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Description:

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The Anchorage Times, Sun. 11/21/76 Section B

The Washington Post, Sun. Dec. 19, 1976 p. B2
Anchorage Daily News 9/13/76

The Anchorage Times, 11/7/76 Section B

The Anchorage Times, 10/13/76 p. 38

TIMES 9/18/76

Gas Line Task Force Meets With Northwest Route Chiefs

By SUSAN ANDREWS
Times Staff Writer

Northwest Pipeline Corp. officials will meet Friday in Juneau with the state's cabinet-level Gas Pipeline Task Force as the task force gives Northwest's Alaska Highway pipeline proposal the same scrutiny it earlier gave two other North Slope pipeline proposals.

The task force on Sept. 27 will hear from State Pipeline Coordinator Chuck Champion, whose office is making a detailed study of the economic benefits to the state from each of the three pipeline projects.

Commissioner of Natural Resources Guy Martin said the task force has sent Northwest a specific list of questions it wants answered, "similar to questions asked of El Paso and Arctic Gas."

El Paso Alaska proposes an all-Alaska pipeline, with tankers to carry liquefied natural gas from southern Alaska to southern California.

Arctic Gas, like Northwest, proposes a pipeline through Canada. Arctic's would enter Canada along the Arctic Coast, joining with a link to the MacKenzie Delta.

The task force last year studied the two proposals and then endorsed the trans-Alaska route as offering the most benefits to the state of Alaska.

When Northwest entered the pipeline battle this summer, Gov. Jay Hammond ordered the task force to undertake a similar study of Northwest's project.

Former Gov. Walter Hickel, who is also a former Interior Department secretary, told a gas pipeline seminar in Anchorage last week that the governor could decide the pipeline route by taking the state's one-eighth royalty share of Prudhoe Bay gas and say where it is to be transported and what is to be done with it. A trans-Alaska pipeline route could be assured by that action, Hickel said.

Martin said, "Mr. Hickel's mistaken. No single factor is going to decide the (pipeline) issue."

Champion's preliminary report of net economic benefits to Alaska is to be followed by a final report by the end of the y ear.

Champion said, "We're looking at the costs of each project as estimated by the companies themselves.

"We are modifying their overall cost estimates to what we think each project will cost," including such factors as cost overruns which were experienced by the trans-Alaska oil pipeline project, he said.

Champion's office will come up with an estimated cost of service, based on the estimate of gas throughput volumes for each project.

Champion said his office is obtaining the throughput estimated from the state division of oil and gas.

In addition, Champion said, he is looking at the positive and negative environmental aspects of the three proposals.

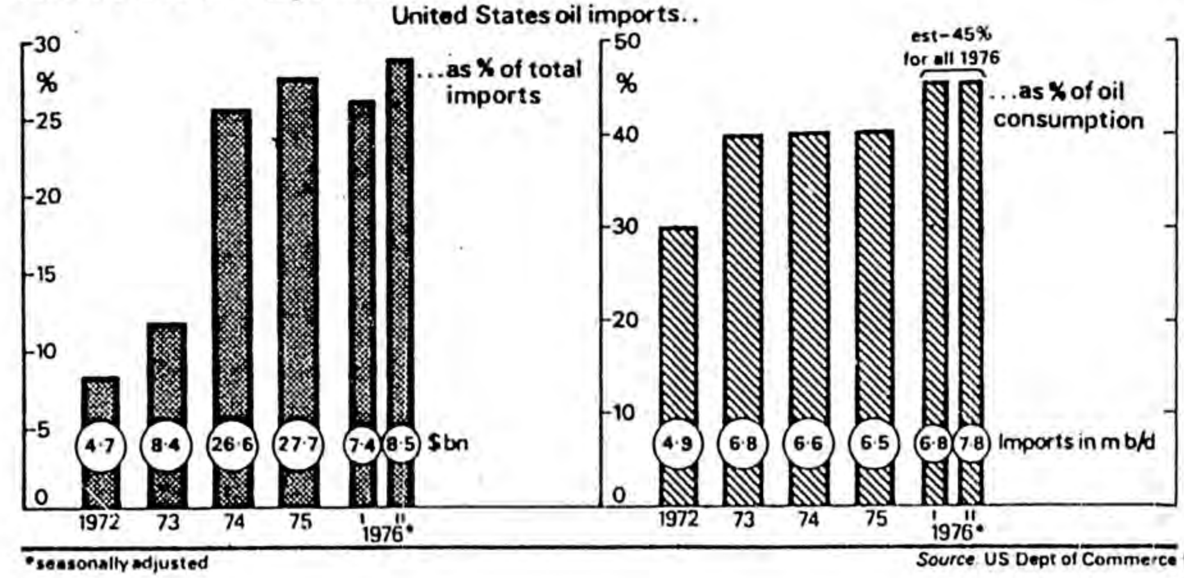
His office's study also includes the logistics of construction. He pointed out that both El Paso and Northwest will have highway access to their projects, and can do to year-round construction, while Arctic will have no access and must build in winter, when the productivity of the workers will be much lower.

"We have made soils analyses of the three routes," he added. "And we are looking at tanker traffic (as proposed by El Paso) and reviewing the costs of the Gravina Point liquefaction facilities, as proposed by El Paso."

Times
10/17/76

U.S. Oil Imports To Increase

And ever more dependent



WASHINGTON — (LENS) — The White House hopes the voters will not notice (at least not before November 2) but President Nixon's "Project Independence" for energy has become President Ford's project dependence.

Under the 1974 Nixon plan the country was supposed to become self - sufficient in energy by 1980. The administration now reckons the United States will still import 5 million barrels of oil a day in 1985. Shell and Exxon guess the figure will be at least twice that much, i.e.; well above today's figure.

Nixon was especially keen to cut the country reliance on those countries that placed an embargo on oil exports to it in 1973. Just the opposite has happened. Supplies from old friends, notably Canada and Venezuela, have fallen. The Arab countries' share of American oil imports went up from 7 per cent in 1973 to 34 per cent last year.

So during the first six months of this year the United States spent nearly $16 billion to buy oil from abroad: 27.3 per cent of its total import bill. It is still the world's third largest crude oil producer (with 8.2 million barrels a day) after Russia (10.1 million barrels a day) and Saudi Arabia (8.5 million barrols a day), but it is also the world's biggest oil importer.

In 1970 it imported 23 per cent of its oil — this year it will import about 45 per cent.

The administration offers two main excuses for this dependence. The first is that it virtuously concluded the costs of Project Independence were too high to fit the national interest.

The second is the unvirtuous way Congress has refused to wear such White House proposals as laxer clean - air standards, the abolition of price controls on fuel, and Ford's 1975 bill to help private industry, through treasury bond issues and government loan guarantees, to raise $100 billion for approved energy projects over 10 years.

Also, it is said, Congress has scared the oil industry off investment, and kept the public's mind off more important energy issues, by making "big oil" a villain. The now postponed effort by Congress to force the vertical disintegration of up to 22 oil companies is cited in support of this view.

Price controls remain. Under a two - tier system newly found crude oil in the United States is held at about $11.55 a barrel, crude oil from pre-embargo wells at about $5.13 a barrel. These controls are supposed to be phased out by the spring of 1979. That may not happen.

The Federal Energy Administration, a "temporary" agency created during the oil crisis that now boasts 3,400 employees, has published many exceptions to the price rules. Others think those who have benefited now form a strong lobby for continued controls.

The American voters are a still more powerful force for continued price controls. According to public opinion polls, they are more distrustful than ever of big business, and most especially of "big oil." The oil companies are suspected of running the price cartel for OPEC and of making an old - fashioned killing out of higher prices.

The industry's critics find it hard to explain why then the oil companies are in such a hurry to diversify. Atlantic Richfield has invested in Anaconda, a copper miner; Mobile in Marcor, the owner of a department store chain; Standard Oil of California in Amax, a metals producer. Exxon, Continental Oil and Occidental Petroleum are exuberant diggers for coal.

Unsurprisingly, allies of the United States, particularly its partners in the International Energy Agency, are restive. The noises they are making have become more rude since Henry Kissinger, the secretary of state, abandoned an effort to push the Congress to agree to that famous $25 billion "safety net," the petro - dollar, recycling scheme.

The United States, as they see it, has acted in an unneighborly way in rejecting the two alternatives it had to cut oil demand quickly: rationing by price or rationing by allocation. True, the American treasury flirted briefly with the idea of raising the federal government tax on gasoline, now 4 cents a gallon, as high as 30 cents a gallon. It blushes when it is reminded of this.

Gasoline is still pumped into American cars at about 60 cents a gallon. The French pay more than three times that price — the British, Germans, Japanese and Swiss more than double.

Other countries, of course, continue to warn of the risk of petrodollar recycling hardships unless the United States does its big bit to restrain demand so that OPEC thinks twice before it puts up prices.

Times 9/18/76

Senate Hearing Set To Study Oil Surplus

Times Washington Bureau

WASHINGTON — The Senate Interior and Commerce Committees have scheduled a joint hearing Tuesday to review the possibility of a crude oil surplus on the West Coast next year, once the Alaska pipeline becomes operational.

Interior Secretary Thomas Kleppe, Commerce Secretary Elliot Richardson and Federal Energy Administrator Frank Zarb are scheduled to testify at the hearing, one in a series of congressional probes in to the possible West Coast surplus.

Sen. Henry M. Jackson, D-Wash., chairman of the Interior Committee, said, "Information currently available would appear to indicate that there has been a serious breakdown in both planning and undertaking the necessary actions to accommodate Alaska crude oil and to insure its proper distribution throughout the country."

The committee have also sent questionnaires to other federal agencies, the State of Alaska and major producers on the North Slope to determine the extent of any West Coast surplus and the plans to deal with it.

Federal Agency Projects West Coast Oil Surplus

By The Associated Press

The Federal Energy Administration has projected a 500,000 barrel surplus of crude oil on the West Coast after start-up of the trans-Alaska oil pipeline.

Deputy regional administrator for San Francisco Robert Bolt, project manager for the five-month study, said the report will be issued to West Coast states next week.

"Our conclusion is that there will be a surplus, beginning in 1978, of 500,000 barrels per day," Bolt said in a telephone interview from San Francisco Thursday.

The report will not be released publicly until the four coastal states and the president's Energy Resources Council comment on its findings, he said.

Bolt described the report as "an analysis of all the possible alternatives (to market the oil in the United States) from four viewpoints the environment, economy, permitting and timing."

He said the report compiled with the states of Alaska, California, Washington, Oregon and his agency's regional offices in Seattle and San Francisco analyzed methods for shipping the oil from the Pacific Northwest to the midwest through Canada; by pipeline across Panama or Guatemale; by tanker through the Panama Canal or around Cape Horn, and by exchanging oil with Canada or another foreign nation.

Bolt said while the study concludes there may be some additional capacity for North Slope crude at West Coast refineries, "there would have to be a major expansion if all crude were to be processed on the West Coast."

Bolt said the Standard Oil of Ohio proposal to bring oil by tanker into Long Beach, Calif., for pipeline transportation to Midland, Tex., was the only port mentioned in the report.

"From the timing standpoint, the Panama Canal is already there," he said, but some tankers scheduled for Alaska trade are too large for the waterway.

"Our general conclusion is that one or more alternatives are going to have to be implemented" to market the oil in the United States, he said.

News 10/11/76

Legislature hires oil tax consultants

By The Associated Press

The author of a controversial report on the tax potential of Prudhoe Bay oil fields has been hired as an advisor to the state legislature.

Michael Tanzer is among five consultants hired or under consideration for research contracts by the state's Interim Committee on Oil and Gas Leasing and Taxing Policies.

HIS CONTRACT calls for a probe of "the impact on exploration and development resulting from increased oil taxation by Norway, Great Britain, West Germany, the Canadian province of Alberta and other governments." Tanzer also is to compare industry profits per barrel under the tax and royalty policies of major oil producing countries.

Tanzer's $15,000 contract was outlined in a memo sent last month to committee vice chairman Rep. Hugh Malone, D-Kenai, from James Rhode, an administrative assistant to the House Finance Committee.

The interim committee headed by state Sen. Chancy Croft, D-Anchorage, also has signed a contract with former British Columbia Institute of Economics affiliate Mason Gaffney. He is to work with Commissioner of Natural Resources Guy Martin in a review of the state's oil and gas leasing policy.

DIRECTOR GREGG ERICKSON of the division of research services for the legislative council said three other contracts are pending for economic and tax research.

Rhode's memo indicates the studies are to determine "what is a fair rate of return to the oil companies and still make sure that Alaskans get our fair share of the value of our oil."

He said cost structures for industry operations in the North Sea are "very similar to cost data for Prudhoe Bay. . . if costs are similar, why is our tax rate under theirs?"

Inside today

News 10/27/76

Sohio exec seeks balance on oil taxes

With revenues from the trans-Alaska oil pipeline to begin flowing into the state treasury next year, the state can afford some time to "strike the right balance" for an oil industry taxation package, a Standard Oil Co. of Ohio executive told the Greater Anchorage Chamber of Commerce.

Richard M. Donaldson, vice president for government and public affairs of Sohio, said there are two important state studies now in progress concerning oil and gas taxation, one study by the state administration and one by the legislature.

"Our industry is watching these studies very closely," Donaldson said Monday. His company, the largest single shareholder for the trans-Alaska oil pipeline and Prudhoe Bay oil, is preparing a series of papers to respond to both studies.

The studies can be "a firm first step to long range stability . . . or they can be more marching in place," Donaldson said. He noted that Alaska already has the highest tax among all the states on oil and gas revenues.

Donaldson said among the factors that should be considered for continued energy development in Alaska are the tax and regulatory climate in the state, the availability of skilled labor and support industries, the higher cost per barrel for Arctic oil construction and the shortage of capital facing the industry.

The state should also consider that while about 17 per cent of all potential U.S. reserves are in Alaska, "It's not the only area that's attractive in the country."

Controversial oil tax adviser hired by state

News 10/9/76

ANCHORAGE, Alaska (AP) — The author of a controversial report on the tax potential of Prudhoe Bay oil fields has been hired as an advisor to the state legislature.

Michael Tanzer is among five consultants hired or under consideration for research contracts by the state's Interim Committee on Oil and Gas Leasing and Taxing Policies.

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He said cost structures for industry operations in the North Sea are "very similar to cost data for Prudhoe Bay...if costs are similar, why is our tax rate under theirs?"

Oil company spokesmen have said such reasoning does not consider taxes the industry pays to the U.S. government in addition to its state taxes.

In the study submitted to the legislature last year, Tanzer suggested the state could tax Prudhoe Bay profits at 50 per cent and perhaps up to 80 per cent without discouraging owner oil companies.

Standard Oil of Ohio vice president Dick Donaldson told the recent Alaska AFL-CIO convention in Anchorage the 31 largest U.S. oil companies combined paid 74.1 per cent of their incomes in state and federal taxes. After employes' salaries and investors' dividends, he said the companies' share is 7.8 per cent.

Donaldson said projections for Prudhoe Bay profits and development costs both have risen 400 per cent and owner oil companies anticipate a 15 per cent rate of return on their investments.

"The principal beneficiary of any 'windfall' will be the state," Donaldson told the labor convention.

TIMES 10/31/76

Oil Chief Gives Advice On Taxes

FAIRBANKS (AP) — Standard Oil of Ohio vice president Richard M. Donaldson says Alaska legislators must strike a moderate balance when they tax corporations developing the state's oil and gas reserves.

Otherwise, he told the Fairbanks Industrial Development Corp., the companies will be discouraged from or unable to invest their money in future energy development here. Donaldson heads Sohio's government and public affairs division.

Exxon base at Seward

News 11/2/76

Gulf drilling speeds up

The three big winners in Alaska's first Outer Continental Shelf oil and gas lease sale — Exxon Corp., USA, Atlantic Richfield Co. and Shell Oil Co. — are moving in on the northeastern Gulf of Alaska, with two wells in progress and a third planned.

All three companies are setting up onshore operations at both Seward and Yakutat.

SHELL AND ATLANTIC-Richfield (ARCO), which bid in partnership on a number of tracts in last April's OCS sale, each have a rig in gulf waters, and are drilling two wells with joint ownerships.

Exxon has just announced that it is setting up shore base operations at Seward with the expectation of beginning drilling operations early next year.

ARCO moved the drilling rig Ocean Ranger into the Gulf of Alaska in mid-October to spud its first well on a $41.1 million tract on the fringe of the Icy Bay structure, considered by geologists to be the most promising area in the Gulf.

THE TRACT IS owned half by ARCO and half by Shell. It drew the third highest successful bid in the half-billion dollar lease sale.

The Ocean Ranger is the world's largest semi-submersible drilling rig, and it is under contract from ODECO of New Orleans.

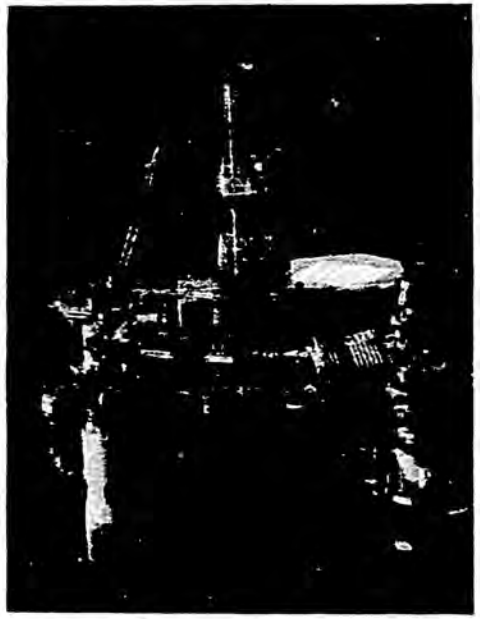
Shell moved the rig Sedco 706 about two months ago to a tract that cost Shell and its partners $61.9 million, the second-highest winning bid in the April sale. The tract is some 40 miles west of the Icy Bay structure.

The Sedco 706 cost $46 million and was built specially for the Gulf of Alaska. Shell is operator for a four-company combine, including ARCO, on the tract.

EXXON ALSO has a designed-for-Alaska drilling vessel in the wings. The Alaskan Star, a $50 million rig, is being built in Japan and is due to arrive in Alaska in January.

Exxon has leased 30 acres near the Alaska Railroad dock at Seward to use as a storage and staging area.

Since most of its offshore leases are 200 miles or more away, from Seward, drilling crews and other personnel will be transported from a helicopter base at Yakutat, said Monte Taylor of Anchorage, manager of Exxon's Alaska production operations.



Shell and ARCO's Ocean Ranger

News 10/14/76

Poll shows Alaskans split on oil tax policy

By The Associated Press

An independent survey indicated voters in Alaska's three largest cities are divided on oil tax proposals introduced during the last legislative session.

"The public was only slightly aware of any campaign waged for or against the tax package," the report stated.

The survey was conducted by the Alaska Industrial Survey Research Service, a joint venture by H. A. Boucher and Associates of Anchorage and Rowan Group, Inc., of Mill Valley, Calif.

It was based on interviews with at least 325 registered voters in Anchorage, Fairbanks and Juneau, and will be sold to corporate clients for between $15,000 and $18,000. The service reports its sample reflects total urban voter opinion to within 3 per cent accuracy.

The legislation in question would increase state taxes on Prudhoe Bay oil field operators. Some 20 per cent of those polled said the taxes would reduce impact of the trans-Alaska pipeline in the state, and indicated they believed the oil industry could afford the increase. About 23 per cent of the participants opposed the measure, contending oil taxes already are excessive and an increase could force the industry to leave Alaska.

On other issues, those polled listed Alaska's major problems in order of importance as population growth, inflation and crime. They identified major national issues as inflation, unemployment, crime, failures of leadership, foreign policy, energy and corrupt government.

The capital move was favored by 48 per cent of those polled and opposed by 44 per cent. However, figures varied widely. More than 60 per cent of Anchorage and Fairbanks participants approved the move, while Juneau residents opposed it overwhelmingly.

Those polled indicated dissatisfaction with their incumbent legislators in the poll conducted last July. Gov. Jay S. Hammond was supported by 31 per cent of those polled and opposed by 27 per cent. The remaining 42 per cent said they did not know how they would vote, or indicated they could not make a decision without knowing Hammond's opponent.

Support was given the El Paso plan for a natural gas pipeline from Prudhoe Bay. The firm is competing with Arctic Gas and Northwest Pipeline Corp. before the Federal Power Commission for permission to build the line. El Paso's appeal was based on the fact that it "would be built entirely within Alaska," said the 73 per cent who favored the line. Juneau residents polled gave the El Paso proposal 88 per cent approval.

News 9/17/76

Report predicts oil surplus

By SALLY W. JONES
Daily News Staff Writer

The Federal Energy Administration (FEA), in a report to be issued to West Coast states next week, has projected a 500,000-barrel-per-day West Coast surplus of crude oil following start-up of the Alaska pipeline.

That finding is contained in a 500-page report of marketing and distribution problems the West Coast will face when the Alaska pipeline begins producing at the rate of 1.2 million barrels of oil daily in late 1977.

ROBERT BOLT, FEA duputy regional administrator in San Francisco and project manager for the five-month study, said Thursday the report will not be released publicly until after the four states and the President's Energy Resources Council comment on the report's findings.

He said another draft report will be completed by the end of the month, evaluating marine terminals on the coast.

The FEA announced its probe of the surplus question in February, two months after The Daily News completed an investigation into the question of where Alaska's oil will be marketed. The study was compiled with the states of Alaska, California, Washington and Oregon, the FEA's regional office in Seattle and its regional office in San Francisco.

ALTHOUGH THE REPORT will not be released publicly by the FEA, Bolt discussed its conclusions Thursday. The conclusions are the same as reached in The Daily News probe, which estimated a surplus would range from 300,000 to 600,000 barrels per day, because oil companies on the landlocked West Coast lacked time to move oil inland by the time Alaska pipeline oil was delivered at the 1.2-million-barrel rate.

"Our conclusion is that there will be a surplus, beginning in 1978, of 500,000 barrels per day," said Bolt Thursday. He said the report makes no recommendations on how to handle the oil, reserving that decision for the administration and Congress.

The report, he said, "is an analysis of all the possible alternatives (to market the oil in the U.S.) from four viewpoints, the environment, economy, permitting, and timing."

HE SAID THE multi-agency report analysed methods to move the oil from the Pacific Northwest through Canada to the Midwest; by pipelines across Panama or Guatemala; by tanker through the Panama Canal or around Cape Horn; and by exchanging oil with Canada or another foreign nation.

Bolt said the study concludes that refineries on the West Coast "have some additional capacity for North Slope crude; but there would have to be a major expansion if all crude were to be processed on the West Coast."

He said the report also analysed a Standard Oil of Ohio (Sohio) proposal to bring tankers into Long Beach and build a pipeline to Midland, Texas.

THE LONG BEACH port was the only one discussed in the report, said Bolt.

"From the timing standpoint, the Panama Canal is already there," said Bolt. But the canal is limited in the size of tankers it can accommodate, and some tankers scheduled for the Alaska trade are too large for the canal.

For the other proposals considered, said Bolt, "it would be dependent on the proponents to get the regulatory permits they need. The Kitinat (pipeline proposal) in British Columbia needs one permit; Sohio's will need about 100 permits," he said.

"WE HAVE NOT WRITTEN an executive summary of the report; but our general conclusion is that one or more alternatives are going to have to be implemented" to market the oil in the U.S. where it is needed, Bolt said.

Although the Seattle FEA official said in March that The Daily News articles were the basis for the study, it was an ad hoc group of governor's representatives from Alaska, California, Washington and Oregon that first brought the surplus problem to light last fall.

TWD
8/18/76

$1.13 billion bid in Atlantic lease sale

NEW YORK (AP) — The oil industry bid a total of $1.13 billion for undersea drilling rights Tuesday, after a U.S. Supreme Court justice gave last-minute approval to the first-ever sale of Atlantic Ocean oil leases.

The figure was well below the record batch of high bids that totaled $2.09 billion in a 1974 Gulf of Mexico oil lease sale.

The highest single Atlantic bid Tuesday was $107.7 million offered by a group of companies headed by Mobil Oil Corp. for Tract No. 29 — a tract consisting of about 5,750 acres.

The opening of the sealed bids by a U.S. Departmnt of Interior official was delayed for eight hours while lawyers for New York State and environmental groups asked Supreme Court Justice Thurgood Marshall to block the sale.

He declined to do so. But whether actual drilling in the Atlantic occurs depends on the Circuit Court of Appeals in Manhattan. That court will hold a hearing next month on the overall environmental effects of offshore oil production.

The court proceedings left timing of actual drilling uncertain. But it usually takes four to six months from the sale of leases before the first rigs move out to sea.

The environmentalists sought a detailed study of the effects of the drilling off the mid-Atlantic coast from Long Island, N.Y., to Virginia.

As the arguments went on, hundreds of oil company executives milled about a hotel ballroom in New York, waiting for the sale to begin.

In his ruling, Justice Marshall said only that the 2nd U.S. Circuit Court of Appeals had acted properly Monday in deciding to lift a lower court's ban on the sale. He said he would issue a written opinion later.

Last week, U.S. District Judge Jack Weinstein barred the sale, saying environmental interests should have been consulted more fully. The appeals court then overturned his decision.

The Supreme Court is in recess, but Marshall has jurisdiction over the 2nd Circuit Court District.

Interior Department officials said the case was the first on offshore oil lease sales to reach the high court. Previous efforts to block lease sales off Louisiana, California and in the Gulf of Alaska all failed.

Alaska Natural Resources Commissioner Guy Martin, who has coordinated Alaska's opposition to the current Outer Continental Shelf (OCS) program, said late Tuesday the Supreme Court decision was not surprising.

"What it means is that under (OCS) law, it appears that the states have virtually no power in the courts" to halt a sale, said Martin.

The Interior Department estimates the area holds a potential 400 million to 1.4 billion barrels of oil.

State to appeal dismissal of suit

JUNEAU (AP) — Atty. Gen. Avrum Gross said Tuesday that his office will appeal a U.S. district court decision to dismiss a state suit to cancel offshore oil and gas leases in the Gulf of Alaska.

Asst. Atty. Gen. Sandy Sagalkin said the notice of appeal will be filed in "a couple of days."

"Basically we will appeal on the same grounds we raised in the district court case but framed in terms of what we believe were erroneous findings by the judge," Sagalkin said.

U.S. District Judge Joseph Waddy of Washington, D.C. ruled in the case last Friday, rejecting the state's claim that the U.S. Interior Department failed to conduct a proper environmental impact survey before going ahead with the lease sale last April.

The judge concluded that the department's environmental impact statement was "an objective, good faith document."

Gross said he was not "shocked by the loss in the lower court."

"When the judge denied our motion for a preliminary injunction on April 8, he indicated that was the way it would turn out in his court," Gross said.

In his ruling, Waddy also rejected the state's claim that the leases should have contained a termination clause to allow a suspension of drilling if environmental hazards developed. He said such clauses are specificaly banned by federal laws governing offshore leasing.

The lease sale was conducted on April 13 after the state lost its motion for an injunction. Of the 189 tracts offered, bids for 76 were accepted. A total of 32 oil companies paid $560 million for the rights to drill on the 410,000 gulf acres.

