

ALASKA LEGISLATURE SPECIAL COMMITTEE / SUBJECT FILES 8672

554 SCOMM16: JOINT SPEC. COMM. ROYALTY OIL & GAS 1977-78

11. Utility Permit

An electric transmission, telephone, or telegraph line, pole line, railway, ditch, sewer, water, heat, or gas main, flume, or other structure which by law may be constructed, placed or maintained across or along a highway by a person or political subdivision may be maintained or constructed only in accordance with regulations prescribed by the Department. No utility project of this nature may be undertaken until it is authorized by a written permit issued by the Department.

Procedure: Applicant should contact the Department of Highways District Engineer in his region.

Requirements: Plans are required.

Authority for Permit:

- * AS 19.25.010. Use of right-of-ways for utilities.
- * 17 AAC 15.010. Application for utility permit.
- * 17 AAC 15.020. Utility Permit.

Criteria for Issuance: See Alaska Administrative Code
17 AAC 15.010-020.

12. Driveway Permit

Before starting the construction of driveways or performing any work upon the right-of-way, the property owner shall first apply for and obtain a revocable permit from the Department of Highways.

Procedure: Applicant should contact the Department of Highways District Engineer for his region.

Requirements: Applicant must perform all work in accordance with permit.

Authority for Permit:

- * 17 AAC 10.020. Driveways and Road Approaches.
- * AS 19.05.020. Regulations.

Criteria for Issuance:

- * 17 AAC 10.020. Driveways and Road Approaches.

Driveway Regulations can be obtained at Department of Highways District Offices.

13. Overweight - Oversize Permit

The Department of Highways, with respect to highways under its jurisdiction, may:

- 1) establish limitations on weight and load of vehicles;
- 2) issue special written permits authorizing the operation of overweight vehicles; and
- 3) prohibit the operation or impose restrictions on vehicular use of highways during certain seasons of the year.

Procedure: Applicant should contact the Department of Highways District Office for application form 14-156.

Requirements: Permits may be issued for operation of oversize-overweight vehicles when:

- 1) Application has been made in writing, good cause has been shown and all pertinent requirements are met;
- 2) The applicant has completely described his load and vehicle route and time of travel;
- 3) The applicant has certified that the load cannot "reasonably" be dismantled or disassembled to meet the legal load and size requirements. Disassembly may be required by the District Engineer to assure the safety of the traveling public or the highways and its appurtenances;
- 4) The applicant has affirmed that the vehicle or vehicles meet all requirements of the Alaska Department of Commerce and the Transportation Commission; and
- 5) The proposed move will not be detrimental to the public safety or damage the roadway structure or bridges as determined under State requirements.

Authority for Permit:

- * AS 19.10.060. Regulation of weight and load of vehicles and use of highways during certain seasons.
- * AS 28.05.020. Authority for Commissioner of Highways to adopt regulations.
- * 17 AAC 25.010. Penalty and Exclusion.
- * 17 AAC 25.020. Width of Vehicles.
- * 17 AAC 25.030. Height and Length of Vehicles and Loads.

Criteria for Issuance: * 17 AAC 25.010-030.

Alaska Oversize and Overweight Permit Movements State
of Alaska, Department of Highways, Maintenance Division,
P. O. Box 1467, Juneau, Alaska, 99802.

Permits Issued by
the Department of Natural Resources

Parks, Recreation and Public Use -- Special Land Use Permits

14. Investigation and Collection Permits

A person qualified under 11 AAC 16.040 may apply to the director upon an application form provided by him for a permit to investigate or collect historic, prehistoric or archaeological resources of the State.

Procedure: Applicant should contact the Department of Natural Resources District Office. See "Contacts List" in appendix.

Requirements: Person must qualify as having some experience in anthropology or field archaeology.

Authority for Permit:

- * AS 41.20.040. Division within Department of Natural Resources.
- * AS 41.35.050. Regulations.
- * AS 41.35.080. Permits.
- * 11 AAC 16.030. Investigation and Collection Permits.

Criteria for Issuance:

- * 11 AAC 16.040. Qualified Person.

Parks, Recreation and Public Use - Incompatible Use Permits

15. State Park Incompatible Use Permit

Incompatible uses (e.g., mineral exploration, cutting of timber) of public lands within a State park are allowable only with a permit. Permits will be issued where it is determined that the ecology of the area will not be damaged and public use values will be protected.

Procedure: Applicant should contact the Department of Natural Resources District Office.

Requirements: Contact District Office.

Authority for Permit:

- * AS 41.20.020. Duties of Department of Natural Resources.
- * AS 41.20.040. Division within Department of Natural Resources.
- * 11 AAC 18.010. State Park Incompatible Uses.

Criteria for Issuance:

- * 11 AAC 18.010. State Park Incompatible Uses.

16. Access Routes Permit

A permit is required to gain an access route across State park land or water to privately owned property wholly or partially within a State park.

Procedure: Contact the Department of Natural Resources District Office.

Requirements: Permittee must construct access route according to specifications provided by the director.

Authority for Permit:

- * AS 41.20.020. Duties of the Department of Natural Resources.
- * AS 41.20.040. Division within the Department of Natural Resources.
- * 11 AAC 18.020. Access Routes.

Criteria for Issuance: Determined by Director of Parks and Recreation.

Oil and Gas Permits - Drilling Permits

17. Drilling Permits

A person wishing to drill or deepen any well for oil and gas must first submit an application accompanied with a fee of \$100.00, and then obtain permit.

Procedure: Contact the Department of Natural Resources Minerals and Energy Division. See "Contacts List" in appendix.

Requirements: \$100.00 fee. A survey plat must accompany the application showing the precise location of the drilling activity.

Authority for Permit:

* AC 31.05.090. Permits and fees to drill wells.

* 11 AAC 22.005. Permit to Drill or Deepen.

Criteria for Issuance:

* 11 AAC 22.005. Permit to Drill or Deepen.

18. Drilling Deviation Permit

A permit is required before a well operator may intentionally deviate from the vertical, except for the purposes of straightening the hole, side-tracking junk, or correcting mechanical difficulties.

Procedure: Contact the Department of Natural Resources - Minerals and Energy Division.

Requirements: Application for permit shall include:

- 1) surface and proposed producing interval locations in terms of distances from lease and section boundaries;
- 2) reason for deviation;
- 3) list of affected operators and a showing that each has been furnished a copy of the application by certified mail, or a showing that the applicant is the only affected operator; and
- 4) neat and accurate plat of lease and all affected operators and the surface and proposed producing interval locations as well.

Authority for Permit:

- * AS 31.05.030. Powers and duties of the Department.
- * 11 AAC 22.050. Deviation.

Criteria for Issuance:

- * 11 AAC 22.050. Deviation.

Oil and Gas - Regulatory Orders

19. Well Spacing Permit

A person must apply for and receive an exception to the well spacing regulations before deviation from the regulations is allowed.

Procedure: Permit applicant should contact the Department of Natural Resources Minerals and Energy Division.

Requirements: An application must indicate the affected operators, and include a plat of the proposed action.

Authority for Permit:

- * AS 31.05.030. Powers and duties of the Department.
- * 11 AAC 22.055. Well Spacing.

Criteria for Issuance:

- * 11 AAC 22.055. Well Spacing.

20. Notice of Abandonment

Before beginning work on any well, notice of intention to abandon must be filed, and approval must be given.

