - ANS royalty crude - and for a variety of reasons our

contract at that time was not approved and submitted for legislative review. The reasons for various. We did not press the issue at that time because conditions were not too dissimilar from conditions that exist today, and in our unwisdom we assumed that perhaps things that were weak would kind of remain weak for some time in the future and therefore we would have no crude supply problems in the future; so we really did not push the issue. In hindsight we should have. We were remiss in not having done so. The fact is that our rapid growth and our aggressive marketing strategy and penetration of the market in pretty substantial fashion have resulted in a creation of a very vulnerable atmosphere for us. We now, as I say, have the capacity to run at a rate approaching 50,000 barrels a day. As a matter of fact we've operated our refinery in excess of 50,000 barrels a day on numerous occasions; but our crude supply is now largely foreign and spot market based. We still have the Cook Inlet crude supply which is diminishing rapidly. The state forecast and our own forecast indicate that the fields are apt to be depleted by 1986, 1987. The depletion curve is dropping production at the rate of about -- in excess of one percent a month, so it's a very rapid decline in that availability. The first five months of this fiscal year we physically imported an average of

2,000 barrels a day of crude from Indonesia to run at our refinery. During that same period we imported 1,600 barrels a day of crude from other foreign sources to give to the existing Cook Inlet producers in exchange for their Cook Inlet supplies. The remainder of the Cook Inlet that we're processing we secure by buying crude in the Lower 48 from independent and major producers on short-term contracts, some of which - or most of which - are subject to about a thirty-day cancellation clause. So a large percentage of our crude supply is, number one, foreign based, therefore the economics are a reflection of foreign prices rather than domestic prices; and secondly, from domestic sources that are subject to very brief and abrupt interruptions. Now, that kind of condition makes the very nervous debater that we have become, and certainly considering the possibility of expanding our refinery further makes us think very, very seriously about the necessity to have a large percentage of our crude supply under contract from a source that is relatively secure and one that is not subject to the whims and wild price aberrations that we have found to exist from foreign suppliers. You may recall that in the '79-80 period the Libyans, the Algerians, and the Nigerians ran their prices up to in excess of forty dollars a barrel just because the market was demanding it. They

demanded it and they got the price. There wasn't any other oil available. The contract that is being proposed gives us the assurance of a long-term supply and gives us relative price stability. It probably will not be interrupted. The interruptions can occur just because of the whims of a host government. The government may change in Nigeria and they may decide they don't want to sell us crude anymore. It may be changed by our own government, and we had a poignant example of that just a couple of weeks ago when the president said no more imports of crude oil from Libya. Had we been a buyer of Libyan crude, we would have been deprived of that crude source. So that vulnerability at the size that we're currently operating and at the potential size that we might go to is extremely critical to us.

We do have crude supplies that have been brought up from time to time and questions raised about it and I think I'm compelled to answer those. One, as I mentioned we do produce crude oil in Indonesia. That production is currently slightly less than 4,000 barrels a day and we bring a lot of it to Alaska to physically run to augment our supplies. [End of tape] ... and we own 49.9. The government also owns a refinery on the Island of Trinidad and exercising their majority interest they have directed that that crude

oil is to be supplied to their refinery for supplying their own island needs, so we have never had and never in the future, for all practical purposes, will have access to that crude oil.

With respect to the possible expansion of our refinery, this is a project that we started working on in November of 1981. We did quite a bit of research on projected market growth in the State of Alaska to try to determine the size that we might go to. We tried to determine the kind of product mix that might be needed in the state in terms of diesel or turbine fuel or gasoline, and on the basis of that started doing the preliminary engineering for putting together a plant initially thought to be possibly at 70,000 barrels a day. That would be large in this market. It would be planning for like 1995, 1998 type of demands in the state. It is possible that we may settle out on a smaller capacity - something in the range of 55 or 60,000 barrels a day. We simply don't know yet. One of the key elements in our decision was what happened to the royalty board recommendation during this proceedings. Obviously, if Doyon were to build a refinery in Fairbanks, and build at capacity to market gasoline there, because it costs us eight or nine cents a gallon to railcar gasoline from Anchorage to Fairbanks, we would be effectively stopped from penetrating that

market. We would probably lose the interior market to Doyon, as has been the case with the diesel fuel and turbine fuel that's manufactured by North Pole Refining. So what happens here is of critical importance to us in determining what kind of plant and the capacity of that plant that we build at Kenai.

The other fact is that we have been trying to determine, as Mr. Haynes has pointed out, what to do about the bottom of the barrel: the residual fuel. All forecasts indicate that the West Coast utilities, who is the largest single user of residual fuel, are going to have abundant supplies of natural gas. They will have coal-powered electricity wheeled over from Arizona. Their nuclear programs may or may not come on stream, but will make some contribution. All those things have to be taken into consideration. Once you have done that, then you try to analyze what you do with that residual fuel. In our case, our decision is that we will probably have to destroy it in some fashion. We will either have to make petroleum coke out of it, or we will have to use a process - a hydrogenation process - that will convert it into additional turbine fuel and gasoline and diesel. We are currently running pilot plant operations on the feedstock from our refinery to make that decision. Union Oil Research is the licensor of our first

hydrocracker at Kenai. We are working with them as a potential licensor for the second one that would have to be built. We've engaged people like Graveaux [ph], who are materials handling specialists, to go to Kenai and do preliminary engineering on coke handling requirements, which incidentally are quite stringent and quite costly to operate in this environment to deal with the moisture content of coke that you have to deal with in the process of manufacturing. We have therefore made no decisions yet on which processes we should choose to enter into and which we should choose to build. Concurrently, our corporate finance group is meeting with financial institutions and banks to determine the form of and the best way and the most efficient way to handle the financing of these fancy projects. All these things will probably start coming together and decisions will be made sometime within this year. One of the obligations under our contract is to report to the Commissioner of Natural Resources from time to time on the progress of our evaluation and planning and development. This proposed ANS contract, as I say, will remove a lot of the vulnerability that we face now and will I think keep us a formidable competitor in the state. Besides the product that we market to our own brand of dealers we operate from service stations, we are a large supplier to the other

marketers in the State of Alaska, and as such we think we save them transportation costs they would otherwise incur, thereby permitting them to market, unfortunately competitive with us. We hope to become or hope to continue to be a formidable competitive force in the marketplace. I would say that there is a difference between ourselves and the other proposals that were received, and as has been our tradition all along, is that we're not proposing to do something in the future. We have done it. We are doing it. We built a sixty-million-dollar-hydrocracker reformer complex that was completed last year without anything ... [indiscern.; someone coughing] ... encouragement from the state, from the administration to go ahead and do it because the state is not going to let you hang out on the line if you really need some help; we encourage you to do it; we need the jobs, we want the tax base, we want all of the thing that that kind of a development will bring. And we have done it, so we're not asking for something to be done in the future - no pie in the sky. It's there and it's being done and if we do the modification and expansion that we're talking about, we'll simply kind of do it because it's a good, economically viable project, and not because it would give us an opportunity to get crude oil and not because of some subsidy that might be available to us. We don't

believe that if a project is not viable on its own merit, that creating a subsidy for it will do nothing for its long-term viability. As a matter of fact, you simply give it crutches and make it weaker and unable to compete in a competitive environment. We are in a competitive environment today and many people who have not been in the business very long have forgotten how to live and operate in this environment.

I think that Tesoro Alaska's record for integrity in its business dealings with the State of Alaska and the performance on the contract it has had with the state is a record that is totally unblemished, and it's our obligation and our intention to maintain that unblemished record in the dealings with the state on this contract and anything that may emerge from it. Thank you.

CHAIRMAN WALFORD: Senator Fahrenkamp.

SENATOR FAHRENKAMP: Dennis, we heard yesterday that there could be anywhere from a one to three cents a barrel - could be now, with the way the markets run et cetera. If you have this long-term contract that has some security of not having to mess with other governments and some type of security of having a source of supply, will there be any chance of that being reflected towards the people of the state at the pump, so that

the people of the state see this reflection and know we're here?

MR. JUREN: Well, I think you would probably either think me a fool or a liar if I pretended to say that I knew what prices in the future might be, because there are almost an imponderable number of variables that affect price, not the least of which of course is the cost of the raw material, but that is only one thing. There is also the cost of manufacturing, the price escalation of our natural gas that we use for refinery fuel, labor cost increases, and of course, the most important of all, competition. What does competition do to pricing? So to say that if you lower my cost ... [indiscern.; someone coughing] ... dollar that the price at the pump will drop a dollar . .

SENATOR FAHRENKAMP: Oh, I wouldn't say that.

MR. JUREN: ... no one can really, in all honesty, project that. I think what it would do for us is, as I mentioned there were times in the past where we have materially had to reduce runs. During the real tight market and very expensive market of '79-80 we had cut back around 38,000 barrels a day. It's not that there wasn't any crude. Crude shortages are really economic shortages, and not absolute shortages. If you wanted to pay a hundred dollars a barrel during the peak of the crisis you could have bought a barrel of crude, but

it doesn't mean that you could have refined it and profitably sold the product from it. So what we see this as having a tendency to do is to mitigate the abrupt price movements that occur in shortages and give us an opportunity to remain competitive in the marketplace and not lose our competitive position. If our crude cost goes up extraordinary, and we try to pass it through by holding prices higher than competition, we'll soon be out of business. People will simply not buy from you if you're consistently higher than your competitors. Currently we are very competitive on our pricing. In most cases we're below our competitors, and like to stay there because that gives us the advantage that we need to penetrate new markets that we're not into. That's the only way you can penetrate a new market is to lower the cost. Quality certainly is a factor but when you get right down to it price is the main determinant in buying or selling petroleum products, even on the streets. I didn't perhaps answer your question fully, but I'll say I don't think anyone - any reasonable person - would try to - he shouldn't because he simply cannot know all the imponderables - to say that X reduction in price will yield X reduction or a percentage of X reduction in the selling price on the street. I simply couldn't know that.

SENATOR FAHRENKAMP: As I understand your answer, then, you're saying that you will do whatever you can to stay competitive or [indiscern.] competitive ... [indiscern.; simultaneous conversation] ...?

MR. JUREN: Absolutely. Our intention is to grow. We're not content with being a 48,000-barrel-a-day refinery. We'd like to be a 100,000-barrel-a-day refinery if the market will let us.

CHAIRMAN HALFORD: [Indiscern.]

SENATOR GILMAN [?]: Dennis, in your gasoline marketing, what percentage do you sell to other suppliers? In other words, how much of the gasoline goes to Tesoro and Union - not Tesoro, but Texaco and Union?

MR. JUREN: This is of a public record from the state tax reports which we monitor to see what our market penetration is and we currently have somewhere between twenty-five to twenty-seven percent of the market. Tesoro Alaska does, direct. That would indicate that the remainder is supplied to people like Chevron and Union and Texaco and independent jobbers and distributors who don't market under our brand or don't market our product directly. As I mentioned, we have the capacity to supply the total requirement in the state, but from a practical purpose probably never will. The reason for that is - here in the southeast for example. This market can be more competitively supplied from

refiners in the Puget Sound area than it can by us hauling product by barge back around from Kenai. So of the total market, we simply can't capture it unless we can break the code on transportation costs to find out a way to get it down here competitively with those northwest refineries. It's the same with diesel fuel. As I mentioned before, the North Pole refinery has essentially captured the interior market. There's no way I can penetrate that paying the kind of transportation costs I've got to pay to get it from Anchorage to Fairbanks. In terms of the market we serve, which is the lower railbelt - Anchorage area, Kenai Peninsula area - as an example we supply about seventy-five percent of the aviation turbine fuel used at the Anchorage International Airport, which is a very substantial percentage. The fact that we don't supply a hundred percent of it either direct or through a Texaco or Chevron, is one of the driving forces to build a unit at the refinery to make more turbine fuel - simply because there is a vacuum that must be supplied either by North Pole hauling product down from Fairbanks, at great cost to them, or people actually importing products from the Lower 48 or from offshore to Alaska; so there is still a market vacuum in turbine fuel that we desire to fill, and we're nearest to that in efficiency

and it's logical that it would make good economic sense for us to do it.

SENATOR GILMAN [?]: The point that I was trying to make is, though, that you do sell the raw gasoline to the other companies and they then put their additives in it and market it.

MR. JUREN: Right.

CHAIRMAN HALFORD: One thing that's been brought up is the potential loss to the state in royalty and severance because of the possible offset in the future pricing system of West Coast to Gulf Coast, and I wonder if you could respond to that. That's something that I think some people might consider to be a subsidy although you actually pay the average price anyone else pays. There at least could be some reduction in revenue to the state, and I wonder if there's also another side to that question.

MR. JUREN: Yes, there's a multitude of facts to it. As Commissioner Katz yesterday explained, and Deputy Commissioner Haynes did, the penalty that they've illustrated - \$10 million - is representative of the market value that exists at a point in time, and this may be representative of market values that exist at this point in time. However, as I also explained, that's simply selecting somewhat arbitrarily a point and saying this is the way it's going to be forever.