News 9/24/76

Sohio denies charges of export intentions

By ROSEMARY SHINOHARA
Daily News Staff Writer

Standard Oil of Ohio, a major owner of Prudhoe Bay oil, Friday denied the allegations of a California official who says Sohio is gambling that Congress and the President will let the company sell the oil to Japan.

Ken Showalter, Sohio's representative in Alaska, said the company has no plans to sell oil to Japan, and he challenged most of the other conclusions drawn by a top California environmental advisor as well.

TOM QUINN, chairman of California's Air Resources Board and a chief advisor on environmental issues to California's governor, said in Anchorage Thursday that a Sohio plan to expand the port of Long Beach and build a pipeline system from there to Midland, Texas will never be appoved.

The Midland pipeline, or another alternative, will be needed to relieve a surplus of oil that will occur on the West Coast when North Slope production reaches 1.2 million barrels per day. The Alaska pipeline is scheduled to produce at that rate in late 1977.

A proposed Sohio plant at Long Beach would be too great a pollution source to meet state and federal clean air standards, Quinn said. He said Sohio has declined to consider other sites, terming them too costly. And he said Sohio has not yet applied for key permits that will be needed to carry through its project, which will take two years to complete.

SOHIO EXECUTIVES DISAGREE with a California consultant's report on the pollution level from their proposed plant. "We think there needs to be more work done on that," Showalter said.

Sohio didn't reject any alternative sites that were recommended because of cost, Showalter said. "They were passed over because of environmental and permitting considerations." In some cases, more massive construction would have been required, and in other cases there would be more damage to the environment in other ways than air pollution, he said.

It's true that Sohio hasn't applied for key permits, Showalter said. "The environmental impact report is not yet completed. The agencies are not to the best of our knowledge allowed to consider applications for permits until the environmental report is complete," Showalter said.

IN SPITE OF Sohio's denials the possibility that Prudhoe Bay oil will be sold to Japan continually comes up, Showalter said.

Last week, Sohio's chairman Charles E. Spahr responded to articles in British and Japanese newspaper speculating on the subject.

Spahr said even after Sohio uses the available American tanker fleet to carry Alaska oil through the Panama Canal, it appears that there will still be a surplus on the West Coast for six months or so beginning in late 1977.

THE CHAIRMAN SAID alternatives to deal with the remaining surplus include the use of large foreign flag ships to move crude from Valdez around Cape Horn, or an arrangement with Canada under which Alaska crude could be moved to eastern Canada refining centers in exchange for deliveries of Canadian crude to the western U.S.

A third possibility would be an exchange in which foreign oil would be delivered to U.S. ports in exchange for deliveries of Alaska crude in to foreign markets, Spahr said.

He noted that the trans-Alaska pipeline legislation says all oil from the pipeline is to serve U.S. markets either by direct shipment or through an exchange with an adjacent foreign state — Canada or Mexico.

SHOWALTER SAID SOHIO executives are "puzzled" by Quinn's rejection of the whole project before the environmental report is completed, and before Sohio has even filed for a permit.

Quinn said California officials and the Air Resources board met with Sohio more than 18 months ago and told Sohio the Long Beach port plan would not be approved in California.

Showalter said, "I can't find anyone in Sohio who is associated with it that remembers the state saying we won't get approval."

News 8/18/76

Alaska oil won't go to Japan—Young

An oil surplus on the West Coast will not cause Alaska oil to be shipped to Japan but will cause new east-west distribution systems to be developed, Rep. Don Young, R-Alaska, said Tuesday.

Commenting on a statement by Sen. Adlai Stevenson, D-Ill., here Monday that the Senate would hold hearings into the anticipated oil surplus, Young said "the Senate is about 10 days behind time."

YOUNG SAID the House Interior Committee's public lands subcommittee, of which he is a member, completed a week's hearing and "established we have a surplus on the West Coast."

But Young said he did not view the surplus as a problem that might force curtailed production of Alaska oil or the oil to be shipped to Japan, but as "a chance and opportunity to develop oil transmission systems east and west."

He said he agreed with the statement of Sen. John Durkin, D-N.H., that Congress would object to efforts to ship Alaska oil to Japan. He said he was responsible for getting the provision in the pipeline authorization act prohibiting it.

"WE'RE NOT going to let any of this oil go to Japan as long as we're shipping 48 per cent of our oil from the Mid East. The senators are right. No way will Congress stand for oil to be shipped to Japan," he said.

Young said present and proposed oil distribution lines could carry 1.2 million barrels a day east from the West Coast—far more than the anticipated surplus of 500,000 barrels a day when Prudhoe Bay oil goes on line. These transportation systems would never be developed if there was not a surplus, he said.

Young said most oil lines went north and south, with one line bringing oil to California. That line could be reversed with modifications to the line, and a small spur would hook up an east-west line in British Columbia, he said. He said an east-west distribution system would allow flexibility in shipments of oil and protect the East Coast if there was another Arab oil embargo.

Daily News photo by Michael McDermott

Rep. Don Young, R-Alaska, opened his Anchorage campaign headquarters at 519 West Eighth Ave. Monday. Jim Slaybaugh, left and Pat Loken, enjoy a laugh with the candidate.

Energy experts rap U.S. use of foreign supplies

News 8/11/76

SPOKANE, Wash. (AP) — The United States is becoming increasingly dependent on foreign energy supplies instead of making progress toward self sufficiency, two energy experts said here this week.

George M. Keller, vice chairman of the board of Standard Oil Co. of California, told delegates to the Pacific Coast Gas Association convention here that the United States soon may be importing half of the oil it consumes.

"We now are importing from foreign sources more than 40 per cent of the oil we use and that figure may soon rise to 50 per cent or more if a greater effort toward conservation of oil is not made and if adequate incentives for exploration and production of reserves are not provided," Keller said.

Dr. John R. McKetta of the Department of Chemical Engineering at the University of Texas, said that "At the current rate of energy demand growth, the U. S. will have a s e v e r e depression brought about by a lack of energy in 1985."

McKetta criticized Congress for failing to deal with the nation's energy problem. He said Congress has an "anti-U.S. voting record" on energy matters which has put "the future of the nation and the world in jeopardy."

The energy industry has been hurt, McKetta said, by "senseless, inflexible government regulations and the extreme demands of environmentalists."

He said, "The government is going to have very strict rationing by 1980. The situation is going to get so bad that Congress is going to pass helter-skelter laws."

McKetta called for an end to unnecessary government regulation, encouragement of private enterprise to find new energy, increased coal production and use, construction of 1,000 nuclear power plants and increased energy conservation.

Delegates also heard arguments from a pipeline company executive on the merits of projects to bring Alaska's North Slope natural gas to the lower 48 states.

William Brackett, vice chairman of Alaskan Arctic Gas Pipeline Co., said the Arctic Gas Prooject could be completed sooner than either Northwest Pipeline Corp.'s proposed Alcan Pipeline or El Paso Natural Gas Co.'s proposed pipeline - ocean tanker system.

The environmental staff of the Federal Power Commission "has determined and testified that the Arctic Gas Project route is environmentally preferrable to a pipeline which carried Alaskan gas along the Alcan Highway route and Canadian gas down the Mackenzie River Valley," Brackett said.

The Arctic Gas Project pipeline would run from Prudhoe Bay in Alaska and the Mackenzie Delta in Canada down the northern coast of Alaska and Canada, then through Canada along the Mackenzie River.

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years ago, said that ...

Oil Chiefs Warn U.S.

Times 11/18/76

AUSTIN, Tex. (AP) — The Texas Railroad Commission cut the statewide oil allowable from 100 to 99 per cent today, saying it wanted to put Washington on notice and alert the people that the nation is running out of oil.

Texas' wells, with some exceptions, have been running wide-open for 56 months.

Commissioner Jim Langdon said the change in the allowable will have the effect of reducing estimated production by 7,500 barrels of crude oil a day, which is "insignificant."

This "will get the attention of the people in Washington," Langdon told a statewide hearing. "Whether the reaction is good, bad or indifferent," Langdon said, "it is time" people recognize that oil supplies are dwindling.

Commissioner Mack Wallace said, "We are telling the rest of the country we are saving 7,500 barrels a day of Texas oil to use in emergencies."

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text that Paarlberg was concerned about some of the pledges the President-elect had made, including those related to helping farmers through higher government price supports.

Paarlberg said that he thought that it was "unlikely that we would deliberately return to the policies from which we have now escaped."

TIMES 10/22/76

Jackson Recommends Canadian Oil Trades

PORT ANGELES, Wash. (AP) — Sen. Henry M. Jackson has proposed oil trades with Canada as a method of obtaining the equivalent of Alaskan oil without the hazards of new pipelines or supertanker traffic.

Jackson, campaigning for re-election here on Wednesday, said three of the state's four oil refineries can't process the high-sulphur Alaskan crude anyway.

He said that Alaskan oil can be traded to Canada, with shipments going to Kittimat, B.C., and sent from there to Canadian refineries equipped to handle it.

In exchange, he said, Canada would continue to supply Washington refineries with oil from Albertan wells.

Among plans now being considered for dealing with Alaskan oil is one to build a supertanker terminal at Port Angeles. A 1,500-mile pipeline would run from the terminal to the Midwest in a project costing $2 billion.

Various governmental entities have opposed that plan, but the state has supported it because it would mean that tankers would not have to ply Puget Sound.

Jackson said he plans to meet with Canadian officials, probably by December, to discuss steps towards a threaty that would assure complete cooperation in an oil exchange.

He said another step necessary to make his plan work is to assure bonding companies that their money invested in Alaskan pipelines is safe from losses that might result from international conflicts.

Bill Malseed, manager of the Shell Oil Co. refinery at Anacortes, said any agreement would have to provide Canadian oil at competitive prices.

The Fish and Wildlife Service says that blackbirds destroy no more than a tenth of the nation's annual corn crop.

TIMES 9/24/76

Official Defines Oil Stand

SACRAMENTO, Calif. (AP) — California's air pollution chief said Thursday he would not oppose an Alaskan oil facility everywhere in the state — only at Long Beach.

Tom Quinn, Gov. Edmund Brown Jr.'s cabinet-level environmental adviser and Air Resources Board chairman, was responding to what he called misleading comments in Washington by a federal official.

Quinn, in a letter to Frank Zarb, chief of the Federal Energy Administration, disputed comments made earlier this week by Zarb's deputy, John Hill, to Senate committees.

He said Hill was wrong in saying California opposes a facility for receiving and transporting Alaskan oil anywhere in the state.

Quinn also described as "unacceptable and preposterous" Hill's statement that it was okay to build in Long Beach because the air already was heavily polluted.

Quinn had earlier written Zarb saying California would oppose a Long Beach facility because it would result in more air pollution in the Los Angeles basin.

"It is quite true that we have objected to the site selected by the oil companies, the Port of Long Beach, but we are quite willing to allow construction of the terminal at other locations," Quinn said.

News 8/19/76

Slope oil owners to operate as unit

By ROSEMARY SHINOHARA
Daily News Staff Writer

Owners of the oil and gas reserves at Prudhoe Bay have generally agreed to an arrangment for operating the field as a unit. But they are still arguing about how to split up the pie, oil company representatives indicated during a public meeting in Anchorage Wednesday.

The Prudhoe Bay leaseholders presented the state with a preliminary draft of a unitization agreement Wednesday, and said they hoped to be able to make a formal application by late this year or early in 1977.

THE AGREEMENT will set out an operations plan and a determination of how much oil and gas each company owns at Prudhoe. It will make provisions for handling the state's royalty share—12½ per cent of the field.

It also includes provisions to enlarge or contract the size of the unit in case further discoveries are made, leases expire, or other changes occur.

All oil company representatives present said they support the concept of unitization, but spokesmen for companies with a minority interest in the field made clear that they are unhappy with the plan presented by the four major owners to settle the issue of how much oil and gas each leaseholder owns.

STANDARD OIL CO. of California (Socal) and Mobil Oil Co. particularly stressed their disagreement with an "equity participation" plan proposed by the major owners Aug. 11.

Dudley Cramer of Socal said the percentages of ownership proposed by the major owners "do not adequately reflect the interests of Standard and the other minority owners."

Mobil Oil Co.'s representative said much the same thing, but added that though the issue is serious, "I think we'll achieve agreement well before production."

FOUR MAJOR companies, Standard Oil Co. of Ohio, British Petroleum, Exxon, and Atlantic-Richfield Co., have combined interest of more than 90 per cent in the field.

The leaseholders began working on the unit plan in 1969, but negotiations were suspended between 1971 and late 1974.

Statements made Wednesday indicated that the companies are aiming to have a final plan ready by early next year, but will definitely have one ready before the scheduled start-up of the pipeline in July, 1977.

GUY MARTIN, state commissioner of natural resources, warned the leaseholders that they had best settle their own differences quickly because the state is going to take the time needed to review the plan, and will also submit it to the public to be reviewed and analyzed.

"I'm committed to it happening. I refuse to trunkate the time for the state and public reviews because of disagreement among the operators," Martin said.

The state has responsibility for approving the unit plan to prevent waste of oil and gas and to ensure that Prudhoe Bay operations are in the public interest.

BILL LEAKE of Dallas, Atlantic-Richfield's Alaska co-ordination manager, presented the owners' plans for management of the field. Leake said the owners believe that the field will have sustained production of 1.5 to 1.6 million barrels of oil per day for about eight years.

The pipeline is to carry 1.2 million barrels per day shortly after start-up next year. Leake said the field facilities are to be expanded in 1978 and 1979 to produce 1.5 to 1.6 million barrels daily.

The field can produce 2 billion cubic feet of natural gas per day as soon as a gas pipeline is available, and that rate could be sustained for more than 20 years, Leake said.

FOR MAXIMUM recovery of the oil, water that is produced with the oil and gas is to be selectively reinjected into the field. The water will provide pressure to force the oil out.

As the liquids are extracted from the field, water from another source may have to be injected to maintain pressure, Leake said.

Costs Slow Drilling In Gulf Of Mexico

Special To The Times

TULSA — High operating costs and technological hurdles are causing oil companies to slow down large-scale drilling for new oil and gas reserves in deep waters of the Gulf of Mexico.

The Oil and Gas Journal reports that the companies which pioneered offshore exploration n the gulf 20 years ago now are turning their attention to East and west Coast waters rather than venture into the deeper gulf waters.

While much oil and gas activity continues in the gulf, most of the undeveloped sites off Texas and Louisiana are in 600 or more feet of water, the weekly business magazine says.

While advanced deepwater technology is developed, most companies prefer to drill elsewhere rather than get into deeper waters of the gulf. One of the prime prospects will be the Baltimore Canyon off New Jersey and Delaware. Water depth there averages about 350 feet over potential oil and gas reservoirs.

Companies spent about $1.1 billion to lease casnyon tracts during an Aug. 27 department of Interior sale.

The Journal says industry interest in similar Gulf of Mexico sales has declined during the past two years. Another indication of an activity slowdown in the gulf is the limited number of drilling plans announced by industry for the rest of 1976 and 1977, according to the Journal.

Operators now active in gulf waters over 600 feet deep say they have about all the acreage they can handle in terms of cost and technology.

"We can drill in waters more than 3,000 feet deep," one operator told the Journal. "But what good will it do if you can't afford to bring production on stream?"

Industry's attempts to advance deepwater drilling and production technology are progressing but new equipment such as remote control maintenance and submerged production devices are expensive.

The Journal sais a new prototype platform design for deepwater drilling also has been tested but has not gone into full production. Another consideration is the increasing cost of equipment built on standard designs.

The magazine cites the example of an offshore platform contracted for at a cost of $30 million in 1974. Price for the same platform has increased five times.

In addition to technology advances, there are other signs activity will be revived and perhaps even sustain the gulf as the nation's most active offshore arena, according to the Journal.

Representatives from more than 40 oil companies will meet early in 1977 to plan a joint stratigraphic-test program which will help locate suspected oil and gas bearing structures in deep Gulf of Mexico waters.

The program, one of the organizing companies said, also could speed development of technology by determining that there are deepwater gulf prospects worth going after for which there is no existing technology.

The Anchorage Times

11/3/76

Business-Financial

Foreign Oil To Fill Lines, Says Report

TULSA — Proposed West Coast to east-of-Rockies oil pipelines are likely to move mostly foreign crude, The Oil and Gas Journal reports.

The pipelines are proposed to ease a short-term Alaskan-oil surplus on the West Coast or a crude shortage at refineries in the upper Midwest states of Montana, North Dakota, Minnesota, Wisconsin and Michigan.

Canada is phasing out its crude exports to the United States and those refiners are scrambling for another supply.

Historically, they've processed mostly Canadian low-sulfur crudes. With that supply shrinking and ending altogether in 1982 and with inadequate pipeline connections to U.S. oil sources, they're worried about a potential energy crisis in their states.

North Slope oil will be coming on production next summer but the oil industry hasn't a trans-Rockies crude pipeline to bring the oil into the upper Midwest.

And if one is built, the Journal says in its Nov. 1 issue, the refiners will want not only the medium-sulfur content Alaskan oil, but large volumes of sweet foreign crudes. Their plants generally aren't designed to process sour oil, and many of them can use only a limited amount by blending it with sweet oil.

Standard Oil Co. of Ohio plans one of three proposed pipelines. It would market most of Sohio's Alaskan production in other sections of the nation besides the upper Midwest.

The other two pipelines are Kitimat and Northern Tier, both of which would dispense Alaskan crude to the northern refiners.

In the time period to 1985, California refiners are expected to take a growing percentage of the Alaskan production. So any West Coast - Midwest pipeline likely will have to move increasing amounts of foreign oil to pay out, according to the Journal.

But the pipelines are long-term solutions and will do nothing to relieve the short-term problems. The Sohio line could be finished by 1978. Kitimat could be finished in 1979 and Northern Tier in 1980. It is doubtful both Kitimat and Northern Tier will be built.

Other solutions are being considered by the refiners until one or more of the pipelines is finished, according to the magazine. One of those favored is large-scale crude swaps with Canada.

Several short-term solutions are being considered by the refiners, too, according to the Journal. The magazine says the best of those solutions is large-scale crude swaps with Canada.

The Federal Energy Administration held discussions last month with Canadian officials about such a possibility. Following the meetings, a spokesman for the Canadian Embassy in Washington said exchanges are "altogether possible."

The magazine calls the disparate economics of the surplus, the shortage, and the pipelines "a headache to all involved."

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The Anchorage Times

10/21/76

Business-Financial

Oil Firm Executive Cites Federal Delay

Special To The Times

ST. LOUIS, Mo. — Federal regulation to promote more oil company competition in the Gulf of Alaska closed the area to all exploration for more than a decade, a Standard Oil Co. (Indiana) executive vice president says.

Frank C. Osment said the government's 11-year delay in scheduling competitive bidding for leases in the gulf is an example of how regulation of the oil industry has produced results opposite to those intended by the regulators.

Osment said in 1965 he requested that the government conduct competitive bidding for offshore leases in the Gulf of Alaska after turning over to the Department of the Interior the results of "several million dollars" worth of Standard's proprietary studies indicating the possible presence of petroleum deposits.

"The Interior Department agreed with our interpretations of the studies, but they said they didn't have enough companies interested to promote real competitive bidding," Osment said. "So we looked around for places that wanted our expertise and our resources. One of the places we found was England which was trying to develop the North Sea play as fast as possible."

He said that between 1965 and 1976, "when the government finally held a sale of a small part of the (Gulf of Alaska) acreage," the North Sea has seen extensive drilling. About 13.5 billion barrels of crude oil reserves and 75 trillion cubic feet of gas were discovered, making England "virtually energy independent," he said.

Osment pointed out that during this same period U.S. oil imports have risen from 2½ million barrels a day to more than six million barrels, with the nation now importing about 42 per cent of total oil consumption.

In remarks delivered here to a seminar on free enterprise, Osment said another regulatory backlash has resulted from a maze of Federal Energy Administration rules. In certain cases, he noted, those complex regulations make it more attractive for a U.S. refiner to refine $14 per barrel crude oil imported from half-way around the world than $7 domestic crude.

Osment warned that if certain provisions of thehouse and Senate bills affecting the Gulf of Mexico become law, millions of dollars will be added to the ultimate cost the consumer must pay for his gas and oil, and prolong by several years the time the U.S. will be vulnerable to more oil boycotts.

He said despite the industry's brilliant 20-year safety record in the Gulf of Mexico — only four significant oil spills out of 19,000 wells drilled — legislators are seeking to increase the present 100 safety check points to 136 before drilling can begin.

Another provision in the same House and Senate bills, to reduce companies' control over information they acquire through their own efforts, would produce a "chain of unexpected results," Osment declared.

By giving some companies information for which they had contributed nothing, the reward for discovery of new oil - finding techniques would evaporate, resulting in less competition and less exploration, Osment said.

He noted that some people believed the oil industry would make a killing off the oil in the Gulf of Mexico, which currently supplies 17 per cent of total domestic oil and gas production.

"In reality," he said, "the companies paid $18 billion since 1950 for just the rights to look for oil, and they've been paid $19 billion for the oil they produced.

"If you throw in the $10 billion spent for rigs, materials, and labor, the industry is still $9 billion short of breaking even after 20 years in the area."

TIMES 11/20/76

Interior Moves On Atlantic Oil

WASHINGTON (AP) — The Interior Department has begun the process of selling oil and gas exploration and drilling rights leases in an expanded area off the coasts of five Middle Atlantic states.

The department yesterday invited proposals for exploration of an area of some 14.8 million acres lying 15 to 110 miles off New York, New Jersey, Maryland, Delaware and Virginia.

The invitation, a "call for nominations and comments," is the first legal step toward an eventual sale of leases in 1978. The announcement said no decision would be made until public comment has been collected and reviewed and an environmental impact study is made. The process may take some 19 months.

The department, after weathering public debate and attempted lawsuits, auctioned off the first federal leases off the Atlantic coast last Aug. 17, accepting more than $1.1 billion for the right to drill for oil and gas on 529,466 acres off New Jersey and Delaware.

The area involved in yesterday's invitation overlaps the 6.5 million acres originally proposed for the August lease sales. The department said the expanded call now includes areas farther north and south and more seaward.

TIMES 10/28/76

Fuel Report Predicts Petroleum Shortages

SEATTLE (AP) — A federal report says Eastern Washington may come up short about 10,000 barrels of petroleum products a day by 1980 while the West Coast reaps a surplus of Alaskan oil.

The Federal Energy Administration report also forecasts a shortage of about 17,000 barrels a day for Montana.

The report addresses the problem of supplying crude or refined products to areas affected by the cutoff of Canadian crude to Northern Tier states' refineries.

Actually, the report assumes about a 27,000 barrel-a-day shortfall from Montana refineries, since Eastern Washington gets about 15 per cent of its petroleum products from Montana by way of the Yellowstone and Chevron pipelines.

Keith Sherman, Washington state energy office director, and Seattle area oil shippers believe the immediate problem — delivery of petroleum products to Eastern Washington — will be solved by tank barges up the Columbia River.

Sherman said the Olympic Pipeline, which carries petroleum from the four Washington refineries to Oregon, has the capacity to supply barge runs up the Columbia. The cost of another method of transport — train shuttles between Columbia River west of Portland, Ore., and Billings, Mont., — would be too expensive, he believes.

The federal report discusses six, 90-car unit trains a day shuttling between the Columbia River west of Portland and Billings.

Although the FEA report has not been made public, testimony before the Senate Interior Committee and California state agencies indicates the study shows there will be an oil surplus of 500,000 barrels a day or more on the West Coast when the Alaska pipeline reached near-capacity.

TIMES
9/23/76

Vessels Crosscross Prosperous Fishery In Search For Oil

NEW BEDFORD, Mass. (AP) — American oil companies are finishing a summer of crisscrossing one of the world's greatest fishing grounds in small ships looking for the best spots to drill for oil.

At least one of the companies, Shell Oil, says its detailed search with computers and sonic shock waves has disclosed several promising areas to drill for petroleum.

The oil men have been looking on Georges Bank, home of the Northeast's fishing fleet and one of the world's most productive fishing places.

"There's no question that there are going to be some interesting tracts out there, ones that look favorable and promising," said Gordon Phillipson, a staff geophysicist aboard Shell's seismic vessel Phaedra.

"From an economic standpoint, they are not small," he said. "But there has to be a lot of soul-searching computer work to make sure that what looks promising now will stay that way."

Last month, the federal government sold oil leases on the Baltimore Canyon, the seabed off the coast between New York and Virginia.

Next spring, if all goes as the oil companies hope, the government will sell leases on Georges Bank off New England. Before then, however, hearings must be held on an environmental impact study that is scheduled to be released within about a month.

Besides Shell, complex measurements of the ocean floor have been conducted this summer by Mobil, Texaco and Digicon, a Houston-based firm performs studies for several other oil companies.

All of them are using instrument-laden ships that produce X-ray-like pictures of the rock formations below the sea. The companies will use this information to decide which areas have the best chance of producing oil.

Then, if the leases go on sale next May or June, the companies will know which underwater tracts they should seek drilling rights for. In all, it is expected that about 200 tracts, each of them three miles square, will be available for bid.

Though Shell has not decided which tracts to seek, Phillipson said, "There is only a very remote possibility that we wouldn't bid."

Phillipson spoke while Shell's 172-foot Phaedra was docked in New Bedford taking on supplies for its final month of research.

Since April, the Phaedra has covered 5,000 miles, taking measurements in most of the 200 tracts that are expected to be leased. The ship flashes sound waves toward the ocean bottom. Their echoes are then picked up by sensitive listening devices embedded in a 12,000-foot-long cable that trails behind the ship.

Earlier this year, 31 oil companies sponsored a floating drilling rig that bored a hole into the ocean floor on Georges Bank. The drill did not strike oil, but it did bring up rock samples that the companies will use when they analyze the information from the seismic ships.

Return
CHAPMAN

TIMES
10/30/76

Agency Proposes Offshore Plan

Times Washington Bureau

WASHINGTON — The governor of Alaska and his counterparts in other coastal states could count on receiving copies of development plans for any oil and gas fields that may be discovered off their shores under a proposed order published by the U.S. Geological Survey.

The plan, published in the Federal Register, would require lessees and operators involved in offshore operations to provide the information well in advance so that the states could prepare for any onshore impact from the outer continental shelf activities.

The governors would have 60 days in which to review and comment on the discovery prior to action by the Geological Survey.

The lessee or operator, at least 30 days before submitting a development plan to the geological survey, would be required to supply the state with the following coastal zone information:

—The location and size of any offshore and land-based facilities to be built, leased or otherwise acquired.

—The amount of acreage required within the state for facilities and storage, right of way and easements.

—The means to be used to transport oil and gas to shore, the routes to be followed and, where possible, the estimated quantity of oil and gas moving along such routes.

—Requirements for land, labor, materials and energy, as well as the number of persons engaged in onshore support activities.

—An estimate of any significant quantity of natural resources including water and other major supplies to be procured within the state.

—Estimates of the timing of the development operations.

Offshore Oil Work Will Give East Jobs

TIMES 10/20/76

NEW YORK (AP) — Gov. Hugh Carey's decision to withdraw the state's suit against planned offshore oil drilling in the Atlantic Ocean could help create thousands of new jobs in New York and New Jersey.

Carey asked State Atty. Gen. Louis Lefkowitz on Tuesday to drop the suit. The governor's action followed a ruling by the U.S. Court of Appeals last week that lifted an injunction against the sale of $1.1 billion worth of Interior Department leases to private oil companies.