Procedure: Person should contact the Department of Natural Resources Minerals and Energy Division.

Requirements: Notice must show the reason for abandonment and must be accompanied by a detailed statement of proposed work including such information as kind, location, size of plugs, and plans for mudding, etc.

Authority for Permit:

- * AS 31.05.030. Powers and duties of the Department.
- * 11 AAC 22.100. Notice.

Criteria for Issuance:

- * 11 AAC 22.100. Notice.

21. Plugging Procedure

To deviate from the plugging procedure set up in the regulations, approval upon application must be obtained.

Procedure: Contact the Department of Natural Resources Minerals and Energy Division.

Requirements: Follow procedures outlined in 11 AAC 22.110., Plugging Procedures.

Authority for Permit:

- * AS 31.05.030. Powers and duties of the Department.
- * 11 AAC 22.110. Plugging Procedure.

Criteria for Issuance:

- * 11 AAC 22.110. Plugging Procedure.

22. Well Marker

In order to waive well marker requirements, the surface owner must request and receive approval.

Procedure: Contact the Department of Natural Resources Minerals and Energy Division.

Requirements: Contact Minerals and Energy Division.

Authority for Permit:

* AS 31.05.030. Powers and Duties of the Department.

* 11 AAC 22.120. Well Marker.

23. Water Wells

Written authority for a well to be used as a fresh water well must be applied for and approved.

Procedure: Contact the Department of Natural Resources Minerals and Energy Division.

Requirements: Contact Minerals and Energy Division.

Authority for Permit:

* AS 31.05.030. Powers and duties of the Department.

* 11 AAC 22.140. Water Wells.

24. Temporary Abandonment

Approval is required if a well is to be temporarily abandoned.

Procedure: Contact the Department of Natural Resources Minerals and Energy Division.

Requirements: If approved, a plug must be placed at the top and bottom of the well casing in such a manner as to prevent the intrusion of any foreign matter into the well. The well shall be left full of mud.

Authority for Permit:

- * AS 31.05.030. Powers and duties of the Department.
- * 11 AAC 22.150. Temporary Abandonment.

25. Location Cleanup

Time extension must be obtained for the well operator to deviate from the cleanup regulations.

Procedure: Contact the Department of Natural Resources Minerals and Energy Division.

Requirements: Contact the Minerals and Energy Division.

Authority for Permit:

- * AS 31.05.030. Powers and duties of the Department.
- * 11 AAC 22.170. Location Cleanup.

24. Temporary Abandonment

Approval is required if a well is to be temporarily abandoned.

Procedure: Contact the Department of Natural Resources Minerals and Energy Division.

Requirements: If approved, a plug must be placed at the top and bottom of the well casing in such a manner as to prevent the intrusion of any foreign matter into the well. The well shall be left full of mud.

Authority for Permit:

* AS 31.05.030. Powers and duties of the Department.

* 11 AAC 22.150. Temporary Abandonment.

25. Location Cleanup

Time extension must be obtained for the well operator to deviate from the cleanup regulations.

Procedure: Contact the Department of Natural Resources Minerals and Energy Division.

Requirements: Contact the Minerals and Energy Division.

Authority for Permit:

* AS 31.05.030. Powers and duties of the Department.

* 11 AAC 22.170. Location Cleanup.

26. Multiple Completion of Wells

No well may be put into multiple production without approval.

Procedure: Contact the Department of Natural Resources Minerals and Energy Division.

Requirements: Approval will require evidence of adequate and complete separation as ascertained by pressure or circulation tests.

Authority for Permit:

* AS 31.05.030. Powers and duties of the Department.

* 11 AAC 22.210. Multiple Completion of Wells.

27. Commingling of Production

An order approving commingling in the same well bore of production from two or more wells must be obtained before such practice is permitted.

Procedure: Contact the Department of Natural Resources Minerals and Energy Division.

Requirements: Proposing operator must certify that contact has been made with the affected parties and no opposition is furnished to committee within 15 days.

Authority for Permit:

- * AS 31.05.030. Powers and duties of the Department.
- * 11 AAC 22.215. Commingling of Production.

28. Earthen Reservoirs

Permission must be obtained to store oil in earthen pits.

Procedure: Contact the Department of Natural Resources Minerals and Energy Division.

Requirements: Contact Minerals and Energy Division.

Authority for Permit:

- * AS 31.05.030. Powers and duties of the Department.
- * 11 AAC 22.220. Earthen Reservoirs.

29. Disposal of Brine and Other Wastes

Permission is required for the disposal of salt water.

Procedure: Contact the Department of Natural Resources Minerals and Energy Division.

Requirements: It must be shown that the disposal of salt water will not contaminate fresh water or endanger other natural resources.

Authority for Permit:

* AS 31.05.030. Powers and duties of the Department.

* 11 AAC 22.250. Disposal of Brine and Other Wastes.

Note: The items listed under the above heading involve the need for administrative approvals and orders from the Oil and Gas Conservation Committee. These approvals on various well operations are, in effect, permits to do various types of work once a well is completed or to abandon a well. However, the forms and procedures do not bear the title permit.

Oil and Gas - Plan of Operations

30. Additional Recovery Methods

A permit is required for any method of pressure maintenance or methods of additional recovery used other than primary recovery techniques.

Procedure: Contact the Department of Natural Resources Minerals and Energy Division.

Requirements: Application must contain a plat showing the unit, lease or group of leases within the proposal project, along with other related information.

Authority for Permit:

* AS 31.05.020. Waste Prohibited.

* 11 AAC 22.400. Application.

Oil and Gas - Coal Conservation

31. Development Work

No development work shall be done on coal deposits on State lands without the advance approval of the State geologist.

Procedure: Contact the Department of Natural Resources - Minerals and Energy Division.

Requirements: Contact the Minerals and Energy Division.

Authority for Permit:

- * AS 27.20.005. Purposes.
- * AS 27.20.010. Rules and Regulations.
- * 11 AAC 46.010. Advance Approval.

Lands and Waters - Leasing of Lands

32. Right-of-Way or Easement Permit

The Division of Lands Director may issue permits for roads, trails, ditches, pipelines; drill sites, log storage, telephone and transmission lines or similar uses or improvements.

Procedure: Applicant should contact the nearest District Office of the Department of Natural Resources.

Requirements: Plats are required, as well as an application fee.

Authority for Permit:

- * AS 38.05.020. Authority and duties of the Commissioner.
- * AS 38.05.035. Powers and duties of the Director.
- * AS 38.05.075. Leasing procedures.
- * AS 38.05.330. Permits.
- * 11 AAC 58.200. Right-of-Way or Easement Permit.

33. Special Land Use Permit

The Director of the Division of Lands may issue special land use permits on such terms and conditions as he deems to be in the interests of Alaska.

Procedure: Applicant should contact the nearest District Office of the Department of Natural Resources.

Requirements: Provide information as to the nature of the proposed activity.

Authority for Permit:

- * AS 38.05.020. Authority and duties of the Commissioner.
- * AS 38.05.035. Powers and duties of the Director.
- * AS 38.05.075. Leasing procedures.
- * 11 AAC 58.210. Special Land Use Permit.

Land and Waters - Tide and Submerged Lands

34. Tidelands Permit

The Director of the Division of Lands may issue permits for the improvement or use of State-owned tidelands, or for personal use of materials. The first preference in the granting of such permits will be granted to the upland owner over other nonpreference applicants for the use of tideland and contiguous submerged land seaward of the upland property.