That is not the way necessarily that it's going to be forever. Traditionally, Gulf Coast prices have been higher than West Coast prices. In glut conditions and surplus conditions prices tend to float around an equalized basis, especially since decontrol and the fact that U.S. crude prices and world crude prices are established in a somewhat equilibrium level. You could go back in time and analyze over a period of ten years and probably discover that there were periods in the past where the differential was the opposite of what was presented yesterday, and that there might be a significant benefit accruing from shipping to the Gulf Coast versus shipping to the West Coast. So, you've got a package of numbers and you can almost make any kind of projection that you in your own mind think is the most reasonable projection for the future, and come up perhaps with a penalty and come up perhaps with no penalty or come up with a benefit. I don't venture to say, again, that I can forecast the future or know what the future price might be of oil or what the relationship might be of that oil. I have no way to tell whether a barrel that we would take and trade would displace a West Coast barrel or would displace a Gulf Coast barrel. Obviously, if it displaced the Gulf Coast barrel it would have a positive impact rather than a negative impact. In the expansion that we just

completed, we added somewhere in the range of twenty or twenty-one new employees in the refinery and four or five professional people - chemical and mechanical engineers - and several staff members. Our employees make -- The top people in the refinery make in the magnitude of \$40-45,000 a year or more, and the lower level ones make \$18-20,000, and the average might be \$35,000, so we've got roughly a million dollars that we've added. If you use the old chamber of commerce multiplier of five to one, we've added \$5 million worth of benefit to the community through the expansion we just completed, notwithstanding the tax base that was created by a sixty-million-dollar improvement added to the refinery. So I presume the commissioner in going through his exercises would be able to document these things as far as the trade-off is concerned, but not notwithstanding those trade-offs, trying to project the future market values on the Gulf Coast or the East Coast or the West Coast or price F.O.B. Valdez is something that you simply can't do. If you told me in 1979, 1980, and we were a victim of our lack of foresight, we bid in the auction on the ANS royalty crude and we got an award at a premium of \$1.91 a barrel over the in-value price. As it turned out about the time delivery started a few months later, the market had fallen and we could have bought that same oil on the

spot market for four or five dollars a barrel less, so we didn't. We had a contract with the state which we performed against, and we paid the \$1.91 premium. The state was the beneficiary in its treasury to that extent, but our customers suffered a penalty because they could have been buying gasoline and diesel cheaper. Because we did not have the opportunity to buy the spot market oil to lower the cost of crude we were stuck with the higher priced oil. Conversely, had you told me then that there would have been a drop in the magnitude of the drop that's occurred that today you could buy North Slope crude delivered to the Gulf Coast for twenty-six dollars a barrel I would have told you then you were equally crazy. It's just almost impossible in the kind of world that exists today to try to forecast what it might be.

CHAIRMAN HALFORD: So basically, even at the worst case of West Coast displacement, your net benefit to the state substantially exceeds that worst case.

MR. JUREN: Yes.

CHAIRMAN HALFORD: For example, we've had an import tariff or some stabilization in the world market which has got to happen at some point. I don't think we'd look at a twelve-year contract where you can assume that we're going to be in the same kind of situation we are now. Production has to go down, and price has probably got

to adjust somewhere along the way. At that point, then the differential between West Coast and Gulf Coast isn't going to be there and that loss isn't going to be there - or that potential loss isn't going to be there - but the benefit which exceeds the maximum loss is going to be there throughout the entire period.

MR. JUREN: Yes. We share that feeling, incidentally.

Obviously, we would not be even attempting to get a long-term supply of crude if our attitude was that crude supplies would remain abundant and weak forever. In doing the research for our project, we engaged several consultants, one of whom incidentally does some work for the State of Alaska, Walter Levy and Company, and asked him to give us his projection of worldwide crude supply and demand balances. His conclusion was that there will be periods of surplus and periods of shortage but the periods of shortage would probably be more frequent and of greater amplitude and price movement than would the periods of depression and surplus, and I think that's somewhat the conventional wisdom of the people that are knowledgeable in petroleum economics and it's on that basis that we feel it's critical that we have a contract to support us.

CHAIRMAN HALFORD: We've got about ten minutes left in the session. Does anyone have any further questions?
Representative Cotten.

REP. COTTEN: Why are you in such a different position compared to Doyon when we talk about return oil? You don't seem to be very concerned about it.

MR. JUREN: Well, I'm very concerned about it. We have through either foresight - I like to think it's through astute management, but it's probably more luck than anything else - entered into a contract with San Diego Gas and Electric.

REP. COTTEN: Oh, you've already sold it?

MR. JUREN: We have ...

REP. COTTEN: You've already got a contract?

MR. JUREN: We have been selling them since 1972 and we have renewed the contract on about a three-year [indiscern.] period. The contract that we have will expire in 1984. The fact that if residual fuel markets do not strengthen, as forecasts now indicate they won't, we've got the same they've got, and our solution to that problem is to convert the refineries that process that bottom of the barrel into something else. We don't have access to the Trans Alaska Pipeline to serve as a place to physically put it. A guaranteed market -- We may not like the price but at least we've got a guaranteed market.

REP. COTTEN: I didn't realize you had a contract with them. I just have one other question. If you were to

purchase from one of the other producers today, wouldn't you have to pay more than the average weighted price?

MR. JUREN: Jim, do you want to respond to that? As I mentioned, Jim is president of our crude oil company.

MR. SMITH: Representative Cotten, I think that that all depends on which day that you tried to cover that contract. If today we were buying, and it would depend on the willingness of the producer to sell to us on a very short-term or a long-term basis, which the fact of the matter is is not going to be a viable opportunity, because they are not willing to sell the oil on a long-term basis ... [indiscern.; not at microphone] ... twelve years ... but we in fact are buying today spot crude oil - ANS crude oil - from Sohio and the price that we pay Sohio is higher than what we probably could buy it from either Arco or Exxon, but they ... price ... [indiscern.] ... station one; but they weren't willing to sell to us at that time, so I think the exhibits of the price relative to Sohio show that they are always - in most every case have been - a higher priced seller, a higher ... Pump Station One than anyone else, so I suspect that we're paying a higher price today to Sohio than we would pay to one of the other suppliers.

REP. COTTEN: What about in relation to the average weighted price?

MR. SMITH: Well, by virtue of their having the highest price and having the highest volume of oil in the average, their price would be higher than the weighted average price.

REP. COTTEN: Thank you.

CHAIRMAN HALFORD: If we haven't got any further questions, we're all going to have to go to our respective sessions. We thank you very much, and I hope DNR will be getting some more information back to us. Thank you.

[End of meeting.]

Royalty oil file

ALASKA ROYALTY OIL & GAS DEVELOPMENT ADVISORY BOARD
MARCH 25, 1982 MEETING
TRANSCRIPT - DISCUSSION OF THE DOYON, LTD. CONTRACT
(BEGINNING DISCUSSION IMMEDIATELY FOLLOWING INTRODUCTION OF
RESOLUTION BY DR. TRIPLEHORN)

COMMISSIONER KATZ: MR. CHAIRMAN?

CHAIRMAN LYON: YES, COMMISSIONER KATZ.

COMMISSIONER KATZ: LET ME SPEAK A LITTLE BIT ON THAT RESOLUTION. I DON'T DISAGREE WITH THE CONCLUSION IN THAT RESOLUTION. I GUESS MY REASONS WOULD BE A LITTLE BIT DIFFERENT. FROM OUR POINT OF VIEW, ONE OF THE VERY MAJOR PREMISES THAT GOVERNED THE NEGOTIATION OF OUR CONTRACT WITH DOYON HAS CHANGED AND I'VE HAD A DISCUSSION WITH THE CHAIRMAN ABOUT THIS AND I WANT TO GET IT OUT ON THE TABLE. FOR ME THE ONLY ISSUE REALLY IS TIMING. WHEN WE NEGOTIATED THIS CONTRACT DOYON WAS MOVING FORWARD VERY RAPIDLY TOWARD THE CONSTRUCTION OF A REFINERY AND ALL OF THE COMPONENTS THAT WE SAW OR THAT WE THOUGHT WERE NECESSARY WERE THERE. SINCE THAT TIME VERY SERIOUS QUESTIONS HAVE ARISEN ABOUT THE FINANCING OF THE DOYON PROPOSAL. AT THE TIME WE NEGOTIATED THE CONTRACT CONSTRUCTION FINANCING WAS IN PLACE. THE EQUIPMENT HAD BEEN PURCHASED AND THE SITE HAD BEEN ACQUIRED. IN THAT SITUATION WE DID'NT FEEL THE NEED FOR BENCHMARKS OF THE TYPE THAT EXISTED IN THE ALPETCO ARRANGEMENT AND HAVE ALWAYS FELT THAT THE STATE WAS IN A DIFFICULT POSITION TO ACCESS REALLY WELL COMMERCIAL BENCHMARKS. BUT THE COMMITMENT OF A MAJOR ALASKAN COMPANY IN THE THREE RESPECTS THAT I MENTIONED WE FELT WAS ADEQUATE ASSURANCE BECAUSE THEY HAD AN ECONOMIC SELF-INTEREST IN PERCEIVING OVER AND ABOVE THE GOVERNMENT' SORT OF LOOKING OVER THEIR SHOULDER. I SHOULD EMPHASIZE THAT IN OUR JUDGEMENT WE'RE NOT CONFRONTING ANYTHING THAT APPROXIMATES THE ALPETCO SITUATION. THE STATE OF ALASKA IS PROTECTED AT THE FRONT AND BACK END OF

EVERY ONE OF THESE CONTRACTS WITH REALLY ADEQUATE SECURITY INTERESTS. BUT WHAT DOES CONCERN THE DEPARTMENT OF NATURAL RESOURCES IS HAVING ANYBODY WITH A ROYALTY OIL CONTRACT AND NO REALLY REASONABLE PROSPECT OF BEING ABLE TO FULFILL THAT CONTRACT WITHIN A SPECIFIED TIMEFRAME. AND THEREFORE THAT WOULD VIOLATE ONE OF THE MAJOR 13 OR 14 POLICIES THAT WE'VE TALKED TO THE BOARD ABOUT, WHICH IS THAT THE STATE SHOULD BE IN THE BUSINESS OF PROVIDING ROYALTY OIL ONLY TO ENTERPRISES THAT SEEM TO BE IMMINENT IN NATURE. FOR ME THE CRUCIAL ISSUE HAS BEEN ONE OF TIMING, AND THE BOARD HAS A DIFFERENT RESPONSIBILITY THAN I DO. HERE'S WHERE THE BOARD MUST SPEAK AND I CAN UNDERSTAND THAT EVERY MEMBER OF THE BOARD MAY WANT TO SPEAK NOW. THE COMMISSIONER OF NATURAL RESOURCES FOR BETTER OR WORSE MAKES THE TRANSITION NOW FROM HIS EX-OFFICIO MEMBERSHIP ON THE BOARD, TO PARTICIPATING VERY ACTIVELY IN THE LEGISLATIVE PROCESS. AND AS I ADVISED DOYON WHEN WE SENSED THAT THE FINANCING SITUATION HAD CHANGED, I FEEL MORALLY COMPELLED AT SOME POINT IN THE LEGISLATIVE PROCESS AND CERTAINLY BEFORE THE GOVERNOR TO APPRAISE THE LEGISLATURE AND THE GOVERNOR THAT THE CIRCUMSTANCES HAVE CHANGED. SO THE ONLY ISSUE FOR ME WAS ONE OF TIMING. I COULD LET THE PROCESS GO A LITTLE FURTHER AND STILL COMPLY WITH WHAT I THINK ARE MY STATUTORY OBLIGATIONS AND THE ROLE THAT I'D LIKE TO PLAY WITH THE LEGISLATURE. I CAN UNDERSTAND THAT YOU ARE IN A DIFFERENT ROLE, YOU MUST SPEAK NOW OR IN ESSENCE HOLD YOUR PEACE. I WILL SAY ONE OTHER THING, ALL THAT IS - ONLY TO SAY THAT WHILE I HAVE NO PROBLEM WITH THE CONCLUSION, I MIGHT STATE SOME OF THE FINDINGS A LITTLE BIT DIFFERENTLY. ONE OTHER THING WORTH MENTIONING, WE ARE NOT CERTAIN AND DID NOT TRY TO INDICATE AT ANY POINT IN THE JUNCTURE THAT TWO

REFINERIES ARE VIABLE IN THE FAIRBANKS AREA. THEY MIGHT BE. DEPENDING ON WHICH MARKETS THEY DECIDE TO EXPAND INTO, WHERE THEY COMPETE AND IT SHOULD BE NOTED THAT EVEN NOW THE COMPETITIVE MARKETPLACE FOR MAPCO FAR TRANSCENDS THE INTERIOR. THERE ARE OPPORTUNITIES TO CREATE MARKETS IN OTHER PARTS OF THE STATE SO I WOULDN'T SAY CATEGORICALLY THAT TWO REFINERIES COULD NOT COMPETE BUT THE PHILOSOPHICAL STANCE THAT WE BROUGHT TO THE ISSUE, JUST SO THAT IT IS OUT BEFORE THE BOARD TO CONSIDER, IS THAT PERHAPS THAT'S NONE OF THE GOVERNMENT'S BUSINESS. AS LONG AS THE GOVERNMENT IS PROTECTED IN ALL PHASES OF THE PROCESS THROUGH ADEQUATE SECURITY INTERESTS AND EVERYTHING ELSE, SHOULD WE SECOND GUESS THE DECISION OF A CAPITALIST OPERATING IN HIS OWN SELF-INTEREST. THAT A SECOND REFINERY IN FACT COULD BE VIABLE IN THE FAIRBANKS CONTEXT AND FOR THAT REASON WE CHOSE TO FOCUS OUR ATTENTION ON THE SECURITY INTERESTS AND OTHER ASPECTS. THE LAST THING I'LL MENTION AND DOYON'S ATTORNEY IS HERE AND CAN SPEAK TO THIS ISSUE, IS THAT I THINK THAT DOYON REASONABLY EXPECTED THAT AT LEAST SOME MEMBERS OF THE BOARD MIGHT HAVE A REAL CONCERN ABOUT IT'S CURRENT FINANCING SITUATION, BUT I FELT THAT IF YOU COULD ARTICULATE THAT VERY CLEARLY IN YOUR FINDINGS AS PERHPAS THE PRINCIPLE REASON FOR YOUR DECISION, THAT THAT MIGHT GIVE THEM A LITTLE BIT MORE TIME. AND THEY ARE VERY ACTIVELY ENGAGED NOW IN TRYING TO PUT THEIR FINANCING BACK TOGETHER. WHETHER THAT WILL BE POSSIBLE IS ANYBODY'S GUESS AND IS A LITTLE BIT PROBLEMATIC I THINK AT THIS POINT, BUT AT LEAST THAT WOULD IDENTIFY FOR THE LEGISLATURE YOUR CRITICAL CONCERN AND IF IN FACT THAT CONCERN WERE MET LATER IN THE PROCESS PERHAPS THE CONTRACT COULD GO FORWARD. THAT WORKS, WELL THEORETICALLY

THERE ARE SOME PROBLEMS WITH IT PARTICULARLY WITH THE BOARD BECAUSE YOU DON'T PARTICIPATE AS ACTIVELY AT SOME SUBSEQUENT JUNCTURES OF THE PROCESS ALSO, TIME IS TIGHT RIGHT NOW AND WE'RE NOT SURE - HOW DO WE ON A VERY EXPEDITED BASIS ASCERTAIN WHETHER THE FINANCING IS THERE OR NOT. BUT I JUST WANTED TO GET THEIR CONCERN OUT ON THE TABLE, BUT MORE IMPORTANTLY TO INDICATE FROM DNR'S POINT OF VIEW THAT THERE IS NO PROBLEM WITH THE CONCLUSION OF COMMISSIONER TRIPLEHORN'S RESOLUTION AND WE MIGHT QUERY ONLY A LITTLE BIT A COUPLE OF THE PRELIMINARY FINDINGS.