A study made for the oil companies showed that some 28,000 jobs related to oil and gas exploration and production will be created over the next 15 to 20 years. Many of the jobs would come to New York and New Jersey which have excellent support facilities for offshore drilling operations.

In a related development, Exxon USA Corp., which bid more than $340 million in August for exploration rights, announced it will locate support activities at Quonset, R.I. Their initial explorations are scheduled to begin next August.

John S. Dyson, State Commerce Commissioner, hailed Carey's decision, saying the governor had "tried to balance the need for energy and concern for the environment."

Lefkowitz had planned to appeal the Court of Appeals ruling in U.S. Supreme Court. But a Carey spokesman said the governor was convinced by top aides that the environmental protection the state was seeking through the courts is possible without legal action.

Environmentalists were backing the state in its attempt to prevent drilling in 876,750 acres along the East Coast in what is known as the Baltimore Canyon which stretches from just south of New York City to the northeastern waters of Maryland, Virginia and Delaware.

Long Island's two counties, Nassau and Suffolk, said they would reassess their positions in light of Carey's move. They did not rule out pressing on with the suit. It could not be learned immediately what the New Jersey counties would do.

Business-Financial

Senate Election Results May Worry Oil Companies

By MAX B. SKELTON

HOUSTON (AP) — Oilmen who fear congressional proposals to break up major oil companies found little encouragement from the U.S. Senate results of the general election.

Ten senators who voted against vertical divestiture will not return to Congress next year. Only four senators who voted for divestuture will not return.

Oilmen were shocked late last year when three divestiture proposals suddenly surfaced on the Senate floor. All three amendments were rejected but oilmen were shocked by the strength mustered by proponents of the measures that were submitted without benefit of committee hearings.

Vertical divestiture was rejected, 40-49. The proposal would have required the 15 largest producing companies to get rid of other operations such as refining and marketing within five years.

The Senate votes prompted the American Petroleum Institute, oil's largest trade group, to form a special task force last November to fight divestiture.

Another proposal aimed at the 18 largest integrated oil companies was approved by an 8-7 vote in June by the Senate Judiciary Committee but it never reached the Senate floor.

In the past year, scores of oilmen have made hundreds of speeches charging that divestiture amounts to an attack on free enterprise. They have also said repeatedly that other industries such as steel, and automobiles will certainly follow should the major oil companies be broken up.

Of the 40 senators who voted for vertical divestiture, 27 were not up for reelection, 12 faced opposition, and one, Senator John O. Pastore, D-R.I., did not seek reelection. Three of the 12 — Senators John V. Tunney, D-Calif., Vance Hartke, D-Ind., and Frank E. Moss, D-Utah, were defeated.

Senator Walter F. Mondale, D-Minn., now vice president-elect, was among the 27 who were not up for reelection.

Of the 49 who voted against divestiture, 35 were not up for reelection; five of the nine who had opposition were defeated and five chose not to seek reelection.

Those defeated were Senators J. Glenn Beall Jr., R-Md., Joseph M. Montoya, D-N.M., James L. Buckley, R-C-N.Y., Robert Taft Jr., R-Ohio, and Bill Brock, R-Tenn.

Those not seeking reelection were Senators Paul J. Fannin, R-Ariz., Hiram L. Fong, R-Hawaii, Stuart Symington, D-Mo., Roman L Hruska, R-Neb., and Hugh Scott, R-Pa.

The Anchorage Times

10/25/76

Business-Financial

State's Progress Pleases Showalter

Kenneth Showalter, Standard Oil of Ohio's first fulltime representative in Alaska, says he is pleased with progress being made in streamlining state government.

Showalter was a volunteer team leader for the Governor's Management and Efficiency Review team which spent several months last winter studying the operations of state government. The team came up with recommendations for cutting state spending by $70 million to $80 million a year.

"I was quite pleased with the progress report Thursday," Showalter said. "I think the Governor and Leonard Lane are moving along quite well. If they keep moving at that speed, they will be instituting the changes faster than we had anticipated."

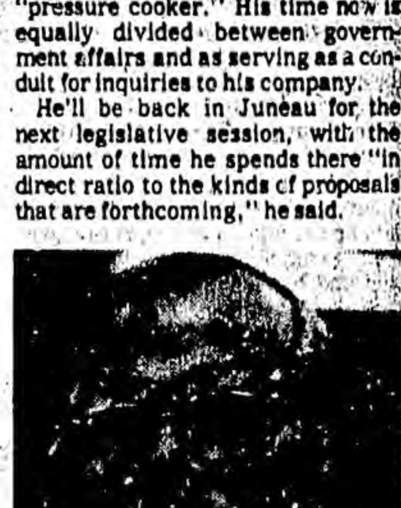
Lane is the coordinator for the implementation, which was expected to take 18 months.

Showalter, whose office is in the BP Building on C Street, went to Juneau a year ago this month to get started on the efficiency review. His company was one of 55 which provided manpower and funding for the study, a total $500,000 donation.

He worked on the review into early February. "After working 14 weeks on something like that, I want to see it go."

Showalter stayed in Juneau as a lobbyist during the 1976 legislative session, which he described as a "pressure cooker." His time now is equally divided between government affairs and as serving as a conduit for inquiries to his company.

He'll be back in Juneau for the next legislative session, with the amount of time he spends there "in direct ratio to the kinds of proposals that are forthcoming," he said.



KENNETH SHOWALTER
Standard Oil Rep

Exxon President Cites Value Of Alaskan Oil

Special To The Times

HOUSTON — "North Slope oil development, together with the trans-Alaskan pipeline, will contribute more to reduce U.S. dependence on foreign oil than any other action taken in this decade," Exxon USA President Randall Meyer said yesterday.

"The 1.2 million barrels per day expected to be produced from the North Slope by 1978 will represent an increase in U.S. crude oil production of approximately 15 per cent," he said.

"When Alaska North Slope oil begins to flow to market next year, imports of foreign oil will be correspondingly reduced even if some Alaskan oil cannot be refined on the West Coast and part of it is transported to refineries elsewhere in the U.S.," Meyer added.

"The fact that West Coast crude oil production is likely to exceed West Coast demand in no way detracts from the importance and usefulness of the Alaskan oil development. Oil reserves are seldom found exactly where they are needed and petroleum companies routinely and efficiently move oil from where it is found to where consumers want it. Added U.S. oil reserves and production are badly required no matter in what region of the country they may be located.

"A number of recent events have made it almost certain that soon after North Slope production starts, crude oil production in the states west of the Rocky Mountains will exceed the ability of refineries in that part of the country to process it. Foremost among these developments is the fact that many West Coast refineries have not been modified so that they can operate at capacity while processing only available Alaskan or California grade crude oils.

"Federal price controls discourage investments to modify refineries in this way. Consequently, many West Coast refiners will continue to import foreign crude oil despite the fact that ample domestic crude oil will be available to them.

"An added factor affecting the balance of crude supplies and demand on the West Coast is that substantial volumes of oil from the U.S. Naval Reserve in California are now being produced and marketed. This reduces the available West Coast market for other domestic crude oils. Also, current estimates of West Coast petroleum consumption are now lower than previous estimates due to lower industrial demand and to energy conservation."

Meyer said that "despite these developments, North Slope oil can be moved to other U.S. refiners needing it, and, in so doing, imports of foreign oil will be directly reduced. In the near term, the only practical way of moving West Coast crude oil to refiners in the U.S. Gulf and East Coast is by ship.

"The much discussed alternative of exchanging some North crude oil in return for foreign crude oil would, under federal law, be feasible if the federal government determines that such exchanges are in the national interest. If the government makes such a determination, exchanges might be practicable as an interim measure prior to the commissioning of pipeline systems to move oil across the U.S.

"Specific actions toward achieving long term optimum use of Alaskan oil are timely. It is clear that West Coast refineries should be modified to permit them to operate at capacity while processing available U.S. crude oil. Federal controls inhibiting these investments should be removed.

"In addition, a pipeline transportation system to move West Coast crude oil to other parts of the country should be built. Much of the potential for future oil and gas discovery in the United States is in the far western states, including the waters off the coasts of California and Alaska. Consequently, a permanent means of moving large volumes of crude oil from the West Coast to other parts of the country is likely to continue to be needed.

"From a national security standpoint, a pipeline system or systems would provide a secure, high-capacity means of moving domestic oil between the West Coast and other parts of the country," he declared. "This would be particularly valuable in the event of foreign supply curtailments or a national emergency."

Meyer said "Exxon is currently in discussion with The Standard Oil Co. of Ohio concerning the proposed project to move oil from the Los Angeles area to Midland, Texas for subsequent distribution to the Midwest and other parts of the country.

"This pipeline project appears to be attractive for several reasons. It could serve several major U.S. refinery centers. Its origin terminal would also serve the largest West Coast market. It makes optimum use of existing facilities and could serve as an important link in filling the proposed national strategic oil reserve."

Meyer further noted, "Exxon's refinery at Benicia, Calif., can operate totally on U.S. crude oil and is expected to process a significant portion of Exxon's share of North Slope production. Exxon expects to be able to place the rest of its Alaskan production with other West Coast refiners or to transport it to refineries elsewhere in the U.S.

"The growing national need for energy and our current trend toward greater dependence on foreign energy supplies makes it essential that we get on with the job of finding and developing all available domestic energy sources. Oil is where we find it, not where we might like it to be. The country needs a lot more of it no matter in what region it may be found," Meyer added.

"Production of the North Slope oil will be very important to the U.S. in achieving our national energy goals. By the time North Slope oil flows through the Alaskan pipeline, it will have taken almost 10 years from discovery to actual production.

EDITORIAL PAGE

The Anchorage Times

ROBERT B. ATWOOD
Editor and Publisher

WILLIAM J. TOBIN
Associate Editor
And General Manager

CLINTON T. ANDREWS JR.
Managing Editor

'Business At Its Best'

IN ALASKA'S DEBATES over all aspects of oil leases, exploration, production and the problems that follow in the wake of economic development, Thorton F. Bradshaw has been one of the most interested spectators, listeners and sometimes participant. As president of Atlantic Richfield Co., he represents one of the biggest investors in Alaska resources.

Although he has been inseparably tied to the oil interests, which some individuals consider bad, he has proven to be one of the nation's industrial leaders who is sensitiye to social responsibilities as well as corporate duties.

ATLANTIC RICHFIELD is putting a major part of its total financial resources on the line to finance its share of the $11 billion Prudhoe Bay oil reserves along with the trans-Alaska pipeline and the costly gathering facilities, flow stations and other devices required to get the oil to market.

Mr. Bradshaw, by allowing his firm to become so deeply involved in an Alaska venture, is betting his all on success in getting the Alaska oil to the markets of the nation on a profitable basis.

He told the Conference of Young Presidents that the North Slope development is "American big business at it's best." He cited the enterprise, innovation and courage that has gone into the project.

IT IS UPLIFTING when a man of Bradshaw's status speaks up clearly and boldly in behalf of American enterprise. One of the curious customs of today is to criticize success and denigrate the institutions that have made America great.

In the legislative halls of Alaska one sometimes gets the impression that the lawmakers hate the economic ventures that are making this state a stable and inseparable part of the economy of the nation. Indeed, they point a finger of guilt at companies that are, in the Alaskan economy, the goose that lays the golden eggs.

DEFENDING BIG OIL was only part of Bradshaw's remarks to the Young Presidents. He also urged them to seek social change and to participate in writing the rules for business - community relationships. He said many rules for the use and preservation of the environment are yet to be written and business must help "if they are to be based on realism and experience rather than the visions of sugarplums that tend to dance in our social critics' heads."

It wasn't appropriate for him to mention it, but there is a need for legislators, conservationists and social critics to express the same concern for balance because the tasks that face society demand full collaboration by all sectors.

The Anchorage Times

10/25/76

Business-Financial

State's Progress Pleases Showalter

Kenneth Showalter, Standard Oil of Ohio's first fulltime representative in Alaska, says he is pleased with progress being made in streamlining state government.

Showalter was a volunteer team leader for the Governor's Management and Efficiency Review team which spent several months last winter studying the operations of state government. The team came up with recommendations for cutting state spending by $70 million to $80 million a year.

"I was quite pleased with the progress report Thursday," Showalter said. "I think the Governor and Leonard Lane are moving along quite well. If they keep moving at that speed, they will be instituting the changes faster than we had anticipated."

Lane is the coordinator for the implementation, which was expected to take 18 months.

Showalter, whose office is in the BP Building on C Street, went to Juneau a year ago this month to get started on the efficiency review. His company was one of 55 which provided manpower and funding for the study, a total $500,000 donation.

He worked on the review into early February. "After working 14 weeks on something like that, I want to see it go."

Showalter stayed in Juneau as a lobbyist during the 1976 legislative session, which he described as a "pressure cooker." His time now is equally divided between government affairs and as serving as a conduit for inquiries to his company.

He'll be back in Juneau for the next legislative session, with the amount of time he spends there "in direct ratio to the kinds of proposals that are forthcoming," he said.

KENNETH SHOWALTER
Standard Oil Rep

11/8/76

The Anchorage Times

Business-Financial

Senate Election Results May Worry Oil Companies

By MAX B. SKELTON

HOUSTON (AP) — Oilmen who fear congressional proposals to break up major oil companies found little encouragement from the U.S. Senate results of the general election.

Ten senators who voted against vertical divestiture will not return to Congress next year. Only four senators who voted for divestuture will not return.

Oilmen were shocked late last year when three divestiture proposals suddenly surfaced on the Senate floor. All three amendments were rejected but oilmen were shocked by the strength mustered by proponents of the measures that were submitted without benefit of committee hearings.

Vertical divestiture was rejected, 40-49. The proposal would have required the 15 largest producing companies to get rid of other operations such as refining and marketing within five years.

The Senate votes prompted the American Petroleum Institute, oil's largest trade group, to form a special task force last November to fight divestiture.

Another proposal aimed at the 18 largest integrated oil companies was approved by an 8-7 vote in June by the Senate Judiciary Committee but it never reached the Senate floor.

In the past year, scores of oilmen have made hundreds of speeches charging that divestiture amounts to an attack on free enterprise. They have also said repeatedly that other industries such as steel and automobiles will certainly follow should the major oil companies be broken up.

Of the 40 senators who voted for vertical divestiture, 27 were not up for reelection, 12 faced opposition, and one, Senator John O. Pastore, D-R-R.I., did not seek reelection. Three of the 12 — Senators John V. Tunney, D-Calif., Vance Hartke, D-Ind., and Frank E. Moss, D-Utah, were defeated.

Senator [illegible] F. Mondale, D-Minn., [illegible] president-elect, [illegible] who were not up for reelection.

Of the 49 who voted against divestiture, [illegible] for reelection, five of the nine who had opposition were defeated and five chose not to seek reelection.

Those defeated were Senators J. Glenn Beall Jr., R-Md., Joseph M. Montoya, D-N.M., James L. Buckley, R-C-N.Y., Robert Taft Jr., R-Ohio, and Bill Brock, R-Tenn.

Those not seeking reelection were Senators Paul J. Fannin, R-Ariz., Hiram L. Fong, R-Hawaii, Stuart Symington, D-Mo., Roman L. Hruska, R-Neb., and Hugh Scott, R-Pa.

Atlantic Richfield Plans Gulf Drilling

Atlantic Richfield Co. plans to drill an exploratory well in the northeast Gulf of Alaska with the drilling rig expected to be moved onto location this weekend.

The well, designated as Salome 72-1, will be drilled using the semi-submersible drilling vessel Ocean Ranger on acreage leased jointly from the Department of Interior by Atlantic Richfield and Shell Oil Co. The vessel recently completed a stratigraphic test well in the Bering Sea north of Dutch Harbor.

Howard A. Slack, vice president and resident manager of Atlantic Richfield's Alaska region, said the exploratory well will be drilled in 250 feet of water about eight miles south of Cape Yakataga, 97 miles west of Yakutat and 125 miles east of Cordova.

Salome is a code designation assigned to the target structure by the companies prior to last April's federal lease sale. Atlantic Richfield and Shell paid $41.1 million for the lease block on which the well is to be drilled. The government permit for the well calls for an authorized total depth of 15,000 feet.

The Ocean Ranger, the world's largest semi-submersible drilling vessel, is the second drilling rig to be assigned to operations in the Gulf of Alaska. The Sedco 706 drilling vessel is presently being operated by Shell Oil Co. on another lease 32 miles west of the Salome location and is drilling a well for Shell, Atlantic Richfield and others. Both vessels are especially designed for operations in areas of severe weather conditions. Slack said the Ocean Ranger performed extremely well in the Bering Sea operation.

Support for the Salome operation will be coordinated with the support of the Sedco rig. Five supply boats will provide standby safety service and carry fuel, water and other supplies for both drilling vessels. The fuel and most water will be carried from Seward to the drilling location. It is anticipated that other supplies will be routed through the supply terminal operated at Yakutat by Atlantic Richfield for itself, Shell and Mobil Oil Corp.

Air support will be provided by two Sikorsky S61N helicopters owned by Evergreen Helicopters of Alaska Inc. The helicopters will operate out of Yakutat.

Gold

By The Associated Press

Selected world gold prices Friday.

London: Morning fixing $115.00, up $0.15; afternoon fixing $115.70, up $0.85.

Paris: Afternoon market quotation $117.66, up $0.03.

Frankfurt: fixing $115.54, up $0.30.

Zurich: $115.50 bid up $1.00, $116.25 asked.

Handy & Harman base price, New York: $116.05, up $0.85.

Engelhard selling prices, New York: $116.20, up $0.85.

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TIMES
10/15/76

Atlantic Oil Plans Win Court Appeal

NEW YORK (AP) — The U.S. Court of Appeals has given the federal government the go-ahead on plans to drill for what is estimated tobe billion of dollars worth of offshore oil and gas along the mid-Atlantic coasts.

In granting permission to drill, the court overturned a lower court injunction and said the plaintiffs who had sued on environmental grounds had failed to show they would suffer "irreparable injury."

The court also rejected the argument that states involved may seroiusly restrict the drilling project with local environmental statutes. U.S. District Judge Jack B. Weinstein had halted the project pending a study of the rights of the states involved.

Weinstein held the officials had failed to consider that the states, not the oil companies or the federal government can decide how the land inside the three-mile limit is used.

The terse, two-page decision, handed down Thursday, removes the last bar to drilling and enables the government to keep its offshore exploration timetable in 876,750 acres of the Baltimore Canyon area of the Atlantic Ocean. The area extends from southern Long Island, New York, down along the New Jersey coast to the northeast waters of Delaware and Maryland.

Officials believe the area contains as much as 1.4 billion barrels of oil and perhaps 9.4 trillion cubic feet of natural gas.

The government on Aug. 17 auctioned $1.13 billion worth of oil-and gas-drilling permits to private oil companies.

Officials said intitial exploratory drilling would begin within a year, but full-scale production would take hree to five years. The oil comanies plans must now be approved y the geological section of the Interior Department.

The appeals judges said one of the reasons they could not sustain the injunction sought by New York State, by Long Island's two counties, Suffolk and Nassau, and by the three New Jersey counties of Cape May, Atlantic and Ocean, was that they doubted they could win if the environmental issues came to trial.

"An evaluation of these statements measured by the 'practical rule of reason' creates some doubt as to the probabilities of plaintiffs' success on the merits," the court wrote.

The Department of the Interior had denied assertions that the Continental Shelf permits posed a menace to waters and beaches because of possible oil spills.

Mexican Gulf Drilling Slows

TULSA (AP) — Large-scale drilling for new oil and natural gas in the deep waters of the Gulf of Mexico has slowed down because of high operating costs and technological hurdles, the Oil and Gas Journal reports.

The Oct. 25 issue of the weekly business magazine published here reports that the companies which pioneered offshore exploration in the Gulf 20 years ago now are turning their attention to the waters of the East and West Coast rather than venture into deeper Gulf waters.

The magazine said there still is much oil and gas activity in the Gulf but most of the undeveloped sites off Texas and Louisiana are in 600 or more feet of water.

Most companies prefer to drill elsewhere rather than get into the deeper Gulf waters, and one of prime prospects will be the Baltimore Canyon off New Jersey and Delaware, the magazine reported.

Water depth in the canyon averages about 350 feet over potential oil and gas reservoirs.

Industry interest in Gulf of Mexico sales has declined during the past two years. Another indication of an activity slow-down in the Gulf is the limited number of drilling plans announced by the industry for the rest of 1976 and 1977, according to the Journal.

"We can drill in waters more than 3,000 feet deep," one operator told the Journal. "But what good will it do if you can't affored to bring production on stream?"

The magazine cited the example of an offshore platform contracted for at a cost of $30 million in 1974. The price for the same platform has increased five times.

Industry's attempts to advance deepwater drilling and production technology are progressing but new equipment is expensive.

In addition to such advances, there are other signs that activity will be revived and perhaps even sustain the Gulf as the nation's most active offshore arena, the Journal says.

Representatives from more than 40 oil companies will meeet early in 1977 to plan a joint test program which will help locate suspected oil and gas bearing structures in deep Gulf waters.

The program, one of the orgarizing compaines said, also could speed development of technology by determining that there are deepwater Gulf prospects worth going after for which there is no existing technology.

TIMES 11/7/76

Oil To Japan Might Be Wise

Shipping Prudhoe Bay crude oil to Japan in exchange for imports of middle-Eastern oil may well be an interim solution to the problem of a West Coast oil surplus when the trans-Alaska pipeline goes into production, according to the state's petroleum consultant Milton Lipton.

At a meeting here yesterday of an interim legislative committee, Lipton said the preferred destination for Prudhoe Bay crude oil is the Midwest, but pipelines to the Midwest are several years away.

He estimated that oil carried by tanker to British Columbia and then by pipeline to the Midwest would result in a wellhead price only 60 cents less than to Los Angeles. Prudhoe Bay oil shipped by pipeline from Los Angeles to Texas would bring a wellhead price about $1.28 less than Los Angeles, and by tanker to the U.S. Gulf Coast, $1.43 less.

Lipton said that Frank Zarb, head of the Federal Energy Administration, has declared that under no circumstances can he foresee the federal government allowing an exchange with Japan. That is understandable, Lipton said, because if the export were allowed, oil companies would lose the incentive to build pipelines from west to east in the U.S.or to make changes in West Coast refineries to handle the higher sulphur Prudhoe Bay oil.

The trans-Alaska pipeline authorization bill forbids the export of oil to Japan without the President's consent. Lipton thinks that approval might be forthcoming if the exchange were for specified volumes of oil over a limited period of time, and if the Alaska oil were carried on U.S. flag tankers.

A third requirement, he said, might be that for barrels of oil exported, a specified number of barrels of oil must go into the nation's strategic oil reserve. If this were a quid pro quo for shipping oil to Japan, it would mean the oil "doesn't really leave the U.S.," he said.

Japanese refiners have a tremendous range of refinery capacities, Lipton said, with a lot of de-sulphurization equipment because they handle a lot of "cruddy crude"from the neutral zone of the Middle East.

Lipton said the anticipated West Coast surplus is the result of a lag in demand over the past 2½ years, an increase in oil prices and the recession. Plus, he said, the U.S. has abandoned restrictions on oil imports, and imports will continue after Alaska crude is available because the California refineries and markets are better suited to imported oil.

Executive Editor Managing Editor

Alaska's Only Morning Newspaper
Founded in 1946 by Norman C. Brown

Our views:

Costly glut?

One oil company engaged in the trans-Alaska pipeline project finally has admitted there will be an oil glut on the West Coast and is taking steps to avert it.

Standard Oil of Ohio (Sohio) announced this week that it's contracting for smaller oil tankers to move Prudhoe Bay crude through the Panama Canal once the pipeline is completed.

The Sohio plan to funnel oil south is necessary because industry won't have facilities in place in time to handle all the Alaska oil once it begins to flow next year. Sohio estimates as much as a half-million barrels of surplus a day would accumulate!

The Daily News said as much last year in a special series of articles by staff writer Sally W. Jones. Since then, industry and government have begun waking up to the hard, cold figures of an oil surplus.

State governments along the West Coast have been meeting on the problem for some time, identifying economic and environmental problems. Meanwhile, early this year, Long Beach, Calif., began planning port facilities to receive the extra crude. And in February, the Federal Energy Administration finally began actively studying the possibility of a surplus and what might be done about it.

It's hard to imagine that with all the money, time and effort that went into planning the pipeline and making it environmentally and politically acceptable, the consequence of pumping 1.2 million barrels of oil a day from the Slope wasn't seriously considered.

There's no question that the surplus oil will get to market, whether it's through the Panama Canal or sold to Japan (which industry and federal government leaders still deny).

The question now, however, is what these new schemes to get oil to pipelines and refineries beyond the West Coast ultimately will cost the American consumer. We suggest that be fully addressed, and now.

Exxon To Rent Rhode Island Site

TIMES 10/21/76

Special To The Times

HOUSTON—Exxon USA plans to support its initial exploratory drilling operations in the mid-Atlantic outer continental shelf area from onshore facilities at the Naval air station at Quonset Point, R. I.

The company is entering into a rental agreement with the Rhode Island Department of Economic Development for approximately six acres of open storage area, and two acres of pier space. It is anticipated that approximately 1,600 square feet of office space and 4,000 to 6,000 square feet of covered storage also will be rented at the shore base facility.

Exxon was successful bidder on 30 Mid-Atlantic OCS tracts leased by the federal government last August and expects to begin drilling in early 1977.

In the Gulf of Alaska lease sale in April, Exxon won 24 tracts. The company also plans to begin drilling operations in the gulf early next year.

The company has provided a summary of its planned Atlantic support activities to the governors of several Mid-Atlantic states. The summary covers Exxon's anticipated needs for office, storage and pier space; boat, helicopter and fixed wing aircraft transportation; and local housing.

Most of the 180 people engaged in the initial exploration program will maintain their present permanent residences in other states and commute and live on the drilling unit. It is anticipated that local housing will be needed in Kent and Washington counties of Rhode Island for 10 to 12 families of Exxon personnel and contract drilling and service company employes.

Exxon facilities at Quonset Point will support only the company's exploration phase of oil and gas development in the Mid-Atlantic. The company said if oil or gas is found in commercial quantities, it is likely that the onshore support base for production operations would be located at another site, but a selection has not been made.

Suit Seeks To Ban Atlantic Exploration

NEW YORK (AP) — Suffolk County Executive John Klein says his office will press on with a suit to prevent Atlantic oil exploration along the East Coast despite Gov. Hugh Carey's withdrawal of the state's legal action.

State Atty. Gen. Louis Lefkowitz confirmed that the governor "requested me to terminate this litigation."

"Accordingly, my office will stipulate to discontinue the action on behalf of the state of New York," Lefkowitz said.

Klein, a Republican said, "I just can't believe the governor has thrown the towel so easily."

P. 1

ALASKA RESOURCES

Another Calm Before The Storm

By Thomas E. Kelly

APPROXIMATELY one year ago an article appeared in this column entitled "The Calm Before The Storm." It dealt with then proposed new taxes primarily aimed at oil companies doing business in the state.

Alaska's chief nemesis of business and industry, Sen. Chancy Croft, D—Anchorage, and several of his loyal followers including Sen. John Huber,D-Fairbanks, and Rep. Steve Cowper,D—Fairbanks, worked tirelessly throughout the last session in an attempt to enact a new package of confiscatory taxes, not on the basis of the needs of state government but on the basis of a so-called "fair share" concept not unlike that of the Opec nations.

