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REPRESENTATIVE MARTY FARRELL

ALYESKA PIPELINE SERVICE COMPANY
- Testimony on Regulation and
Ownership -
Joint Senate Commerce and House
State Affairs Committees

March 6 through 10, 1972 -

SENATE BILLS NOS. 294 AND 313

RIGHT-OF-WAY LEASING

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Senate Bills 294 and 313 present a number of serious problems and, in our opinion, they conflict with federal regulatory authority and the United States Constitution.

I. THE BASIC PREMISE OF THE BILLS IS WRONG, FOR THE STATE CANNOT USE ITS LAND CONTROL TO FORCE UNCONSTITUTIONAL RESULTS.

The basic premise of these bills is that the State, in its capacity as a landowner having control over land necessary for the pipeline, can impose terms and conditions on the pipeline proprietors that it concededly could not impose in its governmental capacity. We should state at the outset that this premise is wrong. It directly conflicts with the decisions of the United States Supreme Court. For example, in Frost v. Railroad Commission of California, 271 U.S. 583, 594 (1926), the U. S. Supreme Court held that a California statute, which sought concessions from a motor carrier as to methods of operating its business as a condition of the use of state highways, was in violation of the United States Constitution because such a requirement would constitute a taking of the carrier's property without due process. The Court said:

> "If the state may compel the surrender of one constitutional right as a condition of its favor, it may, in like manner, compel a surrender of all. It is inconceivable that guaranties embedded in the Constitution of the United States may thus be manipulated out of existence."

Likewise, the attempt of a state to regulate how an interstate telegraph company may select its customers is void even where posed as a condition to use of the streets, for the state may not use its constitutional powers to achieve the unconstitutional result of interfering with interstate commerce.

> "It is suggested that the State gets the power from its power over the streets which it is necessary for the telegraph to cross. But if we assume that the plaintiffs in error under their present charters could be excluded from the streets, the consequence would not follow. Acts generally lawful may become unlawful when done to accomplish an unlawful end, United States v. Reading Co., 226 U.S. 324, 357, and a constitutional power cannot be used by way of condition to attain an unconstitutional result." Western Union Telegraph Co. v. Foster, 247 U.S. 105 (1918).

As the following will further show, a state may not use its control of land to prohibit, attempt to regulate, interfere with, or unduly burden interstate commerce, nor to exact waivers of constitutional rights. If the use of state lands is necessary for interstate transportation, the state cannot withhold the right-of-way, it cannot exact more than reasonable compensation for such right-of-way, and it cannot invade the field of federal regulation or unduly burden interstate commerce as a condition of making available the use of its land.

II. THE STATE OF ALASKA MAY NOT WITHHOLD THE NECESSARY RIGHT-OF-WAY FOR IT MAY NOT WITHHOLD THE MEANS OF TRANSPORTING THE OIL AND GAS IN INTERSTATE COMMERCE.

The State of Alaska through its oil and gas leases has granted to the lessees the right to develop, produce, process and market oil and gas. That oil and gas can only be marketed feasibly by means which utilize state-owned lands. Under these circumstances, the State may not withhold its lands from the lessees.

This principle follows from the commerce clause of the United States Constitution. In Oklahoma v. Kansas Natural Gas Company, 221 U.S. 229 (1911), the State of Oklahoma by statute prohibited companies, which were engaged in transporting gas out of the State of Oklahoma, from laying, constructing and operating gas pipe lines in, on, under, across or along the highways of the State. The gas company merely sought rights to cross the highways for purposes of a pipeline to get natural gas out of the state. Oklahoma argued that while the gas company had the right to engage in interstate commerce, it did not have a right to obtain right-of-way in the state for that purpose, and that the state could withhold from such foreign corporation the power of eminent domain and the right to cross highways. The Supreme Court held that the state could not withhold the right to use highway crossings to construct the pipeline, and rejected the state's contentions, saying:

"At this late day it is not necessary to cite cases to show that the right to engage in interstate commerce is not the gift of a State, and that it cannot be regulated or restrained by a State, or that a State cannot exclude from its limits a corporation engaged in such commerce. To attain these unauthorized ends is the purpose of the Oklahoma statute. The State through the statute seeks in every way to accomplish these ends, and all the powers that a State is conceived to possess are exerted and all the limitations upon such powers are attempted to be circumvented. * * * The use of the highways is forbidden to them [interstate pipeline companies] and the right of eminent domain is withheld from them, and the prohibitive strength which these provisions are supposed to carry is exhibited in the fact that the boundary of the State is a highway. If it cannot be passed without the consent of the State, commerce to and from the State is impossible. The situation is not underestimated by appellant [Oklahoma Attorney General], and he says: 'If the appellees had the right of way they might engage in interstate commerce, but their desire to engage in interstate commerce is a different thing from the means open to them to procure a right of way.' And it is further said, that 'the confusion of the right to engage in interstate commerce with the power to forcibly secure a right of way is the basis of appellees' case.'

"There is here and there a suggestion that the State not having granted such right the alternative is a grant of it by Congress. But this overlooks the affirmative force of the interstate commerce clause of the Constitution. The inaction of Congress is a declaration of freedom from state interference with the transportation of articles of legitimate interstate commerce, and this has been the answer of the courts to contentions like those made in the case at bar.

> "* * * No State can by action or inaction prevent, unreasonably burden, discriminate against or directly regulate interstate commerce or the right to carry it on. And in all of these inhibited particulars the statute of Oklahoma offends."

Thus, it was held that the interstate pipeline could cross state highways notwithstanding the prohibition in the Oklahoma statute.

The same Oklahoma statute was also considered, and was held to be unconstitutional in the case of Haskell v. Cowham, 187 F. 403 (8th Cir. 1911). There, the court stated as follows:

> "No state may by means of its police power, or its proprietary power, over highways or by means of any of its other powers, erect and maintain impassable barriers against interstate commerce along its borders or through its body in the face of the grant to the nation of the power to regulate that commerce; for all the powers of the state are subordinate to this power of the nation and to its will that such commerce shall be free."

Not only would the withholding by the State of a right-of-way to the lessees constitute an undue burden on interstate commerce, but it would also constitute a deprivation of the lessees' property without due process of law. A succinct statement of this principle is found in the Haskell case cited above:

> "But an owner who by virtue of his ownership of land or of mining leases thereof has the vested right to draw by means of wells or pumps natural gas from beneath the surface is the owner of valuable property which the state cannot take from him without just compensation and state laws and acts of the officers of a state which prevent him from taking it from the land and selling it and conveying it out of the state in interstate commerce, while they permit the withdrawal and sale of such gas in interstate commerce, necessarily violate the national Constitution (1) because they take his property without just compensation and (2) because they substantially discriminate against and directly regulate interstate commerce."

The right of the lessees of the North Slope oil and gas to transport it in interstate commerce without obstacles or burdensome conditions imposed by the State is

expressly apparent in view of the fact that the State invited them to bid competitively for and purchase such oil and gas rights from the State, including, as stated in the leases, the right to "market" such oil and gas.

The point to be emphasized in our consideration of House Bills 294 and 313 is that their factual premise is inconsistent with their legal premise. Factually, they assume that the only practical way of getting the oil out of Alaska is by a pipeline and that pipeline must run across State controlled lands. If that were not the fact there would be no point to the bills for the price and conditions they exact would be avoided by using other lands. Thus, the premise is that the pipeline owners must contract with the State for right-of-ways. On the other hand, the legal premise is that the State, through its proprietary capacity, can achieve by right-of-way contracts what it could not achieve in its governmental capacity because the contracts will be entered into, it is claimed, by voluntary bargaining. It has been claimed that a state as proprietor can legally obtain unusual contract terms because others may contract with it on its terms or forego contracts with the state. That legal theory is plainly irrelevant where interstate commerce would be thwarted and property rights lost if the private parties declined the state's terms.

Instances of the federal government asserting conditions and requirements in the exercise of its contract functions are beside the point. Those are in fact instances where private parties may forego contracts with the federal government without loss of property rights, and it can hardly be claimed that the federal government is unconstitutionally restraining or burdening interstate commerce since the Constitution places the power over such commerce in the federal government.

The very factual premise of House Bills 294 and 313 that the pipeline owners must get right-of-way from the State, makes it apparent under U.S. Supreme Court cases, that such right-of-way cannot be withheld and cannot be used by the State to achieve results which are otherwise prohibited.

III. THE STATE OF ALASKA MAY CHARGE A RENTAL FOR THE USE OF ITS LAND, BUT SUCH RENTAL MUST BE REASONABLE AND CONSTITUTE NO MORE THAN JUST COMPENSATION TO THE STATE.

The State may properly charge rents for the right-of-way, even when there is no other practical way to conduct the interstate commerce involved. But, the Constitution requires that such rent be reasonable and not discriminatory and bear a true relation to the actual value of the land. The leading case in this regard is St. Louis v. Western Union Telegraph Company, 148 U.S. 92 (1893), rehearing denied, 149 U.S. 465 (1893). There, the City of St. Louis imposed an annual rental of $5.00 per pole for the use of so much of its lands as were occupied by the telegraph poles of the Western Union Telegraph Company, and the Company claimed such charge could not be made at all and, in any event, was excessive. The court held that a rental charge could be imposed, but that it must be reasonable in relation to the value of the land used. The Court said:

> "Indeed, it may be observed, in the line of the thoughts heretofore expressed, that this charge is one in the nature of rental; that the occupation by this interstate commerce company of the streets cannot be denied by the city; that all that it can insist upon is, in this respect, reasonable compensation for the space in the streets thus exclusively appropriated; and it follows in the nature of things that it does not lie exclusively in its power to determine what is reasonable rental. The inquiry must be open in the courts, and it is an inquiry which must depend largely upon matters not apparent upon the face of the ordinance, but existing only in the actual state of affairs in the city."

The Court did not have sufficient evidence before it to determine whether the rental was reasonable. But, upon remanding the case, it gave clear guidance that the rental had to bear a proper relationship to the value of the land occupied.

> "The court cannot assume that such a charge is excessive, and so excessive as to make the ordinance unreasonable and void; for, as applied in certain cases, a like charge for so much appropriation of the streets may be reasonable. If within a few blocks of Wall Street, New York, the telegraph company should place on the public streets 1500 of its large telegraph poles, it would seem as though no court could declare that five dollars a pole was an excessive annual rental for the ground so exclusively appropriated; while, on the other hand, a charge for a like number of poles in a small village, where space is abundant and land of little value, would be manifestly unreasonable, and might be so excessive as to be void."

Thus, the rental must bear a proper relationship to the value of the land occupied.

Land value is most frequently determined in eminent domain cases where just compensation is based upon the value of the land taken. It is held that land value is determined by what the owner gives up, not by what the taker gains. In United States v. Miller, 317 U.S. 369 (1943), the party whose land was being condemned argued that the land should be valued in relation to the specific purpose for which it was to be used, a railroad right-of-way. The United States Supreme Court rejected this contention, and stated:

> "Since the owner is to receive no more than indemnity for his loss, his award cannot be enhanced by any gain to the taker. Thus, although the market value of the property is to be fixed with due consideration of all its available uses, its special value to the condemnor as distinguished from others who may or may not possess the power to condemn, must be excluded as an element of market value." (p. 375).

The defect of the rental formulas of Senate Bills 294 and 313 is that they bear no relationship to the value of the particular land involved, and are not limited to the value of the land itself but seek to use some measure of gross revenues or the profitability of a pipeline built with private capital. This clearly goes beyond what the Supreme Court has said could be reasonably charged, and would constitute a prohibited burden on interstate commerce. Furthermore, since these unusual charges are wholly out of keeping with the general practice in other states and in Alaska, and are largely addressed to this pipeline project, they might also be viewed as violative of the prohibitions against discrimination against interstate commerce and as constituting discriminatory taxes upon interstate commerce.

IV. OTHER PROVISIONS OF THESE BILLS ARE UNCONSTITUTIONAL.

A. Court Jurisdiction.

The Bills provide that the lessee shall agree to the jurisdiction of state courts with regard to the interpretation of the lease or resolution of disputes concerning the lease provisions. (Section .020(1) of S.B. 313 and .410 of S.B. 294.)

We are not certain of the intent of this provision. If it is only designed to insure that state courts may readily obtain personal jurisdiction over the lessee, then a provision similar to that of Section .531 (designation of service agents) in S.B. 315 would be appropriate and avoid confusion.

Similarly, if the provision is only intended to mean that the law of Alaska governs interpretation of the lease, the provision appears unnecessary, but in any event should be more clearly worded to reflect that intention.

However, if this provision is intended to require the lessee to seek relief only in state courts and to prohibit it from invoking, in appropriate circumstances, the aid of federal courts, including the removal of cases to federal court where appropriate, it is clearly unlawful. As stated by the United States Supreme Court in the case of Terral v. Burke Construction Co., 257 U.S. 529 (1922):

> "The principle established by the more recent decisions of this court is that a State may not, in imposing conditions upon the privilege upon a foreign corporation's doing business in a state, exact from it a waiver of the exercise of its constitutional right to resort to the federal courts, or thereafter withdraw the privilege of doing business because of its exercise of such right, whether waived in advance or not."

Such a requirement, if imposed by the state police power, would be unconstitutional. Even a voluntary agreement having this result would be void. Roberts v. Lexington Insurance Co., 305 F.Supp. 47 (D.C. N.C. 1969).

B. Penalty Provision.

Section .020(4) of S.B. 313 would require the lessee to agree to penalties "that the Commissioner may determine to be appropriate." It provides no standard to guide the Commissioner in the exercise of this delegated authority and would place the lessee at the mercy of the Commissioner. Such a provision is contrary to the due process requirements of the Fourteenth Amendment of the federal constitution.

The apparent reason for the option requirement is the fear that the wellhead price and royalties of the state may be reduced by the imposition of excessive pipeline charges. This fear is unfounded. The pipeline's rates will be regulated by federal regulatory agencies in whose deliberations the State may fully participate.

F. The Savings Clause.

S.B. 313 purports to escape constitutional infirmities by specifying that the lease conditions be imposed only "to the extent not pre-empted by federal law." Also, the bill defines "transporation" to include activities only "to the extent that such transportation may constitutionally be subject to the provisions of this chapter." As indicated above, the application of such exceptions would leave little, if anything, of consequence in the bill. The unconstitutional matter in S.B. 313 is so pervasive that we believe it would be held unconstitutional in its entirety. The problem is that the basic premise of the bill, that the State can exact any conditions it desires by virtue of its landowner position, is constitutionally unsound.

V. CONCLUSION.

We have not attempted to deal with every provision of Senate Bills 294 and 313, and do not mean to imply that provisions not discussed would be valid. Rather, we have shown that the basic legal premise of these bills is wrong and would produce unconstitutional results in vital respects. We do not doubt the authority of the state to provide for leasing rights-of-way over the public domain for this pipeline project and others, to obtain reasonable rentals therefore, and to provide for reasonable conditions and terms relating to the protection of the State's lands and properties to the extent not inconsistent with or pre-empted by the federal authority. However, Senate Bills 294 and 313 are not proper vehicles for such purpose for they are permeated with unconstitutional provisions developed from an unsound legal premise.

PLEASE NOTE: THE FOLLOWING PAGES WERE TREATED AS A UNIT IN THE ORIGINAL DOCUMENT.

REMARKS OF CHARLES E. SPAHR
TO THE JOINT HEARING OF THE SENATE COMMERCE COMMITTEE
AND THE HOUSE STATE AFFAIRS COMMITTEE
ON PROPOSED ALASKAN LEGISLATION CONCERNING
PIPELINE REGULATION, RIGHT-OF-WAY AND
STATE OWNERSHIP -- MARCH 7, 1972

INTRODUCTION

GENTLEMEN: I APPRECIATE HAVING THIS OPPORTUNITY TO APPEAR BEFORE YOU. MY NAME IS CHARLES SPAHR. I AM CHAIRMAN AND CHIEF EXECUTIVE OFFICER OF THE STANDARD OIL COMPANY (OHIO), HEADQUARTERED IN CLEVELAND ON THE SOUTHERN SHORE OF LAKE ERIE. MY COMPANY HAS A SUBSTANTIAL INTEREST IN THE PRUDHOE BAY FIELD. LIKE OUR ASSOCIATES IN THAT AREA WE ARE ANXIOUS TO DEVELOP THE FIELD AND BRING ITS OIL TO MARKET THROUGH THE PROPOSED TRANS-ALASKA PIPELINE SYSTEM AS SOON AS POSSIBLE. OF PRUDHOE BAY'S TOTAL HYDROCARBON RESERVES I BELIEVE THAT APPROXIMATELY 55% OF THE OIL AND 30% OF THE GAS ARE UNDER OUR LEASES. WE HAVE AN APPROXIMATE 28% INTEREST IN THE TAPS PROJECT.

AS YOU PROBABLY KNOW, THESE INTERESTS RESULT FROM THE AGREEMENT BETWEEN OUR COMPANY AND THE BRITISH PETROLEUM COMPANY, LIMITED OF JANUARY 1, 1970, WHEREBY BP ACQUIRED AN INITIAL 25% INTEREST IN SOHIO (AS WE CALL OUR COMPANY), AND WE ACQUIRED MOST OF BP'S INTERESTS IN PRUDHOE BAY, ITS MARKETING PROPERTIES IN THE EASTERN SEABOARD STATES, AND TWO REFINERIES SERVING THAT AREA.

UNDER THE TERMS OF OUR AGREEMENT WITH BRITISH PETROLEUM, ITS SUBSIDIARY BP ALASKA INC. IS ACTING AS OUR AGENT IN THE

DEVELOPMENT OF PRUDHOE BAY. SOHIO AND BP ALASKA HAVE LABORED JOINTLY ON THE TAPS PROBLEM AND ALL MATTERS RELATED TO IT.

LAST OCTOBER WHEN GOVERNOR EGAN DISCLOSED HIS INTEREST IN STATE OWNERSHIP OF TAPS MY REACTION TO THAT DISCLOSURE RECEIVED SOME PUBLICITY. THERE ARE SOME WHO SAID I OVER-REACTED AND OTHERS WHO CHIDED ME FOR ATTEMPTING AN OVERKILL. I HAD NO SUCH INTENTION. RATHER, THE REACTION WAS ONE OF HONEST SHOCK. MORE COSTLY DELAY ADDED TO THAT ALREADY EXPERIENCED WAS ENVISIONED. THIS PIPELINE PROJECT IS TRULY A TREMENDOUS UNDERTAKING WITHOUT PRECEDENT, ALREADY PLAGUED, WITH EXTENDED DELAYS AND THEIR ATTENDANT COSTS THAT NO ONE COULD IMAGINE WHEN PLANNING BEGAN. THE SPECTER OF SUBSTANTIAL ADDITIONAL HURDLES ARISING AS A CONSEQUENCE OF THE ADMINISTRATION'S DESIRE TO FIND A WAY TO ACQUIRE THE LINE APPALLED ME AND I SAID SO. SUBSEQUENT STUDY HAS CONFIRMED OUR INITIAL BELIEF THAT A GOOD MANY PROBLEMS ARE POSED BY THE STATE OWNERSHIP QUESTION WHICH WE WANT TO DISCUSS WITH YOU AND WITH THE ADMINISTRATION IN AS COMPLETE AND OBJECTIVE A MANNER AS POSSIBLE.

OUR PRIMARY DESIRE, I AM SURE, PARALLELS YOUR OWN AND THAT OF THE GOVERNOR--IT IS TO BUILD THE LINE EXPEDITIOUSLY AND WELL IN ORDER TO BE ABLE TO BEGIN AND SUSTAIN PRUDHOE BAY PRODUCTION AT AN OPTIMUM RATE FOR THE MUTUAL BENEFIT OF ALASKA, ITS PEOPLE, THE NATION, AND THE PRODUCERS.

TODAY I AM SPEAKING FOR MY COMPANY AND BP ALASKA, AND ON BEHALF OF THOSE OTHER COMPANIES HAVING OWNERSHIP INTERESTS IN BOTH PRUDHOE BAY AND IN TAPS. THE IDENTITIES OF THESE

COMPANIES, AND THEIR CURRENT INTEREST IN TAPS ARE AS FOLLOWS:

ATLANTIC RICHFIELD COMPANY	28%
THE HUMBLE OIL & REFINING COMPANY	25½%
MOBIL OIL CORPORATION	8½%
PHILLIPS PETROLEUM COMPANY	3½%
UNION OIL COMPANY	3½%
AMERADA-HESS	3 %

THE STATE OF ALASKA, BY VIRTUE OF ITS ROYALTY INTEREST AND PROSPECTIVE SEVERANCE TAXES HAS A SUBSTANTIAL INTEREST APPROXIMATING 20% IN ALL OF THIS OIL AND GAS.

TRADITIONALLY, AND WITHOUT EXCEPTION TO MY KNOWLEDGE, COMMERCIAL OIL AND GAS FIELDS IN OUR COUNTRY HAVE BEEN DEVELOPED BY THE COMPANIES POSSESSING THE RESERVES IN THOSE FIELDS. THEIR DESIRE TO GET THE OIL TO MARKET HAS BEEN THE COMPELLING FORCE TO GET THE JOB DONE--AS SOON AS POSSIBLE. THE SAME COMPULSION HAS PRODUCED THE NECESSARY TRANSPORTATION, EITHER BY THE PRODUCERS OR BY THOSE WHO HAVE WANTED ACCESS TO THE OIL AS BUYERS.

FREQUENTLY, THE INITIAL TRANSPORTATION SYSTEMS HAVE BEEN EXPANDED AND EXTENDED TO ACCOMMODATE THE OIL OR GAS FROM NEW DISCOVERIES, WHETHER OR NOT IT BELONGED TO THE OWNERS AND OPERATORS OF THOSE SYSTEMS.

THE PLANNING FOR THE TRANS-ALASKA PIPELINE BEGAN SOON AFTER THE DISCOVERY OF THE PRUDHOE BAY FIELD AND CONTINUED UNTIL MID-1970 UNDER THE GENERAL DIRECTION OF A COMMITTEE OF THE CONCERNED COMPANIES' REPRESENTATIVES. EARLIER IN THAT

YEAR IT HAD BECOME APPARENT THAT CONTINUED COMMITTEE DIRECTION WOULD BECOME TOO CUMBERSOME TO BE PRACTICAL, SO ALYESKA PIPELINE SERVICE COMPANY WAS CREATED AS THE AGENT OF ALL THE COMPANIES WITH INTERESTS IN TAPS AND GIVEN BROAD AUTHORITY TO DESIGN, CONSTRUCT, OPERATE AND MAINTAIN TAPS AS A COMMON CARRIER, JOINT INTEREST PIPELINE. THE VIRTUES OF THIS ORGANIZATIONAL CHANGE HAVE CONTINUED TO MANIFEST THEMSELVES IN THE MONTHS SINCE THEN.

ALYESKA ITSELF HAS NO OWNERSHIP INTEREST IN EITHER THE PRUDHOE BAY FIELD OR IN TAPS; THE OWNER COMPANIES HAVE RETAINED UNDIVIDED INTERESTS IN TAPS IN THE PERCENTAGES MENTIONED A FEW MOMENTS AGO.

THE SCOPE OF THE PROBLEMS

A MULTIPLICITY OF PROBLEMS IS ASSOCIATED WITH THE DEVELOPMENT OF PRUDHOE BAY AND THE ESTABLISHMENT OF TAPS. ALTHOUGH YOU ARE FAMILIAR WITH MANY OF THEM, I BELIEVE THEY SHOULD BE CITED BECAUSE DOING SO WILL ASSURE YOU THAT WE ARE VERY AWARE OF THEM TOO.

FOR EXAMPLE, WE KNOW OF ALASKA'S DESIRE TO DEVELOP ITS LAND AND ITS MINERAL RESOURCES. WE KNOW OF THE UNEMPLOYMENT AND REAL POVERTY OF SOME OF ALASKA'S PEOPLE, AND OF THE EXTREME DIFFICULTIES MANY ALASKAN BUSINESSMEN HAVE FACED AS A RESULT OF THE DELAYS WHICH HAVE PLAGUED TAPS. WE KNOW OF AND SHARE YOUR DESIRE TO PROTECT THE WILDERNESS AREAS AND NATURAL BEAUTY OF THE STATE; AND WE KNOW OF YOUR DESIRES FOR ADDITIONAL STATE REVENUES TO SUPPORT GOVERNMENT SERVICES TO ALASKA'S

PEOPLE, ITS INDUSTRIES AND COMMERCE.

THE OIL COMPANIES ARE FACED WITH THE TREMENDOUS UNPRECEDENTED TASKS OF DEVELOPING THE PRUDHOE BAY FIELD, ENGINEERING AND CONSTRUCTING TAPS, PROVIDING A MARINE TERMINAL AT VALDEZ, SHIPS, AND TERMINALS, AND POSSIBLY OTHER TRANSPORTATION FACILITIES IN THE LOWER 48 STATES IN ORDER TO MOVE AND PROVIDE MARKETS FOR PRUDHOE OIL. ALL OF OUR WORK MUST BE SUBSTANTIALLY FREE OF ERROR, AND IT MUST BE DONE SIMULTANEOUSLY. THE CHALLENGES WE FACE ARE UNIQUE AND GIGANTIC, AND THE RISKS THAT WE MUST ASSUME ARE SIMILARLY GREAT AND ARE NOT MITIGATED BY THE EXISTING MAZE OF LITIGATION AND GOVERNMENT REGULATION WHICH MUST BE SATISFACTORILY RESOLVED. THE REGULATORY ATMOSPHERE IS EXTREMELY COMPLEX AND DIFFICULT FOR US BECAUSE THE DEPARTMENT OF THE INTERIOR, THE INTERESTATE COMMERCE COMMISSION, THE DEPARTMENT OF JUSTICE, AND MANY OTHER INTERESTED FEDERAL AND STATE AGENCIES HAVE ASSUMED OR WILL ASSUME CONTINUING SUPERVISORY INTERESTS, SOME OF THEM OVERLAPPING AND PERHAPS CONFLICTING. REGULATION, PER SE, IS NOT NEW TO US, BUT THE MAGNITUDE AND EXTENT OF THE REGULATION IS NEW AND AWESOME.

HOWEVER, OUR COUNTRY'S GROWING ENERGY REQUIREMENTS AND RELATED CONSIDERATIONS OF NATIONAL SECURITY UNDERSCORE THE URGENCY OF OUR FINDING TOGETHER THE SOLUTIONS FOR MOVING AHEAD WITH PRUDHOE BAY DEVELOPMENTS AND TAPS CONSTRUCTION.

FIVE KEY FACTORS

THE PROBLEMS THAT I HAVE CITED CAN BE TRANSLATED INTO FIVE KEY FACTORS WHICH MUST BE TAKEN INTO ACCOUNT IN THE

DEVELOPMENT OF PRUDHOE BAY AND THE CONSTRUCTION OF TAPS. I BELIEVE THAT EACH ONE IS PERTINENT TO THE MATTERS BEFORE THIS LEGISLATURE AND ALL MUST BE CAREFULLY WEIGHED IN STRIKING THE ULTIMATE BALANCE. THE FIVE FACTORS ARE THESE:

(1) THE IMMEDIATE PROBLEMS OF ALASKA AND HER PEOPLE.

(2) THE DESIRE OF OUR COMPANIES TO DEVELOP AND PRODUCE THEIR DISCOVERED OIL AND GAS RESERVES IN ALASKA AS SOON AS POSSIBLE AND WITH A REASONABLE REWARD FOR THE RISKS THEY ASSUME.

(3) THE ENERGY SHORTAGE FACING THE UNITED STATES.

(4) THE ENVIRONMENTAL AND ECOLOGICAL CONSIDERATIONS FROM THE WELLHEAD TO THE MARKETPLACE.

(5) THE LONGER RUN, OVERALL DEVELOPMENT OF ALASKA.

WE ARE CONSIDERING THESE FACTORS IN A SERIOUS MINDED WAY, AND DO NOT DOUBT THAT THIS LEGISLATURE AND THE ADMINISTRATION OF THE STATE ARE DOING SO TOO. I EXPECT THAT ALL OF US MAY FIND THAT THE BEST ANSWERS WILL NOT ALWAYS BE IMMEDIATELY APPARENT. I CAN ASSURE YOU, HOWEVER, THAT WE ARE WILLING TO WORK TO FIND THEM. WE MAY NOT ALWAYS AGREE BUT I HOPE THAT WE CAN FIND INTELLIGENT RESOLUTIONS OF OUR DIFFERENCES. THOSE OF US WHO ARE ASSOCIATED WITH THE OIL COMPANIES CANNOT AND SHOULD NOT PRESUME TO DIRECT THE AFFAIRS OF THE STATE, BUT

WE CAN AND WILL GIVE YOU CONTINUING AND, HOPEFULLY, CONSTRUCTIVE COMMENT ON THESE MATTERS OF MUTUAL INTEREST. NO OTHER APPROACH MAKES MUCH SENSE TO ME.

NOW, WITH YOUR PERMISSION, I WILL OUTLINE THE SUBSTANCE OF THE PRESENTATION WE WILL MAKE TODAY ON THE PROPOSED LEGISLATION BEFORE YOU. AFTERWARD I WILL SPEAK BRIEFLY ON TWO OR THREE MATTERS ABOUT WHICH YOU MAY BE CONCERNED. THEN I'D LIKE TO SUGGEST A GENERAL DIRECTION IN WHICH WE MIGHT MOVE.

THE PENDING LEGISLATION

WITH ME TODAY IS A GROUP OF MEN WHO ARE EXPERTLY QUALIFIED TO DISCUSS THE FACTUAL, FINANCIAL AND LEGAL ASPECTS OF THE LEGISLATION YOU ARE CONSIDERING. THEY ARE READY TO PROVIDE YOU WITH INFORMATION AND COMMENTS DESIGNED TO BE USEFUL TO YOU. AFTER TESTIFYING ON PRINCIPAL POINTS, EACH WITNESS WILL BE GLAD TO ANSWER QUESTIONS AND WILL GIVE YOU A MEMORANDUM ON HIS AREA OF EXPERT KNOWLEDGE WHICH MAY BE USEFUL TO YOU AS A REFERENCE DOCUMENT.

ON THE SUBJECTS OF PIPELINE REGULATION AND RIGHT-OF-WAY, OUR FIRST WITNESS WILL BE MR. W. J. WILLIAMSON, PROFESSOR OF LAW AT THE UNIVERSITY OF HOUSTON, WHO SERVED IN THE GENERAL COUNSEL'S OFFICE OF THE U. S. DEPARTMENT OF THE TREASURY BEFORE JOINING THE SHELL OIL COMPANY IN 1941. HE WAS AN ATTORNEY AND DIRECTOR OF SHELL PIPE LINE CORPORATION FOR 16 OF HIS 31 YEARS WITH THE SHELL COMPANIES. PROFESSOR WILLIAMSON WILL DESCRIBE HOW JOINT INTEREST, COMMON CARRIER

PIPELINES OPERATE AND HOW A SHIPPER WHO HAS NO OWNERSHIP INTEREST IN A PIPELINE ARRANGES FOR TRANSPORTATION OF HIS OIL.

I WISH TO MAKE ONLY ONE POINT RELATED TO THIS GENERAL AREA OF DISCUSSION, WHICH IS THAT THE TAPS COMPANIES INTEND TO SEE TO IT THAT IT WILL BE POSSIBLE FOR ANY PRODUCER AT PRUDHOE BAY, WHETHER AN OWNER IN TAPS OR NOT, TO ARRANGE FOR TRANSPORTATION OF HIS OIL THROUGH TAPS AT ONE LOCATION IN ALASKA.

OUR SECOND WITNESS WILL BE MR. HARRY R. JONES, PARTNER IN THE LAW FIRM OF ANDREWS, KURTH, CAMPBELL AND JONES OF HOUSTON, TEXAS, WHO HAS PRACTICED LAW FOR MANY YEARS IN THE FIELDS OF STATE AND INTERSTATE COMMERCE. MR. JONES WILL DISCUSS THE EXTENT OF FEDERAL JURISDICTION OVER INTERSTATE SHIPMENTS OF OIL THROUGH FACILITIES SUCH AS TAPS. AS YOU PROBABLY KNOW, THE FEDERAL PREEMPTION INCLUDES ALL INTERSTATE OIL TRANSPORTATION, AND THE IMPORTANT QUESTION IS NOT WHAT DIFFERENCES MAY EXIST IN THE JURISDICTION EXERCISED BY THE INTERSTATE COMMERCE COMMISSION OVER DIFFERENT TYPES OF CARRIERS, BUT WHAT REMAINS IN THE CASE OF OIL PIPELINES THAT MAY BE PROPERLY REGULATED BY A STATE OR LOCAL AUTHORITY. YOU WILL ALSO HEAR THAT THE EXTENT OF THIS FEDERAL JURISDICTION IS CONSISTENT AND TOTAL. WHETHER A CARRIER IS OWNED AND OPERATED BY AN INDUSTRIAL ORGANIZATION OR BY A STATE OR LOCAL GOVERNMENT. I AM AWARE OF THE CONCERN OF SOME ALASKANS THAT ICC REGULATION MAY NOT BE AS EFFECTIVE AS THEY THINK IT SHOULD

BE. I BELIEVE THAT THE ICC HAS SERVED THE PUBLIC INTEREST WELL OVER THE YEARS AND THAT IT IS PREPARED TO CONTINUE TO DO SO. PERHAPS THE ANSWERS TO THE STATE'S CONCERN ABOUT THE PUBLIC INTEREST LIE IN FINDING WAYS TO MAKE ALL NECESSARY INFORMATION AVAILABLE TO THE STATE FOR ITS TIMELY REVIEW AND IN ITS PARTICIPATION IN ANY ICC PROCEEDINGS THAT IT MAY THINK APPROPRIATE. I WOULD EXPECT THAT SUCH INFORMATION WOULD INCLUDE BOTH THE CAPITAL COSTS AND THE OPERATING COSTS OF TAPS. FRANKLY, WE DREAD ANY PROSPECT OF GETTING BOGGED DOWN IN A JURISDICTIONAL DISPUTE BETWEEN THE FEDERAL GOVERNMENT AND THE STATE WHICH WOULD FURTHER DELAY US ALL, AND HOPE TO FIND A WAY TO AVOID SUCH A COSTLY AND FRUSTRATING DIFFICULTY.

OUR THIRD WITNESS WILL BE MR. DONALD M. MARKHAM, ATTORNEY-AT-LAW IN WASHINGTON, D.C. MR. MARKHAM HAS BEEN ENGAGED IN GENERAL PRACTICE IN AVIATION, INTERSTATE COMMERCE, TRANSPORTATION AND CORPORATE LAW SINCE 1939. HE WAS AN ASSISTANT PROFESSOR OF LAW AT THE UNIVERSITY OF NORTH CAROLINA, AN ATTORNEY FOR THE U.S. TREASURY DEPARTMENT AND ASSISTANT GENERAL COUNSEL FOR THE AIR TRANSPORTATION ASSOCIATION OF AMERICA. MR. MARKHAM WILL COMMENT ON THE LEGAL REQUIREMENT OF JUST AND REASONABLE RATES AND DISCUSS THE HISTORICAL RECORD OF THE ICC IN THIS REGARD.

OUR FOURTH WITNESS IS GEORGE A. SEYMOUR OF DALLAS, TEXAS. MR. SEYMOUR IS MANAGER OF PART INTEREST PIPELINES FOR MOBIL PIPE LINE COMPANY, THE COMMON CARRIER PIPELINE AFFILIATE OF MOBIL OIL CORPORATION, AND HAS BEEN A DIRECTOR AND VICE PRESIDENT OF COOK INLET PIPE LINE COMPANY SINCE MARCH, 1970, WITH STAFF RESPONSIBILITY

FOR THE OPERATIONS OF THE COMPANY. A PROFESSIONAL ENGINEER, HE HAS BEEN ENGAGED IN PIPELINE ENGINEERING AND MANAGEMENT WITH MOBIL FOR 24 YEARS. HE WILL SPEAK TO YOU ABOUT THE FINANCIAL INFORMATION ON CAPITAL AND OPERATING COSTS THAT WILL BE AVAILABLE TO THE STATE ON TAPS.

OUR FIFTH WITNESS IS MR. EDWARD L. PATTON, THE PRESIDENT OF ALYESKA PIPE LINE SERVICE COMPANY, WHO HAS HAD 34 YEARS OF EXPERIENCE IN THE OIL INDUSTRY IN PIPELINE AND REFINERY MANAGEMENT AND CONSTRUCTION. HIS EXPERIENCE INCLUDES RESPONSIBILITY FOR BUILDING, STAFFING, STARTING UP AND OPERATING TWO COMPLETE MAJOR REFINING FACILITIES. MANY OF YOU KNOW HIM ALREADY. HE WILL SPEAK ON THE OPERATING ASPECTS OF THE PROPOSED PIPELINE REGULATION AND RIGHT-OF-WAY LEGISLATION. HE WILL ALSO GIVE YOU SOME INFORMATION ON INDUSTRY EXPERIENCE ON RIGHT-OF-WAY COSTS THAT WE HAVE BEEN ABLE TO COLLECT IN RECENT WEEKS.

OUR SIXTH WITNESS IS MR. JOSEPH R. CORTESE, A GENERAL PARTNER IN THE LAW FIRM OF SQUIRE, SANDERS AND DEMPSEY OF CLEVELAND, OHIO. MR. CORTESE IS A SPECIALIST IN THE AREA OF LAW CONCERNED WITH THE POWERS OF STATE AND LOCAL GOVERNMENTS AND IN TAX-EXEMPT FINANCING. OF THE 119 LAWYERS IN HIS FIRM, 20 DEVOTE FULL TIME TO THE PRACTICE OF LAW INVOLVING STATES, POLITICAL SUBDIVISIONS AND OTHER PUBLIC ENTITIES. SINCE 1903 THE FIRM HAS DRAFTED AND INTERPRETED MANY STATE STATUTES AND CONSTITUTIONAL PROVISIONS, CONDUCTED LITIGATION ON VALIDITY AND RENDERED APPROVING OPINIONS ON STATE AND LOCAL BOND ISSUES ALONG WITH THEIR TAX STATUS.

MR. CORTESE WILL DISCUSS SOME OF THE LEGAL PROBLEMS IN THE LEGISLATION BEFORE YOU THAT GIVE US REAL CONCERN. FOR EXAMPLE, WHEN THE COST OF RIGHT-OF-WAY FAR EXCEEDS ANY FAIR MARKET VALUE FOR THE LAND, IT PROBABLY BECOMES A TAX AND A BURDEN ON INTERSTATE COMMERCE OF DOUBTFUL VALIDITY. HISTORICALLY, RIGHT-OF-WAY ACQUISITION HAS NOT BEEN A REVENUE PRODUCING DEVICE. IN ADDITION, THE PROPOSED LEGISLATION WOULD SEEM TO SEEK JURISDICTION OVER INTERSTATE CARRIERS INDIRECTLY THAT CANNOT BE EXERCISED DIRECTLY. HERE, WITH RESPECT TO THIS ISSUE, I AGAIN WANT TO EVIDENCE MY CONCERN OVER THE POTENTIAL DELAY THAT A JURISDICTIONAL DONNYBROOK CAN CREATE.

SEVENTH, MR. RAYMOND B. GARY OF NEW YORK CITY WILL DISCUSS THE FINANCIAL IMPACT OF THE RIGHT-OF-WAY LEGISLATION ON TAPS.

MR. GARY IS A GENERAL PARTNER OF MORGAN STANLEY AND CO. AND A MANAGING DIRECTOR OF MORGAN STANLEY AND COMPANY, INC. HE HAS BEEN WITH HIS INVESTMENT BANKING FIRM SINCE 1935. MORGAN STANLEY IS ENGAGED IN ALL PHASES OF UNDERWRITING AND DISTRIBUTION OF SECURITIES OF INDUSTRIAL CORPORATIONS, PUBLIC UTILITIES, TRANSPORTATION COMPANIES INCLUDING AIRLINES, RAILROADS AND PIPELINES, AND FOREIGN CORPORATIONS AND GOVERNMENTS.

YOU WILL FIND THAT HIS REMARKS DESERVE SOME CAREFUL CONSIDERATION.

ON THE SUBJECT OF STATE OWNERSHIP OF TAPS, WE HAVE FIVE WITNESSES WHO WILL SUMMARIZE THE EXTENSIVE STUDY WE HAVE CONDUCTED OVER THE LAST FEW MONTHS ON THE GOVERNOR'S PROPOSAL AND ON THE DRAFT LEGISLATION AFTER IT WAS INTRODUCED.

THE FIRST IS MR. GARY WHO WILL CONTINUE HIS TESTIMONY WITH A REVIEW OF THE FINANCIAL ASPECTS OF THE MATTER. FROM THE VERY OUTSET, OUR REVIEW OF THE GENERAL PROPOSAL CONFIRMED AGAIN AND AGAIN THAT THE FINANCIAL BACKING OF THE COMPANIES IN TAPS WILL BE REQUIRED TO BUILD THE LINE. I REALIZE THAT NO ONE LIKES TO BE TOLD "NO" ON WHAT TO HIM SEEMS A GOOD IDEA, BUT I HOPE YOU WILL APPRECIATE THE UNTENABLE POSITION WE EXPERIENCED WHEN WE WERE ASKED TO ASSUME A VERY LARGE RISK AND TO MAKE A MAJOR COMMITMENT OF OUR CREDIT, WITHOUT A PROSPECT OF A REASONABLE REWARD FOR THE RISK TO BE ASSUMED.

ANOTHER PART OF THIS STUDY CONCERNED THE RELATIVE PROFITABILITY OF PIPELINES AND WAS PARTICULARLY CONCERNED WITH THE VERY REAL PROBLEMS OF ADEQUATE CASH FLOW AND PROFITS DURING THE EARLY YEARS OF OPERATION. I BELIEVE THAT THIS IS INFORMATION THAT THE LEGISLATURE MAY WISH TO HAVE AND I HAVE ASKED MR. GEORGE A. SEYMOUR TO SPEAK ABOUT THIS.