CHAIRMAN LYON: DON.

TRIPLEHORN: COUPLE OF POINTS MR. COMMISSIONER. I MOVED THIS IN PART FOR PURPOSES OF DISCUSSION, AND I WANT TO EXPLORE A COUPLE OF ASPECTS OF IT. BUT I THINK PERHAPS WE CAN CLEAR SOME OF THIS UP IN THE SENSE THAT MY MAIN CONCERN IS ONE OF TIMING AND IF I MAY AMEND MY OWN RESOLUTION, I WOULD LIKE TO DELETE A & B IN THAT I AGREE THAT IT'S NONE OF OUR BUSINESS THAT THIS JUNCTURE AND I'M NOT SURE THAT "B" IS ACTUALLY TRUE IN ANY CASE - THAT THEY HAVE NOT MADE ANY ATTEMPT, PERHAPS THEY HAVE MADE AN ATTEMPT. BASICALLY, I WOULD LIKE TO FOCUS ON THE TIMING ASPECT AND I WOULD LIKE TO DELETE A & B AND SO MOVE.

CHAIRMAN LYON: OKAY.

COMMISSIONER WILLIAMS: YOU'VE DONE IT. THERE IS NO OBJECTION FROM THE SECOND.

TRIPLEHORN: WHO SECONDED IT?

COMMISSIONER WILLIAMS: I DID THAT'S WHY THERE'S NO OBJECTION.
I HAVE NO OBJECTION MR. CHAIRMAN.

CHAIRMAN LYON: SO ORDERED THEN. FROM A METHOD STANDPOINT, I
THINK ENOUGH MEMBERS OF THE BOARD WILL BE HERE IN JUNEAU TOMORROW
IF WE NEED TO CARRY OVER THIS CONSIDERATION. I DON'T KNOW THAT
THAT'S NECESSARY. I - BOTH DR. TRIPLEHORN AND I ARE HERE, I
BELIEVE COMMISSIONER WEBBER'S LEAVING AND COMMISSIONER WILLIAMS
ARE YOU AROUND?

COMMISSIONER WILLIAMS: AROUND, BUT NOT NECESSARILY AVAILABLE.

CHAIRMAN LYON: OKAY. I'M GUESSING IT WON'T BE NECESSARY BECAUSE
I THINK WE CAN SPEAK TO THIS. DO YOU HAVE SOMETHING ELSE TO AMEND
IN YOU. . .

TRIPLEHORN: I MERELY WANTED TO EXPLORE THAT ASPECT IF I COULD.

CHAIRMAN LYON: CERTAINLY.

TRIPLEHORN: IF I COULD ASK THE COMMISSIONER. IN A WAY I'LL ARGUE
AGAINST MY OWN RESOLUTION BUT WOULD WE DO ANY HARM TO DOYON'S PROJECT
BY TURNING THAT CONTRACT DOWN OR WE COULD ANSWER THAT EITHER WAY.
WHAT WOULD BE THE IMPLICATIONS OF APPROVING THAT CONTRACT AND IF

THEY LET'S SAY, IS THERE A CHANCE OF THEM MEETING THE DEADLINE IN
HERE IS I THINK IT IS DECEMBER 1, IS THAT CORRECT? IS THERE ANY
CHANCE AT ALL THAT THEY COULD BE IN A POSITION TO TAKE THE OIL
DECEMBER 1.

COMMISSIONER KATZ: I THINK THAT THERE - I'LL TRY AND ANSWER BOTH
SIDES OF YOUR QUESTION. I THINK THAT THERE ARE TWO NEGATIVE ASPECTS
OF ACTUALLY APPROVING A CONTRACT. ONE IS THAT IN A SENSE THAT
WOULD BE UNFAIR TO OTHER PEOPLE THAT WERE INVOLVED IN THE
SOLICITATION BECAUSE WE SAID TO THEM YOUR PROJECT HAD TO BE
IMMINENT AND THAT YOU HAD TO BE ABLE TO PROVE TO US THAT THERE
WAS A REALLY GREAT LIKELIHOOD THAT IT WOULD MOVE FORWARD. FOR
EXAMPLE, TESORO HAD SOME EXPANSION PLANS THAT I THINK WOULD BE VLRV
MUCH IN THE STATE'S BEST INTEREST BUT THEY'RE STILL IN THE ACTIVE
CONSIDERATION PHASE AND WE WEREN'T WILLING TO COMMIT THE STATE'S
OIL NOW. CERTAINLY I THINK IT MIGHT BE IN THE STATE'S BEST INTEREST
LATER. SIMILARLY THERE WERE A COUPLE OF PROJECTS PRESENTED I THINK
VERY PROMISING CONCEPTUAL PLANS FOR THE USE OF STATE ROYALTY OIL,
BUT THEY WEREN'T THERE YET - ADMITTEDLY A LITTLE FURTHER AWAY
THAN DOYON MIGHT HAVE BEEN. ANOTHER NEGATIVE ASPECT IS IF THERE
IS NO REASONABLE LIKELIHOOD THAT THE DOYON PROPOSAL WILL GO FORWARD
WE ARE COMMITTING THE STATE ROYALTY OIL FOR A PERIOD OF TIME. A
CLOUD ON TITLE. NOW I DON'T AT THIS MOMENT FORESEE ANY GREAT
LIKELIHOOD THAT THAT PARTICULAR OIL COULD BE WELL UTILIZED FOR
ANYTHING ELSE IN FACT AS WE'VE DISCOVERED GOING THROUGH A
SOLICITATION IS VERY ARDUOUS AND TIME CONSUMING BUT NEVERTHELESS
THAT DOES EXIST. ON THE PLUS SIDE TO TRY AND RESPOND FULLY TO

YOUR QUESTION, DOYON IS VERY ACTIVELY ENGAGED NOW IN TRYING TO GET FINANCING AND AV GROSS CAN SPEAK TO THAT, I KNOW THAT THEY'RE IN TOUCH WITH ALOT OF PEOPLE IN AN EFFORT TO PUT IT TOGETHER I THINK THAT THEY FEEL THAT THEY WILL EITHER SUCCEED OR FAIL ON THE NEXT TWO OR THREE WEEKS AND I DO BELIEVE THAT IF THEY WERE SUCCESSFUL IN PUTTING IT TOGETHER AND BEING ABLE TO PROVE TO THE DEPARTMENT AND THE LEGISLATURE THAT THEY HAD IN FACT SUCCESSFULLY PUT THEIR FINANCING TOGETHER THAT IT WOULD BE IN THE STATE'S BEST INTEREST TO SEE THE CONSTRUCTION OF A NEW COMPETING REFINERY IN INTERIOR ALASKA NO MATTER WHETHER AT SOME SUBSEQUENT JUNCTURE ONLY ONE MIGHT ULTIMATELY EXIST. I SHOULD MENTION ONE LAST THING, ONE THING THAT GIVES US A LITTLE BIT OF TROUBLE ON THE NEGATIVE SIDE IS THAT WE FELT FOR VERY GOOD REASON AND I KNOW THAT AT LEAST ONE MEMBER OF THE BOARD WAS A LITTLE BIT CONCERNED ABOUT THIS POLICY THAT WE WOULD SUSPEND THE OPTION WEE POLICY FOR A PERIOD OF FOUR YEARS WHICH IS ROUGHLY THE TIME THAT MAPCO HAS HAD TIME TO PENETRATE THE MARKET. I FELT VERY COMFORTABLE ABOUT THAT POLICY IN AN EFFORT TO FOSTER THE ENTRY OF A NEW REFINERY. I FEEL LESS COMFORTABLE ABOUT IT IN THE CIRCUMSTANCE WHERE THERE ISN'T IMMIDENT PROGRESS TOWARD THE CONSTRUCTION OF THAT REFINERY.

TRIPLEHORN: I CAN'T SPEAK FOR THE OTHER MEMBERS OF THE BOARD, BUT PERSONALLY AND I THINK MOST PEOPLE WOULD AGREE WITH THAT WE WANT TO ENCOURAGE THE COMPLETION OF THE REFINERY AND WOULD LIKE TO SEE THAT AND I HOPE THAT IN NO WAY A NEGATIVE INDICATION HERE WOULD BE CONSTRUED AS BEING ANY KIND OF NEGATIVE FEELING ABOUT THAT PROJECT. THE MAIN CONCERN IS ONE OF TIMING AND IF IT CAN BE DONE

LATER THE THING THAT DOES BOTHER ME IS THE IDEA, I THINK YOU EXPRESSED IT WELL, OF AN'BODY HOLDING ANY KIND OF A CONTRACT FOR ROYALTY OIL. . . I'M HOPING THAT IF THEY'RE READY TO GO WITH THIS LET'S SAY NEXT YEAR THAT IN A VERY TIMELY MANNER WE COULD RE-EXECUTE . . . ARGUING THE OTHER SIDE MOMENTARILY, WOULD THERE BE MUCH VALUE LET'S SAY AS A POSITIVE INDICATION TO DOYON TO GO AHEAD AND APPROVE THIS, SAY IT DOES PUT A CLOUD ON SOME OIL BUT YOU COULD SAY REALISTICALLY WE'RE PROBABLY NOT GOING TO DO ANYTHING WITH THAT ANYHOW. WOULD THERE BE MUCH VALUE TO THAT OR WILL IT BE CONSTRUED AS A NEGATIVE INDICATOR IF WE TURN IT DOWN?

COMMISSIONER KATZ: THERE IS NO QUESTION THIS DEALS AS SCIENTIFIC AND IMPERICAL AS BANKERS AND EVERYBODY ELSE TRIES TO BE, THERE IS A PSYCHOLOGICAL VALUE ON EITHER SIDE. IF YOU WERE TO APPROVE THE CONTRACT I THINK THAT WOULD BE OF BENEFIT TO DOYON IT WOULD BE A PSYCHOLOGICAL BENEFIT AND PROBABLY A SUBSTANTIVE BENEFIT TOO. WE HAVE TRIED TO FOLLOW THE POLICY NOT PERMITTING PEOPLE TO OBTAIN STATE ROYALTY OIL FIRST AND THEN SORT OF USING THAT AS A VEHICLE OR A LEVERAGE TO FINANCE THEIR PROJECT BUT YOU KNOW A CONTRAVENING SITUATION IS IF WE'RE CORRECT IT WOULD REALLY BE OF VALUE TO THE INTERIOR AND POSSIBLY TO THE REST OF THE STATE BECAUSE OF THE WAY THAT COMPETITION EMANATES FROM EACH FIXED SOURCE IN ALASKA THEN MAYBE IT'S WORTH THAT ABROGATION OF THE POLICY IN CONSIDERATION OF ANOTHER VERY IMPORTANT POLICY WHICH IS TO PROMOTE COMPETITION TO THE MAXIMUM EXTENT POSSIBLE. I THINK TOO THAT IT WOULD HAVE A NEGATIVE EFFECT ON DOYON'S CHANCES, IF TO RESPOND FULLY TO YOUR QUESTION, IF IN FACT THE BOARD WERE TO DISAPPROVE IT NOT THAT

THAT'S DETERMINATIVE, AGAIN EVEN THOUGH YOU MIGHT VERY CAREFULLY CONFINED THE REASONS FOR YOUR DISAPPROVAL AND CENTER ON THE FINANCING MATTER, THERE IS NO QUESTION THAT THE BANKING COMMUNITY WOULD REACT I THINK MORE - WOULD REACT TO THE PSYCHOLOGY AS WELL AS TO THE IMPERIOUSNESS OF THAT PARTICULAR DECISION.