For the first time reason prevailed in the legislature and the proposed tax package was not adopted. That was last year. In fairness to the "get you good" advocates of higher taxes they have been exceedingly successful over the years with the notable exception of last year.

Taxes were increased in 1968, 1970, 1972, 1974 and 1975, particularly with respect to the oil industry in the form of increased severance taxes, a re-enacted oil and gas conservation tax, new ad valorum 20-mill property tax and finally a reserves tax which keeps the state out of bankruptcy with its ever-spiraling budget.

The reserves tax is presently bringing an excess of $230 million per year into the state treasury which might be viewed as a proper thing except that it is essentially a forced lending statute and a classic bill of attainder.

NOW WE ARE in another calm before the storm as the same advocates of higher taxes plot to overcome the opposition they faced last year, which for the first time was more effective principally because of a new element of free enterprise arguing against higher taxes — the native regional corporations.

Gearing up this year is not much different than in the past for the proponents of increased taxes. The approach is to hire an out-of-state economics consultant who generally has a bias against business in general and the oil industry in particular — the latter being the most visible target and favorite whipping boy of reform-minded legislators.

Last year the Interim Committee on Oil and Gas Leasing and Taxation Policy hired former Harvard economics professor and one-time (he was fired) Esso Eastern employe, Michael Tanzer. Mr. Tanzer set everyone on their haunches as he recommended a state-owned oil company, taxation of private companies to 90 per cent of their income and a variety of other incredible tax proposals.

Tanzer has been rehired by Croft, et al, this year, but at a reduced consulting fee which would tend to indicate his influence may not be as profound as in the past.

In the coming session of the legislature the oil industry will face a new adversary. But it is not just this single industry that is likely to eventually feel the knife of Croft's committee if it succeeds in its preconveived objectives — state ownership and control of resource development.

THE NEW WIZARD is Dr. Mason Gaffney — a man with no mean credentials. Considered by some to be the world's foremost natural resource economist, he is certainly a well read and prolific writer, principally on taxation and public policy. The flavor is not dissimilar to a famous 19th century political economist, Karl Marx.

cont

p. 2

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Dr. Gaffney recently served as a "think tank" consultant to the former NDP administration of Premier Dave Barrett in British Columbia. Gaffney was, in effect, fired from his position on a three-man property tax advisory commission following dissolution of the Institute of Economic Policy Analysis which the majority of voters in B. C. found unpalatabe when they rang Mr. Barrett's gong.

Now due to the generosity of Sen. Croft to the tune of $35,000 of Alaskan taxpayers' money, we are going to be treated to a scenario that our neighbors in B. C. have previously experienced — and rejected.

It is interesting, if not terrifying, to look at Dr. Gaffney's philosophy as expressed in his many writings. While he is hired by the legislative committee to zing the oil industry in Alaska, the adoption of his policies would no doubt ultimately affect all Alaskans regardless of political belief.

A good preview of the philosophy we can expect appeared in a paper presented by Dr. Gaffney before the Conference on Property Tax Reform in Washington, D. C. in 1970. It reads:

"Property is owned by people of property — the rich.... as to concentration of property, about half of the people own none, they are te nants...Naturally property owners resent sharing with the propertyless. But the struggle of the poor in America has been fought before, and won...

" There is a permanent revolution, built right into the system we already have.... The method is taxation, which is tempered looting according to rules that can be quite constructive and provide permanent support for welfare, education and many other things."

THE CONCEPT of free enterprise in America is founded on the right to own real property. Alaskans, of all people, know this most profoundly.

From the colonists in the Matanuska Valley to the Kenai homes teader to the Kodiak cattle rancher — everyone came to Alaska seeking the opportunity to own property that they could not afford to obtain elsewhere in the country. Now we have hired a man to advise on public policy whose viewpoint holds that the real property ownership is decadent, immoral and must be forced to pay the bulk of the cost of government.

As Dr. Gaffney concludes in one treatise, "If we want to make real property a taxpayer instead of a tax shelter, we must reform land assessment."

Hopefully he will have the time to visit the many types of property owners in Alaska including the farmers and recreation-site owners in the Matanuska Valley and on the Kenai. They have seen some rather substantial increases in tax assessment of their property in the past year.

IT IS MY prediction that Dr. Gaffney will be a very prominent and influential figure in the upcoming legislative session. I perceive that he has one principal weakness, if it can be called such, and that is that his writings and pronouncements are expressed in economic hieroglyphics and are very difficult to comprehend.

His fundamental belief, however, is clearly discernible. If you happen to own a home, a homestead or a piece of vacant property, or if you are the beneficiary of 44 million acres of lands to be conveyed to Alaska native villages and corporations — let alone the owner of producing oil and gas leasehold property — beware. Your ownership will be short-lived if Dr. Gaffney's doctrine comes to be a way of life in Alaska.

Oh, joy for some of those elected representatives who are looking out for us! It would not surprise me if they next announced that they are planning a study and fact finding trip to the Ukraine.

Tom Kelly, former commissioner of natural resources, is a consultant specializing in Alaska resources. He is a past president of the Anchorage School Board and is president-elect of the Chamber of Commerce.

Oil trade with Japan?

News 9/28/76

By MARK PANITCH
Our Washington Correspondent

WASHINGTON — A projected oil surplus on the West Coast will be only a "transitional" problem, a Ford administration spokesman told the Senate Interior Committee Tuesday. But he said he would not rule out exchange of Alaska oil with Japan.

Oil companies and government agencies, responding to a committee questionnaire, pegged the anticipated surplus following the flow of Alaska's North Slope oil at 600,000 barrels a day in 1978 and up to 1.1 million barrels a day the following year.

JOHN HILL, DEPUTY director of the Federal Energy Administration, compared the expected surplus to the period when Texas began producing more oil than it could use.

"This is a transitional period," Hill told the committee. "There were solutions then, and there are solutions now." He said exchanges with Japan "may be possible and wise."

Sen Ted Stevens, R-Alaska, a member of the committee, called a pipeline from the West Coast to the East Coast the long range solution to the problem. But he urged his colleagues "not to rule out the possibility of an exchange agreement with Japan. . . ." He was careful to draw a distinction between an exchange and a sale.

AND IN A HEATED statement, Stevens called on Congress to prevent California from barring the unloading of Alaska oil there. That state's director of air resources was quoted as saying that vapors from tankers bringing Alaska oil might be equal to hydrocarbon vapors from millions of automobiles.

Ted Stevens

"No state should have the right to place burdens to the point where it stops interstate commerce," Stevens said.

Sens. Dale Bumpers, D-Ark., and Adlai Stevenson, D-Ill., questioned the wisdom of any export of U.S. oil. They were joined by Interior Committee Chairman Henry Jackson, D-Wash., who asked "how could we explain that?"

STEVENSON NOTED that part of the problem lay in the recent Congressional authorization to produce about 300,000 barrels of oil per day from the national petroleum reserve at Elk Hills. "It was a

(Continued on page 2)

(OVER)

1 million acres in Cook Inlet

News 8/23/

Oil lease sale hearings set

By SALLY W. JONES
Daily News Staff Writer

More than 50 persons have registered to testify this week on a Department of Interior proposal to sell oil and gas leases on nearly one million acres of submerged land in Lower Cook Inlet.

Interior's Alaska Outer Continental Shelf Office has scheduled three days of hearings — two in Anchorage and one in Homer — beginning Tuesday on a draft environmental impact statement released last month.

THE 1,200-PAGE document describes the climatic, seismic, natural and social-economic characteristics of the sale area, which lies generally between Anchor Point and the Barren Islands in the inlet.

The Lower Cook sale, scheduled for late this year or early next year, is among nine Interior has scheduled for the Outer Continental Shelf (OSC) in Alaska.

The first sale was held in April in the eastern Gulf of Alaska near Yakutat.

THE IMPACT STATEMENT said more detailed studies of the environment of the Lower Cook Inlet area began this summer and are scheduled to continue for several years. The document that will be the subject of hearings next week was compiled from available information on the sale area.

It estimates that the sale area has recoverable oil reserves totaling .09 to 2.6 billion barrels and recoverable reserves totaling .6 to 3.3 trillion feet of natural gas.

Interior estimates the total market value of the sale area's crude oil at $990 million to $28.6 billion. The impact statement, however, cited a number of variables that make economic projections "highly speculative."

IT SAID investment and production costs to develop the field could range from $3.7 billion to $7 billion, which includes the cost of an estimated needed 84 exploratory wells, 520 oil platform wells, 21 oil platforms, 300 miles of pipeline, two treatment facilities onshore, two marine terminals, one liquid natural gas plant and two liquid natural gas tankers at peak production levels.

The impact statement also anticipates that production in the inlet could start as early as 1981, with peak production of 340 million barrels per year occurring in 1984 and declining thereafter for the 25 to 30-year life of the field.

Maps of the area identify Seldovia, Homer, Anchor Point and Kenai as the probable localities that would receive various support activity, such as terminal sites for tankers, and other support services.

THE DOCUMENT also identifies the Lower Cook Inlet area as having five volcanoes, earthquake areas that have experienced temblors ranging from 6 to 7 on the Richter Scale, swift tidal currents and a wealth of marine mammal and fish species.

The statement said, however, that further studies will need to be done on ranges and species of birds in the area, and that oil spills in a number of critical habitat areas could have lethal effects on marine species.

The fish species cited as the most important to the lower inlet were five commercially valuable species of salmon and halibut. Also identified as important resources were crabs, shrimp, and clams. The impact statement said the salmon catch during the inlet's 1974 commercial season was valued at $7 million.

The hearings in Anchorage will begin in the Captain Cook Hotel Endeavor Room Tuesday and Wednesday at 9 a.m. In Homer, where signs are posted throughout the town urging attendance at the hearing, the session will be held at 9 a.m. Thursday in the East Homer Elementary School.

News 10/16/76

Officials see no doom at end of oil line boom

By ROSEMARY SHINOHARA
Daily News Staff Writer

For Barbara and James Thurmond, the economic boom that made 1975 a record building year in Anchorage and saw housing prices rise 15 to 17 per cent per year ended rather abruptly.

The Thurmonds, planning to move to Oregon, began advertising to sell their house in early June.

FALL CAME, AND the three - bedroom East Anchorage house was still on the market — even though it had been advertised at $6,000 below the appraised value.

"When school started, we gave up some of our big ideas," said Barbara Thurmond. "We're just waiting for a better time to sell."

Daily News Special Report

Their story is repeated with variations by other house owners whose plans were thwarted, and by the statistics: During one week this month, there were 2,412 housing units on the market, or one and one-half times as many as were up for sale on the same date last year, according to the Multiple Listing Service.

"THERE'S AN OVER-ABUNDANCE of houses on the market," said one housing official. "Sales are still very good, but there are a lot to choose from."

The buyer's market in housing is an early indicator of how Anchorage will weather reverberations the pipeline boom leaves in its wake.

But though the softening real estate industry represents a crisis for many householders who want out, the rest of the consumer population will probably feel only slightly the changes in post - pipeline boom Anchorage over the next few months.

THE INGREDIENTS for major changes in the lives of Anchorage residents — drastic population changes, or severe changes in the unemployment rates — don't exist at this point, planners indicate.

The work force on the pipeline project is expected to decline from about 19,000 at the beginning of this month to less than 5,000 by December.

Preliminary unemployment rates in Anchorage for August were seven per cent this year, compared to five per cent last year, according to state Labor Department statistics. The figures for September will probably show the highest employment rate for the year.

"WHAT THIS REALLY means is that the impact hasn't shown up yet," a Labor Department official said. Thousands of people are being laid off pipeline jobs, but the same thing happened last year and the year before. "The real impact will be next spring, when they don't go back to work."

Anchorage doesn't need the largest - ever privately financed construction project as a plum to draw more people to Southcentral Alaska. The people are still coming, even as the pipeline builders prepare to dump the last shovel of dirt to bury the line.

The population may not be growing as wildly as it has since 1974, but it is still increasing by several thousand a year.

THE UNIVERSITY OF ALASKA'S Urban Observatory estimates the Anchorage area population at 182,000 to 185,000 currently, compared to 177,400 in July, 1975, and 162,500 in July, 1974.

(Continued on Page 2) (over)

U.S. jet damaged after chasing Ru

ANCHORAGE (AP) — An Air Force F-4 jet was damaged while

Kleppe supports speedy OCS sale

8/11/76

By SALLY W. JONES
Daily News Staff Writer

PRUDHOE BAY — The producers of the Prudhoe Bay oil field Friday urged Interior Secretary Thomas S. Kleppe to hold an offshore oil and gas lease sale as soon as possible.

Officials of the Atlantic Richfield Co. (ARCO), British Petroleum (BP), and Exxon Co. found a willing listener in the secretary, who for two days has toured the Alaska Pipeline project and the Prudhoe Bay field with enthusiasm.

"I'M WITH YOU all the way," Kleppe responded. "We're figuring out now how to move as fast as we can with an outer continental shelf lease sale in the Beaufort Sea."

Kleppe was briefed by ARCO and BP Friday before setting out in near - freezing temperatures to see the hardware, plants, drill sites, pipelines and natural gas reinjection system that will enable the eight pipeline owner companies to begin carrying oil 800 miles south to the port of Valdez next year.

During the briefing, Howard Slack, ARCO vice-president, and Kenneth Keep, BP vice president, told Kleppe they are confident more produceable oil can be found in the Alaskan Arctic. They responded to numerous questions from the secretary, who quizzed the oil officials on current exploratory drilling activity, where the companies expect to find more oil and when the additional oil reserves might be able to be produced.

"I'm very interested in this because the nation needs oil," Kleppe said.

Daily News photo by Sally W. Jones

Hard-hatted Alyeska Pipeline Service Co. Chairman Ed Patton and Interior Secretary Thomas Kleppe, during an inspection tour of the pipeline north of Fairbanks.

SLACK, KEEP, and representatives from their companies were anxious to explain to the secretary how exploration is undertaken, but they said the high competition of the oil business prevented them from discussing specifics at great length.

"There's one thing I'd like to impress upon you, though, Mr. Secretary," said Keep. "The lease timing sets the timing for (additional) exploration. We need to know (about a lease sale) as soon as possible" for planning, he said.

"The oil industry is a very competitive business," added Slack. "We are only allowed (by government) to keep our exploration well data confidential for a certain length of time."

INTERIOR CURRENTLY has a tentative schedule for a Beaufort Sea sale in late 1977, although Gov. Jay S. Hammond has proposed that Interior delay that schedule for the outer sea area.

North Sea oil spurs Norwegian economy

By PETER T. KILBORN
(C) 1976, New York Times News Service

OSLO—Norway is poised to come the world's richest country, rpassing all except the few Arab ikdoms that float on oil.

t is oil in Norway, too, North Sea , that is pushing the country past itzerland and neighboring eden, currently the world leaders wealth per capita. But unlike wait or Saudi Arabia, Norway ay would be relatively well off en without oil.

THE COUNTRY'S prosperity has wned a new model of the welfare te, a prosperous model that is still unfulfilled goal of the Comnist nations and a more generous d humane experiment, people e say, than the well-known one of eden.

'I have the distinct impression the rwegians are satisfied with their es," said Bjorn Balstad, head of Norwegian Gallup Institute. uite a few people are saying they too affluent and could do with s."

ndeed, one Gallup study found t 76 per cent of Norway's four llion people felt they were too well in relation to the rest of the rld, and that an additional 22 per t felt their living standard was isfactory. Ninety per cent think y eat too much.

NORWAY'S growing oil wealth has meant that the government can disregard the harsh methods other countries sometimes have to use to protect their economies.

Last year, when the worldwide recession forced nearly all other Western developed countries to accept high unemployment and economic decline, Norway enjoyed almost full employment and real economic growth. Norway did it by running up uprecedented debts in foreign loans, which will all be repaid, with little apparent pain, from the coming surge in oil revenues.

Such policies are propelling Norway ahead of the rest of the world. Just three years ago, before the first oil had come ashore, Norway ranked ninth among the 25 developed countries that make up the Organization for Economic Cooperation and Development.

BY LAST YEAR, Norway was third; its per capita gross national product then was $7,100. This was $50 more than that of the United States and about $1,300 behind Switzerland and Sweden.

This year, and well into the 1980s Norwegians expect their economy to grow at annual rates of 6 per cent and more. Switzerland's economy, by contrast, will grow only 1 per cent this year, the OECD predicts, and that of Sweden only 1.5 per cent.

Norway's prosperity is not the sort experienced by countries that blossomed earlier in the Industrial Revolution. It is not the limousine wealth of the relatively few that is apparent here.

THERE ARE FEW real equivalents of swank shops or plush homes, no private schools to speak of, no well-heeled teen-agers in sports cars. The only Rolls-Royce in Oslo is believed to be the British Ambassador's, and of the thousands of boats in Oslo Fjord, the only true big yacht belongs to the country's jovial King Olav.

Norway's wealth, instead, is that of a sprawling middle class with paper-thin minorities at the extremities. Factory workers live nearly as well as their bosses. Every elementary school has a doctor, a dentist and a nurse. Up to half the population owns or has ready access to a second home, usually a modest, wood-frame cabin in the mountains or along the coasts.

Taxes are among the world's highest. They are a common source of complaint, and evading them is a national sport. But it is the tax system, primarily, that has equalized incomes and preserved much of the traditional society. Taxes are used to subsidize farmers and fishermen.

THE COUNTRY'S widely distributed prosperity has been hard on frugality. "Small boys," said Mrs. Tove Pihl, a school headmistress, "refuse to wear white underpants. They have to be colorful. And you should see the standard of their bicycles, their skis and their ski boots."

Despite their affluence, Norwegians have their worries, and their society has its flaws. There are still a few big businessmen—landowners and secretive shipowners—who have been able to beat the system. One shipowner paid no taxes at all last year because of business reversals, but at his home he built a tennis court, an indoor swimming pool and a garden.

At the other end of the social scale are the dropouts and the rejects, many of them dark-skinned immigrant workers from Pakistan whom the homogenous Nordic race has been reluctant to try to absorb.

"IN GENERAL," said Odd-Steffen Dalgard, one of the country's few psychiatrists, "Norwegians are happy to be Norwegians. But we are not a welfare state in that all our problems are solved."

The urbanization of Norway, he said, seemed to be creating even more strains here than in other countries because until now Norway had been an unusually immobile, rural society.

"It seems to be," he said, "that people are less concerned with each other. There's a trend that problems should be met by some form of expert help. In rural areas, people are able to use their resources to help one another."

Flaws have crept into the economy, too. Inflation last year exceeded 10 per cent, and it is still above that level now. A higher level of inflation than most other countries are experiencing means that eventually the prices of the goods Norway exports will exceed those of competing countries.

Oil is now coming ashore at an annual rate of 16 million tons, twice the amount the country uses for its own purposes. By 1980, the rate will be 70 million tons. It will continue to flow well into the next century. Revenues from the sale of oil then should be about $3.6 billion, or $900 per capita.

But even in the 1980s, oil will still represent only a quarter of Norway's exports. The other exports—lumber, pulp, furniture, machinery, sardines — will have to sell at competitive prices to assure the country's prosperity.

Not everyone lost money in Florida land deals in the middle 1920s. The lot purchased by the Ft. Lauderdale Methodist Church in 1915 for $1000 sold during the Florida land boom 10 years later for $80,000.

MONEY

Market struggles over oil price outlook

NEW YORK (AP) – The stock market was mixed in a busy session Friday, struggling against some new doubts about the oil price outlook.

The Dow Jones average of 30 industrial stocks gave up 1.33 to 948.80, trimming its gain for the week to 21.11 points.

Advances outnumbered declines by a 5-3 margin on the New York Stock Exchange.

Big Board volume reached 24.55 million shares, up from an even 24 million Thursday and the heaviest total since a 32.97-million-share day Sept. 22.

A primary force behind the market's strength earlier in the week had been rising hopes that the Organization of Petrol e u m Exporting Countries might delay a scheduled mid-December decision on whether and how much to raise oil prices.

But Friday morning investors were cautioned by U.S. officials that they had no hard evidence that such a delay was in the offing.

With that subject on their minds, traders paid little heed to some generally bright news on the domestic economy.

The government reported a 0.3 per cent rise in its consumer price index last month – the smallest increase in seven months – and an upturn on orders for durable goods.

New York's Morgan Guaranty Trust, the sixth largest bank in the country, lowered its prime lending rate from 6½ to 6¼ per cent.

At the NYSE close, the Federal Reserve announced a quarter-point reduction in its discount rate, to 5¼ per cent.

That lowering of the rate the Fed charges on loans to its member commercial banks was seen as underscoring the central bank's evident intentions of fostering lower interest rates and stimulating the economy to some degree.

The NYSE's composite index edged up .06 to 54.61.

In other markets, the American Stock Exchange market value index gained .63 to 100.04, and the NASDAQ composite index for the over-the-counter market added .16 to 89.97.

California urges gas pipeline

SACRAMENTO, Calif. (AP) The California State Energy Commission says the best way to get Alaska natural gas to California is by pipeline.

But the commission also says that by the early 1980s the state will need at least one ocean terminal for shipment of liquefied natural gas, provided it's far from population centers and fire hazards.

Chairman Richard Maullin said the commission late Wednesday recommended the Federal Power Commission "tentatively approve a liquefied natural gas terminal site but only subject to approval by the State Coastal Commission and review by the State Seismic Safety Commission."

The commission said two proposed sites for an LNG terminal, Oxnard and Los Angeles, aren't far enough away from population centers. It didn't advocate a specific terminal site.

The commission's resolution will be included in the State Public Utilities Commission's report to the FPC on how California feels the Alaska natural gas should be delivered to the nation.

Maullin said there are "a lot of safety reasons" for preferring a pipeline to an ocean terminal.

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He says the state also is concerned with reliability, and shouldn't be in a position of getting some 90 per cent of its natural gas from one source.

MONEY

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TIMES

10/26/76

Oil Executive Resorts To Fable

The tale of the little red hen, nodern version, has the hen sowing nd reaping the wheat and baking the read, all without the help of other arnyard dwellers — who are standing ready to charge "Excess rofits," and help consume the inished loaves.

Dick Donaldson, vice president of tandard Oil of Ohio, told the nchorage Chamber of Commerce esterday that the modern version lso includes the government agent, aying, "You must not be greedy. Under our free enterprise system, ou're free to produce, but you must livide it with the idle."

Donaldson didn't equate the little ed hen directly to the oil industry, ut his message was clear.

He went on to point out that Alaska's overall 17 per cent tax rate n oil and gas is ahead of any other tate - and that rate would have een raised to 48 per cent during the ast session of the state legislature, "under proposals which bore the Tanzer imprint."

Michael Tanzer, a New York conomist, was and is a consultant o the legislature. His report a year go concerned expected profits from Prudhoe Bay, and suggested the tate could tax the oil industry 50 to 0 per cent without forcing it to leave he state.

Donaldson said the oil industry is "looking very closely" at state tudies now underway by both Gov. ay Hammond's administration and he Alaska legislature regarding uture state oil and gas taxation and easing policies.

He urged moderation, with the im of "striking a proper balance etween revenue sources and needs and a business environment which will sustain a healthy conomy and the jobs that go with t."

Donaldson said that while Alaska as 17 per cent of the nation's potenial sources of oil and gas and is a "highly attractive" area of xploration, it is not the only area vailable.

Oil companies must take into onsideration the higher costs of perating in Alaska, he said, and the hortage of capital available for xploration and development. Another prime consideration is the vailability of skilled labor and support businesses and a fourth is the tate's tax and regulation climate.

Donaldson said Sohio will submit ts own study to the state later this eek, offering some "new perspecives on the existing tax structure nd royalty obligations as related to Prudhoe Bay and the trans-Alaska ipeline."

DICK DONALDSON
Speaking For The Hen

Two-thirds of Sohio's total capital investment is now in those two areas, he said. Sohio owns approximately 50 per cent of Prudhoe Bay oil and, with BP Alaska, nearly 50 per cent of the pipeline.

Alaska can afford time for the "soundest possible" taxing and leasing policy decisions, Donaldson said. "I'm glad the studies are underway. They can be a necessary first step for a permanent tax structure.

Comparisons of the tax burdens of Alaska with other countries, including mid-Eastern countries, are not valid, he said, unless a whole host of questions is answered, including "Is the aim of those governments to eliminate private ndustry?"

Donaldson said an energy policy for Alaska and the nation would insure access to resources, with proper consideration for the environment; "turning teams loose to develop" those resources; and "facing up to the cost" by providing what tax incentives are needed.

"If there is concern for profits, require them to be ploughed back," Donaldson said.

America is now importing 44 per cent of its energy, he said. "I think we never will be energy independent, but Alaska can help fill the gap."

Federal Energy Administration estimates of Alaska's undiscovered oil wealth are 9 billion to 50 billion barrels of oil, both on and offshore, and 24 trillion to 137 trillion cubic feet of gas.

Prudhoe Bay was a fortunate super-discovery, he said. "But it has to pay for the dry holes. One of ten wells has oil but only one of 49 will be economic to produce."

Donaldson, here from Sohio's headquarters in Cleveland, will speak in Kenai Wednesday, Fairbanks on Thursday and Juneau on Friday.

He said he is making his "48th or 49th visit" to Alaska in the last five years. Now vice president for government and public affairs, he was formerly Sohio's general counsel and worked on the litigation and permits for the trans-Alaska pipeline.

Times 10/11/76

Poll Finds Voters Undecided On Tax

By ED HEIN
Times Staff Writer

Most voters in Alaska's three largest cities haven't decided whether they favor or oppose oil tax proposals introduced by the last legislature, an independent survey says.

The Alaska Industrial Survey Research Service, a joint venture by H. A. Boucher and Associates of Anchorage and Rowan Group, Inc. of Mill Valley, Calif., did the survey.

The report, based on interviews with at least 325 registered voters in Anchorage, Fairbanks and Juneau, is sold to corporate clients for $15,000 to $18,000. The service said its sample reflects total urban voter opinion accurately to within 3 per cent either way.

"The public was only slightly aware of any campaign waged for or against the tax package," the service said.

The 20 per cent who favored the proposals said the taxes would reduce the pipeline's impact on the state and that the oil industry could well afford to pay. The 23 per cent opposed said oil taxes already are too high and increasing them might force the industry to leave the state.

Respondents also expressed their views on other issues:

— Alaska's biggest problems, in order, are population growth, inflation and crime, voters said. Major issues nationally, they said, are inflation, unemployment, crime,

(See Page 2, Col. 1)

Poll Finds Indecision

(Continued From Page 1)

failure of leadership, foreign policy, energy and corrupt government.

— The capital move was favored by 48 per cent and opposed by 44 per cent, but opinions varied drastically in each of the three cities. In Anchorage, 64 per cent of voters favored the move, compared to 25 per cent opposed. Fairbanks voters opposed the move 32 per cent to 61 per cent. Juneau voters, opposed it overwhelmingly.

— If an election had been held last July, Gov. Jay Hammond would have received the approval of 31 per cent of urban voters and the opposition of 27 per cent. The other 42 per cent said they didn't know how they would vote or that it would depend on who Hammond's opponent was.

— Voters in all three cities expressed a lack of support for their legislators. Anchorage incumbents were voted down 30 per cent for to 37 per cent against. In Fairbanks it was 15 per cent for and 31 per cent against; in Juneau, 33 per cent for, 35 per cent against.