OTHER QUESTIONS PERTAIN TO THE POSSIBLE TAX BENEFITS TO THE STATE AND TO THE COMPANIES NOT IN TAPS. A LOT OF HARD WORK INDICATES THAT THE TAX BENEFITS EITHER COULD NOT BE OBTAINED OR WERE REMOTE AT BEST. MR. THOMAS A. COATS AND, A SPECIALIST IN TAXATION AND A MEMBER OF THE TAX DEPARTMENT OF THE ATLANTIC RICHFIELD COMPANY, WHO FLEW HERE FROM NEW YORK CITY TO LOS ANGELES, WILL REVIEW THESE FIGURES FOR YOU.

ONE VERY PRACTICAL PROBLEM CONCERNS THE STATE'S CAPABILITY TO MANAGE SUCH A COMPLEX OPERATION AS TAPS AND THE QUESTION AS TO HOW THE PRESENT TECHNICAL TEAM THAT WE HAVE ASSEMBLED COULD BE HELD TOGETHER UNDER SOME SORT OF CONTRACT WITH THE STATE. ON THE LATTER POINT, MR. PATTON HAS PUBLICLY EXPRESSED HIS DOUBTS AND WILL GIVE YOU HIS PERSONAL COMMENTS HERE.

THEN, THERE APPEAR TO BE SOME LEGAL PROBLEMS ASSOCIATED WITH THE PROPOSAL FOR STATE OWNERSHIP THAT MR. CORTESE WILL DISCUSS.

FINALLY, MR. RICHARD H. DONALDSON, VICE PRESIDENT AND GENERAL COUNSEL OF SOHIO WILL PRESENT SOME CONCLUDING REMARKS.

THREE GENERAL SUBJECTS OF INTEREST

BEFORE I TURN TO MY SUGGESTION AS TO THE DIRECTION THE STATE AND THE TAPS COMPANIES MIGHT TAKE, I WOULD LIKE TO COMMENT ON THREE SUBJECTS THAT I UNDERSTAND ARE OF CURRENT GENERAL INTEREST HERE.

THE FIRST IS A QUESTION: "WHAT WILL THE COMPANIES IN TAPS REALLY HAVE INVESTED IN THE LINE?" OR, MORE DIRECTLY, "ISN'T THEIR INVESTMENT LIMITED TO THE EQUITY AND SHOULDN'T THEIR RETURN BE BASED ON THAT?" IF AN EQUITY REPRESENTED THE ENTIRE RISK THAT A PIPELINE OWNER HAD IN A PROJECT, THE MATHEMATICS ON THE INVESTMENT RETURN WOULD RUN PRETTY HIGH. BUT PLEASE, MAKE NO MISTAKE, OUR RESPONSIBILITY IN TAPS IS THE ENTIRE FINANCIAL RESPONSIBILITY TO SERVICE ALL THE DEBT AS WELL AS TO PROVIDE THE EQUITY. OUR CREDIT MUST SUPPORT THE ENTIRE LIABILITY FOR THE PROJECT. THIS IS TYPICAL OF PIPELINE FINANCING AND THE REASON WHY THE ICC, THE JUSTICE DEPARTMENT, AND THE U.S. SUPREME COURT HAVE RECOGNIZED FOR MANY YEARS THAT A FAIR AND REASONABLE RETURN SHOULD BE BASED ON THE ENTIRE VALUATION OF THE LINE. OUR FINANCIAL EXPERT MR. GARY WILL COMMENT MORE SPECIFICALLY ON THIS POINT IN ORDER THAT

THIS MATTER MAY BE FULLY UNDERSTOOD.

THE SECOND SUBJECT IS ALSO A QUESTION: "WHY DO THE TAPS COMPANIES OBJECT TO A RIGHT-OF-WAY PERMIT FROM THE STATE THAT RUNS 5 OR 10 YEARS, SINCE AT PRESENT THE PERMIT THAT THEY EXPECT TO OBTAIN FROM THE FEDERAL GOVERNMENT WILL BE REVOCABLE AT ANY TIME IF THAT GOVERNMENT FINDS THE PIPELINE DOES NOT CONFORM IN SOME WAY TO ALL THE REQUIREMENTS THAT IT DECREES MUST BE MET?"

I DO NOT WANT TO SHRUG OFF SUCH A QUESTION, WHICH IS A VERY FAIR ONE. I AM CONCERNED ABOUT THE PROVISIONS OF FEDERAL LAW THAT ENABLE THE FEDERAL GOVERNMENT TO SHUT DOWN THE PIPELINE IF ITS REPRESENTATIVES BELIEVE THAT SOME TECHNICAL OR ENGINEERING REQUIREMENT IS NOT FULLY SATISFIED. AT THE SAME TIME I BELIEVE THAT THE FEDERAL GOVERNMENT WILL WORK HARD AND CONTINUOUSLY TO AVOID ANY SUCH SHUTDOWN.

OUR OBJECTION TO A LIMITED TERM PERMIT FROM THE STATE STEMS FROM THE REVELATION OF THE SUBSTANTIAL CHANGE IN PERMIT PHILOSOPHY THAT THE PROPOSED RIGHT-OF-WAY LEGISLATION IMPLIES. HISTORICALLY, PIPELINE COMPANIES HAVE SECURED PERMANENT RIGHTS-OF-WAY FOR RELATIVELY LOW COSTS. THIS WAS IN THE INTEREST OF THE STATES AND TERRITORIES GRANTING THE RIGHTS-OF-WAY BECAUSE IT HELPED STIMULATE THE ECONOMIC DEVELOPMENT OF NEW AREAS. THERE IS SOME PARALLEL IN ALASKA'S SITUATION TODAY. IT WAS ALSO IN THE INTEREST OF THE PIPELINE COMPANIES BECAUSE THIS COST WAS THEN DEFINED AND THE RISK MEASURABLE. THE PROPOSED RIGHT-OF-WAY LEGISLATION HOLDS OUT THE PROSPECT OF CONTINUING NEGOTIATIONS FOR VERY SUBSTANTIAL RIGHT-OF-WAY REVENUES OVER MANY YEARS, LONG AFTER THE PIPELINE IS IN PLACE, AND ADDS SUBSTANTIALLY TO THE

UNKNOWN RISKS IN THE PROJECT.

CONSEQUENTLY, THE PROSPECT OF IMMEDIATE HIGH COST RIGHT-OF-WAY PLUS THAT OF EVEN HIGHER COSTS BEING IMPOSED LATER, AFTER ALL INVESTMENTS HAVE BEEN MADE, MAKES A PROSPECTIVE INVESTOR OR LENDER VERY WARY. THIS MEANS HE WILL VIEW THE PROJECT AS AN EXTREMELY HIGH RISK ONE; THAT HE MAY NOT BE WILLING TO ACCEPT SUCH A RISK, OR, AT BEST, HE WILL IMPOSE A HIGHER INTEREST REQUIREMENT AND OTHER RESTRICTIONS AS HE MAY DEEM NECESSARY FOR HIS PROTECTION.

WHILE WE ARE AWARE OF ALASKA'S NEEDS FOR REVENUES, WE FIND THE LIMITED TERM, HIGH COST RIGHT-OF-WAY PERMIT OR LEASE A MOST DIFFICULT DEVICE TO ACCEPT.

THE THIRD SUBJECT CONCERNS ANTITRUST. FOR A GOOD MANY YEARS, THE DEPARTMENT OF JUSTICE HAS ROUTINELY INVESTIGATED ANY MAJOR PROJECT AFFECTING INTERSTATE COMMERCE AND PARTICULARLY INVOLVING COMPANIES OF SUBSTANTIAL SIZE. OUR INDUSTRY IS SELDOM OVERLOOKED AND THE DEPARTMENT OF JUSTICE HAS MADE AND IS MAKING A THOROUGH INQUIRY INTO TAPS, AS IT SHOULD. OUR COMPANY HAS RESPONDED AND IS CONTINUING TO RESPOND TO THE DEPARTMENT'S INQUIRY. I WOULD BE SURPRISED IF ALL THE OTHER COMPANIES IN THE PROJECT ARE NOT DOING LIKEWISE. I CAN SPEAK ONLY FOR MY COMPANY, HOWEVER ON THIS PARTICULAR SUBJECT. TYPICAL OF ANY SUCH ANTITRUST INQUIRY ARE THE QUESTIONS: "WHY IS YOUR COMPANY PARTICIPATING?" AND, IN THE PRESENT SITUATION, "WHY DO YOU PLAN TO SHIP YOUR OIL TO WEST COAST MARKETS?" I WILL ANSWER THESE QUESTIONS HERE, AS I HAVE ALREADY ANSWERED THE DEPARTMENT OF JUSTICE. STANDARD OIL OF OHIO IS INTERESTED IN PRUDHOE BAY AND TAPS BECAUSE IT WANTS OIL FOR ITS REFINERIES

AND WANTS TO REALIZE A REASONABLE RETURN ON ITS INVESTMENT FROM MARKETING ITS OIL. OUR COMPANY HAS ALWAYS HAD TO PURCHASE MORE OIL FOR ITS OWN NEEDS THAN IT WAS ABLE TO FIND AND PRODUCE. WITH AN EXPECTATION OF A GROWING ENERGY SHORTAGE IN THE UNITED STATES, WE SEIZED THE OPPORTUNITY TO COVER OUR FUTURE REQUIREMENTS BY OBTAINING A SIGNIFICANT INTEREST IN PRUDHOE. WE MAY OR MAY NOT REFINE ALASKAN OIL IN OUR MIDWEST, GULF COAST OR EASTERN REFINERIES, BUT WE DO EXPECT TO BE ABLE TO NEGOTIATE REASONABLE EXCHANGES BASED ON OUR ALASKAN PRODUCTION. THE WEST COAST STATES APPEAR TO US TO BE THE LARGEST, NEAREST MARKET WHERE SUBSTANTIALLY ALL OF OUR ALASKAN OIL CAN BE SOLD AT THE HIGHEST PRICE. THERE IS NO ANTITRUST MYSTERY TO OUR INTEREST, OR ALASKA'S, IN THIS MARKET. IT'S A MATTER OF ECONOMICS.

A SUGGESTION OF DIRECTION

IT IS UNDERSTANDABLE TO ME THAT THERE CAN BE A REAL AND CONTINUING TEMPTATION TO SOLVE ALL THE STATE'S FINANCIAL PROBLEMS WITH ONE OR MORE REVENUE MEASURES DIRECTED AT PRUDHOE BAY AND/OR TAPS. THE BUSINESS AND INDUSTRIAL COMMUNITY IN ALL OF THE LOWER FORTY-EIGHT STATES AS WELL AS ALASKA IS WATCHING TO SEE HOW ALASKA WILL ACT. I THINK IT'S FAIR TO SAY THAT INDUSTRY GENERALLY EXPECTS TO PAY FOR THE PRIVILEGE OF DOING BUSINESS HERE, AND THAT, IN THE CASE OF THE OIL INDUSTRY, IT EXPECTS TO CONTRIBUTE A REASONABLY SUBSTANTIAL PART OF ALASKA'S REVENUES.

THE MEMBERS OF THE OIL INDUSTRY ARE WILLING TO PAY THEIR FAIR SHARE, BUT IF THEY ARE REQUIRED TO PAY AN UNDULY LARGE AND BURDENSOME SHARE, TO TAKE HUGE RISKS WITH LITTLE PROSPECT

OF ADEQUATE REWARD FOR DOING SO, THEN ALASKA'S FUTURE DEVELOPMENT MAY BE SLOWED AND PARTICIPATION IN IT MAY BE LIMITED TO A FEW VERY LARGE COMPANIES THAT CAN ACCEPT THE HIGHER RISKS THAT STEM FROM HIGH TAX BURDENS.

CONSIDER, FOR EXAMPLE, THE PROBLEM AS VIEWED BY THE PROSPECTIVE EXPLORER FOR OIL AND GAS. HE IS ALREADY STALLED IN ALASKA, SPENDING VERY LITTLE IF ANY MONEY FOR DRILLING EVEN ON THE EXPENSIVE LEASES ACQUIRED IN THE 1969 SALE BECAUSE HE CAN MAKE NO RELIABLE ESTIMATE AS TO WHEN HE CAN GET ANY OIL THAT HE MAY FIND TO MARKET, OR AS TO THE COST OF DOING SO. THOSE WHO HAVE THE OPPORTUNITY OR THE COMPULSION TO MAKE A CHOICE BETWEEN ALASKA AND CANADA, WHERE A GREAT DEAL OF EXPLORATION IS GOING ON, WILL SURELY DECIDE IN FAVOR OF CANADA, ASSUMING EXPLORATION PROSPECTS THERE ARE COMPARABLE TO THOSE IN ALASKA, IF ALASKA, BY LEGISLATIVE ACTION MAKES THE COST-RISK PROSPECT HERE TOO HIGH BY COMPARISON, OR BY INACTION ARISING FROM AN INABILITY TO PUT SOME OF THE MATTERS THAT ARE CURRENTLY FACING IT TO REST, CAUSES THE COST-RISK PROSPECT TO CONTINUE TO BE UNDEFINED.

ON THE OTHER HAND, IF A BROADER BASE FOR DEVELOPMENT IS SOUGHT AND IS TO BE OBTAINED; IF THE STATE MUST HAVE MORE REVENUE DURING THE NEXT FOUR YEARS, BEFORE THE OIL FIELDS AND THE PIPELINE CAN GENERATE ANY INCOME, THE BURDEN OF MEETING ALASKA'S REVENUE NEEDS SHOULD BE SPREAD AS EQUITABLY AS POSSIBLE OVER ALL INCOME PRODUCERS AND PROPERTY OWNERS. THIS IS MY SUGGESTION. IT IS NOT NOVEL. IT HAS WORKED IN THE PAST. AND

WHAT MAY MAKE IT MORE APPEALING TO ALASKA IS THAT IT CAN REVIEW AND RECONSIDER ITS JUDGMENT YEAR BY YEAR, AND, IF THE DEVELOPMENT DESIRED DOESN'T COME, IT CAN EITHER TAKE STEPS TO STIMULATE IT FURTHER OR DRAW ON THE VARIETY OF TAXING APPROACHES AVAILABLE TO IT. AT THIS POINT IN TIME, NO ONE KNOWS WHAT THE PIPELINE WILL COST. WE ONLY HAVE ESTIMATES. WE DON'T KNOW TODAY WHAT THE VALUE OF OIL IN THE MARKETPLACE WILL BE IN 1974 OR 1975 OR 1976. WE WILL KNOW MORE WHEN CONTRACTORS BIDS ARE OBTAINED AND CONTRACTS ARE LET. EVERYONE WILL ALSO HAVE A MUCH BETTER BASIS FOR DETERMINING FINANCING REQUIREMENTS AND COSTS, PIPELINE REVENUE REQUIREMENTS AND TAX BASES THAN THEY DO NOW. YOU WILL HAVE A BETTER FEEL OF OIL VALUES FOR 1976 A YEAR FROM NOW THAN YOU DO TODAY. SUCH INFORMATION SURELY WILL ENABLE THE LEGISLATURE, IN TIMELY FASHION, TO DEVELOP BETTER TAX LEGISLATION THAN IS POSSIBLE NOW, WITH LESS DISCOURAGEMENT TO BUSINESS PEOPLE WHO WANT TO HAVE A SHARE IN MAKING ALASKA'S FUTURE AS BRIGHT AS POSSIBLE.

HOWEVER, IF ANY PROGRESS IS TO BE MADE MEANWHILE, FINANCING MUST BE ACCOMPLISHED. SOME OF US HAVE ALREADY HAD TO DELAY PLANNED FINANCING BECAUSE THE THREE QUESTIONS OF STATE OWNERSHIP, THE STATE'S POWER TO FIX RATES AND THE STATE'S CONSIDERATION OF LIMITED TERM, HIGH COST RIGHT-OF-WAY LEASE PERMITS EXIST. IF WE ARE TO BE ABLE TO PROCEED WITH AND SUCCEED IN OUR EFFORTS TO ARRANGE FINANCING THESE ISSUES CAN NOT BE ALLOWED TO REMAIN AS A CLOUD HANGING OVER THE FINANCIABILITY OF THE ENTIRE PROJECT. THEY OUGHT TO BE ELIMINATED FROM FURTHER CONSIDERATION AS SOON AS POSSIBLE.

ONE PROBLEM IN THE SHORTER RUN SHOULD BE ACKNOWLEDGED. ALASKA LIKE OURSELVES WAS ANTICIPATING SUBSTANTIAL OIL REVENUES FROM THE NORTH SLOPE IN 1972. WE ARE BOTH BITTERLY DISAPPOINTED. IT MAY BE THAT ALASKA'S OTHER REVENUES WILL NOT BE SUFFICIENT TO COVER THE MINIMUM STATE SERVICES REQUIRED BEFORE THIS OIL ACTUALLY BEGINS TO FLOW. ONE ALTERNATIVE TO KEEP IN MIND IS THE POSSIBLE ASSISTANCE THAT ONE OR MORE COMPANIES IN TAPS CAN PROVIDE THE STATE BY ARRANGING AN ADVANCE SALE OR SALES OF CRUDE OIL FOR THE STATE OUT OF ITS ROYALTY INTEREST WHEN AND IF IT NEEDS IT FOR A FEW YEARS FROM NOW. SUCH TRANSACTIONS WOULD OBTAIN FOR THE STATE SOME OF THE OIL REVENUES IT EXPECTED IN 1972 AND THE FOLLOWING YEARS, DISCOUNTED ONLY BY THE COST OF MONEY REPRESENTED BY THE ADVANCE SALE. SUCH SOLUTIONS TO MONEY NEEDS OF THE PRESENT OR NEAR TERM FUTURE ALLOW TIME AND FLEXIBILITY TO THE STATE IN SOLVING ITS LONGER RANGE PROBLEMS AND DO NOT HAMPER THE DEVELOPMENT OF PRUDHOE BAY AND TAPS.

IN CLOSING MY REMARKS I WANT TO REPEAT WHAT I SAID IN THE BEGINNING: OUR PRIMARY DESIRE, I AM SURE, PARALLELS YOUR OWN AND THAT OF THE GOVERNOR--IT IS TO BUILD THE LINE EXPEDITIOUSLY AND WELL IN ORDER TO BE ABLE TO BEGIN AND SUSTAIN PRUDHOE BAY PRODUCTION AT AN OPTIMUM RATE FOR THE MUTUAL BENEFIT OF ALASKA, ITS PEOPLE, THE NATION, AND THE PRODUCERS.

I FEEL SUBSTANTIALLY ENCOURAGED IN THIS BELIEF BY THE KNOWLEDGE THAT ONLY LAST MONTH CHAIRMAN RETTIG OF THE SENATE COMMERCE COMMITTEE EXPRESSED HIS OWN PHILOSOPHY IN THE INVITATION

THAT HE EXTENDED TO THE MEMBERS OF THE OIL INDUSTRY TO APPEAR BEFORE YOU. HE SAID:

> "IN THE SPIRIT OF COMMON INTERESTS, WE IN THE SENATE COMMERCE COMMITTEE ARE ESPECIALLY ANXIOUS TO LEARN HOW THE LEGISLATURE AND THE STATE CAN BE OF HELP IN YOUR COMPANY'S EFFORTS TO DEVELOP THE RESOURCES OF ALASKA. ACCORDINGLY, YOU ARE ESPECIALLY INVITED TO OFFER SUGGESTIONS AND ADVICE CONCERNING OUR PRIME INTEREST: 'HOW CAN ALASKA HELP?'. IT IS HOPED THAT THIS FEATURE OF THE HEARINGS WILL PRODUCE SUFFICIENT IMPACT TO OFFSET OR OVERSHADOW THE RESTRICTIVE CHARACTER OF SOME OF THE PROPOSED LEGISLATION. MORE AND MORE OF US ARE BECOMING KEENLY AWARE THAT THIS STATE MUST BE AND REMAIN AN ATTRACTIVE AREA FOR BUSINESS AND INVESTMENT."

I APPRECIATE THIS OPPORTUNITY TO APPEAR BEFORE YOU AND WILL BE GLAD TO ANSWER ANY QUESTIONS YOU HAVE, IF I CAN. THANK YOU.

STATEMENT OF DONALD W. MARKHAM

My name is Donald W. Markham. I am a practicing attorney in Washington, D.C. Since graduating from law school, I have held legal positions with two government agencies and a trade association; I taught law for a brief period; and I have practiced law for a number of years, first with a law firm specializing in transportation matters and, since 1966, by myself. Virtually all of my professional activities for the past 30-odd years have been concentrated in the field of transportation law, and they have enabled me to devote considerable study to, and to acquire some familiarity with, the regulation of oil pipelines, as well as airlines, railroads, motor carriers and freight forwarders. (Let me interject, however, that although I am "from Washington", I do not claim to be an expert; in fact, I deny it, if anyone is thinking of the old Air Force definition of an expert.)

I understand that some of the people who have been studying the proposed Trans Alaska Pipeline have expressed concern as to whether, if the pipeline is privately owned and operated, the owners could be expected - or required under existing law - to maintain rates at a reasonable level. Questions have also been raised, I am told, as to whether shippers, who were not part-owners of the pipeline, would be served on a nondiscriminatory basis, and, more generally, whether the existing regulatory system, under which the pipeline would operate, is adequate and effective. I have been asked to comment on those questions,

with particular attention to the area of rate regulation.

As a premise for my discussion, I start with the proposition that Mr. Jones has developed at length: that, for the indefinite future, most, if not all, of the oil moving through the pipeline will be moving in interstate or foreign commerce, and that, as a result, the pipeline will be, both as a matter of law and by stipulation filed by the owners with the Department of the Interior, a common carrier within the meaning of the Interstate Commerce Act and subject to regulation by the Interstate Commerce Commission. (And I might add, parenthetically, that its status as a common carrier subject to regulation by the Interstate Commerce Commission would, I believe, be the same even if it were owned and operated by the State.) Our first inquiry, therefore, should be into the adequacy of the regulatory system under the Interstate Commerce Act.

The Interstate Commerce Commission has had long experience, and has developed great expertise, in dealing with rate and discrimination problems. It was created in 1887, and in an opinion handed down by the Supreme Court five years later,* Mr. Justice Brown listed the "principal objects" of the act creating it as follows:

> " * * * to secure just and reasonable charges for transportation; to prohibit unjust discriminations in the rendition of like services under similar circumstances and conditions; to prevent undue or unreasonable preferences to persons, corporations, or localities; to

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* Interstate Commerce Commission v. Baltimore & O. R. Co., 145 U.S. 263 (1892).

> inhibit greater compensation for a shorter than for a longer distance over the same line; and to abolish combinations for the pooling of freights."

You will note that four of those five objectives relate directly to the maintenance of reasonable and nondiscriminatory rates and the elimination of other forms of discrimination. And Professor Sharfman, in his classic study of the Interstate Commerce Commission, noted that rate regulation "has constituted from the outset the Commission's central task and most prolific activity."*

Not only has the Commission devoted a large share of its time, over a period of more than 80 years, to an intensive study of transportation rates; it has been provided with a steadily growing arsenal of regulatory weapons which give it virtually complete control over the rates of regulated carriers. Professor Sharfman commented that

> "The mandatory power over transportation charges expressly conferred by * * * [the Hepburn Act of 1906 - the same act, incidentally, which brought pipelines under the Interstate Commerce Act] was sufficient, in itself, * * * to elevate * * * [the Commission] to a position of practical authority enjoyed by few governmental agencies."**

But he went on to note that

> "Subsequent grants of power, especially through the Transportation Act of 1920, extended its regulatory jurisdiction in striking fashion and rendered its dominating status secure."***

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* IIIB Sharfman, The Interstate Commerce Commission 3 (1931).

** Ibid.

*** Ibid.

That was written in 1931, and there have been still further additions to the Commission's array of powers since that time.

To be sure that we appreciate the full significance of Professor Sharfman's conclusion, let me take a minute to review some of the specific controls to which a carrier's rates are subject under the Interstate Commerce Act.

Before a carrier can put a rate into effect, it must file it with the Commission, and publish it, at least 30 days in advance, unless the Commission gives special permission to file it on shorter notice. The rate must be just and reasonable and must not be unjustly discriminatory or unduly preferential or prejudicial to any person, locality, etc. Moreover, the rules and regulations governing the application of the rate must also be filed and published in the carrier's tariffs.

If anyone - including a state - thinks that the rate is unlawful in any respect, he may file a protest with the Commission, and if the Commission, either on the basis of a protest or on its own initiative, decides that there is a serious question as to the lawfulness of the rate, it may suspend the rate, before it takes effect, for a period of not more than seven months, while it conducts a formal investigation into the lawfulness of the rate. It may also decline to suspend, but still go forward with a formal investigation. And, if the Commission decides, neither to suspend nor to start an investigation, anyone - again including a state - may file a formal complaint and force the Commission to hold a full hearing on the issues raised by the complaint.

At the conclusion of a formal proceeding concerning the lawfulness of a rate, the Commission may, if it finds the rate unlawful, prescribe a minimum or a maximum rate for the future, or both; or it may prescribe the exact rate which the carrier must charge. It may also, in an appropriate proceeding, award damages to a shipper who has been charged an unreasonably high or an unlawfully discriminatory rate. And if a shipper or other party is dissatisfied with the Commission's final decision in any formal investigation, it can appeal the decision to the appropriate court for judicial review.

Not only does the Commission have this wide selection of powers directly over the carrier's rates; it has a large assortment of ancillary powers which enable it to keep itself and the public informed and to maintain surveillance over a carrier's affairs and financial practices. It may inspect a carrier's property and records, audit its books, require the carrier to submit regular and special reports and supply information in response to specific inquiries. It may - and does - prescribe a uniform system of accounts which the carrier must observe and prescribe the rates of depreciation which the carrier may charge. And it not only may, but is required to, make periodic valuations of the carrier's entire property and to give interested parties, including the states in which the property is located, an opportunity to be heard if they object to the Commission's determination.

Finally, there are both civil remedies and criminal penalties which are available for use in enforcing the Commission's orders and the carrier's obligations under the act.

It is apparent, therefore, that Professor Sharfman did not exaggerate when he referred to the Commission's "mandatory power" and its "dominating status" with respect to carrier rates. Indeed, it would be hard to conceive of broader regulatory powers than the Commission already has - unless one thinks in terms of direct governmental rate-fixing - and one could hardly hope to find an agency with more experience in regulating transportation rates than the Commission has acquired in the past 84 years.

There is another consideration, however, which should help to allay any lingering concern as to the Commission's ability to deal with any rate problem that might arise in the operation of Trans Alaska Pipeline. That factor is the relative simplicity of regulating the rates through a line that handles only one kind of traffic, from a single origin to a single destination, and - at least for the foreseeable future - with no competiton from other forms of transportation. There would be none of the baffling complications with which the Commission is frequently faced in rate cases, involving, for example, questions as to the proper relationships between rates on different types of traffic, or between competitive producing areas or markets, or between competitive carriers of different types with different costs of operation, etc. If the Trans Alaska line were treated as a unit, as I think it should be (even though there may be

several owner-carriers providing service through it), the problem would not involve the regulation of a complex "rate structure" (where the Commission would be concerned with the relationships among the various rates making up the structure); instead, the problem would involve merely the regulation of the "rate level", or the level of the earnings produced by the rates in the aggregate. This would be a far less complicated and less difficult problem than the Commission is used to dealing with - but it is still not so simple that it can be answered automatically. Professor Sharfman describes the nature of the problem in the following words:

> "A twofold purpose, each phase of which has played an important part in the definition of the Commission's powers and in the administration of its policies, is served by the regulation of the rate level. Negatively, the task is one of preventing the carriers from exacting excessive charges, and thus, indirectly, of restricting the earnings which the * * * [carriers] may realize at the expense of the users of the transportation service; positively, the task is one of initiating or approving such charges as will not only satisfy the constitutional guarantees against confiscatory adjustments, but will tend, through the resulting operating income, to preserve * * * [carrier] credit and attract necessary capital, in the interest of maintaining an adequate transportation system. Both of these ends appear to be indispensable and are definitely held in view * * *."*

Obviously, the solution to such a problem calls for wisdom, experience and complete fairness - and the Commission has a record of all three.

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* Id., at pages 6-7.

It is true that out of the thousands of rate cases which have been before the Commission during its 84-year history, only a few - perhaps 20 or 30 - have involved pipeline rates. To anyone not familiar with the history of pipeline regulation, that fact is sufficiently startling to call for some explanation. I believe that the explanation is basically twofold:

First: Once the extent of the Commission's jurisdiction over the pipelines had been clarified in some early litigation, the pipelines, in recognition of their status as common carriers and of the Commission's powers over them, adopted rates and other policies which, with only occasional exceptions, were accepted as reasonable by their shippers, their competitors and the Commission. As a result, very few complaints were filed with the Commission and the Commission rarely found it necessary to initiate formal proceedings on its own motion.

Second: Since December, 1941, many of the pipelines, and their owners, have been subject to a consent decree which was entered in an action brought by the Department of Justice. The decree, in effect, limits the dividends which can be paid by most pipelines to seven percent of the pipeline's valuation as determined by the Interstate Commerce Commission. If a carrier should have earnings above that level, they are to be "frozen" in a special reserve and can be used only for limited purposes and under severe restrictions. Compliance with the decree is monitored by the Department of Justice, both through annual reports which the carriers are required to file, and

through audits by the FBI. As was probably intended, the practical effect of the decree has been to hold the earnings of the pipelines at a level below seven percent of the value of their property, as determined by the Interstate Commerce Commission; and this earnings record, in turn, helps to account for the small number of pipeline rate cases which have come before the Commission during the last 30 years.

As we have seen, then, there have been at least three forces at work over the years - in addition to the ever-present stimulus of competition - which have affected the level of pipeline rates: (1) the comprehensive regulatory powers of the Interstate Commerce Commission; (2) the consent decree; and (3) the adoption of restrained and responsible rate policies by the pipelines themselves. And I think that a quick look at a few pertinent facts will demonstrate that these forces have combined to produce effective control over pipeline rates.

It is common knowledge that the pipelines have been, for many years, the principal means of overland transportation for crude oil and petroleum products - and that status could not, of course, have been achieved unless pipeline rates were substantially lower than those of other forms of transportation. But many people are not aware of the extent to which the pipelines have succeeded in developing their traffic and reducing their rates. According to figures published by the Transportation Association of America,* the pipelines, in 1969, carried

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* Transport Facts and Trends, April, 1971.

21.6 percent (measured in ton miles) of all intercity freight of all kinds, moving by all modes of transportation in both for-hire and private carriage - the second largest share handled by any form of transportation. However, for handling more than 21.5 percent of the volume, the pipelines received only 1.5 percent of the amount spent for the movement of the total volume. Pipeline revenues during that year averaged only .266¢ per ton mile, as compared with 1.35¢ for railroads, 7.21¢ for trucks and 21.09¢ for air.

It is significant, also, that contrary to the trend in other forms of transportation and in business generally, pipeline rates have continued to decrease during recent years. According to official figures published by the Interstate Commerce Commission,* the average revenue yield per thousand-barrel miles decreased from 65¢ in 1955, to 60¢ in 1960, to 52¢ in 1965, and to 48¢ in 1969.

One final statistic may be of particular interest. Shortly prior to the entry of the consent decree, the Interstate Commerce Commission had decided that a return of eight percent on valuation was the maximum which could be regarded as reasonable for crude-oil pipelines under the circumstances existing at that time.** I am informed that, as compared with the eight

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* Transportation Statistics in the United States for the Year Ended December 31, 1969, Part 6 Oil Pipe Lines, Bureau of Accounts, Interstate Commerce Commission.

** Reduced Pipe Line Rates and Gathering Charges, 243 I.C.C. 115 (1940).

percent allowable by the Interstate Commerce Commission, the seven owners of the Trans Alaska Pipeline, combined, have had earnings during the past five years which averaged only 5.6 percent per year.

These few facts are sufficient, I think, to demonstrate the effectiveness of the controls over pipeline rates which have been exercised by the Interstate Commerce Commission, the consent decree and the pipelines themselves. In view of the historical record, I do not believe that there is any real basis for concern as to the power and the competence of the Interstate Commerce Commission to deal with any rate problems which might arise in the operation of the Trans Alaska Pipeline. I should think that the chances are excellent that no such problems would even develop. The owners are large and responsible companies, and they have pledged themselves to operate the line as a true common-carrier enterprise. They certainly know the obligations they are assuming; they know the risks of disregarding them; and their past record offers solid assurance that they will endeavor to avoid controversies with their shippers and public agencies. But the record also offers assurance that if such controversies do arise, the Interstate Commerce Commission has ample power and the experience to settle them, wisely and fairly.

I should probably make one additional comment, however, to be sure that my earlier discussion is not misunderstood. If the Interstate Commerce Commission were to start an investigation

of the rates of the Trans Alaska Pipeline, either in response to a complaint or on its own initiative - or if the propriety of an eight-percent return for crude-oil pipelines were to be questioned in some other proceeding before the Commission -, I would not attempt to forecast how the Commission would decide the matter. The Commission would undoubtedly feel obliged to take into consideration all of the changes in economic factors (such as the cost of capital) which have taken place since the 1940's (when the eight-percent figure was established), as well as the elements of risk involved in the construction and operation of the particular line or lines in question. And, among the elements of risk to be considered, I should expect the Commission to examine, with care, a characteristic of the oil-pipeline business which has developed, largely if not entirely, since the 1940 decision and which, so far as I am aware, is not found in any other type of transportation or public-utility business. I am referring to the type of commitments which the owners of a pipeline are required to give in order to borrow the necessary capital with which to construct the line. As Mr. Gary will, I believe, explain in more detail, the owners of a pipeline company must, in order to raise debt capital, in effect guarantee repayment of the debt in full, with interest. The necessity to make such commitments in order to borrow capital is a factor which unquestionably affects the risks assumed by pipeline carriers, and would, I feel sure, be taken into consideration by the Commission in determining what rate of return

pipelines should be permitted to earn. But, I repeat, I could not - and I don't believe that anyone could - give you a reliable forecast as to what conclusion the Commission would reach.

So much for the subject of rate regulation.

Let me add just a word on the question of discrimination against shippers who do not own an interest in the pipeline. If any such discrimination were to be reflected in the rates filed with the Interstate Commerce Commission, it would have to face the battery of powers and remedies I have already discussed. If the discrimination were to take some other form - refusal to provide equal service or equal facilities, for example -, there are equally broad powers and effective remedies which the Commission has and knows how to use in eradicating such abuses. Again, it is well to remember that the various forms of discrimination practiced by the railroads during the period following the Civil War were among the principal targets of the Interstate Commerce Act when it was originally enacted, and the Commission has had long experience and has been provided with ample powers for dealing with all forms of discrimination. I cannot believe, therefore, that any problem of this sort could arise, or could remain uncorrected very long if it did.

Thank you for the opportunity to appear before you and for your courtesy.

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State Jurisdiction and Regulation

Senate Bill 315

Testimony of
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Houston, Texas

Senate Bill 315 would subject to regulation by a newly created Alaska Oil and Gas Transportation Commission (the "Commission") "every oil or gas transportation facility engaged or proposing to engage in such a business inside the state." This raises the question of the extent to which, if at all, the proposed Trans Alaska Pipeline System (TAPS) will be subject to the jurisdiction of the Commission with respect to the regulatory matters contained in the proposed statute. The question of jurisdiction for regulatory purposes will first be treated and, in light of the conclusions there drawn, consideration will be given to some of the provisions of the proposed regulatory statute.

Jurisdiction - Nature of the Commerce

Jurisdiction over transportation of crude oil by TAPS will be governed by whether the commerce is intrastate or interstate in nature. This requires consideration of the facts relating to the proposed transportation.

During 1968, oil was discovered on the North slope of Alaska. Through further development since that time it has

been established that this is a tremendous reservoir or reservoirs. There are no refineries and no consumption of crude oil in Alaska of any consequence. To market the oil, it is essential that it be moved from the remote areas of production to refineries in the South 48 states in the United States. For this purpose, the participants and owners of interests in TAPS plan to construct a pipeline some 800 miles in length, extending from Prudhoe Bay on the North slope of Alaska southward across Alaska to the Port of Valdez. Adequate storage will be provided by the participants to permit receipt of crude oil at Valdez, and to provide storage there in common carrier storage pending accumulation of cargoes and arrival of vessels. From Valdez the oil will move by tank vessels to ultimate destinations outside the State of Alaska. There will be no delivery of oil to any shipper or consignee at Valdez for local use or consumption.

TAPS will be a joint ownership line in which each participant will own an undivided interest. Of necessity there will be unit operation of the line, which Alyeska will provide, but each participant will receive tenders from its own shippers, will fix its own rates for the transportation and will file and publish its own tariffs, rules and regulations. Each participant will be responsible for the transportation to its own shippers and will

collect its own charges. The rules and regulations contained in the tariff will permit (in the nature of a transit privilege) storage for the purpose of accumulating cargoes and pending arrival of vessels, and for subsequent reshipment by water, subject, of course, to reasonable restrictions. Vessels for the movement of the tonnage beyond Valdez will be provided by the shippers.

These facts demonstrate that the situation here presented is one in which tremendous volumes of oil will be tendered to the pipeline carriers involved, all of which is intended at the outset for movement to points beyond the borders of Alaska, and none of which, either now or in the foreseeable future, will be diverted to a state destination for use or consumption. After a thorough review of the decisions, it seems clear that this movement should and would be regarded as interstate commerce within the meaning of Coe vs. Errol, 117 U.S. 517, decided in 1886, and the many cases that have since followed it. The movement constitutes literally a great stream of oil moving to and through the Port with a manifest certainty of a destination outside the state, a situation comparable to the stream of grain in Lemke vs. Farmers Grain Co., 258 U.S. 50, the stream of oil in Ureka Pipeline Co. vs. Hallanan, 257 U.S. 265, and the stream of gas in United Fuel Gas Co. vs. Hallanan, 257 U.S. 277.

The nature of the transportation is virtually identical to that considered in the Lake Cargo Coal case, Railroad Commission of Ohio vs. Worthington, 225 U.S. 101. That case involved the validity of an order of the Ohio Commission establishing rates on lake cargo coal moving from a state origin by common carrier rail lines to a lake port in Ohio for transportation by water in vessels supplied by the shipper to interstate points. In striking down the order, the Court described the interstate nature of the commerce as follows:

> "There is testimony to the effect that when the coal leaves the mines it is not known in what vessel it will be loaded, nor to what particular ultimate destination it will go; and that sometimes such coal is sold and vessels arranged for after the coal is at Huron, but it is subject to demurrage charge if it remains on the cars beyond a specified time.
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> "All coal thus loaded in vessels is, and must practically be, carried to points in other states - or to Canada."
>
> "It is true, as argued by the learned counsel for the commission, that this coal may be accumulated in large quantities at Huron, and only taken out of the accumulated lots from time to time, when it is to be put upon vessels and shipped out of the state, but it must always be remembered that this 70 cent rate applies solely to such coal as is in fact placed upon vessels for carriage to beyond the state points; and, as the circuit court said, the substance of things is not changed by the fact that a small part may be unloaded at one of the Ohio Islands in Lake Erie. The situation then comes to this: that the rate put in force is applicable only to coal which is to be carried

> from the mine in Ohio to the lake, there placed upon vessels, and thence carried to upper lake ports beyond the state. By every fair test the transportation of this coal from the mine to the upper lake ports is an interstate carriage, intended by the parties to be such, and the rate fixed by the commission, which is in controversy here, is applicable alone to coal which is thus, from the beginning to the end of its transportation, in interstate carriage, and such rate is intended to and does cover an integral part of that carriage, the transportation from the mine to the Lake Erie port, the placing upon the vessel, and the trimming or distributing in the hold, if required, so that the vessel may complete the interstate carriage."

It is clear, of course, that any oil moving locally within Alaska and having its ultimate and final destination there would unquestionably be intrastate, would be subject to the jurisdiction of the State of Alaska, and of any state regulatory agency which may be established by the legislature and vested with jurisdiction. As an illustration, if refineries should be constructed along the TAPS line, and oil should be delivered through TAPS to them, the movement would be clearly intrastate in character. But there are no such refineries now and none may ever be constructed. Even if and when a refinery may be constructed along the line to which deliveries might be made, this could not and would not affect the essential nature of the great stream of tonnage moving to and through the Port. In United Fuel Gas Co. vs. Hallanan, 257 U.S. 277, the Court said:

"In short, the great body of the gas starts for points outside the state and goes to them. That the necessities of business require a much smaller amount destined to points within the state to be carried undistinguished in the same pipes does not affect the character of the major transportation. Neither is the case as to the gas sold to the three companies changed by the fact that the plaintiff, as owner of the gas, and the purchasers, after they receive it, might change their minds before the gas leaves the state, and that the precise proportions between local and outside deliveries may not have been fixed, although they seem to have been. The typical and actual course of events marks the carriage of the greater part as commerce among the states, and theoretical possibilities may be left out of account. There is no break, no period of deliberation, but a steady flow, ending, as contemplated from the beginning, beyond the state line."

Under many decisions it has been made plain that the temporary stoppage and storage of oil at the port for the accumulation of cargo or awaiting the arrival of vessels does not affect or interrupt the interstate nature of the movement. Texas & N.O. RR Co. vs. Sabine Tram Co., 227 U.S. 111; Southern Pac. Terminal Co. vs. I.C.C., 219 U.S. 498; Carson Petrol. Co. vs. Vial, 279 U.S. 95; Railroad Commission vs. Texas & Pac. Ry. Co., 229 U.S. 336; State vs. Anderson Clayton & Co., 92 F.2d 704.

The Interstate Commerce Act, 49 U.S.C. §1(b), as amended, applies to:

"The transportation of oil or other commodity, except water and except natural or artificial gas, by pipe line, or partly by pipe line and partly by railroad or by water

* * *

"From one State or Territory . . . to any other State or Territory of the United States . . . or from or to any place in the United States to or from a foreign country . . . ."

Based upon the facts relating to the transportation involved and application of the constitutional precepts set forth in the cases above cited, TAPS will be clearly subject under this Section to the jurisdiction of the Interstate Commerce Commission.