Procedure: Applicant should contact the nearest District Office of the Department of Natural Resources.

Requirements: A \$20.00 filing fee is required. Upon receipt of the application, the Director shall, within 60 days, express his approval or disapproval, and shall state his reasons. Each upland owner may protest the issuance of the permit. No permits shall be issued that will deny the upland owner reasonable access to tide waters during the course of or completion of the work.

Authority for Permit:

- * AS 38.05.020. Authority and duties of the Commissioner.
- * AS 38.05.320. Occupied tidelands and submerged lands.
- * 11 AAC 62.710. Tidelands Permits.

Criteria for Issuance:

- * 11 AAC 62.720. Application for Tideland Permits.

35. Tideland Right-of-Way and/or Easement Permits

Permits may be issued by the Division of Lands Director for secondary roads, trails, ditches, pipelines, telephone transmission lines, log storage, oil well drilling sites, and production facilities for the purposes of recovering minerals from adjacent lands under valid lease and other similar uses or improvements. First preference shall be granted to the upland owner.

Procedure: Applicant should contact the nearest District Office of the Department of Natural Resources.

Requirements: An applicant must furnish the name and address of the upland owner.

Authority for Permit:

- * AS 38.05.020. Authority and duties of the Commissioner.
- * AS 38.05.320. Occupied Tidelands and submerged lands.
- * 11 AAC 62.810. Tidelands Right-of-Way and/or Easement Permits.

Criteria for Issuance:

- * 11 AAC 62.810. Tideland Right-of-Way and/or Easement Permits.

36. Limited Personal Use Permit

Permits may be granted for a limited quantity of materials for personal use, and such materials shall not be sold. The director shall, in each permit, specify the quantity of material allowed but in no event shall the quantity exceed 100 cubic yards. The permits are for temporary use only.

Procedure: Contact the nearest District Office of the Department of Natural Resources.

Requirements: Contact the District Office.

Authority for Permit:

- * AS 38.05.020. Authorities and duties of the Commissioner.
- * AS 38.05.320. Occupied Tidelands and submerged lands.
- * 11 AAC 62.820. Limited Personal Use Permit.

Land and Waters - Water Use

37. Permit to Appropriate Water

Any person who desires to appropriate otherwise unappropriated waters of the State shall make application for a permit to appropriate water.

Procedure: Applicant should contact the nearest District Office of the Department of Natural Resources.

Requirements: An application for a permit to appropriate water shall include:

- 1) location of source from which water is to be appropriated;
- 2) place where the appropriated water will be of beneficial use;
- 3) quantity of water to be appropriated;
- 4) proposed use of water to be appropriated; and
- 5) description of the proposed means of diversion.

Authority for Permit:

- * AS 46.15.040. Right to appropriate.
- * AS 46.15.060. Existing rights.
- * AS 46.15.070. Notices; objections.
- * AS 46.15.135. Determination of existing rights.
- * AS 46.15.180. Crimes.
- * 11 AAC 72.050. Application for Permit to Appropriate.

38. Dam Construction

An application for a permit to appropriate water must include plans and specifications for any dam that may be built.

Procedure: Applicant must contact the nearest District Office of the Department of Natural Resources.

Requirements: Plans are required. If necessary, the Director may request that the applicant obtain an independent appraisal of the plans and specifications from a qualified engineer acceptable to the Director.

Authority for Permit:

- * AS 46.15.040. Right to appropriate.
- * AS 46.15.060. Existing rights.
- * AS 46.15.070. Notices; objections.
- * AS 46.15.135. Determination of existing rights.
- * AS 46.15.180. Crimes.
- * 11 AAC 72.060. Dam Construction.

39. Application for Preferred Use

The holder of a preferred use status may make an application for a permit to appropriate either unappropriated or previously unappropriated waters or both.

Procedure: Applicant should contact the nearest District Office of the Department of Natural Resources.

Requirements: A \$20.00 filing fee is required. The applicant must provide the names and addresses of all holders of existing water rights, permits to appropriate or certificates of appropriation whose rights to water would be reduced, or in times of water scarcity, could be reduced by the diversion of water to the preferred use. Also required are certified copies of executed agreements between the holder of preferred use status and all other persons names as required to provide compensation for loss of previously appropriated water, or certified copies of any court orders which direct the amount and manner of compensation paid.

Authority for Permit:

- * AS 46.15.040. Right to appropriate.
- * AS 46.15.060. Existing rights.
- * AS 46.15.070. Notices; objections.
- * AS 46.15.135. Determination of existing rights.
- * AS 46.15.180. Crimes.
- * 11 AAC 72.160. Application for Preferred Use.

Land and Waters - Timber

40. Use of Timber and Materials

Gravel, sand, and rock used by a purchaser in connection with a sale of timber may be acquired under a special permit issued in connection with the timber sale.

Procedure: Contact the nearest District Office of the Department of Natural Resources.

Requirements: Contact the District Office.

Authority for Permit:

- * AS 38.05.020. Authorities and duties of the Commissioner.
- * AS 38.05.110. Sale of timber and materials.
- * AS 38.05.115. Limitations and conditions of sale.
- * AS 38.05.120. Disposal procedure.
- * 11 AAC 76.185. Use of Timber and Materials.

41. Authorization for Transportation Facilities

Timber purchasers must obtain a permit for use of tidelands under State jurisdiction which are necessary for dumping, sorting, storage and rafting of timber cut from State sales.

Procedure: Contact the nearest District Office of the Department of Natural Resources.

Requirements: Location and design of roads or access will be approved by the Director prior to construction.

Authority for Permit:

- * AS 38.05.020. Authority and duties of the Commissioner.
- * AS 38.05.110. Sale of timber and materials.
- * AS 38.05.115. Limitations and conditions of sale.
- * AS 38.05.120. Disposal procedure.
- * 11 AAC 76.205. Authorization for Transportation Facilities.

Land and Waters - Materials Sales

42. Special Material Use Permit

The Director may issue special material use permits for periods not to exceed one year upon such terms and conditions as he deems to be in the interest of the State.

Procedure: Applicant should contact the nearest District Office of the Department of Natural Resources.

Requirements: Contact the District Office.

Authority for Permit:

- * AS 38.05.020. Authority and duties of the Commissioner.
- * AS 38.05.115. Limitations and conditions of sale.
- * AS 38.05.120. Disposal procedure.
- * 11 AAC 76.540. Special Material Use Permit.

Land and Waters - Mineral Leasing

43. Noncompetitive Procedures

Applications for noncompetitive leases on permits for a mineral may be filed on any noncompetitive lands opened for leasing of that mineral.

Procedure: Contact the nearest District Office of the Department of Natural Resources.

Requirements: Contact the District Office.

Authority for Permit:

- * AS 38.05.020. Authority and duties of the Commissioner.
- * AS 38.05.135. Generally.
- * AS 38.05.145. Leasing Procedure.

44. Coal Prospecting Permit

A permit is required for prospecting or exploration work necessary to determine the existence of coal deposits in an unclaimed and undeveloped area. The permit is for a period of two years, and not to exceed 5,120 acres.

Procedure: Contact the nearest District Office of the Department of Natural Resources.

Requirements: Contact the District Office.