"It would be a serious mistake to assume from these findings that incumbent legislators are on their way out in the 1976 elections," the report said. "Voters do not know their incumbents as incumbents; they know them as familiar names and they are voting for them."

— The El Paso plan for a proposed natural gas pipeline route was favored by 73 per cent of respondents. Juneau voters favored it by 88 per cent. The most appealing aspect of the El Paso plan is that the pipeline "would be built entirely within Alaska," those in favor said.

...ting the areas which will be open to hunting and regulations for harvest by a permit system. Also to be considered are proposals banning the barter of caribou and the use of caribou as dog food.

Rausch said the department does not know all factors causing the decline of the caribou herd, but added it is obvious the kills by both hunters and wolves are excessive.

"The emergency closure and the proposed new regulations are efforts to reduce mortality and permit the herd to regain its former status so it can once again be a big factor in the sustenance of northwest Alaskans."

"WE HAVE taken emergency action to close all hunting until the Board of Game can adopt more stringent controls on human harvest," he said. "It's obvious that the caribou will have to have relief from predation also."

... have expressed concern over the welfare of the herd, a major source of food and income for many living in northwestern Alaska.

RAUSCH SAID public hearings in Fairbanks, Barrow and Kotzebue recently showed overwhelming support for curtailment of human harvest and wolf control.

Department biologists estimate wolves may remove 10,000 to 15,000 caribou from the Western Arctic herd each year.

The wolf control program will probably be done by aerial hunters on a closely supervised permit system, Rausch said.

Public comments are being sought on all proposals and may be sent to the Board of Game, Subport Building, Juneau.

Testimony will also be heard when the Board meets here in September.

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•Senate checks oil surplus

Daily News photo by Michael McDermott

Sens. Walter Huddleston of Kentucky and Adlai Stevenson of Illinois listen to a question during a Monday press conference.

(Continued from Page 1)

investigation was to determine, first, the extent of the surplus, and then how to alleviate it. He said one possibility was to ship it east through existing pipelines but that much information was needed about the capacity of the pipelines to absorb the oil.

He said he and others had warned about the possibility of a surplus when the pipeline was being debated but that the oil companies had denied it. He indicated displeasure with the oil companies for not bringing up the possibility sooner.

"TIME AND TIME and time again we were assured by the oil companies that there would not be a surplus. Shortly after the pipeline was started the oil companies said there would be a surplus," he said.

A provision of the pipeline authorization act said no Alaska oil would be exported unless the President deemed it was in the national interest to export it and the plan was not disapproved by Congress.

Durkin said property owners on the East Coast frequently paid more for home energy needs than they did for home mortgages. However, he said the question of an oil surplus from a pipeline to the West Coast probably would not influence the question of routing a pipeline for natural gas. He said questions of national security remained with the Canadian route and that a gasoline proposed from the east Canadian arctic might provide gas to the East Coast.

Sen. Ernest Hollings, D-S.C., who was also at the news conference, said the question of surplus oil could influence decisions to tap the Elk Hills oil reserves in California and other national petroleum reserves, including the former Naval Petroleum Reserve on the North Slope. He said oil from the national reserves should not be used while there was a surplus but that the North Slope reserve should be developed to the point where it could be put on line when needed.

Also accompanying Gravel on the tour of the state was Sen. Walter Huddleston, D-Ky.

ANCHORAGE DAILY NEWS

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's hearing.
officials could not be comment Monday there was no indication ets would be removed.
into Anchorage over n an attempt to resolve which Teamsters Local merely an attempt to eska subcontractor — ge & Iron (CBI) — to sit l faith and negotiate a bargaining ageement. ave consistently denied keting was aimed at Fluor — Alyeska's t contractor for the l pump stations — and violate the no-strike

and CBI squared off union discovered the s using members of the ers to haul away o longer needed at the . At the time CBI was some of its activities — rily involved erection of and transporting its

nued on Page 2)

York stepped aside as a potential third entry in the presidential contest, saying he will run only for the Senate and will support the ticket chosen by the convention.

(Continued on Page 2)

• The District 8 candidates

Page 6

south of the Brooks Range.

STATE GAME Division Director Robert A. Rausch said the closure, ordered Friday, will remain in effect until the board of Game adopts new regulations on caribou in these

He added if the herd were allowed to continue its present decline, it would have a severe effect on the lives and lifestyles of many western Arctic residents.

In April, the Board of Game

After holding public meetings in Fairbanks, Kotzebue and Barrow, Rausch said, the department is now publishing a series of proposed

(Continued on Page 2)

News 8/17/76

Senate looks into oil surplus reports

Daily News photo by Michael McDermott

Democratic Sens. John Durkin of New Hampshire, Ernest Hollings of South Carolina, and Mike Gravel of Alaska field questions at a Monday press conference in Anchorage.

By ANDY WILLIAMS
Daily News Staff Writer

A U.S. Senate investigation has begun into reports that the trans-Alaska pipeline may produce an oil surplus on the West Coast of at least 500,000 barrels a day, Sen. Adlai Stevenson, D-Ill., said Monday.

Stevenson, here with Sen. Mike Gravel, D-Alaska, and three other senators, told a news conference that studies available to Senate committees but as yet not made public indicated a surplus of at least 500,000 barrels a day at the anticipated pipeline flow rate of 1.2 million barrels a day.

STEVENSON said one proposal was to ship the surplus to Japan and buy it back again in the form of Arab oil shipped to the East Coast. But Sen. John Durkin, D-N.H., said there would be "a major problem" getting congressmen from the East Coast to accept that proposal.

"I can guarantee you a lot of people on the East Coast are not going to sit quietly," he said, "if we continue to be dependent on Mid East oil and surplus oil on the West Coast is to be exported to Japan. It will be well discussed in the Senate before it gets through."

Stevenson, chairman of the oil and gas subcommittee of the Senate Commerce Committee, said he had begun an investigation of the anticipated surplus and that an investigation by the full Commerce Committee and the Senate Interior Committee would follow. Hearings by the joint committees are expected in September.

"WE'RE INTERESTED, of course, in evidence of mismanagement and inefficiencies associated with the Alyeska pipeline, but the critical question is what becomes of the oil," Stevenson said.

He said the purpose of the

(Continued on Page 2)

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TIMES 11/1/76

Oil Report Says Decade May Bring $10 Billion

Alaska's present laws can be expected to generate more than $10 billion in state revenue during the next 10 years if the price of oil is $13 a barrel in California.

That is one of the conclusions drawn in a study prepared by Standard Oil Company of Ohio and submitted to state officials for consideration in connection with taxing policies.

If the oil price should rise to $16 a barrel, which some souces consider likely, total state collections could top $13 billion. On the other hand, if the price should be $10 total collections would be about $8 billion.

Sohio compiled the figures based on hypothetical figures. Ken Showalter, Alaska representative, said the Alaska study had to be an exercise based on hypothetical figures because of Security and Exchange Commission rules regarding forecasts of company revenues and profits.

The company's study was prepared for the use of the state administration and the legislature. It will probably be turned over to the economic consultants hired by Guy Martin, commissioner of natural resources, and Sen. Chancy Croft's legislative committee.

Besides calculating the revenues present laws would provide for the state, the study showed that Alaska would collect just about 75 per cent of all the levies made on the three companies by all the 50 states.

The percentage of the total would remain virtually the same regardless of the possible fluctation in the market price of oil.

Alaska would collect 20 per cent of the three companies' total income taxes paid to the 50 states of the nation. This money would accrue under a formula developed under the Multistate Tax Compact of which Alaska is a member. The compact is an agreement under which the revenues of companies operating nationally and internationally are apportioned among the states where the operations take place.

The Alaska state income tax can also be counted on to yield substantial revenue. The Alaska income tax rate is 9.4 per cent of the taxable income while other states average only 6 per cent.

The study showed the following breakdown of the calculations of which taxes Alaska could expect from Prudhoe Bay in the next 10 years if the oil price is $13 a barrel:

$756 million from the state tax levy on income.

$4.9 billion as royalty

$2.7 billion as severance tax

$2.04 billion as property tax

If the oil price should rise to $16 a barrel, stat revenues would increase principally from royalty an the severance tas collections.

State royalty was shown at $6.8 billion and severanc tax collections at $3.6 billion.

The oil company initiated its own study of taxation i Alaska after the state administration and the Senat committee announced new studies of the same thing.

Sen. Chancy Croft's committee has obligated th state for $150,000 to pay for consultants to make th studies. Included among his contracts is one for $15,00 for Michael Tanzer, the economist who caused a rur pus in the last legislative session when he propose new taxes that were so high that no new legislation wa enacted.

Petroleum Industry Hopes 'To Hold Its Own'

Special to The Times

TULSA, Okla. — The best the petroleum industry can expect from next month's general election is to hold its own, but even that seems an unlikely prospect, according to The Oil and Gas Journal.

Any loss of Capitol Hill supporters could spell further setbacks for the petroleum industry, the Journal says. The industry managed to win a few critical votes during the 94th Congress, but lost ground on some major issues involving tax treatment and price controls. A loss of congressional support could result in future shifts in voting that could mean more troubles for oil and gas.

The Oct. 18 issue of the weekly business magazine says there probably will be a slight decline in industry support in the Senate. House support should remain about the same.

The Journal based its prediction on an analysis of all the general election races. Particular attention was given to 33 Senate contests — the races carrying the petrolum industry's best chance for political gain.

Democrats, with a national platform less favorable to the industry, may add two more Senate seats and are expected to maintain a comfortable majority in the House, the Journal says.

Key opinion polls also show Democratic presidential nominee Jimmy Carter still running ahead of President Gerald Ford, whose energy policies are considered more favorable to industry.

"The industry lost ground on tax treatment and price controls during the 94th Congress," the Journal says. "Its vistories were by narrow margins, sometimes achieved by having barely enough votes to sustain a presidential veto of unfavorable legislation."

The Journal identifies several issues viewed unfavorably by the industry which a new Congress and President probably will consider soon after the election.

Some of the issues were successfully opposed earlier by Senate and House factions which support the industry. Others were not resolved before the election recess. They are:

—Proposed exploration of the Outer Continental Shelf by federal agencies,

—Revised methods for holding lease auctions of Outer Continental Shelf tracts believed to contain oil and gas reserves,

—Unfavorable amendments to the Clean Air Act,

—Renewed interest in divestiture legislation,

—Legislation prohibiting U.S. companies from participating in the Arab trade boycott of Israel,

—Regulation of intrastate gas sales.

The Journal says the industry also will be pressing for some new legislation, including deregulation of prices for new gas discoveries and federal financing or loan guarantees for development of synthetic fuel plants.

Opening of the trans-Alaska pipeline in mid-1977 and proposals to restructure the federal energy agencies also may start debate in the 95th Congress of interest to the industry.

Although industry prospects at this point seem dim, the Journal says "close races abound from top to bottom on the national tickets, making races still too close to call."

The best — and at this point, not inconceivable — prospect is the industry could add three new supporters in the Senate, according to the magazine.

Additional political leverage for the industry also might surface in the regional and philosophical voting patterns of individual senators despite the unfavorable Democratic national platform, the Journal says.

The Anchorage Times

ROBERT B. ATWOOD
Editor and Publisher

WILLIAM J. TOBIN
Associate Editor
And General Manager

CLINTON T. ANDREWS JR.
Managing Editor

Page A-4 Sunday, October 31, 1976

More Oil Tax Studies

THE "IN" THING in government today is studies.

It is hard to object when a leader cites the need for expert advice and special know-how in finding answers to today's challenges.

The state has dozens of studies under way. There must be dozens among the executive branches of government. And more dozens by committees of the legislature.

There is reason for concern, however, about the cost of the studies. Many thousands of dollars are going into them. Experts from far away are being employed. Supposedly, we are to get the advantage of their special knowledge on technical subjects.

THIS CONCERN has been stimulated by experiences during the last legislative session. Among other reports that came to light was the Tanzer study of oil taxation. Tanzer made such atrocious recommendations that even some of the sponsors of his $12,000 contract to make the study backed away and tried to look at it distantly.

At least one was heard to say that it was not Tanzer's philosophy we were buying, but his economic knowledge about the oil industry.

The report was so extreme that one senator suggested during floor discussion that the legislature might well find it necessary to put some kind of restrictions on the freedom of committees to hire experts.

MORE TAX STUDIES are under way at present, with Chancy Croft's committee sponsoring five of them under contracts totalling $116,000. Unfortunately, Tanzer is among the five, re-employed for another go-around despite the fact that his work was rejected before.

It is to be hoped that the experts will do more than sit in their ivory towers and hand down decisions on what Alaskans ought to do and what they ought not to do. They would be helpful if they would apply the experiences of other states to the Alaska situation and project the probable results here if the same programs were followed.

THEY SHOULD LOOK at other parts of the world to see what has happened under the policies of the various governments. In Indonesia there may be an important lesson for those legislators who, like Tanzer, would tax oil companies up to 80 per cent of their earnings in Alaska.

In Indonesia, the dictator government raised taxes to take 85 per cent of the oil revenues. That sounds like one of Tanzer's proposals for Alaska.

The dictator also put his government into the oil business by creating a government-owned oil company, Pertamina. That sounds like another Tanzer proposal.

THE DICTATOR has been put away now. He left his country in poverty. The oil companies have quit exploration. Oil production is limited to the properties that existed when the taxes were raised. Only three offshore rigs are drilling. Twenty others are stored in Singapore. Service companies are leaving. Landlords in Jakarta can't find tenants.

It is commonly said, according to Business Week, that everything is moving to the Middle East.

Pertamina, the government-owned oil company, went bankrupt trying to fulfill the dreams of General Sutowo, the president of the company. Then the government shouldered an additional $1 billion burden to rescue the enterprise.

DETAILED DATA on the big bust in Indonesia should be readily available for use in the Alaska studies because so many of the experts employed to make them came from the same institution that guides the Indonesian government — the University of California.

Business Week reports that when the dictator was dumped, control of the oil and gas sector went into the hands of four cabinet ministers who were educated on the Berkeley campus in the early 1960s.

Let's hope our experts will show us the way to avoid the disaster of Indonesia.

Conferees Okay Subsea Oil Bill

By MARK BROWN
Times Washington Bureau

WASHINGTON — House and Senate conferees reached final agreement today on a bill that sets new procedures for the development of oil and natural gas reserves on the outer continental shelf.

The conference report still must be voted on separately by the House and Senate before the final bill can be sent to President Ford for his signature.

A spokesman for the Interior Department said Secretary Thomas Kleppe has not yet recommended whether the President should sign or veto the measure.

A veto at this point would be fatal, since Ford could hold the bill until Congress goes out of session before vetoing it, and there would be no chance to override.

Rep. Don Young, R-Alaska predicted the bill would be vetoed because "it's a monstrosity."

In addition, there are strong indications that administration supporters may filibuster the bill on the Senate floor, trying to spare the President the need to sign or veto the measure.

The legislation is strongly supported by coastal states in frontier drilling areas and by environmentalists, but opposed by the oil industry. Industry says the legislation would delay domestic exploration, development and production would increase foreign petroleum imports, would disrupt American private enterprise development of natural resources and would increase the number of procedural steps (now 70) which must be taken between leasing and production of offshore tracts.

In its final version, the bill would require the secretary of Interior to develop a five-year leasing program, with one-third of all leases to be offered under alternates to the traditional bonus bidding system.

A special exception which should primarily affect Alaska was written into the bill by the conferees. That amendment would allow 10-year leases in areas of "unusually deep water or adverse conditions."

During the debate, Young argued that an oil company which faced a five-year deadline to drill in Alaska or forfeit its lease would either do a rush job that could ruin the environment or simply not go there at all because the conditions do not permit a wise and sound drilling program.

The amendment was approved by voice vote.

Among its other major provisions, the legislation authorizes coastal states to set up regional advisory boards, whose recommendations to the Secretary of Interior must be accepted unless they are ruled outside the national interest.

The bill mandates the oil companies to follow new safety guidelines or face the loss of their leases requires environmental impact statements and sets up a $100 million to $200 million liability fund to clean up oil spills and compensate for their damages.

The OCS represents nearly two years of study by the House select committee on the outer continental shelf. Nearly 200 amendments were considered.

TIMES 9/20/76

Dome Ltd. Strikes Beaufort Sea Gas

ABOARD THE EXPLORER ONE IN THE BEAUFORT SEA (AP) — An Albertan oil company says that one of its offshore drilling rigs has struck natural gas, but a second rig will be abandoned because of a water blowout.

Dome Petroleum Ltd. of Calgary said today that one of its experimental drilling ships has penetrated four feet into a natural gas zone 10,000 feet below the surface of the Beaufort Sea. The well is about 40 miles north of Tuktoyaktuk, N.W.T., on the western Arctic coast. Prudhoe Bay is about 350 miles to the west.

A spokesman for Dome's drilling subsidiary, Canmar Corp., said the extent and value of the find have not been determined.

Canmar said Sunday that a second of three wells, being drilled by the ship Explorer Two about 35 miles northwest of Explorer One, is being abandoned because the water blowout weakened support for oil and gas pollution protection equipment.

Environmentalists have said they fear an oil blowout will occur in the Beaufort Sea drilling that would pollute the Arctic Ocean with oil nearly impossible to clean up because of heavy ice conditions.

The Canmar spokesman said the blowout weakened the well's blowout protector, thus creating the possibility of a more serious incident.

The Canadian federal government decided earlier this year to allow Dome to drill from ships, a first in the Beaufort. Drilling was allowed for a six-week period, which has been extended by 10 days to end Saturday.

Tanzer To Advise Legislature

TIMES 10/8/74

By SUSAN ANDREWS
Times Staff Writer

Michael Tanzer, author of the controversial Tanzer Report on the tax potential of the Prudhoe Bay oil field, has been hired as an advisor to the state legislature.

He is one of five consultants hired or under consideration by the Interim Committee on Oil and Gas Leasing and Taxing Policies, under contracts totaling a maximum of $116,000.

Tanzer's latest contract calls for him to explore "the impact on exploration and development resulting from increased oil taxation by Norway, Great Britain, West Germany, the Canadian province of Alberta and other governments."

And he is to compare company profits per barrel under the tax and royalty policies of major oil producing countries.

Tanzer's latest contract, for $15,000 plus $2,000 in travel expenses, was outlined in a Sept. 24 memo to Rep. Hugh Malone, vice chairman of the interim committee from James Rhode, administrative assistant to the House Finance Committee

Tanzer's assignments also include:

– Computerizing the system for calculating discounted cash flow returns used in the Tanzer Report to allow varying assumptions as to oil prices, investment and operating costs, pipeline tariffs and tax rates. According to Rhode's memo, "This work began in June and is largely complete."

– Calculation of the "simple accounting profit and total dollar profit over total dollar cost" for Prudhoe Bay. Rhode's memo points out that "these will provide additional, easier to understand, measures of returns on the field. Further, the calculations will be a benchmark for assessing the estimates made by financial houses and others."

Tanzer also is to meet with members of the interim committee "to explain and discuss the above reports and the original and updated Tanzer Report on the tax potential of Prudhoe Bay."

Tanzer was paid $15,000 plus $2,500 in travel and expenses for the initial report, completed last year.

The legislative committee on oil and gas leasing and taxing policies, headed by Sen. Chancy Croft, D-Anchorage also has signed a contract for $35,000 with Mason Gaffney, who will work with Commissioner of Natural Resources Guy Martin in a review of the state's oil and gas leasing policy.

Gaffney, an American, was recently with the British Columbia Institute of Economics.

Gregg Erickson, director of the division of research services for the legislative council, said three other contracts are pending.

One is with Jerome Ziefman, a professor at the University of Santa Clara law school, and former counsel to Rep. Peter Rodino's U.S. House Judiciary Committee. The state wants Ziefman to conduct legal and economic studies, totaling not more than $20,000, of the multi-state tax compact.

Erickson said Ziefman wants to conduct the study in cooperation with Kenneth Ainsworth, a professor of economics at Alleghany College in Pennsylvania. Ziefman and Ainsworth are to meet in Juneau Monday with Erickson and Department of Revenue officials to discuss the study.

The fifth consultant under consideration is Paul Hartman, a retired Valderbilt University professor now a visiting professor at Pepperdine Law School in Anahein, Calif. Hartman would conduct a constitutional review of proposed income tax and net proceeds tax legislation, under a maximum $25,000 contract.

Purpose of the studies, according to Rhode, is the determine whether

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Tanzer To Advise State Legislature

(Continued From Page 1)

the state can "find out what is a fair rate of return to the oil companies and still make sure that Alaskans get our fair share of the value of our oil."

Rhode noted that the cost structure of oil companies operating in the North Sea is "very similar to cost data for Prudhoe Bay, and yet we find that tax rates in the North Sea — or the total government take — is on the order of 60 per cent in the case of the British, Norwegian and West German governments.

"This raises an immediate question: If costs are similar, why is our tax rate under theirs?"

Oil company spokesmen argue that such reasoning does not take into account the taxes the oil industry pays to the U.S. government, in addition to the state of Alaska.

Dick Donaldson, vice president of Standard Oil Co. of Ohio, told the Alaska AFL- CIO convention here recently that at existing tax levels, the 31 largest U.S. oil companies taken together pay 74.1 per cent of their income in state and federal taxes. Employes' salaries take 12.9 per cent; investors' dividends 5.2 per cent and the companies' share is 7.8 per cent.

Tanzer's initial study, which influenced legislation introduced but not adopted at the last legislative session, suggested that profits from Prudhoe Bay were such that the state could tax profits at 50 per cent and later at 80 per cent without discouraging the owner oil companies.

Donaldson said while Prudhoe Bay profit predictions have increased 400 per cent as a result of the quadrupling of oil prices since the oil embargo, development costs also have risen 400 per cent. He said the owner oil companies expect to make a 15 per cent rate of return on their investment.

"The principal beneficiary of any 'windfall' will be the state," Donaldson said. Alaska will have a bank balance of $1 billion to $5 billion within 10 years.

Houston Firm Wins North Slope Project

By Associated Press

Alyeska Pipeline Service C. has awarded a contract to complete installation of a gas fuel line on the North Slope to Houston Contracting Co., Inc. The 148-mile buried line is made up of six-, eight-and ten-inch diameter pipe and will provide natural gas to power turbines at the four northernmost pump stations on the trans-Alaska pipeline from Prudhoe Bay.

Times 10/9/76

Department Reshuffling Is Completed

The reorganization of the Department of Natural Resources, which has been in the works for the last several months, is complete and a new division of minerals and energy management is functioning under the direction of O. K. "Easy" Gilbreth.

Dr. Michael C. T. Smith, former director of the division of lands, has been given the additional title of assistant commissioner to oversee two new divisions: a division of land management, with the job of supervising surface resources, and the new division of minerals and energy management, with responsibility for all subsurface resources.

Gilbreth, former director of the division of oil and gas, has been succeeded by Hoyle Hamilton in that position. The oil and gas division will focus on regulation and conservation measures.

The new division of minerals and energy management will focus on the management of the state's subsurface resources, including oil, gas and hard minerals.

The reorganization was announced here Thursday by Commissioner of Natural Resources Guy Martin.

Gilbreth and his 19-member staff are moving this week into the MacKay Building annex on East Fourth Ave., in space formerly occupied by the division of parks. The parks staff is negotiating now for new space on Northern Lights Boulevard.

Eight new staff members are to be hired for Gilbreth's new division. Approval came Wednesday to start recruiting, Gilbreth said, for a petroleum engineer, petroleum reservoir engineer, petroleum economist, petroleum geophysicist, petroleum seismologist, a clerk and clerk typist. A secretary was hired yesterday.

State Reports Sale Progress

The state is "closer than we have ever been" to a potential agreement to sell the state's royalty share of gas from Prudhoe Bay, Commissioner of Natural Resources Guy Martin said here yesterday.

However, he gave no indication as to how soon he expects that agreement to be reached.

"We are in daily contact with Tenneco, El Paso and Southern Gas," Martin said, "and we are still in contact with United Gas Transmission Co. We are working at both the conceptual policy level and the technical-legal level.

"People underrate the complexity of the agreement," Martin said. "For every general report from El Paso that they want to buy the royalty gas, there is a lawyer differing over terms of that contract."

No decision has been made regarding allocation of the estimated 3.3 trillion cubic feet of natural gas which will be the state's royalty share, Martin said. "It will not all go to Tenneco," he added, "but the consensus is that Tenneco is the best party to bring to our aid in support of a trans-Alaska pipeline."

Martin Cites Alaskan Route Support

The state's study of Northwest Pipeline's proposed Alaska Highway gas pipeline route isn't complete but Commissioner of Natural Resources Guy Martin said yesterday the administration hasn't changed its mind.

"I haven't seen anything that convinces me we aren't in the right position in favor of a trans-Alaska route," he said.

Martin said the governor favors a trans-Alaska route. "I testified 10 to 12 hours before the Federal Power Commission and I've lobbied in Congress in support of that route," which is proposed by El Paso Alaska.

There have been repeated reports that Martin, Attorney Gen. Avrum Gross - and even Gov. Jay Hammond - privately prefer the Alaska Highway route because it would not involve tanker traffic in Prince William Sound, as El Paso's trans-Alaska pipeline system proposes.

But Martin said yesterday he doesn't know where people get such ideas. "As far as I'm concerned, the trans-Alaska route, El Paso's route, is the route the governor prefers and it appears to be in the state's best interest.

"Maybe people don't like the openness of our position," he said. "Maybe some people aren't as confident as I am that the trans-Alaska route is best for Alaska. Maybe they are afraid that close study will expose something about that route that will make it not in the state's best interest."

Martin said Federal Power Commission administrative law judge Nahum Litt made his comments about the state's "sphinx-like" position regarding support for a pipeline route before Martin's recent testimony.

"I went to Washington and testified seven hours last Thursday," Martin said, "and testified on every point he (Litt) raised. He said he understood our problems."

Martin said he understands Litt's frustration. "He expressed it about the Prudhoe Bay producers and El Paso, too," Martin declared. "He's coming to a decision and there is some information missing. One of the things he wants to know is the precise amounts of gas production that will be allowed and we don't know yet."

Martin said he told the Federal Power Commission hearing that Alaska is strongly in favor of a trans-Alaska route and "we would take advantage of every policy alternative we have" to support that route.

Sohio

(Continued from Page 1)

The company plans to sail the larger, more economical tankers to the Panama coast and offload oil into the smaller tankers for shipment through the canal to the Gulf of Mexico. All the newly-chartered tankers, Sohio spokesmen said, are small enough to navigate the canal, although four 90,000-deadweight-ton ships can be loaded only to about 60,000 deadweight tons. Tankers carry seven barrels of oil per deadweight ton.

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Cloudy

Partial clearing early today. Partly cloudy this afternoon and tonight. South and southeast winds increasing to 25 m.p.h. with stronger gusts diminishing slowly. Lows tonight low 40s. High today mid 50s. Outlook for Wednesday, increasing cloudiness.

Sohio chartering tankers to ease oil surplus

By SALLY JONES
Daily News Staff Writer

(C) 1976, The Anchorage Daily News

The Standard Oil Co. of Ohio (Sohio), convinced that no West Coast port will be ready to absorb Prudhoe Bay's oil, has taken steps to charter small oil tankers to send the oil to the inland U.S. markets through the Panama Canal.