There is no question that the Interstate Commerce Commission would also have jurisdiction even though the pipeline were owned and operated by the State of Alaska or any authority or instrumentality created by the state for that purpose. California v. Taylor, 353 U.S. 553; Schmitt v. War Emergency Pipelines, Inc. 72 F.Supp. 156, aff'd 175 F.2d 335, cert denied 338 U.S. 869. In California v. Taylor, the Court considered whether the State Belt Railroad, an interstate common carrier owned and operated by the State of California, was subject to the Interstate Commerce Act:

> "The Interstate Commerce Act, 24 Stat. 379, as amended, 49 USC §1(1), applies to all common carriers by railroad engaged in interstate transportation. The Belt Railroad concededly is a common carrier engaged in interstate transportation. It files its tariffs with the Interstate Commerce Commission, and the Commission has treated it and other state-owned interstate rail carriers as subject to its jurisdiction. See California Canneries Co. v. Southern Pacific Co. 51 ICC 500, 502, 503; United States v. Belt Line R. Co. 56 ICC 121; Texas State R. Co. 34 ICC Val. R. 276. Finally, this Court has recognized that practice. United States v. California, 297 US 175, 186, 80 L.ed. 567, 573; 56 S.Ct. 421. See also, New Orleans v. Texas & P.R. Co. (CA5th La.) 195 F.2d 887, 889."

State Regulation - Senate Bill 315

In light of the foregoing conclusion and faced as the project has been and still is with a multitude of problems from many directions, it would be regrettable if the State of Alaska should further cloud the picture at this juncture by the adoption of Senate Bill 315. Such action would pose troublesome problems of dual control, state and interstate, and of the extent to which the Act was intended to apply, and could legally be applied, to TAPS. If any regulatory measure is to be adopted, the Legislature should endeavor to remove doubts and uncertainties in these areas. Senate Bill 315 falls far short of the mark in these respects.

To begin with no effort is made in Senate Bill 315 to draw a distinction between pipelines engaged solely in interstate commerce on the one hand, and those performing an intrastate service on the other. As previously noted, the Alaska Oil and Gas Transportation Commission is empowered and directed to regulate "every oil and gas transportation facility engaged or proposing to engage in such a business inside the state." (Sec. 42.06.141(1)). The Act nowhere contains any limitation of this broad statement.

Yet it is clear that state action insofar as an interstate carrier is involved is subject to paramount federal

authority. The doctrine of federal preemption of interstate commerce is well defined by the Circuit Court of Appeals for the 8th Circuit in Haskell vs. Cowham, 187 Fed. 403, which invalidated state legislation the effect of which was to prevent the interstate sale and movement of gas by preventing the laying of pipelines across highways in the state. In an opinion by Judge Sanborn the Court said:

> "The power to regulate commerce among the states was carved out of the general sovereign power when the national government was formed and granted by the people by means of the Constitution to the Congress of the United States. Article 1, §8. That grant is exclusive. The nation may exercise the power thus given to its utmost extent, and no state may lawfully restrict or infringe this grant or the plenary exertion of this power, for they are paramount to all the powers of the state, and they inhere in the supreme law of the land. Interstate commerce in natural gas including therein its transportation among the states by pipe line is a subject national in its character and susceptible of regulation by uniform rules. The silence or inaction of Congress relative to such a subject is a conclusive indication that it intends that interstate commerce therein shall be free, and any law or act of a state or of its officers which prohibits it or substantially restrains its freedom is violative of the Constitution and void."

Substantially the same question was presented in West vs. Kansas Natural Gas Co., 221 U.S. 229. Citing Haskell vs. Cowham, the Court said:

"We place our decision on the character and purpose of the Oklahoma statute. The state, as we have seen, grants the use of the highways to domestic corporations engaged in intrastate transportation of natural gas, giving such corporations even the right to the longitudinal use of the highways. It denies to appellees the lesser right to pass under them or over them, notwithstanding it is conceded in the pleadings that the greater use given to domestic corporation is no obstruction to them. This discrimination is beyond the power of the state to make. As said by the circuit court of appeals in the eighth circuit, no state can by action or inaction prevent, unreasonably burden, discriminate against or directly regulate, interstate commerce or the right to carry it on. And in all of these inhibited particulars the statute of Oklahoma offends." [Emphasis added.]

TAPS is not exempt from all state action by reason of its interstate character. Any requirements, however, must serve a legitimate state purpose and they cannot directly regulate or unduly burden the carrier. As an illustration, in Atlas Pipe Line Co. vs. Sterling, 4 F.Supp. 441, a three judge court sustained the validity of an order of the Railroad Commission of Texas requiring certain metering and reporting procedures upon movements that were admittedly interstate in nature. The Court did so upon the ground that the orders were necessary or appropriate to control the movement of contraband oil during the hot oil problem in Texas, and upon a finding that the orders imposed no undue burden upon Interstate Commerce or upon the carriers involved. In so holding the court said:

"We think it perfectly clear that, as applied to plaintiff, the complained of statutes are valid; that the requirements they make in no manner infringe upon any of its constitutional rights. They merely provide for such regulatory steps and measures as are reasonable, necessary, and proper to prevent the handling of oil made by the statute contraband for handling, and their terms in no sense impose any burdensome restrictions upon interstate commerce, or take plaintiff's property without due process, or deny it the equal protection of the laws. Plaintiff's broad position comes in the end to no more than an insistence upon its right to transport, in violation of the express prohibitions of the statute, oil which has been illegally produced. No reason presents itself to our minds for believing that the Legislature, having the authority to conserve the natural resources of the state, is without power to impose upon common carriers by pipeline, interstate and intrastate, police regulations to make its prohibition against wasteful production effective."

At the other extreme, in Lemke vs. Farmer's Grain Co., 258 U.S. 50, the court struck down a statute of the State of North Dakota which sought to regulate the buying of grain, requiring state licensing of dealers and fixing the profit that they might realize. The court said:

"It is contended that these regulations may stand upon the principles recognized in decisions of this court which permit the state to make local laws under its police power, in the interest of the welfare of its people, which are valid, although affecting interstate commerce, and may stand, at least until Congress takes possession of the field under its superior authority to regulate commerce among the states. This principle has no application where the state passes beyond the exercise of its legitimate authority, and undertakes to regulate interstate

commerce by imposing burdens upon it. This court stated the principle and its limitations in the discussion of the subject in the Minnesota Rate Cases (Simpson v. Shepard) 230 U.S. 352 . . . . In the course of the opinion in that case, we said (p. 400):

> 'The principle which determines this classification [between Federal and state power] underlies the doctrine that the states cannot, under any guise, impose direct burdens upon interstate commerce. For this is but to hold that the states are not permitted directly to regulate or restrain that which, from its nature, should be under the control of the one authority and be free from restriction, save as it is governed in the manner that the national legislature constitutionally ordains.'"

Thus, while of necessity under the law, state action under Senate Bill 315 would be limited to areas that the state can legally control or regulate, the statute leaves for later judicial determination the nature and extent of those limitations. The participants in TAPS could find themselves involved in burdensome and troublesome litigation as a result of proposed action by the Commission under the Act, or efforts to apply the terms of that Act to TAPS.

For example, the Commission is directed by the Act to "make or require just, fair and reasonable rates, classifications, rules, regulations, practices, services and facilities for an oil or gas transportation facility," Section 42.06.141 (4), and its authority in this regard is detailed in Article

5 of the Act, "Rates and Rate Schedules." If it is the legislative purpose to vest the Commission with authority to fix rates to be observed by TAPS, such action is clearly beyond the State's power to so provide. If the Commission should endeavor to establish rates to be applied to the movement of crude oil to and through Valdez it would find itself in precisely the same position as was the Ohio State Commission in the Lake Cargo Coal case previously referred to. After determining that the transportation involved was interstate in nature, the Court considered the effect and validity of the state order fixing rates:

> "It is contended that this transportation of the coal under the rate fixed by the Railroad Commission is not within the power and authority of the Interstate Commerce Commission under §1 of the act to regulate commerce, which makes the provisions of the act inapplicable to the transportation of property wholly within one state and not shipped to or from a foreign country, from or to a state or territory; and, furthermore, that a transportation of the character here in question is only within the jurisdiction of the Interstate Commerce Commission when it is a transportation partly by railroad and partly by water, when both are used under a common control, management, or arrangement for a continuous carriage or shipment; and therefore that the subject matter in question is left within the state jurisdiction. On the other hand, it is contended that this transportation is within the jurisdiction of the Commission under the act to regulate commerce. It is enough to now hold, as we do, that the establishing of the rate in question is an attempt to regulate interstate commerce, and is therefore beyond the power of the state or a commission assuming to act under its authority."

The Act further requires that a pipeline make application and obtain from the Commission a "certificate of convenience and necessity", the issuance of which is conditioned upon a finding that "the services are required for the efficient production and marketing of oil or gas." Section 42.06.241. The Commission's approval is also required before any pipeline "may discontinue or abandon a service for which a certificate has been issued . . ." Section 42.06.261(A). Of course, a carrier must secure the right to cross all lands its line will traverse. TAPS is now engaged in obtaining a permit to cross federal lands from the Secretary of the Interior, and it will be necessary for it to obtain a lease or permit to cross any state lands the line may traverse. The crossing of state lands and legal and practical considerations relating to the proposed State Right of Way Leasing Act, Senate Bill 313, will be detailed in later testimony. Senate Bill 315 in effect provides, however, that even though the right to cross such lands has been obtained, the carrier must still apply to the Commission for a certificate, and obtain its approval, before operating or abandoning its lines, and issuance of such certificates is conditioned upon various findings, including the equivalent of a finding of public convenience and necessity. In this respect the state is

invading areas that have been reserved exclusively for federal control. The decision of the Supreme Court of Kansas in State vs. Sinclair Pipeline Co., 304 P.2d 930 is in point. There the State of Kansas sought by mandamus to compel an interstate pipeline carrier to obtain State Commission approval before abandoning operation of a part of its line. In denying relief the Supreme Court of Kansas said:

> "Once we have established that the Pipe Line Company was engaged exclusively in transportation of crude oil in interstate commerce, the conclusion is inescapable that the commission has no power or authority to regulate it. The third clause of article 1, section 8 of the federal constitution places the control of commerce among the several states in congress. About as many opinions have been written about that clause as any other. Among the early ones was Gibbons v. Ogden, 9 Wheat 1, 6 L.Ed 23. To come to a more recent date we have State of Missouri ex rel. Barrett v. Kansas Natural Gas Co., D.C., 282 F.341 and Central Trust Co. of New York v. Consumers Light, Heat & Power Co., D.C., 282 F. 680. These cases were affirmed by the United States Supreme Court. See Missouri ex rel. Barrett v. Kansas Natural Gas Co., 265 U.S. 298, 44 S.Ct. 544, 545, 68 L.Ed 1027. There the Court said:
>
> * * *"If a state enactment imposed a direct burden upon interstate commerce, it must fall, regardless of federal legislation. The point of such an objection is not that Congress has acted, but that the state has directly restrained that which in the absence of federal regulation should be free.
>
> * * *

"The contention that, in the public interest, the business is one requiring regulation, need not be challenged. But Congress thus far has not seen fit to regulate it, and its silence, where it has the sole power to speak, is equivalent to a declaration that that particular commerce shall be free from regulation. * * *"

"By the Hepburn amendment the interstate commerce act was extended to include common carriers engaged in the transportation of oil by pipe line from one state to another. 49 U.S. C.A. §1. This amendment did not impose upon carriers by oil by pipe line the requirement that they obtain certificates of public convenience and necessity, neither did the amendment impose upon such carriers the requirement that they obtain a permit to discontinue the use of interstate pipe line facilities although such permits were at the time of the amendment required of carriers by rail. This is indicative that congress did not intend to make such requirements."

In Buck vs. Kuykendall, 267 U.S. 307, the Court struck down a statute of the State of Washington which would have required a common carrier engaged exclusively in interstate commerce in the operation of a bus line, to first obtain a permit from the state based upon a finding of public convenience and necessity. The Court said:

"Thus, the provision of the Washington statute is a regulation, not of the use of its own highways, but of interstate commerce. Its effect upon such commerce is not merely to burden but to obstruct it. Such state action is forbidden by the commerce clause."

See also Castle vs. Hayes Freight Lines, 348 U.S. 61. It seems clear that as applied to TAPS, both the certificate to operate

and abandonment provisions of the Act would fall within the condemnation of these authorities.

Article 4 of Senate Bill 315, dealing with "Services and Facilities", authorizes the Commission to prescribe by order, extensions and improvements in facilities that are "reasonable, necessary and proper for the safety, accomodation and convenience of the public and the users." Section 42.06.291 (b). To the extent that the Commission may seek to utilize this authority to compel a transportation facility to extend its lines beyond the area it has committed itself to serve, such action would be innefective even as to an intrastate carrier. In Interstate Com. Comm'n vs. Oregon Wash. R & N Co., 288 U.S. 14, the Interstate Commerce Commission entered an order requiring the Railroad Company to extend its line to serve an area of some 33,000 square miles within the State of Oregon. The substance of the case before the Commission was thus stated by the Court:

> "The failure and refusal to provide railroad facilities to a large area of central Oregon was the gravamen of the complaint. Consequences of the neglect to build this line were enumerated as prevention of the development of a vast area, hindrance of exploitation of the natural resources of the State, unreasonably circuitous routes, with consequent delays, and car shortages, all causing losses to the people of Oregon."

In striking down the order, the Court said:

"The cases above cited, dealing with the powers of state authorities in the matter of extensions of lines and service, furnish a background which must have been in the minds both of the Commission and of the Congress at the time of the passage of the Transportation Act. Those decisions show that due process is denied by requiring service which goes beyond the undertaking of the carrier. Orders for extensions of line were sustained whenever reasonably required in the interest of car service and for interchange of traffic. No extension order for the service of new territory has been approved."

* * *

"The railroads, though dedicated to a public use, remain the private property of their owners, and their assets may not be taken without just compensation. The Transportation Act has not abolished this proprietorship. State courts have uniformly held that to require extension of existing lines beyond the scope of the carrier's commitment to the public service is a taking of property in violation of the federal constitution. The decisions of this court would be searched in vain for the announcement of any principle of constitutional interpretation which would support the order of the commission."

* * *

"Assuming, without deciding, that the Commission was entitled to treat the Oregon-Washington company as an instrument of the Union Pacific System, and the required extension, therefore, as one adding only a small percentage to the present mileage of the system, still the purpose is to compel a new investment for the development of a new area at the request and in the interest of the State of Oregon, whose desire is that its natural resources shall be exploited."

See also Atchison, T & S.F. Ry. vs. Railroad Comm'n, 160 Pac. 828, cert. denied 245 U.S. 638.

As applied to TAPS the invalidity of the Section is even more readily apparent. Engaged as it is in interstate commerce, an order requiring it to extend its lines would constitute an obvious effort to directly regulate, and would impose a direct burden upon, interstate commerce and would therefore fall within the condemnation not only of the cases above cited, but those previously referred to in this memorandum relating to state efforts to regulate, or which impose burdens upon, interstate commerce.

This same infirmity inheres in other provisions of the Act, to the extent that the Commission may seek to apply them to a transportation facility which is engaged in interstate commerce. For example, the Act authorizes the Commission, in case of discrimination, to "prescribe rules to end the discrimination or the commission may itself manage the allocation of the service until it determines the discrimination can be avoided by appropriate rules or agreements." Section 42.06.321. The Commission is empowered to order "the joint use or interconnection of oil or gas transportation facilities . . . ." Section 42.06.321. These are matters specifically covered by the Interstate Commerce Act, 49 U.S.C. §§1 (4), 3 (4), as amended. Further, any corrective order by the Commission under its authority to

"investigate the management of an oil and gas transportation facility, including but not limited to staffing patterns, wage and salary scales and agreements, investment policies and practices and payment arrangement with affiliated interests . . . ," Section 42.06.511, would necessarily fall within the condemnation of the Commerce Clause.

Conclusion

The foregoing analysis is not exhaustive, nor have we sought to elaborate upon those areas in which the legitimate local concern may justify requirements of the interstate carrier which only "incidentally affect" but do not unreasonably burden or directly regulate interstate commerce. Generally, to the extent that the Commission may utilize authority granted by the Act to adopt regulations or prescribe orders the effect of which, directly or indirectly, would be to regulate, burden or obstruct the interstate operations of TAPS, such regulations or orders in light of the Commerce Clause precepts previously discussed would be invalid.

March 3, 1972

PLEASE NOTE: THE PRECEDING PAGES WERE TREATED AS A UNIT IN THE ORIGINAL DOCUMENT.

REMARKS OF GEORGE A. SEYMOUR
TO ALASKA SENATE AND HOUSE COMMITTEES
WEEK OF MARCH 6, 1972

I AM GEORGE A. SEYMOUR. I AM MANAGER OF PART INTEREST PIPELINES FOR MOBIL PIPE LINE COMPANY. I WOULD LIKE TO REVIEW THE TYPE AND FORMAT OF PIPELINE INDUSTRY FINANCIAL REPORTING WHICH COULD SERVE THE NEEDS OF THE STATE OF ALASKA IN CONNECTION WITH THE TAPS PROJECT.

THE TYPE AND DETAIL OF FINANCIAL DATA ON PIPELINES THAT THE OWNER COMPANIES HAVE TRADITIONALLY FURNISHED AND THAT SHOULD SERVE ADEQUATELY FOR TAPS CAN BE ILLUSTRATED BY THE USE OF SOME REPORTS THAT ARE REQUIRED BY OTHER REGULATORY COMMISSIONS. ATTACHED IS A COPY OF COOK INLET PIPE LINE COMPANY'S 1970 ANNUAL REPORT TO THE INTERSTATE COMMERCE COMMISSION. THIS REPORT, ALONG WITH IDENTICAL REPORTS FROM ALL OTHER COMMON CARRIERS SUBJECT TO THE JURISDICTION OF THE ICC, IS ON FILE IN WASHINGTON AND IS AVAILABLE TO ANYONE WHO WISHES TO SEE IT. A COPY OF THIS REPORT, KNOWN AS THE FORM P, IS ALSO REQUIRED BY MOST STATE REGULATORY AGENCIES WHICH HAVE JURISDICTION OVER COMMON CARRIER PIPELINE COMPANIES. IN FACT, FORMS P FOR COOK INLET PIPE LINE COMPANY WERE, UPON REQUEST, TRANSMITTED TO MR. GREG K. ERICKSON OF THE ALASKA JOINT PIPELINE IMPACT COMMITTEE IN SEPTEMBER, 1971, FOR THE YEARS 1967 THROUGH 1970. WE WOULD EXPECT THAT ALASKA WILL ALSO REQUIRE THIS REPORT TO BE FILED WITH THE APPROPRIATE STATE AGENCY BECAUSE ITS 56 PAGES WOULD CONTAIN RATHER DETAILED CORPORATE, FINANCIAL AND OPERATING INFORMATION CONCERNING TAPS.

IF YOU HAVE NOT PREVIOUSLY SEEN ONE OF THESE REPORTS, YOU ARE INVITED TO REVIEW IT IN ITS ENTIRETY TO SEE WHAT INFORMATION IS INCLUDED. I WOULD LIKE NOW, HOWEVER, TO DISCUSS SOME OF THE

AGO 531714

SCHEDULES AND RELATE THEM TO POSSIBLE TAPS REPORTS. ON PAGES 20 AND 21 IS A DETAIL OF INVESTMENT IN CARRIER PROPERTY. CARRIER INVESTMENT MUST BE REPORTED FOR GATHERING, TRUNK AND GENERAL FACILITIES AND EACH OF THESE CATEGORIES MUST BE BROKEN DOWN INTO THE VARIOUS TYPES OF INVESTMENTS, SUCH AS LAND, RIGHT-OF-WAY, LINE PIPE, PIPELINE CONSTRUCTION, ETC.

IF YOU WILL TURN TO PAGE 24, YOU WILL SEE ANOTHER SCHEDULE QUITE SIMILAR TO THE ONE WE JUST REVIEWED. YOU CAN SEE THAT THE BASIC FORMAT OF THIS PAGE IS ESSENTIALLY THE SAME. HOWEVER, THE COLUMNS CONTAIN DEPRECIATION INFORMATION RATHER THAN ORIGINAL INVESTMENT COST.

BOTH OF THESE SCHEDULES WE HAVE JUST REVIEWED WERE FOR THE COMPANY'S TOTAL INVESTMENT. HOWEVER, I WANTED TO GO THROUGH THESE SCHEDULES BECAUSE THE DETAIL SEEMS TO BE VERY SIMILAR TO THAT WHICH MIGHT BE REPORTED TO THE STATE FOR TAPS.

IF YOU WILL TURN BACK TO PAGE 23, YOU WILL SEE A FORM THAT MIGHT BE USED TO REPORT TO THE STATE. THIS PAGE, WHICH IS INCLUDED TO REPORT ON ANY SYSTEM SPECIFIED BY THE ICC, IS BLANK IN THE CASE OF COOK INLET. HOWEVER, WE HAVE RECEIVED AN INDICATION THAT THE ICC WILL REQUIRE THIS PAGE TO BE COMPLETED FOR TAPS, AND THE ICC CURRENTLY REQUIRES THIS PAGE TO BE COMPLETED BY SOME OTHER COMPANIES WHICH PARTICIPATE IN UNDIVIDED INTEREST PIPELINES.

IF YOU WILL NOW TURN TO PAGE 25, YOU WILL SEE ANOTHER BLANK PAGE -- ONE WHICH COULD BE USED IN CONJUNCTION WITH THE ONE WE JUST REVIEWED

TO REPORT CURRENT YEAR'S AND CUMULATIVE DEPRECIATION.

BY REQUESTING THESE TWO SCHEDULES TO BE COMPLETED, OR SCHEDULES SIMILAR TO THEM, IT WOULD SEEM THAT THE STATE WOULD RECEIVE EVERYTHING IT WOULD WANT REGARDING THE OWNER COMPANIES' INVESTMENT IN TAPS.

IF YOU WILL TURN TO PAGE 42, WE WILL TALK ABOUT THE REPORTING OF TAPS EXPENSES. IN THE SCHEDULE AT THE BOTTOM OF THE PAGE YOU WILL SEE THAT EXPENSES MUST BE BROKEN DOWN INTO OPERATIONS, MAINTENANCE AND GENERAL CATEGORIES AND FURTHER DETAILED BY TYPE OF EXPENSE, SUCH AS SALARIES AND WAGES, SUPPLIES AND EXPENSES, OUTSIDE SERVICES, ETC. AGAIN, THIS SCHEDULE CONTAINS TOTAL COMPANY INFORMATION BUT IT IS AVAILABLE AND COULD BE REPORTED FOR TAPS AT THE REQUEST OF THE STATE.

TURNING BACK TO PAGE 41, THIS SCHEDULE IS THE COMPANY'S TOTAL INCOME STATEMENT. NOTICE THAT THE AMOUNT OF EXPENSES SHOWN ON THE SECOND LINE IS THE TOTAL SHOWN ON THE SCHEDULE WE JUST REVIEWED. IN ADDITION TO OPERATING EXPENSES, THIS SCHEDULE SETS OUT OPERATING REVENUES, INCOME FROM NONCARRIER OPERATIONS, INTEREST AND DIVIDEND INCOME, MISCELLANEOUS INCOME, INTEREST EXPENSE, MISCELLANEOUS INCOME CHARGES, INCOME BEFORE FEDERAL INCOME TAXES, FEDERAL INCOME TAXES, AND TOTAL NET INCOME. AS WITH INVESTMENT AND EXPENSE INFORMATION WE HAVE PREVIOUSLY DISCUSSED, THIS SCHEDULE COULD BE USED TO REPORT ONLY THE INFORMATION RELATING TO TAPS.

As to revenue, this schedule would set out TAPS revenue separately. If further detail would be desired by the State, a schedule that summarized such data could be prepared.

Any necessary additional operating information desired by the State could also be provided on this or a similar page.

The State would also be interested in the valuation of TAPS carrier property. As you know, the Interstate Commerce Commission determines a company's original valuation and traditionally brings it down to date each year. A copy of a company's valuation report, which sets out the valuation of properties located in each state, is sent to each state by the ICC. In addition, because of the magnitude of investment in TAPS, we expect that the ICC will determine the valuation of TAPS facilities separate from the valuation of the owner companies' other carrier facilities. This information would also be provided to the State of Alaska by the ICC.

To summarize, we have reviewed schedules or samples of schedules which could be used to report required TAPS financial and operating information to the State. The TAPS owner companies have previously stipulated that it was their intent to arrange to provide the State with complete financial and operating statistics on TAPS. Information of the type we have just reviewed--which seems to be consistent with what the TAPS owner companies have offered to furnish--appears adequate to fulfill the State's total need for corporate, financial and operating data.

CARRIERS BY PIPE LINE

Annual Report Form P

BUDGET BUREAU
No. 60-R0108
Approval expires 12-31-74

ANNUAL REPORT

OF

COOK INLET PIPE LINE COMPANY

ANCHORAGE, ALASKA

TO THE

INTERSTATE COMMERCE COMMISSION

FOR THE

YEAR ENDED DECEMBER 31, 1970

AGO 531718

NOTICE

1. This Form for annual report should be filled out in triplicate and two copies returned to the *Interstate Commerce Commission, Bureau of Accounts*, Washington, D.C. 20423, by *March 31 of the year following that for which the report is made.* Attention is specially directed to the following provisions of Part I of the Interstate Commerce Act:

SEC. 20. (1) The Commission is hereby authorized to require annual, periodical, or special reports from carriers, lessors, * * * (as defined in this section), to prescribe the manner and form in which such reports shall be made, and to require from such carriers, lessors, * * * specific and full, true, and correct answers to all questions upon which the Commission may deem information to be necessary, classifying such carriers, lessors, * * * as it may deem proper for any of these purposes. Such annual reports shall give an account of the affairs of the carrier, lessor, * * * in such form and detail as may be prescribed by the Commission.

(2) Said annual reports shall contain all the required information for the period of twelve months ending on the 31st day of December in each year, unless the Commission shall specify a different date, and shall be made out under oath and filed with the Commission at its office in Washington within three months after the close of the year for which report is made, unless additional time be granted in any case by the Commission.

(7) (b). Any person who shall knowingly and willfully make, cause to be made, or participate in the making of, any false entry in any annual or other report required under this section to be filed, * * * or shall knowingly or willfully file with the Commission any false report or other document, shall be deemed guilty of a misdemeanor and shall be subject, upon conviction in any court of the United States of competent jurisdiction to a fine of not more than five thousand dollars or imprisonment for not more than two years, or both such fine and imprisonment: * * *.

(7) (c). Any carrier or lessor, * * * or any officer, agent, employee, or representative thereof, who shall fail to make and file an annual or other report with the Commission within the time fixed by the Commission, or to make specific and full, true, and correct answer to any question within thirty days from the time it is lawfully required by the Commission so to do, shall forfeit to the United States the sum of one hundred dollars for each and every day it shall continue to be in default with respect thereto.

(8) As used in this section * * * the term "carrier" means a common carrier subject to this part, and includes a receiver or trustee of such carrier; and the term "lessor" means a person owning a railroad, a water line or a pipe line, leased to and operated by a common carrier subject to this part, and includes a receiver or trustee of such lessor, * * *.

The respondent is further required to send to the Bureau of Accounts, immediately upon publication, two copies of its latest printed annual report to stockholders. See Schedule 108A, page 104.

2. The instructions in this Form should be carefully observed, and *each question should be answered fully and accurately*, whether it has been answered in a previous annual report or not. Except in cases where they are specifically authorized, cancellations, arbitrary check marks, and the like should not be used either as partial or as entire answers to inquiries. If any inquiry, based on a preceding inquiry in the present report form, is, because of the answer rendered to such preceding inquiry, inapplicable to the person or corporation in whose behalf the report is made, such notation as "Not applicable; see page ——, schedule (or line) number ——" should be used in answer thereto, giving *precise reference to the portion of the report showing the facts which make the inquiry inapplicable.* Where the word "None" truly and completely states the fact, it should be given as the answer to any particular inquiry or any particular portion of an inquiry. Where dates are called for, the month and day should be stated as well as the year. Customary abbreviations may be used in stating dates.

3. *Every annual report should, in all particulars, be complete in itself*, and references to the returns of former years should not be made to take the place of required entries except as herein otherwise specifically directed or authorized.

4. If it be necessary or desirable to insert additional statements, typewritten or other, in a report, they should be legibly made on durable paper and, wherever practicable, on sheets not larger than a page of the Form. *Inserted sheets should be securely attached, preferably at the inner margin; attachment by pins or clips is insufficient.*

5. All entries should be made in a permanent black ink. Those of a contrary character should be indicated in parenthesis. Items of an unusual character should be indicated by appropriate symbol and footnote.

Money items throughout this annual report form should be shown in units of dollars adjusted to accord with footings.

6. Each respondent should make its annual report to this Commission in triplicate, retaining one copy in its files for reference in case correspondence with regard to such report becomes necessary. For this reason three copies of the Form are sent to each company concerned.

7. Except where the context clearly indicates some other meaning, the following terms when used in this Form have the meanings below stated:

Commission means *the Interstate Commerce Commission.* Respondent means *the person or company in whose behalf the report is made.* The year means *the year ended December 31 for which the report is made.* The close of the year means *the close of business on December 31 of the year for which the report is made;* or, in case the report is made for a shorter period than one year, it means *the close of the period covered by the report.* The beginning of the year means *the beginning of business on January 1 of the year for which the report is made;* or, in case the report is made for a shorter period than one year, it means *the beginning of the period covered by the report.* The preceding year means *the year ended December 31 of the year next preceding the year for which the report is made.* The Uniform System of Accounts for Pipe Lines means *the system of accounts in Part 1204 of Title 49, Code of Federal Regulations, as amended*

FOR THE INDEX SEE THE INSIDE OF BACK COVER

For sale by the Superintendent of Documents, U.S. Government Printing Office
Washington, D.C. 20402 Price $1.50

ANNUAL REPORT

OF

COOK INLET PIPE LINE COMPANY

ANCHORAGE, ALASKA

FOR THE

YEAR ENDED DECEMBER 31, 1970

Name, official title, telephone number, and office address of officer in charge of correspondence with the Commission regarding this report:

(Name) A. R. THOMPSON (Title) SECRETARY-TREASURER

(Telephone number) [redacted] (Area code) [redacted] (Telephone number)

(Office address) [redacted] Dallas, Texas 75202 (Street and number, City, State, and ZIP code)

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INSTRUCTIONS FOR MAKING RETURNS ON OPPOSITE PAGE

There should appear on the opposite page entries or notations sufficient to show that no question or item has been overlooked. If returns are not made as required, some reference, as, "See page 100", should be made to this page, on which a statement of the reason for the variation or omission should be given.

Answers to the questions asked should be made in full, without reference to data returned on the corresponding page of previous reports. Only changes during the year are required, under items 4, 5, and 6.

1. *Give in full the exact name of the respondent.* Use the words "The" and "Company" only when they are parts of the corporate name. The corporate name should also be given uniformly throughout the report, notably on the cover, on the title page, and in the "Verification" (p. 533). If the report is made by receivers, trustees, a committee of bondholders, or individuals otherwise in possession of the property, state names and facts with precision.

2. If incorporated under a special charter, give date of passage of the act; if under a general law, give date of filing certificate of organization; if a reorganization has been effected, give date of reorganization. If a receivership or other trust, give also date when such receivership or other possession began. If a partnership, give date of formation and also names in full of present partners.

3. Give *specific* reference to laws of each State or Territory under which organized, citing chapter and section. Include all grants of corporate powers by the United States, or by Canada or other foreign country; also, all amendments to charter.

4. Give *specific* reference to special or general laws under which each consolidation or merger or combination of other form was effected during the year, citing chapter and section. Specify Government, State, or Territory under the laws of which each company consolidated or merged or otherwise combined during the year into the present company was organized; give reference to the charters of each, and to all amendments of them. *Distinguish carefully between mergers and consolidations.* For the purpose of this report, a *merger* may be defined as the *absorption* of one of two existing corporations by the other in such wise that the absorbed or merged corporation ceases to exist as a legal entity, its property passing to the merging or absorbing corporation, which assumes all of the merged corporation's obligations. A *consolidation* may be defined as the *union* of two or more existing corporations into a new corporation, which, through the consolidation, acquires all of the property of the uniting corporations, assumes all of their obligations, and issues its capital stocks in exchange for those of the uniting corporations in ratios fixed in the agreement for consolidations, after completion of which both or all of the consolidating corporations cease to exist as legal entities. Combinations that are not classifiable as mergers or consolidations should be fully explained. Cases in which corporations have become inactive and have been practically absorbed through ownership or control of their entire capital stock, through leases of long duration (under which the lessor companies *do not* keep up independent organizations for financial purposes), or otherwise, so that no distinction is made in operating or in accounting by reason of the original separate incorporation, *should be included here in a separate list and fully explained* in answering this and the next following inquiry.

6. State the occasion for the reorganization, whether by reason of foreclosure of mortgage or otherwise, according to the fact. Give date of organization of original corporation and refer to laws under which organized.

EXPLANATORY REMARKS

SPECIAL NOTICE

The attention of the respondent is directed below to certain particulars, if any, in which this report form differs from the corresponding form for the preceding year. It should be understood that mention is not made of necessary substitutions of dates or, in general, such other things as simple modifications intended to make requirements clearer, other minor adjustments, and typographical corrections.

Page 200: Schedule 200A. Comparative Balance Sheet Statement - Asset Side

Instructions have been amended to provide for inclusion of accrued depreciation of system property in account 31, Accrued Depreciation - Carrier Property.

Page 212: Schedule 230. Carrier Property

Instructions amended to include system property investments.

Page 214: Schedule 231. Accrued Depreciation - Carrier Property

Schedule renumbered 232 and transferred to new page 214B.

Page 214A: Schedule 231A. Depreciation Base and Rates - System Property
214C: Schedule 232A. Accrued Depreciation - System Property

These are new pages and schedules provided for disclosure of depreciation data related to carrier investments in system property.

Page 215: Schedule 232. Depreciation Base and Rates

Schedule renumbered 231, redesignated Depreciation Base and Rates - Carrier Property, and transferred to page 214.

Page 226. Schedule 270. Capital Stock

Instructions have been amended to assist in furnishing clearer and more complete data.

Page 304: Schedule 330. Pipe-Line Taxes

Reference to Federal transportation tax has been deleted.

101. IDENTITY OF RESPONDENT

1. Exact name of pipe-line company making this report. (See Instructions, p. 100) Cook Inlet Pipe Line Company

2. Date of incorporation March 21, 1966

3. Under laws of what Government, State, or territory organized? If more than one, name all. Give specific reference to each statute and all amendments thereof, effected during the year. If previously effected show the year(s) of the report(s) setting forth the details. If in bankruptcy, give court of jurisdiction and dates of beginning of receivership or trusteeship and of appointment of receivers or trustees.

Organized under the "General Corporation Law of the State of Delaware".

4. If a consolidated or a merging company, name all constituent and all merged companies absorbed during the year. Give specific reference to charters or general laws governing organization of each, and all amendments of same.

Not applicable

5. Date and authority for each consolidation and for each merger effected during the year.

Not Applicable

6. If a reorganized company, give name of original corporation, refer to laws under which it was organized, and state the occasion for any reorganization effected during the year.

Not Applicable

7. State whether or not the respondent during the year conducted any part of its business under a name or names other than that shown in response to inquiry No. 1, above; if so, give full particulars.

Business conducted under above name only.

INSTRUCTIONS FOR MAKING RETURNS ON PAGES 102 AND 103

There should appear on these pages entries or notations sufficient to show that no question or item has been overlooked. The word "None" may be used wherever applicable.

If returns are not made as required, some reference, as, "See page 102", should be made to this page, on which a statement of the reason for the variation or omission should be given.

Give particulars of the various directors and officers of the respondent at the close of the year. In schedule No. 103 give the title, name, and address of the principal general officers having system jurisdiction by departments, as follows: Executive, Legal, Fiscal and Accounting, Purchasing, Operating, Construction, Maintenance, Engineering, Commercial, and Traffic. If there are receivers, trustees, or committees, who are recognized as in the controlling management of the company or of some department of it, give also their names and titles, and the location of their offices. If the duties of an officer extend to more than one department, or if his duties are not in accordance with the customary acceptance of his given title, state briefly the facts under Explanatory Remarks below.

EXPLANATORY REMARKS

102. DIRECTORS

Name of director (a)	Office address (b)	Date of beginning of term (c)	Date of expiration of term (d)	Remarks (e)
L. E. Cheney	445 South Figueroa St. Los Angeles, Calif. 90017	3/16/70	6/15/71	The annual meeting of the stockholders scheduled for the third Tuesday in March, according to the By-Laws, has been postponed and tentatively rescheduled for June 15, 1971.
R. G. Dulaney	600 - 5th Avenue New York, N.Y. 10020	3/16/70	6/15/71	
W. P. Bush	539 South Main St. Findlay, Ohio 45840	3/16/70	6/15/71	
A. D. Lodge	539 South Main St. Findlay, Ohio 45840	3/16/70	6/15/71	
G. A. Seymour	108 S. Akard Street Dallas, Texas 75202	3/16/70	6/15/71	
E. J. Wacker, Jr.	108 S. Akard Street Dallas, Texas 75202	3/16/70	6/15/71	
John M. Hopkins	P.O. Box 7600 Los Angeles, Calif. 90054	3/16/70	6/15/71	
W. S. McConnor	200 East Golf Road Palantine, Ill. 60067	3/16/70	6/15/71	

21. Give the names (and titles) of all *officers* of the *Board of Directors* of the respondent at the close of the year:
Chairman of Board None Secretary (or clerk) of Board C. R. Thompson

22. Name the members of the *executive committee* of the *Board of Directors* of the respondent at the close of the year (naming first the chairman), and state briefly the powers and duties of that committee:
None

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103. PRINCIPAL GENERAL OFFICERS

Line No.	Title of general officer (a)	Department or departments over which jurisdiction is exercised (b)	Name of person holding office at close of year (c)	Office address (d)
1	President	Executive	E. J. Wacker, Jr.	108 S. Akard Street Dallas, Texas 75202
2	Vice President	Executive	W. P. Bush	539 S. Main Street Findlay, Ohio 45840
3	Vice President	Executive	R. G. Dulaney	600 - 5th Avenue New York, New York 10020
4	Vice President	Executive	W. S. McConnor	200 E. Golf Road Palantine, Ill. 60067
5	Vice President	Executive	G. A. Seymour	108 S. Akard Street Dallas, Texas 75202
6	Vice President	Operating	D. L. Dennard	P. O. Box 4-XX Anchorage, Alaska 99503
7	Secretary-Treasurer	Secretarial and Fiscal	C. R. Thompson	108 S. Akard Street Dallas, Texas 75202
8				
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108. CORPORATE CONTROL OVER RESPONDENT *

61. Did any corporation or corporations, pipe line or other, hold control over the respondent at the close of the year? Yes

If control was so held, state:

(a) The form of control, whether sole or joint Joint

(b) The name of the controlling corporation or corporations Atlantic Richfield Co., Mobil Pipe Line Co., Marathon Oil Co. and Union Oil Co. of California

(c) The manner in which control was established Stock ownership

(d) The extent of control Atlantic and Mobil Pipe Line 20% each; Marathon and Union 30% each

(e) Whether control was direct or indirect Direct

(f) The name of the intermediary through which control, if indirect, was established None

62. Did any individual, association, or corporation hold control, as trustee, over the respondent at the close of the year? No

If control was so held, state:

(a) The name of the trustee

(b) The name of the beneficiary or beneficiaries for whom the trust was maintained

(c) The purpose of the trust

108A. STOCKHOLDERS REPORTS

1. The respondent is required to send the Bureau of Accounts, immediately upon preparation, two copies of its latest annual report to stockholders.

Check appropriate box:

[X] Two copies are attached to this report.

[ ] Two copies will be submitted _____ (date)

[ ] No annual report to stockholders is prepared.

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109. VOTING POWERS AND ELECTIONS

1. State whether or not each share of stock has the right to one vote; if not, give full particulars in a footnote ....Yes....

2. Are voting rights proportional to holdings? ...Yes..... If not, state in a footnote the relation between holdings and corresponding voting rights.

3. Are voting rights attached to any securities other than stock? ...No..... If so, name in a footnote each security, other than stock, to which ting rights are attached (as of the close of the year), and state in detail the relation between holdings and corresponding voting rights, stating ether voting rights are actual or contingent, and if contingent showing the contingency.

4. Has any class or issue of securities any special privileges in the election of directors, trustees, or managers, or in the determination of corporate tion by a, y method? .... No..... If so, describe fully (in a footnote) each such class or issue and give a succinct statement showing clearly the aracter and extent of such privileges.

5. Give the date and state the purpose of the closing of the stock book or compilation of list of stockholders and their holdings at the latest date ior to the preparation of this report (even though such date be after the close of the year): ....
March 16, 1970 Annual Meeting*

6. State the total voting power of all security holders of the respondent at the date given in answer to inquiry No. 5, if within 1 year of the te of such preparation; if not, state as of the close of the year ....40,000.... votes, as of ...March 16, 1970... (Date)

7. State the total number of stockholders of record, as of the date shown in answer to inquiry No. 6. ....4.... stockholders.

8. Give the names of the 30 security holders of the respondent who, at the date of the closing of the stock book or compilation of list of stockolders of the respondent (if within 1 year of the preparation of this report), had the highest voting powers in the respondent, showing for each s address, the number of votes which he would have had a right to cast on that date had a meeting then been in order, and the classification of the umber of votes to which he was entitled, with respect to securities held by him, such securities being classified as common stock, second preferred ock, first preferred stock, and other securities, stating in a footnote the names of such other securities (if any). If any such holder held in trust, ve (in a footnote) the particulars of the trust. *If the stock book was not closed or the list of stockholders compiled within such year, show such 30 security lders as of the close of the year.*

Name of security holder (a)	Address of security holder (b)	Number of votes to which security holder was entitled (c)	Number of Votes, Classified with Respect to Securities on Which Based			
			Stocks			Other securities with voting power (g)
			Common (d)	Preferred		
				Second (e)	First (f)	
Atlantic Richfield Co.	717 Fifth Avenue	8,000	8,000			
	New York, New York					
Marathon Oil Co.	539 S. Main Street	12,000	12,000			
	Findlay, Ohio					
Union Oil Co. of Calif.	Union Oil Center	12,000	12,000			
	Los Angeles, Calif.					
Mobil Pipe Line Co.	P. O. Box 900	8,000	8,000			
	Dallas, Texas					
*June 25, 1970	Mobil Oil Corp. sold its stock to Mobil Pipe Line Company					
March 6, 1970	Cities Service Company sold its stock to Marathon Oil Company					
	and Union Oil Co. of California, each purchasing 50% of 8,000 shares.					