CHAIRMAN LYON: I THINK THE DIFFICULTY COMMISSIONER KATZ, AT THIS JUNCTURE IF YOU WERE TO MOVE AWAY FROM THE POSTURE YOU'VE HELD THROUGH THE NEGOTIATIONS WITH THE OTHER 21 APPLICANTS THAT WE'D HAVE KIND OF A LEGAL PROBLEM BECAUSE YOU'D SAID TO EACH OF THEM I THINK ALL THE WAY ALONG NOW WE WANT COMMITTED OFFERORS ONLY AND NOW YOU SAY WELL WAIT A MINUTE THAT'S NOT QUITE TRUE AND IF I HAD BEEN A DISAPPOINTED APPLICANT I THINK I'D COME BACK TO YOU AND SAY NOW WAIT A MINUTE LET'S LOOK AT THIS THING AGAIN. YOU'RE WILLING TO SEE TO DOYON ON THIS BASIS THEN I'D LIKE TO BUY ON THE SAME BASIS. THAT'S I THINK WHAT TROUBLES ME I DON'T LIKE TO HAVE TO BE IN A POSITION OF DOING SOMETHING WHICH MAY BE USELESS. I THINK THAT THE BOARD HAS BEEN PRETTY STEADFAST AND THE DEPARTMENT HAS BEEN PRETTY STEADFAST IN TRYING TO PROVIDE MATERIAL FOR BONA FIDE IN-STATE USERS. IT'S NOT ALWAYS SUCCESSFUL BECAUSE YOU CAN'T ALWAYS MAKE THE DEAL BUT IN THIS CASE YOU DON'T KNOW THAT THERE IS ONE.

COMMISSIONER KATZ: AS A FORMER LAWYER I MIGHT FIND ENOUGH POINTS OF DISTINCTION. BUT CERTAINLY I AGREE WITH THE THRUST OF EVERYTHING THAT YOU SAID AND IT HAS BEEN AN ADAMANT POLICY OF DNR AND YOU. PRIOR EXPERIENCE WE'VE HAD TO OBSERVE THAT WE (TAPE RUNS OUT)

I DO THINK THAT AS COMMISSIONER TRIPLEHORN INDICATED ONE OF OUR OTHER POLICIES NO MATTER WHAT THE BOARD DECIDES WILL INURE TO DOYON'S BENEFIT AND THAT IS WE WILL RETAIN A SIGNIFICANT AMOUNT OF UNCOMMITTED OIL AND FROM OUR POINT OF VIEW THE ONE REAL GLICHE WHICH DID NOT EXIST BEFORE BUT EXISTS NOW IS THE FINANCING ASPECT AND EVERYTHING ELSE BEING EQUAL IF WE WERE SUCCESSFUL IN NEGOTIATING THE SAME SORT OF CONTRACT IN THE FUTURE AND THE FINANCING HAD BEEN RESOLVED I THINK IT WOULD BE IN THE STATE'S INTEREST -- BEST INTEREST TO ENTER INTO A NEW CONTRACT. IF WE'RE RIGHT IN THE MERITS OF THAT CONCLUSION THEN ANY SUBSEQUENT LEGISLATURE, GOVERNOR, COMMISSIONER WOULD HOPEFULLY COME TO THE SAME CONCLUSION.

CHAIRMAN LYON: WE'RE TALKING ABOUT AN ENTERPRISE WHICH WOULD CONSUME LET'S SAY ON THE ORDER OF A MILLION DOLLARS A DAY WORTH OF CRUDE OIL - NOMINALLY. THAT BEING THE CASE, I WOULD THINK EACH OF US WHO PARTICIPATED IN THIS COULD EASILY JUSTIFY ASKING THE GOVERNOR TO REQUEST A SPECIAL SESSION. THIS IS A MAJOR THING. IT IS IF - I COULD BE UNPOPULAR IN MY HOME TOWN, BUT IF SAY BY JULY THEIR SITUATION HAS CHANGED I DON'T HAVE ANY DISCOMFORT, WE'VE ALWAYS AS A BOARD TRIED TO WORK OUR DOINGS AROUND THE LEGISLATIVE SESSION NOW I DON'T THINK THAT'S REALLY NECESSARY. IT'S MORE CONVENIENT BUT IT'S CERTAINLY NOT - IF WE HAVE SOMETHING THAT IS CENTRAL TO THE SUCCESS OF THIS PARTICULAR ENTERPRISE I THINK EACH OF US COULD JUSTIFY TAKING THAT APPROACH.

TRIPLEHORN: IT MAKES IT A TOUGH ONE THE WAY - IF WE SHOULD PERHAPS HAVE A NEGATIVE RECOMMENDATION IN THIS CASE I HOPE THAT THE

COMMISSIONER WOULD ACTIVELY PURSUE A CONTRACT WITH DOYON AT WHICH TIME THEY WOULD BE READY TO GO FORWARD AND I'LL BRING UP SOMETHING I DON'T KNOW IF YOU REMEMBER IS IN THERE AND THERE ARE WORDS IN THE LEGISLATION THAT SAY THAT THE BOARD CAN DIRECT THE COMMISSIONER. WE'VE NEVER TESTED THAT WATER YET TO SEE WHAT WOULD HAPPEN IF WE DIRECTED YOU TO DO SOMETHING AND YOU DECIDED YOU DIDN'T WANT TO DO IT. BUT AT ANY RATE SPEAKING FOR MYSELF IF YOU DIDN'T WE WOULD URGE YOU TO DO THAT.

COMMISSIONER KATZ: I WOULD DO IT.

COMMISSIONER WEBBER: MR. CHAIRMAN.

CHAIRMAN LYON: COMMISSIONER WEBBER.

COMMISSIONER WEBBER: COMMISSIONER IN THE FAILURE TO HAVE FINANCIAL CAPABILITY HOW IS THAT OUTLINED?

COMMISSIONER KATZ: WELL I DON'T WANT TO SAY MORE THAN I - I'VE LEARNED SOME OF THIS IN A CONFIDENTIAL RELATIONSHIP SO I'M GOING TO SAY IT A LITTLE BIT AND HOPE IF AV GROSS THINKS IT'S APPROPRIATE HE MIGHT ELABORATE. IT MANIFESTS ITSELF IN THAT CONSTRUCTION FINANCING WHICH WAS CLEARLY COMMITTED AT THE TIME OUR CONTRACT WAS NEGOTIATED, NO LONGER EXISTS AND AT THE TIME THE CONTRACT WAS NEGOTIATED WE WERE PRIVY TO THE DETAILS OF THOSE FINANCIAL COMMITMENTS AND FELT COMFORTABLE WITH THEM FOR A NUMBER OF REASONS

APPARENTLY THOSE COMMITMENTS HAVE LAPSED SINCE THE TIME OF THE NEGOTIATION OF OUR CONTRACT. WE HAD NO NOTICE AT THE TIME OR POSSIBILITY OF NOTICE IN MY JUDGEMENT THAT THAT COULD OCCUR.

CHAIRMAN LYON: DO ANY OF THE OTHER MEMBERS HAVE QUESTIONS OF THE COMMISSIONER? WOULD YOU LIKE TO. . . SURE. AV GROSS.

AVRUM GROSS: DO YOU WANT ME TO COME DOWN THERE?

CHAIRMAN LYON: YES, IT'S A LITTLE EASIER TO HAVE YOU ON THE RECORD.

AVRUM GROSS: I'LL JUST SAY A BRIEF WORD ABOUT THIS. JOHN'S GIVEN A VERY ACCURATE ASSESSMENT I THINK, WE'VE TRIED ALL THROUGH THESE NEGOTIATIONS TO KEEP THE DEPARTMENT OF NATURAL RESOURCES CLOSELY INFORMED AND I THINK, I HOPE JOHN AND GEOFF AND BOB FEEL THAT WE'VE DONE AN ADEQUATE JOB IN TELLING THEM EXACTLY WHAT OUR PROBLEMS WERE WHEN THEY HAPPENED AND TRYING TO BE AS OPEN ABOUT IT AS WE COULD. IN ESSENCE IT BOILS DOWN TO THIS. THAT THERE WAS FINANCING IN PLACE FOR THE CONSTRUCTION OF THE REFINERY, THE FINANCING IS NO LONGER IN PLACE, FIRMLY. THAT HAS TO DO WITH ALOT OF THINGS, SOME INTERNAL DOYON MATTERS OF WHICH I REALLY HESITATE TO PUT ON THE RECORD FRANKLY AND SECOND OF ALL THAT DOYON SHIFTED ITS EMPHASIS MIDSTREAM TO HOPEFULLY NEGOTIATE AND PICK-UP THE MAPCO REFINERY IN FAIRBANKS. THERE WERE EXTENSIVE NEGOTIATIONS ON THAT. THEY FELL THROUGH AT THE LAST MOMENT FOR A NUMBER OF REASONS AND NOW WE ARE IN THE PROCESS OF TRYING TO PUT

BACK TOGETHER THE FINANCING FOR THE ORIGINAL REFINERY. NOW THAT'S BECOME A LITTLE BIT DIFFICULT - MORE DIFFICULT THAN ORIGINALLY BECAUSE ONE OF THE MAJOR PROBLEMS IN NEGOTIATING THIS IS TO DO WITH THE RETURN OIL AS YOU PROBABLY KNOW, AND THE CHEVRON CONTRACT HOPEFULLY WAS GOING TO COME BEFORE THE BOARD WOULD HAVE DISPOSED OF THAT PROBLEM FOR US. IT DIDN'T. THROUGH NO FAULT OF ANYBODY'S BUT IT DIDN'T AND NOW WE HAVE TO NEGOTIATE A DISPOSITION OF THE RETURN OIL. SO NOW IT'S NOT ONLY GETTING THE FINANCING FOR THE ORIGINAL PROJECT BACK IN PLACE BUT ALSO FIRST OF ALL FIGURING OUT WHAT TO DO WITH THE RETURN OIL WHICH FOR - IS BECOMING CRITICAL. I WANT TO TELL YOU THOUGH THAT THIS IS NOT MERELY A CONCEPT. YOU USED THE TERM, I REMEMBER WHEN I HEARD - DOYON HAS A SUBSTANTIAL AMOUNT OF ITS OWN MONEY ALREADY INTO THIS PROJECT - THE LAND ACQUISITION, THE ENGINEERING, THE ACQUISITION OF EQUIPMENT. . . .

CHAIRMAN LYON: IF I IMPLIED THAT, I CERTAINLY DIDN'T MEAN TO IMPLY THAT. I KNOW YOU ACTUALLY ACQUIRED EQUIPMENT AND GROUND AND OTHER THINGS AS WELL.

AVRUM GROSS: THIS IS A PROJECT, THIS IS A REAL PROJECT WHICH IS SORT OF HALTED ALONG THE WAY BECAUSE OF THE FINANCING SITUATION BUT NONETHELESS IS NOT SIMPLY TRYING TO GET THE OIL OUT AND SPECULATE WITH IT THIS IS A REAL PROJECT. YOU HAVE A DIFFICULT PROBLEM, AND I UNDERSTAND IT AND I'VE TALKED IT OVER WITH JOHN AT SOME LENGTH AND I ONLY WISH TO POINT OUT A COUPLE OF THINGS. WE ARE IN A CRITICAL STAGE OF NEGOTIATIONS. TIM WALLIS FOR DOYON

HAS BEEN MEETING WITH PEOPLE CONTINUOUSLY FOR THE LAST COUPLE OF WEEKS. HE'S MEETING WITH INVESTMENT BANKERS IN FAIRBANKS ON MONDAY. HE WAS MEETING WITH PEOPLE ON THE RETURN OIL PROBLEM DOWN IN SEATTLE YESTERDAY. THERE ARE ALOT OF THINGS GOING ON IN THE DOYON CONTRACT RIGHT NOW AND I THINK THE POINTS YOU'VE RAISED ARE EXTREMELY VALID. JOHN & I DISCUSSED THE POSSIBILITY OF - THE BOARD HAS TO DEAL WITH THE CONTRACT RIGHT NOW IN TERMS OF IS IT A GOOD CONTRACT OR IS IT A BAD CONTRACT AND THIS IS THE ONLY TIME YOU'RE GOING TO BE DEALING WITH IT. YOU WON'T BE ABLE TO FOLLOW IT DOWN THE LINE IN ESSENCE TO SEE WHAT HAPPENS WITH THE FINANCING AND I UNDERSTAND THAT AT THE SAME TIME IT WOULD HELP US A GREAT DEAL IN RATHER CRITICAL NEGOTIATIONS THAT ARE GOING ON IF YOU COULD APPROVE THE CONTRACT IN ESSENCE YOU'RE MAKING A RECOMMENDATION TO THE LEGISLATURE AND SAY THAT - HOWEVER YOU PHRASE IT, THAT THE CONTRACT IS A GOOD ONE FROM THE STATE'S STANDPOINT ASSUMING THAT YOU HAVE A REFINERY WHICH CAN USE IT AND YOUR RECOMMENDATION IS BASED ON THE ASSUMPTION THAT THERE IS GOING TO BE AN OPERATING REFINERY, WHICH THE LEGISLATURE WILL BE REVIEWING ITSELF PRIOR TO ITS ADJOURNMENT. NOW IF THE LEGISLATURE DOES NOT ACT ON THIS THEN THERE'S NOT GOING TO BE A CONTRACT, SO IF, IT SEEMS TO ME THAT IF YOU SAY, YES, WE APPROVE THE CONTRACT BUT IN TERMS OF TYING UP THIS OIL WE DON'T WANT TO SUGGEST THAT IT BE TIED UP IF THERE IS NO REFINERY TO USE IT AND WE THEREFORE, URGE THE LEGISLATURE WHEN IT REVIEWS THE CONTRACT TO REVIEW WHETHER OR NOT THERE IS FINANCING IN PLACE FOR THE REFINERY TO GO AHEAD AND IF THERE IS NO FINANCING IN PLACE IF IT'S JUST SIMPLY A CONCEPT AT THAT STAGE OR A HOPE, WISHFUL THINKING, THEN DON'T APPROVE IT AT

THAT STAGE. BUT THE CONTRACT ITSELF IS GOOD AND THE BOARD APPROVES IT UNDER THE ASSUMPTION THAT THERE WILL BE FINANCING, THAT WOULD BE A VERY POSITIVE STEP AS FAR AS DOYON IS CONCERN BECAUSE WE DO HAVE AS I SAY, THINGS ARE IN A RATHER CRITICAL SITUATION AND IF YOU TURN IT DOWN I THINK JOHN'S COMMENTS ARE WELL TAKEN IT'S GOING TO BE READ AS A REPUDIATION OF THE ARRANGEMENT.