Authority for Permit:

- * AS 38.05.035. Powers and duties of the Director.
- * AS 38.05.145. Leasing procedure.
- * AS 38.05.150. Coal.
- * 11 AAC 84.115. Prospecting Permits Operations.

45. Sodium Leasing Method

Prospecting permits for lands not known to contain valuable deposits of sodium are issued noncompetitively.

Procedure: Contact the nearest District Office of the Department of Natural Resources.

Requirements: Contact the District Office.

Authority for Permit:

- * AS 38.05.020. Authority and duties of the Commissioner.
- * AS 30.05.145. Leasing procedure.
- * 11 AAC 84.400. Sodium Leasing Method.

46. Potassium Leasing Method

Prospecting permits authorized for lands not known to contain valuable deposits of potassium compounds are issued noncompetitively.

Procedure: Contact the nearest District Office of the Department of Natural Resources.

Requirements: Contact the District Office.

Authority for Permit:

- * AS 38.05.020. Authority and duties of the Commissioner.
- * AS 38.05.145. Leasing procedure.
- * 11 AAC 84.600. Potassium Leasing Method.

47. Geothermal Resources Leasing Method

Prospecting permits authorized for lands which have not been classified as geothermal resources areas are issued noncompetitively.

Procedure: Contact the nearest District Office of the Department of Natural Resources.

Requirements: Contact the District Office.

Authority for Permit:

- * AS 38.05.020. Authority and duties of the Commissioner.
- * AS 38.05.145. Leasing procedure.
- * 11 AAC 84.700. Geothermal Resources Leasing Method.

Land and Waters - Offshore Permits

48. Tide and Submerged Lands

The exclusive right to prospect for deposits of minerals in or on tide and submerged lands may be granted by the Director of the Division of Lands.

Prodecure: Contact the nearest District Office of the Department of Natural Resources.

Requirements: Applicant must meet qualifications outlined in AS 38.05.190.

Authority for Permit:

- * AS 38.05.020. Authority and duties of the Commissioner.
- * AS 38.05.250. Tide and submerged lands.
- * 11 AAC 86.500; 510; 530; and 540. Permit Applications, Acceptable Permit Work, Conversion of an Offshore Prospecting Permit to a Mining Lease, and Lease Rental.

Land and Waters - Millsites

49. Surface Use Permits

A permit is required for millsite and tailings removal.

Procedure: Contact the nearest District Office of the Department of Natural Resources.

Requirements: A reasonable rate or fee schedule shall be charged for such use.

Authority for Permit:

- * AS 38.05.020. Authority and duties of the Commissioner.
- * AS 38.05.255. Surface use.
- * 11 AAC 86.600. Millsites.

Land and Waters - Forest Protection

50. Burning Permit

A burning permit is required during the fire season for the burning of any materials in the area designated by the Department of Natural Resources.

Procedure: Applicant should contact the nearest District Office of the Department of Natural Resources.

Requirements: The applicant shall provide information as to the type, location, size and person in charge of the burning; the area and material to be burned; and the number of persons controlling the burn. Prior to the issuance of the permit, an inspection may be required of the area to be burned.

Authority for Permit:

* AS 41.15.050. Fire Season.

* 11 AAC 92.010. Permit.

Land and Waters - Miscellaneous Land Use

51. Operations on State Land Requiring Permits

A permit is required for the following activities on State lands: 1) activity requiring; a) the use of explosives; b) the use of hydraulic prospecting or mining equipment and/or methods; c) drilling to a depth in excess of 300 feet; and (2) activity which the Director of the Division of Lands determines may result in harm to lands having special scenic, historic, archaeological, scientific, biological, recreational or special resource value.

Procedure: Contact the nearest District Office of the Department of Natural Resources.

Requirements: Contact the District Office.

Authority for Permit:

- * AS 38.05.020. Authority and duties of the Commissioner.
- * AS 38.05.035. Powers and duties of the Director.
- * 11 AAC 96.010. Operations Requiring permits.

Land and Waters - Forest Protection

50. Burning Permit

A burning permit is required during the fire season for the burning of any materials in the area designated by the Department of Natural Resources.

Procedure: Applicant should contact the nearest District Office of the Department of Natural Resources.

Requirements: The applicant shall provide information as to the type, location, size and person in charge of the burning; the area and material to be burned; and the number of persons controlling the burn. Prior to the issuance of the permit, an inspection may be required of the area to be burned.

Authority for Permit:

* AS 41.15.050. Fire Season.

* 11 AAC 92.010. Permit.

Land and Waters - Miscellaneous Land Use

51. Operations on State Land Requiring Permits

A permit is required for the following activities on State lands: 1) activity requiring; a) the use of explosives; b) the use of hydraulic prospecting or mining equipment and/or methods; c) drilling to a depth in excess of 300 feet; and (2) activity which the Director of the Division of Lands determines may result in harm to lands having special scenic, historic, archaeological, scientific, biological, recreational or special resource value.

Procedure: Contact the nearest District Office of the Department of Natural Resources.

Requirements: Contact the District Office.

Authority for Permit:

- * AS 38.05.020. Authority and duties of the Commissioner.
- * AS 38.05.035. Powers and duties of the Director.
- * 11 AAC 96.010. Operations Requiring permits.

52. Subleases of State Land

A permit is required from the Director of the Division of Lands prior to the sublease or assignment of any portion of State-leased land.

Procedure: Contact the nearest District Office of the Department of Natural Resources.

Requirements: Contact the District Office.

Authority for Permit:

* AS 38.05.095. Subleases.

53. Right-of-Way Permits

The Director of the Division of Lands may issue permits, right-of-ways or easements on State land for secondary roads, trails, ditches, transmission lines and distribution pipelines, field-gathering lines, telephone and transmission lines, log storage, oil well drilling sites, and production facilities for the purposes of recovering minerals from adjacent lands under valid lease, and other similar uses or improvements for the limited use of timber or materials.

Procedure: Contact the nearest District Office of the Department of Natural Resources.

Requirements: Contact the District Office.

Authority for Permits

* AS 38.05.330. Permits.

54. Abandonment of or Reduction or Impairment of Service of Pipeline by Leasee Carrier.

No leasee may abandon or reduce or impair service of any portion of a pipeline that is on State land or subject to lease without first receiving a certificate from the Commissioner that the action is in accordance with the terms of the lease.

Procedure: Contact the Department of Natural Resources Minerals and Energy Division.

Requirements: Contact the Minerals and Energy Division.

Authority for Permit:

* AS 38.35.030. Abandonment of, or reduction or impairment of, service of pipeline by leasee carrier.

55. Applications for Right-of-Way Leases and Certificates

Persons desiring to own a pipeline which is proposed to be located in whole or in part on State land shall apply for a noncompetitive right-of-way lease of this land and a certificate that the construction, operation, transportation, service, or sale is in accordance with the lease.

Procedure: Contact the nearest District Office of the Department of Natural Resources.

Requirements: Contact the District Office.

Authority for Permit

* AS 38.35.050. Applications for right-of-way leases and certificates.

56. Preservation of Archaeological Resources

If the State archaeologist determines that archaeological sites or remains will be adversely affected by public construction, the project cannot commence until the State archaeologist performs necessary investigations.

Procedure: Contact the Division of Parks and Recreation.

Requirements: Contact the Division of Parks and Recreation.