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9. State the total number of votes cast at the *latest* general meeting for the election of directors of the respondent ..40,000.... votes cast.

10. Give the date and place of such meeting ..March 16, 1970 at Pebble Beach, California...

110. GUARANTIES AND SURETYSHIPS

1. If the respondent was under obligation as guarantor or surety for the performance by any other corporation or other association of any agreement or obligation, show for each such contract of guaranty or suretyship in effect at the close of the year, or entered into and expired during the year, the particulars called for hereunder.

This inquiry does not cover the case of ordinary commercial paper maturing on demand or not later than two years after date of issue.

Line No.	Names of all parties principally and primarily liable (a)	Description of agreement or obligation (b)	Amount of contingent liability (c)	Sole or joint contingent liability (d)
1	None			
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2. If any corporation or other association was under obligation as guarantor or surety for the performance by the respondent of any agreement or obligation, show for each such contract of guaranty or suretyship in effect at the close of the year, or entered into and expired during the year, the particulars called for hereunder.

This inquiry does not cover the case of ordinary commercial paper maturing on demand or not later than two years after date of issue, nor does it include ordinary surety bonds or undertakings on appeals in court proceedings.

Line No.	Description of agreement or obligation (a)	Names of all guarantors and sureties (b)	Amount of contingent liability of guarantors (c)	Sole or joint contingent liability (d)
31	Throughput Agreement dated	Atlantic Richfield Company	See conditions	Joint
32	December 1, 19[illegible]7 which requires	Marathon Oil Company	set forth under	
33	Guarantors to provide carrier	Union Oil Co. of California	Section (A)	
34	with sufficient amount of cash	Shell Pipe Line Company	hereof.	
35	revenue which, when added to			
36	carrier's other cash resources,			
37	will be adequate to pay the			
38	[illegible] of carrier's			
39	obligations [illegible] and			
40	payable [illegible] the [illegible]			
41	period in accordance with			
42	Paragraph 5 of the Throughput			
43	Agreement.			
44				
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200A. COMPARATIVE BALANCE SHEET STATEMENT—ASSET SIDE

For instructions covering this schedule, see the text and instructions pertaining to Balance Sheet Accounts in the Uniform System of Accounts for Pipe Lines. The entries in this balance sheet should be consistent with those in the supporting schedules on the pages indicated.

All contra entries hereunder should be indicated in parentheses.

On line 31, column (a) and short-column (b), include depreciation applicable to investment in system property.

Balance at beginning of year (a)			Item (b)	Balance at close of year (c)		
$				$		
x x	x x	x x	CURRENT ASSETS	x x	x x	x x
	376	994	(10) Cash		605	734
	570	078	(11) Temporary investments	2	669	353
			(12) Notes receivable (p. 202)			
1	239	333	(13) Receivables from affiliated companies (p. 202)	1	806	766
	137	098	(14) Accounts receivable (p. 202)		266	655
		632	(15) Interest and dividends receivable		5	265
			(16) Oil inventory			
	174	795	(17) Material and supplies		180	931
	25	140	(18) Prepayments		91	642
	113	807	(19) Other current assets		114	371
2	638	243	TOTAL CURRENT ASSETS	5	740	717
x x	x x	x x	INVESTMENTS AND SPECIAL FUNDS	x x	x x	x x
x x	x x	x x	(20) Investments in affiliated companies:	x x	x x	x x
			Stocks (pp. 204, 205)			
			Bonds (pp. 204, 205)			
			Other secured obligations (pp. 204, 205)			
			Unsecured notes (pp. 204, 205)			
			Investment advances (pp. 204, 205)			
x x	x x	x x	(21) Other investments:	x x	x x	x x
			Stocks (pp. 206, 207)			
			Bonds (pp. 206, 207)			
			Other secured obligations (pp. 206, 207)			
			Unsecured notes (pp. 206, 207)			
			Investment advances (pp. 206, 207)			
			(22) Sinking and other funds (p. 210)			
			(23) Reductions in security values—Credit			
			TOTAL INVESTMENTS AND SPECIAL FUNDS			
x x	x x	x x	TANGIBLE PROPERTY	x x	x x	x x
40	867	774	(30) Carrier property (pp. 212, 213)	$ 41 323 674	x x	x x	x x
(2	983	169)	(31) Accrued depreciation—Carrier property (pp. 214B, 214C)	(4 537 492)	x x	x x	x x
			(32) Accrued amortization—Carrier property (p. 216)		36	786	182
			(33) Operating oil supply				
			(34) Noncarrier property (p. 217)	$			
			(35) Accrued depreciation—Noncarrier property				
37	904	624	TOTAL TANGIBLE PROPERTY		36	786	182
x x	x x	x x	OTHER ASSETS AND DEFERRED CHARGES	x x	x x	x x
	1	247	(40) Organization costs and other intangibles	$ 1 247	x x	x x	x x
			(41) Accrued amortization of intangibles			1	247
			(42) Unamortized discount and interest on long-term debt				
		35	(43) Miscellaneous other assets				35
	2	858	(44) Other deferred charges (p. 218)				380
	4	140	TOTAL OTHER ASSETS AND DEFERRED CHARGES			1	662
40	50	497	TOTAL ASSETS		42	528	561

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200L. COMPARATIVE BALANCE SHEET STATEMENT—LIABILITY SIDE

For instructions covering this schedule, see the text and instructions pertaining to Balance Sheet Accounts in the Uniform System of Accounts for Pipe Lines. The entries in this balance sheet should be consistent with those in the supporting schedules on the pages indicated.
All contra entries hereunder should be indicated in parentheses.

No.	Balance at beginning of year (a)	Item (b)	Balance at close of year (c)
	$		$
1	x x	CURRENT LIABILITIES	x x
2		(50) Notes payable (p. 219)	
3	102 911	(51) Payables to affiliated companies (p. 219)	55 710
4	40 212	(52) Accounts payable (p. 219)	20 210
5		(53) Salaries and wages payable	
6	267 534	(54) Interest payable	226 356
7		(55) Dividends payable	
8	360	(56) Taxes payable	465
9	11 000 000	(57) Long-term debt payable within one year (pp. 220, 221)	3 500 000
10	21 093	(58) Other current liabilities	
11	11 432 110	TOTAL CURRENT LIABILITIES	3 802 741
12	x x	NONCURRENT LIABILITIES	x x
13	25 000 000	(60) Long-term debt payable after one year (pp. 222, 223)	*32 500 000
14		(61) Unamortized premium on long-term debt	
15		(63) Other noncurrent liabilities	
16	25 000 000	TOTAL NONCURRENT LIABILITIES	32 500 000
17	36 432 110	TOTAL LIABILITIES	36 302 741
18	x x	STOCKHOLDERS' EQUITY	x x
19	4 000 000	(70) Capital stock (p. 226)	4 000 000
20		(71) Premiums on capital stock	
21		(72) Capital stock subscriptions	
22		(73) Additional paid in capital (p. 228)	
23		(74) Appropriated retained income (p. 229)	
24	114 887	(75) Unappropriated retained income (p. 300)	2 225 820
25	4 114 887	TOTAL STOCKHOLDERS' EQUITY	6 225 820
26	40 546 997	TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	42 528 561

1. Estimated accumulated net Federal income tax reduction realized since December 31, 1949, under section 168 (formerly section 124 A) of the Internal Revenue Code because of accelerated amortization of emergency facilities in excess of recorded depreciation . . . . $ None

2. Estimated accumulated net Federal income tax reduction realized since December 31, 1953, because of accelerated depreciation of facilities in excess of recorded depreciation under provisions of section 167 of the Internal Revenue Code and depreciation deductions resulting from the use of guideline lives since December 31, 1961, pursuant to Revenue Procedure 62-21 in excess of recorded depreciation . . . . $ None

3. Estimated accumulated net income tax reduction realized since December 31, 1961, because of the investment tax credit authorized in the Revenue Act of 1962 compared with the income taxes that would otherwise have been payable without such investment tax credit . . . . . $ None

4. Estimated amount of future earnings which can be realized before paying Federal income taxes because of unused and available net operating loss carryover on January 1, 1971 . . . . . $ 270,822

*Due within one year but is expected to be refinanced.

Give particulars of the various debtors and the character of the transactions involved in the current asset account No. 12, "Notes receivable." List every item in excess of $100,000 and state its date of issue and date of maturity.

For debtors whose balances were severally less than $100,000, a single entry may be made under a caption "Minor accounts, each less than $100,000."

Name of debtor (a)	Character of assets or of transaction (b)	Date of issue (c)	Date of maturity (d)	Balance at close of year (e)		
				$		
None						
			Total			

211. RECEIVABLES FROM AFFILIATED COMPANIES

Give particulars of the various affiliated company debtors and the character of the transactions involved in the current asset account No. 3, "Receivables from affiliated companies."

List every item in excess of $100,000.

For debtors whose balances were severally less than $100,000, a single entry may be made under a caption "Minor accounts, each less than $100,000."

Name of debtor (a)	Character of assets or of transaction (b)	Balance at close of year (e)		
		$		
Atlantic Richfield Co.	Revenue Receivable-Transportation & Demurrage		360	815
Marathon Oil Co.	Revenue Receivable-Transportation & Demurrage		571	935
Union Oil Co. of Calif.	Revenue Receivable-Transportation & Demurrage		806	912
Minor accounts, each less than $100,000			67	104
	Total	1	806	766

212. ACCOUNTS RECEIVABLE

Give particulars of the various debtors and the character of the transactions involved in the current asset account No. 11, "Accounts receivable."

List every item in excess of $100,000.

For debtors whose balances were severally less than $100,000, a single entry may be made under a caption "Minor accounts, each less than $100,000."

Name of debtor (a)	Character of assets or of transaction (b)	Balance at close of year (e)		
		$		
Minor accounts, each less than $100,000			266	655
	Total		266	655

GENERAL INSTRUCTIONS CONCERNING RETURNS IN SCHEDULES 220 AND 221

1. Schedules 220 and 221 should give particulars of stocks, bonds, notes, advances, and miscellaneous securities of affiliated and nonaffiliated companies held by respondent at close of year specifically as investments, investments made or disposed of during the year; and dividends and interest credited to income. They should exclude securities issued or assumed by respondent.

2. Two companies are affiliated, as the term is here used, when one directly or indirectly controls the other, or when they are subject to a common control.

3. By "control," as the term is here used, is meant the ability to determine the action of a company. Attention is specifically directed to section 1 (3) (*b*) of Part I of the Interstate Commerce Act which provides that, "For the purposes of sections 5, 12 (1), 20, 204 (*a*) (7), 210, 220, 304 (*b*), 310, and 313 of this Act, where reference is made to control (in referring to a relationship between any person or persons and another person or persons), such reference shall be construed to include actual as well as legal control, whether maintained or exercised through or by reason of the method of or circumstances surrounding organization or operation, through or by common directors, officers, or stockholders, a voting trust or trusts, a holding or investment company or companies, or through or by any other direct or indirect means; and to include the power to exercise control.

4. For the purposes of this report, the following are to be considered forms of control:

(*a*) Right through title to securities issued or assumed to exercise the major part of the voting power in the controlled company;

(*b*) Right through agreement or through sources other than title to securities to name the majority of the board of directors, managers, or trustees of the controlled company;

(*c*) Right to foreclose a priority lien upon all or a major part in value of the tangible property of the controlled company;

(*d*) Right to secure control in consequence of advances made for construction of the property of the controlled company.

Indirect control is that exercised through an intermediary.

5. A leasehold interest in the property of a company is not for the purpose of these accounts to be classed as a form of control over the lessor company.

6. These investments should be subdivided to show the par value pledged, unpledged, and held in fund accounts. Under "pledged" include the par value of securities recorded in accounts Nos. 20, "Investments in affiliated companies," and 21, "Other investments," which are deposited with some pledgee or other trustee, or held subject to the lien of a chattel mortgage, or subject to any other restriction or condition which makes them unavailable for general corporate purposes. "Unpledged" should include all securities held by or for the respondent free from any lien or restriction recorded in the accounts mentioned above. Under "In sinking, insurance and other funds" include the par value of securities recorded in account No. 22, "Sinking and other funds."

7. List the investments in the following order and show a total for each group and each class of investments by accounts in numerical order:

(A) Stocks:
1. Pipe-line companies—active.
2. Pipe-line companies—inactive.
3. Non-pipe-line companies—active.
4. Non-pipe-line companies—inactive.

(B) Bonds (including U. S. Government Bonds).

(C) Other secured obligations.

(D) Unsecured notes.

(E) Investment advances.

8. The subclassification of classes (B), (C), (D), and (E) should be the same as that provided for class (A).

9. By an active corporation is meant one which maintains an organization for operating property or administering its financial affairs. An inactive corporation is one which has been practically absorbed in a controlling corporation, and which neither operates property nor administers its financial affairs, if it maintains an organization it does so only for the purpose of complying with legal requirements and maintaining title to property or franchises.

220. INVESTMENTS IN AFFILIATED COMPANIES

Give particulars of investments included in accounts Nos. 20, "Investments in affiliated companies" and 22, "Sinking and other funds."

Entries in this schedule should be made in accordance with the definitions and general instructions given on page 203, classifying the investments by means of letters and figures in columns (a) and (b).

Indicate by means of an arbitrary mark in column (c) the obligation in support of which any security is pledged, mortgaged, or otherwise encumbered, giving names and other important particulars of such obligations in footnotes.

Give totals for each class and for each subclass, and a grand total for each account.

Entries in column (c) should show date of maturity of bonds and other evidences of indebtedness. In case obligations of the same designation mature serially, the date in column (c) may be reported as "Serially 19 ..... to 19 ....." In making entries in this column, abbreviations in common use in standard financial publications may be used where necessary on account of limited space.

Account No. (a)	Class No. (b)	Name of issuing company and description of security held, also lien reference, if any (c)	Extent of control (d)	Investments at Close of Year — Par value of amount held at close of year: Pledged (e)	Unpledged (f)	In sinking, insurance, and other funds (g)	Total par value (h)
			%	$	$	$	$
		None					

AGO 531732

If any of the companies included in this schedule are controlled by respondent, the percent of control should be given in column (d). In case any company listed is controlled other than through actual ownership of securities, give particulars in a footnote. In cases of joint control, give names of other parties and particulars of control.

For nonpar stock, show the number of shares in lieu of the par value in columns (e), (f), (g), (h), (j), and (l).

In reporting advances, columns (e), (f), (g), (h), (j), and (l) should be left blank. If any advances are pledged, give particulars in a footnote.

Particulars of investments made, disposed of, or written down during the year should be given in columns (j) to (n), inclusive. If the cost of any investment made during the year differs from the book value reported in column (k), explain the matter in a footnote. By "cost" is meant the consideration given minus accrued interest or dividends included therein. If the consideration given or received for such investments was other than cash, describe the transaction in a footnote.

This schedule should not include issued securities or assumed by respondent.

Investments at Close of Year	Investments Made During Year		Investments Disposed of or Written Down During Year			Dividends or Interest		
Total book value	Par value	Book value	Par value	Book value	Selling price	Rate	Amount credited to income	
(i)	(j)	(k)	(l)	(m)	(n)	(o)	(p)	
$	$	$	$	$	$	%	$	

AGO 531733

221. OTHER INVESTMENTS

1. Give particulars of investments in all corporations other than filiated companies included in accounts Nos. 21, "Other investments" nd 22, "Sinking and other funds."

2. Entries in this schedule should be made in accordance with the efinitions and general instructions given on page 203, classifying the vestments by means of letters and figures in columns (a) and (b). vestments in U. S. Treasury bills and notes may be reported as one item.

3 Indicate by means of an arbitrary mark in column (c) the obligation in support of which any security is pledged, mortgaged, or otherwise encumbered, giving names and other important particulars of such obligations in footnotes

4 Give totals for each class and for each subclass, and a grand total for each account.

5. Entries in column (c) should show date of maturity of bonds and other evidences of indebtedness. In case obligations of the same designation

Account No. (a)	Class No. (b)	Name of issuing company and description of security held, also lien reference, if any (c)	Investments at Close of Year — Par value of amount held at close of year			
			Pledged (d)	Unpledged (e)	In sinking, insurance, and other funds (f)	Total par value (g)
		None	$	$	$	$

AGO 531734

221. OTHER INVESTMENTS—Concluded

mature serially, the date in column (c) may be reported as "Serially 19..... to 19....." In making entries in this column, abbreviations in common use in standard financial publications may be used where necessary on account of limited space.

6. For nonpar stock, show the number of shares in lieu of the par value in columns (d), (e), (f), (g), (i), and (k).

7. In reporting advances, columns (d), (e), (f), (g), (i), and (k) should be left blank. If any advances are pledged, give particulars in a footnote.

8. Particulars of investments made, disposed of, or written down during the year should be given in columns (i) to (m), inclusive. If the cost of any investment made during the year differs from the book value reported in column (j) explain the matter in a footnote. By "cost" is meant the consideration given minus accrued interest or dividends included therein. If the consideration given or received for such investments was other than cash, describe the transaction in a footnote.

Investments at Close of Year	Investments Made During Year		Investments Disposed of or Written Down During Year			Dividends or Interest		Line No.
Total book value (h)	Par value (i)	Book value (j)	Par value (k)	Book value (l)	Selling price (m)	Rate (n)	Amount credited to income (o)	
$	$	$	$	$	$	%	$	
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222. COMPANIES CONTROLLED DIRECTLY BY RESPONDENT OTHER THAN THROUGH TITLE TO SECURITIES

(For definition of control, see instructions on p. 203)

Name of company controlled (a)	Character of Control				Remarks (f)
	Sole or joint (b)	Other parties, if any, to joint agreement for control (c)	How established (d)	Extent (e)	
ne					

223. COMPANIES CONTROLLED THROUGH NONREPORTING INTERMEDIARIES

(For definition of control, see instructions on p. 203)

Name of company controlled (a)	Character of Control				Name of intermediary through which indirect control exists (f)
	Sole or joint (b)	Other parties, if any, to joint agreement for control (c)	How established (d)	Extent (e)	
one					

4. SECURITIES, ADVANCES, AND OTHER INTANGIBLES OWNED OR CONTROLLED THROUGH NONREPORTING CARRIER AND NONCARRIER SUBSIDIARIES

Give particulars of investments represented by securities and advances (including securities issued or assumed by respondent), and of other intangible property, indirectly owned or controlled by respondent through any subsidiary which does not report to the Commission under the provisions of Part I of the Interstate Commerce Act, without regard to any question of whether the company issuing the securities, or the obligor, is controlled by the subsidiary.

This schedule should include all securities, open account advances, and other intangible property owned or controlled by nonreporting companies shown in schedules 220, 222, and 223, as well as those owned or controlled by any other organization or individual whose action respondent is enabled to determine.

Investments in U. S. Treasury obligations may be combined in a single item.

Class No. (a)	Name of issuing company and security or other intangible thing in which investment is made. (List on same line in second section and in same order as in first section.) (b)	Investments at Close of Year: Total par value (c)	Investments at Close of Year: Total book value (d)	Investments Made During Year: Par value (e)	Investments Made During Year: Book value (f)
	None	$	$	$	$

Investments Disposed of or Written Down During Year: Par value (g)	Book value (h)	Selling price (i)	Names of subsidiaries in connection with things owned or controlled through them (j)
$	$	$	

225. SINKING AND OTHER FUNDS

Give the particulars called for with respect to funds included in account No. 22, "Sinking and other funds."

In column (b) give the name by which the fund is designated in the respondent's records, the kind of fund, such as sinking, capital, property insurance, pension, and relief; the rate of interest (if any); and the date of maturity.

Entries in column (g) should be the sums of corresponding entries in columns (d) and (e), less those shown in column (f), and the sum of entries in columns (h), (j), and (l) should equal those in column (g).

All conversions of cash into securities, or vice versa, shall be treated as withdrawals from the fund in column (f) and as additions to the fund in column (e).

Account No. (a)	Name, kind, and purpose of fund. (List on same line in second section and in same order as in first section) (b)	Name of trustee or depositary (c)	Balance at beginning of year—Book value (d)
	None		$

Additions during the year—Book value (e)	Withdrawals during the year—Book value (f)	Balance at close of year—Book value (g)	Assets in Funds at Close of Year				
			Cash (h)	Securities issued or assumed by respondent: Par value (i)	Securities issued or assumed by respondent: Book value (j)	Other securities and invested assets: Par value (k)	Other securities and invested assets: Book value (l)
$	$	$	$	$	$	$	$

INSTRUCTIONS

Give an analysis of changes during the year in account No. 30, "Carrier Property," by carrier-property accounts, including investments in system properties.

Show in column (c) the debits representing newly constructed property, and additions and improvements made to existing property. Both the debits and credits involved in the distribution to carrier property primary accounts of amounts previously charged to account No. 187 should be entered in column (c). In column (d) show expenditures for existing pipe line property purchased or otherwise acquired. Show in column (e) the total credits representing property sold, abandoned, or otherwise retired during the year.

If during the year pipe line operating property was acquired from or sold to some other company, the purchase or sales price for which was in excess of $100,000, state in a footnote the name of the company, the property acquired or disposed of, and the date of acquisition or disposal, giving termini and the cost of the property to the respondent. Also furnish a statement of the amount included in or credited to each primary account representing such property acquired or disposed of.

Show in column (g) for each primary account the net of all accounting adjustments, transfers, and clearances applicable to prior years' accounting.

Each adjustment, clearance, or transfer in excess of $100,000 should be fully explained in a footnote, except that transfers to or from account No. 31, "Nonoperating property," should be explained in schedule [illegible].

An entry in columns (f), (d), or (e) which represents an excess of credits over debits should be [illegible]

Line No.	Account (a)	Balance at beginning of year (b) $
1	GATHERING LINES	x x x x x x
2	(101) Land	
3	(102) Right of way	
4	(103) Line pipe	
5	(104) Line pipe fittings	
6	(105) Pipeline construction	
7	(106) Buildings	
8	(107) Boilers	
9	(108) Pumping equipment	
10	(109) Machine tools and machinery	
11	(110) Other station equipment	
12	(111) Oil tanks	
13	(112) Delivery facilities	
14	(113) Communication systems	
15	(114) Office furniture and equipment	
16	(115) Vehicles and other work equipment	
17	(116) Other property	
18	TOTAL	
19	TRUNK LINES	x x x x x x
20	(151) Land	44 891
21	(152) Right of way	3 390
22	(153) Line pipe	1 613 755
23	(154) Line pipe fittings	322 276
24	(155) Pipeline construction	5 993 613
25	(156) Buildings	1 992 045
26	(157) Boilers	10 849
27	(158) Pumping equipment	637 699
28	(159) Machine tools and machinery	7 010
29	(160) Other station equipment	1 828 825
30	(161) Oil tanks	5 934 082
31	(162) Delivery facilities	21 858 535
32	(163) Communication systems	303 006
33	(164) Office furniture and equipment	34 029
34	(165) Vehicles and other work equipment	195 729
35	(166) Other property	
36	TOTAL	40 779 734
37	GENERAL	x x x x x x
38	(171) Land	4 327
39	(176) Buildings	13 558
40	(179) Machine tools and machinery	
41	(183) Communication systems	39 851
42	(184) Office furniture and equipment	8 026
43	(185) Vehicles and other work equipment	4 892
44	(186) Other property	
45	(187) Construction work in progress	37 386
46	TOTAL	108 040
47	GRAND TOTAL	40 887 774

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236. CARRIER PROPERTY—Concluded

Property Changes During the Year																			
Expenditures for new construction and improvements (c)			Expenditures for existing property purchased or otherwise acquired (d)			Credits for property sold, abandoned, or otherwise retired during the year (e)			Net (f)			Other adjustments, transfers and clearances (g)			Increase or decrease during the year (h)			Balance at close of year (i)		
$			$			$			$			$			$			$		
																			44	891
																			3	390
	10	272						(740)		9	532					9	532	1	623	287
	24	919					(1 | 675)		23	244					23	244		345	520
	51	790						(349)		51	441					51	441	6	045	054
	3	706					(22	760)		(19	054)					(19	054)	1	972	991
																			10	849
	25	718					(33	062)		(7	344)					(7	344)		630	355
																			7	010
	54	160					(1 | 034)		53	126					53	126	1	881	951
	10	100								10	100					10	100	5	944	182
	188	310					(7 | 983)		180	327					180	327	22	038	862
																			303	006
	1	366								1	366					1	366		35	395
	15	[illegible]					(56	910)		(41	685)					(41	685)		154	044
	385	[illegible]					(124 | 513)		261	053					261	053	41	040	787
																			4	327
																			13	558
	1	527								1	527					1	527		41	378
		180						(878)			(698)						(698)		7	328
	3	102					(3 | 215)			(113)						(113)		4	779
	174	131								174	131					174	131		211	517
	178	940					(4 | 093)		174	847					174	847		282	887
	564	506					(128 | 606)		435	900					435	900	41	323	674

231. DEPRECIATION BASE AND RATES - CARRIER PROPERTY (EXCLUSIVE OF SYSTEM PROPERTY REPORTED IN SCHEDULE 231A)

. Show in columns (b) and (c) for each depreciable property account the balance at the beginning and end of the year, respectively, used in computing depreciation charges. The average depreciation base column (d) should be determined for each such depreciable account by adding together the base used for each month during the year and dividing the total by 12.

If composite annual depreciation rates are prescribed, those in effect at the close of the year should be shown in column (e). If component rates are prescribed, the composite rates to be shown in column (e) should be computed from the charges developed for December by application of the prescribed component rates. Whether component or composite rates are prescribed, the entries on lines 16, 32, 39, and 40 of column (e) should be computed from December depreciation charges.

3. Information to be included in columns (b) and (c) of lines 41 to 45 inclusive, is for reconciliation of the returns in these schedules with those in schedule 230.

4. Entries on line 43 should agree with totals for the beginning and end of the year in columns (b) and (c), respectively, of schedule 233, "Amortization Base and Reserve." Amounts included in line 43, "Values being amortized," should be excluded from items shown on lines 41 and 42.

Account (a)	Depreciation Base: Balance at beginning of year (b)			Balance at close of year (c)			Average balance for the year (d)			Annual composite rates (e)	
DEPRECIABLE CARRIER PROPERTY: GATHERING LINES	$			$			$				%
(102) Right of way											
(103) Line pipe											
(104) Line pipe fittings											
(105) Pipeline construction											
(106) Buildings											
(107) Boilers											
(108) Pumping equipment											
(109) Machine tools and machinery											
(110) Other station equipment											
(111) Oil tanks											
(112) Delivery facilities											
(113) Communication systems											
(114) Office furniture and equipment											
(115) Vehicles and other work equipment											
(116) Other property											
All depreciable gathering lines accounts											
DEPRECIABLE CARRIER PROPERTY: TRUNK LINES											
(152) Right of way		3	390		3	390		3	390	4	00
(153) Line pipe	1	613	7[illegible]	1	623	287	1	618	521	4	00
(154) Line pipe fittings		322	276		345	520		333	898	4	00
(155) Pipeline construction	5	993	613	6	045	054	6	019	334	4	00
(156) Buildings	1	992	[illegible]	1	972	991	1	982	518	4	00
(157) Boilers		10	859		10	849		10	849	4	00
(158) Pumping equipment		637	[illegible]		630	355		634	027	4	00
(159) Machine tools and machinery		7	010		7	010		7	010	4	00
(160) Other station equipment	1	[illegible]	[illegible]	1	851	951	1	855	388	4	00
(161) Oil tanks	5	934	082	5	9[illegible]	[illegible]	5	939	132	4	00
(162) Delivery facilities	21	[illegible]	[illegible]	22	038	8[illegible]	21	948	698	4	00
(163) Communication systems		303	006		303	[illegible]		303	006	10	00
(164) Office furniture and equipment		3[illegible]	[illegible]		3[illegible]	3[illegible]		34	712	5	00
(165) Vehicles and other work equipment		19[illegible]	[illegible]		153	0[illegible]		174	886	8	90
(166) Other property											
All depreciable trunk lines accounts	40	7[illegible]	[illegible]	40	9[illegible]	896	40	865	369	4	06
DEPRECIABLE CARRIER PROPERTY: GENERAL											
(176) Buildings		13	558		13	558		13	558	4	00
(179) Machine tools and machinery											
(183) Communication systems		3[illegible]	[illegible]		41	378		40	614	10	00
(184) Office furniture and equipment		8	026		7	328		7	677	5	00
(185) Vehicles and other work equipment		[illegible]	392		3	779		4	836	18	75
(186) Other property											
All depreciable general accounts		66	377		67	053		66	685	8	57
All depreciable carrier property accounts	40	8[illegible]	[illegible]	41	062	9[illegible]	40	932	054	4	07
NONDEPRECIABLE CARRIER PROPERTY [illegible]											
(101) [illegible]		[illegible]	218		59	248	. . .	. . .	. . .	. . .	. . .
(187) [illegible]		37	386		211	517	. . .	. . .	. . .	. . .	. . .
Values [illegible]							. . .	. . .	. . .	. . .	. . .
[illegible]		8[illegible]	605		260	735	. . .	. . .	.		
[illegible]	41	3[illegible]	[illegible]	41	323	674	. . .	. . .	.		

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231A. DEPRECIATION BASE AND RATES - SYSTEM PROPERTY
(THIS SCHEDULE IS FOR USE ONLY WHEN SPECIFICALLY DIRECTED BY THE COMMISSION)

Follow instructions for Schedule 231, Depreciation Base and Rates - Carrier Property

Name of system: .....

No.	Account (a)	Depreciation Base: Balance at beginning of year (b)	Depreciation Base: Balance at close of year (c)	Depreciation Base: Average balance for the year (d)	Annual composite rates (e)
		$	$	$	%
	DEPRECIABLE SYSTEM PROPERTY—GATHERING LINES				
	(102) Right of way				
	(103) Line pipe				
	(104) Line pipe fittings				
	(105) Pipeline construction				
	(106) Buildings				
	(107) Boilers				
	(108) Pumping equipment				
	(109) Machine tools and machinery				
	(110) Other station equipment				
	(111) Oil tanks				
	(112) Delivery facilities				
	(113) Communication systems				
	(114) Office furniture and equipment				
	(115) Vehicles and other work equipment				
	(116) Other property				
	All depreciable gathering lines accounts				
	DEPRECIABLE SYSTEM PROPERTY—TRUNK LINES				
	(152) Right of way				
	(153) Line pipe				
	(154) Line pipe fittings				
	(155) Pipeline construction				
	(156) Buildings				
	(157) Boilers				
	(158) Pumping equipment				
	(159) Machine tools and machinery				
	(160) Other station equipment				
	(161) Oil tanks				
	(162) Delivery facilities				
	(163) Communication systems				
	(164) Office furniture and equipment				
	(165) Vehicles and other work equipment				
	(166) Other property				
	All depreciable trunk lines accounts				
	DEPRECIABLE SYSTEM PROPERTY—GENERAL				
	(176) Buildings				
	(179) Machine tools and machinery				
	(183) Communication systems				
	(184) Office furniture and equipment				
	(185) Vehicles and other work equipment				
	(186) Other property				
	All depreciable general accounts				
	All depreciable system property accounts				
	NONDEPRECIABLE SYSTEM PROPERTY (see instruction 11)				
	(101, 151, 171) Land				
	Total investment in system property				

232. ACCRUED DEPRECIATION—CARRIER PROPERTY
(EXCLUSIVE OF DEPRECIATION ON SYSTEM PROPERTY REPORTED IN SCHEDULE 232A)

particulars of the credits and debits to account No. 31, "Accrued depreciation—carrier property," during the year. All contra a the respective columns herein should be indicated in parentheses.

Account (a)	Balance at beginning of year (b)	Charged to account No. 5[illegible] (c)	Net charge from retirement of carrier property (d)	Other debits and credits—Net (e)	Balance at close of year (f)
GATHERING LINES	$	$	$	$	$
(1) Right of way					
(2) Line pipe					
(3) Line pipe fittings					
(4) Pipeline construction					
(5) Buildings					
(6) Boilers					
(7) Pumping equipment					
(8) Machine tools and machinery					
(9) Other station equipment					
(10) Oil tanks					
(11) Delivery facilities					
(12) Communication systems					
(13) Office furniture and equipment					
(14) Vehicles and other work equipment					
(15) Other property					
TOTAL					
TRUNK LINES					
(16) Right of way	320	132			452
(17) Line pipe	145 325	64 553	(206)		209672
(18) Line pipe fittings	20 659	12 896	(943)		32610
(19) Pipeline construction	534 167	240 987	(349)		774805
(20) Buildings	115 895	79 456	(23 443)		171908
(21) Boilers	939	432			1371
(22) Pumping equipment	(89 637)	25 527	(18 734)		(82848)
(23) Machine tools and machinery	503	276			779
(24) Other station equipment	126 849	74 055	(84)		200820
(25) Oil tanks	347 351	237 462			584813
(26) Delivery facilities	1 223 330	873 639	(3 923)		2 093046
(27) Communication systems	30 640	30 300			60940
(28) Office furniture and equipment	2 240	1 719	(189)		3779
(29) Vehicles and other work equipment	22 467	13 353	(55 532)		(19717)
(30) Other property					
TOTAL	2 931 813	1 654 782	(103 604)		4 532430
GENERAL					
(31) Buildings	651	540			981
(32) Machine tools and machinery					
(33) Communication systems	796	4 123			4219
(34) Office furniture and equipment	218	599	(378)		739
(35) Vehicles and other work equipment	753	860	(2 490)		(877)
(36) Other property					
TOTAL	2 [illegible]	5 [illegible]	(2 868)		5062
GRAND TOTAL	[illegible]	1 660 [illegible]	(106 [illegible])		4 537692

232A. ACCRUED DEPRECIATION - SYSTEM PROPERTY
(THIS SCHEDULE IS FOR USE ONLY WHEN SPECIFICALLY DIRECTED BY THE COMMISSION)

Follow instructions for Schedule 232, Accrued Depreciation - Carrier Property

Name of system:----------

Account (a)	Balance at beginning of year (b)	Charged to account (c)	Net charge from retirement of system property (d)	Other debits and credits - Net (e)	Balance at close of year (f)
GATHERING LINES	$	$	$	$	$
(102) Right of way					
(103) Line pipe					
(104) Line pipe fittings					
(105) Pipeline construction					
(106) Buildings					
(107) Boilers					
(108) Pumping equipment					
(109) Machine tools and machinery					
(110) Other station equipment					
(111) Oil tanks					
(112) Delivery facilities					
(113) Communication systems					
(114) Other furniture and equipment					
(115) Vehicles and other work equipment					
(116) Other property					
TOTAL					
TRUNK LINES					
(152) Right of way					
(153) Line pipe					
(154) Line pipe fittings					
(155) Pipeline construction					
(156) Buildings					
(157) Boilers					
(158) Pumping equipment					
(159) Machine tools and machinery					
(160) Other station equipment					
(161) Oil tanks					
(162) Delivery facilities					
(163) Communication systems					
(164) Other furniture and equipment					
(165) Vehicles and other work equipment					
(166) Other property					
TOTAL					
GENERAL					
(176) Buildings					
(177) Machine tools and machinery					
(183) Communication systems					
(184) Other furniture and equipment					
(185) Vehicles and other work equipment					
(186) Other property					
TOTAL					
GRAND TOTAL					

233. AMORTIZATION BASE AND RESERVE

Show in columns (b) to (e) the cost of pipeline property as the base in computing amortization charges included in Act No. 540, "Depreciation and amortization," of the accounting company.

Show in columns (f) to (i) the balances at the beginning and close of the year and the total credits and debits during the year in account No. 32, "Accrued amortization—Carrier property."

3. The information requested for columns (b) to (i), inclusive, may be shown by projects, or for totals only.

4. If amounts represented in column (g) are different from corresponding charges to account No. 540, for the same property, such differences should be explained in detail.

5. Adjustments included in column (h), affecting operating expenses, should be fully explained.

6. Should respondent elect to report by projects, each project amounting to $10,000 or more should be briefly described as to kind of property. Location of property should not be stated. Items less than $10,000 should be combined in a single entry designated "Minor items ... in number, each less than $10,000."

Item	Base				Reserve			
	Balance at beginning of year	Debits during year	Credits during year	Balance at close of year	Balance at beginning of year	Credits during year	Debits during year	Balance at close of year
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)
	$	$	$	$	$	$	$	$
None								

AGO 5811745

234. NONCARRIER PROPERTY

27.

Give particulars of all investments of the respondent in physical property includable in account No. 34, "Noncarrier property," in the Uniform System of Accounts for Pipe Lines. The description of the property in column (a) should give the location and other identification of it with a reasonable degree of particularity.

Each item amounting to $100,000 or more should be stated; items less than $100,000 may be combined in a single entry designated "Minor items, each less than $100,000."

If any property of the character provided for in this schedule was disposed of during the year, or by reclassification was transferred to or from the carrier property accounts, give particulars in a footnote.

The revenues, expenses, and taxes of operated properties should be summarized in schedule 340 on page 305.

Name and description of physical property held at close of year as an investment (a)	Date included in account No. 34 (b)	Book cost at close of year (c)	Remarks (d)
None		$	
	Total		

AGO 531746

240. OTHER DEFERRED CHARGES

28.

ve an analysis of the balance in account No. 44, "Other deferred ges," at the close of the year, showing in detail each item or subaccount ...nting to $20,000 or more. Items less than $20,000 may be combined in a single entry designated "Minor items, each less than $20,000." In case the character of any item is not fully disclosed by the entries in the columns hereunder, make a full explanation in a footnote.

Description and character of items, and names of debtor (or class of debtors), if any (a)	Amount at close of year (b)
Minor items, each less than $20,000	$ 380
Total	380

AGO 531747

250. NOTES PAYABLE

Give particulars of the various creditors and the character of the transactions involved in the current liability account No. 50, "Notes payable."

List every item in excess of $100,000 and state its date of issue and date of maturity.

For creditors whose balances were severally less than $100,000, a single entry may be made under a caption "Minor accounts, each less than $100,000."

Entries in columns (g) and (h) should include interest accruals and interest payments on notes payable retired during the year, even though no portion of the obligation remained outstanding at the close of the year.

Name of creditor (a)	Character of liability or of transaction (b)	Date of issue (c)	Date of maturity (d)	Rate of interest (e)	Balance at close of year (f)	Interest accrued during year (g)	Interest paid during year (h)
None				%	$	$	$
				Total			

251. PAYABLES TO AFFILIATED COMPANIES

Give particulars of the various affiliated company creditors and the character of the transactions involved in the current liability account No. 51, "Payables to affiliated companies."

List every item in excess of $100,000.

For creditors whose balances were severally less than $100,000, a single entry may be made under a caption "Minor accounts, each less than $100,000."

Name of creditor (a)	Character of liability or of transaction (b)	Balance at close of year (c)
Minor accounts, each less than $100,000		$ 55,710
	Total	55,710

252. ACCOUNTS PAYABLE

Give particulars of the various creditors and the character of the transactions involved in the current liability account No. 52, "Accounts payable."

List every item in excess of $100,000.

For creditors whose balances were severally less than $100,000, a single entry may be made under a caption "Minor accounts, each less than $100,000."

Name of creditor (a)	Character of liability or of transaction (b)	Balance at close of year (c)
Minor accounts, each less than $100,000		$ 20,210
	Total	20,210

253. LONG-TERM DEBT PAYABLE WITHIN ONE YEAR

Give particulars of the various unmatured bonds and other evidences of long-term debt of the respondent included in account No. 57, "Long-term debt payable within one year" at the close of the year.

In column (a) show the name of each bond or other obligation as it is designated in the records of the respondent.

In case obligations of the same designation mature serially or otherwise at various dates, enter in column (c) the latest date of maturity and explain the matter in a footnote.

Column (d) calls for the par value of the amount of debt authorized to be incurred, as determined by the final authority whose assent is necessary to the legal validity of the issue. In case such final authority is some public officer or board, attach a footnote showing such officer or board and the date when assent was given.

Name and character of obligation (a)	Nominal date of issue (b)	Date of maturity (c)	Par value of amount authorized (d)	Total par value issued and not retired at close of year (e)	Total par value nominally issued: In treasury (f)	Pledged as collateral (g)	In sinking or other funds (h)
Mortgage Bonds			$	$	$	$	$
None							
Total for mortgage bonds							
Collateral Trust Bonds							
None							
Total for collateral trust bonds							
Income Bonds							
None							
Total for income bonds							
Miscellaneous Obligations							
Promissory Note							
A, [illegible]	5/22/69	[illegible] 71		1 944 444			
V, [illegible], Z	5/[illegible]/69	[illegible] 71		1 555 556			
Total for miscellaneous obligations				3 500 000			
Nonnegotiable debt to affiliated companies							
None							
Grand total				3 500 000			

AGO 531749

253 LONG-TERM DEBT PAYABLE WITHIN ONE YEAR—Concluded

Entries in column (e) should include long-term debt nominally issued, nominally outstanding, and actually outstanding.

Entries should conform to the definitions of "nominally issued", "actually issued", etc., as given in the last paragraph of instructions on page 226.

If the interest accrued during the year as entered in columns (o) and (p) does not aggregate the total accrual for the year on any security, explain the discrepancy. Entries in these columns should include interest accrued on long term debt reacquired or retired during the year, although no portion of the issue is actually outstanding at the close of the year.

In determining the entries for column (q), do not treat any interest as paid unless the liability of the respondent in respect to it is extinguished. Deposits of cash with banks and other fiscal agents for the payment of interest coupons should not be reported as payments of such interest until actually paid to coupon holders or others under such circumstances as to relieve the respondent from further liability.