CHAIRMAN LYON: WOULDN'T IT BE - I HOPE THIS ISN'T A GRACELESS THING TO - COULDN'T THE CONTRACT JUST BE PUT IN A STATE OF SUSPENSE RIGHT NOW. ONE OF THE PROBLEMS IS THAT IT'S BEFORE THE BOARD - I CAN'T IN GOOD CONSCIENCE VOTE FOR IT EVEN UNDER THOSE CIRCUMSTANCES AV. THAT'S THE PROBLEM I HAVE BECAUSE WE'RE TALKING ABOUT SOMETHING WHICH WILL LEGALLY BE IN PLACE AND IT'S PROBLEM-ATICAL. ADMITTEDLY AS THE COMMISSIONER SAID OUR VOTE IS NOT DETERMINANT IT'S ONLY A RECOMMENDATION TO THE LEGISLATURE AND I HAVE A DIFFICULT TIME RECOMMENDING THIS EVEN THOUGH I WAS NURTURED IN THE OIL BUSINESS AND I HAVE TO BELIEVE IN COMPETITION AND IT'S USEFUL TO THE PUBLIC CERTAINLY AND PROBABLY USEFUL TO THE MANUFACTURERS - IT KEEPS THEM ALOT SHARPER. BUT I HAVE A TOUGH TIME WITH THIS ONE AND THE OTHER THING FROM JUST SPEAKING - FROM THE CONTRACT ITSELF I PERHAPS SHOULD GET SOME FEEDBACK FROM YOU. THE FOUR YEAR MORATORIUM IN THE RESERVATION FEE REALLY TROUBLES ME BECAUSE I THINK COMMISSIONER KATZ HAS MADE A HONEST, DIRECT, STRAIGHTFORWARD EFFORT TO KEEP THE STATE IN A POSITION OF MARKETPLACE NEUTRALITY AND I DON'T THINK THIS DOES AND THAT BOTHERS ME. HERE'S SOMETHING IN TODAY'S WORLD THIS IS THE ONLY WAY YOU CAN GET THIS PARTICULAR SUPPLY OF CRUDE AS FAR AS THE DEPARTMENT IS CONCERNED AND YET WE'RE SAYING NOW IT'S NOT TRUE IN THIS CASE BECAUSE WE

DIDN'T HAVE A SIMILAR FEE ON - FOR EARTH RESOURCES. WELL EARTH RESOURCES STARTED FUNCTIONING BEFORE THERE WAS STATE CRUDE OIL AVAILABLE TO IT.

AVRUM GROSS: WELL I CAN'T - I DID NOT NEGOTIATE THE MORATORIUM CLAUSE AND JOHN OF COURSE DID, AND I ASSUME THEY BELIEVED AS THE PEOPLE FOR DOYON BELIEVED, IT WAS IN THE BEST INTEREST OF BOTH THE STATE AND DOYON AND THE PROJECT TO DO SO IN AN EFFORT TO ENCOURAGE COMPETITIVE ACTIVITIES IN THAT AREA. BUT I THINK I SHOULD BEST LET THEM DEFEND THEIR TERM. MY ONLY POINT IS THAT IF YOU BELIEVE THE CONTRACT IS A GOOD CONTRACT AND IF YOU DON'T BELIEVE IT'S A GOOD CONTRACT THEN YOU'LL VOTE AGAINST IT BUT ASSUMING YOU DO THINK IT'S A GOOD CONTRACT IT SEEMS TO ME YOU COULD EITHER DISAPPROVE IT BECAUSE THE FINANCING IS NOT PERMANENT NOW OR YOU CAN APPROVE IT SUBJECT TO THERE BEING FINANCING IN PLACE AND ALL I'M TRYING TO COMMUNICATE TO YOU IS IT WOULD BE A MUCH MORE POSITIVE STEP IN THE PROJECT'S INTEREST TO APPROVE IT SUBJECT TO THE FINANCING COMING INTO PLACE WITH THE LEGISLATURE BEING IN A POSITION TO REVIEW THAT, THAN TO DISAPPROVE IT SUBJECT - WITH THE FINANCING NOT IN PLACE THEN LET THE LEGISLATURE SAY WELL NOW THE FINANCING IS IN PLACE NOW WE SHOULD APPROVE IT. EITHER ONE IT SEEMS TO ME DOES THE SAME THING ASSUMING THAT YOU LIKE THE CONTRACT IN THE FIRST PLACE AND THE FORMER WOULD BE A MUCH MORE POSITIVE STEP IN ASSISTING US TO GO AHEAD AND GET THE FINANCING SOLIDLY IN PLACE AND IT IS TIPPY RIGHT NOW. I MEAN WE'RE TRYING OUR BEST AND LITTLE THINGS DO HELP AND HURT. BUT IN TERMS OF THE RESERVATION FEE, I SUPPOSE I REALLY SHOULD REFER TO JOHN.

COMMISSIONER WEBBER: MR. CHAIRMAN. ONE THING YOU MENTIONED WAS IF THERE WAS NO ACTION TAKEN HERE AND FINANCING CAME IN THE BOARD THEN WOULD BE ABLE TO TAKE ACTION AND THIS THING COULD STILL GO TO THE LEGISLATURE BUT THERE'S A TIMING PROBLEM. I'M WONDERING IF THE SCENARIO WHICH YOU VERY SILENTLY MENTIONED IS AT ALL POSSIBLE. IS IT POSSIBLE TO LOOK AT THIS MATTER AGAIN IF THE FINANCING COMES INTO PLACE WHILE THE LEGISLATURE IS STILL IN SESSION.

CHAIRMAN LYON: WHAT I'M SAYING IS THEY HAVE A VERY DIFFICULT TIME WITH ANY QUESTION COINED IN TERMS OF - WE MUST DECIDE BEFORE THE LEGISLATURE ADJOURNS BECAUSE ALASKA'S GOING TO GO ON LEGISLATURE IN SESSION OR NOT IN SESSION. THE KIND OF PROJECT YOU'RE TALKING ABOUT IS PRECISELY THE REASON THE ROYALTY STATUTE WAS ADOPTED BY THE LEGISLATURE.

AVRUM GROSS: YOU MAY HAVE A DIFFERENT VIEW OF THIS, I PERSONALLY THINK IT WOULD BE RATHER DIFFICULT TO GET THE LEGISLATURE BACK IN SPECIAL SESSION PURELY TO APPROVE A CONTRACT OF THIS NATURE, NOW YOU MAY HAVE A DIFFERENT ASSESSMENT OF THAT.

CHAIRMAN LYON: WELL I DON'T PRETEND TO BE AN EXPERT ON THE LEGISLATURE.

AVRUM GROSS: I DON'T THINK ANYONE IS.

CHAIRMAN LYON: I'VE WATCHED IT FOR MORE THAN 20 YEARS BUT I'M NOT AN EXPERT.

COMMISSIONER KATZ: THERE ARE NO EXPERTS. BUT I WOULD SHARE AV'S
- TO THE EXTENT THAT THE GOVERNOR WOULD HAVE TO CALL THAT SPECIAL
SESSION I THINK IT'S VERY QUESTIONABLE HE WOULD FOR ONE ROYALTY
OIL CONTRACT.

AVRUM GROSS: THE ONLY POINT I'D REALLY LIKE TO MAKE TO THE BOARD
IS THAT DOYON HAS A GREAT DEAL OF ITS OWN FUNDS INTO THE PROJECT
AND THIS IS NO SPECULATIVE TRANSACTION. THEY ARE TRYING VERY HARD
TO CONTINUE WITH THIS REFINERY. THEY WANT TO DO IT AND IT'S IN THEIR
INTEREST TO DO IT IN EVERY WAY AND IT SEEMS TO ME SO LONG AS THE
LEGISLATURE IS AVAILABLE IN THE END TO REVIEW THE FINANCES AND
NEEDS FROM THE BOARD A REVIEW OF THE CONTRACT ITSELF IT IS
ALWAYS THE CONTROL OVER WHAT YOU'RE CONCERNED ABOUT WHICH IS SOME-
BODY GOING OUT AND WAVING AROUND A ROYALTY OIL CONTRACT AND
SPECULATING WITH IT. THAT WON'T HAPPEN IN THIS INSTANCE.

TRIPLEHORN: WOULD YOU BE RECEPTIVE TO AN AMENDMENT CHANGING THE
WORDING ON WHAT WOULD NOW BE - WE'VE ELIMINATED THE FIRST TWO -
THE NEW "B" WHICH PERHAPS INCORPATING WORDING TO THE EFFECT - THE
WAY IT STANDS NOW - WE ELIMINATED "A" AND "B" SO WE'RE DOWN NOW
TO SAYING IN THIS RESOLUTION THAT WE RECOMMEND BASICALLY DISAPPROVAL
BECAUSE DOYON ADMITS THE PROPOSED PROJECT IS ON "HOLD" AND "B" SAYS
THE BOARD BELIEVES THAT WHEN DOYON IS READY TO PROCEED WITH THAT
PROJECT THEY SHOULD REQUEST ROYALTY OIL IF IT'S STILL IN THEIR
INTEREST. COULD WE MODIFY THAT LAST ONE TO THE BOARD - TO THE
EFFECT - YOU HAVE THIS RESERVATION ABOUT THE OTHER CLAUSE. COULD

WE SAY SOMETHING TO THE EFFECT THAT OTHERWISE WE THINK THAT THIS IS A GOOD CONTRACT AND WHEN THE PROJECT IS READY TO PROCEED. . .

CHAIRMAN LYON: WELL I - OKAY YOU NO LONGER HAVE A SECOND IN YOUR PRESENCE - YOU'RE GOING TO HAVE TO DO IT WITH AN AMENDMENT. THE, I JUST HAVE A REAL PROBLEM WITH THIS RESERVATION FEE. MAYBE WE SHOULD JUST GET THAT ON THE TABLE AND DISCUSS IT MORE TO SEE IF MY CONCERN - I - WE'RE NOW DOWN TO THE HEART OF THE PROBLEM WITH THE ROYALTY OIL CONTRACT. I'M NOT GOING TO NEGOTIATE IT EVEN IF SOMEBODY ASKS ME TO AND YET HERE YOU HAVE A POINT THAT I LIKE TO SEE IN-STATE FACILITIES ESTABLISHED AND I THINK THIS IS A VERY LOGICAL THING FOR DOYON TO DO - THIS KIND OF THING. I'M NOT SURE THAT IF I WE'RE DOYON IF I'D WANT TO BUILD A REFINERY IN ALASKA BUT I HAVE NEVER DONE A MARKET ANALYSIS ON IT, IT MAY BE A VERY SMART PLACE TO DO IT. BUT IT CERTAINLY MAKES SENSE FOR DOYON TO BE IN THE NATURAL RESOURCES BUSINESS IN SOME PLACE AND , BUT THIS THING SCEWS THE THING IN IT'S NOT IN TESORO'S CONTRACT AND YET HERE IT IS IN THIS ONE AND I GUESS THAT PART BOTHERS ME TOO.

COMMISSIONER KATZ: I THINK THIS IS A VERY APPROPRIATE - I KNOW MR. CHAIRMAN ABOUT YOUR RESERVATIONS ABOUT GETTING INTO SPECIFIC WORDS AND TERMS AND PHRASES IN THE CONTRACT BUT THIS IS NOT THAT - THIS IS OBVIOUSLY THE CLASH OF SEVERAL VERY IMPORTANT POLICIES ALL OF WHICH IN ISOLATION WE WOULD ALL ADHERE TO BUT JUST LET ME RUN THROUGH VERY BRIEFLY MAYBE GEOFF WILL CHOOSE TO ELABORATE THE PROCESS WHICH INFLUENCED US HERE. FIRST, WE HAD A POLICY VERY CLEAR POLICY THAT PARITY ON MAJOR ELEMENTS OF A CONTRACT EXIST

BETWEEN ALL THOSE WE WERE NEGOTIATING WITH NOW. WE COULDN'T BE RESPONSIBLE FOR THE PAST - MAPCO GOT A CONTRACT THAT GOT - THAT WE WOULD NOT HAVE NEGOTIATED TODAY BUT THAT'S IRRELEVANT. WE WANTED TO ACHIEVE PARITY AMONG THE PEOPLE THAT WERE INVOLVED IN THIS SOLICITATION. SECONDLY, WE FELT VERY STRONGLY THAT THERE WAS AN OPPORTUNITY COST INHERENT IN THE STATE'S COMMITMENT OF OIL AND THAT PERHAPS IN THE PAST THAT OPPORTUNITY COST HAD NOT ALWAYS BEEN RECOGNIZED BUT ONCE WE COMMIT OIL TO A PROJECT THAT PUTS A CLOUD ON IT THAT REDUCES THE NUMBER OF OPTIONS AVAILABLE TO THE STATE. THIRD, THERE'S A CLEAR POLICY WE THINK IN FAVOR OF PROMOTING COMPETITION AND NEW ENTRY INTO THE MARKET AND AS I INDICATED BEFORE ANOTHER VERY IMPORTANT ASPECT TO US WAS NOT A SLAVISH ADHERENCE TO THE OPPORTUNITY COST PRINCIPLE AFTER WE HAD FINISHED NEGOTIATING WITH TESORO AND OTHERS THE OPTION FEE WAS NOT AS IT WAS IN ITS PRISTINE FORM AND I DON'T FEEL SORRY FOR THAT, I THINK WHAT WE CAME OUT WITH WAS A GOOD APPROACH. ALSO, I DID NOT PERSONALLY FEEL AT LEAST THAT THE OPTION FEE WOULD IN ITS FINAL FORM REALLY JEOPARDIZE EXISTING PEOPLE VERY MUCH. IF AT ALL. FINALLY, IT IS TRUE FOR ONE REASON OR ANOTHER EVEN THOUGH THE CONTRACTS WERE FOUGHT AND NEGOTIATED VERY FIRMLY AND AMONG VERY COMPETENT PARTIES. AT THE TIME IT IS TRUE THAT WHEN TESORO ENTERED THE MARKET THERE WAS SOMETHING THAT AT LEAST IN RETROSPECT WE PERCEIVED AS A SIGNIFICANT BENEFIT. WHEN MAPCO ENTERED THE MARKET SIMILARLY NOW A FEW YEARS LATER WITH THE BENEFIT OF 20/20 HINDSIGHT, WE SEE SOME THINGS THAT WERE SIGNIFICANT BENEFIT. AND WE FELT IN SUMMARY THAT IN THE CLASH OF ALL THOSE POLICIES WHICH ARE VERY IMPORTANT IN ISOLATION THAT THE POLICY OF FOSTERING NEW ENTRY IN THE INTERIOR FOR ALL THE

BENEFITS THAT WE FELT MIGHT EXIST BOTH THERE AND IN OTHER PARTS OF THE STATE OVER-RODE POLICIES THAT WE FELT AT LEAST IN THIS CONTEXT WERE LESS SIGNIFICANT IN THEIR OPERATION IN THE RELATIONSHIP BETWEEN A NEW REFINERY AND THE EXISTING FACILITIES.