Authority for Permit:

* AS 41.35.070. Perservation of historic, prehistoric, and archaeological resources threatened by construction.

Developer's Guide - Appendix A

Department of Environmental Conservation Contacts List

Central Office
Department of Environmental
Conservation
Pouch O
Juneau, Alaska 99811

Northern Regional Office

Doug Lowery
Regional Environmental Supervisor
Department of Environmental
Conservation
P. O. Box 1601
675 Seventh Avenue
Fairbanks, Alaska 99707
Phone: 452-1714

Southcentral Regional Office

Kyle Cherry
Regional Environmental Supervisor
Department of Environmental
Conservation
Rm. 1206, MacKay Building
338 Denali Street
Anchorage, Alaska 99501
Phone: 274-5527

Prince William Sound Regional Office

Randy Bayliss
Regional Environmental Supervisor
Department of Environmental
Conservation
Pouch E
Valdez, Alaska 99686
Phone: 835-4698

Southeast Regional Office

Deena Henkins
Regional Environmental Supervisor
Department of Environmental
Conservation
Pouch OA (Mayflower Building, Dou
Juneau, Alaska 99811
Phone: 364-2165

Developer's Guide - Appendix B

Department of Fish and Game Contacts List

Region I

Rick Reed
Regional Supervisor
Habitat Protection Section
Department of Fish and Game
210 Ferry Way
Juneau, Alaska 99801

Phone: 586-6630

Region II

Tom Trent
Habitat Protection Section
Department of Fish and Game
333 Raspberry Road
Anchorage, Alaska 99502

Phone: 344-0541

Region III

J. Scott Grundy
Regional Supervisor
Habitat Protection Section
Department of Fish and Game
1300 College Road
Fairbanks, Alaska 99701

Phone: 452-1531

Developer's Guide - Appendix C

Department of Highways Contacts List

District Engineers

Southeastern - Region III

Wallace K. Williams
Southeastern District Engineer
Department of Highways
6860 Glacier Highway
P. O. Box 3-1000
Juneau, Alaska 99802

Phone: 789-0841

Central - Region I

Jack M. Spake
Central District Engineer
Department of Highways
5700 Tudor Road
P. O. Box 6750
Anchorage, Alaska 99502

Phone: 337-1511

Interior - Region II

H. Woodrow Johansen
Interior District Engineer
Department of Highways
2301 Peger Road
Fairbanks, Alaska 99701

Phone: 452-1911

Southcentral - Region V

Rowe D. Redick
Southcentral District Engineer
Department of Highways
P. O. Box 507
Valdez, Alaska 99686

Phone: 835-4322

Western - Region IV

Henry Springer
P. O. Box 1048
Nome, Alaska 99762

Phone: 443-5266

Developer's Guide - Appendix D

Department of Highways Contacts List

Overweight-Oversize Permit Contacts

Central - Region I

John Bates
Department of Highways
5700 Tudor Road
Anchorage, Alaska 99502

Phone: 337-1511

Interior - Region II

Ronald Doner
Department of Highways
2301 Peger Road
Fairbanks, Alaska 99701

Phone: 452-1911

Southeastern - Region III

Dick Hamilton
Department of Highways
P. O. Box 3-1000
Juneau, Alaska 99802

Phone: 789-0841

Western - Region IV

Ron Davena
Department of Highways
P. O. Box 220
Nome, Alaska 99762

Phone: 443-5266

Southcentral - Region V

R. A. Walker
Department of Highways
P. O. Box 506
Valdez, Alaska 99686

Phone: 835-4322

Developer's Guide - Appendix E

Department of Natural Resources Contact List

Southeast Land District Office

Henry Lee Hall
Division of Lands
Department of Natural Resources
Pouch M
Juneau, Alaska 99811

Phone: 465-2415

Southcentral Land District Office

Lawrence A. Dutton
Division of Lands
Department of Natural Resources
323 East Fourth Avenue
Anchorage, Alaska 99501

Phone: 279-5577

Northcentral Land District Office

William Copeland
Department of Natural Resources
State Office Building
Room 116
Fairbanks, Alaska 99701

Phone: 479-2243

Department of Natural Resources
Minerals and Energy Division

Easy Gilbreth
Minerals and Energy Division
Department of Natural Resources
323 East Fourth Avenue
Anchorage, Alaska 99501

Phone: 274-8542

SCOMM

#16:12

*Revised Office
Copy*

A PLAN FOR
ALASKA'S FINANCIAL PARTICIPATION
IN THE
ALASKA HIGHWAY PIPELINE PROJECT

April 17, 1978

TABLE OF CONTENTS

	<u>Page</u>
I. INTRODUCTION	1
II. THE ALASKA SEGMENT OF THE PROJECT	5
A. Description	5
B. Financing Plan for Alaska Segment	6
o Equity and Equity-Related Securities.	7
1. General Partnership Interests	7
2. Convertible Debt	7
o Debt Securities	8
1. Series A First Mortgage Pipeline Bonds	8
2. Series B First Mortgage Pipeline Bonds	8
III. ALASKA'S PARTICIPATION	9
A. Revenue Bond Financing Mechanism	9
B. Convertible Debt	10
1. Form of Ownership	10
2. Return on Investment	11
C. Timing of Alaska's Investment	12
IV. IMPLEMENTATION OF ALASKA'S PARTICIPATION	13
A. Establishment of the Authority	13
B. Funding the Purchase of Series B First Mortgage Pipeline Bond	13

TABLE OF CONTENTS
(Continued)

	<u>Page</u>
C. Alternatives for Funding the Purchase of Convertible Debt	15
1. From the General Fund and/or the Permanent Fund	15
2. From the Sale of Authority Revenue Bonds	16
(a) Taxable v. Tax-Exempt	16
(b) Additional Credit Backing for Taxable Revenue Bonds	17
(i) Permanent Fund	18
(ii) "Moral Obligation" of the State	18

Appendix I

I. INTRODUCTION

The purpose of this memorandum is to describe and recommend a specific plan for participation by the State of Alaska in financing of the Alaska Highway Pipeline Project (the "Project"). The Project will encompass approximately 4,800 miles of pipeline consisting of four segments which will be separately and independently financed and constructed. These four segments, their mileage and estimated cost are:

Alaska	-	731 miles	-	\$ 3.7 billion
Canada	-	2028	-	4.1
Western Leg	-	911	-	.8
Eastern Leg	-	1117	-	1.7
		<u>4787 miles</u>		<u>\$10.3 billion</u> */

It is proposed that the State participate only in the funding of the 731 mile Alaska segment.

In order to begin construction of the Project in 1980, final commitments for debt and equity must be made by early 1979.

To meet this critical schedule, we are proposing specifically that the legislature this session enact legislation creating a financing authority (the "Authority") to issue \$1.0 Billion in tax-exempt revenue bonds in a manner that would not utilize the State's credit or adversely affect the State's credit rating and adopt a joint resolution establishing an interim committee to study how the state can best participate

*/ The financing requirements of the Project were estimated in the President's Decision and Report to Congress on the Alaska Natural Gas Transportation System ("President's Decision") to be approximately \$10.3 billion in escalated dollars.

in equity financing. It is essential that the committee report back to the legislature early next session so the necessary legislation can be enacted in time to permit the State's equity participation to be incorporated in the overall financial plan.

This memorandum discusses how the tax-exempt revenue bonds would be issued and proposes a plan for State equity participation that the interim committee should study and consider.