Total Par Value Nominally Outstanding			Total par value actually outstanding at close of year	Interest Provisions		Amount of interest accrued during year charged to income	Amount of interest charged to construction or other investment account	Amount of interest paid during year	Line No.
In treasury	Pledged as collateral	In sinking or other funds		Rate per cent per annum	Dates due				
(g)	(j)	(k)	(l)	(m)	(n)	(o)	(p)	(q)	
$	$	$	$			$	$	$	1
									2
									3
									4
									5
									6
									7
									8
									9
									10
									11
									12
									13
									14
									15
									16
									17
									18
									19
									20
									21
									22
									23
									24
									25
									26
			1 954 444	A	7/28;5/31 8/31;11/30	158 659		160 883	27
									28
			1 545 556	A	7/28;5/31 8/31;11/30	126 927		128 704	29
									30
									31
									32
									33
									34
			3 500 000			285 586		289 589	35
									36
									37
									38
									39
									40
									41
									42
									43
									44
									45
			3 500 000			285 586		289 589	46

At a rate equal to 1/2 per annum above the best rate of the bank on a 90 day loan to substantial and responsible borrowers.

260. LONG-TERM DEBT PAYABLE AFTER ONE YEAR

Give particulars of the various unmatured bonds and other evidences of long term debt of the respondent included in account No. 60, "Long-term debt payable after one year," maturing more than one year from the date of the balance sheet.

In column (a) show the name of each bond or other obligation as it is designated in the records of the respondent.

In case obligations of the same designation mature serially or otherwise at various dates, enter in column (c) the latest date of maturity and explain the matter in a footnote.

Column (d) calls for the par value of the amount of debt authorized to be incurred, as determined by the final authority whose assent is necessary to the legal validity of the issue. In case such final authority is some public officer or board, attach a footnote showing such officer or board and the date when assent was given. In all cases where any issues, whether actual or merely nominal, were made during the year, state on page 224 the purposes for which such issues were authorized as expressed in the resolution of the final authority passing on the matter.

Line No.	Name and Character of Obligation (a)	Nominal date of issue (b)	Date of maturity (c)	Par value of amount authorized (d)	Total par value issued and not retired at close of year (e)	Total Par Value Nominally Issued: In treasury (f)	Pledged as collateral (g)	In sinking or other funds (h)
1	MORTGAGE BONDS			$	$	$	$	$
2	None							
3								
4								
5								
6								
7								
8								
9								
10								
11								
12	Total for mortgage bonds							
13	COLLATERAL TRUST BONDS							
14	None							
15								
16								
17								
18								
19	Total for collateral trust bonds							
20	INCOME BONDS							
21	None							
22								
23								
24	Total for income bonds							
25	MISCELLANEOUS OBLIGATIONS							
26	Promissory Notes							
27	*A, B, C, D, E	3/22/66	2/28/71		18 055 556			
28								
29	*V, W, X, Y, Z	3/17/67	2/28/71		14 444 444			
30								
31								
32								
33								
34								
35	Total miscellaneous obligations				32 500 000			
36	Total long-term debt payable after one year							
37	None							
38								
39								
40								
41								
42								
43								
44								
45								
46	TOTAL				32 500 000			

* A, B, C, D, E expected to be refinanced.

Entries in column (e) should include long-term debt nominally issued, nominally outstanding, and actually outstanding.

Entries should conform to the definitions of "nominally issued", "actually issued", etc., as given in the list paragraph of instructions on page 226.

If the interest accrued during the year as entered in columns (o) and (p) does not aggregate the total accrual for the year on any security, explain the discrepancy. Entries in these columns should include interest accrued on long-term debt reacquired or retired during the year, although no portion of the issue is actually outstanding at the close of the year.

In determining the entries for column (q), do not treat any interest as paid unless the liability of the respondent in respect to it is extinguished. Deposits of cash with banks and other fiscal agents for the payment of interest coupons should not be reported as payments of such interest until actually paid to coupon holders or others under such circumstances as to relieve the respondent from further liability.

Total Par Value Nominally Outstanding				Interest Provisions					Line No
In treasury (g)	Pledged as collateral (j)	In sinking or other funds (k)	Total par value actually outstanding at close of year (l)	Rate per cent per annum (m)	Dates due (n)	Amount of interest accrued during year charged to income (o)	Amount of interest charged to construction or other investment account (p)	Amount of interest paid during year (q)	
			$			$	$	$	1
									2
									3
									4
									5
									6
									7
									8
									9
									10
									11
									12
									13
									14
									15
									16
									17
									18
									19
									20
									21
									22
									23
									24
									25
									26
			18 055 556	**	2/28;5/31 6/31;11/30	1 473 259		1 493 912	27
									28
			14 444 444	**	2/28;5/31 8/31;11/30	1 178 607		1 195 129	29
									30
									31
									32
									33
									34
			32 500 000			2 651 866		2 689 041	35
									36
									37
									38
									39
									40
									41
									42
									43
									44
									45
			32 500 000			2 651 866		2 689 041	46

**At a rate equal to 1/2% per annum above the best rate of the bank on a 90 day loan to substantial and responsible borrowers.

261. LONG-TERM DEBT CHANGES DURING THE YEAR

Give particulars of long-term debt actually or nominally issued (either original issues or reissues), long-term debt assumed, and long-term debt reacquired or canceled during the year. Include matured and unmatured long term debt changes during the year. In column (c) state whether issued for the purchase of a complete pipe line, constructing and equipping new plant, or improvements to or extension of existing plant, for refunding or paying outstanding securities, for acquisition of securities, for reorganization, or for cash, etc. If an issue of securities was authorized for more than one purpose, state amount applicable to each purpose. Also give the number and date of authorization by the public authority under whose control such issue was made, naming such authority. In column (e) include as cash all money, checks, drafts, bills of exchange, and other commercial paper payable at par on demand. For nominally issued securities show returns in columns (a), (b), (c), and (d) only.

For each class of long-term debt actually issued, the sum of the entries in columns (e), (f), and (h), plus discounts or less premiums in column (g), should equal the entry in column (d). For definition of expense, reportable in column (h), see definition 14 on page 3 of the Uniform System of Accounts for Pipe Lines.

Line No.	Name of obligation (a)	Long-Term Debt Issued During Year: Date of issue (b)	Purpose of the issue and authority (c)	Par value (d)	Net proceeds received for issue (cash or its equivalent) (e)
				$	$
1	None				
2					
3					
4					
5					
6					
7					
8					
9					
10					
11					
12					
13					
14					
15					
16					
17					
18					
19					
20					
21			Total		

Line No.	Long-Term Debt Issued During Year (concluded): Cash value of other property acquired or services received as consideration for issue (f)	Net total discounts [illegible] (g)	Expense of issuing long-term debt (h)	Long-Term Debt Reacquired During Year — Amount reacquired: Par value (i)	Purchase price (j)	Remarks (k)
	$	$	$	$	$	
1						
2						
3						
4						
5						
6						
7						
8						
9						
10						
11						
12						
13						
14						
15						
16						
17						
18						

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262. SECURITY FOR LONG-TERM DEBT

Give particulars of the property of the respondent mortgaged, pledged, or otherwise encumbered as security for the unmatured long-term debt of the respondent at the close of the year.

Make specific reference to each sinking fund required to be established for the redemption or retirement of long-term debt, naming the fund and referring to the page and schedule of this report in which particulars of such fund are shown. If no such fund has been established, state fully the reasons why the sinking fund requirements have not been complied with. Give an abstract or synopsis of the contract provisions governing the establishment and maintenance of each such fund.

The respondent may, in lieu of giving the particulars called for in this schedule, furnish copies of all mortgages, trust deeds, and equivalent instruments in force at the close of the year, or give reference to copies of such instruments previously filed with the Commission. All instruments, copies of which are filed or referred to, should be listed in column (a).

If the respondent has mortgaged or pledged any of its property for the purpose of securing the payment of any debt for which some other company is primarily responsible, give particulars of such mortgage or pledge also, and state the name of the primary debtor. Show what security has been taken by the respondent in connection with the loan of its credit.

Description of mortgage, pledge, or other lien (a)	Plant and equipment mortgaged (b)	Securities, income, etc., mortgaged or pledged (c)
Promissory Notes secured by Throughput Agreement between Cook Inlet Pipe Line Company and Atlantic Richfield Co., Marathon Oil Co., Mobil Pipe Line, and Union Oil Co. of Calif., said agreement assigned to First National City Bank of New York as collateral. For details see Conformed Copy Throughput Agreement at page 10[illegible] of the 1967 Annual Report.		

2?0. CAPITAL STOCK

36.

1. Give particulars of the various issues of capital stock of the respondent, distinguishing separate issues of any general class, if different in any respect.

2. In the second section list particulars of the various issues on the same lines and in the same order as in the first section.

3. Identify the entries in columns (m) to (s), inclusive, in a manner which will indicate whether par value or the number of shares is shown.

4. In stating the date of an authorization the date of the latest [illegible] or ratification necessary to its validity should be shown; [illegible] is required to be ratified by stockholders after [illegible] by the board of directors, but is not required to be approved by any State or other governmental board or [illegible], give the date of approval by stockholders. If the assent of a State railroad commission or other public board [illegible] necessary, give the date of such assent, or if subsequent to such [illegible] has to be filed with a secretary of state or other public officer and a tax or other fee has to be paid as a *condition precedent* to the validity of the issue, give the date of such payment. In case some *condition precedent* has to be complied with after the approval and ratification of the stockholders has been obtained, state, in a footnote, the particulars of such condition and of the respondent's compliance therewith.

5. For the purposes of this report, capital stock and other securities are considered to be *nominally issued* when certificates are signed and sealed and placed with the proper officer for sale and delivery or are pledged or otherwise placed in some special fund of the respondent. They are considered to be actually issued when sold to a bona fide purchaser for a valuable consideration, and such purchaser holds free from control by the respondent. All securities actually issued and not reacquired by or for the respondent are considered to be actually outstanding. If reacquired by or for the respondent under such circumstances as require them to be considered as held alive, and not canceled or retired, they are considered to be nominally outstanding.

6. Column (d) refers to the initial preference dividend [illegible] before any common dividend [illegible] (k) and [illegible] to participations in excess of initial preference dividend [illegible] percentage or amount [illegible] column (k) [illegible] age or proportion of the profits [illegible]

7. "Authenticated" as applied to column (n) of this [illegible] means the total par value of certificates of par value [illegible] total number of shares of [illegible] that have been [illegible] and signed and placed [illegible] of [illegible]

8. [illegible]

Class of stock (a)	Date issue was authorized (b)	Par value per share [illegible] (c)	Dividend [illegible] (d)	Total amount of accumulated dividends (e)	Cumulative: [illegible] (f)	Cumulative: Fixed rate [illegible] (g)	[illegible] (h)	Other [illegible] (i)	[illegible] (j)	[illegible] (k)	[illegible] (l)
Common	11/20/67	$ 100		$							
Preferred											
Debenture											
Receipts outstanding for installments paid											
Total											

PAR VALUE OF PAR VALUE [illegible]

Authorized [illegible] (m)	Authenticated (n)	Nominally issued: Held in special funds [illegible] (o)	Nominally issued: Canceled (p)	Actually issued (q)	Reacquired: Canceled (r)	[illegible] (s)	[illegible] (t)	[illegible] (u)	[illegible] (v)
$4 000 000	$4 000 000			$4 [illegible]					$

271. CAPITAL STOCK CHANGES DURING THE YEAR

37.

Give full particulars of stocks actually or nominally issued (either original issues or reissues) and of stocks reacquired or canceled during the year.

In the second section of the schedule show the particulars of the several issues on the same lines and in the same order as in the first section.

In column (c) state whether issued for construction of new properties, for additions and betterments, for purchase of pipe line or other property, for conversion, for acquisition of securities, for reorganization, or for other corporate purposes. If an issue of securities was authorized for more than one purpose, state amount applicable to each purpose. Also give the number and date of the authorization by the public authority under whose control such issue was made, naming such authority. In column (e) include as cash all money, checks, drafts, bills of exchange, and other commercial paper payable at par on demand. For nominally issued stock, show returns in columns (a), (b), (c), and (d) only. For each class of par stock actually issued the sum of the entries in columns (e), (f), and (h), plus discounts or less premiums in column (g), should equal the entry in column (d).

Line No.	Class of stock (a)	Stocks Issued During Year: Date of issue (b)	Purpose of the issue and authority (c)	Par value (For nonpar stock show the number of shares) (d)	Net proceeds received for issue (cash or its equivalent) (e)
				$	$
1	None				
2					
3					
4					
5					
6					
7					
8					
9					
10					
11					
12					
13					
14					
15			TOTAL		

Line No.	Stocks Issued During Year (Concluded): Cash value of other property acquired or services received as consideration for issue (f)	Net total discounts (in black) or premiums (in red) (Exclude entries in column (h)) (g)	Expense of issuing capital stock (h)	Stocks Reacquired During Year: Par value (For nonpar stock show the number of shares) (i)	Purchase price (j)	Remarks (k)
	$	$	$	$	$	
1						
2						
3						
4						
5						
6						
7						
8						
9						
10						
11						
12						
13						
14						
15						

272. STOCK LIABILITY FOR CONVERSION OF SECURITIES OF OTHER COMPANIES

If at the close of the year respondent was subject to any liability to issue its own capital stock in exchange for outstanding securities of constituent or other companies, give full particulars called for hereunder, including names of parties to contracts and abstracts of terms of contracts whereunder such liability exists.

AGO 531756

274. ADDITIONAL PAID-IN CAPITAL

Give an analysis in the form called for below of account No. 73, "Additional paid-in capital." In column (a) give a brief description of the items added or deducted and in column (b) insert the contra account number to which the amount stated in column (c) was charged or credited.

Item (a)	Contra account number (b)	Amount (c) $
Balance at beginning of year None	X X X	
Additions during the year (describe)		
TOTAL ADDITIONS DURING THE YEAR	X X X	
Deductions during the year (describe)		
TOTAL DEDUCTIONS	X X X	
Balance at close of year None	X X X	

275. APPROPRIATED RETAINED INCOME

Give an analysis of the amount in account No. 74, "Appropriated retained income," at the close of the year. 39.

Class of appropriation (a)	Balance at close of year (b)		
Additions to property through retained income			
Debt retired through retained income			
Sinking funds			
Other funds			
Appropriated retained income not specifically invested			
Other appropriations (specify)			
None			
TOTAL			

300. UNAPPROPRIATED RETAINED INCOME STATEMENT

40.

Show hereunder the amounts included in the "Retained income" accounts of the respondent for the year, classified in accordance with Uniform System of Accounts for Pipe Lines.

Item (a)	Amount (b)
(75) Unappropriated retained income at beginning of year (p. 201)	$ 114,887
CREDITS	x x x x x x
(700) Net balance transferred from income (p. 301)	5,210,933
(710) Other credits to retained income* (p. 307)	
Total	5,210,933
DEBITS	x x x x x x
(700) Net balance transferred from income (p. 301)	
(720) Other debits to retained income* (p. 307)	
(740) Appropriations of retained income	
(750) Dividend appropriations of retained income (p. 300)	3,100,000
TOTAL	3,100,000
Net increase (or decrease) during year	2,110,933
(75) Unappropriated retained income at end of year (p. 201)	2,225,820

* Note: Amount of assigned Federal income tax consequences:

Account 710	None
Account 720	None

301. DIVIDEND APPROPRIATIONS OF RETAINED INCOME

1. Give particulars of each dividend declared. If any dividend was payable in anything other than cash, the consideration shall be described in a footnote with sufficient particularity to identify it.

2. If an obligation of any character has been incurred for the purpose of procuring funds for the payment of any dividend or for the purpose of replenishing the treasury of the respondent after payment of any dividend, give full particulars in a footnote. Returns for dividends on nonpar stock should show the amount declared per share in columns (b) and (c), and in column (d) the number of shares on which the dividends were declared. If any class of stock received a return not reportable in this schedule, or if any special comment regarding "Rate percent" is desired, give particulars in a footnote.

3. The sum of the dividends stated in column (e) should equal those shown in schedule No. 300.

Name of security on which dividend was declared (a)	Rate percent (par value stock) Regular (b)	Rate percent (par value stock) Extra (c)	Par value or number of shares of nonpar stock on which dividend was declared (d)	Amount of dividend (e)	Date Declared (f)	Date Payable (g)
			$	$		
Common Stock Issued	25.00		4 000 000	1 000 000	4/21/70	4/30/70
Common Stock Issued	25.00		4 000 000	1 000 000	6/22/70	6/30/70
Common Stock Issued	27.50		4 000 000	1 100 000	9/11/70	9/30/70
Total	x x	x x	x x x x x x	3 100 000	x x x	x x x

AGO 531759

Give the particulars called for from the Income Accounts of the respondent for the year. The entries in this statement should be determined in ordance with the rules prescribed in the Uniform System of Accounts for Pipe Lines, and should be consistent with the details stated on the pages erred to. All contra entries hereunder should be indicated in parentheses.

Item (a)	Amount (b)		
ORDINARY ITEMS	$		
Carrier Operating Income			
(600) Operating revenues (p. 302)	11	399	504
(610) Operating expenses (p. 303)	(3	421	991)
Net carrier operating income	7	977	513
Other Income and Deductions	x x	x x	x x
(620) Income (net) from noncarrier property (p. 305)			
(630) Interest and dividend income (p. 306)		173	106
(640) Miscellaneous income (p. 307)			
(650) Interest expense	(2	937	452)
(660) Miscellaneous income charges (p. 307)		(2	278)
Total other income and deductions	(2	766	580)
Ordinary income before Federal income taxes	5	210	933
(670) Federal income taxes on ordinary income			
Ordinary Income	5	210	933
EXTRAORDINARY AND PRIOR PERIOD ITEMS	x x	x x	x x
(680) Extraordinary items-Net Credit (Debit) (p. 307)			
(690) Prior period items - Net Credit (Debit) (p. 307)			
(695) Federal income taxes on extraordinary and prior period items - Debit (Credit) (p. 307)			
Total extraordinary and prior period items - Credit (Debit)			
Net income for the year	5	210	933

1. Net reduction in charges to account 670, for Federal income taxes to be reported in the tax return for the current year and responding increase in net income because of accelerated amortization of emergency facilities under section 168 of the Internal venue Code in excess of recorded depreciation .... $ None

net effect is an increase, this should be so indicated.)

2. Net reduction or increase in charges to account 670, during the current year and corresponding increase or decrease in net ome because of accelerated depreciation of facilities under section 167 of the Internal Revenue Code and depreciation deductions ulting from the use of guideline lives pursuant to Revenue Procedure 62-21 in excess of recorded depreciation .... $ None

net effect is an increase, this should be so indicated.)

3. Amount by which charges to account 670, during the current year were decreased and the reported net income correspondingly reased because of claim for refund of Federal income taxes due to carryback of current losses to the year(s) --- $ None

4. Amount by which charges to account 670, during the current year were decreased and the reported net income correspondingly reased because of reduction in Federal income taxes due to carryover of prior year(s) losses to current year ---- $ None

5. Amount by which charges to account 670, for payment of Federal income taxes during the current year were decreased and the orted net income correspondingly increased because of the investment tax credit authorized in the Revenue Act of 1962, compared amount that would otherwise have been payable without such investment tax credit .... $ None

MARKS:

During the current year, there were no charges or credits to Account 670 because the npany was not in a tax paying position due to carryover losses from prior years to current ar. Following is a reconciliation of Book Income to Tax Income:

Net Income per book	$ 5,210,933
Less Excess of Tax Depreciation over	
Book Depreciation	(1,322,775)
Interest Capitalized for Books	
and Expense for Tax	3,037
Organization Expense Capitalized	([illegible]49)
Carryover Losses from prior	
Year to Current Year	(3,890,956)
[illegible] Income [illegible]	-0-

AGO 531760

310. OPERATING REVENUE ACCOUNTS

State the pipeline operating revenues of the respondent for the year, classified in accordance with the Uniform System of Accounts for Pipe Lines.

Operating revenue accounts (a)	Crude oil (b)	Products (c)	Total (d)
	$	$	$
(200) Gathering revenues			
(210) Trunk revenues	3 210 521		3 210 521
(220) Delivery revenues	7 561 336		7 561 336
(230) Allowance oil revenue			
(240) Storage and demurrage revenue	627 647		627 647
(250) Rental revenue			
(260) Incidental revenue			
Total	11 399 504		11 399 504

320. OPERATING EXPENSE ACCOUNTS

State the pipeline operating expenses of the respondent for the year.

Operating expense account (a)	Gathering (b)	Trunk (c)	Delivery (d)	Total (e)
	$	$	$	$
Operations				
(300) Salaries and wages				
(310) Supplies and expenses		34 597	61 624	96 221
(320) Outside services		184 133	319 451	503 584
(330) Operating fuel and power		15 305	17 752	33 057
(340) Oil losses and shortages				
Total Operations Expense		234 035	398 827	632 862
Maintenance				
(400) Salaries and wages				
(410) Supplies and expenses		13 797	14 280	28 077
(420) Outside services		148 846	147 932	296 778
(430) Maintenance of tanks		63 293	49 057	112 350
Total Maintenance Expense		225 936	211 269	437 205
General				
(500) Salaries and wages				
(510) Supplies and expenses		1 228	13 276	14 504
(520) Outside services		93 508	140 613	234 121
(530) Rentals (net)		10 179	3 407	13 586
(540) Depreciation and amortization		768 860	891 744 1	660 604
(550) Pensions and benefits				
(560) Insurance		118 294	137 200	255 494
(570) Casualties and other losses			668	668
(580) Pipeline taxes (net)		80 075	92 871	172 947
Total General Expense	1	072 143 1	279 781 2	351 924
Total Expenses	1	532 114 1	889 877 3	421 991

320. OPERATING EXPENSE ACCOUNTS—Continued

classifying them in accordance with the Uniform System of Accounts for Pipe Lines

[illegible] Gathering	[illegible] Trunk	[illegible] Delivery	[illegible] Total	Total: Gathering (i)	Total: Trunk (k)	Total: Delivery (l)	Total: Total (m)
$	$	$	$	$	$	$	$
					34 597	61 624	96 221
					184 133	319 451	503 584
					15 305	17 752	33 057
					234 [illegible]	398 827	632 862
					13 797	14 280	28 077
					148 846	147 932	296 778
					63 [illegible]	49 057	112 350
					[illegible]	211 269	[illegible] 205
					1 228	13 276	14 504
					93 508	140 613	234 121
					10 179	3 507	13 686
					769 [illegible]	891 744	1 660 604
					118 294	137 200	225 494
						663	663
					80 074	92 871	172 947
					1 [illegible]	1 279 781	2 351 924
					1 [illegible]	1 889 877	3 421 991

AGO 531762

Give the particulars called for with respect to the taxes accrued on carrier properties and charged to account No. 580, "Pipeline taxes," of the ondent's Income Account for the year

If during the year an important adjustment was made in account No. 580 for taxes applicable to a prior year, state in a footnote full particulars erning same.

A. Other Than U. S. Government Taxes

Name of State (a)	Amount (b)		Name of State (c)	Amount (d)		
	$			$		
Alabama			New Mexico			
Alaska	172	720	New York			
Arizona			North Carolina			
Arkansas			North Dakota			
California			Ohio			
Colorado			Oklahoma			
Connecticut			Oregon			
Delaware		161	Pennsylvania			
Florida			Rhode Island			
Georgia			South Carolina			
Hawaii			South Dakota			
Idaho			Tennessee			
Illinois			Texas			
Indiana			Utah			
Iowa			Vermont			
Kansas			Virginia			
Kentucky			Washington			
Louisiana			West Virginia			
Maine			Wisconsin			
Maryland			Wyoming			
Massachusetts			District of Columbia			
Michigan			Other (specify)	x x	x x	x x
Minnesota						
Mississippi						
Missouri						
Montana						
Nebraska						
Nevada						
New Hampshire						
New Jersey			TOTAL Other Than U. S. Government Taxes		172	881

B. U. S. Government Taxes (Except Income Taxes)

Kind of tax (a)	Amount (b)		
	$		
Old age retirement			
Unemployment insurance			
Other U. S. taxes (specify, except income taxes) U.S. Federal Documentary Stamp Tax			66
TOTAL U. S. Government Taxes			
GRAND TOTAL (account 580)		172	947

340. INCOME FROM NONCARRIER PROPERTY

1. State the revenues, expenses, and net income of the respondent during the year from each class of nonoperated properties of the character provided for in account No. 620, "Income from noncarrier property," in the Uniform System of Accounts for Pipe Lines.

2. If the income relates to only a part of the year, give particulars in a footnote.

Line No.	General description of property (a)	Total revenues (b)	Total expenses (c)	Net income (d)
1	None	$	$	$
2				
3				
4				
5				
6				
7				
8				
9				
10				
11				
12				
13				
14	TOTAL			

342. ABSTRACTS OF TERMS AND CONDITIONS OF LEASES

Give briefly any changes since the beginning of the year in the terms and conditions of the important leases under which the above-stated income is derived. For any important leases executed during the year give a brief abstract of the terms and conditions, showing particularly (1) the date of the grant, (2) the chain of title (in case of assignment or subletting) and date of transfer connecting the original parties with the present parties, (3) the basis on which the amount of the annual rent is determined, and (4) the date when the lease will terminate, or, if the date of termination has not yet been fixed, the provisions governing the termination of the lease.

Copies of leases may be filed in lieu of abstracts above called for.

None

345. INTEREST AND DIVIDEND INCOME

Give a detailed analysis of amounts credited to account No. 630, "Interest and dividend income", classified in accordance with the Uniform System of Accounts for Pipe Lines.

Line No.	Item (a)	Dividend Income (b)			Interest Income (c)		
		$			$		
1	Income from securities shown in schedule 220						
2	Income from securities shown in schedule 221						
3	Income from temporary cash investments					173	106
4	Other credits (specified):						
5							
6							
7							
8							
9							
10							
	TOTAL					173	106

360. MISCELLANEOUS ITEMS IN INCOME AND RETAINED INCOME ACCOUNTS FOR THE YEAR

Give a detailed analysis of the items in accounts 640, "Miscellaneous Income"; 660, "Miscellaneous Income charges"; 680, "Extraordinary items"; 690, "Prior period items"; 695, "Federal income taxes on extraordinary and prior period items"; 710, "Other credits to retained income"; and 720, "Other debits to retained income", for the year. The classification should be made in accordance with the Uniform System of Accounts for Pipe Lines. For accounts 640 and 660, each item amounting to $100,000 or more should be stated; items less than $100,000 in these accounts may be combined in a single entry designated "Minor items, each less than $100,000." Insert a total for each account.

Line No.	Account No. (a)	Item (b)	Debits (c) $			Credits (d) $		
1	640	Minor items, each less than $100,000						44
2	660	Minor items, each less than $100,000		2	278			
3								
4								
5								
6								
7								
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...tive particulars by States of origin for crude oil and for ...kind of product received and transported during the year. ...) and list in column (a) by States of origin the refined ...s transported in the following order: 29111 Gasoline, ... and other high volatile petroleum fuels, except natural ...); 29112 Kerosene; 29113 Distillate fuel oil; 29114 ...ting and similar oils and derivatives; 29117 Residual ... and other low volatile petroleum fuels; 29119 Products ...leum refining, n. e. s.—Specify; and Total—products ...s used herein, the term crude oil means oil in its natural state, not altered, refined, or prepared for use by any process; and products means oils that have been refined, altered, or processed for use, such as fuel oil and gasoline.

3. Natural gasoline or other similar products, whenever blended with crude oil in transit, should be classified and reported as crude oil in this schedule.

4. In column (e) show all oils received by the respondent from connecting carriers reporting to the Interstate Commerce Commission. In column (d) show all oils originated on respondent's gathering lines and in column (e) all oils received into respondent's system from all sources, except receipts shown in columns (b) and (c). Entries in column (e) should be the sums of corresponding entries in columns (b), (c), and (d). In columns (f) show all oils delivered to connecting carriers reporting to Interstate Commerce Commission. In column (g) show oils terminated on respondent's gathering lines, and in column (h) all oils delivered out of respondent's system, except deliveries shown under columns (f) and (g). Entries in column (i) should be the sums of corresponding entries in columns (f), (g), and (h).

5. Returns in "Note" should be estimated if not actually shown on respondent's records.

State of origin	Number of Barrels Received Into System				Number of Barrels Delivered Out of System			
	From connecting carriers	Originated		Total received into system	To connecting carriers	Terminated		Total delivered out of system
		On gathering lines	On trunk lines			On gathering lines	On trunk lines	
a	b	c	d	e	f	g	h	i
Crude Oil								
Alaska			53,625,043	53,625,043			54,009,540	54,009,540
Total			53,625,043	53,625,043			54,009,540	54,009,540
Products (State of origin and product carried)								
Total								
Grand Total			53,625,043	53,625,043			54,009,540	54,009,540

...s.—Total number of barrel-miles (trunk lines only): Crude oil 2,383,232,832, Products

Total number of barrels of oil having trunk-line movement: Crude oil 53,625,043 Products

AGO 531767

410. MILES OF PIPE LINE OPERATED AT CLOSE OF YEAR

[illegible] called for, by States and termini, concerning the miles of all pipe [illegible], and size of each line, at close of year, according to following classification: [illegible] line wholly owned and operated by respondent; (B) Owned in undivided [illegible] operated by respondent; and (C) Owned by others but operated by respondent. [illegible] line operated should be reported to the nearest whole mile adjusted to [illegible] totals, i.e., counting one-half mile or more as a whole mile and disregarding [illegible] less than one-half mile. Fractional size line should be reported in the next [illegible] size, e.g., 2 1/2" and 6 5/8" lines should be reported as 3" and 7" lines. [illegible] Size of line is defined as inside diameter. [illegible] to be reported in columns (d) and (e) [illegible] information concerning gathering lines should be given in columns (d) and (e); trunk lines used for the transportation of crude oil in columns (f) and (g) and trunk lines devoted to the movement of products in columns (h) and (i). In columns (j), (k) and (l) should be shown all increases in pipe line operated; and in columns (m), (n) and (o) show all decreases in pipe line operated.

4. Report under (A), Lines wholly owned and operated by respondent, including wholly owned minor facilities temporarily idle or in standby service.

5. Report under (B), The total miles for each system owned in undivided interests and operated by respondent. The name of each such system should be given and the names of the owning companies in each instance. Carriers owning an undivided interest in a system but not operating the system should not include in this report any mileage of such system operated by others, but should furnish a memorandum statement stating the mileage represented by respondent's undivided ownership interest in systems operated by other carriers is not included in this Schedule. Such system being "A" System operated by "X" Company, "B" System operated by "Y" Company, etc."

6. Report under (C), A respondent operating lines not owned by it, but leased from others when leases are for reasonable [illegible] terms and consist of an important part of respondent's system. The lessor company should omit from its report such mileages leased to [illegible].

7. Minor gathering line facilities under temporary or short-term lease should be [illegible] from this classification, the lessor should include such lines in its wholly owned and [illegible] pipe lines.

Name of company and State (a)	Termini: From— (b)	Termini: To— (c)	Operated at Close of Year: Gathering lines: Miles (d)	Gathering lines: Size of line (e)	Trunk lines for crude oil: Miles (f)	Trunk lines for crude oil: Size of line (g)	Trunk lines for products: Miles (h)	Trunk lines for products: Size of line (i)	Changes During the Year: Increases: Gathering lines (j)	Increases: Trunk lines: For crude oil (k)	Increases: Trunk lines: For products (l)	Decreases: Gathering lines (m)	Decreases: Trunk lines: For crude oil (n)	Decreases: Trunk lines: For products (o)
(A) Owned and Operated By Respondent														
ok Inlet Pipe Line	Granite	Drift												
Company	Point	River			42	20"								
Alaska	West	20"Ml.			2	12"								
	Forelands	Jct.			3	20"								
	Drift	Platform												
	River	"			5	30"								
	Drift	Platform												
	River	"			1	42"								
	Other				2	Misc.								
Total	x x x x x	x x x x x		x x x	55	x x x		x x x						
(B) Owned In Undivided Interests and Operated By Respondent														
Total	x x x x x	x x x x		x x x		x x x		x x x						
(C) Owned By Others But Operated By Respondent														

420. RENTALS

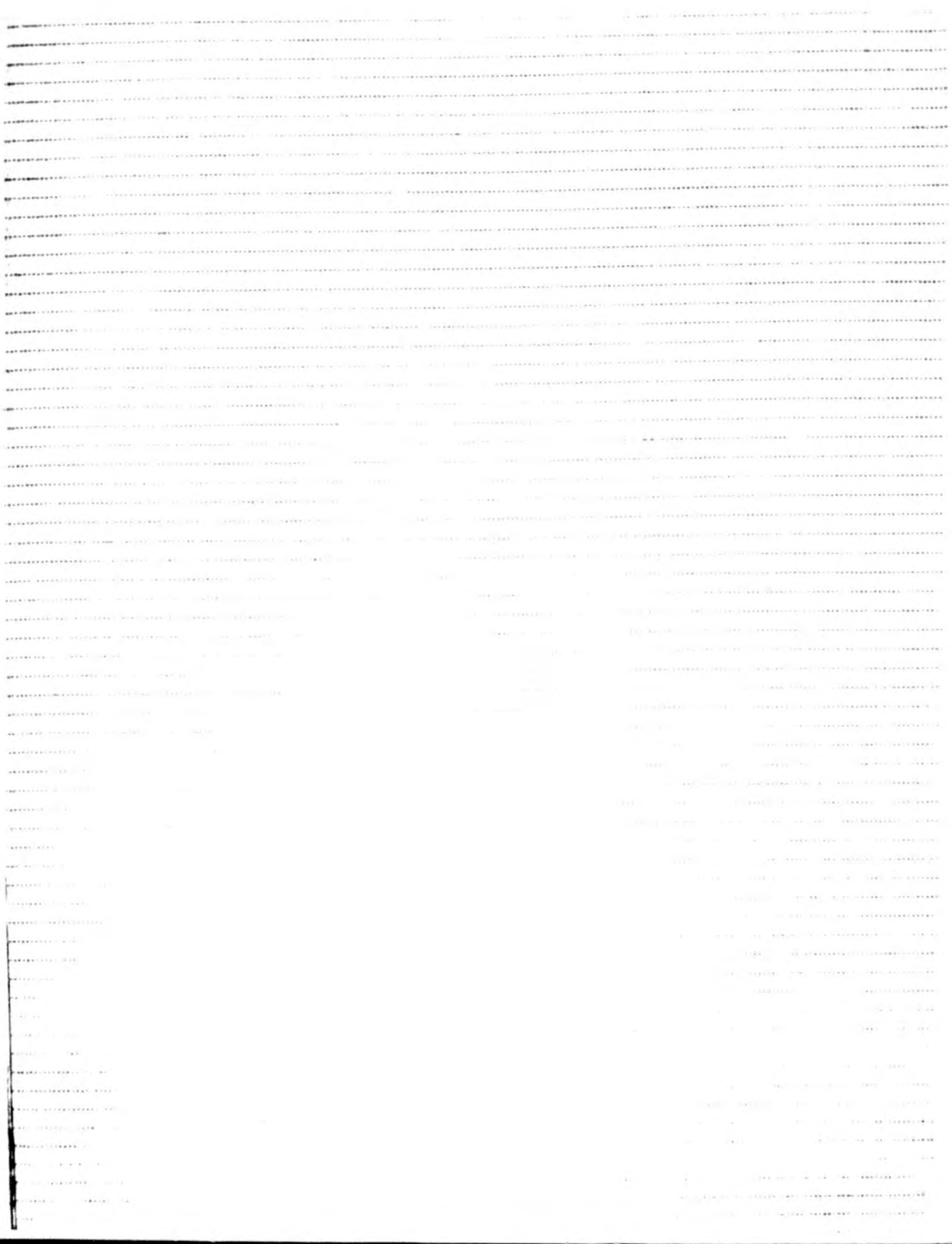
Give particulars of the rents payable during the year, for property used in transportation service, included in account No. 530 as defined in the Uniform System of Accounts for Pipe Lines. Each item amounting to $5,000 or more should be listed, all others may be combined in a single entry designated "Minor items, each less than $5,000."

Name of lessor (a)	Location of property (b)	Description of property (c)	Rent accrued during year (d)		
			$		
Painter's Local Union #1140	Anchorage, Alaska	General Offices		7	002
Minor Items, each less than	$5,000			6	584
		TOTAL		13	586

422. ABSTRACTS OF LEASEHOLD CONTRACTS

Give briefly any changes since the beginning of the year in the terms and conditions of the leases under which the respondent rents a complete pipe line or section thereof. If any such leases have been executed during the year, give brief abstracts of the terms and conditions thereof, showing particularly (1) the date of the lease, (2) the chain of title and dates of transfers connecting the original lessee with the respondent in case of assignment or subletting, (3) the basis on which the amount of the annual rent is determined, and (4) the date when the lease is to terminate, or, if such date has not yet been determined, the provisions governing its determination.

In lieu of the abstracts here called for, the respondent may file copies of lease agreements and give specific references to copies heretofore filed with the Commission.



561. EMPLOYEES AND THEIR COMPENSATION

Give the number of employees, by classes, in the service of the respondent and state the total compensation, including payments of every character made to each class of employees during the year. If any compensation was paid or is payable under labor awards of the current year, include the amount applicable to the current year in column (c) and show the portion applicable to prior years (back pay) in a footnote, by classes of employees. For purposes of this report, labor awards are intended to cover adjustments resulting from the decisions of Wage Boards and voluntary awards by the respondent incident thereto. The assignment of employees should accord as nearly as possible with the classes listed. If the regular duties of an employee are such as to make him includible in two or more classes, he should be assigned to the class that is indicated by the greater part of his duties, and his compensation assigned to the same class.

For the purpose of the subjoined statement the word "employees" is intended to include every person in the service of the respondent subject to its continuing authority to supervise and direct the manner of rendition of his service. Persons engaged to render only specifically defined service and not subject to the continuing authority of the respondent to supervise and control their acts, such as lawyers retained only for specific cases and not under general or continuing retainer, are not to be included as employees.

The number of employees in service for entry in column (b) is obtained by adding the number of employees on the payroll in each of the stated classes during the payroll period containing the 12th day of each month and dividing by 12. Every count should cover not only employees actually on duty during the period of the count, but also employees under pay not so on duty if absent from service on sick or other leave or held subject to call for duty.

Each person jointly employed shall, if carried on the payrolls of the several joint employers, be counted by each employer and represented in its return of number of employees by a fraction based on the number of employers reporting him; if a person, for example, is reportable by three employers, each should include him in its number of employees as one-third of an employee. When the entire compensation of a joint employee is shown on the payroll of a single joint employer and is paid to the employee by that employer such employee should, for the purpose of returns, be treated as if employed solely by such employer.

Line No.	Class of employees (a)	Average number of employees in service (b)	Total compensation during year (c)
			$
1	Executives, general officers, and assistants		
2	General office clerks		
3	Other general office employees		
4	Field clerks		
5	Field superintendents		
6	Professional and subprofessional employees (engineers, chemists, etc.)		
7	Foremen and assistant foremen		
8	Station engineers and pumpers		
9	Station firemen and oilers		
10	Gagers, Deliverymen and oil receivers		
11	Telegraph operators		
12	Telegraph and telephone line repairmen		
13	Line riders, walkers, or patrolmen		
14	Pipeline repairmen		
15	Carpenters		
16	Machinists		
17	Electricians		
18	Other mechanics (skilled trades)		
19	Apprentices and helpers (skilled trades)		
20	Truck drivers and teamsters		
21	Laborers, not laborers, etc.		
22	All other employees		
23	TOTAL		

562. COMPENSATION OF OFFICERS, DIRECTORS, ETC.

**Give the name, position, salary, and other compensation, such as bonus, commission, gift, reward, or fee, of each of the five persons named in Schedules 102 and 103 of this report to whom the respondent paid the largest amounts during the year covered by this report as compensation for current or past service over and above necessary expenses incurred in discharge of duties, and in addition, all other officers, directors, pensioners, or employees, if any, to whom the respondent similarly paid $30,000 or more. If more convenient, this schedule may be filled out for a group of companies considered as one system and shown only in the report of the principal company in the system, with references thereto in the reports of the other companies. Any large "other compensation" should be explained in a footnote. If salary of an individual was changed during the year, show salary before each change as well as at close of year. If an officer, director, etc., receives compensation from more than one pipe line company (whether a subsidiary or not) or from a subsidiary company, reference to this fact should be made if his aggregate compensation amounts to $30,000 or more, and detail as to division of the salary should be stated. By salary (column (c)) is meant the annual rate at which an employee is paid, rather than the amount actually paid for a part of a year when the salary is changed. Also, when a 10 percent (or other percent) reduction is made, the net rate, and not the basic rate, should be shown.

Name of person (a)	Title (b)	Salary per annum as of close of year (See instructions) (c)	Other compensation during the year (d)
No compensation paid to Officers or Directors in 1970		$	$
	Total		

563. PAYMENTS FOR SERVICES RENDERED BY OTHER THAN EMPLOYEES

In the form below give information concerning payments, fees, retainers, commissions, gifts, contributions, assessments, bonuses, pensions, subscriptions, allowance for expenses, or any form of payment amounting in the aggregate to $30,000 or more during the year [illegible] corporation, institution, association, firm, partnership, committee, or any person (other than one of respondent's employees covered in schedule 562 in this annual report) for services or as a donation. In the case of contributions of [illegible] which are made in common with other carriers under a joint arrangement, payment for the performance of service or as a donation [illegible] contributions shall be reported [illegible] of the amount [illegible] the total amount [illegible] the performance [illegible] $30,000 or more.

To be [illegible] among others, payments, directly or indirectly, for legal, medical, [illegible] valuation, accounting, [illegible] financial [illegible] entertainment, charitable, advisory, [illegible] detective, [illegible] appraisal, registration, purchasing, architectural, and hospital [illegible] for [illegible] trust [illegible] tors, consultants, actuaries, investigators, inspectors, and efficiency engineers. *The enumeration of these kinds of payments should not be understood as excluding other payments for services not excluded below.*

To be excluded are: Rent of buildings or other property, taxes payable to the Federal, State, or local governments, payments for heat, light, power, telegraph, and telephone services, and payments to other carriers on the basis of lawful tariff charges, as well as other payments for services which both as to their nature and amount may reasonably be regarded as ordinarily connected with the routine operation, maintenance, or construction of a pipe line, but any special and unusual payments for services should be reported.

If more convenient, this schedule may be filled out for a group of companies considered as one system and shown only in the report of the principal company in the system, with reference thereto in the reports of the other companies.