GEOFFREY HAYNES: THE ONLY THING I'D ADD TO THAT IS, THE REAL COMPLICATION WAS THE EXISTING MAPCO CONTRACT WHICH GIVEN THE CHANGES AND THE CIRCUMSTANCES WE WOULD NOT NEGOTIATE TODAY AND THEY HAVE NO RESERVATION FEE SYSTEM AND THEIR COMPETITION IN THE FORM OF DOYON DIRECTLY ACROSS THE STREET. AT A TIME WHEN BOTH PARTIES WOULD ADMIT THERE WOULD BE VERY CUT-THROAT COMPETITION AND DOYON WOULD BE PAYING THIS RESERVATION FEE AND MAPCO COULD LOOK ACROSS THE STREET AND LOOK AT THE RESERVATION FEE DIVIDED INTO THE NUMBER OF BARRELS AND KNOW HOW MUCH TO UNDERCUT THEM. AND WE FELT THAT THERE WAS SUBSTANTIAL AMOUNT TO THAT ARGUMENT. BUT THAT I WOULD SAY THAT AND THE TERM ISSUE WITH DOYON WERE THE HARDEST PARTS OF THE NEGOTIATIONS CONCEPTUALLY BECAUSE YOU HAVE THIS NEW ENTRANT ENHANCING COMPETITION VERSUS EXACT PARITY AND PROTECTING THE VALUE OF INCUMBANCY. IT'S VERY DIFFICULT.

CHAIRMAN LYON: BUT GEOFF THE PROBLEM IS YOU BIAS THE THING THAT GIVES DOYON THE INCENTIVE TO GET EXACTLY THE NUMBER OF BARRELS THAT THEY REALLY FEEL THEY WANT - NOTHING IS TO PREVENT THEM FROM SHOOTING FOR A SMALLER TARGET UNTIL SUCH TIME AS THEY WANT MORE CRUDE OIL. FROM A PRACTICAL STANDPOINT ANYBODY IN THE CRUDE OIL BUSINESS IN ALASKA IS GOING TO UNFORTUNATELY LOOK AT THE STATE AS THE SUPPLIER OF CHOICE BASICALLY BECAUSE ONLY THE STATE

WILL TALK IN TERMS OF ANY KIND OF LIFE. NOBODY ELSE WANTS TO COMMIT HIMSELF FOR 8 - 10 - 12 -22 -27 YEARS. SO IT SEEMS TO ME THAT THE OFFERORS OUGHT TO HAVE AN INCENTIVE TO BE AS CORRECT AS THEY CAN BE. GRANTED THAT YOU WANT TO MOVE INTO A RISING MARKET AS TESORO HAS FOUND OUT.

GEOFFREY HAYNES: WELL I GUESS THE ONLY OTHER THING I'D ADD IS EITHER PAYING OR NOT PAYING THE RESERVATION FEE AGAIN IS SOMETHING FROM OUR STANDPOINT WE DID NOT THINK REALLY WOULD EFFECT THE VIABILITY OF A PROJECT IT'S REALLY A WAY OF COVERING THE OPPORTUNITY COST OF THE OIL AND A WAY OF DISCOURAGING PEOPLE FROM TAKING MORE OIL AT ONE TIME THAN THEY REALLY NEED BUT WHEN YOU HAVE A SITUATION POTENTIALLY AS INTENSIVE IN THE FORM OF COMPETITION AS IT WOULD BE IN FAIRBANKS. UNDER THE CIRCUMSTANCES IT'S ESPECIALLY HARD TO JUDGE RIGHT AT THE BEGINNING. FRANKLY I MIGHT ADD MY OWN OPINION IT'S, IT PROBABLY GOES BEYOND OUR OWN ABILITY TO ANALYZE GIVEN THAT WE'RE A FOUR PERSON OIL COMPANY.

CHAIRMAN LYON: WELL I MAY BE THE ONLY ONE THAT'S TROUBLED, I DON'T KNOW. BOB.

BOB MAYNARD: I MIGHT ADD TO YOUR CONCERN ABOUT THE INCENTIVE TO ACCURATELY TAKE HOW MUCH OIL YOU NEED, THERE ARE GOOD FAITH TAKING PROVISIONS THAT DO SPEAK TO THAT. I AGREE THEY'RE NOT TOTALLY. . .

CHAIRMAN LYON: WHEN YOU'RE IN A POSITION OF THE OFFEROR TO THAT CLASSIC NEGOTIATION POSITION YOU WANT JUST AS MUCH AS YOU CAN GET FOR AS LITTLE AS YOU CAN PAY FOR IT AND I DON'T THINK ANYBODY FEELS BAD ABOUT THAT. YES AV.

AVRUM GROSS: JUST LET ME SAY ONE MORE THING AND I'LL GET OUT OF YOUR HAIR.

CHAIRMAN LYON: YOU'RE NOT IN MY HAIR, IT'S HARDER TO GET INTO THAN YOU THINK.

AVRUM GROSS: I HOPE YOU UNDERSTAND THAT DOYON IS LITERALLY BREAKING IT'S NECK TO PUT THIS TOGETHER. THIS IS NOT A SPECULATIVE DEAL. THEY'RE REALLY TRYING HARD. THE TWO THINGS THAT YOU COULD DO FOR US, ASSUMING THAT YOU DO FIND THE CONTRACT ACCEPTABLE AND THAT I SUPPOSE THE BEST WE CAN HOPE IS THAT YOU APPROVE THE CONTRACT SUBJECT TO LEGISLATIVE REVIEW AS TO THE STATUS OF FINANCING THE TIME THE CONTRACTS COME BEFORE THE LEGISLATURE. IF THE CONTRACT ITSELF IS ALRIGHT BUT YOUR CONCERNS LIE IN THE ABILITY OF THE COMPANY TO GO AHEAD WITH THE PROJECT IN THAT THAT SHOULD BE THE LEGISLATIVE FOCUS AT WHICH TIME THE LEGISLATURE DOES REVIEW THE CONTRACT AND THE SECOND THING IS THAT AN INDICATION HOPEFULLY IN YOUR FINAL ORDER THAT IF AT THE TIME THE LEGISLATURE DOES CONSIDER THE CONTRACT FINANCING IS NOT YET IN PLACE SO THAT YOU WOULD NOT RECOMMEND IT TO THE LEGISLATURE APPROVING IT SOME INDICATION THAT IN THE FUTURE WHEN AND IF THE FINANCING DOES COME IN PLACE THEN THE BOARD WOULD FAVOR A SALE TO DOYON UNDER SIMILAR

TERMS. NOW THAT IS SOMETHING THAT AT LEAST CAN BE DEALT WITH IN THE EVENT THAT WE CAN PUT THIS TOGETHER BY THE TIME THE LEGISLATURE ENDS. YOUR APPROVAL WOULD HELP US DO THAT IN THE EVENT THAT WE FAIL IN THAT IT WOULD AT LEAST BE SOME INDICATION THAT WE CAN DEAL WITH IN NEGOTIATING WITH OUR BANKERS IN THE FUTURE. THOSE ARE THE TWO THINGS THAT WOULD HELP US THE MOST AND I REALIZE NOW THERE'S NO RESOLUTION ON THE TABLE THAT SAYS THAT AND IT WOULD TAKE SOME TIME TO DRAFT ONE.

CHAIRMAN LYON: WELL, WE CAN, ONE OF THE THINGS WE DID THIS TIME FOR THIS MEETING WAS TO PLAN AND IT MIGHT BE NECESSARY IN FACT TO DRAFT OTHER FINDINGS TO INCLUDE IN THE RESOLUTION AND WE CAN CERTAINLY DO THAT I DON'T HAVE ANY PERSONAL PROBLEM WITH THAT. I'VE EXPRESSED THE PARTS OF IT THAT DO CAUSE ME SOME CONCERN AND THE COMMISSIONER'S BEEN VERY CAREFUL AND I THINK SKILLED DRAWING EVERYBODY ALONG AS MUCH AS ALL THE APPLICANTS COULD BE DRAWN ALONG AND IF THE RULES CHANGE PART WAY THROUGH THEN IT'S KIND OF DIFFICULT. YES DON.

DONALD WOLD: I JUST WANTED TO ASK ONE THING. DO YOU REALLY - DOES THE BOARD REALLY WANT TO PERHAPS INVOLVE ITSELF IN RECOMMENDING TO THE LEGISLATURE THAT THE STATE LEGISLATURE BECOME INVOLVED IN FINANCING OF A PROJECT LIKE DOYON. I THINK THAT CALLING THAT TO THE ATTENTION OF THE LEGISLATURE SEEMS THAT THIS WOULD INVOLVE THEM INTO THE PROCESS FOR DOYON. . . MORE TROUBLE.

AVRUM GROSS: NO, NO I DON'T MEAN THAT DON. WHAT I MEANT WAS THAT

IF THE BOARD FINDS THE CONTRACT DESIRABLE BUT WHAT IT DOESN'T WANT IS TO APPROVE THE CONTRACT TO HAVE WITH BASICALLY NO PLANS IN MIND FOR DOYON JUST HAVE THEM TAKE OUT A CONTRACT AND WAIVE IT AROUND IN THE OPEN MARKET. I THINK THAT IT'S ENTIRELY WITHIN IT'S STATUTORY POWER TO BASICALLY MAKE THAT POINT IN THAT IT IS APPROVING THE CONTRACT BUT THAT IT IS APPROVING IT UNDER THE ASSUMPTION THAT THE FINANCING CAN BE PUT TOGETHER AND THAT THE LEGISLATURE SHOULD ADDRESS ITSELF TO THAT POINT WHEN AND IF THE LEGISLATURE CONSIDERS THE CONTRACT THAT'S ALL, RATHER THAN DISAPPROVE ON THE SAME GROUNDS WHICH IS REALLY WHAT YOU'RE DOING - THE ALTERNATIVE AND I MEAN IT'S GOING TO COME UP ANYWAY - IT'S REALLY NOT THE. . .

CHAIRMAN LYON: I REALLY DON'T WANT US TO BE IN A POSITION OF PENALIZING DOYON FOR THEIR CANDOR, IT WOULD BE UNFAIR. THERE ARE THOSE IN THIS ROOM WHO MIGHT WANT TO POINT OUT THAT THE ALPETCO FINANCING APPARENTLY WASN'T IN PLACE WHEN IT WAS APPROVED BY THIS BOARD TOO.

COMMISSIONER WEBBER: MR. CHAIRMAN PERHAPS ONE THING I CAN DISCUSS JUST FOR A MOMENT IS THE NEGOTIATION THAT TOOK PLACE WITH THE OTHERS REALLY DID NOT ALLOW THEM TO HAVE FUTURE FINANCING TO PUT IN PLACE. THIS IS A SPECIAL CIRCUMSTANCE WITH AN ORGANIZATION HERE IN ALASKA BUT I'M VERY SENSITIVE TO THE FACT THAT NEGOTIATIONS WERE HELD WITH A DIFFERENT SET OF CRITERIA THAN WE WOULD RENDER TO THIS ONE AND IF THAT CAN BE RESOLVED IT WOULD BECOME MUCH MORE FLEXIBLE SO I REALLY HAVE TO GO BACK TO THE NEGOTIATORS TO FIND OUT HOW STRINGENTLY THAT WAS ADHERED TO, WERE THERE OTHER EXCEPTIONS

MADE TO GIVE IT ANY KIND OF FUZZ THAT WE CAN SAY HERE THE TENDENCY WAS TO HOLD FIRM BUT NOT THAT FIRM BECAUSE WHAT THIS THING HINGES ON IS WHETHER OR NOT WE HAD VALID NEGOTIATIONS IN THE PAST, WOULD THIS TEND TO CORRUPT THOSE NEGOTIATIONS.