But even the U.S. tanker industry will not be able to overcome the West Coast oil surplus anticipated by Sohio, company officials said Monday.

Sohio owns about half of Prudhoe Bay's oil reserves and by late next year is scheduled to ship 600,000 barrels of oil per day from the Alaska pipeline terminal at Valdez.

SOHIO is seeking permission to build a 500,000-barrel port and pipeline system to ship its oil from Long Beach, Calif., to Midland, Texas, where it hopes to market its North Slope oil.

In a telephone interview with The Daily News, two Sohio officials in the company's Cleveland headquarters said they expect the California pipeline cannot be approved and built until at least six months after trans-Alaska pipeline oil begins flowing at the rate of 1.2 million barrels daily in Nov., 1977.

The Sohio port and pipeline is the only project now being formally considered to move Alaska oil inland from the West Coast. In addition, no pipeline is available to move the oil beyond the Rocky Mountains, no West Coast ports can handle the large tankers to be used by Sohio and other companies, refineries on the coast cannot absorb the Alaska supply.

SOHIO IS BUILDING eight to ten new tankers for the Alaska trade: two in the 80,000 deadweight ton class; two in the 120,000 ton class; and four to six of 165,000 tons. The company also will have access to two additional 80,000 ton and another 120,000 ton vessel on charter.

Fred Garibaldi, Sohio manager of corporate planning, confirmed that the company has contracted to charter other, smaller tankers for moving its oil through the Panama Canal. The canal's tanker size limit is about 55,000 deadweight tons.

Garibaldi and another company official said the tankers have been chartered through the Maritime Overseas Corp. because Sohio will not be able to distribute its oil any other way until pipelines inland from the West Coast are in place.

THE COMPANY OFFICIAL said the refinery problem "is what leads us to believe that only 600,000 to 700,000 barrels of Alaska crude a day" will be absorbed on the coast. "That leaves a 500,000 barrel surplus at 1.2 million barrels a day."

Even so, the company has learned that the U.S. flagship fleet can make up only 250,000 barrels per day of that surplus, Garibaldi said. The rest of the fleet will be in use for other charters or laid up. Federal law requires the use of U.S. flagship tankers between domestic ports.

The seven, smaller tankers for Panama Canal use were chartered "for an intermediate period of time we do not wish to discuss," said another Sohio official.

(Continued on page 2)

Line Firm Praises Decision On Gas

(Continued From Page 1)

native land claims, "substantially diminished Arctic's position." The Arctic Gas line includes a spur to the Mackenzie Delta, to carry Canadian gas to Canadian markets.

The Berger report "would seem to have the same negative impact on the Alcan (Alaska Highway) project" which also goes through Canada, the governor said.

The governor said last night that the Alaska Highway route would be the state's second choice, if for some reason the El Paso project were eliminated from consideration and the choice was narrowed to Alcan versus Arctic Gas.

In fact, the royalty gas sales agreements provide that in that event, the state can change its support of a gas pipeline routing and the prospective royalty gas purchasers would have the option of switching their support or withdrawing from the sales contract.

Hammond said the Alaska Highway proposal is a good second choice "because it avoids the major difficulty of the Arctic Gas proposal in that it does make gas available for Alaskan use." The Arctic Gas proposal, with a pipeline along Alaska's northern Arctic coast, would not make this possible.

"Following a thorough review" by a number of state agencies, the governor said he is convinced the highway route "does not have greater benefits for the state than the all-Alaska route we have to date supported. Recent state revenue projections indicate that the El Paso proposal still has the greatest financial benefit for the state and that while the Alcan proposal has certain desirable environmental aspects to it, they are not so significant as to counterbalance the desirability of the all-Alaska line."

The governor wasn't specific as to those environmental aspects but presumably he was referring to the fact that El Paso's all-Alaska route would call for the gas to be liquefied at Gravina Point, near Cordova, with resulting tanker traffic in Prince William Sound. The Alaska Highway route, on the other hand, would be an all-land route through Alaska and Canada into the Lower 48.

The closest the highway route would come to tidewater would be 100 miles from Haines.

TIMES 11/13/76

Paso Praises Decision On Gas

By SUSAN ANDREWS
Times Staff Writer

The state's commitment of its Prudhoe Bay royalty gas to firms which will support an all-Alaska gas pipeline "is one of the most significant actions in the gas pipeline battle in many, many months," El Paso Alaska spokesman Mike Holland said today. His firm has proposed the all-Alaska route.

Yesterday Gov. Jay Hammond announced that the state has initialed agreements with Tenneco, El Paso and Southern Natural Gas for sale of an estimated 2.6 trillion cubic feet of gas over 20 years. Tenneco will get 50 per cent and El Paso and Southern each will receive 25 per cent under the contracts, which are subject to approval by the state's Royalty Oil and Gas Development Advisory Board and the state legislature. The royalty board meets Nov. 22.

The governor also announced that following an analysis of all three gas pipeline routes — El Paso's, Northwest Pipeline's Alaska Highway route and the Arctic Gas route through northern Canada — the state has concluded that the trans-Alaska route would be in the best interest of Alaska and the entire U.S.

The royalty gas was committed to obtain support in Congress for the trans-Alaska gas pipeline route, the governor said, and to insure that the state's royalty gas will be available for use within the state as markets develop.

An amendment to the gas pipeline procedural bill proposed by Hammond and recently passed by Congress gives Alaska an unprecedented right to withdraw its one-eighth royalty share of gas if needed at any point along a pipeline route within the state. However, the governor pointed out that there is a possibility Congress may remove that provision next session. If gas sales contracts are final before that time, they will be binding.

The contracts insure the state's right to recall up to 100 percent of the royalty gas if needs develop within Alaska. Commissioner of Natural Resources Guy Martin, who negotiated the contracts, said this morning from Juneau that the contracts call for a replacement of called-back gas from future discoveries but only if that royalty gas is found to be surplus to the state's needs.

Holland said El Paso is "looking forward to the support Tenneco and Southern can bring. We consider them valuable allies

"From our point of view, the gas will give us a real lever to take to our market area to persuade the Southwest, particularly California, to strongly support a trans-Alaska line. Seventy-five to 80 per cent of our gas goes to California. The 650 million cubic feet of gas a day we will get from Alaska is one of the largest acquisitions we have made in a long time,".

Holland said both Tenneco and Southern have indicated they plan to dedicate "substantial promotional efforts" to the trans-Alaska route.

"Because of this (royalty gas) sale, the trans-Alaska route has a better chance of approval than it has ever had," he said.

The Organization for Management of Alaska's Resources said it considers the royalty gas commitment a "crucial element in the fight to gain congressional approval for a trans-Alaska natural gas pipeline."

President Bob Penney said the action means "we will have the support of the nation's leading gas companies" for a trans-Alaska routing, which the organization supports.

Penney noted that in recent hearings before the Federal Power Commission, officials questioned the sincerity of the state's support for an all-Alaska line. The commitment of gas to companies supporting that line means the state "is showing by actions as well as words that it genuinely wants the gas pipeline to go through Alaska."

Omar Executive Director Paula Easley said the governor is to be "highly commended" for contract provisions that require the gas firms to release back to the state quantities of gas that may be needed for instate residential and commercial use. In urging the royalty gas sale, she said Omar studied the long-range implications of a sale and recognized that without a strategically-placed gas line in the state, the royalty gas would be of little value to Alaska's economic future.

Hammond said at a press conference this morning he is encouraged at the chances of approval of an all-Alaska gas line. The procedural bill calls for a recommendation by the Federal Power Commission by next May 1 and a decision by the President by Sept. 1, with a 60-day review period by Congress.

The governor said he can base his judgment on "nothing more than vibrating attennae" but those tell him that the all-Alaska pipeline's chances are "substantially better than they were six months ago, when Arctic Gas seemed to have a leg up."

He said the Canadian Berger Commission's staff report, recommending a delay of from 10 to 15 years in a Mackenzie Delta gas pipeline after the settlement of Canadian

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salary commission is missing.

According to the municipal clerk's office, the tape of the Dec. 16 Commission on Salaries and Emoluments meeting at which the panel set pay levels for Mayor George Sullivan and members of the Anchorage Municipal Assembly was discovered missing several months ago.

The mayor receives $4,800 annually in longevity pay, which has been challenged as illegal. And members of the Anchorage Assembly receive a flat monthly salary regardless of how many meetings they attend, which also has been challenged.

Typed minutes of the Dec. 16 meeting indicate the commission did not intend for the mayor to receive the longevity pay.

Janine Spurrier of the clerk's office said yesterday she is "reasonably sure" another meeting was recorded over the salary commission tape and probably sold to someone who had requested a verbatim transcript of the other meeting.

"We've looked for it very diligently and haven't found it," Miss Spurrier said.

The clerk's office routinely provi-

(See Page 2, Col. 1)

TIMES
9/23/76

Interior Completes Pet 4 Rules

By The Associated Press

The Interior department has announced completion of proposed regulations to ensure protection of environmental, historical and scenic values during oil and gas exploration in Naval Petroleum Reserve No. 4 (Pet-4).

Surface management of the 23-million-acre reserve was transferred to the Bureau of Land Management in April. The move was the first step in the transfer of the reserve from the Navy to Interior, to be completed in mid-1977.

State BLM director Curt McVee said Interior's proposed regulations were prepared in Alaska, with input from federal, state and local government agencies, as well as conservation, mining, oil and gas industry and Native groups. Substantive input from those groups and the public were used to revise BLM's preliminary regulations, McVee said.

While review by Interior in Washington resulted in some changes, McVee said the proposed surface management regulations remain largely an Alaskan product.

Two large areas in the reserve--encompassing the Utukok Rover and Teshekpuk Lake--have been designated for special management as required by Congress, he said. The Naval Petroleum Reserves Production Act of 1976 requires that these and other areas with significant subsistence, recreational, fish and wildlife, historical or scenic value be granted maximum protection.

"BLM has designated boundaries for major portions of the Artic caribou herd's calving grounds near the Utukok River, and for migratory waterfowl habitat in the Teshekpuk Lake watershed," McVee said.

Those boundaries were designated after reviewing land use proposals from the Institute of Northern Forestry, the Joint Federal-State Land Use Planning Commission, the National Park Service, the state Department of Fish and Game and the University of Alaska's Tundra Biome Program, McVee said.

The Utukok special area totals more than 4 million acres and the Teshekpuk area totals more than 1.7 million acres, he said.

The BLM plans additional meetings in October to gather public comment on the proposed regulations, McVee said.

TIMES

10/29/76

Royalty Gas Sale Plan Leaves Gravel 'Bothered'

Alaska's Mike Gravel says the state has negotiated an excellent contract for sale of its Prudhoe Bay royalty gas, but he said the present plan — to sell half to Tenneco and one-quarter each to El Paso Natural Gas and Southern Natural Gas — "bothers me."

Gravel's comments yesterday was the first public pronouncement of what volumes of the gas state officials intend to sell to them. State officials have indicated the only reason they are considering a commitment of royalty gas now is to gain support for a trans-Alaska pipeline — and they want Tenneco's support.

Gravel said El Paso wants at least an equal share of the gas and he thinks that would be only fair, considering that El Paso took the gamble to propose a trans-Alaska pipeline.

"I wouldn't be a party to a government action that did not reward John (El Paso) for his loyalty, foresight and participation, but instead said 'We need Charlie (Tenneco)'," Gravel declared.

He indicated he doesn't buy the argument that because Tenneco is a big company, it will have more clout at lobbying in Congress. "Size doesn't impress me," he said.

"Sometimes smaller companies are more effective."

And he questioned the wisdom of giving Tenneco "something for nothing," in the hope of getting something in the future. Human nature deems you'll get nothing in return, he said.

"If you've got to make a tough decision, and don't know how it will turn out, it's best to play it safe and do what's right," and that means giving El Paso an equitable share, he said. "They say this may not sell with Tenneco."

Jack Ferguson, aide to Congressman Don Young, said Young will meet with state officials Friday in Juneau to emphasize the importance of committing the state's royalty gas before Congress reconvenes in mid-February.

He said the natural gas procedural bill which recently passed Congress protects the state's use of its royalty gas even after it enters an interstate pipeline, but he said the state's right must be covered in the language of a contract. That amendment makes it more important to commit the royalty gas, he said.

EDITORIAL PAGE

The Anchorage Times

ROBERT B. ATWOOD
Editor and Publisher

WILLIAM J. TOBIN
Associate Editor
And General Manager

CLINTON T. ANDREWS JR.
Managing Editor

Gas Line Decision

GOV. JAY HAMMOND has now made public tentative agreements to sell Alaska's royalty share of natural gas that will be produced from the Prudhoe Bay field on the Arctic coast. In the process he has officially proclaimed, as a matter of state policy, support for a natural gasline route that extends from the North Slope to tidewater in the south.

It is quite proper for the state to take this position as it likewise is quite correct for the state to make advance arrangements for the sale of its share of the gas when it becomes available.

The contracts for the sale are conditional on approval of a trans-Alaska route's eventually being selected over two other proposals—one crossing into northern Canada through the Mackenzie River delta region and across Canada to midwestern United States, and the other south to the Alaska Highway, eastward through Canada and south to the U.S.

THE GOVERNOR coupled his announcement of the sales agreements and the endorsement of the all-Alaska route with a statement that he would exert all possible state efforts to see that the final pipeline decision favors a line such as that proposed by El Paso Natural Gas. The El Paso plan is for a pipeline from Prudhoe Bay to the Gulf of Alaska, at which point the gas would be liquefied and transported to market by specially built refrigerated tankers.

Mr. Hammond's support of this route was not necessarily an endorsement of the El Paso company's application. From the state's standpoint, it matters little who builds the pipeline so long as it takes Alaska's North Slope to Alaska's southern gulf waters.

This may seem to some to be a parochial bit of self interest and as such be the wrong thing for the state to do. This viewpoint is not correct, for several reasons.

THERE IS NOTHING wrong with Alaska's looking out for its own interests. Nobody else does. New York doesn't. Wisconsin won't. There is no reason Arkansas should. And as long as Alaska's protective self interest does not impair the nation's best interest or threaten to harm what is good for the rest of the country, Alaska's efforts to look out after its own economic development concerns are not only proper but are to be expected.

As a matter of fact, there are strong arguments to be made that a trans-Alaska route would not only be to Alaska's benefit, but that it also would be in the national best interest.

Those promoting the two routes that would traverse Canadian soil, and be under Canadian economic control, try to brush under the rug the importance of the United States' having full jurisdiction over the transport of this vital national energy supply. They try to make a case that it is to Alaska's good and the good of the U.S. that the gas be moved through Canada.

It is an argument that fails to convince. And it's good now that at long last the governor of the State of Alaska is publicly committed to fighting the battle for a trans-Alaska gas pipeline.

TIMES 9/17/76

Accord For Gas Nears Completion

By SUSAN ANDREWS
Times Writer

State officials expect to know in one to three weeks whether they will be able to reach an agreement for sale of the state's royalty gas from Prudhoe Bay.

Commissioner of Natural Resources Guy Martin said from Fairbanks that the state's lawyers were talking yesterday with Tenneco and will be talking with El Paso next week. Tenneco and El Paso are the leading contenders for purchasing the gas.

"We have been going back and forth on some legal-technical aspects," Martin said. "We are talking about volumes and the ability of the state to recover its royalty gas" if there is a need for it in the state before the proposed 20-year contracts expire.

Royalty gas is the one-eighth share of Prudhoe Bay natural gas production which, under terms of the leases sold to the industry, belongs to the State of Alaska. The sale will bring at least $1 billion to the state treasury, depending on the price and amount of gas sold.

Martin didn't mention any meetings with the two other prospective gas purchasers, Southern Gas and United Gas Transmission.

All four reportedly were asked to respond by this week to the latest draft sales agreement.

Tenneco earlier had made demands which the state administration said were not in the state's best interest.

Tenneco would agree to the state's right to take back the gas if needed in Alaska, but only if the state promises to replace double that amount from future discoveries.

Martin would not comment on how much of the royalty gas Tenneco is demanding.

Tenneco's position since negotiations began a year ago is that it wants all of the royalty gas.

El Paso has said it wants at least an equal share with any other company.

Martin said talks with Tenneco are "going pretty constructively. We still have a chance to reach agreement, I think. We are going to attempt to reach a point with Tenneco where we can decide once and for all whether we'll be able to reach an agreement."

A major unknown is how much of the 3.3 trillion cubic feet of natural gas the state is willing to sell. State law requires that only gas surplus to the state's needs can be sold.

Members of the state's Royalty Oil and Gas Development Adivsory Board, which must approve sales of oil and gas, have said they would not favor committing more than 90 per cent.

Mike Holland, assistant to the vice president of El Paso, Alaska, said El Paso got a phone call from the state Sept. 9, the first communication in a month regarding the royalty sales negotiations.

The draft sales agreement, which is essentially unchanged since April, provides for 20-year contracts. And it provides for a schedule of recall of the royalty bas, if the state wants the bas back. A certain percentage – probably 25 per cent – would be available after the first five years, up to 50 per cent between six and ten years; 75 per cent at 15 years, and all the gas in 20 years, if markets in the state require it.

The blanks are still to be filled in. So are the percentages of gas to be awarded the purchasers.

El Paso agrees with the state's position that a sale of some of the royalty gas to other companies would guarantee support for a trans-Alaska gas pipeline – the project El Paso Alaska proposes. That's the only reason state officials are considering a royalty gas sale at this time.

Times 10/12/76

Proposed Gas Prices May Prompt Drilling

By MAX B. SKELTON

HOUSTON (AP) — Drilling contractors believe the new proposed prices for natural gas sold in interstate markets could breathe new life into the search for new gas reserves.

But they fear court challenges could delay the new prices for months, if not years.

In July, the Federal Power Commission, by a 3-1 decision, ordered a two-tier price system of $1.01 and $1.42 per thousand cubic feet for gas committed to interstate markets after Jan. 1, 1973. The proposed prices would replace the existing rate of 52 cents per thousand.

Consumer advocates quickly challenged the order and the U.S. Circuit Court of Appeals in Washington retained jurisdiction after directing that the FPC include provisions for refunds if the new rates eventually are found to be excessive.

After additional mid-September hearings, the FPC now is restudying its July order. Speculation centers on reapproval of the $1.01 and $1.42 rates but with new court challenges certain to follow.

The $1.01 price would apply to gas committed between Jan. 1, 1973, and Dec. 31, 1974. Gas committed to interstate pipelines after Jan. 1, 1975, would carry the $1.42 price tag.

Ed McGhee, executive vice president of the International Association of Drilling Contractors, says no one can be sure whether the prices will survive the courts, the Congress, and the FPC's own rehearings.

But what would a $1.42 price mean to the drilling industry?

"On that question, a consensus is growing that drilling rig demand will rise sharply," McGhee said. "Some even foresee an actual shortage of rigs."

McGhee said industry has been slow to place any trust that the increase will endure but that, with the passage of time since July, drillers have done considerable stock-taking.

"Most express surprise at what they find," he said. "The backlog of drillable prospects looks larger than they thought."

Uneconomic at the old prices, McGhee said, a sizeable number of the prospects warrant drilling for $1.42 gas.

Where are these prospects?

"Apparently, they'll spread all over the oil country, including even some in the Gulf of Mexico," he said.

"Matters shape up differently in states like Texas which have an intrastate gas network. Intrastate gas has fetched as much as $2 a thousand cubic feet. Elsewhere, FPC's $1.42 for interstate gas could breathe new life into the gas search."

McGhee said industry observers agree, regardless of whether the proposed increases stand, that higher gas prices offer the best hope of smoothing out the annual ups and downs in rig utilization.

"Historically, the first quarter of each year has seen a disastrous drop in rig activity, mostly resulting from the structure of the nation's tax laws," he said.

"Gas drilling, motivated by hopes of a profit instead of accommodation to tax laws, could take up the first quarter slack. More wells could be drilled each year with the same number of rigs."

TIMES 10/25/76

Against Permanent Fund

Dear Editor:

The State of Texas has no state income tax, they have never had a state income tax and they do not see any state income tax in their future. That state is run entirely on revenue derived from its oil production. Now Alaska has more oil and fewer people than Texas, so why can't we do the same thing and give us poor taxpaying turkeys a break and eliminate our state income tax.

The oil revenue in Alaska belongs to all of the people in Alaska and it should benefit them by redistributing it to all of them, where they can feel it the most, right in their pocketbooks, by the elimination of the state income tax.

Who needs a permanent fund? It is destined only to become a gigantic bureaucratic pork-barrel and it will, sooner or later, by hook or by crook, vanish into thin air just as our first oil windfall did. If it happened once it will for certain happen again.

I urge you to vote against the permanent fund and demand a tax break instead.

Ann Lewis
5006 Seton Circle

Times 9/30/76

Economist Sees Growth

By The Associated Press

One Alaska economist predicts a solid growth pattern for the frontier state long after pipeline builders go home.

Robert Richards, a vice president of Anchorage's Alaska Pacific Bank, said the economy will have a dip in 1977 but will pick up again in 1978.

He said construction of a natural gas pipeline, oil production at Prudhoe Bay, investments of native claims money and government employment will keep the state economy stable when pipeline construction ends.

Richards said pipeline workers haven't had as great an economic impact as might have been expected because much of their earnings have gone to families in the Lower 48.

TIMES 10/26/76

Backers Say Fund Won't Affect Move

Creation of a state permanent fund won't affect moving the state capital, in the view of two of the fund's most ardent supporters, Commissioner of Revenue Sterling Gallalher and State Rep. Cark Gruening, D-Anchorage.

"If moving the capital is the will of the people, the money will be found," Gruening declared.

Gallagher said that at the same time some Anchorage area voters are questioning whether a permanent fund would make it impossible for the legislature to raise enough capital to finance the capital move, voters in Southeastern Alaska see the fund as a move to provide funds for a capital move.

Both Gallagher and Gruening point out that if voters approve the concept of a permanent fund, and if 25 per cent of oil and gas royalties and bonuses go into that fund, "that still leaves 75 per cent to go into the general fund." And 100 per cent of tax income.

Gruening says "The important thing to remember is that \$1.8 billion or \$2 billion is going to come in and be spent anyway. The permanent fund is not creating that income."

Gallagher said he doesn't want to think about what will happen ig the permanent fund is not approved. "I see a propensity on the part of the legislature to spend," he said.

What Others Say

From The Seattle Times

ALASKA GOV. JAY Hammond has taken an imaginative and unorthodox step in his battle to win federal approval for routing the Alaska natural gas pipeline through Alaska rather than largely through Canada.

Hammond has signed tentative contracts to sell Alaska's huge royalty shares of Prudhoe Bay gas to three major companies, with the sale being contingent on the all-Alaska route being chosen over two competitive routes.

The three companies have pledged to throw their influence behind the Alaska government's choice in the multi-billion-dollar-pipeline-route battle now shaping up in Washington, D. C.

WE HAVE no idea how useful Hammond's bold tactic will prove to be, nor of the legal complexities involved.

But we do commend the governor for doing more than paying lip-service to the all-Alaska pipeline concept.

Such fossil-fuel-rich states as California, Texas and Louisiana have never been backward about asserting the rights of individual states to reap maximum benefit from their undergound wealth.

There's no reason why Alaska should not do the same in battling the efforts of a powerful group of Midwestern senators and congressmen to win approval of the trans-Canada gas pipeline route.

11 states call for Alaska gas

SAN FRANCISCO (AP) — The Public Service Commissions of 11 western states urged President Ford Friday to sign a bill requiring the Federal Power Commission to recommend a pipeline route, including a western leg, for carrying natural gas from Alaska.

"We believe that it is imperative for the future economic viability of the western states that we be assured direct delivery of and equal access to the natural gas produced in Alaska and transported to the lower continental United States," said a wire to the President. California PUC Commissioner William Symons Jr., president of the Western Conference, sent the message on behalf of agencies in Washington, Oregon, California, Nevada, Idaho, Utah, Wyoming, Colorado, New Mexico, Montana and Arizona.

He noted western states face severe natural gas shortages and future supplies would be curtailed further if new sources of gas are not brought down from Alaska.

"Our supplies today in California alone, for example, are 23 per cent below what they were in 1970," said Symons. "Without any major supplies from new sources by the end of the decade, we face a level of supply that will be 46 per cent below that of 1970."

Economist Sees Slowdown

(Continued From Page 1)
the average.

"Some industries will be hit harder," at the completion of the pipeline, he said. "Some will experience no slowdown at all."

Richards told the state's Investment Advisory Committee this week that the slowdown will last two to three years, then Alaska will see another three to four years of accelerated activity.

Richards is a consultant to the state committee.

Richards said the slowdown will result not only from a decrease in pipeline activity but also from "more modest state spending" and a hold back in the private sector.

The private sector, in anticipating a slowdown, actually contributes to that slowdown, he said.

He predicted that over the next ten years petroleum, construction and tourism will surpass fishing as sources of jobs.

Fishing will grow only moderately, he said, and hard rock mining and forestry "are impossible to predict."

Richards said the growth of state and local government, as much as the pipeline, has created the state's current economic boom. In Anchorage, he said, growth has been caused primarily by government and governmental jobs statewide have increased by 15,000 from 1964 to 1974.

His own estimate is that 40 per cent of the pipeline paychecks are sent Outside and therefore do not affect the state. Fairbanks banker Frank Murkowski has estimated 60 per cent.

Richards said the policy implications for the advisory committee, in considering how the state's proposed permanent fund should be used, seem to be that "you don't have to do something drastic" to counteract the state's boom and bust cycle "because that's not a true picture."

"The investment fund should be geared to less cyclical industries," he said, "or the state could utilize the investment fund as a counter-cyclical device. If a second oil pipeline is built by private industry, for example, then the state could time a dam to follow that construction."

Timing and geographical location of development projects would be ways to counter the fluctuations, he suggested.

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Our views:

It's permanent

Practically everyone has agreed for the past several years that Alaskans need a permanent investment fund to set aside a portion of the wealth that will come from oil and gas taxes. The legislature approved the fund last year but the governor, although he supported the idea, vetoed it because of a constitutional question.

Ballot Proposition 2 provides the constitutional amendment to make the permanent fund a reality. It's worth the vote of Alaskans in next Tuesday's election.

Specifically, Ballot Proposition 2 dedicates at least 25 per cent of all mineral lease rentals, royalties, royalty sale proceeds, federal mineral revenue sharing payments and bonuses received by the state into the permanent fund. This principal then would be used for income - producing investments.

The permanent fund is both a guarantee and a safeguard, a practical idea that retains Alaska's oil development windfall.

It's a guarantee in the sense that Alaskans will be able to prudently establish a lasting savings account from some of the oil revenues. That will ensure the money won't be automatically dumped into an operating budget and spent away by legislators.

It's a safeguard in the sense that once non - renewable mineral resources have been exhausted, something permanent will remain for future Alaskans.

And in practical terms, the permanent fund would divert operating funds into an investment fund that grows each year that oil flows, and collects interest. A percentage of the fund would go for direct use by Alaskans — for loans to businessmen, fishermen and builders. And when oil revenues no longer are flowing into the state treasury, the fund would continue as an important option in stabilizing the state's economy.

The permanent fund holds a lasting promise for tomorrow, a heritage for the state. It's an imaginative and workable idea which would make certain that when the boom - and - bust days of energy development are gone, something permanent remains.