If any doubt exists in the mind of the reporting officer as to the reportability of any type of payment, request should be made for a ruling before filing this report.

Name of recipient (a)	Nature of service (b)	Amount of payment (c)
Mobil Oil Corporation	Services in connection with Operating Management etc.	$ 75,200

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591. IMPORTANT CHANGES DURING THE YEAR

Hereunder state the following matters, numbering the statements in accordance with the inquiries, and if no changes of the character below indicated have occurred during the year, state that fact:

1. All important physical changes not elsewhere provided for.
2. All important financial changes not elsewhere provided for.
3. All changes in and all additions to franchise rights, describing fully (*a*) the actual consideration given therefor, and stating (*b*) the parties from whom acquired; if no consideration was given, state that fact.
4. All additional matters of fact not elsewhere provided for which the respondent may desire to include in its report.

1. None
2. None
3. None
4. None

VERIFICATION

The foregoing report must be verified by the oath of the officer having control of the accounting of the respondent. It should be verified, also, by the oath of the president or other chief officer of the respondent, unless the respondent states on the last preceding page of this report that such chief officer has no control over the accounting of the respondent. The oath required may be taken before any person authorized to administer an oath by the laws of the State in which the same is taken.

OATH

(To be made by the officer having control of the accounting of the respondent)

State of Texas }
County of Dallas } ss:

C. R. Thompson (Insert here the name of the affiant) makes oath and says that he is Secretary - Treasurer (Insert here the official title of the affiant)

of Cook Inlet Pipe Line Company (Insert here the exact legal title or name of the respondent)

that it is his duty to have supervision over the books of account of the respondent and to control the manner in which such books are kept; that he knows that such books have, during the period covered by the foregoing report, been kept in good faith in accordance with the accounting and other orders of the Interstate Commerce Commission, effective during the said period; that he has carefully examined the said report, and to the best of his knowledge and belief the entries contained in the said report have, so far as they relate to matters of account, been accurately taken from the said books of account and are in exact accordance therewith; that he believes that all other statements of fact contained in the said report are true, and that the said report is a correct and complete statement of the business and affairs of the above-named respondent during the period of time from and including January 1, 1970, to and including December 31, 1970

C R Thompson
(Signature of affiant)

Subscribed and sworn to before me, a Notary Public, in and for the State and county above named, this day of March, 1971

My commission expires My commission expires June 1, 1971

Use an L S impression seal

D C Kennedy
(Signature of officer authorized to administer oaths)
D. C. KENNEDY, Notary Public
In and for Dallas County, Texas

SUPPLEMENTAL OATH

(By the president or other chief officer of the respondent)

State of Texas }
County of Dallas } ss:

G. A. Seymour (Insert here the name of the affiant) makes oath and says that he is Vice President (Insert here the official title of the affiant)

of Cook Inlet Pipe Line Company (Insert here the exact legal title or name of the respondent)

that he has carefully examined the foregoing report, that he believes that all statements of fact contained in the said report are true, and that the said report is a correct and complete statement of the business and affairs of the above named respondent during the period of time from and including January 1, 1970 to and including December 31, 1970

G A Seymour
(Signature of affiant)

Subscribed and sworn to before me, a Notary Public, in and for the State and county above named, this day of March, 1971

My commission expires My commission expires June 1, 1971

Use an L S impression seal

D C Kennedy
(Signature of officer authorized to administer oaths)
D. C. KENNEDY, Notary Public
In and for Dallas County, Texas

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Examinations

No	Examination or Computation Date: Month	Day	Year	Page	Subject Examined	Memorandum of Errors: Page	Clerk Making Examination: Name
1					History, etc		
2					Mileage and Corporate Relations		
3					Securities Owned		
4					Capitalization		
5					Property Investments		
6					Operating Revenues and Operating Expenses		
7					Income and Surplus Accounts		
8					General Balance Sheet		
9					Statistics, Employees, and Changes		
10					Taxes		

Computations

1					Additions, Cross-Additions, etc		
2					Averages, etc		

Correspondence

Officer Addressed: Name	Title	Date of Letter or Telegram: Month	Day	Year	Subject: Page	Answer needed	Answer: Date of Letter: Month	Day	Year	File Number of Ltr or Telegram

Corrections

Date of Correction: Month	Day	Year	Page	Authority: Letter or Telegram: Month	Day	Year	Officer Sending Letter or Telegram: Name	Title	Commission File Number	Clerk Making Correction: Name

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PLEASE NOTE: THE FOLLOWING PAGES WERE TREATED AS A UNIT IN THE ORIGINAL DOCUMENT.

TESTIMONY

of

E. L. PATTON

at

Juneau, Alaska

March 1972

E. L. PATTON

MR. CHAIRMAN, MEMBERS OF THE COMMITTEE, MY NAME IS EDWARD L. PATTON AND I APPEAR HERE TODAY IN RESPONSE TO YOUR INVITATION TO CONSIDER WITH YOU SENATE BILLS 294 (THE JOINT PIPELINE IMPACT COMMITTEE'S LEASING BILL), 313 (THE R.O.W. LEASING BILL INTRODUCED AT THE REQUEST OF THE GOVERNOR), AND 315 (THE ALASKA OIL & GAS TRANSPORTATION COMMISSION BILL).

AS MOST OF YOU KNOW, I AM AN ENGINEER BY PROFESSION AND HAVE BEEN ASSOCIATED WITH THE OIL INDUSTRY FOR ABOUT 34 YEARS IN VARIOUS PROFESSIONAL AND MANAGERIAL ASSIGNMENTS HAVING TO DO WITH DESIGN, CONSTRUCTION AND OPERATION OF OIL REFINERIES, PETROCHEMICAL PLANTS, AND NOW A PIPELINE. THE PAST 10-12 YEARS HAVE BEEN ENGAGED PRIMARILY IN BRINGING TO FRUITION SO-CALLED "GRASS ROOTS" PROJECTS IN ENVIRONMENTALLY SENSITIVE AREAS BOTH OVERSEAS AND DOMESTICALLY. OBVIOUSLY, IN THESE YEARS I HAVE HAD TO WORK WITH MANY GOVERNMENT ENTITIES AND THE VAST MAJORITY HAVE TRIED TO BE HELPFUL.

MY REMARKS TODAY ARE FROM THE STANDPOINT OF ALYESKA PIPELINE SERVICE COMPANY, THE COMPANY WHICH WAS FORMED IN 1970 TO DESIGN, CONSTRUCT AND OPERATE THE TRANS ALASKA PIPELINE. HOWEVER, IT IS PROBABLY INEVITABLE THAT SOME OF MY THINKING IS TEMPERED BY THE BROAD BUSINESS EXPERIENCE ACQUIRED OVER THE YEARS.

AS THESE COMMITTEES KNOW, ALYESKA PROPOSES TO CONSTRUCT A 48" DIAMETER PIPELINE FROM PRUDHOE BAY TO VALDEZ. THE LINE WOULD BE MOSTLY OVER FEDERAL LAND, BUT SOME STATE AND PRIVATE AND IS INVOLVED. I MENTION THIS BECAUSE IT IS IMPORTANT TO REMEMBER THAT OTHER ENTITIES BESIDES THE STATE ARE INVOLVED, AND WHAT THE STATE DOES IS LIKELY TO BE ATTEMPTED BY OTHER ENTITIES AND ALL OF THESE POSSIBLE ACTIONS HAVE TO BE CONSIDERED IN LIGHT OF OUR DESIGN, CONSTRUCTION, OPERATION AND ECONOMICS.

YOU HAVE HEARD FROM OTHER WITNESSES THE U'NION THAT, IF PASSED, STATE PIPELINE REGULATORY BILLS IN THEIR PRESENT FORM WOULD BE FOUND UNCONSTITUTIONAL. CONSTITUTIONALITY IS NOT MY AREA OF EXPERTISE, BUT I CAN POINT OUT THAT UNTIL THE LEGAL ARGUMENTS HAD BEEN ADJUDICATED, ALYESKA WOULD HAVE TO CONDUCT ITSELF IN A MANNER WHICH WOULD HAVE US IN CONFORMITY WITH BOTH THE I.C.C. REGULATIONS AND WHATEVER FORM THE STATE LAW MIGHT TAKE. I CAN ASSURE YOU THAT THE EXERCISE WILL, BEYOND ANY DOUBT, DETRACT FROM OUR CONSTRUCTIVE EFFORTS, WILL INCREASE OUR MANPOWER REQUIREMENTS, AND WILL RESULT IN SCHEDULE DELAYS -- ALL OF WHICH ESCALATE COSTS.

AMONG THE STAFF ARGUMENTS FOR SB-294 WAS A LENGTHY ONE FOR INVOLVING THE STATE IN PIPELINE ROUTE SELECTION. THE ARGUMENTS SAID SUCH STATE INVOLVEMENT WOULD CONTROL THE ENVIRONMENTAL IMPACT, EXPLOIT THE LOCAL LABOR MARKETS, PROMOTE GENERAL FACILITIES (AIRPORTS, ROADS AND COMMUNICATIONS), CATALYZE THE ECONOMIC DEVELOPMENT IN OTHER SECTORS AND OPTIMIZE THE CONSTRUCTION SCHEDULE.

ALL OF THOSE ARGUMENTS OVERLOOK THE FUNDAMENTAL ENGINEERING OBJECTIVE OF ROUTE SELECTION AND THAT IS TO BUILD A SAFE AND EFFICIENT PIPELINE. SAFE AND EFFICIENT MEANS SOUND ENGINEERING AND ECONOMICS GIVING DUE RECOGNITION TO THE SAFEGUARDING OF THE ENVIRONMENT.

NO ALASKAN SHOULD LOSE SIGHT OF THE BASIC OBJECTIVE OF THE ALYESKA PROJECT, AND THAT IS TO TRANSPORT OIL -- NOT TO BUILD ROADS OR AIRPORTS OR ANYTHING ELSE UNLESS THEY SERVE A PURPOSE TO THE PIPELINE; BUT EVEN SO, OUR RECORD OF VOLUNTARY COOPERATION WITH THE STATE IS GOOD, AS EVIDENCED BY THE AGREEMENTS ON THE YUKON BRIDGE AND THE HIGHWAY NORTH OF THE YUKON.

FRANKLY, I AM AT A LOSS TO KNOW HOW ROUTING A TRUNK PIPELINE UNDER ANY SET OF RULES OTHER THAN SOUND ENGINEERING IS GOING TO DO ANYTHING OTHER THAN INCREASE THE COST OF THIS PROJECT.

AS FOR THE PROVISIONS CONCERNING PERSONAL AND EQUIPMENT SAFETY AND PROTECTION OF THE ENVIRONMENT, I QUESTION THAT THE STATE HAS THE MANPOWER AND EXPERTISE IN THESE AREAS THAT ALYESKA HAS. YOU HAVE BUT TO GLANCE AT THE LAST TWO REFINERIES I HAVE BEEN INVOLVED WITH TO KNOW WHAT PRIVATE INDUSTRY CAN AND DOES DO ENVIRONMENTALLY AND AESTHETICALLY IN THE ABSENCE OF ANY GOVERNMENT REGULATION BEYOND THE SETTING OF LOCAL AIR AND WATER QUALITY STANDARDS. AND AS FOR PERSONAL AND EQUIPMENT SAFETY, I'LL STACK THE RECORD OF THE U.S. OIL INDUSTRY AGAINST THAT OF ANY GOVERNMENT ENTITY ANYWHERE WITH THE POSSIBLE EXCEPTION OF N.A.S.A. THE FACTS OF LIFE ARE THAT WE WILL BE HELD RESPONSIBLE BY THE FEDERAL GOVERNMENT FOR THE SAFE CONSTRUCTION AND OPERATION OF THE PIPELINE AND FOR THE PROTECTION OF THE ENVIRONMENT. THESE RESPONSIBILITIES ARE CLEARLY SET FORTH IN THE STIPULATIONS WHICH WILL BE PART OF ANY D.O.I. PERMIT. HOWEVER, EVEN WITH THESE SPECIAL STIPULATIONS, WE ARE STILL SUBJECT TO THE PROVISIONS OF THE FEDERAL PIPELINE SAFETY ACT, AND WE WOULD EXPECT THAT ACT TO PRE-EMPT ANY REASONABLE STATE SAFETY ACT. WE RECOGNIZE THAT, IN MANY LOCATIONS, THE FEDERAL AND STATE SAFETY AGENCIES REACH WORKING AGREEMENTS SO THAT DUPLICATION OF EFFORT IS MINIMIZED. THIS IS A REASONABLE APPROACH, SO WE DO NOT SEE THE VALIDITY OF THE ARGUMENTS THAT THE STATE NEEDS BETTER CONTORL OF SAFETY AND ENVIRONMENTAL ASPECTS THAN IT ALREADY HAS.

AS A MATTER OF FACT, WHAT THIS PROJECT BADLY NEEDS IS LESS -- NOT MORE -- REGULATION. BECAUSE OF THE GREAT FRUSTRATIONS GENERATED IN THE PAST TWO YEARS, IT HAS ALREADY BECOME VERY DIFFICULT TO RECRUIT AND KEEP THE HIGH-QUALITY PEOPLE WE NEED IN THIS PROJECT. TO PROVIDE STILL ANOTHER GROUP OF AGENCIES LOOKING OVER OUR SHOULDER JUST GETS THAT MUCH CLOSER TO AN INTOLERABLE SITUATION, AND IT INEVITABLY RAISES COSTS AND CREATES DELAYS.

ONE OF THE ARGUMENTS ADVANCED FOR STATE CONTROL IS THAT SUCH CONTROL WILL PROMOTE INCREASED JOB OPPORTUNITIES FOR ALL ALASKANS. SB-294 EVEN GOES SO FAR AS TO SAY "ACHIEVE FULL EMPLOYMENT". I LIKE TO THINK YOU ARE NOT TALKING ABOUT A STATE POLICY FURTHERING FEATHERBEDDING, BUT THE BILL CAN BE INTERPRETED THAT WAY. I HAVE TESTIFIED TO THE JOINT PIPELINE IMPACT COMMITTEE THAT WE INTEND TO MAXIMIZE THE HIRING OF RESIDENT ALASKANS FOR BOTH CONSTRUCTION AND OPERATION TO THE EXTENT THAT RESIDENT ALASKANS ARE QUALIFIED OR CAN BE QUALIFIED IN REASONABLE TIME TO HANDLE THESE JOBS. WE INTEND TO MAXIMIZE THE EMPLOYMENT OF RESIDENT ALASKANS FOR THE VERY ELEMENTARY REASON THAT IT WOULD BE STUPID TO DO OTHERWISE. ALASKANS ARE ACCLIMATED TO THE ALASKAN ENVIRONMENT AND CULTURE; THEY ARE MORE READILY AVAILABLE FOR INTERVIEWS AND TESTING AND TRAINING; AND THEY DO NOT POSE THE PROBLEMS ASSOCIATED WITH HAVING TO PROVIDE PERIODIC VISITS TO THE "LOWER 48". BUT I HAVE SAID BEFORE -- AND I WILL CONTINUE TO REMIND YOU -- THAT WE WILL NOT EMPLOY UNQUALIFIED PEOPLE IN EITHER CONSTRUCTION OR OPERATIONS AND THAT WE -- IN HAVING RESPONSIBILITY FOR THE SAFE AND EFFICIENT CONSTRUCTION AND OPERATION OF THE FACILITY -- WILL BE THE JUDGE AS TO JOB QUALIFICATIONS. SO, I SEE MANY PROBLEMS ASSOCIATED WITH ATTEMPTING TO LEGISLATE RESIDENT ALASKANS INTO JOBS. PERHAPS THE MOST USEFUL EFFORT THE LEGISLATURE MIGHT MAKE IN THIS AREA IS TO ASCERTAIN THAT RESIDENTS ARE NOT DENIED JOB OPPORTUNITIES BECAUSE OF RESTRICTIVE WORK PRACTICES.

TO THIS POINT, I HAVE TOUCHED ON THE AREAS OF ENGINEERING, SAFETY AND PEOPLE PROBLEMS AND I HAVE NOT BEEN ABLE TO IDENTIFY INSTANCES IN WHICH THE PROVISIONS OF 294, 313 AND 315 WOULD ASSIST IN ANY WAY GETTING THIS OR ANY OTHER PIPELINE BUILT MORE QUICKLY OR AT LOWER COST.

THE OTHER MAJOR AREA INVOLVED IS IN R.O.W. LEASING. AS CONCERNS R.O.W.'s, MOST STATES OF THE U.S. AND THE FOREIGN COUNTRIES I HAVE DEALT

WITH RECOGNIZE THAT THE PROVISION OF RIGHTS-OF-WAY IS TO THE STATE'S ADVANTAGE AS IT RESULTS IN THE AVAILABILITY OF A TRANSPORTATION SYSTEM WHICH, IN TURN, BENEFITS THE ECONOMY AND PEOPLE OF THE STATE. AGAINST THESE OBJECTIVES, MOST STATES HAVE MADE R.O.W. PROCUREMENT RATHER SIMPLE AND INEXPENSIVE. THE UPPER LIMIT OF R.O.W. ACQUISITION COST HAS BEEN, OF COURSE, THE PRICE OF OUTRIGHT PURCHASE OF THE LAND; BUT WHERE FEE OWNERSHIP IS NOT AVAILABLE, THE UPPER LIMIT OF R.O.W. LEASE PAYMENTS HAS BEEN A SINGLE PAYMENT EQUAL TO ABOUT ONE-HALF THE APPRAISED VALUE OF THE LAND FOR BURIED PIPELINE AND A SINGLE PAYMENT EQUAL TO THE FULL APPRAISED LAND VALUE FOR ABOVEGROUND LINES. FROM THESE UPPER PRICES, THE RATES FOR "LOWER 48" R.O.W. LEASES DROP OFF TO VERY MINOR AMOUNTS AS SHOWN BY THE TABLES WHICH I WILL ENTER INTO THIS RECORD.

HOWEVER, THE BILLS WE ARE NOW CONSIDERING HAVE DEPARTED FROM ANY CONSIDERATION RELATED TO ACTUAL LAND VALUES AND HAVE TAKEN THE FORM OF REVENUE MEASURES. INDEED, IF THEY ARE REALLY REPRESENTATIVE OF THE ATTITUDE OF THIS LEGISLATIVE BODY, I CAN ONLY FORECAST THAT BUSINESS AND INDUSTRY WILL BE DISCOURAGED FROM INVESTING IN ALASKA. SB-313, FOR EXAMPLE, WOULD ESTABLISH AN ANNUAL CHARGE OF 1/20 OF GROSS PIPELINE REVENUE PLUS $656/ACRE. WITHOUT HAVING TO ESTABLISH PRECISELY WHAT GROSS REVENUE WILL BE OR WHAT THE EXACT AMOUNT OF STATE LANDS WILL BE, THAT FORMULA EQUATES TO AN ANNUAL CHARGE OF SEVERAL THOUSAND DOLLARS PER ACRE. WHAT MAKES IT EXASPERATING IS THAT WE ALREADY HAVE A SOLID HISTORY OF FEE TITLE ACQUISITION ALONG THE R.O.W. AT A FRACTION OF THAT PER ACRE.

SB-294 IS EVEN MORE EXPENSIVE. AN EXAMPLE I HAVE SEEN RESULTED IN A RENTAL OF OVER $11,000,000/YEAR, OR BETWEEN $7,000 AND $12,000/YEAR/ACRE (DEPENDENT UPON THE ULTIMATE STATE MILEAGE). NUMBERS LIKE THESE WOULD, OF COURSE, COMMAND GREAT RESPECT IN DOWNTOWN

LOS ANGELES. OBVIOUSLY, IF ANY FORMULAS LIKE THESE PASS THE LEGISLATURE, IT WOULD BE IN OUR INTEREST TO ACQUIRE FEE TITLE TO ALL OF THE STATE MILEAGE INVOLVED.

SOMEONE HAS ADVANCED THE ARGUMENT THAT THE "LOWER 48" LEASING * FORMULAS AVERAGE OUT TO A R.O.W. COST OF ABOUT 4% OF THE COST OF AN AS-BUILT LINE, SO ALASKA SHOULD DO AT LEAST AS WELL. IT'S A RATHER WEAK ARGUMENT BECAUSE CONSTRUCTION COSTS IN THE REMOTE AREAS OF ALASKA ARE AT LEAST 2-3 TIMES THE "LOWER 48" AVERAGE, WHEREAS THOSE REMOTE AREA LAND VALUES ARE PRACTICALLY NEGLIGIBLE COMPARED WITH "LOWER 48" LAND VALUES. IN EFFECT THE SB-294 FORMULA SAYS THE MORE DESOLATE AND FOREBODING LAND IS, THE MORE ONE SHOULD PAY FOR IT. I DON'T AGREE.

MR. CHAIRMAN, YOU HAVE ASKED ME "WHAT CAN ALASKA DO TO HELP?". I HAVE ANSWERED THAT QUESTION IN A NEGATIVE SENSE TO THIS POINT. ALASKA HAS ALREADY HELPED. THE CONCERNED STATE AGENCIES HAVE CONTRIBUTED GREATLY TO THE WILDLIFE AND ENVIRONMENTAL STUDIES, AND THEY ARE WORKING TOWARD MEANINGFUL AIR AND WATER QUALITY STANDARDS. YOUR UNIVERSITY HAS BEEN OF IMMEASURABLE HELP IN THE SOLUTION TO MANY OF OUR PROBLEMS. I THINK THIS LEGISLATURE CAN ASSIST NOT ONLY THIS PROJECT, BUT THOSE TO COME IN THE FUTURE, BY CONTRIBUTING TO STATUTES WHICH ARE EASILY UNDERSTANDABLE, WHICH ARE EMINENTLY LOGICAL AND FAIR, AND WHICH ARE NOT SUBJECT TO CHANGE BECAUSE OF POLITICAL OR MONETARY EXPEDIENCY. NO ONE IS GOING TO MAKE MAJOR INVESTMENTS IN THIS STATE WITHOUT ASSURANCE THAT THAT INVESTMENT WILL NOT BE REGULATED OUT OF EXISTENCE.

ALL OF YOU KNOW OF OUR INTENSE FRUSTRATION. ANYTHING WHICH MIGHT RELIEVE THAT FRUSTRATION WILL BE HELPFUL. WE WANT TO GET GOING, SO WE URGE YOU -- IN FOOTBALL LANGUAGE -- TO GET OUT THERE AND BLOCK FOR US.

ELP/nl
3/3/72

E. L. PATTON

* Attachment

LARGE PIPELINE RIGHT-OF-WAY LEASE RATES

STATE OWNED LANDS

(All Rates Shown Are for Single Payments for Life of Project Unless Otherwise Indicated)

	Basic Approach	Rate $ Per Acre	Rate $ Per Mile	Rate Other	Remarks
Arizona	Negotiated	10-12			10-year Period Perpetual Lease May Be Negotiated During Primary Term
California		400			Annually
Indiana	Standard Rate		3200		
Louisiana	Standard Rate		3200		
Michigan	Standard Rate		3200 320		Developed Areas Undeveloped Areas
Minnesota	Standard Rate		320		
Montana	Standard Rate		200		
New Mexico	Appraisal	15			
Texas					
General	Standard Rate		480		10-year Period
University	Standard Rate		1120		10-year Period
Washington	Negotiated	10			
Wisconsin	Standard Rate		320		
B.L.M.	Standard Rate		5		

ELP/nl
3/6/72

ALTHOUGH IT IS NOT A PART OF MY PREPARED STATEMENT WHICH WILL BE HANDED OUT, I WOULD LIKE TO COMMENT ON SOME REMARKS MADE BY MR. GILDEHOUSE YESTERDAY. IN PART OF HIS TESTIMONY, HE ALLUDED TO THE FACT THAT IT WOULD BE A BASIC REQUIREMENT OF THE STATE OWNERSHIP CASE THAT ALYESKA AGREE TO AND EXECUTE A CONTRACT CALLING FOR GUARANTEED CONSTRUCTION AND OPERATING PERFORMANCE. THIS IS A SUBJECT THAT I CAN ADDRESS WITH SOME FAMILIARITY. AS OF 1966 WHEN I ATTEMPTED TO NEGOTIATE A LUMP-SUM CONTRACT (AND THESE ARE THE WORDS USED BY MR. GILDEHOUSE) FOR A PROJECT AT THAT TIME INVOLVING ABOUT $140 MILLION, THE PROSPECTIVE CONTRACTORS INDICATED THEIR INABILITY TO ACCEPT THIS RISK BECAUSE THERE HAD NOT UP TO THAT TIME EVER BEEN A LUMP-SUM CONTRACT OF THAT MAGNITUDE, AND THE PROSPECTIVE CONTRACTORS DID NOT HAVE THE FINANCIAL RESOURCES TO UNDERTAKE THAT KIND OF RISK. WE ARE NOW TALKING ABOUT A FACILITY COSTING ABOUT 20 TIMES AS MUCH AS THAT 1966 CONTRACT, AND THE STATE OR THE STATE'S REPRESENTATIVES ARE IMPLYING THAT WE SHOULD TAKE ON THIS LUMP-SUM OBLIGATION; AND IT HAS BEEN SAID IN A MANNER WHICH WOULD IMPLY THAT THIS DOES NOT REQUIRE THE FULL FAITH AND CREDIT OF THE OIL COMPANIES. THIS JUST CANNOT BE. FOR ME, AS PRESIDENT OF ALYESKA, TO AGREE TO A LUMP-SUM CONTRACT I WOULD FIRST HAVE TO ADD A CONTINGENCY TO THE COST ESTIMATE TO BE SURE THAT I HAD COVERED ALL OF THE UNFORESEEN POSSIBILITIES -- AND THE HISTORY OF THIS PROJECT HAS SHOWN THAT THERE ARE MANY -- AND, THEN, I'D HAVE TO ADD A PROFIT WHICH IS NOT NOW UNDER CONTEMPLATION BECAUSE IF WE WERE GOING TO EXPOSE THE OWNERS OF ALYESKA TO THIS RISK THEY THEN DESERVE A PROFIT. AND, I MIGHT ALSO ADD THAT THE FORCE MAJEURE PARAGRAPH IN THIS CONTRACT WOULD BE SOMETHING THAT HAS NOT BEEN SEEN UP TO NOW, BECAUSE IT WOULD HAVE TO INVOLVE ENVIRONMENTAL CONTINGENCIES AND PROSPECTIVE LAWSUITS IN ADDITION TO THE NORMAL FORCES OF NATURE, ACTS OF GOD, ACTS OF GOVERNMENT ETC.

PLEASE NOTE: THE PRECEDING PAGES WERE TREATED AS A UNIT IN THE ORIGINAL DOCUMENT.

HOUSE BILLS 569 and 570

STATE OR AUTHORITY FINANCING OF TRANS-ALASKA PIPELINE

LEGAL ASPECTS

Testimony of Joseph R. Cortese, Squire, Sanders & Dempsey, Bond Attorneys, Cleveland, Ohio (by invitation)

Introduction.

The legal aspects of the financing of the pipeline by the State or a state authority are important considerations, for the legal problems involved materially enlarge the serious doubts as to the ability of the State to provide public financing of the facility. However, as we discuss those legal problems, it should be borne in mind that even if there were no legal questions concerning state financing, a most serious, persistent and unavoidable concern is that the State simply cannot market this massive volume of financing within the time frame required. Cogent testimony has been presented on that aspect. At this point some of the legal problems will be discussed to further illustrate the sincere concerns of the producers that the State financing package being considered would cause further substantial delays and ultimately founder.

A. Test Litigation - Substantial Questions.

Alaska, in recent years, has undertaken bond financing in relatively novel areas, such as through the Alaska State Mortgage Association, Alaska State Development Corporation, and for the Alaska Mortgage Adjustment Plan in connection with the 1964 earthquake. In each of these instances the State has advisedly taken the basic questions of law to the Alaska Supreme Court to remove any doubt that the bonds would be valid when issued so that concerns as to legality would not further burden or thwart the marketing of them. It seems most likely that such test litigation would be important with reference to House Bills 569 and 570.

Among the legal propositions which would need to be negated by such litigation are the following:

(1) That the use of the state credit to finance the pipeline project is unwarranted in view of the availability of private financing, and use of state credit for such a facility in the circumstances would not serve a public purpose as required by Article IX, Section 6, Alaska Constitution.

(2) That the State guarantee of the bonds of the Trans-Alaska Authority provided for in House Bill 569 would create a State debt contrary to Article IX, Section 8.

(3) That the leasing of the pipeline by the Authority to the State as provided in House Bill 569 would result in a State debt under Article IX, Section 8, not qualifying under the exceptions provided in Section 11.

(4) That House Bill 569 would be a local or special act in violation of Article II, Section 19, Alaska Constitution.

(5) That House Bill 569 involves unlawful delegation of legislative powers to the proposed Trans-Alaska Authority and to other executive and administrative officers.

These and other legal aspects of House Bills 569 and 570 will be discussed further below.

The course and outcome of such test litigation cannot be reliably predicted. Since the proposed state ownership and financing of the pipeline may be an active public issue, this might be [illegible] different from the test litigation of the past. It is conceivable that citizens or citizen groups would intervene in the litigation, such that the scheduling of the litigation might not be [illegible] normally expected. Motions, demands for introduction of extensive testimony, and [illegible] litigation, could produce extraordinary delays. [illegible] may be noted that [illegible] litigation consumed over [illegible] and one-half years. [illegible] for bond litigation elsewhere has been [illegible], especially where it involves a controversial issue, as with the [illegible] which took over 5 years, and Cincinnati and Louisiana [illegible] years each.

AGO 531785

B. Independent Litigation - The No-Litigation Requirement for Bond Financing.

Even if the State and its bond counsel should decide that test litigation is not necessary, the basis for adverse legal contentions is sufficiently present to indicate that others, acting independently of such determination, might nevertheless file litigation. This would pose a very serious problem in the marketing of the bonds because of the normal requirement for successful marketing that a no-litigation certificate be delivered with the bonds. The no-litigation certificate is to the effect that no litigation is pending questioning the validity of the bonds, the authority under which they are to be issued, or the authority to provide for payment from the general or special funds committed thereto. The simple point of such certificate requirement is that a prospective bond purchaser does not want to buy litigation. In this context it would appear that the pendency of such litigation would preclude giving the accepted form of certificate and thereby prevent the marketing of the bonds.

C. Four Types of Bonds.

House Bills 569 and 570 would authorize what might be depicted as four categories of bonds:

(1) General obligation bonds of the State, backed by the full faith and credit and the taxing power of the State in the normal fashion;

(2) Bonds of the Trans-Alaska Authority guaranteed by the State;

(3) Bonds of the Trans-Alaska Authority backed by the general credit of the State through the device of leasing the pipeline to the State with the State paying rentals from its general funds in sufficient amounts to subsidize any operating losses, pay principal and interest on the bonds and establish and maintain reserves to further secure the bonds.

(4) Bonds of the Authority payable solely out of such net operating revenues of the Authority as might be generated over the life of the bonds, with the bondholders taking the full risk of any inability to pay by reason of inadequacy of revenues resulting from delays or interruption in construction, inadequacy of funds to complete the project, any interruption in operation, or changed economic conditions.

D. Public Purpose Question - Is There A Need For The State To Use Its Credit?

In view of the fact that private capital is ready, willing and able to finance the pipeline project, there is a substantial question whether the use and consequent burdening of the State's credit for this project would be for a public purpose within the constitutional prohibition against use of the credit of the State for other than a public purpose.

Alaska Constitution, Article IX, Section 6, provides:

> "No tax shall be levied, or appropriation of public money made, or public property transferred, nor shall the public credit be used, except for a public purpose."

In Ault v. Alaska State Mortgage Association, 387 P. 2d 698 (1963), the Alaska Supreme Court held that the [illegible] of public purpose in an act of the Legislature did not foreclose determination by the Court of the question of whether the act would serve a public purpose, and the Supreme Court remanded the case to the Superior Court for a taking of evidence pertaining to the question. There, the Alaska State Mortgage Association was to issue revenue bonds to provide moneys in the secondary mortgage market to stimulate housing construction. The Supreme Court said it wanted to see evidence as to the adequacy or lack of private funds in the secondary mortgage market, the effect thereon of termination of a federal program, and how the Association would reduce or eliminate adverse effects.

After the case was remanded to the Superior Court and detailed testimony taken, upon a second appeal the Supreme Court approved the program, two and one-half years after its original [illegible]. Walker v. Alaska State Mortgage Association, 416 P. 2d 245 (1966). The Court ruled that a public purpose existed because there was a need for public financing [illegible] funds, as shown by the evidence, and that the program [illegible] private funds because the Association would make moneys available [illegible] would not be obtained in the private market.

Likewise, in [illegible] v. Alaska State Development Corporation, 376 P. 2d 717 (1962), [illegible] by the [illegible] revenue bonds, [illegible] private [illegible] was not [illegible] for [illegible] term development loans.

In Wright v. City of Palmer, 468 P. 2d 326 (1970), the City's issuance of general obligation bonds to construct a plant to be leased to a manufacturer was approved upon evidence that the object and effect would be to encourage industrial development which was urgently needed because the City's economic growth was nil, high year-round unemployment existed, jobs had been lost by the closing of mining and lumbering enterprises, there was no manufacturing in the City, and businesses were moving out of the City. The need for the City itself to take an active role in financing was apparent.

It has been held that industrial development financing serves no public purpose where the facts make it plain that private funds will provide for the project without the injection of public financing; that no public purpose is served by substituting public credit for private funds. Manning v. Fiscal Court of Jefferson County, 405 S.W. 2d 755 (Ky. 1966). There private capital had already been committed to the facility.

That result appears to be consistent with the approaches taken by the Alaska Supreme Court in the cases mentioned above.

From an examination of the proposed statement of legislative findings and policies contained in House Bill 569, it is difficult to perceive any necessity whatever for State financing in order to achieve the objects stated, especially when it is apparent that the planning, development, and expertise represented in Alyeska Pipeline Service Company are essential to the early achievement of the pipeline project consistent with those objectives, and in view of the substantial questions as to the practical ability of the State to finance the project. It should be borne in mind that private capital has already spent or encumbered a half billion dollars for this pipeline project, and is ready, willing and able to provide the balance needed.

In short, the ability to obtain the objectives through private financing and ownership presents a material question of whether the use of the State's credit for this project is unwarranted and impermissible under the Alaska Constitution.

E. State Guarantee of Authority Bonds - Unconstitutional State Debt.

The State guarantee to be placed upon an unlimited amount of bonds of the Trans-Alaska Authority merely upon signature by the Governor pursuant to Section 44.58.260 of House Bill 569, would constitute State debt which is not authorized under either Section 8 or 11 of Article IX, Alaska Constitution.

Section 8 of Article IX prohibits State debt except as ratified by the voters of the State with certain exceptions not relevant here. Section 11 provides an exception for revenue bonds issued by a public enterprise or public corporation "when the only security is the revenues of the enterprise or corporation." The State guarantee clearly would provide security beyond those revenues, and would be inconsistent with this Section 11.

The bill itself acknowledges the creation of State debt. Section .260(e) states, "The state is liable on notes or bonds guaranteed under this section but is not liable on notes or bonds not guaranteed by the state, which may not be debt of the state." It might be noted in this connection that the section would not inhibit issuance of non-guaranteed bonds on a parity with the guaranteed bonds so that revenues could be siphoned off for the non-guaranteed bonds leaving the State with full liability on the guaranteed bonds. No provision is made as to how the State would make good on its guarantees. Perhaps this omission is compelled by the Constitution's prohibition against the dedication of any tax or license to any special purpose. Article IX, Section 7. Thus, the entire financial resources of the State would be obligated. It should be noted that the annual principal and interest requirements on $4.5 billion of bonds would be approximately equal to the total annual revenues of the State at the present time.

House Bill 570, providing for ratification of $3,500,000,000 general obligation bonds of the State to be issued by the State Bond Committee, would not serve to give constitutional authorization for the guarantee of revenue bonds of the Trans-Alaska Authority. Further, it is questionable whether Article IX, Section 8, contemplates any State debt created by way of guarantee. Rather, it may be that an amendment of the Constitution would be needed for that purpose.

In any event, it seems clear that a State guarantee of the Authority bonds could not be given without authorization thereof by vote of the people, and any attempt to vest such power in the Trans-Alaska Authority and the Governor merely by legislative act would be unconstitutional.

F. State Lease Rental Commitment - Unconstitutional State Debt.

The provisions of Section .250 of House Bill 569 for the Trans-Alaska Authority to lease the project to the State and for the State to operate or sublease the project pose serious questions as to whether State debt would be unconstitutionally created thereby.

Section .250 would authorize the Governor to enter into such a lease in connection with the Authority's financing of the project, and to agree that the State would pay the Authority sufficient amounts to pay the principal and interest on the bonds, the operating and maintenance expenses of the project, and to provide reserves for debt service and operating and maintenance expenses. No limitation of amount is provided and the lease may be for any agreed term or may be unlimited in time. Under the lease, the Governor may also commit the State to subsidize costs of the project in any amount agreed upon.

No restriction is provided as to the sources of funds of the State which would be needed to pay the rentals.

The only apparent object of these provisions is to place the State in the middle so that purchasers of the Authority's bonds might view the State's credit as standing behind the bonds, and thus obtain the benefit of the State credit without a vote of the people.

Such lease-type financing has been used or tried in other states and has been sustained in some and declared unconstitutional in others as creating a state debt without constitutional authorization. Still other states have adopted constitutional amendments to permit such financing. The validity of such financing has not been determined by the Alaska Supreme Court.

The legal question is clearly presented where a unique single purpose project is involved, such as this crude oil pipeline. For example the Illinois Supreme Court, in Rosemont Building Supply, Inc. v. Illinois Highway Trust Authority, 258 N.E. 2d 569 (1970), held invalid a plan whereby the Authority would issue bonds, which the act said were not to be deemed obligations of the State, to finance highways, bridges and related facilities. The Authority was to pay off its bonds from its own revenues, but its principal source was to be rentals to be received from the State through leasing the projects to the State. The State was not to be committed to pay rentals except as periodically appropriated, and if rentals were not paid the Authority could undertake operation and charge tolls or lease the projects to others.

The Illinois Supreme Court had previously approved that type of financing for various buildings, but here it distinguished those cases as involving the type of facilities which were readily adaptable to other uses so that it could be assumed that other lessees could be found to pay sufficient sums if the State ceased to pay rentals. However, here it was apparent to the Supreme Court that while the State was not legally obligated to continue appropriations, there would be no real alternatives for use of such highway facilities. Thus, the Court concluded that an unconstitutional State debt would be created by such leasing program.

Much the same can be said of the proposed lease commitment of the State of Alaska in connection with the pipeline project; for if at any time the pipeline was not earning enough to cover the debt, there would be no practical way to avoid a burden on the State general fund for there would be no takers for a losing facility which has no other practical use.

Thus with the vast cost, and consequent heavy debt service burden, of this single purpose facility, the type of financing involving a lease commitment by the State poses substantial constitutional questions.

G. Local or Special Law.

House Bill No. 569 should also be considered in light of Article II, Section 19 of the Constitution which provides that "the legislature shall pass no local or special act if a general act can be made applicable. Whether a general act can be made applicable shall be subject to judicial determination." Provisions of the bill pertaining to the issuance of bonds and notes, the State guarantee of such obligations, and the

entering into of leases and agreements are all limited to the "project", which is defined in Section 44.58.500 as a pipeline from Prudhoe Bay and adjacent areas to the Port of Valdez and other ports and related facilities.

These key provisions of the bill, therefore, relate only to a single pipeline project, which suggests that the bill is a local and special act when a general act providing for pipeline projects anywhere in the State could be made applicable. This point of law has been the subject of litigation which delayed financing for five years. In State, ex rel. Saxbe v. Underground Parking Commission, 155 N.E. 2d 678 (1959), the Ohio Supreme Court held unconstitutional a state providing for the construction and financing of a public parking garage under the grounds of the state capitol building in Columbus under a similar constitutional provision. The applicable provision of the Ohio Constitution, Article II, Section 26, provides in part that "all laws, of a general nature, shall have a uniform operation throughout the state." The court said that the construction of underground parking facilities was a matter which could affect other areas of the state and not just the City of Columbus and that, therefore, the law was a law that dealt with a subject of general nature and was invalid because of its limited application.

Thus, it appears that these important features of House Bill 569 are subject to constitutional challenge and necessitate judicial determination before reliance upon them.

H. Unlawful Delegation of Legislative Powers.

A serious question also exists as to the validity of H.B. No. 569 when considered in relation to Article II, Section 1 of the Alaska Constitution which provides that "the legislative power of the State is vested in a legislature." This bill purports to do more than delegate just rule-making power to an agency or officer, which is a form of permitted delegation of legislative authority, when appropriate standards are provided. Kelly v. Zamarello, 486 P. 2d 906 (1971). This bill is lacking in standards for limitation of rule-making authority, but even more than that, it would take out of the hands of the elected law-making representatives of the people the power to make decisions for the State on matters of the utmost importance concerning State policy and finances.

Consideration of just a few of the more notable examples of attempts to confer unlimited or nearly unlimited powers and discretion upon executive and administrative officers under this bill should suffice to illustrate the manner in which this proposed law might violate Article II, Section 1 of the Alaska Constitution.

1. Section 44.58.055. This section, which is duplicated in identical language in Section 44.58.330, purports to confer on the Authority "sole and exclusive jurisdiction, control and supervision of all pipelines and other transportation facilities for the transportation of oil and natural gas produced in the state," and to authorize the Authority to "do whatever necessary or convenient to carry out its purposes, including without limitation the specific powers enumerated in this chapter." Any such attempt to so regulate and control a pipeline engaged in interstate commerce is clearly violative of the U.S. Constitution. But quite apart from the question whether the State, under the United States or Alaska Constitutions, could assume "sole and exclusive jurisdiction, control and supervision" of the types of facilities named, nowhere in House Bill No. 569 are there to be found any standards or limitations under which the Authority is to be governed in the exercise of this sweeping and all-inclusive grant of power. The entire bill, and this section in particular, would attempt to turn over to an appointed public corporation consisting of three members, which in most matters may act by the votes of two members, power to undertake and carry out, without further action by the legislature of the State, a project which probably would constitute the most massive public works project ever undertaken by any State.