COMMISSIONER KATZ: LET ME TRY TO RESPOND TO THAT AND I'LL ASK BOTH GEOFF AND BOB TO (UNCLEAR) THE DEPTHS OF THEIR RECOLLECTION AND SEE IF THEY DISAGREE. WITH OUT TRYING TO OFFER RATIONALIZATION FOR WHAT I CHOOSE TO DO, I DO BELIEVE THAT THE DOYON PROPOSAL WAS SIGNIFICANTLY FURTHER ALONG THAN ANY OTHER PROPOSAL THAT WE REJECTED ON THE GROUNDS THAT WE DIDN'T SEE ALL THE NECESSARY ELEMENTS IN PLACE. THERE WAS NO OTHER PROPOSAL THAT HAD GONE SO FAR AS TO PURCHASE THE EQUIPMENT THAT I CAN RECALL, THE SITE ACQUISITION, THE FINANCING AT THAT POINT IN HISTORY ACTUALLY IN PLACE. THERE ARE OTHER PROJECTS WHICH, THAT'S PARTICULARLY TRUE IN THE CASE I THINK OF IN-STATE PROJECTS, THERE WAS ONE INVOLVING A METHANOL FACILITY NEAR FAIRBANKS AND I THINK OVER TIME IT MIGHT BE VERY PROMISING, BUT THEY'RE - THEY WERE NOT NEAR WHERE DOYON IS IN TERMS OF THE OUT OF - THE EXPORT PROPOSALS, PROBABLY THE ONE THAT'S FURTHEST ALONG NOW IS PROVIDENT AND THEY HAVE BROKEN GROUND FOR THEIR REFINERY, BUT IN SOME OTHER RESPECTS THEY'RE NOT AS FAR ALONG AS DOYON SO I'D SAY THE COMBINATION OF LOOKING FIRST AND FOREMOST AS YOU WOULD COMMISSIONER AS YOUR QUESTION IMPLIED THAT IN-STATE PEOPLE AND SEEING THE STATUS OF EACH ONE THERE IS ON THAT GROUND A SOUND RATIONALE FOR DIFFERENTIATING DOYON FROM THE OTHERS. HOWEVER, OF COURSE WE HAD THE THRESH-HOLD POLICY IN ALL INSTANCES OF HAVING REALLY FIRM PROPOSALS THAT WERE GOING TO GO IN AN

JMMINENT PERIOD IN THE FUTURE.

AVRUM GROSS: THIS PROJECT WAS PUT TOGETHER COMMISSIONER WEBBER AS OPPOSED TO ANOTHER THAT WASN'T AND AS I SAY WE HAVE TRIED TO BE COMPLETELY CANDID BECAUSE WE DID NOT WANT - I SUPPOSE WE COULD HAVE LEFT THAT IMAGE HANGING UP IN THE AIR THAT IT WAS STILL ALL TOGETHER BUT IN AN EFFORT TO BE CANDID WE CAME TO THE COMMISSIONER MID-WAY THROUGH AND SAID THE FINANCING IS NO LONGER IN PLACE WE ARE NOW TRYING TO PUT IT BACK TOGETHER AND BUT IT IS A COMPLETED - AT THE TIME THE NEGOTIATIONS TOOK PLACE AT LEAST IT WAS A COMPLETED PROJECT AND NOW HOPEFULLY IT WILL BE AGAIN SHORTLY BUT THE FINANCING HAS CHANGED SINCE THE TIME WE DISCUSSED IT.

TRIPLEHORN: MR. CHAIRMAN.

CHAIRMAN LYON: YES.

TRIPLEHORN: I'D LIKE SOME RESPONSE TO YOU AND COMMISSIONER WEBBER AND I'M GOING TO SUGGEST AN AMENDMENT AGAIN BUT SOME POSSIBLE WORDING - THE WAY THE THING READS NOW THAT THERE IS A BOARD FINDING #1 IS THAT THE COMMISSIONER HAS GONE THROUGH THE PROPER PROCEDURES AND JUST AS A POSSIBILITY LET ME SUGGEST SOMETHING LIKE THIS, THAT #2 THAT THE BOARD IS SUPPORTIVE OF DOYON PLANS TO CONSTRUCT A NEW REFINERY AND BELIEVES THAT THE CONTRACT NEGOTIATED WOULD BE A GOOD ONE SUBSTANTIALLY IN THE BEST INTEREST OF THE STATE AND THEN #3 HOWEVER, THE TIMING OF THE PROPOSED PROJECT IS CURRENTLY UNCERTAIN AND IT IS NOT IN THE STATE'S BEST INTEREST TO CONCLUDE THE CONTRACT UNLESS AND UNTIL THE PROJECT

IS READY TO MOVE FORWARD. WOULD THAT BE A REASONABLE THING TO DO? IT FOCUSES ON THE TIMING QUESTION - DICK HAS OTHER CONCERNS AND I USED THE WORD SUBSTANTIALLY RATHER THAN COMPLETELY, IN OTHER WORDS WE MIGHT WANT TO EITHER VERBALLY OR OTHERWISE ADD SOME CONCERNS ABOUT THAT. YOU'RE NOT RECEPTIVE TO THAT I CAN TELL.

CHAIRMAN LYON: NO, I DON'T HAVE ANY PROBLEM THERE, I STILL HAVE THE OTHER PROBLEM. WHAT MIGHT BE WELL IS WE COULD TAKE ABOUT A TEN MINUTE BREAK - WE'VE BEEN DOING THIS FOR A COUPLE OF HOURS NOW. PERHAPS WE COULD TAKE ABOUT A TEN MINUTE RECESS AND THEN YOU CAN DRAFT SOMETHING ELSE.

THE MEETING WAS RECESSED.

CHAIRMAN LYON: COMMISSIONER WEBBER INFORMS ME THAT THIS BOARD IS BACK OUT OF THE BUDGET SO CAN WE FINISH THIS MEETING?

COMMISSIONER WEBBER: I DON'T KNOW, IT MAY BE NOT FOREVER - WHATEVER.

CHAIRMAN LYON: THIS MAY BE OUR LAST MEETING. ALRIGHT WE'VE BEEN DISCUSSING - THERE'S A RESOLUTION ON THE - BEFORE US TO RECOMMEND TO THE LEGISLATURE THAT DOYON I CONTRACT BE DISAPPROVED BY THE LEGISLATURE. THAT'S BEEN THE SUBJECT OF DISCUSSION IN OUR, DURING OUR RECESS WE TRIED TO DRAFT UP SOME AMENDMENTS TO THE RESOLUTION WHICH MAY MAKE IT ACCEPTABLE OR ALLOW US TO ABANDON IT IN FAVOR OF A DIFFERENT RESOLUTION. I WOULD LIKE TO PROPOSE AN AMENDMENT OR CAN I - I CAN I GUESS - IT'S ONLY IN HIGH SCHOOL

YOU CAN'T DO THAT. BECAUSE I WANT TO FOCUS ON MY CONCERN WHICH I FEEL JUST CAUSES ME A - TROUBLE AND I SIMPLY HAVE TO VIEW IT AS A FATAL FLAW IN THE CONTRACT FROM MY PERSPECTIVE BECAUSE PRODUCT FROM THE PROPOSED DOYON REFINERY WOULD COMPETE WITH EXISTING REFINERIES IN ALASKA AND ONE WAY OR ANOTHER WE WOULD CREATE A SITUATION WITH THE DELAYED PAYMENT ON THE RESERVATION FEE. WE WOULD - THE MARKETPLACE WOULD SEE A DIFFERENCE IN PRODUCTS COMING INTO IT BETWEEN ALASKA'S CRUDE OIL MOVING THROUGH THE DOYON REFINERY AND ALASKA'S CRUDE MOVING THROUGH OTHER REFINERIES INCLUDING THE TESORO PRODUCT WE JUST DISCUSSED. I JUST HAVE TO BELIEVE THAT THAT'S NOT PROPER FOR THE STATE TO CREATE THAT SITUATION SO I WOULD PROPOSE THAT THE RESOLUTION CONTAIN AS, I GUESS WE CAN MAKE IT "C" THE FOLLOWING STATEMENT THAT SAYS, THE PROVISION FOR DELAYED PAYMENT OF THE RESERVATION FEE ACCORDING TO PARAGRAPH 2.10 OF THE CONTRACT CREATES AN UNACCEPTABLE BIAS AGAINST COMPETITORS. I THINK THAT'S AT THE HEART OF WHAT'S BOTHERING ME ABOUT IT. THAT WE HAVE TWO DISSIMILAR CONTRACTS IN THAT REGARD AND I KNOW THAT THE DEPARTMENT HAS TRIED VERY HARD TO GET THE MAJOR PROVISIONS AS SIMILAR AS POSSIBLE, THIS ONE IS I'LL ADMIT IS NOT ALOT OF DOLLARS, BUT MY RECOLLECTION IN THE OIL BUSINESS IN THE MARKETING END OF IT IT'S KIND OF WHAT YOU'RE DEALING WITH - IT'S A GAME OF THE VERY SAME NUMBERS - SOMETIMES NEGATIVE. BUT IN ANY EVENT NO MATTER WHAT THE THING - THE NUMBER OF DOLLARS, THE PRINCIPLE IS CORRECT. I WOULD MOVE THAT THE RESOLUTION BE SO AMENDED.

TRIPLEHORN: SECOND.

CHAIRMAN LYON: OKAY, IS THERE DISCUSSION ON THIS AMENDMENT?
OKAY, I WILL CALL FOR THE QUESTION. WE CAN AMEND IT WITHOUT
SIGNING IT. WE CAN JUST HAVE A VOICE VOTE. THOSE IN FAVOR
SIGNIFY BY SAYING AYE.

BOARD MEMBERS: AYE.

CHAIRMAN LYON: OPPOSED? THE MOTION CARRIES UNANIMOUSLY.

TRIPLEHORN: MR. CHAIRMAN.

CHAIRMAN LYON: DR. TRIPLEHORN.

TRIPLEHORN: THE WORDING. THIS THING IS GETTING MESSY - THE
WORDING NOW IS RATHER AWKWARD I THINK THE WAY IT READS NOW
IS THAT THERE IS SECTION 2 - THE BOARD DISAGREES AND THEN IT
GOES ON "A" DOYON ADMITS THAT THE PROPOSED PROJECT IS CURRENTLY
ON HOLD. I THINK THAT THAT'S RATHER CLUMSY WORDING AND I WOULD
PROPOSE THE FOLLOWING SUBSTITUTE FOR THAT, THAT THE TIMING OF THE
PROPOSED PROJECT IS CURRENTLY UNCERTAIN AND IT IS NOT IN THE
STATE'S BEST INTEREST TO CONCLUDE THE CONTRACT UNTIL THE PROJECT
IS READY TO GO FORWARD.

CHAIRMAN LYON: ALRIGHT, I'LL SECOND THAT PROPOSED AMENDMENT.

TRIPLEHORN: THAT WILL NOW BE "A".

CHAIRMAN LYON: OKAY, IS THERE DISCUSSION ON THAT.

COMMISSIONER KATZ: MR. CHAIRMAN.

CHAIRMAN LYON: YES, MR. KATZ.

COMMISSIONER KATZ: THE ONLY THOUGHT I WOULD HAVE WHETHER WE COULD MAKE THE AUTHOR OF THE MOTION - WOULD CONSENT TO MAKE A SPECIFIC REFERENCE TO THE FINANCING ISSUE.

TRIPLEHORN: I HAVE NO OBJECTION.

CHAIRMAN LYON: WHY DON'T YOU TRY TO DRAFT US SOMETHING DON.

COMMISSIONER KATZ: BECAUSE I THINK THAT IS THE PRINCIPLE OBSTACLE ON THAT COUNT AND I THINK IT WOULD BE OF BENEFIT TO EVERYBODY TO BE AS PRECISE AS POSSIBLE.

TRIPLEHORN: HOW ABOUT WORDING SUCH AS THIS MR. COMMISSIONER, THAT THE FINANCING AND THEREFORE THE TIMING OF THE PROJECT.

COMMISSIONER KATZ: THAT'S FINE.

TRIPLEHORN: COULD WE INSERT THAT?

CHAIRMAN LYON: AS FAR AS I'M CONCERNED.

TRIPLEHORN: FINANCING AND THEREFORE THE TIMING.

CHAIRMAN LYON: IN THAT REGARD I GUESS ANOTHER ONE OF THE THINGS THAT'S TROUBLESOME IN AN INCOMPLETED PROJECT IS THAT THE - WHOEVER PROVIDES THE MONEY FOR THE PROJECT IS DISCUSSING THE NATURE AND THE OPERATION OF THE FACILITY AND IT'S CERTAINLY POSSIBLE THAT THAT FACILITY ITSELF COULD CHANGE DURING THE PROCESS OF NEGOTIATING THE FINANCING. IN FACT DURING THE PROCESS OF NEGOTIATING OTHER THINGS. I DON'T KNOW HOW IT COULD COME TO THE POINT WHERE THE BOARD WOULD FIND IT, LET'S SAY UNACCEPTABLE BUT NONETHELESS WE'RE TALKING NOW ABOUT SOMETHING WHICH IS LITERALLY A MOVING TARGET.

COMMISSIONER KATZ: SOME SOLACE THE BOARD HAS IN THAT REGARD IS THAT IT IS OUR UNDERSTANDING THAT DOYON HAS ACTUALLY PURCHASED THE EQUIPMENT AND I THINK ALTHOUGH THAT - EQUIPMENT CAN BE RE-FIGURED IT IS SOMEWHAT CONSTRAINING ON WHAT THE FACILITY MIGHT LOOK LIKE.

TRIPLEHORN: OKAY, I THINK I'M THE ONLY ONE WHO REALLY UNDERSTANDS HOW THIS IS WORDED, BUT ANYHOW I'D LIKE TO INSERT A POSITIVE NOTE IF I COULD AND AS A POSSIBILITY LET ME SUGGEST THIS, WHAT WE NOW HAVE IS A #1 WHICH SAYS THE COMMISSIONER'S DONE A GOOD JOB, DONE THE PROPER JOB AND THEN #2 WHICH SAYS WE DISAGREE FOR THOSE TWO REASONS AND WHAT I WOULD PROPOSE WOULD BE TO INSERT IN BETWEEN THOSE SOMETHING POSITIVE, AND WHAT I HAD IN MIND WAS, THAT THE BOARD FAVORS INCREASED USE - INCREASED IN-STATE USE OF

THE ROYALTY INTERESTS SUCH AS CONSTRUCTION OF A NEW REFINERY.
JUST TO INDICATE THAT WE ARE IN FAVOR OF INCREASED IN-STATE USE -
IT'S KIND OF A MOTHERHOOD SORT OF THING. I WOULD LIKE SOMETHING
THAT WOULD BE POSITIVE. IS WHAT I'M AFTER I'M NOT SURE THAT'S
THE BEST WAY OF SAYING IT.