Next Tuesday, Alaskans should vote "for" Ballot Proposition 2 and adopt the permanent fund.

FPC report finds Prudhoe gas adequate

From Our Washington Correspondent

WASHINGTON — The Federal Power Commission's legal staff has released a brief indicating it feels that there is sufficient natural gas available at Prudhoe Bay to support either the El Paso or Arctic Gas plan to bring North Slope gas south. Both companies' plans call for daily transport of more than two billion cubic feet of gas.

At the same time the commission staff argued that either the El Paso or Arctic Gas system would be in a better position to accept new volumes of gas if there is additional production from as yet undeveloped fields either in the Beaufort Sea or the Arctic National Wildlife Range.

THE BRIEF, presented to the commission, held that Northwest Pipeline's Alcan Highway route assumed too little gas available at Prudhoe Bay and offered too little space for expansion if further gas supplies are developed.

The brief called the wildlife range among "the most promising areas of potentially large gas reserves . . ." The brief quotes several witnesses before the FPC hearings who testified that 14 trillion cubic feet of gas or more could be trapped in rock formations below the range.

The other most promising area, it said, was in the Beaufort Sea offshore from Prudhoe Bay and the wildlife range.

IN OTHER briefs released by the commission, the staff argued against certification of the "western leg" of the Arctic Gas system and in favor of a liquified natural gas terminal in Cook Inlet rather than Prince William Sound — if the El Paso system is ultimately approved.

Arctic Gas has asked the FPC to allow it to build a "western leg" pipeline into the Pacific Northwest and California in addition to its major route east from Prudhoe Bay, across Canada and into the U.S. Mideast.

However, the commission staff brief argues that without firm gas supply contracts Arctic should not be allowed to proceed with such a large and expensive project.

RATHER THAN build a new pipeline to serve the West Coast, the staff argues, that area should be served by "displacement," moving gas from other areas in existing pipeline systems. This approach, the brief says, is without risk and will cost little to implement. The annual savings of the displacement approach are estimated at $49 million.

The commission legal staff also disagrees with the commission's environmental staff in arguing for an LNG facility on Cape Starichkof in Cook Inlet. The environmental impact statement recommended that site.

The staff contends that El Paso's own witnesses testified that a Cook Inlet facility would save as much as $171 million in pipeline construction costs since it would eliminate expensive construction through the Chugach Mountains.

NEWS
10/15/76

Kleppe lauds OCS for natural gas hopes

LOS ANGELES (AP) — Exploration for natural gas on the outer continental shelf is the best hope for meeting the nation's gas demands in the future, U.S. secretary of the interior Thomas Kleppe said Wednesday.

"We are enthusiastic about use of the outer continental shelf because the potential for large finds appears to be much greater there," Kleppe told a news conference during the American Gas Association convention in Los Angeles.

"In the face of declining reserves and little or no prospect of creating additional reserves through enhanced recovery, we must rely heavily upon exploration and new discoveries," he said.

Kleppe also said that the Department of the Interior is enthusiastic about the possibilities of coal gasification and "we sharply disagree with the General Accounting office report to Congress charging that symthetic fuels are too costly to fund."

Kleppe said his department fought for the synthetic fuels bill which died in the final days of the 94th Congress. But he acknowledged that a lack of abundant water would be a major problem in developing coal gasification program in the coal rich northern great plains states.

Kleppe predicted that before the end of 1977 "we should know how, and where" gas from Alaska will be transported.

"To avert a replay of the long struggle which delayed the start of the trans-Alaskan oil pipeline, President Ford proposed a timetable to decide the route and system with limited judicial review," Kleppe said.

"Congress made some changes which Interior opposed but Congress did agree to a mandated decision process."

TIMES

11/16/76

Rival Firm Criticizes Sale Of Royalty Gas

by The Associated Press

A top official of Northwest Pipeline Corp. says Alaska's decision to sell its Prudhoe Bay natural gas and support the El Paso Natural Gas Co. pipeline route is an effort to force a liquified natural gas project on the American public.

John G. MacMillian is chairman and chief executive officer of the Salt Lake City-based firm sponsoring the Alcan Project, one of three proposals before the Federal Power Commission for a natural gas pipeline from Prudhoe Bay. The third proposal was made by Arctic Gas Co.

Friday Gov. Jay Hammond announced the state had signed tentative constracts to sell Alaska's royalty share of the gas to El Paso Natural Gas Co., Tennessee Gas Transmission Co. and Southern Natural Gas Co.

McMillian said in a prepared release the El Paso proposal, often refered to as the "all-Alaska line," offers the least advantages economically and the most severe environmental problems in Alaska and California.

"The State of Alaska was given a unique benefit in the Alaskan Natural Gas Transportation Act, which allows the state to use its royalty gas within the state," he said. "To take advantage of this use of royalty gas to force an unacceptable project upon the American people would seriously jeopardize the royalty gas amendment."

He also said commitment of the state's fuel could "jeopardize its use for internal development of Alaskan industry . . . (and) borders on fiscal irresponsibility."

The contracts signed by Hammond grant the state the right to recall some of the fuel for use within the state with advance notice.

McMillian called the sale a last-ditch effort by the state to gain support for the El Paso project, which would require construction of a gas liquefication plant to prepare the fuel for tanker shipment south.

However, he said, "We also realize it will have no effect on the final decision wih respect to which route and which system is best for transportation of Alaskan natural gas."

Spokesmen for the Organization for Management of Alaska's Resources, a citizen group formed in support of an all-Alaska line, say Hammond's announcement will be of crucial assistance in the national debate over a pipeline route.

McMillian said Northwest appreciated "Hammond's recognition of the viability of the Alcan Project . . . we hereby ask the Alaskan people to express their true feelings and beliefs to the governor and the legislative bodies before this proposed sale is finally approved."

Alaska route backers hail gas royalty sale

Supporters of the all-Alaska route for a North Slope natural gas pipeline say Gov. Jay S. Hammond's announcement that he is committed to selling Alaska's one-eighth share of royalty gas will be of crucial assistance in the national debate over a pipeline route.

Hammond said Friday his administration has chosen El Paso Natural Gas Co.'s route for the gas pipeline, and that he wants to sell Alaska's royalty gas to three companies who will support the El Paso project.

THE TENTATIVE contracts signed by Hammond call for half the gas to go to Tennessee Gas Transmission Co. of Houston, one-quarter to go to El Paso, and one-quarter to go to Southern Natural Gas Co. of Atlanta, Ga. The state will have the right to recall some of its gas for use within the state with advane notice.

Spokesman for the Organization for the Management of Alaska's Resources, a citizen's lobby formed to support the Alaska route, say the sale of royalty gas shows the sincerity of Alaska officials.

ROBERT PENNEY, president of the organization, noted that in recent hearings before the Federal Power Commission on three competing proposals for the gas line, federal officials have questioned the sincerity of the state's support for El Paso.

EDITORIAL PAGE
The Anchorage Times
ROBERT B. ATWOOD
Editor and Publisher
WILLIAM J. TOBIN
Associate Editor
And General Manager
CLINTON T. ANDREWS JR.
Managing Editor

Powerful Board

THE GOVERNOR has announced the enlargement of the state's Investment Advisory Board with the expectation that the voters will approve on Nov. 2 the proposal for the state to create a permanent fund. The board members will be key figures in decisions for handling of billions of dollars of public funds.

It is proper that the governor should be concerned about the advisory board. Before the enlargement it was composed of 10 men and their duties have been diminishing as the state's surplus funds have been spent.

The board has been concerned mostly with the investment of the state's $900 million nest egg that resulted from the sale of North Slope oil leases in September 1969. Virtually all of that money has now been spent and the state is scraping the bottom of its money barrel trying to make ends meet until oil production royalties are forthcoming.

THE ELECTION on Nov. 2 includes a proposition on the ballot under which a portion of the oil production royalty money would be set aside for investment in a permanent fund. The voters are being asked to approve an amendment to the state constitution making the fund legal. The amendment would also serve as a protection from possible plundering by future legislatures.

This permanent fund, if it is approved by the voters, is forecast as more than a billion dollars in hardly more than five years. Others forecast that it will swell to a multi-billion-dollar fund as the years roll by and royalties continue to flow into the state treasury.

Any committee in charge of funds in such huge sums would be a mighty powerful group. It might even influence the national company, including banks, industries and even the financial philosophy of the country.

THE COMMITTEE would figure in the choice of revenue - producing investments for the billions of dollars in the permanent fund. That would most likely mean the committee could choose which industry to purchase. By this process the committee could determine how much of the productive facilities within the state should be state-owned and controlled.

The executive director would be the most powerful man in Alaska, his clout in public affairs exceeding that of the governor or any of his henchmen, alone or combined. Indeed, he would be more powerful than Jesse Carr who heads up the combination of funds and organizations of the Teamsters.

The power of the director and the advisory board members could be so great that it would become a Frankenstein in the state establishment and a menace to the national welfare. The public must depend upon the governor and the board members to see that such an intolerable situation never comes to be.

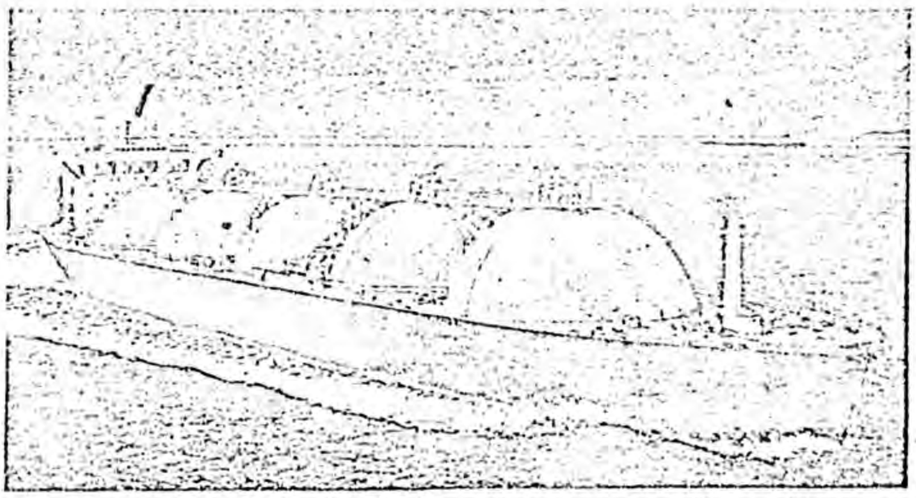
THESE CONSIDERATIONS deserve serious thought and thorough discussion during the few short weeks until the statewide election is held in November. Many of the candidates have taken stands in support of the permanent fund and the constitutional amendment that is needed to make it legal.

It is encouraging to see that the governor has already undertaken serious consideration of the membership of the board. He has not disclose[d] publicly the criteria he used t[o] determine how the boar[d] should be composed to giv[e] the public confidence that th[e] state funds would not [be] misused.

We hope that the govern[or] and the candidates w[ill] provide adequate clarificati[on] before the election, for [the] benefit of editorial writers [as] well as for uhe benefit of [the] voters.

Liquid Natural Gas Tankers Rouse Fears of Catastrophe

by Alexander Cockburn & James Ridgeway



Mammoth tankers carrying liquefied natural gas may soon visit American ports. Artist's concept of the 936-foot-long ship shows five spherical tanks which together can hold some 33 million gallons of the potentially explosive fuel.

In the summer of 1883, a gigantic explosion echoed across the world. The island of Krakatoa, off the coast of Indonesia, simply disappeared into the sea. Its remains were blown 17 miles into the sky and dust particles filtered around the globe, causing extraordinary sunsets remembered by all who had seen them for years afterward. Tidal waves were observed as far away as the English Channel. The noise of the explosion was heard 3000 miles away. Thirty-six thousand people in the near vicinity were killed.

The cause of this catastrophe was a mighty volcanic eruption. Scientists now speculate that the unparalleled intensity of the blast was caused by the sudden mixture of lava with seawater, leading to the creation and release of vast amounts of energy. This theory carries a startling message for modern times. For scientists now worry that the modern industrial age may have unwittingly developed the conditions under which the "Krakatoa effect" could be repeated on a smaller scale hundreds of times around the globe.

What frightens these scientists is not the specter of nuclear explosions with which mankind has lived since World War II, but an entirely new menace: liquefied natural gas. Natural gas, often found in the search for oil, is one of our most valuable fuels. It provides about one-third of all energy consumed in the United States. It is clean and, until recently, cheap. Now U.S. companies that produce and sell natural gas from the Southwest claim the resource is fast being exhausted and, in order to meet demands, they must look further and further afield.

Solution: import gas

While gas is a precious fuel in the U.S., in other parts of the world—the Middle East, Africa and Asia—it is regarded as of little use and burned off at the wellhead, its usefulness lost to mankind. One solution now being adopted by the oil and gas industries is to ship this foreign gas to the U.S.

Gas, of course, is an impractical cargo in its natural form. The solution has been to freeze it down into a liquid form at a temperature of about −260 degrees Fahrenheit. In this state, the gas is 1/600th of its original volume and becomes a practical shipping proposition.

Within the next few years, specially built tankers will begin transporting the liquefied gas from North Africa to ports up and down the Eastern Seaboard of the U.S. There are schemes to ship the gas from Asia and even Alaska to the West Coast by these tankers. Other countries are making similar plans. The small trade from North Africa to Europe is expected to increase, and a $3 billion project is well under way to ship liquid gas from Indonesia to Japan. The U.S. government, in fact, is issuing $730 million in loan guarantees to General Dynamics Corporation — the largest guarantee ever made to a single company—for the building of tankers to carry the gas from Indonesia. The U.S. also is negotiating with the Soviet Union to bring in gas from Siberia.

If all goes according to plan, within a decade or so, scores of these odd-looking ships will be crisscrossing the ocean and routinely sailing in and out of busy American ports with their cargoes of desperately needed fuel. As much as 15 percent of the nation's gas may soon be imported in this manner.

Both in government and industry, experts hail this development as an innovative answer to the energy crisis. But these same experts now are meeting with growing opposition to their plans. At the center of debate is the question of safety and the stark fact that the explosion of just one of these gas tankers in a U.S. port could kill upwards of 100,000 people.

Little real testing has been done on the safety of the new tankers that will carry the liquid gas in huge cylinders embedded in their hulls. In 1970 the U.S. Bureau of Mines mounted a brief experiment. A small quantity of liquid natural gas was dropped into an aquarium, which promptly blew up. Later the liquid gas was dropped into a pond, with equally explosive results. The bureau concluded in a report that no assurances can be offered "that these explosions could not scale up to damaging proportions in a massive spill." The scientists engaged in these experiments all recalled one of the few cases in which the effects of an accident involving liquid natural gas could actually be observed.

On Oct. 20, 1944, in Cleveland, Ohio, 2 million gallons of liquid natural gas burst from two storage tanks belonging to the East Ohio Gas Co. and created a firestorm. Liquid gas flowed

In Cleveland, rescue workers dig through ruins after giant 1944 firestorm—caused by 2 million gallons of escaped liquid gas—gutted 29 acres, killed 131. Experts say the explosion of a liquid-gas tanker would do far worse.

down the streets and into the sewers. The slightest spark exploded it. Manhole covers sailed into the air and fell like bombs on the fleeing crowds. So intense was the heat that birds above the city burned alive as they flew. The streets became rivers of flame. Houses exploded. In the end, 29 acres of homes and stores were gutted and 131 people lost their lives. And the liquid gas tanks in Cleveland held only a small fraction of the amount carried by a modern tanker, which ranges from about 33 to 42 million gallons.

Safety studies urged

In recent months anxiety over the dangers of liquid natural gas has spread. No less a figure than Dr. Edward Teller, the nuclear physicist often viewed as the father of the H-bomb, is concerned: "The gas shortage is apt to become very serious and therefore the importation of liquid natural gas may become really necessary. . . . Time and money spent on the safety of liquid natural gas is less than one percent of what has been spent on the safety of nuclear reactors. I am suggesting that, in view of our need for liquid natural gas, very greatly increased attention be paid to safety studies."

The Coast Guard is so concerned that it has established special procedures protecting gas tankers. In Boston, where small shipments of the liquid gas are already being off-loaded, the shipping lanes are cleared of other traffic long in advance. Fire departments are placed on standby alert. Tankers may only enter the harbor if visibility exceeds two miles. At the first sign of a thunderstorm, all unloading ceases.

Congress concerned

Citizens' groups around likely liquid natural gas terminals (such as Staten Island, N.Y., and Los Angeles) are opposing the building of such facilities. In the Congress, in the Federal Power Commission and in the Department of Transportation, politicians and officials are nervously considering improved safety precautions. Committees in the House may begin public inquiries shortly and could well involve testimony on the likelihood of the "Krakatoa effect" occurring in the event of an accident.

Over the last few months, this concern has been redoubled. Oil tanker disasters, including the explosion of one tanker in Los Angeles harbor and the wreck of another off Nantucket, have brought home in brutal fashion the result of lax safety measures on fuel shipments to the U.S. These calamities would pale in comparison with any accident to a liquid natural gas tanker. It is a race against time in more ways than one: the race to head off another energy crisis; the race of the tanker men to get their new fleets under way; the race of government regulators to catch up on safety precautions and head off what could be a terrifying catastrophe.

PARADE
FEB. 20, 1977

Note this
reputable
publication
Julio

From The Fairbanks News-Miner

Times 8/28/76

ALASKANS SHOULD be able to see that a businessman favoring the permanent fund is a kind of conservationist, and an obstructionist fighting every development program is not.

We need leaders in business and public office who realize that it makes little sense to pour all of our effort into catching and penalizing the slightest environmental infractions. in pipeline construction, and let hundreds of millions of dollars in earnings from the pipeline go up in bureaucratic smoke.

When one looks at the amounts spent on environmental controls safeguarding little other than the jobs of the controllers, and the way Alaska's last $900 million resource bonanza was blown in five years, we clearly see the direction state government should move.

News 10/22/76

Permanent fund: scheme or goal?

By ERIC BOEMER

For the Alaska Center for the Environment

As the November election draws near, there is a need for higher public consciousness regarding prospective legislators and propositions. Let's look at ballot Proposition 2.

House Joint Resolution No. 39, proposes an amendment to the Alaska Constitution. This is the permanent fund. If approved by the voters of Alaska, it would establish a permanent fund into which would be paid at least 25 per cent of all mineral lease rentals, royalty sales proceeds, federal mineral revenue sharing payments and bonuses received by the state. The principal of the fund would be used only for "income producing investments." Then the income from the fund would be deposited in the general fund to be used later.

The term "income producing investments" needs some speculation. To several different people this is going to mean several different schemes. That is why the public at large should have a strong voice in where these investments are made, if the proposition passes. Voting is just one step in the political process. The next step is for public involvement. In order to avoid domination by special interests concerning this fund, these public resources need public guidance.

The creation of a permanent fund from impermanent resources would give some assurance that an oil lease sale, for instance, would not be held simply to help solve our fiscal problems. If the decision to have a lease sale on state lands were pending, the existence of a permanent fund might dissuade a totally short-sighted, and in-the-long-run detrimental move.

Opponents of the fund, including Tom Fink, disapprove because he feels that the government should not have more money than it can spend. He calls it a "slush fund." A better way to invest the revenue from places like Prudhoe Bay, according to Mr. Fink, is to pay off debts, and use the surplus money for capital improvements.

The Department of Revenue's permanent fund estimate for 1985 is $1.8 billion dollars. An impressive amount indeed! This fund surely has great potential, if it passes. Non-renewable resources have taken eons of years to accumulate, and the rate that they are being consumed now must somehow influence the ways in which the funds will be spent. Perhaps to invest them in renewable resources would be a prudent scheme. Fisheries and forestry and important resources in Alaska as elsewhere, and unlike oil, they will be around for future generations, if we conserve them.

Advocates of the fund, including Clark Gruening, views the fund as a tool. He cites the need for a fund looking towards future generations and meeting social goals in the community and throughout Alaska.

The idea of a permanent fund is not a new one. There are several that are operating now. In Alberta, Canada, there is the Alberta Heritage Trust Fund, which is supplied by revenues from oil extraction. The University of Texas, has the University Fund which receives oil and gas revenues.

Very soon Alaska will be receiving large sums of revenue, once the oil pipeline begins to flow. The question remains, what to do with it? Nov. 2 will set the stage for this decision, and many very similar. The approach so far has been to rapidly get the oil out. "Project Independence" and so on. With a new administration the approach could be different. We will see.

THE WALL STREET JOURNAL, MONDAY, JAN. 3, 1977

How About Zero-Based Revenue?

By HERBERT STEIN

Zero-based budgeting is one of the Georgia-based products Mr. Carter proposes to bring to Washington. At first, I was not much taken with this idea.

I doubted, for one thing, whether the agencies and the congressional committees that mother them could ever be brought to consider seriously the possibility that their fundamental goals were improper or their basic programs unnecessary if not mischievous. Most federal programs are financed by annual appropriations, so the legal situation is that these programs would expire in the absence of affirmative decisions to continue them. Zero-based budgeting would have to involve something other than a change in the legal situation. It would have to involve a change in the attitudes of the agencies and the Congress, which now assume the desirability of continuing existing programs. Whether presidential exhortation could change that attitude for long is unclear.

Moreover, even if the agencies and Congress could be induced to take seriously a bottom-up re-evaluation of all programs, that would turn out to be only an unnecessarily cumbersome way of approaching the incremental decisions, the decisions about a little more or a little less, that are the manageable and relevant ones. Also, there is some value to inertia, otherwise known as stability, in policy. I always remember Dean Acheson's comment on Senator Taft's repeated demands for a fundamental re-examination of our foreign policy. Mr. Acheson said that we couldn't have a foreign policy if we pulled it up every year to examine its roots.

Some Fictional Dialogue

My vision of zero-based budgeting in action was well represented in a fictional dialogue between the chairman of the House Appropriations Committee and a Cabinet Secretary, as imagined by my friend, Nelson Polsby. It goes something like this:

Chairman: "Good morning Mr. Secretary. We are happy to have you here. And what are you Secretary of, may I ask?"

Secretary: "I'm the Secretary of Defense."

Chairman: "Very interesting. And what does your department do?"

Secretary: "We defend the country, sir."

Chairman: "And how do you do that?"

Secretary: "By maintaining a strong military force."

Chairman: "I see. Have you done any cost-benefit analyses of the value of defending the country?"

Secretary: "Well . . ."

Chairman: "Have you considered whether it would be possible to defend the country more cheaply without your department?"

And so on.

But I have since come to take a more sympathetic view of zero-based budgeting. I arrived at this position by imagining that it was not the Secretary of Defense but the Secretary of Housing and Urban Development who was testifying. In that case, questions about what the agency was supposed to be doing, and what it was accomplishing, seemed more realistic and the answers less obvious. This would be true for other agencies also. Some people might even think it true for the Department of Defense.

> *Board of Contributors*
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> *There seems to me to be an important missing link to the zero-based budgeting idea, and that is failure to apply it to the revenue side of the budget.*

Anyway, even if zero-based budgeting would not work literally, and if everyone would know that the possibility of a program being reduced to zero was slight, the aspiration for a fundamental review was a good one and ought to be encouraged.

However, there seems to me to be an important missing link in the zero-based budgeting idea, and that is failure to apply it to the revenue side of the budget. As described so far, zero-based budgeting leaves untouched the notion that the existing tax system and tax rates will continue indefinitely, unless Congress and the President take affirmative steps to change them, so that the revenue from that tax system will be routinely and automatically available for the government to spend. We would still be spending the money for the reason Hillary wanted to climb Mt. Everest: "Because it is there."

This neglect of the revenue side can have two effects on zero-based budgeting as applied to the expenditure side. First, it means that the test which existing programs must pass in order to be continued is less rigorous than it would otherwise be. A program does not have to meet the test of being worth the enactment of additional taxes. It only has to meet the test of being worth the expenditure of some of the money that is automatically flowing into the Treasury. Second, it means that if existing programs fail to pass the test new programs will be adopted because the money is there. Thus, although we might get rid of some old programs, we would get new ones to fill their place, and the total expenditure of the federal government would not be reduced.

This is, it seems to me, the great danger of zero-based budgeting confined to the expenditure side. It will not reduce total spending, but will reduce its average quality, because the new programs will be inferior to the old ones. That is the result of having pragmatic, imaginative people in government. Such people appreciate the deficiencies of all existing programs, but they draw no conclusions about the deficiencies of government programs in general and remain of the belief that the next set of programs will be better. So, with the pressure of zero-based budgeting on the existing programs, we would find the less successful of them replaced by others that are more attractive only because they have not yet been tried.

Barrel of Programs

If one can suppose that at some time all conceivable programs were in a big barrel, it seems plausible that the ones we have already tried are better than the ones still left in the barrel. The combination of zero-based budgeting and a continuing flow of revenue from the existing tax system would lead to drawing more new programs out of the barrel.

The solution for this problem is zero-based taxing. This is the logical and necessary complement to zero-based budgeting. It means that tax rates should expire, or fall to zero, periodically, forcing the government to make an affirmative decision about the amount of revenue it wishes to collect. Indeed, such a policy is more necessary on the tax side of the budget than on the expenditure side. The expenditures, as I have already noted, are governed mainly by annual appropriations, so there already is a built-in requirement of reconsideration, however perfunctory. Taxes are generally enacted for an indefinite period. We get serious consideration of tax reduction only after wars or during recessions. And the defenders of the revenue, that is, the defenders of big budgets, are on to that now and insist that tax cuts in recessions should be temporary.

The argument for zero-based taxing is exactly the opposite of the argument for a temporary tax cut today. Mr. Carter is being urged by some to make only a temporary tax cut in order to preserve his options to dispose of the revenue later. But that is a backward way to look at the question. The money at stake—the future revenue—is the taxpayer's money, not, with all due respect, Mr. Carter's. It is the taxpayer's options that must be preserved, including his option to spend the money himself, or to save it, or, through an affirmative vote of his elected representatives, to assign it to the government for expenditure. Zero-based taxing is a way to preserve the taxpayer's options.

Congenial Allies, Gothic Murder

By EDMUND FULLER

In the struggle for independence, and the first years of the new American nation Thomas Jefferson and John Adams were congenial allies; the warm friendship that accompanied this colleagueship also embraced Abigail Adams. Then in the years of Washington's presidency, in the stresses of political conflicts and the formation of parties, the bond of warmth and trust between Jefferson and Adams eroded, both feeling helpless though unhappy about it. It

The Bookshelf

"Adams and Jefferson: A Revolutionary Dialogue"

By Merrill D. Peterson. University of Georgia Press. 160 Pages. $7.

"Jefferson's Nephews: A Frontier Tragedy"

By Boynton Merrill Jr. Princeton University Press. 462 Pages, illustrated. $16.50.

finally came to bitterness, on Adams's part especially. The estrangement lasted through the presidencies of each man. By a singular grace, in the years that followed Jefferson's retirement from the White House, a reconciliation occurred through he medium of a remarkable correspon- nce that lasted until the symbolic coinci- e of the death of each of them on July 4, the 50th anniversary of the signing Declaration of Independence.

urse of that more than 50-year re- and its healing close are com- ntly traced in a slender book, Jefferson: A Revolutionary rill D. Peterson, an adap- res delivered at Mercer in 1975. Readers not s of history or bio- s of both in small Thomas Jeffer- the University foremost au- Dumas Ma-

delphia, two He Mr. (

neither of them was "dying at the top." Prof. Peterson sums up their divergent natures (I use initials to save space): "A. was Roman, J. was Grecian; A. was a realist, J. an idealist; A. trusted the lessons of the past, J. dreamed of the future; A. was a Whig of the old school, J. belonged to the modern democratic school; A. advocated restraints on the popular will, J. advocated its ascendancy." Yet often the relative rightness or wrongness of their views is a question of short or long term perspectives. Only blind partisanship would think that either could be consistently or wholly right. This fine little book greatly illuminates the meaning of our political heritage.