2. Section 44.58.250. This section would authorize the Authority and the Governor, acting on behalf of the State, to enter into leases or agreements for lease of the project by the Authority to the State and for the operation and maintenance of the project by the State. The State could also, acting again through the Governor alone, sublease or enter into any agreement with any person, firm or corporation for the operation and management of the project. A purely permissive provision is made that the amount payable under any lease or agreement between the Authority and the State may include provision for all or any part or share of the amounts necessary to pay debt service on bonds issued to finance the project, to pay costs of operation and maintenance or to

maintain reserves or sinking funds for the purpose of payment of debt service or operation and maintenance. The Governor would also be authorized in such an agreement or lease to commit the State to pay to the Authority, for an unlimited time and in unlimited amounts, the cost of financing the project. No standards or guidelines or restrictions on such leases, subleases and agreements are provided, however, and it would be difficult to imagine a more unlimited grant of discretion to executive or administrative officers than the provision in this section, which is made applicable both to agreements with the Authority and with sublessees or others entered into by the Governor, that "the agreement or lease may be made for a specified or unlimited time on terms and conditions which may be approved by the governor."

3. Section 44.58.260. This section would permit the Authority, by so providing in a bond agreement, to commit the State to guarantee the payment of principal and interest on any bonds or notes issued by the Authority. Even if such a State guarantee were permitted by the Alaska Constitution, this section is of questionable validity in permitting executive and administrative officers, in their unlimited discretion, to make such a guarantee.

These examples of unrestrained power in executive officers are of such vast scope that no truly comparable legislative efforts at delegation of powers can be found in the Alaska cases. Thus, these would appear to be unreliable aspects of the bill in the absence of a court determination addressed directly to them.

Conclusion.

It appears that House Bills 569 and 570 raise many substantial legal problems that could keep a large number of lawyers busy for many years; and there are justifiable concerns that they would do precisely that if enacted. In view of the delays of the project already experienced, and the economic cost thereby to the State, the concerns over legal problems under House Bills 569 and 570 and the further delays they can cause are important considerations for the legislature. Again it should be emphasized that, as previously testified to, even in the complete absence of any legal question, the patent inability of the State or a public corporation of the State to successfully market such a huge volume of bonds in the short time required, presents a direct, practical, and critical problem which strongly indicates that House Bills 569 and 570 are not practical approaches for achievement of the objectives of the State.

PLEASE NOTE: THE FOLLOWING PAGES WERE TREATED AS A UNIT IN THE ORIGINAL DOCUMENT.

REMARKS OF GEORGE A. SEYMOUR
TO ALASKAN SENATE AND HOUSE COMMITTEES
ON PROPOSED ALASKAN PIPELINE LEGISLATION
WEEK OF MARCH 6, 1972

INTRODUCTION

I AM GEORGE A. SEYMOUR. I AM MANAGER OF PART-INTEREST PIPELINES FOR MOBIL PIPE LINE COMPANY, THE COMMON CARRIER PIPELINE AFFILIATE OF MOBIL OIL CORPORATION. I AM AN ENGINEER BY PROFESSION AND HAVE BEEN EMPLOYED BY MOBIL FOR TWENTY-FOUR YEARS, DURING WHICH TIME I HAVE BEEN PRIMARILY ENGAGED IN PIPELINE ENGINEERING AND MANAGEMENT. MOBIL OIL CORPORATION OPERATES COOK INLET PIPE LINE COMPANY UNDER AN AGENCY MANAGEMENT AGREEMENT. I AM A DIRECTOR OF AND HAVE BEEN A VICE-PRESIDENT OF COOK INLET PIPE LINE COMPANY SINCE MARCH, 1970, WITH STAFF RESPONSIBILITY FOR THE OPERATIONS OF THAT COMPANY.

RATIONALE OF TESTIMONY

IN RESPONSE TO YOUR INVITATION TO APPEAR AT THIS HEARING, I WOULD LIKE TO SHARE WITH YOU THAT COMPANY'S OPERATING HISTORY WHICH

WILL, WE FEEL, UNDERSCORE THE ECONOMIC RISK INVOLVED IN THE TRANS ALASKA PIPELINE PROJECT, AND ALSO POINT UP THE SIGNIFICANT DIFFERENCES BETWEEN A COMMON CARRIER CRUDE OIL PIPELINE AND A PUBLIC UTILITY.

DESCRIPTION OF COOK INLET PIPE LINE COMPANY FACILITIES

COOK INLET PIPE LINE COMPANY WAS INCORPORATED IN MARCH, 1966. ITS STOCK IS OWNED BY ATLANTIC RICHFIELD COMPANY, MARATHON OIL COMPANY, MOBIL PIPE LINE COMPANY AND UNION OIL COMPANY OF CALIFORNIA. THE COOK INLET PIPE LINE FACILITIES WERE COMPLETED IN THE FALL OF 1967 TO OPERATE AS A CRUDE OIL PIPELINE SYSTEM ON THE WEST SIDE OF COOK INLET, KENAI BOROUGH, ALASKA. THE MAIN LINE OF THIS PIPELINE SYSTEM CONSISTS OF FORTY-TWO MILES OF TWENTY-INCH PIPE FROM GRANITE POINT TO DRIFT RIVER. A TERMINAL COMPLEX LOCATED AT DRIFT RIVER CONSISTS OF SEVEN 270,000 BARREL CRUDE OIL STORAGE TANKS, DEBALLASTING AND BALLAST WATER TREATMENT FACILITIES, LIVING QUARTERS, OFFICES AND MAINTENANCE SHOP, AND AN AIRSTRIP AND HANGAR. OIL TRANSPORTED TO THE DRIFT RIVER TERMINAL BY THE PIPELINE IS

LOADED INTO OCEANGOING TANKERS AT A LOADING PLATFORM TWO MILES OFF SHORE AND CONNECTED TO THE ONSHORE TANKAGE BY DUAL THIRTY-INCH SUBMARINE PIPELINES. THIS PIPELINE SYSTEM SERVES FIVE OFFSHORE PRODUCING FIELDS IN COOK INLET -- TRADING BAY UNIT, TRADING BAY FIELD, TEXACO NORTH TRADING BAY FIELD, ATLANTIC NORTH TRADING BAY FIELD, AND GRANITE POINT FIELD. THE LOCATION OF THE PIPELINE FACILITIES AND CONNECTED PRODUCING FIELDS ARE SHOWN ON EXHIBIT I.

CONSTRUCTION OF FACILITIES

DESIGN AND CONSTRUCTION OF THE COOK INLET FACILITIES COMMENCED IN MARCH OF 1966. THE FIRST TANKER WAS LOADED IN NOVEMBER, 1967. THE PIPELINE, THE DRIFT RIVER TERMINAL COMPLEX AND THE TANKER LOADING PLATFORM ARE CONSTRUCTED ON LANDS ACQUIRED FROM THE STATE OF ALASKA. COOK INLET OBTAINED A RIGHT-OF-WAY PERMIT OVER STATE LANDS FOR THE PIPELINE, PURCHASED 898 ACRES OF LAND AT DRIFT RIVER FOR THE TERMINAL SITE, AND ACQUIRED A TIDELANDS LEASE ON 392 ACRES OF THE FLOOR OF COOK INLET ENCOMPASSING THE OFFSHORE TANKER LOADING PLATFORM.

PIPELINE PROJECT JUSTIFICATION

THE ECONOMIC JUSTIFICATION TO CONSTRUCT THE COOK INLET PIPE LINE SYSTEM WAS BASED UPON THE THEN ESTIMATED PROSPECTIVE DISCOVERY OF 800 MILLION BARRELS OF RECOVERABLE CRUDE OIL RESERVES IN THE AREA TO BE SERVED BY THE PIPELINE AND WHICH WOULD BE PRODUCED AND TRANSPORTED IN THE PIPELINE DURING A THIRTY-YEAR PERIOD. INITIAL COST ESTIMATES INDICATED THAT THE CONTEMPLATED PIPELINE FACILITIES COULD BE CONSTRUCTED FOR $32 MILLION. THE FACILITIES ACTUALLY COST $42 MILLION, AN INCREASE OF 31% CAUSED BY THE HIGH COST OF CONSTRUCTION IN ALASKA AND THE NEED FOR MORE STRINGENT DESIGN TO MEET ICE CONDITIONS AFFECTING THE TANKER LOADING PLATFORM.

PIPELINE THROUGHPUT

SINCE THE CONSTRUCTION OF THE COOK INLET FACILITIES, THE RESULTS OF DRILLING AND EXPLORATION IN THE AREA HAVE FALLEN FAR SHORT OF INITIAL EXPECTATIONS. MORE THAN THIRTY-FIVE DRY HOLES HAVE BEEN DRILLED WHICH, IF PRODUCTIVE, WOULD HAVE BEEN SERVED BY THE COOK INLET PIPE LINE SYSTEM. PRODUCERS' CURRENT ESTIMATES ARE

THAT RECOVERABLE CRUDE RESERVES ACCESSIBLE TO THE COOK INLET PIPE LINE SYSTEM WILL BE NO MORE THAN 500 MILLION BARRELS. THIS IS 38% LESS THAN THE RECOVERABLE RESERVE ESTIMATE UTILIZED FOR PROJECT ECONOMICS. AS A RESULT, PIPELINE THROUGHPUT HAS BEEN AND IS NOW PROJECTED TO BE SUBSTANTIALLY LESS THAN ORIGINALLY ANTICIPATED AS IS SHOWN ON EXHIBIT II. UNLESS ADDITIONAL CRUDE OIL RESERVES ARE DISCOVERED IN THE AREA CONTIGUOUS TO THE COOK INLET PIPE LINE SYSTEM, IT IS HIGHLY UNLIKELY THAT THE PIPELINE CAN CONTINUE TO BE OPERATED ECONOMICALLY AT THE THROUGHPUT LEVEL NOW PROJECTED FOR 1987.

TARIFF AND FINANCIAL POLICY

THE COOK INLET TARIFF POLICY WAS INITIALLY ESTABLISHED TO SET TARIFFS FILED WITH THE INTERSTATE COMMERCE COMMISSION AT A LEVEL WHICH WOULD RECOVER ALL COSTS AND PROVIDE AN OWNER'S RETURN OF 7% ON I.C.C. VALUATION. UTILIZING THE ORIGINAL CRUDE OIL PRODUCTION FORECAST (ORIGINAL PROJECTION, EXHIBIT II), THE TARIFF WAS SET AT 21-CENTS PER BARREL. INITIAL PRODUCTION EXCEEDED

EXPECTATIONS AND PRODUCERS' RE-EVALUATIONS OF RESERVES INDICATED THAT PRODUCTION WAS GOING TO EXCEED THE ORIGINAL PROJECTION, PARTICULARLY IN THE FIRST FEW YEARS. BASED ON EXPECTED INCREASED PRODUCTION AND THE ESTABLISHED TARIFF POLICY, THE TARIFF WAS REDUCED TO 16-CENTS PER BARREL IN MAY, 1968. PRODUCTION FELL BELOW FORECAST AND COOK INLET PIPE LINE COMPANY ENDED THE YEAR 1968 WITH A BOOK LOSS OF $123,000 AND A CUMULATIVE LOSS OF $1 MILLION. IN MAY, 1969, THE TARIFF WAS INCREASED TO 20-CENTS WHICH PERMITTED COOK INLET TO OVERCOME THE BOOK DEFICIT. IN APRIL, 1970, IT HAD BECOME EVIDENT THAT CONNECTED RECOVERABLE CRUDE RESERVES WOULD PROBABLY BE NO MORE THAN 500 MILLION BARRELS, AND THE OWNERS AGREED THAT COOK INLET'S FINANCIAL POLICY SHOULD PLACE EMPHASIS UPON RETIREMENT OF INDEBTEDNESS WITHIN THE LIFE EXPECTANCY INDICATED BY CURRENT ESTIMATES OF CRUDE PRODUCTION (CURRENT PROJECTION, EXHIBIT II). THE TARIFF WAS ACCORDINGLY INCREASED TO 22 1/2-CENTS EFFECTIVE JANUARY, 1971, WITH THAT RATE SCHEDULED TO REMAIN IN EFFECT UNTIL SUCH TIME (PROBABLY 1978) AS IT BECOMES NECESSARY TO FURTHER INCREASE THE TARIFF TO MAINTAIN A BREAKEVEN POSITION. THE

CURRENT COOK INLET FINANCIAL POLICY PROVIDES NO DIVIDENDS TO THE OWNERS AND ALL CASH INCOME IN EXCESS OF WORKING CAPITAL REQUIREMENTS IS UTILIZED TO RETIRE DEBT. THE GOAL OF THIS FINANCIAL POLICY IS TO GENERATE SUFFICIENT FUNDS DURING THE REMAINING ECONOMIC LIFE OF THE COOK INLET FACILITY TO REPAY THE INDEBTEDNESS INCURRED TO CONSTRUCT THE FACILITY, AND TO RETURN THE OWNERS' ORIGINAL EQUITY INVESTMENT WITH NO EARNINGS THEREON.

OIL PRODUCTION AND PIPELINE THROUGHPUT

THE ANNUAL THROUGHPUT VOLUMES OF COOK INLET SHOWN ON EXHIBIT II PARALLEL THE CLASSIC PRODUCTION CURVE OF A SINGLE OIL FIELD OR GROUP OF FIELDS DISCOVERED AT APPROXIMATELY THE SAME TIME. PRODUCTION GRADUALLY INCREASES AS FIELD DEVELOPMENT WELLS ARE DRILLED FOLLOWING A PIPELINE CONNECTION TO THE FIELD. SOMETIME AFTER ALL PRODUCTIVE WELLS DRILLED IN THE AREA ARE CONNECTED TO THE PIPELINE, PRODUCTION WILL REACH A PEAK UNLESS PRODUCTION IS OTHERWISE LIMITED FOR A PERIOD OF TIME BY PIPELINE CAPACITY, PRORATIONING OF PRODUCTION, OR RESERVOIR FACTORS. THEREAFTER, PRODUCTION WILL

GRADUALLY DECLINE OVER THE PRODUCING LIFE OF THE FIELD. UNLESS ADDITIONAL RESERVES ARE DISCOVERED IN THE AREA SERVED BY THE PIPELINE, THE THROUGHPUT OF THE PIPELINE WILL DECREASE AS THE CRUDE OIL IS PRODUCED. IN THE ABSENCE OF NEWLY DISCOVERED RESERVES, THE COMBINATION OF DECLINING THROUGHPUT VOLUMES AND INCREASING OPERATING COSTS PER BARREL WILL ULTIMATELY RESULT IN AN UNECONOMICAL PIPELINE OPERATION EVEN IF TRANSPORTATION CHARGES ARE SUBSTANTIALLY INCREASED. ULTIMATELY, PRODUCING AND PIPELINE OPERATING COSTS WILL EXCEED THE VALUE OF THE CRUDE OIL AND BOTH THE OIL FIELD AND THE PIPELINE FACILITY WILL BE ABANDONED.

CRUDE OIL PIPELINES VERSUS PUBLIC UTILITIES

A COMMON CARRIER CRUDE OIL PIPELINE FACILITY CONSTRUCTED TO TRANSPORT PRODUCTION FROM ONE OR MORE NEWLY DISCOVERED OIL FIELDS DIFFERS SUBSTANTIALLY FROM A PUBLIC UTILITY FACILITY. A CRUDE OIL PIPELINE IS A SUBSTANTIALLY MORE RISKY BUSINESS VENTURE THAN A PUBLIC UTILITY ENTERPRISE OR EVEN OTHER TYPES OF COMMON CARRIER TRANSPORTATION OPERATIONS. A PUBLIC UTILITY FACILITY IS ORDINARILY

CONSTRUCTED TO PROVIDE A BASIC SERVICE TO A SEGMENT OF THE GENERAL PUBLIC, OR TO ALL MEMBERS OF THE GENERAL PUBLIC IN A GIVEN AREA. BECAUSE OF POPULATION GROWTH, A PUBLIC UTILITY NORMALLY HAS ASSURED GROWTH IN ITS BUSINESS FROM A FIXED BASE FOR AN INDEFINITE PERIOD OF TIME WITH VERY LITTLE LIKELIHOOD OF ULTIMATE ABANDONMENT OF ITS FACILITIES, AND WITH, TYPICALLY, PERIODIC RATE INCREASES TO MAINTAIN PROFITABILITY. ON THE OTHER HAND, A CRUDE OIL PIPELINE, PARTICULARLY IN A REMOTE PRODUCING AREA SUCH AS ALASKA, WILL BE CONSTRUCTED ONLY TO MEET A SPECIFIC NEED -- THE TRANSPORTATION OF LARGE VOLUMES OF NEWLY DISCOVERED CRUDE OIL RESERVES. CONSEQUENTLY, SUBSTANTIAL INITIAL CAPITAL INVESTMENT IN THE PIPELINE FACILITY IS REQUIRED AT ONE TIME AS CONTRASTED WITH THE MORE GRADUAL INCREMENTAL CAPITAL INVESTMENT OVER A PERIOD OF YEARS BY A PUBLIC UTILITY TO MEET THE INCREASING SERVICE DEMANDS OF A GROWING POPULATION. SUCH A CRUDE OIL PIPELINE FACILITY IS DESIGNED SOLELY TO TRANSPORT THE DISCOVERED AND PROSPECTIVE OIL RESERVES IN THE AREA IN WHICH THE PIPELINE IS CONSTRUCTED. THERE IS NO ASSURANCE THAT ADDITIONAL OIL FIELDS WILL BE DISCOVERED IN THE AREA SERVED BY THE PIPELINE OR

EVEN THAT THE ANTICIPATED PROSPECTIVE CRUDE OIL RESERVES WILL ULTIMATELY BE PRODUCED AND TRANSPORTED IN THE PIPELINE. THE ABANDONMENT OF THE PIPELINE FACILITY WHEN OIL RESERVES ARE DEPLETED IS A CONCRETE PROBABILITY FROM THE VERY INCEPTION OF THE PIPELINE PROJECT. THESE UNUSUAL CRUDE OIL PIPELINE RISK FACTORS RESULTING FROM THE CHANCE LOCATIONS OF UNDERGROUND OIL RESERVOIRS ARE INEVITABLE AND ACCEPTED IN THE OIL INDUSTRY. BECAUSE THESE HIGH RISK FACTORS CANNOT BE AVOIDED, CRITERIA FOR DETERMINING REASONABLE RATES OF RETURN ON OIL PIPELINE INVESTMENTS HAVE ALWAYS RECOGNIZED THAT TRADITIONAL PUBLIC UTILITY RATE-MAKING CONCEPTS CANNOT BE REALISTICALLY APPLIED TO OIL PIPELINE COMMON CARRIERS.

RECOGNITION OF RISK

THE WILLINGNESS OF OIL COMPANIES TO CONSTRUCT THE COOK INLET PIPE LINE SYSTEM WITHOUT ASSURANCE OF AN ACCEPTABLE LEVEL OF PROFITABILITY ON THE INVESTMENT IN THE FACILITY DEMONSTRATES THE ECONOMIC RISK ASSUMED IN CRUDE OIL PIPELINE INVESTMENTS BY ENTERPRISES IN THE PETROLEUM INDUSTRY. THE PARTICIPANTS IN THE

TRANS ALASKA PIPELINE SYSTEM PROJECT SIMILARLY HAVE NO ASSURANCE THAT THE PIPELINE FACILITY WILL BE A PROFITABLE INVESTMENT OVER ITS LIFE. NEVERTHELESS, THE TAPS OWNERS ARE WILLING TO ASSUME THE RISK INHERENT IN THE PROJECT. FUTURE DEVELOPMENTS WILL DETERMINE WHETHER THE TRANS ALASKA PIPELINE SYSTEM WILL BE A PROFITABLE INVESTMENT OVER THE LIFE OF THE PROJECT.

JRK-GAS/JV
MARCH 3, 1972

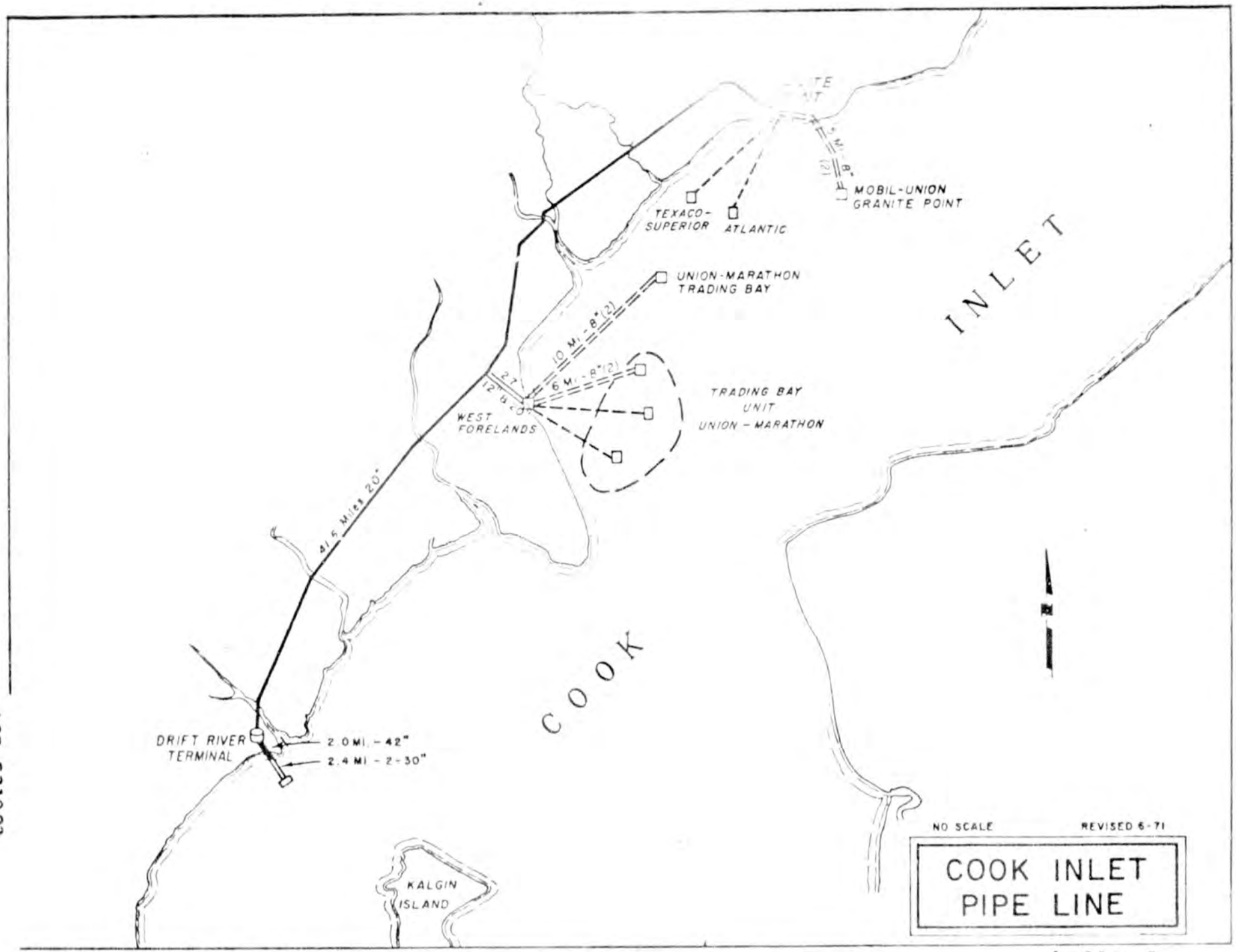

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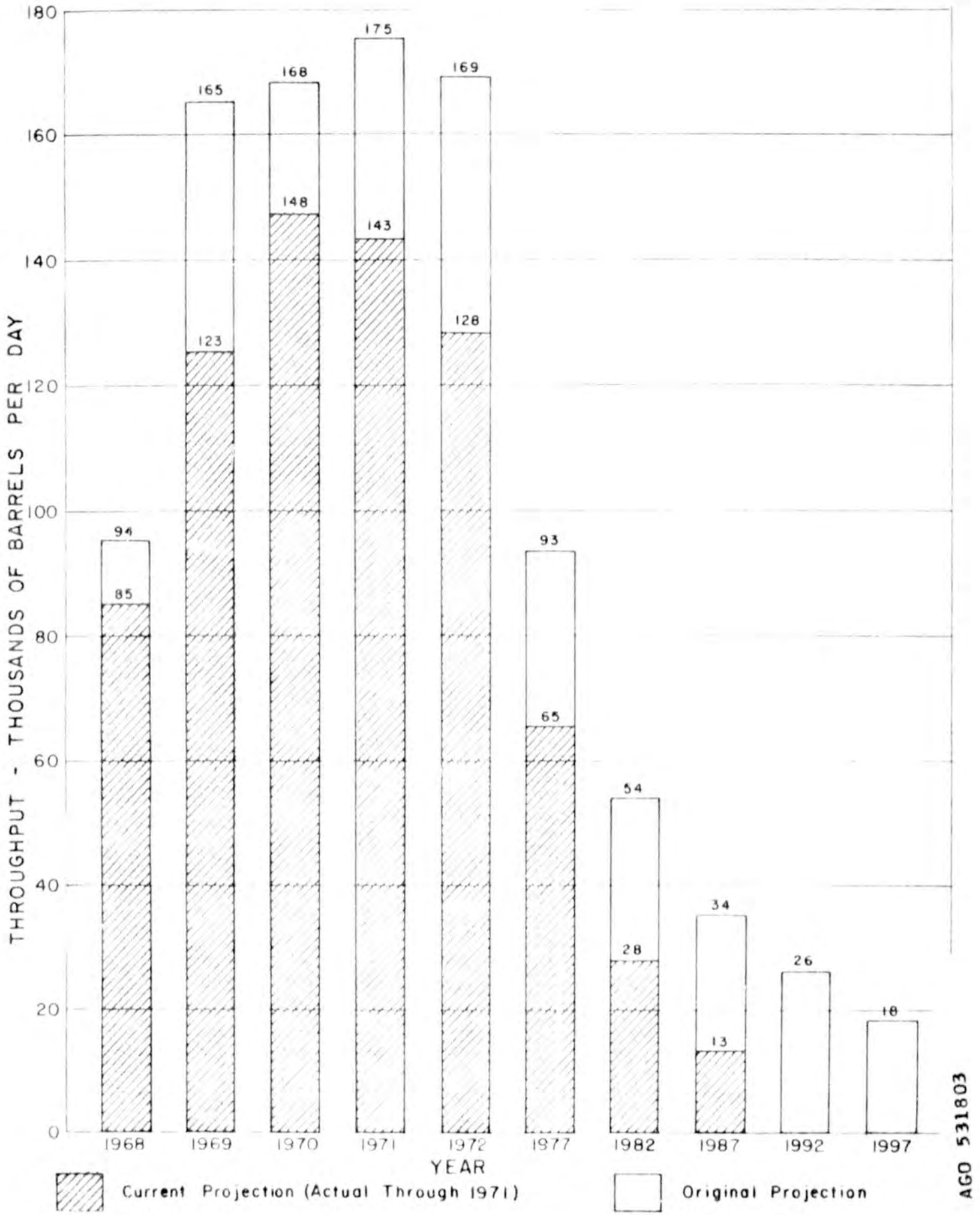
EXHIBIT 11

COOK INLET PIPE LINE COMPANY
ANNUAL THROUGHPUT VOLUMES



PLEASE NOTE: THE PRECEDING PAGES WERE TREATED AS A UNIT IN THE ORIGINAL DOCUMENT.

REMARKS OF THOMAS BROUSSARD
TO THE JOINT HEARING OF THE SENATE COMMERCE COMMITTEE
AND THE HOUSE STATE AFFAIRS COMMITTEE
ON PROPOSED ALASKAN LEGISLATION CONCERNING
PIPELINE REGULATION, RIGHT-OF-WAY AND
STATE OWNERSHIP -- MARCH 6, 7, & 8, 1972

MR. CHAIRMAN: MY NAME IS THOMAS BROUSSARD, AND I AM A TAX ATTORNEY IN THE LEGAL DEPARTMENT OF ATLANTIC-RICHFIELD COMPANY.

TOGETHER WITH COUNSEL REPRESENTING SEVERAL OTHER OIL COMPANIES, INCLUDING COUNSEL FROM SEVERAL LAW FIRMS, I HAVE STUDIED THE QUESTIONS OF FEDERAL TAXATION OF THE STATE OF ALASKA ON POTENTIAL PROFITS TO BE DERIVED FROM OWNERSHIP OF A TRANS-ALASKA PIPELINE AND THE SEPARATE QUESTION OF THE TAXATION OF INTEREST RECEIVED BY BONDHOLDERS FROM ANY BONDS THAT MIGHT BE ISSUED BY THE STATE OR A PUBLIC AUTHORITY FOR THE PURPOSE OF BUILDING THE PIPELINE. IT IS MY OPINION AND THAT OF MY COLLEAGUES THAT IT IS VERY DOUBTFUL THAT EITHER THE STATE OR ITS BONDHOLDERS, UNDER THE BILLS INTRODUCED BY THE ADMINISTRATION, WILL BE EXEMPT FROM FEDERAL INCOME TAX.

THE PROPOSAL FOR PIPELINE OWNERSHIP AS DESCRIBED TO THE COMMITTEES SEEKS TWO TAX ADVANTAGES TO INCREASE STATE REVENUES AT THE EXPENSE OF THE FEDERAL TREASURY. THE FIRST ASSUMED ADVANTAGE IS FOR THE STATE ITSELF TO RECEIVE AS PIPELINE PROFIT AN AMOUNT EQUAL TO THE FEDERAL INCOME TAX WHICH WOULD BE PAID BY THE OIL COMPANIES ON ANY INCOME EARNED FROM THE PIPELINE. THE SECOND

HOPED FOR ADVANTAGE IS TO REDUCE THE INTEREST COST ON DEBT FINANCING OF THE LINE BY AN AMOUNT EQUAL TO THE FEDERAL INCOME TAX WHICH WOULD BE PAID BY HOLDERS OF PRIVATE COMPANIES' BONDS.

CONSIDERING THE LIKELIHOOD OF THE STATE'S EXEMPTION FROM FEDERAL INCOME TAX ON PROFIT FROM THE PIPELINE, THERE IS NO QUESTION THAT CONGRESS HAS THE CONSTITUTIONAL POWER TO TAX THE STATE ON ITS INCOME FROM BUSINESS OPERATIONS. THE PAST POSITION OF THE IRS HAS BEEN THAT CONGRESS HAS NOT IMPOSED THE FEDERAL INCOME TAX ON A STATE DIRECTLY ENGAGED IN A BUSINESS ACTIVITY FOR THE PURPOSE OF PROVIDING A PUBLIC NECESSITY OR IN THE EXERCISE OF ITS POLICE POWER. HOWEVER, IT IS DOUBTFUL THAT THE IRS WILL MAINTAIN THAT POSITION IF ASKED TO RULE ON THE QUESTION OF THE STATE OF ALASKA OPERATING A 3.5 BILLION DOLLAR PIPELINE TO CARRY OIL FOR A LIMITED NUMBER OF PRIVATE OIL COMPANIES.

IF THE IRS DID GRANT A FAVORABLE RULING, WHERE, AS STATED BEFORE THIS COMMITTEE, THE INTENTION OF THE STATE IS TO SUBSTITUTE ITSELF FOR PRIVATE BUSINESSES WHICH ARE READY, ABLE AND WILLING TO ENGAGE IN A COMMERCIAL ACTIVITY FOR THE BENEFIT OF RELATIVELY FEW PRIVATE USERS, AND PASS ON TO THOSE COMPANIES ALL OR A MAJOR PORTION OF THE SAVINGS FROM ITS PRIVILEGE OF TAX EXEMPTION, CONGRESS IS ALMOST CERTAIN TO EXAMINE WHETHER THE PRIVILEGE OF TAX IMMUNITY SHOULD BE CONTINUED. THE RESULT, I AM SURE, WOULD BE AN AMENDMENT TO THE STATUTE TO MAKE CLEAR THE INTENTION OF CONGRESS THAT SUCH INCOME SHOULD NOT ESCAPE FEDERAL TAXATION. IN FACT, IT IS DOUBTFUL THAT CONGRESSIONAL REACTION WOULD BE LIMITED TO THIS STATE ACTIVITY.

WITH RESPECT TO THE POSSIBILITY OF THE EXEMPTION FROM FEDERAL INCOME TAX OF INTEREST RECEIVED BY THE HOLDERS OF BONDS ISSUED BY A

STATE AUTHORITY TO FINANCE THE PIPELINE, THE ANSWER IS CLEAR. INTEREST ON STATE BONDS IS EXEMPT FROM FEDERAL TAX SOLELY BY VIRTUE OF SECTION 103(A) OF THE INTERNAL REVENUE CODE.

IN THE WORDS EARLIER THIS YEAR OF AN ATTORNEY-ADVISOR IN THE OFFICE OF TAX LEGISLATIVE COUNSEL OF THE U.S. TREASURY DEPARTMENT "THE INCREASING USE OF TAX-EXEMPT FINANCING FOR PURPOSES BEYOND THOSE ORIGINALLY CONTEMPLATED BY SECTION 103(A) HAS LED TO A SERIES OF ACTIONS BY THE TREASURY AND THE CONGRESS TO RESTRICT SUCH FINANCING TO THE PURPOSES FOR WHICH THE EXEMPTION WAS ORIGINALLY GRANTED."

THE ABUSE WHICH PROMPTED CONGRESS IN 1968 TO AMEND SECTION 103 WAS PRIMARILY THE USE BY STATES OF THE TAX EXEMPTION TO FINANCE INDUSTRIAL PROJECTS FOR PRIVATE COMPANIES. TO MY KNOWLEDGE, THE LARGEST SUCH PROJECT INVOLVED STATE BONDS OF LESS THAN 100 MILLION DOLLARS. THE PROPOSED LEGISLATION WOULD UTILIZE THIS PRIVILEGE FOR A PROJECT ESTIMATED AT 35 TIMES THAT AMOUNT. THE PREVIOUS CONCERNS EXPRESSED BY CONGRESS AND THE TREASURY THAT EARLIER ISSUES WERE CREATING UNINTENDED BENEFITS FOR PRIVATE BUSINESS AND REDUCING THE MARKET FOR MUNICIPAL BONDS FOR NEEDED GOVERNMENTAL SERVICES ARE DWARFED BY THE MAGNITUDE OF THIS PROPOSAL.

THE ACTION BY CONGRESS TO RESTRICT THE TAX EXEMPTION OF INTEREST ON MUNICIPAL BONDS ARE CONTAINED IN SECTION 103(C) OF THE INTERNAL REVENUE CODE, WHICH DENIES TAX EXEMPTION FOR INTEREST ON INDUSTRIAL DEVELOPMENT BONDS. FOR OUR PURPOSES AN INDUSTRIAL DEVELOPMENT BOND MAY BE DEFINED TO MEAN ANY OBLIGATION ISSUED AS A PART OF AN ISSUE, ALL OR A MAJOR PORTION

OF THE PROCEEDS OF WHICH ARE TO BE USED DIRECTLY OR INDIRECTLY IN ANY TRADE OR BUSINESS CARRIED ON BY ANY NON-TAX-EXEMPT PERSON AND THE PRINCIPAL OR INTEREST OF WHICH IS SECURED OR TO BE DERIVED FROM ANY INTEREST IN PROPERTY USED IN A TRADE OR BUSINESS OR FROM PAYMENTS IN RESPECT OF SUCH PROPERTY.

THIS LATTER TEST, CALLED THE SECURITY INTEREST TEST, IS CLEARLY SATISFIED WHEN THE BOND SERVICE IS TO BE PAID FROM THE REVENUES OF THE PIPELINE AS PROPOSED, PROVIDED THE PIPELINE IS USED IN THE TRADE OR BUSINESS OF THE OIL COMPANIES.

THE FIRST TEST, CALLED THE TRADE OR BUSINESS TEST, IS THE CRITICAL ONE. THE PROPOSED REGULATIONS INTERPRETING THIS LANGUAGE ARE SUBJECT TO CHANGE, BUT AT PRESENT PROVIDE THAT THE TRADE OR BUSINESS TEST IS MET "IN THE CASE OF A FACILITY CONSTRUCTED. . .OR ACQUIRED WITH THE PROCEEDS OF AN ISSUE WHICH IS OSTENSIBLY OWNED AND OPERATED BY AN EXEMPT PERSON (SUCH AS THE PROPOSED TRANS ALASKA AUTHORITY) BUT WHERE ONE OR MORE NON-EXEMPT PERSONS (SUCH AS THE OIL COMPANIES) AGREE, PURSUANT TO ONE OR MORE LONG-TERM CONTRACTS, TO TAKE, OR TO TAKE OR PAY FOR, A MAJOR PORTION (MORE THAN 25%) OF THE OUTPUT OF SUCH FACILITY (WHETHER OR NOT CONDITIONED UPON THE PRODUCTION OF SUCH OUTPUT) FOR PERIODS OF TIME WHICH ARE SUBSTANTIAL IN RELATION TO THE TERMS OF THE BONDS."

ALTHOUGH THE REGULATION SPEAKS OF OUTPUT OR PRODUCTION FROM A FACILITY, THE SAME RULE WOULD APPLY TO GUARANTEEING INPUT TO A FACILITY SUCH AS A PIPELINE IN WHICH THE REVENUE IS EARNED FROM CARRYING CRUDE OIL.

FROM DISCUSSIONS WITH PERSONS EXPERIENCED IN PUBLIC FINANCING OF PIPELINES, WE HAVE BEEN CONSISTENTLY ADVISED THAT LONG-TERM

COMMITMENTS TO SUPPLY CRUDE TO THE LINE UNDER A TAKE OR PAY THROUGHPUT AGREEMENT WILL BE NECESSARY TO SELL THE BONDS.

INDEED THE MINIMUM SHIPPING AGREEMENTS DESCRIBED BY MR. GUILDEHOUS (WHILE NOT SUFFICIENT TO SATISFY INVESTORS IN THE VIEW OF MR. GARY) IS IN MY OPINION SUFFICIENT TO SATISFY THE TRADE OR BUSINESS TEST OF SECTION 103(c) AND, THUS, TO MAKE THE PROPOSED BONDS INDUSTRIAL DEVELOPMENT BONDS NOT ENTITLED TO TAX EXEMPTION. UNDER SUCH A PLAN (WHICH THE TEMPLE REPRESENTATIVES SAID HAS NOT BEEN ACCEPTED BY THE STATE OR ITS FINANCIAL ADVISORS), THE COMPANIES WOULD BE ASKED TO MAKE A LONG-TERM CONTRACT TO GUARANTEE TO PROVIDE MORE THAN 25% OF THE CRUDE TO BE TRANSPORTED THROUGH THE LINE WHICH IS THE EQUIVALENT OF GUARANTEEING TO TAKE OR PAY FOR MORE THAN 25% OF THE TRANSPORTATION SERVICE.

MR. CADES STATED THAT THE VOLUME OF THE LINE AVAILABLE TO THE OWNER COMPANIES IS SUBJECT TO REDUCTION FOR OTHER USERS, WHICH CHANGES THE TAKE OR PAY NATURE OF THE CONTRACT. BUT, SINCE ANY ADDITIONAL USERS ARE UNLIKELY TO REDUCE THE ORIGINAL COMPANIES' COMMITMENT BELOW 25% AND SUCH USERS ARE THEMSELVES NON-EXEMPT PERSONS, I FAIL TO SEE HOW THIS WOULD ESCAPE THE DEFINITION OF INDUSTRIAL REVENUE BONDS SET FORTH IN THE REGULATIONS.

THERE IS AN EXCEPTION THAT "FACILITIES WILL NOT BE TREATED AS INDIRECTLY USED IN THE TRADES OR BUSINESSES OF NON-EXEMPT PERSONS WHERE SUCH PERSONS PURCHASE THE OUTPUT OF THE FACILITIES ON TERMS WHICH ARE CUSTOMARY IN THE INDUSTRY FOR SALE OF SUCH OUTPUT AND WHICH DO NOT HAVE THE EFFECT OF TRANSFERRING TO THEM THE BENEFITS AND BURDENS OF OWNERSHIP OF SUCH FACILITIES."

AS A SAFE HAVEN FROM THE TEST OF WHETHER THE BENEFITS AND BURDENS OF OWNERSHIP HAVE BEEN TRANSFERRED, THE REGULATIONS PROVIDE THAT THE TRADE OR BUSINESS WILL NOT BE MET IF THE OUTPUT "IS SOLD TO A SUBSTANTIAL NUMBER OF UNRELATED CUSTOMERS UNDER A RATE SCHEDULE OF GENERAL APPLICATIONS PROVIDED THAT NO SINGLE CUSTOMER PAYS ANNUALLY A DEMAND CHARGE OR GUARANTEED MINIMUM PAYMENT WHICH EXCEEDS 2-1/2% OF THE AVERAGE ANNUAL DEBT SERVICE." THE ILLUSTRATION UNDER THIS EXCEPTION DEALS WITH A FACILITY FOR SUPPLYING ELECTRIC ENERGY.

IN OUR OPINION, THE MINIMUM SHIPPING AGREEMENTS CAN HARDLY BE SAID EITHER TO BE TERMS OF SALE CUSTOMARY IN THE INDUSTRY OR NOT TO HAVE THE EFFECT OF TRANSFERRING THE BURDENS OF OWNERSHIP TO THE COMPANIES. MR. GARY HAS ALREADY EXPLAINED WHY THE BURDENS OF OWNERSHIP (IN THE FORM OF THE PLEDGE OF COMPANY CREDIT) ARE OF NECESSITY PLACED ON THE COMPANIES. EARLIER TESTIMONY BY THE ADMINISTRATION HAS STATED THAT SOME OF THE BENEFITS OF OWNERSHIP WILL BE PASSED ON TO THE COMPANIES AS WELL. THEREFORE, THE TEMPLE PLAN WILL NOT FIT WITHIN THE EXCEPTION.