The plan for State participation set forth in this memorandum would provide for an equity return to the State upon completion of the Project; encourage major institutional investors and commercial banks to invest in the Project, thereby aiding the development of Prudoe Bay gas; and add the tax-exempt debt market to the capital sources that will be called upon to complete this large and complex financing.

- o The proposed Authority would be empowered to issue \$1.0 billion of tax-exempt revenue bonds ("Tax-Exempt Revenue Bonds") backed by the simultaneous purchase of a like amount of Project debt.

This transaction would raise approximately 25% of the Project's debt capital but would not involve the credit of the State. The Authority could in this way pass on to the Project the advantage of an expanded capital market. Additionally, this reduced interest cost would benefit the Project by reducing the transportation cost by approximately 4%.

This transaction would require an amendment to the Internal Revenue Code (the "Code") specifically exempting the

Project from the restrictions set forth in Section 103 of the Code. The Project does not now qualify as an exempt facility under Section 103 of the Code, and tax-exempt status would not be available for revenue bonds in the absence of such an amendment. Obtaining an amendment to Section 103 will require the cooperation of all interested parties, including the State and its representatives and the Administration. If such an amendment is not obtained, bonds issued by the Authority would be taxable and neither the State nor the Project would benefit since such bonds would be simply the equivalent of Project bonds.

- o The State would evaluate our proposal that it make an equity-related investment of \$500 Million in Project Convertible Debt ("Convertible Debt").

These securities would be convertible after the Project becomes operational, if the Partnership is succeeded by a corporation, into \$500 million of participating preferred stock. The participating preferred stock would carry a fixed dividend rate that would increase with the profits of the Project according to an agreed upon formula. If the Partnership is not succeeded by a corporation, the Convertible Debt could be exchanged after operations have begun for a preferred income limited partnership interest.

To maximize net return to the State, this investment could be funded principally by an appropriation of State funds. Alternatively, but with less financial return to the State,

this investment might be funded by the sale of Authority Taxable Revenue Bonds ("Taxable Revenue Bonds"), which would be secured by the Convertible Debt. If the State decides to fund all or part of its purchase of Convertible Debt in this manner, however, additional credit support beyond that of the investment itself would be required. (See Section IV for a discussion of different ways the State could provide additional backing for Taxable Revenue Bonds.)

As an investment vehicle, the Convertible Debt would provide current income to the State during the construction period, as well as an opportunity for the State to participate in an equity return subsequent to the initiation of Project operations.

At the appropriate time, the State's investment could be sold or distributed to its political subdivisions, native corporations and its citizens.

II. THE ALASKA SEGMENT OF THE PROJECT

A. Description

The Alaska segment will begin at Prudhoe Bay and parallel the Alyeska oil pipeline for 539 miles to Delta Junction. At Delta Junction the pipeline will diverge from Alyeska and follow the Alaska Highway and the existing Haines oil products pipeline for 192 miles to the Yukon Territory border.

The Alaska segment will be owned by the Partnership, and designed, constructed, and operated by Northwest Alaskan Pipeline Company ("Northwest Alaskan"), a subsidiary of Northwest Energy Company. The Partnership is currently comprised of subsidiaries wholly-owned of the following six natural gas companies:

- o Northwest Energy Company
- o Northern Natural Gas Company
- o Pacific Gas and Electric Company
- o Pacific Lighting Corporation
- o Panhandle Eastern Pipe Line Company
- o United Gas Pipe Line Company

It is anticipated that additional natural gas companies will join the Partnership in the future.

B. Financing Plan for Alaska Segment

The capital for constructing the Alaska segment will be raised on a project financing basis, through the sale of equity and debt securities by the Project. Debt service and return on equity securities will be provided solely by the cash flow generated from the Project's operations. These securities will be designed at the time of issuance to compete successfully in the public and private capital markets and, accordingly, will offer the appropriate market sales of interest or dividend in the case of participating preferred stock.

Under the proposed overall financing plan, a percentage amount over and above the final capital cost estimates will be committed to assure that sufficient funds are available to complete the Project. Upon completion, the Partnership will have contractual arrangements pursuant to a Federal Energy Regulatory Commission ("FERC") approved tariff that will provide funds adequate to pay debt service and provide an attractive return to the equity investors. (For a more detailed discussion of the Project's Financing Plan, see pages 8 to 14 of the Discussion Memorandum Regarding Financial Participation by the State of Alaska in the Alaska Highway Pipeline Project, dated March 15, 1978, attached as Appendix I.)

While the ratio between the equity and debt securities of the Project, as well as the timing of any takedowns, will be subject to various factors, including the financial requirements of the Project, the fundamental element of the financing plan

is that all funds -- equity and debt -- must be committed at the same time and remain committed throughout the construction period. However, no commitment shall be binding (including that of Alaska) until all equity and debt commitments necessary to complete the Project have been received.

The project's capital structure would consist of the following:

8 Equity and Equity-Related Securities

1. General Partnership Interests - The owners of the Partnership will contribute equity capital in a total amount of approximately \$1.0 billion. Their partnership interests will earn the rate of return provided by the FERC approved tariff.
2. Convertible Debt - It is proposed that Convertible Debt in a principal amount of \$500 million be offered to the State of Alaska. This debt will bear an interest rate dictated by market conditions at the time of issuance, which today would be in the range of 10% to 12% per annum. After the completion of construction and the commencement of operations of the Project, the Convertible Debt will be convertible into an equivalent amount of a participating preferred stock of the corporate successor to the Partnership or into an equivalent limited partnership interest in the Partnership. The participating preferred stock would have a minimum

annual dividend rate of approximately 10%, and, in addition, would share in the profits of the Project on the basis of a pre-determined formula.

o Debt Securities

1. Series A First Mortgage Pipeline Bonds - Series A First Mortgage Pipeline Bonds in a principal amount of \$2.0 to \$3.0 billion will be offered to institutional investors and commercial banks at an annual interest rate that in today's market would be approximately 10%. These securities will have various maturities of up to twenty-five years, subject to sinking fund provisions.

2. Series B First Mortgage Pipeline Bonds - Series B First Mortgage Pipeline Bonds in a principal amount of \$1.0 billion will be purchased by the Authority. The Series B First Mortgage Pipeline Bonds will have an annual interest rate which incorporates the maximum interest differential allowed by law (i.e., 1/8 of 1%) over the interest rate on the equivalent amount of Tax-Exempt Revenue Bonds sold by the Project through the Authority to fund the purchase. These Series B First Mortgage Pipeline Bonds will be subject to sinking fund provisions, and the underlying Tax-Exempt Revenue Bonds will have concurrent maturities.

III. ALASKA'S PARTICIPATION

As part of the financing plan described above, it is proposed that the Alaska legislature this session enact legislation to provide a mechanism for the issuance of \$1.0 billion in Tax-Exempt Revenue Bonds, the proceeds of which would be simultaneously invested in \$1.0 billion of the Project's Series B First Mortgage Pipeline Bonds and establish a committee to consider the proposal for investment in \$500 million of equity-related securities of the Project. This Section III describes the proposed revenue bond financing mechanism, the advantages of Convertible Debt as an investment vehicle for Alaska and the returns Alaska might realize from this investment and a possible time schedule for Alaska's financial participation.