CHAIRMAN LYON: I THINK THAT'S FINE. I WOULD SECOND THAT.

TRIPLEHORN: THAT WOULD THEN BECOME #2.

CHAIRMAN LYON: DO YOU WISH TO PUT BOTH OF THOSE AMENDMENTS -
OR BOTH OF THOSE THINGS IN THE SAME AMENDMENT.

TRIPLEHORN: BOTH OF WHAT.

CHAIRMAN LYON: YOU'VE COMPOSED ONE CHANGE HERE AND YOU'RE
COMPOSING ANOTHER ADDITION. DO YOU WISH TO MAKE THAT AS ONE
AMENDMENT?

TRIPLEHORN: I THOUGHT I JUST PROPOSED ONE. THE WAY I UNDERSTAND
THIS THING READS NOW IS THAT THIS IS ALL - THIS IS "A" AND YOURS
IS "B".

CHAIRMAN LYON: IS THAT LETTER "B" OR WHAT. . .

DONALD WOLD: THAT'S "C".

CHAIRMAN LYON: "C".

TRIPLEHORN: WELL BASICALLY THEN WHAT I'D LIKE TO DO IS ELIMINATE
- PROPOSED THAT WE ELIMINATE THE SECTION THAT READS THE BOARD
BELIEVES THAT WHEN DOYON IS READY BECAUSE THAT'S INCORPORATED NOW.

BOB MAYNARD: MR. CHAIRMAN.

CHAIRMAN LYON: BOB.

BOB MAYNARD: I THINK I MAY BE GETTING CONFUSED HERE. YOU HAVE
ONE CLAUSE THAT SAYS THE TERM OF THE CONTRACT IS UNACCEPTABLE. . .

CHAIRMAN LYON: YES.

BOB MAYNARD: BECAUSE OF THE FOUR YEAR - BUT THE CONTRACT WOULD BE
ACCEPTABLE IF THEY GOT FINANCING.

TRIPLEHORN: WE DIDN'T REALLY SAY THAT.

CHAIRMAN LYON: NO.

BOB MAYNARD: OKAY, THAT'S WHAT I MEAN.

TRIPLEHORN: WHEN WE GET THIS ALL PUT TOGETHER I THINK WHAT WE'LL
HAVE TO DO IS READ THROUGH THE WHOLE THING.

CHAIRMAN LYON: YES, THE RESOLUTION IS - WELL, YOU'RE PROPOSING
AN AMENDMENT DOWN HERE SUB-PARAGRAPH "A". . .

TRIPLEHORN: YES, THAT'S WITH THE THING REGARDING THE TIMING
WOULD BE. . .

CHAIRMAN LYON: THAT'S "A".

TRIPLEHORN: AND MY INTENT WAS THAT YOURS WOULD BE "B".

CHAIRMAN LYON: OKAY.

TRIPLEHORN: AND THAT WE ELIMINATE THE ONE WHICH IS NOW REDUNDANT
WHICH SAYS THAT WHEN DOYON IS READY. DO WE NEED A FORMAL MOTION
TO DO THAT? IT'S GETTING SO CONFUSED.

CHAIRMAN LYON: YES, I THINK WE DO.

TRIPLEHORN: ALRIGHT. I MOVE THEN THAT WE STRIKE WHAT ON THE
ORIGINAL RESOLUTION WAS 2(d). SIMPLY STRIKE THAT.

CHAIRMAN LYON: OKAY, WE HAVE ALREADY STRIKEN "A" AND "B" AND
YOU'RE PROPOSING AMENDMENT OF WHAT USED TO BE "C" AND YOU'RE
RE-LABELING IT "A".

TRIPLEHORN: RIGHT.

CHAIRMAN LYON: OKAY, EVERYBODY UNDERSTAND THAT?

COMMISSIONER WEBBER: WELL I THINK BEFORE WE GET TOO MUCH FURTHER WE OUGHT TO GET THE WHOLE THING WRITTEN DOWN AND GO THROUGH IT LIKE IT'S PROPOSED BECAUSE IT'S A SUBSTANTIAL. . .

COMMISSIONER KATZ: WOULD YOU BE WILLING TO READ IT?

CHAIRMAN LYON: YES, SURELY.

TRIPLEHORN: WELL I WAS ALSO PROPOSING THAT WE INSERT SOMETHING UP BETWEEN #1 and #2 IN WHICH CASE WE'D HAVE A NEW #2 AND THIS ONE WOULD BECOME #3.

COMMISSIONER KATZ: THIS IS AN IQ TEST.

TRIPLEHORN: AS I SAY I THINK I'M THE ONLY ONE THAT UNDERSTANDS IT.

CHAIRMAN LYON: THEY HAVE LITTLE GAMES ON COMPUTERS NOW, THE KID TOUCHES THE BUTTON IN RESPONSE TO THE. . .

COMMISSIONER WEBBER: LET'S WRITE IN #2.

TRIPLEHORN: DO YOU HAVE ANY OBJECTION TO THE EFFECT THAT THE BOARD FAVORS INCREASED IN-STATE USE OF ROYALTY INTERESTS SUCH AS CONSTRUCTION OF A REFINERY? IT'S KIND OF A MOTHERHOOD THING BUT IT IS POSITIVE.

COMMISSIONER WEBBER: I HAVE NO OBJECTION TO IT - I THINK IT'S

ALREADY. . .

TRIPLEHORN: YOU WANT TO READ IT?

COMMISSIONER WEBBER: NO, I HAVE NO OBJECTION TO IT.

TRIPLEHORN: WELL THAT WOULD BECOME #2 THEN.

COMMISSIONER WEBBER: THE WORDING AGAIN.

TRIPLEHORN: THAT THE BOARD FAVORS INCREASED IN-STATE USE OF ROYALTY INTERESTS SUCH AS CONSTRUCTION OF A NEW REFINERY.

CHAIRMAN LYON: IT'S KIND OF HARD TO ARGUE.

TRIPLEHORN: YES, IT'S A MOTHERHOOD THING.

CHAIRMAN LYON: IS THAT ITSELF AN AMENDMENT?

TRIPLEHORN: THAT WOULD BE YES, THAT WOULD BECOME . . .

CHAIRMAN LYON: I THEN WILL SECOND THAT. ARE WE READY TO VOTE ON THAT AMENDMENT?

DONALD WOLD: BOARD FAVORS INCREASED USE OF ROYALTY OIL FOR IN-STATE REFINING.

CHAIRMAN LYON: IT'S ROYALTY INTERESTS - IT'S GENERAL, IN-STATE USE OF ROYALTY INTERESTS, BECAUSE THEY'D PROBABLY SAY ROYALTY OIL AND GAS INTERESTS.

COMMISSIONER WEBBER: THEN THE REST OF IT AFTER INTERESTS WAS WHAT?

TRIPLEHORN: SUCH AS CONSTRUCTION OF A NEW REFINERY.

DONALD WOLD: THAT'S #2.

TRIPLEHORN: THAT WILL NOW BE #2.

DONALD WOLD: THE BOARD FAVORS INCREASED USE OF IT'S ROYALTY.

CHAIRMAN LYON: INCREASED IN-STATE USE.

TRIPLEHORN: YES, THAT'S THE CRITICAL WORD.

DONALD WOLD: OF IT'S ROYALTY INTERESTS SUCH AS CONSTRUCTION OF A NEW REFINERY.

COMMISSIONER WEBBER: ALRIGHT THEN, UNDER #3 THERE ARE SOME CHANGES, A NEW #3.

TRIPLEHORN: RIGHT. NEW #3. #3(a) WOULD BE AS FOLLOWS,
FINANCING AND THEREFORE THE TIMING OF THE PROPOSED PROJECT IS
CURRENTLY UNCERTAIN AND IT IS NOT IN THE STATE'S BEST INTEREST
TO CONCLUDE THE CONTRACT UNTIL THE PROJECT IS READY TO MOVE
FORWARD. GOT THAT ONE?

WEBBER: ONE MORE TIME.

TRIPLEHORN: FINANCING AND THEREFORE THE TIMING OF THE PROPOSED
PROJECT IS CURRENTLY UNCERTAIN AND IT IS NOT IN THE STATE'S BEST
INTEREST TO CONCLUDE, I THINK IT WOULD BE BETTER TO SAY THIS
CONTRACT.

CHAIRMAN LYON: OKAY.

TRIPLEHORN: TO CONCLUDE THIS CONTRACT UNTIL THE PROJECT IS
READY TO MOVE FORWARD.

CHAIRMAN LYON: I WOULD OBJECT TO THAT BECAUSE I - OUR OTHER
OBJECTION - PART OF THE (TAPE RUNS OUT)

TRIPLEHORN: YES, THAT'S GOOD.

COMMISSIONER WEBBER: CONTRACT UNTIL WHEN?

TRIPLEHORN: UNTIL THE PROJECT IS READY TO MOVE FORWARD. IT'S

WORDY BUT I THINK IT DOES THE JOB.

CHAIRMAN LYON: IT'S SHORTER THAN THE ORIGINAL.

TRIPLEHORN: AND THEN "B" WILL BE YOUR. . .

CHAIRMAN LYON: YES.

COMMISSIONER WEBBER: IT'S ALREADY DONE.

DONALD WOLD: AND THE CURRENT #2 IS OUT?

TRIPLEHORN: THE #2 THAT'S THERE NOW BECOMES #3 DON. NOW WITH THAT THE BOARD DISAGREES AND THEN WE HAVE THE REASONS UNDER THAT ARE "A" AND "B" THAT WE'VE JUST DISCUSSED.

DONALD WOLD: MR. CHAIRMAN.

CHAIRMAN LYON: YES DON.

DONALD WOLD: IF THIS IS WHERE YOU'RE GOING TO END, PERHAPS YOU COULD HAVE SANDY TAKE A CLEAN COPY OR THE ORIGINAL COPY AND PENCIL, THAT IN SO YOU'LL HAVE SOMETHING TO SIGN BEFORE YOU LEAVE. SANDY HAS A HANDWRITING THAT IS READABLE.

CHAIRMAN LYON: SOMEBODY HAS WRITTEN ALL OVER MY ORIGINAL. DO YOU HAVE ANOTHER COPY DON? TYPING THE RESOLUTION IS ACADEMIC ISN'T IT - THE RESOLUTION IS A MATTER OF RECORD - CLEARLY IN

THE RECORD. IT CAN BE TYPED LATER, OR SHOULD IT BE WRITTEN OUT NOW AND SIGNED.

ANNE PREZYNA: IT CAN BE WRITTEN OUT NOW AND TYPED LATER.

DONALD WOLD: YOU'LL WANT TO HAVE SOMETHING TO TAKE. . .

CHAIRMAN LYON: WELL IT PROBABLY SHOULD BE TYPED TO GIVE TO THE LEGISLATURE WE CAN HANDLE THAT CAN'T WE?

DONALD WOLD: BUT YOU'LL WANT TO READ THOSE THINGS. WHATEVER.

COMMISSIONER KATZ: I HAVE TO LEAVE IN A COUPLE OF MINUTES FOR A MEETING, COULD YOU READ THE THING IN IT'S FINAL FORM?

CHAIRMAN LYON: YES, I CAN DO THAT NOW WHILE WE'RE WRITING - WHILE WE'RE SIGNING IT COULD BE A LITTLE DIFFERENT. NOW, THE THEREFORE SAYS THE BOARD FINDS AS FOLLOWS:

1. THAT THE COMMISSIONER OF NATURAL RESOURCES HAS FOLLOWED THE BOARD POLICIES AND APPLICABLE STATUTES AND REGULATIONS RELATING TO THE DISPOSAL OF OIL AND GAS ROYALTY INTERESTS.
2. THAT THE BOARD FAVORS INCREASED IN-STATE USE OF ITS ROYALTY INTERESTS SUCH AS CONSTRUCTION OF A NE. REFINERY.
3. THAT THE BOARD DISAGREES THAT THE SALE OF THE ROYALTY OIL INTERESTS TO DOYON, LTD. AS PER THE AGREEMENT IS IN THE BEST INTEREST OF THE STATE BECAUSE

- (a) THAT FINANCING AND THEREFORE TIMING OF THE PROPOSED PROJECT IS CURRENTLY UNCERTAIN AND IT IS NOT IN THE STATE'S BEST INTEREST TO CONCLUDE A CONTRACT UNTIL THE PROJECT IS READY TO MOVE FORWARD.
- (b) THE PROVISION FOR DELAYED PAYMENT OF THE RESERVATION FEE ACCORDING TO PARAGRAPH 2.10 OF THE CONTRACT CREATES AN UNACCEPTABLE BIAS AGAINST COMPETITORS.

SHOULD ANYTHING ELSE BE INCLUDED? EVERYBODY UNDERSTAND THE RESOLUTION? THIS WILL BE THEN REDUCED TO WRITING AND SIGNED. OKAY, THOSE IN FAVOR OF THE MOTION AS PRESENTED SAY AYE.

TRIPLEHORN: IS THIS BY ROLL CALL?

CHAIRMAN LYON: DR. TRIPLEHORN.

TRIPLEHORN: AYE.

CHAIRMAN LYON: COMMISSIONER WEBBER.

COMMISSIONER WEBBER: AYE.

CHAIRMAN LYON: THE CHAIRMAN VOTES AYE. IT IS UNANIMOUS.