THUS, IT IS OUR CONCLUSION THAT IT IS EXTREMELY UNLIKELY THAT A FAVORABLE RULING COULD BE OBTAINED FROM THE INTERNAL REVENUE SERVICE THAT INTEREST ON THESE PROPOSED BONDS WOULD BE TAX EXEMPT. ALTHOUGH RULINGS, ONCE OBTAINED AND ACTED UPON BY THE RECIPIENT, ARE SELDOM, IF EVER, RETROACTIVELY REVERSED, IT SEEMS UNLIKELY THAT CONGRESS, IN VIEW OF ITS POSITION IN 1968, WOULD NOT ACT TO NULLIFY SUCH A RULING BEFORE ANY COMMITMENT HAD BEEN MADE IN RELIANCE ON THE RULING. IN FACT, LEGISLATION WOULD PROBABLY BE

INTRODUCED AS SOON AS ANY APPLICATION FOR A REVENUE RULING BECAME KNOWN WHICH WOULD CAUSE THE IRS TO SUSPEND ACTION ON THE RULING REQUEST.

TWO ADDITIONAL MATTERS SHOULD BE MENTIONED. IT HAS BEEN SUGGESTED THAT IF THE STATE COULD OBTAIN THE TAX BENEFITS UPON WHICH THE ADMINISTRATION'S PROJECTIONS ARE BASED, THESE BENEFITS WOULD BE PASSED ON TO THE OIL COMPANIES. THE MAGNITUDE OF ANY DIFFERENTIAL IN INTEREST RATES HAS BEEN DISCUSSED EARLIER BY ADMINISTRATION WITNESSES AS BEING QUITE SMALL OR NON-EXISTENT. BUT EVEN IF SOME TAX SAVINGS WERE PASSED ON TO THE OIL COMPANIES BY REDUCED TARIFF, WHETHER ORDERED BY THE ICC OR OTHERWISE, THE BENEFIT TO THE COMPANIES WOULD STILL BE SUBSTANTIALLY REDUCED BY THE INCREASED INCOME TAX PAYMENTS ON THE HIGHER PROFITS RESULTING FROM LOWER TRANSPORTATION COSTS.

SECONDLY, THE OWNERSHIP BILL IS DESIGNED TO PROVIDE FINANCING FOR SEVERAL FACILITIES SEPARATE FROM THE PIPELINE IN AN EFFORT TO TAKE ADVANTAGE OF CERTAIN EXEMPTIONS FROM THE INDUSTRIAL REVENUE BOND PROVISIONS OF SECTION 103(c).

WHERE AN OBLIGATION MEETS THE TESTS OF AN INDUSTRIAL DEVELOPMENT BOND, THE INTEREST MAY STILL BE EXEMPT FROM TAX IF THE PROCEEDS ARE USED FOR CERTAIN FACILITIES LISTED IN SECTION 103(c)(4). THOSE FACILITIES ARE:

"(A) RESIDENTIAL REAL PROPERTY FOR FAMILY UNITS;

(B) SPORT FACILITIES;

(C) CONVENTION OR TRADE SHOW FACILITIES;

(D) AIRPORTS, DOCKS, WHARVES, MASS COMMUTING FACILITIES, PARKING FACILITIES, OR STORAGE OR TRAINING FACILITIES DIRECTLY RELATED TO ANY OF THE FOREGOING;

(E) SEWAGE OR SOLID WASTE DISPOSAL FACILITIES OR FACILITIES FOR THE LOCAL FURNISHING OF ELECTRIC ENERGY OR GAS;

(F) AIR OR WATER POLLUTION CONTROL FACILITIES, OR

(G) FACILITIES FOR THE FURNISHING OF WATER, IF AVAILABLE ON REASONABLE DEMAND TO MEMBERS OF THE GENERAL PUBLIC."

YOU WILL NOTICE THAT SECTION 1 OF HB 579 LISTS SEVERAL OF THESE EXEMPT FACILITIES. HOWEVER, FOR MOST OF THOSE FACILITIES RELATED TO THE PIPELINE IT IS UNLIKELY THAT THE EXEMPTION WILL APPLY. THE PROPOSED REGULATIONS PROVIDE THAT "TO QUALIFY UNDER SECTION 103(c)(1) AND THIS SECTION AS AN EXEMPT FACILITY, A FACILITY MUST SERVE OR BE AVAILABLE FOR GENERAL PUBLIC USE, OR BE A PART OF A FACILITY SO USED, AS CONTRASTED WITH SIMILAR TYPES OF FACILITIES WHICH ARE CONSTRUCTED FOR THE EXCLUSIVE USE OF A LIMITED NUMBER OF NON-EXEMPT PERSONS IN THEIR TRADES OR BUSINESSES."

THE BULK OF THE FACILITIES ASSOCIATED WITH THE PIPELINE ARE FOR THE USE OF A LIMITED NUMBER OF PRIVATE COMPANIES. HOWEVER,

THIS RULE DOES NOT APPLY TO POLLUTION CONTROL FACILITIES.

IN CONCLUSION, THE REQUIREMENTS OF GUARANTEES BY THE OIL COMPANIES OF THROUGHPUT TO THE PIPELINE NECESSARY FOR SUCCESSFUL MARKETING OF STATE BONDS TO CONSTRUCT THE PIPELINE, AMPLY DESCRIBED BY MR. GARY, WILL MAKE THE INTEREST ON SUCH BONDS SUBJECT TO FEDERAL INCOME TAX. FURTHER, IT IS QUITE POSSIBLE THAT THE STATE'S INCOME FROM OPERATION OF THE PIPELINE WILL BE TAXED BY THE FEDERAL GOVERNMENT. THUS TO THE EXTENT THAT TAX EXEMPTION IS ESSENTIAL TO THE ATTRACTIVENESS OF THE OWNERSHIP BILL, THAT BILL IS UNLIKELY TO SATISFY THE STATE'S REVENUE NEEDS. IN THE MEANTIME, IT CREATES A CONTINUING CLOUD OVER THE PRIVATE FINANCES NEEDED BY THE COMPANIES IN ORDER TO PLACE THE TRANS ALASKA PIPELINE IN SERVICE AS SOON AS POSSIBLE.

PLEASE NOTE: THE FOLLOWING PAGES WERE TREATED AS A UNIT IN THE ORIGINAL DOCUMENT.

REMARKS OF RAYMOND B. GARY
PARTNER, MORGAN STANLEY & CO.
TO ALASKAN SENATE AND HOUSE COMMITTEES
ON PROPOSED LEGISLATION CONCERNING
PIPELINE REGULATION, RIGHT-OF-WAY AND
STATE OWNERSHIP -- MARCH 6, 7 & 8

INTRODUCTION

MY NAME IS RAYMOND B. GARY AND MY BUSINESS ADDRESS IS 140 BROADWAY, NEW YORK, NEW YORK. I JOINED MORGAN STANLEY & CO. IN 1955, FOLLOWING UNDERGRADUATE STUDIES AT YALE, GRADUATE WORK AT HARVARD, AND SERVICE IN THE U. S. NAVY. I HAVE BEEN A GENERAL PARTNER IN THE FIRM SINCE 1964. I AM ALSO A MANAGING DIRECTOR OF MORGAN STANLEY & CO. INCORPORATED, A PARALLEL CORPORATION WHICH CONDUCTS OUR UNDERWRITING AND BROKERAGE ACTIVITIES.

MORGAN STANLEY IS AN INVESTMENT BANKING FIRM ENGAGED IN ALL PHASES OF THE UNDERWRITING AND DISTRIBUTION OF SECURITIES OF INDUSTRIAL CORPORATIONS, PUBLIC UTILITIES, FINANCIAL CORPORATIONS, TRANSPORTATION COMPANIES INCLUDING AIRLINES AND PIPELINES, AND FOREIGN CORPORATIONS AND GOVERNMENTS. WE ARE MEMBERS OF THE NEW YORK STOCK EXCHANGE AND ASSOCIATE MEMBERS OF THE AMERICAN STOCK EXCHANGE. SINCE 1935, THE YEAR MORGAN STANLEY & CO. WAS FOUNDED, THE FIRM, INCLUDING ITS FOREIGN AFFILIATE, MORGAN & CIE

INTERNATIONAL S. A., HAS MANAGED OR CO-MANAGED A TOTAL OF APPROXIMATELY $60 BILLION OF SECURITY OFFERINGS. IN ADDITION TO ACTIVITIES RELATED TO UNDERWRITING AND PRIVATE PLACEMENTS, MORGAN STANLEY PROVIDES GENERAL FINANCIAL ADVISORY SERVICES ON A WIDE RANGE OF MATTERS INCLUDING LONG-RANGE FINANCIAL POLICY AND PLANNING.

THE $60 BILLION TOTAL FINANCING VOLUME I MENTIONED INCLUDES OVER $2 BILLION OF ISSUES DONE BY OUR FIRM FOR 18 PIPELINE COMPANIES. IT ALSO INCLUDES THE LARGEST PUBLIC CORPORATE BOND OFFERING EVER MADE, $1.6 BILLION OF AMERICAN TELEPHONE & TELEGRAPH COMPANY DEBENTURES WITH WARRANTS ATTACHED, AND THE LARGEST PRIVATE PLACEMENT EVER DONE. WE ALSO HANDLED THE PRIVATE PLACEMENT OF $550 MILLION FOR CONSTRUCTION OF A HYDROELECTRIC PROJECT IN LABRADOR BY CHURCHILL FALLS (LABRADOR) CORPORATION LIMITED, WHICH IS THE LARGEST PROJECT EVER PRIVATELY FINANCED. THESE RECORD-SIZED CORPORATE FINANCINGS EXCEED IN SIZE ANY LONG-TERM ISSUE SOLD BY A STATE GOVERNMENT. THE ONLY LARGER BOND ISSUES HAVE BEEN THOSE OF NATIONAL GOVERNMENTS, WITH THEIR UNLIMITED TAXING POWER AND ABILITY TO ISSUE MONEY.

HENCE, THE PERSPECTIVE FROM WHICH I SPEAK IS THAT OF A MANAGING DIRECTOR OF A LEADING UNDERWRITER WHOSE PRINCIPAL BUSINESS IS THE RAISING OF CAPITAL, WITH EXPERIENCE IN RAISING VERY LARGE SUMS OF MONEY SUCH AS WOULD BE INVOLVED IN THE

FINANCING OF THE TRANS ALASKA PIPELINE SYSTEM. I AM PLEASED TO HAVE THIS OPPORTUNITY TO SPEAK BEFORE THE COMMITTEE. I SPEAK NOT AS PROPONENT OF ANY FIXED POINT OF VIEW, BUT AS ONE WHO, I BELIEVE, SHARES THE COMMON OBJECTIVES OF ALASKANS AND THE OIL COMPANIES, ALL OF WHOM WISH TO SEE THE PIPELINE CONSTRUCTED IN THE MOST EFFICIENT MANNER, AT THE LOWEST COST, AND AS SOON AS POSSIBLE - IN ORDER TO (1) OPEN UP ONE OF ALASKA'S GREAT NATURAL RESOURCES, (2) HELP MEET THE GROWING NEED FOR ENERGY IN ALL OF THE UNITED STATES, AND (3) MAKE A SIGNIFICANT FAVORABLE CONTRIBUTION TO THE COUNTRY'S BALANCE OF PAYMENTS.

I HOPE THAT BY SHARING WITH YOU MY FIRM'S EXPERIENCE IN FINANCING MANY LARGE UNDERTAKINGS I CAN BE OF ASSISTANCE IN REACHING A SATISFACTORY SOLUTION CONCERNING THE PENDING LEGISLATION.

THE BILLS BEFORE YOUR COMMITTEE, BROADLY SPEAKING, INVOLVE LEGISLATION WHICH WOULD REGULATE THE OPERATION OF THE PIPELINE AND WHICH WOULD PROVIDE FOR POSSIBLE OWNERSHIP OF THE PIPELINE BY THE STATE. I WISH TO DIRECT MYSELF TO DISCUSSING THE POTENTIAL IMPACT OF THESE BILLS UPON THE SUCCESSFUL FINANCING OF THE PIPELINE.

CONVENTIONAL FINANCING OF PIPELINES

I THINK IT MIGHT BE USEFUL IF I TALK BRIEFLY ABOUT HOW JOINTLY-OWNED PIPELINES ARE CUSTOMARILY FINANCED. JOINTLY-

OWNED COMMON CARRIER PIPELINES HAVE BEEN CONVENTIONALLY ORGANIZED AND FINANCED IN ONE OF TWO WAYS, EITHER AS SO-CALLED "PROJECT FINANCING" OF PIPELINE COMPANIES ORGANIZED TO OWN PIPELINES IN CORPORATE FORM, OR, AS IS THE CASE IN TRANS ALASKA PIPELINE SYSTEM, AS UNDIVIDED JOINT INTEREST SYSTEMS.

IN THE FIRST CASE, WHERE PROJECT FINANCING IS DONE, THE CONVENTIONAL PRACTICE IS TO FORM A PIPELINE COMPANY WHICH CONSTRUCTS AND OPERATES THE SYSTEM AND ISSUES DEBT FOR VIRTUALLY ALL OF THE COST OF CONSTRUCTION, THE TYPICAL AMOUNT BEING 90% OF FINAL COST. THE DEBT IS SECURED BY THE PLEDGE OF COMPLETION AGREEMENTS AND THROUGHPUT AGREEMENTS UNDERTAKEN BY THE SEVERAL SHIPPER-OWNERS OF THE PIPELINE. THE TYPICAL SECURITY ARRANGEMENTS INCLUDE UNCONDITIONAL COMMITMENTS OF THE SHIPPER-OWNERS TO COMPLETE THE FACILITIES TO OPERATE THEM, AND IF OPERATION IS INTERRUPTED FOR ANY REASON, TO TAKE NECESSARY STEPS TO RESTORE THE FACILITIES TO OPERATION. AS PART OF THE THROUGHPUT AGREEMENTS, THE "CASH DEFICIENCY OBLIGATIONS" INEVITABLY CONTINUE REGARDLESS OF FORCE MAJEURE (ANY EVENT INTERFERING WITH OPERATION OF THE LINE). IN EFFECT, THEY REQUIRE THE SHIPPER-OWNERS TO MAINTAIN THE PIPELINE'S FUNDS AT A LEVEL WHICH WOULD ENABLE IT TO MEET ALL ITS OBLIGATIONS WHEN THEY BECOME DUE AND PAYABLE. AS SUCH, THEY ARE FIRM APPLICATIONS OF THE FULL CREDIT OF THE OIL COMPANIES INVOLVED AND, FOR THE

PURPOSES OF FINANCING, ARE EQUIVALENT TO GUARANTEES OF THE PIPELINE COMPANY'S INDEBTEDNESS.

IN THIS TYPE OF FINANCING, THE PROJECT ITSELF MUST BE DEMONSTRATED TO BE ECONOMIC AND VIABLE, AND THE QUALITY OF THE OBLIGATIONS IS MEASURED BY THE COMPOSITE CREDIT OF THE SEVERAL OIL COMPANIES INVOLVED. IN OTHER WORDS, THE INVESTORS ARE CONCERNED, FIRST THAT THE PROJECT STANDS ON ITS OWN FEET, BUT ALSO THEY LOOK THROUGH THE PROJECT TO THE ULTIMATE GUARANTORS. THIS TYPE OF FINANCING IS STANDARD AND WELL UNDERSTOOD BY PROFESSIONAL INVESTORS, AND HAS BEEN IN COMMON USE SINCE THE TIME OF THE ELKINS ACT - PIPELINE CONSENT DECREE ENTERED INTO IN 1941.

YOU MIGHT WONDER WHY OIL COMPANIES WISH TO RAISE AND LENDERS READILY PROVIDE INDEBTEDNESS AS HIGH AS 90% OF TOTAL CAPITALIZATION. THE FIRST ANSWER IS THAT THE CONSENT DECREE HAS LIMITED THE RETURN FROM PIPELINE OPERATIONS TO A SPECIFIED PERCENTAGE OF PIPELINE VALUATION. THIS INVARIABLY DICTATES THAT OIL COMPANIES MAXIMIZE THE USE OF DEBT, THE OBJECTIVE BEING TO MATCH AS CLOSELY AS POSSIBLE PERMITTED ICC DEPRECIATION WITH REPAYMENT OF DEBT. THE REASON THAT LENDERS ACCEPT HIGH DEBT RATIOS ON PIPELINES IS THAT THEY RECOGNIZE THE THROUGHPUT UNDERTAKINGS TO BE FULL APPLICATION OF THE CREDIT OF THE OIL COMPANY OR COMPANIES INVOLVED. CONSEQUENTLY, THE LENDERS ARE NOT TAKING THE RISKS OF FAILURE OF THE PIPELINE

OPERATION. THESE RISKS ARE BORNE BY THE OIL COMPANIES IN THE FORM OF THEIR BACKSTOPPING, AS WELL AS THEIR EQUITY INTEREST. THE END RESULT IS THAT THE OIL COMPANY HAS DEDICATED ONE OF ITS VALUABLE ASSETS, NAMELY ITS CREDIT, TO OBTAIN USE OF A PIPELINE SYSTEM AND A REGULATED PROFIT ON ITS INVESTMENT.

THE SECOND WAY OF ORGANIZING AND FINANCING JOINTLY OWNED PIPELINES IS AS UNDIVIDED JOINT INTEREST SYSTEMS. THIS IS HOW TRANS ALASKA PIPELINE SYSTEM IS ORGANIZED. FOR CONSENT DECREE REASONS OWNERSHIP IS CUSTOMARILY INVESTED IN, AND THE INDEBTEDNESS IS USUALLY RAISED BY, A WHOLLY-OWNED PIPELINE SUBSIDIARY OF EACH OWNER, BUT THE ARRANGEMENT STILL AMOUNTS TO A FULL USE OF THE OWNER COMPANY'S CREDIT.

IN A JOINT VENTURE, EACH OF THE OIL COMPANIES OWNS A SHARE OF THE FACILITIES, EITHER DIRECTLY OR THROUGH ITS PIPELINE SUBSIDIARY. THE PIPELINE IS NOT FINANCED AS A PROJECT; EACH OWNER COMPANY COMPLETES ITS OWN SHARE OF THE SYSTEM AND FINANCES ITS SHARE OF THE COST IN THE SAME WAY IT DOES OTHER ITEMS IN ITS CORPORATE BUDGET. THESE ARE FINANCED OUT OF ALL CORPORATE RESOURCES, INCLUDING WORKING CAPITAL, INTERNAL CASH FLOW AND ISSUANCE OF SECURITIES - IN EFFECT REFLECTING ITS OVERALL CAPITAL STRUCTURE AND DEBT/EQUITY MIX. THE EFFECT ON THE OIL COMPANY

IS THE SAME AS IN PROJECT FINANCING - IT HAS COMMITTED AN IMPORTANT AMOUNT OF ITS RESOURCES AND CREDIT TO AN UNDERTAKING THAT HAS ASSOCIATED WITH IT SIGNIFICANT RISKS. THIS IS AS REAL A USE OF CREDIT AS ANY OTHER, AND PRE-EMPTS ITS USE FOR OTHER INVESTMENTS. THEREFORE, TO COMPENSATE FOR THESE RISKS, AN OIL COMPANY MUST BE ABLE TO CONTROL THE OPERATION OF THE FACILITIES AND MUST HAVE PROSPECTS OF EARNING A FAIR RETURN ON ITS INVESTMENT COMPARABLE TO THE POTENTIAL RETURN AVAILABLE TO IT ON ALTERNATIVE INVESTMENTS.

FINANCING OF TAPS

NOW LET ME TURN TO THE FINANCING OF TAPS AND WHY WE HAVE CONSIDERABLE CONCERN ABOUT THE PROPOSED LEGISLATION AND ITS POSSIBLE EFFECT ON THE FEASIBILITY OF FINANCING TAPS.

WE ARE ADDRESSING OURSELVES TO THE FINANCING OVER A PERIOD OF YEARS OF EXPENDITURES WHICH MAY AMOUNT TO AS MUCH AS $3 1/2 BILLION. I WOULD LIKE TO EMPHASIZE AGAIN THAT WE HAVE A HEALTHY RESPECT FOR THE AMOUNT OF MONEY INVOLVED HERE. THE CHURCHILL FALLS PROJECT, TO WHICH I HAVE ALREADY REFERRED, IS THE LARGEST PRIVATELY FINANCED PROJECT IN HISTORY, AND TAPS IS 3 TO 5 TIMES AS LARGE DEPENDING UPON HOW YOU MEASURE IT.

THESE EXPENDITURES ARE TO BE BORNE BY SEVEN OIL COMPANIES, WHICH DIFFER IN SIZE AND CAPABILITY TO SUPPORT

THE COMMITMENTS INVOLVED. WE HAVE STUDIED EACH COMPANY AND MADE AN ASSESSMENT OF THE FINANCIAL CAPABILITY OF EACH TO DISCHARGE THESE COMMITMENTS WITHIN THE LIMITS OF ITS INDIVIDUAL FINANCIAL STRENGTH. TO PUT THIS IN PERSPECTIVE, I MIGHT POINT OUT THAT THE THREE COMPANIES THAT WILL OWN OVER 80% OF THE UNDIVIDED JOINT INTEREST ARE ASSUMING AN AGGREGATE CONSTRUCTION LIABILITY OF 80% OF $3.5 BILLION, OR OVER $2.8 BILLION. IF THIS AMOUNT WERE RAISED BY DEBT, IT WOULD REPRESENT AN INCREASE OF 170% OVER THE AGGREGATE INDEBTEDNESS THOSE THREE COMPANIES HAD OUTSTANDING ON DECEMBER 31, 1970.

DESPITE OUR RESPECT FOR THE SIZE OF THE TAPS PROJECT, WE HAVE COME TO THE OPINION THAT - ABSENT THE PROPOSED LEGISLATION - THE EXPENDITURES NECESSARY TO CONSTRUCT THE PIPELINE CAN BE SUCCESSFULLY FINANCED BY THE OIL COMPANIES INVOLVED. HOWEVER, THE BILLS HERE UNDER CONSIDERATION REPRESENT A SERIOUS IMPEDIMENT TO THAT FINANCING, AND I SHOULD LIKE TO SHARE WITH YOU MY CONCERN ABOUT THE EFFECT THIS LEGISLATION WOULD HAVE UPON THE ABILITY OF THE OIL COMPANIES TO CONDUCT THE NECESSARY FINANCING AND BUILD THE PIPELINE. THERE ARE SOME MAJOR PROBLEMS WHICH ARISE OUT OF THESE PROPOSALS:

1. <u>THE LIMITATION OF THE LEASE TO FIVE YEARS DURATION</u>: NORMAL PRACTICE WOULD BE FOR A PIPELINE TO HAVE

UNDISPUTED RIGHT-OF-WAY PRIVILEGES FOR THE EXPECTED ECONOMIC AND PHYSICAL LIFE OF THE SYSTEM, BUT IN NO EVENT LESS THAN THE PERIOD OF TIME REQUIRED TO RECOVER THE COST ON REASONABLE TERMS. LENDERS WOULD REGARD THE 5-YEAR LEASE LIMITATION AS A MAJOR INFIRMITY IMPAIRING THE ECONOMIC VIABILITY OF THE SYSTEM. OIL COMPANIES COULD NOT PRUDENTLY COMMIT FUNDS FOR WHAT IS IN ESSENCE A LONG-TERM VENTURE IF THERE WAS A THREAT THAT THE ECONOMIC LIFE COULD BE TERMINATED OR MODIFIED AT THE END OF THE FIVE-YEAR PERIOD.

REGARDLESS OF THE LENGTH OF THE LEASE, I THINK IT IS IMPORTANT TO EMPHASIZE THAT WHERE A PORTION OF THE RIGHT-OF-WAY OF A PIPELINE IS GOVERNMENT-OWNED, THE GENERAL ATTITUDE OF THE HOST GOVERNMENT TOWARD THE PIPELINE WILL ENTER IMPORTANTLY INTO THE CONSIDERATIONS OF LENDERS.

2. Loss of Ownership: THE PROSPECT THAT OWNERSHIP MIGHT BE TAKEN AWAY FROM SHIPPER-OWNERS AT SOME INDETERMINATE TIME IN THE FUTURE NULLIFIES ANY ECONOMIC JUSTIFICATION FOR TAKING THE RISKS INVOLVED IN COMMITTING THE SUBSTANTIAL FUNDS NECESSARY TO COMPLETE THE PROJECT. AS MENTIONED BEFORE, IF AN OIL COMPANY HAS USED ITS CREDIT IN THIS CONNECTION, IT HAS FOREGONE ITS USE IN OTHER PROFITABLE INVESTMENTS. IT MUST, THEREFORE, HAVE THE EXPECTATION OF MAKING A RETURN ON ITS INVESTMENT.

FURTHERMORE, BECAUSE THE SYSTEM IS TO BE A COMMON CARRIER AVAILABLE TO ALL PRODUCERS, OWNERS WILL BE SHARING THEIR SPACE WITH OTHER SHIPPERS. THEREFORE, IT SEEMS TO US THAT THOSE THAT HAVE ASSUMED THE COST AND RISK OF BUILDING THE SYSTEM MUST BE IN POSITION TO RECOVER THEIR INVESTMENT IN PART THROUGH PROFITS DERIVED FROM USE OF THE SYSTEM BY OTHERS. OTHERWISE, THE COMPANIES BUILDING THE PIPELINE WOULD HAVE USED THEIR CREDIT FOR THE BENEFIT OF OTHERS WITHOUT COMPENSATION, WHICH VIOLATES A CARDINAL RULE OF SOUND FINANCE.

3. REGULATION: THERE HAS BEEN IN THIS COUNTRY MASSIVE FINANCING OF CRUDE OIL AND PRODUCTS PIPELINES SUBJECT TO REGULATION OF THE ICC, AND THE EFFECT OF THIS REGULATION ON THE PIPELINES AND THEIR OWNERS IS WELL UNDERSTOOD BY INSTITUTIONAL INVESTORS. WE NOTE THAT PROVISIONS OF ONE OF THE BILLS APPEAR TO GIVE THE PROPOSED TRANSPORTATION COMMISSION THE AUTHORITY TO ESTABLISH DEPRECIATION RATES AND TARIFFS INDEPENDENTLY OF THE ICC; FURTHER, THE DEPRECIATION RULES APPEAR TO BE AT VARIANCE WITH THOSE PRESCRIBED BY THE ICC.

UNLESS THESE DIFFERENCES ARE ULTIMATELY RESOLVED, WE ARE NOT ABLE TO MEASURE THE IMPACT THEY MAY HAVE ON FINANCING FEASIBILITY, BUT THE IMPACT MAY BE SUBSTANTIAL IF LENDERS CANNOT BE CONVINCED THAT THE OWNERS OF THE PIPELINE WILL BE ABLE TO

EARN A FAIR RETURN ON THEIR INVESTMENTS. AS I SHALL MENTION LATER, UNCERTAINTY WITH REGARD TO SUCH QUESTION, OR TO THE OUTCOME OF COURT TESTS DETERMINING JURISDICTION, CAN CAUSE DELAYS AND INCREASED COSTS IN FINANCING.

4. REDEMPTION PENALTY: THE CONTEMPLATED LEGISLATION CREATES THE POSSIBILITY THAT THE OIL COMPANIES FINANCING THE PIPELINE WILL FIND THEMSELVES IN THE POSITION, VIS-A-VIS THE STATE OF ALASKA, OF "HEADS YOU WIN, TAILS I LOSE." WHEN THEY BORROW TO FINANCE THE LINE, THEY WILL PLEDGE THEIR FULL CREDIT TO REPAY REGARDLESS OF WHETHER THE PIPELINE IS BUILT, OPERATES PROFITABLY, OR IS SHUT DOWN TEMPORARILY OR PERMANENTLY FOR ANY OF A NUMBER OF REASONS. THESE ARE SUBSTANTIAL RISKS. UNDER THE PROPOSED LEGISLATION, HOWEVER, IF THE LINE IS BUILT AND OPERATES SUCCESSFULLY AND PROFITABLY, ALASKA WOULD BE IN POSITION TO TAKE OWNERSHIP AWAY FROM THEM. NOT ONLY WOULD THE COMPANIES LOSE THE ASSET GAINED THROUGH THE INCURRENCE OF RISK, BUT THEY WOULD BE FORCED TO PAY A PENALTY TO THE LENDERS WHEN THEY REDEEMED THE INDEBTEDNESS INCURRED TO BUILD THE LINE.

THERE IS A REASON LENDERS ASK FOR REDEMPTION PREMIUMS. THE TYPES OF LENDERS WHO NORMALLY FURNISH FUNDS FOR THE CONSTRUCTION OF MAJOR PROJECTS, SUCH AS TAPS, HAVE

LONG-TERM LIABILITIES, AND THEY WISH TO INVEST THEIR FUNDS AT WHAT THEY BELIEVE ARE SATISFACTORY RATES FOR LONG PERIODS OF TIME. IF A LOAN IS TO BE PAID OFF PREMATURELY THEY DEMAND COMPENSATION, USUALLY IN THE FORM OF A REDEMPTION PREMIUM. THIS IS TO OFFSET THE POSSIBILITY THAT THE PROCEEDS RECEIVED FROM THE EARLY REPAYMENT OF THE LOAN MAY HAVE TO BE INVESTED AT A LOWER RATE THAN THEY HAVE BEEN RECEIVING. BECAUSE OF THE THREAT THIS LEGISLATION POSES, I BELIEVE THAT THE PREMIUM ASKED FOR REDEMPTION IN THE EARLY YEARS WOULD BE LARGE, IT MIGHT BE AS HIGH AS 10%. AGAINST BORROWINGS OF THE TOTAL PIPE-LINE COSTS, THIS WOULD REPRESENT AN ADDITIONAL $350 MILLION. THIS MIGHT BE MORE THAN THE OIL COMPANIES WILL BE WILLING TO CONTRACT TO PAY, AND THE ALTERNATIVE MIGHT HAVE TO BE TO AGREE TO A HIGHER INTEREST RATE THAN WOULD OTHERWISE BE THE CASE. IN ANY EVENT THERE WOULD BE SUBSTANTIAL (AND UNNECESSARY) ADDITIONAL COST.

5. <u>UNCERTAINTY</u>: ANY FINANCING IS DIFFICULT (AND MAY BE IMPOSSIBLE) UNDER CONDITIONS OF UNCERTAINTY. THE PROPOSED LEGISLATION CREATES UNCERTAINTY. NEITHER POTENTIAL BORROWERS NOR POTENTIAL LENDERS KNOW WHETHER LEGISLATION SIMILAR TO THAT IN THE PROPOSED BILLS WILL BE PASSED. PLANS CANNOT BE MADE. TO THE EXTENT THAT THIS UNCERTAINTY HAS THE

EFFECT OF DELAYING THE PROJECT, IT POSSIBLY COULD LEAD TO HIGHER CONSTRUCTION COSTS. A SHORT DELAY COULD EASILY RESULT IN A LOSS OF A WHOLE YEAR BECAUSE OF THE ALASKAN CLIMATE. UNCERTAINTY IS ALREADY HOLDING UP FINANCING BY COMPANIES INVOLVED WITH THE PIPELINE. I AM NOT GOING TO ATTEMPT TO FORECAST THE OUTLOOK FOR INTEREST RATES, BUT I WOULD LIKE TO MENTION PARENTHETICALLY THAT CURRENT RATES ARE WELL BELOW WHAT THEY WERE ONLY A SHORT TIME AGO. IN ADDITION, FUNDS ARE MORE READILY AVAILABLE TO INVESTING INSTITUTIONS FOR LENDING PURPOSES THAN HAS BEEN THE CASE FOR A NUMBER OF YEARS. THIS IS LIKELY TO BE A TEMPORARY SITUATION. MANY BANKERS AND ECONOMISTS BELIEVE THAT AS BUSINESS RECOVERS INTEREST RATES MAY RISE AND, THEREFORE, ANY DELAY IN ARRANGING THE FINANCING COULD WELL RESULT IN THE COMPANIES INCURRING HIGHER INTEREST COSTS. BECAUSE OF THE AMOUNTS INVOLVED, AN INTEREST RATE CHANGE OF 1% RAISES COSTS ANNUALLY BY $35 MILLION.

THEREFORE, I WOULD LIKE TO URGE MOST STRONGLY IN THE INTEREST OF ALL CONCERNED THAT THIS SITUATION OF UNCERTAINTY BE RESOLVED AS PROMPTLY AS POSSIBLE.

ABILITY OF THE STATE TO FINANCE CONSTRUCTION OF THE PIPELINE

FINALLY, WE HAVE GIVEN CONSIDERATION TO THE ABILITY

OF THE STATE TO FINANCE THE CONSTRUCTION OF THE PIPELINE. THIS INVOLVES RAISING THE STAGGERING SUM OF $3.5 BILLION, AND NO STATE HAS EVER SOLD AN ISSUE OF THIS SIZE. I AM CERTAINLY NOT TRYING TO BE NEGATIVE, BUT IT IS IMPORTANT THAT WE BE REALISTIC AND RECOGNIZE THE PROBLEMS INVOLVED IN RAISING THIS AMOUNT OF MONEY, EVEN IF IT WERE TO BE ATTEMPTED OVER THE PERIOD OF CONSTRUCTION RATHER THAN ALL AT ONCE.

ALTHOUGH CERTAINLY THE TAX-EXEMPT MARKET IS A LARGE ONE, IT IS OUR OPINION THAT IN ORDER FOR ALASKA TO HAVE ANY HOPE OF ACCOMPLISHING SUCH A FINANCING OPERATION, ALL OF THE COUNTRY'S LARGE RESERVOIRS OF CAPITAL WOULD NEED TO BE TAPPED. IN OUR VIEW, THIS WOULD HAVE TO INCLUDE THOSE INSTITUTIONS WHICH ARE NOT NORMALLY BUYERS OF TAX-EXEMPT OBLIGATIONS BECAUSE THEY GET LITTLE OR NO BENEFIT THEREFROM, NAMELY, LIFE INSURANCE COMPANIES AND PENSION FUNDS. THESE INSTITUTIONS ARE THE NORMAL SUPPLIERS OF CAPITAL FOR PIPELINE PROJECTS, AND THEY HAVE REQUIRED THE UNCONDITIONAL BACKSTOPPING BY FINANCIALLY CAPABLE PARTIES THAT I HAVE ALREADY DESCRIBED. FOR TAPS THE OIL COMPANIES ARE ABLE TO PROVIDE THIS, BUT THE STATE DOES NOT PRESENTLY HAVE THE FINANCIAL CAPACITY TO SUBSTITUTE FOR THEM.

WE HAVE HEARD THE THEORY ADVANCED THAT THE STATE CAN

DEDICATE TO THIS PROJECT ITS ANTICIPATED REVENUES FROM OIL ROYALTIES AND SEVERANCE TAXES FROM THE NORTH SLOPE, BUT THOSE REVENUES DEPEND UPON OPERATION OF THE PIPELINE AND ARE NOT "BANKABLE" ASSETS AT THE PRESENT TIME. IN FACT, THEY DO NOT BECOME VALUABLE FOR ADDING SUBSTANCE TO A FINANCIAL UNDERTAKING UNTIL THE PIPELINE IS COMPLETED AND IN OPERATION, BECAUSE THEY ARE COMPLETELY DEPENDENT ON ITS SUCCESS.

THESE CONSIDERATIONS LEAD US TO THE OPINION THAT THE STATE OF ALASKA CANNOT RAISE THE MONEY TO BUILD THE PIPELINE ON THE STRENGTH OF ITS PRESENT CREDIT RESOURCES. IN OUR VIEW, SUCCESSFUL FINANCING OF THE LINE DEPENDS, IN THE FINAL ANALYSIS, ON THE BACKING OF THE OIL COMPANIES' CREDIT.

THE QUESTION HAS ALSO BEEN RAISED OF THE STATE'S ABILITY TO RAISE AN APPROPRIATE AMOUNT OF MONEY TO TAKE OVER THE PIPELINE IN THE FUTURE, AFTER IT HAS BEEN OPERATING SUCCESSFULLY AS A GOING CONCERN. WE DO NOT FEEL THAT ANY EXPERT CAN MAKE AN INTELLIGENT JUDGMENT AT THIS JUNCTURE. THE ANSWER WOULD DEPEND UPON A HOST OF FACTORS - ECONOMICS OF THE SYSTEM AS FINALLY CONSTRUCTED, ECONOMICS OF THE CRUDE AT WEST COAST PORTS, TECHNICAL OPERATING EXPERIENCE, THE LEVEL OF TARIFFS AND DEBT SERVICE BURDENS, ECONOMICS OF ALTERNATIVE FORMS OF TRANSPORTATION THAT MAY BE AVAILABLE AT THE TIME , CONDITIONS

OF MARKETS AND LEVELS OF INTEREST RATES AT THE TIME. AS A CAUTIOUS, BUT EXPERIENCED INVESTMENT BANKER, I HAVE TO SAY THERE WILL BE OTHER FACTORS NONE OF US CAN THINK OF NOW. IF ALL THESE FACTORS TURNED OUT FAVORABLY - AND THAT HAS TO BE A LOT OF IFS - THEN IT IS CONCEIVABLE THAT THE STATE MIGHT, OVER A PERIOD OF TIME, RAISE SUBSTANTIAL SUMS WITH LESS THAN THE UNCONDITIONAL CREDIT BACKING OF THE SHIPPERS.

TO DO SO, HOWEVER, WOULD IN ALL PROBABILITY REQUIRE THAT THE STATE DEDICATE TO THE BORROWING NOT JUST THE PIPELINE EARNINGS, BUT ALL OF THE STATE'S POTENTIAL OIL INCOME IN ORDER TO EFFECT SUCCESSFUL SALES OF BONDS IN THE AMOUNTS NECESSARY TO PAY FOR THE PIPELINE. OBVIOUSLY, SUCH A DEDICATION WOULD SIGNIFICANTLY REDUCE THE STATE'S POTENTIAL ABILITY TO BORROW FOR OTHER PURPOSES, SUCH AS SCHOOLS, HOSPITALS, ROADS AND OTHER WORTHWHILE PROJECTS. IT WOULD ALSO SEEM LIKELY THAT, AT THAT STAGE, THE LARGE INCREASE IN THE AMOUNT OF GENERAL OBLIGATIONS OF THE STATE WHICH WOULD BE OUTSTANDING UNDOUBTEDLY WOULD RAISE THE INTEREST COSTS OF ANY BORROWINGS THAT MIGHT BE UNDERTAKEN FOR REGULAR FINANCING NEEDS.

Concluding Note

To sum up, the proposed legislation puts a number of clouds over the financing of this pipeline.

If it is passed as it presently stands, there would be considerable doubt in the eyes of the investing public whether the oil companies could maintain control of the operation and earn an adequate return on their investment. When doubts of this kind exist, they are severe impediments to financing and would result in having to pay higher interest costs.

We are all painfully aware how the cost of TAPS has already escalated while its construction has been delayed in Washington. I would therefore urge in the interest of both Alaska and the producers that they avoid delay and an additional increase in cost by resolving their differences so that the project can go ahead.

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SUPPLEMENT

THE FIRST CONCERNS THE VOLUME OF OIL THAT CAN BE EXPECTED TO BE MOVED THROUGH TAPS. IT HAS BEEN INDICATED THAT AN AVERAGE THROUGHPUT OF 2,000,000 BBLS./DAY CAN BE MOVED THROUGH THE PIPELINE FOR ALL BUT THE FIRST TWO OR THREE YEARS OF A 25-YEAR PERIOD. I DO NOT THINK THAT SUCH AN ASSUMPTION IS A SOUND BASIS FOR PROJECTING INCOME. IT IS TRUE THAT THE LINE IS BEING DESIGNED FOR AN ULTIMATE CAPACITY OF TWO MILLION BARRELS PER DAY, BUT A THROUGHPUT OF THIS MAGNITUDE IS NOT YET IN SIGHT. OUR OWN ESTIMATES OF PROVEN RECOVERABLE RESERVES IN THE PRUDHOE BAY AREA ARE APPROXIMATELY THE SAME AS THE 9.8 BILLION BARRELS THAT I UNDERSTAND COMMISSIONER HERBERT SPOKE OF ON MONDAY, MARCH 6. IF 9.8 BILLION BARRELS WERE PRODUCED AT AN AVERAGE RATE OVER 25 YEARS, THE AVERAGE RATE WOULD BE ABOUT 1,000,000 BBLS/DAY -- NOT 2. (THE ACTUAL RATE WOULD BE SLIGHTLY MORE THAN 1.07 MILLION BARRELS PER DAY) OUR OWN ENGINEERS' CALCULATIONS INDICATE THAT THE MAXIMUM EFFICIENT OIL PRODUCTION RATE IS 1.5 MILLION BARRELS PER DAY AND THAT SUCH A RATE CANNOT BE MAINTAINED MORE THAN 13 TO 15 YEARS, AFTER WHICH A DECLINE WILL BEGIN AND CONTINUE. CONSEQUENTLY, IT SEEMS TO ME THAT ECONOMIC PROJECTIONS BASED ON AN AVERAGE OIL FLOW OF 2,000,000 B/D AFTER THE INITIAL 2-3 YEARS OF OPERATION ARE HIGHLY SPECULATIVE, DEPENDENT UPON DISCOVERIES YET TO BE MADE AS A CONSEQUENCE OF EXPLORATION NOT YET IN PROGRESS.

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ON THE OTHER HAND, I BELIEVE THAT IT IS UNDULY PESSIMISTIC TO ASSUME THAT THE PIPELINE WILL NOT BE IN OPERATION BEFORE MID-1977. I BELIEVE THAT IT IS POSSIBLE TO BE DELIVERING OIL TO MARKET IN MID-1976. A SUBSTANTIAL NUMBER OF MY ASSOCIATES BELIEVE THAT EARLY 1976 IS A REASONABLE POSSIBILITY.

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IT HAS BEEN STATED THAT THERE CAN BE NO PROFIT IN NORTH SLOPE OIL IN THE 70'S IF THE PIPELINE REMAINS IN PRIVATE HANDS. THIS COMES AS A SURPRISE TO ME. WE ARE DOING EVERYTHING POSSIBLE TO REALIZE PRODUCTION BEGINNING IN 1976, AND I ASSURE YOU THAT WE WOULD NOT BE DOING SO WITH THE EXPECTATION OF PRODUCING OIL OF NO VALUE.

PLEASE NOTE: THE PRECEDING PAGES WERE TREATED AS A UNIT IN THE ORIGINAL DOCUMENT.