A. Revenue Bond Financing Mechanism

As was discussed earlier, the State should establish an Authority for the issuance of \$1.0 billion of Tax-Exempt Revenue Bonds. Contingent upon and concurrent with the sale of the Tax-Exempt Revenue Bonds, the Authority would purchase \$1.0 billion of Series B First Mortgage Pipeline Bonds, and would receive annually a 1/8 of 1% interest differential on the aggregate amount of Tax-Exempt Revenue Bonds issued by the Authority. This differential, amounting to \$1,250,000 per year, is the highest allowed by Federal law and would be generated from the difference in interest rates between the Tax-Exempt Revenue Bonds and the Series B First Mortgage Pipeline Bonds.

B. Convertible Debt

During the period in which the Convertible Debt is outstanding, the interest received by the State, assuming the entire amount is outstanding, would be approximately \$55 million. This debt would be convertible into participating preferred stock of any successor corporation to the Partnership. After conversion the State would receive a fixed dividend of approximately \$55 million, which would increase according to an agreed upon formula as the profits of the Project increase.

In recommending that Alaska's equity participation take the form of a fixed income security convertible into equity upon completion of the construction period, the following two considerations are particularly important:

1. Form of Ownership - The State, as a tax-exempt entity, cannot utilize the Federal income tax benefits relating to construction (e.g., the Investment Tax Credit and interest and other deductions) which will be passed through to the general partner in the Partnership. However, these tax benefits are significant to the taxable general partners who will provide the principal source of the Project's equity capital. Thus, by allocating the tax benefits exclusively to these taxable entities, the financing of the Alaska segment will be greatly facilitated at no disadvantage to the State. In addition, by structuring the State's participation during the construction period as Convertible Debt, any

conflict between the State's role as an equity investor and its role as a regulator would be minimized.

2. Return on Investment - During construction, the return on the general partners' investment will be capitalized and subject to downward adjustments depending upon the relationship between the final construction estimate and the actual construction costs.^{*/}

Upon completion of construction and the commencement of operations, the return on common equity will be fixed by the FERC (estimated at approximately 15%). A return will be distributed first to the holders of participating preferred equity, and second to the holders of common equity, with the amounts to be distributed to holders of common equity based upon the cash requirements of the Project. As a debtholder during construction, the State's return will be fixed and distributed currently as interest. Upon the completion of construction, the State would have the option of converting its interest into participating preferred stock or the equivalent limited partnership interest.

^{*/} A variable rate of return to equity investors during the construction period has been mandated by the President's Decision and the details thereof are being formulated by the FERC.

C. Timing of Alaska's Investments

The debt and equity funds to be raised from all Project investors must be committed at the same time and remain committed during the construction period. The exact timing of any draw-down will be determined as construction progresses. The current thinking is that debt and equity funds will be drawn down, pro-rata, and invested over the projected three year construction period. Accordingly, there will be some flexibility as to when Alaska's equity-related investments would be made within the constraints of the final capital drawdown schedule.

IV. IMPLEMENTATION OF ALASKA'S PARTICIPATION

This Section recommends a plan for implementing the State's participation and discusses the pertinent financial, legal, and administrative issues on which this recommendation is predicated.

A. Establishment of the Authority

It is recommended that the State establish through legislation enacted during the current legislative session a new Authority to administer the issuance of tax-exempt revenue bonds for the Project.

The establishment of the Authority during the current legislative session would greatly facilitate the financing and completion of the Project. In doing so, the State will have taken an important first step to participate in the Project's financing. This will be not only of considerable symbolic and substantive assistance in encouraging early private sector financial participation, but it is a prerequisite for Congressional action in this session of Congress to amend Section 103 of the Code.

B. Funding the Purchase of Series B First Mortgage Pipeline Bonds

It has been recommended that the Authority fund the purchase of \$1.0 billion of Series B First Mortgage Pipeline Bonds through the simultaneous sale of a like amount of Tax-

Exempt Revenue Bonds. The purchase of the Series B First Mortgage Pipeline Bonds by the Authority would be contingent upon a successful placement of the Tax-Exempt Revenue Bonds with institutional investors.

Since the Partnership is a "non-exempt person" under Section 103 of the Code, interest on Authority Bonds currently would be subject to Federal income taxes. However, the President's Decision and the importance of the Project to national energy policy strongly suggest Administration support for an amendment to Section 103. Alaska legislation authorizing the Authority to issue \$1.0 billion of revenue bonds during this session is essential to any effort in Congress to amend Section 103.

It is important to point out that the issuance of Tax-Exempt Revenue Bonds would not require additional State backing. The tax-exempt status of the Bonds in and of itself would assure that the Bonds would appeal to a class of investors different from those who would purchase the Project's First Mortgage Pipeline Bonds. Moreover, the value of additional credit backing in reducing the interest rate on the Authority's Tax-Exempt Revenue Bonds would be nullified by proposed Treasury Department regulations that would limit to 1/8 of 1% the spread between the tax-exempt interest on the Authority's Revenue Bonds and interest income on the Series B First Mortgage Pipeline Bonds. Accordingly, it has been concluded that additional security for Tax-Exempt Revenue Bonds would be unnecessary and an inefficient allocation of the State's credit resources.

C. Alternatives for
Funding the Purchase of Convertible Debt

The funding of the State's equity-related investment will impact the State's ability to finance other State programs. Therefore, all alternatives for investment in the Project should be carefully considered. The following outlines several alternatives.

1. From the General Fund and/or the Permanent Fund -

At June 30, 1977, the General Fund Investment Account had a balance of approximately \$623 million. New legislation could appropriate a specified amount of monies from the General Fund for the purchase of the Convertible Debt.

The State has projected that from 1978 through 1982 the Permanent Fund will receive approximately \$632 million from various mineral lease rentals, royalties, royalty sale proceeds, Federal mineral revenue sharing payments and bonuses. New legislation could direct the Commissioner of Revenue to exercise existing statutory authority to transfer a specified amount of monies from the Permanent Fund for investment in the Convertible Debt.

The State could purchase \$500 million of the Project's Convertible Debt with the monies it receives from the General Fund, the Permanent Fund or a combination thereof. Importantly, the State's commitment would not become binding until all commitments necessary to

complete the Project are received and all conditions necessary to protect the State's investment are fulfilled.

Until the State's monies are drawn down to fund its commitment to the Project, they could be invested in short term securities of the U.S. Government or its agencies. This is significant because the income from such investments could either be retained by the State or used to fund its investment in the Project. Assuming the latter, a commitment by the State to invest \$500 million in the Project from 1980-1982 would not require that the full \$500 million be taken from the General and Permanent Funds. If monies were escrowed by the State in early 1979 and invested at a 6-1/2% rate of return, the State could meet its \$500 million commitment in 1980-1982 with an initial appropriation of approximately \$442 million.

2. From the Sale of Revenue Bonds^{*/}

(a) Taxable vs. Tax Exempt

As previously discussed, a sale by the State of tax-exempt debt to fund its purchase of Convertible Debt would be much less financially attractive than a direct investment by the State. Specifically, the U.S. Treasury Department has

^{*/} The issuance of General Obligation Bonds to fund the purchase of Convertible Debt would require the approval of a majority of the voters of the State under time consuming and costly bond referendum procedures required by the Alaska Constitution. Their use therefore is not recommended.

proposed arbitrage regulations that would limit the positive "spread" between the yield on the Convertible Debt and the interest paid on tax-exempt State debt to 1/8 of 1%. The arbitrage regulations do not apply to taxable debt. Accordingly, the issuance of taxable debt would be the only practical alternative if funds on hand are not utilized.

The spread between the yield on the Convertible Debt and the interest on such taxable debt would be much less than the spread between the yield on the Convertible Debt and the yield the State is now earning on its existing investments of the General and Permanent Funds. Consequently, the net income to the State would be significantly higher if the State's purchase of the Convertible Debt were financed from State funds than if such purchase were financed from the sale of taxable State debt.

(b) Additional Credit Backing for Taxable Revenue Bonds

In the event that Alaska decides to fund all or a portion of its purchase of Convertible Debt through a sale of Taxable Revenue Bonds, the State's debt would be secured by Convertible Debt. However, to provide meaningful assistance in financing the Project, it would be necessary for

the State to back its taxable debt with additional security unrelated to the Project.

If the State elects to issue Taxable Revenue Bonds, however, the two most readily available sources of additional State backing are the Permanent Fund and the State's "moral obligation." Both would involve the State's credit resources.

(i) Permanent Fund - Legislation could direct the Commissioner of Revenue to utilize assets of the Permanent Fund to meet any deficiency in Taxable Revenue Bond debt service, whether directly from monies contained in the Permanent Fund and dedicated, or indirectly by dedicating Permanent Fund monies to a special reserve fund to be used when needed to meet any such deficiency. If the latter approach were adopted, the special reserve fund could be replenished in the same manner, that is, by legislatively authorizing the Commissioner of Revenue to use Permanent Fund monies for such purpose.

(ii) "Moral Obligation of the State" - It may be advisable to combine a dedication of the Permanent Fund with a legislative resolution pledging the State's moral obligation (not its legal obligation) to allocate funds if

and when it should become necessary to meet a deficiency in Taxable Revenue Bond debt service.

Moral obligation bonds have traditionally been used to finance public purpose projects such as housing, health care and educational facilities. Approximately \$10 billion of the total \$250 billion tax-exempt municipal bonds currently outstanding are backed by a moral obligation pledge. The State of Alaska has \$240 million of bonds outstanding, issued by the Alaska Housing Finance Corporation and the Alaska Municipal Bond Bank Authority, which are the type of bonds that may be considered to be moral obligation bonds.

APPENDIX I

III. CAPITAL REQUIREMENTS AND FINANCING

The following table summarizes, by segment, the estimated capital requirements under the System design as described in the President's Decision:

<u>Segment</u>	<u>Line Miles</u>	<u>Total (in Billions)</u>
Alaskan	731	\$ 3.7
Canadian	2,028	4.0
Eastern Leg	1,117	1.7
Western Leg	<u>911</u>	<u>.9</u>
Total	4,787	\$10.3*

It should be noted that these dollar amounts do not reflect pre-delivery of Alberta gas,** minor re-routing of the line, or design changes consistent with the U.S. - Canadian negotiations. Final cost estimates of the Project will not be available until full agreement is reached on System design, governmental requirements are defined and definitive engineering is completed.

* 1975 dollars adjusted for assumed inflation through completion of the Project.

** If agreement is reached for the sale and transportation of excess current supplies of Alberta gas, the construction of certain southern portions of the pipeline will be accelerated, resulting in lower capital requirements for certain Southern portions of the pipeline.

The capital for the Project is to be raised on a project financing basis. That is, the Project's debt service and return on equity will be provided solely by the cash flow generated from the Project's operations. Under the proposed financing plan, first sufficient funds will be committed to assure completion of the Project. Then, upon completion, the Project's sponsors will have contractual arrangements under a Federal Energy Regulatory Commission ("FERC") approved tariff providing for sufficient funds to cover debt service and an attractive rate of return to the equity investors.

1. Completion of Construction - First, before construction begins, commitments will be obtained providing for an amount of capital large enough to assure all investors that there will be sufficient funds to complete the Project. The size of this committed pool will be determined through negotiations with lenders and investors, but will reflect evaluations of the Project's final cost estimate and the estimating procedures used to develop it. These evaluations will first identify the variables that could affect the Project's capital cost (i.e., inflation, delays, etc.). Then, using probability analyses, a percentage amount over and above the final capital estimate will be determined so as to reduce to zero (or as a practical

matter as close to zero as possible) the probability of having insufficient capital to complete the Project. It is this percentage amount that when added to the final cost estimate will constitute the total capital pool to assure completion of the Project under any and all circumstances.

2. Pipeline Operations - Second, the Project's operating entities will execute service agreements that, upon completion of the Project, will unconditionally bind purchasers of Prudhoe Bay gas to pay a FERC approved transportation tariff that reflects the final cost of the Project. The terms of the proposed tariff will provide sufficient funds to meet all debt service, and will be binding even in the unlikely event of service interruption and non-delivery of gas.

As presently envisioned, the capital for constructing the Project will be raised through the sale of equity and debt securities. These securities will be designed at the time of issuance to compete successfully in the public and private capital markets and will therefore offer the appropriate market rates of return. Under current market conditions, the debt might carry an interest rate of approximately 10%. As for the equity rate of return, in previous filings and studies with FERC, Northwest Alaskan

has assumed a 15% rate of return. A substantial portion of that return would be paid out annually as dividends to the equity investors.

While the percentage breakdown between the equity and debt as well as the timing of any takedowns will be subject to market conditions, the final composition of the investor group and other factors, the fundamental element of the financing plan is that all funds -- equity and debt -- must be firmly committed at the outset and throughout the construction period.

Although it is presently contemplated that the sponsors of each segment of the Project will be responsible for separately financing its respective capital costs, the plan outlined above requires that all financing for the Project be closely coordinated. Since Northwest Alaskan's tariff payments will not begin until all segments of the Project are completed, lenders and investors undoubtedly will require that sufficient funds (whether they are raised separately or not) be available to complete all segments. Thus, close coordination between the segments is essential.

In this regard, the probability of additional costs above the final estimate is currently perceived by lenders to be higher for the Alaskan segment and Yukon

portion of the Canadian segment than for the other sections of the pipeline. This perception relates primarily to the negative publicity of Alyeska, the adverse weather conditions and the lack of pipeline construction history in permafrost and discontinuous permafrost regions. Accordingly, lenders will probably require higher percentage adjustments above the final estimates for these northerly sections of the Project than for the other sections. While the final capital costs and percentage adjustments cannot be determined at this time, an illustrative example of the separate capital pools lenders may require is set forth below:

<u>Segment</u>	<u>Preliminary Capital Re- quirement Estimate</u> (billions)	<u>Capital Pool Size As A Per- cent of Capital Requirement Estimate</u>	<u>Capital Pool Size Estimate</u> (billions)
Alaskan	\$ 3.7	125% - 150%	\$ 4.6 - \$ 5.6
Canadian	4.0	120% - 140%	4.8 - 5.6
U.S. Eastern Leg*	1.7	110% - 125%	1.9 - 2.1
U.S. Western Leg*	<u>.9</u>	<u>110% - 125%</u>	<u>1.0 - 1.1</u>
Total	\$10.3	119% - 140%	\$12.3 - \$14.4

As previously mentioned, capital for the Project will be raised through sales of equity and debt securities.

* The capital requirements for these segments may not be provided for on a project financing basis.