On the periphery of Jefferson's own life there occurred, in December of 1811, a bizarre tragedy. In Kentucky, two nephews of the retired President, Lilburne and Isham Lewis, in a drunken frenzy committed the gothically horrid murder of a slave. They were the sons of Jefferson's sister, Lucy, whose family had fallen on hard times in Virginia and pushed westward. This grim drama is unfolded in "Jefferson's Nephews: A Frontier Tragedy," by Boynton Merrill Jr.

In the correspondence of various Lewises with the squire of Monticello, often in crises of his presidential years, one sees the perennially troublesome relatives that every prominent family is apt to have. Jefferson had no intimacy with them, tried to stay clear of their affairs, yet tried to be loyal to his sister. His helpfulness extended even to having the reckless Isham as his houseguest and teaching him the craft of surveying. He never made a public comment on this dark occurrence, which must have given him pain and jolted his general optimism about man.

A fascinating aspect of the book is the account of the great earthquake of 1811, whose tremors "were felt from Upper Canada to the Gulf of Mexico and from Boston to the Rocky Mountains. In parts of Missouri, Arkansas, and the far western parts of Tennessee and Kentucky, huge areas, covering thousands of acres, sank as much as 25 feet or more, and . . . rivers ran backwards as the depressions filled with water," forming vast lakes. This convulsion of the North American plate, outside the common earthquake zones, would have been catastrophic in our times. In one ac- unt of the crime, the first temblor shat- d the great fireplace in which the Lew- ere burning the fragments of their Aftershocks, some of them also ntinued for months. Mr. Merrill's tudy of this grisly murder ng background and aftermath iece of social history.

is that it would increase uncertain taxpayers. Even though they could b that the government would enact ne legislation, and not leave tax rates at the taxpayers wouldn't know what th rates would be. That is a disadvantag

Of course, that uncertainty would unrelieved loss if the system should out so that Congress always re-enact pre-existing taxes, or enacted the that would have been in force withou zero-based system. But that seem likely. The advantage of having delib decisions made about the level of tax is worth the loss of certainty, and ta ers will think so if, as I believe, the come is lower taxes.

Expire Every Fourth Year

Nevertheless, there is no point to imizing the uncertainty. Therefore, I w propose that tax rates should expire e fourth year, rather than every year tax rates should be enacted in the year of each four-year period, so the payer would know at least what the are going to be in the current year a the next year.

At the maximum he would know rates in the current year and the next years—assuming no unscheduled cha Also, to avoid needless uncertain would apply the zero-based taxing p ple only to the individual and corporat rates. Because of their dedication nancing contractual benefits under S Security, the payroll taxes cannot b lowed to expire. The estate and gift t are related to especially long-run tax ers' decisions and anyway don't enough revenue to be significant fron standpoint of disciplining expenditure sions. The excise taxes are also trivial should be abolished. The same is tr customs duties, with the further comp tion that they are governed by int tional trade agreements.

I suggested the idea of zero-based ing at a hearing of a congressional mittee recently. One member of the mittee proposed going farther, and not reducing all tax rates to zero, but als pealing the entire tax code periodi This would permit, or require, the gress to rewrite the several thou pages of definitions and explanations constitute the law. However, I do not this, at least on a quadrennial basis, though I do have lawyers in my fa The resulting confusion would be unb ble.

Mr. Stein is the A. Willis Robertso fessor of Economics at the Univers Virginia, former chairman of the C of Economic Advisers under Pre Nixon and Ford and a member of the nal's Board of Contributors.

HEALTH & MEDICINE

Alberta gives research a big shot in the arm

By Lois Bridges

EDMONTON

ALBERTA PROMISES to emerge as a bright spot in the generally bleak picture of Canadian medical research, thanks to the province's decision to spend at least $160 million on health care programs and facilities.

Both government and medical spokesmen say that the infusion of money — from the $2-billion Alberta Heritage Savings Trust Fund — could make Alberta the leading health care research centre in the country.

Most of the money is currently allocated for new and expanded hospital facilities. About $10 million will be spent on applied research programs related to heart disease and cancer. But Gordon Miniely, minister of Hospitals & Medical Care, says that in future the fund will almost certainly support general, or pure, medical research. "We are still having discussions with the medical profession with regard to the broader medical research capacity in the province."

Guidelines

Guidelines for use of the Heritage Trust Fund, fed by royalties from the province's energy resources, allows up to 20% of the money to be used for projects likely to provide longterm economic or social benefits to Albertans. Miniely says that the health care programs not only meet this criterion, but also fit in with the Lougheed government's intention to make Alberta a "brain power centre," attractive to scientific and medical people in different fields.

The decision to concentrate at first on heart disease and cancer applied research programs was partly due to the incidence of these disease among Albertans. Also considered was the fact that a strong research base in these areas already exists in Alberta.

This doesn't preclude future funding for research programs on other diseases, Miniely explains. Again, priority of incidence will be a deciding factor. "It's not a matter of us not being concerned if only 10 people are affected by a given disease. But it's important that expenditures from the trust fund benefit the greatest possible number of Albertans."

Largest estimated expenditure announced so far is $86 million for the first phase of a long-awaited regeneration program at Edmonton's University Hospital. The existing complex will gradually be replaced by the Alberta Health Sciences Centre, a new facility to accommodate applied health care research, health professional education and patient care.

Miniely says the centre will co-ordinate and monitor information for all Alberta hospitals. It will be a referral centre for patients from all parts of the province and a testing site for new services, technologies and procedures.

"There will be a close relationship between the Health Sciences Centre and other hospitals in Edmonton, Calgary and rural Alberta. A committee will be exploring the possibility of having some research fed into the centre from outside points and some decentralized to hospitals in cities such as Lethbridge, Red Deer, and Medicine Hat."

Current commitments also include $26 million for a new children's hospital and $35 million for an expanded cancer centre in Calgary.

Operating costs for the three major projects are expected to come from the normal hospital department budget.

The $6-million program on heart disease involves making additional funds available for diagnosis, treatment, surgery and rehabilitation. According to Miniely, this means providing the most sophisticated radiological (x-ray laboratory, angiography) equipment available, to the University and Royal Alexandra hospitals in Edmonton and the Holy Cross, General and Foothills hospitals in Calgary. The University and Holy Cross hospitals, which handle cardiovascular surgery, will receive additional operating funds and money to support services such as coronary care units and post-operative intensive care units.

Funds will also be made available to allow the Edmonton Cardiac Fitness Institute at the Royal Alexandra to expand, as a first step in establishing a full-fledged cardiac rehabilitation facility.

The $4-million cancer program means more research in thermography (research technique for diagnosing breast cancer), radiation physics (to determine dosage in deep x-ray treatment), and radiobiology (techniques to increase sensitivity of [illegible] radiation therapy). Studies of cancer-causing factors and programs involving treatment of cancer with drugs will also be funded.

Alberta's Miniely: 'brain power centre.'

When Premier Peter Lougheed announced government support for the Health Sciences Centre last October, he said it would become "a centre for both Canadian and world medical scholars."

This could very well happen, say Alberta doctors, but they caution that it's not likely to happen overnight.

The sudden drying-up of medical research funds in other quarters has made researchers "extremely wary", says Dr. Richard Rossall, assistant dean of medicine at the University of Alberta. "Before they make any moves, they will be seeking security of tenure." He added it would probably take at least three years of guaranteed government support and the promise of more to come to lure researchers to Alberta.

Lure of the West

Dr. Lionel McLeod, dean of medicine at the University of Calgary, believes recruitment of "first class professionals — medical and otherwise" will be enhanced by the government's support of health care and medical research programs.

He welcomes the fact that promised research funds will help to relieve what has been "an extremely dry time for researchers in Canada." But he adds: "This is not to say our people won't be competing on the national scene every day. The new and expanded health care facilities are great — but we'll still need national funding for much of the actual execution of research."

ANNOUNCEMENT

WESTERN EUROPE by Donald O. Croll

Oil imports climbing back

WEST Europe's estimated oil supply for the first half of 1976 reached 278 million tonnes of product equivalent, up by more than 19 million tonnes since January-June last year but still well below the levels of 1973-74. Our figure takes account of a sharp rise in indigenous crude production, but this relatively new factor in the demand/supply equation failed to hold down imports of foreign crude, which were 9 per cent up at 283 million tonnes in total and 7.6 per cent higher at 276 million tonnes in net terms. Comparison with available demand figures indicates that imports were recovering faster than sales owing to stock-building ahead of price increases then expected by mid-year.

The rapid growth in North Sea output brought an additional 6 million tonnes of crude to the European market, on top of the 19 million-tonne rise in imports, and effectively boosted the growth of crude supplies by 9.5 per cent (see Table I). At 16 million tonnes in all, indigenous production admittedly accounted for only 5 per cent of the area's crude requirements in this period, but the proportion may rise to a third or more by the 1980s given a forecast North Sea output of 4.5 million barrels/day (225 million tonnes/year). Despite the obvious balance-of-payments benefit to Norway and the United Kingdom, however, such a shift away from traditional foreign sources is unlikely to exert any downward pressure on OPEC prices while shipments to the USA continue to climb at their present rate.

TABLE I
WEST EUROPE: ESTIMATED OIL SUPPLY*
Half-year figures in thousand tonnes

	January-June 1975	1976	% change
Crude oil production	10 043	15 889	+58.2
Net crude oil imports	256 911	276 374	+ 7.6
Total net crude supply	266 954	292 263	+ 9.5
Equivalent yield of products a) ...	249 602	273 266	+ 9.5
Net product imports b)	9 173	4 832	−47.3
Total net product supply	258 775	278 098	+ 7.5

*Covers the countries specified in Table IV. a) Allowing 6½ per cent for refinery use and loss. b) Major products as specified in Table IV (imports *minus* exports).

Disregarding indigenous production, the detailed table of oil imports to the area gives a half-year net total of 281 million tonnes for crude and major products combined (see Table IV), subject to the reservation that figures for Italy, Spain and Portugal are partly estimated. The rise since the corresponding period of 1975 averaged 5.7 per cent, with eight of the 15 countries listed showing increases of 10 per cent or more – and going as high as 40 per cent in the case of the Netherlands. Against this, reduced import volumes were featured for the UK, Sweden and Denmark, while Norway stood alone with a net export balance. In most cases, the rise in imports was probably faster than the recovery in demand, which advanced by an average of 5.8 per cent for five selected countries as reported in EEC statistics (Table II). A spot check of the same five shows net imports up by 7.2 per cent.

While crude oil predominated in West European oil movements there was also a substantial trade in products, largely from country to country inside the area. Imports of major products amounted to 63 million tonnes in all, up by one million tonnes since the corresponding period last year, while product exports came to 58 million tonnes against less than 53 million previously. Thus, the net product import position was trimmed from 9 million to under 5 million tonnes, and this consisted primarily of light oils for which there was a strong market demand.

Outstandingly the biggest importer of products was West Germany, with volumes up from 15 million to over 18 million tonnes, but Sweden's increase in refinery capacity during the second half of last year was reflected in a sharp drop in product imports there, to 6.5 million tonnes. Exports of products from Dutch refineries climbed to over 23 million tonnes, almost twice the figure for domestic consumption, and deliveries from France, the UK and Italy were all around 20 per cent higher. Norway scored a big gain in crude oil exports (up from 1.8 million to 5.9 million tonnes), while also importing more of both crude and products than before.

Imports of crude oil are analysed by area of origin in Table III, which covers the nine biggest importing countries and accounts for 95 per cent of the regional total. This shows deliveries up by almost 9 per cent, to 271 million tonnes for the half-year, with above-average increases for France, the Netherlands, Sweden and Italy (estimated), partly offset by declines for the UK, Denmark and Belgium. The figures for every

TABLE II
INLAND CONSUMPTION IN SELECTED COUNTRIES
Half-year figures in thousand tonnes

	January-June 1975	1976	% change
West Germany	57 261	62 008	+ 8.3
France	48 950	53 053	+ 8.4
UK	42 786	41 420	− 3.2
Netherlands	10 216	12 140	+18.8
Denmark	7 841	8 061	+ 2.8
Total of above	167 054	176 682	+ 5.8

Source: EEC *Eurostat*, No 9, 1976.

would increase US dependence on Middle East oil, and for this reason the necessary permission might not readily be forthcoming.

Plans for gas

Besides its oil, Alaska has a rich endowment of natural gas. Arrangements to exploit this valuable resource are, however, not nearly so advanced as those for oil. Until recently, there were two main proposals for bringing the gas to market. One, put forward by the Arctic Gas group, would link Prudhoe Bay to the gasfields of the (Canadian) Mackenzie Delta, a distance of about 2 600 miles, and transport the gas from both sources up the Mackenzie River valley into Alberta, where it would be fed into the existing pipeline network. The El Paso company's all-US alternative is to pipe the Prudhoe Bay gas southwards across Alaska, following the oil route, and ship it in liquefied form to west coast markets.

A third scheme, recently put forward by the North West Pipeline Co (see *Petroleum Economist*, August 1976, page 314), would pipe the gas eastward 730 miles to the Canadian border and a further 935 miles through British Columbia and Northern Alberta to connect with the existing systems of the Westcoast and Alberta Gas Trunkline companies. Since both the US and the Canadian authorities are involved, no early decision on these rival claims is to be expected.

Meanwhile, the search for fresh reserves of oil and gas is being resumed in southern Alaska. In September the Shell-Arco consortium spudded the first well in the Gulf of Alaska – on one of the tracts covering 437 000 acres in the northern part, that were leased by the federal government last April. Lease sales covering the southern part of Cook Inlet and the western part of the Gulf of Alaska are expected during the next few months, followed by offerings in the Behring Sea some time next year. Conditions in these areas are among the most exacting in the world, and costs are correspondingly high. Whether and to what extent the gamble will succeed, cannot be accurately predicted at this stage.

What is easily predictable is that US dependence on OPEC oil will soon be increasing once again unless the search for additional domestic resources is pursued with the utmost vigour. From this point of view the sedimentary basins of Alaska are probably the most promising that remain. But Prudhoe Bay experience demonstrates afresh the length of time that must elapse between discovery and exploitation – in this case almost ten years. It is not merely a question of drilling scores or hundreds of development wells and providing pipelines and other facilities: not least of the companies' responsibilities is that of working out where the new oil can be most conveniently and economically fitted in to the existing complex supply pattern. This is the exercise on which the Prudhoe Bay companies have lately been engaged. ■

OIL LAWS AND CONCESSIONS

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some 900 000 b/d from foreign sources. (There is also an import of products, mostly residuals.) This rough figuring suggests that there would be a "surplus" of Alaskan oil in 1978 even if west coast imports of foreign oil were eliminated altogether – and this is highly unlikely, if not impossible in the short run, on quality grounds.

Crude requirements

The current expectation is that oil consumption on the west coast may rise by some 5 per cent a year, from just over 2.2 million b/d last year to more than 2.8 million in 1980, with a growing emphasis on residuals and middle distillates. Allowing for some continuing imports of finished products, the crude oil requirements of west coast refiners may reach 2.6 million b/d by 1980. Of this total, Californian production, including that from the Naval Reserve of Elk Hills, may provide 1.2 million b/d or more. On the extreme assumption of no imports of foreign oil, this would leave a maximum requirement of 1.4 million b/d from Alaska, of which about 1.2 million would be North Slope oil. If Prudhoe Bay is then producing 2 million b/d, this would imply a minimum "surplus" of 0.8 million b/d for which markets would have to be found elsewhere. The maximum might be in the region of 1.3 million b/d.

One such market is the refineries of the so-called Northern Tier. These are the plants in the states adjoining the Canadian border – Washington, Montana, North Dakota, Minnesota, Michigan and Wisconsin. They have hitherto been heavily dependent on Canadian crude and are therefore the prime sufferers from Ottawa's decision to phase out all exports of crude by end-1981. These exports were running at about 800 000 b/d towards the end of 1974, but will be down to an average of 255 000 b/d next year.

The only long-term solution to the problems of the Northern Tier is to pipe in supplies to these landlocked refineries from the Gulf Coast, California or the Pacific Northwest; and various alternatives are at present being explored. Some of the interests affected believe that the best solution would be to get access to Alaskan oil, though this would entail the provision of desulphurisation facilities. One suggestion is that the oil should be brought in by a 30-inch, 780-mile pipeline from a new port at Kitimat in British Columbia to Edmonton, Alberta, to link-up with the existing pipeline system. Another is for a 40/42-inch all-US line, about 1 500 miles in length, running either from Puget Sound or from Port Angeles – which lies just south of Vancouver Island – all the way to Clearbrook in Minnesota. (The likely transport cost for the whole distance from Valdez to Clearbrook would be of the order of a dollar a barrel.) There is, however, a good deal of opposition to any increase in tanker shipments into the confined approaches to Puget Sound, and the outcome of these proposals, as well as of others being discussed, is thus in doubt. In any case, they could provide no outlet for North Slope oil before about 1980.

The maximum practicable absorption of Alaskan crude on the west coast, including the Northern Tier refineries, would almost certainly leave some surplus to be consumed elsewhere. And the quantity in question may in fact be considerably larger than the foregoing analysis might suggest because half the North Slope output is in the hands of BP/Sohio. Unlike Exxon and Atlantic-Richfield, Sohio has no west coast refinery and will not be able to dispose of all its available supply to other companies in that area. Hence this group's plan to ship some of its oil from Valdez to a new $500-million tanker terminal near Long Beach, California, and pipe it thence (possibly at a rate of 500 000 b/d) across the states of Arizona and New Mexico to West Texas, employing a disused gasline for about three-quarters of the 1 000-mile route. But there is strong opposition in California on fears of air pollution; and in the most favourable circumstances the scheme could hardly be in operation before 1979.

In the meantime, and maybe also for the longer-term, Sohio contemplates shipping its surplus crude through the Panama Canal to east coast (or perhaps Gulf coast) refineries. With this end in view, the company recently chartered seven 60–90 000 dwt US flag tankers (four of them newbuildings due for delivery in 1977 or 1978) for periods of three to five years. The haul to New York from Valdez is farther than that from the Persian Gulf via Suez and must be made in relatively small vessels because of the Canal limitations. At a guess, therefore, the transport cost would be well over a dollar a barrel.

As an alternative to treating the crude in East Coast or Gulf Coast plants, it might be refined in (*e g*) the Virgin Islands and the resulting products shipped into the USA. Because the Virgin Islands (like Puerto Rico) are a US dependency, refineries there which operate on expensive crude are in effect subsidised under the existing "allocation" arrangements; so the products of these "domestic" refineries have a competitive advantage over those from "foreign" refineries in Aruba, Curaçao and elsewhere. It seems doubtful whether the cost of products refined from Alaskan crude in the Virgin Islands would be any less than that of similar products from mainland plants; but while the present artificial crude oil pricing arrangements continue this would seem to be a viable way of using Alaskan oil to meet the needs of consumers in the East.

The only other outlet for oil surplus to west coast requirements would be the export market. The Act which gave the go-ahead to the trans-Alaska pipeline project specifically forbade export of the crude unless the President certified that this would be in the national interest, and Congress raised no objections. On quality grounds, and to economise transport costs, it might make economic sense to export some of the oil, particularly to Japan, rather than ship it in small vessels to the Atlantic Coast. But it is being argued that this

UNITED STATES

by E. Stanley Tucker

Markets for Alaskan crude

THE desolate North Slope of Alaska offers the American people the best hope of reversing their growing dependence on foreign oil. It promises also to do something to relieve the worsening shortage of natural gas. The flow of oil, which cannot start before mid-1977, could be delayed by the much-publicised welding troubles with the pipeline. But the companies concerned are optimistic, and have lately been giving much thought to the important question of market outlets. Because the USA bulks so large in the world energy picture, other importing countries are taking a keen interest in the outcome.

Development of the Prudhoe Bay field, discovered by Atlantic-Richfield as long ago as 1968, has been as difficult and costly as any in the history of the business. Proved reserves are currently estimated at 9 600 million barrels of oil and 26 million million cubic feet of natural gas. Eleven companies have concessions on the 200 square miles of the field, but nine-tenths of the oil is owned by three groups – BP/Sohio, Exxon and Atlantic-Richfield. Their marketing problems are complicated by the fact that the oil – 27 degrees API with a 1 per cent sulphur content – is by no means ideal from the US refiners' standpoint.

The start-up of production is dependent on the satisfactory completion of the 800-mile, $7.7-billion trans-Alaska pipeline which will deliver the crude oil to the southern ice-free port of Valdez. This formidable pipeline project has been delayed by the determined opposition of environmentalists and by the appalling climatic conditions, apart from the latest crop of welding problems. But the Alyeska Company, which operates on behalf of the consortium of eight companies responsible for the line, still hopes to meet its target date of mid-1977. From an initial 600 000 barrels a day, the flow of oil should reach 1.2 million b/d – the initial capacity of the line – by the year's end; with a further substantial investment, the capacity is likely to be raised to 1.6 million b/d and then to 2 million. Since the US imports of crude and products together are now running at some 7 million b/d (equal to about 40 per cent of US consumption, against 25 per cent in 1971) the North Slope production will not bring independence of foreign oil. But it will reverse the deteriorating trend of recent years.

Likely outlets

The question of where these new supplies can best be used is closely linked to that of price. If, as is commonly assumed, North Slope oil will be excluded from existing crude oil controls, it will presumably be priced at import parity in the areas where it is refined; so the netback to the wellhead will be higher if the markets are relatively near than if they are remote. The natural outlet is obviously the US west coast, which already absorbs the small production (about 200 000 b/d) from southern Alaska. This is a deficiency area where demand is expected to expand rather more rapidly than in the USA generally (largely because of the growing shortfall of gas) but where local production may also be expected to increase, since drilling is once more being permitted in the Californian offshore.

Broadly, the present position is that west coast refineries (operating below capacity) are running about 2 million b/d of crude, of which 900 000 b/d comes from Californian fields, 200 000 b/d from Alaska, and

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On The Ballot

Lawmakers Would Shape Permanent Fund

By SUSAN ANDREWS
Times Staff Writer

If Alaska's voters approve the concept of a state permanent fund Nov. 2, it still will be left to the Alaska Legislature to answer a number of crucial questions, including how much money will go into the fund, who will run it and what will be its goals and uses.

State Rep. Hugh Malone, D-Kenai, who introduced the proposed constitutional amendment creating the fund, predicts it will take at least a year and probably two years to work out those details. "We want to get the public in on it before anything is done," he said.

The state's Investment Advisory Committee has set public hearings Nov. 5 and 6, if the proposed constitutional amendment is approved Nov. 2. The governor has asked the committee to come up with recommendations for legislation regarding the fund.

The Alaska Public Forum will address the permanent fund as one of the key issues facing the state, in regional workshops in eight communities between November and April.

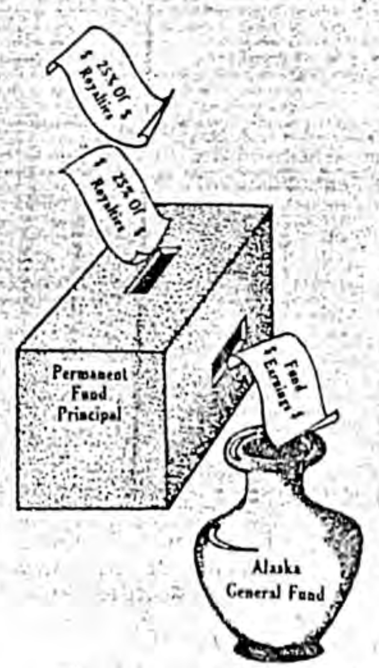
The legislature also will hold hearings, possibly next summer, in Anchorage and Fairbanks.

Those promoting the permanent fund, including Gov. Jay Hammond, see it as a way of providing development capital to diversify the state's economy, strengthen renewable resources — such as fisheries, timber and tourism — and make possible large projects such as dams, which couldn't otherwise be financed.

They also view it as a savings account, to keep some of the state's income from oil and gas out of the general fund so it can't be spent. They point to the $900 million the state received from the 1969 Prudhoe Bay lease sale, which now is nearly all spent.

Others see the fund as a source of loans for community development, such as home mortgages, small business loans; for power development, ports, utilities, roads, or health, education or social needs, such as day care centers.

Malone said the fund could go for all three of those uses. The legislature would decide what per cent of the fund would go to each use.



Opponents of the permanent fund fear it would establish a huge state bank, larger than any in Alaska, which will control possibly $20 billion ultimately and create a new class of men of "great, quiet power."

They suggest the money should be used to pay for capital improvements on a cash basis rather than bonding.

Former Commissioner of Natural Resources Tom Kelly points out that the state legislature in 1974 approved the Alaska Renewable Resources Development Fund, which pledges 5 per cent of the state's oil and gas royalties and cash bonuses to projects promoting renewable resources. The fund goes into effect June 1, 1978, with a ceiling of $250 million.

Kelly says it's a good law which can be changed, continued or modified by future legislatures. "Not so a constitutional amendment that provides for a permanent fund where the investment policy is yet to be determined," he said.

Attorney General Avrum Gross has said the 1974 act would be automatically repealed if the constitutional amendment passes.

In 1975 the legislature attempted to establish a permanent fund which would have received 50 per cent of the state's income from oil and gas lease sales. But Hammond vetoed it after the attorney general advised him that dedicating state revenues is unconstitutional.

The state constitution prohibits dedication of tax income for special purposes.

The proposed constitutional amendment specifies that at least 25 per cent of the state's income from all mineral lease rentals, royalties, royalty sale proceeds, federal mineral revenue sharing payments and bonuses from lease sales are to be dedicated to a permanent fund.

The fund must be used for income-producing investments. Earnings from such investments are to be deposited in the general fund unless otherwise provided by law.

Not included in the fund are proceeds from petroleum production and property taxes or petroleum reserves and ad valorem taxes. The fund cannot be used to finance general operating expenses or capital improvements in the regular state budget and it cannot make grants, either public or private.

The legislature can set the fund's income at higher than 25 per cent of royalty and bonus income — but not lower.

At 25 per cent, the fund is expected to total between $2 billion and $3 billion in the next 10 years.

Consultants have told the state's Investment Advisory Committee that the "income-producing requirement" of the fund gives the state broad latitude.

Since the amendment doesn't specify how much income, the state could earn one per cent on an investment and still meet the requirements of the constitutional amendment.

Also, by buying state or local bonds for non-income producing projects — such as schools or roads — the fund itself will be earning interest on those investments.

How will the fund be managed? There are again a number of alternatives. It could be run by an existing state department, such as the department of revenue, or set up as an independent structure — a state bank. Similar funds elsewhere in the world are most successful, consultants say, when they are free from political control over day-to-day operations, including loans.

For example, the legislature would set limits on certain types of loans, but the loans to be granted would be determined by the management structure set up by law.

Earnings from the investments are to be deposited in the general fund, unless otherwise provided by law.

There are a number of possibilities for uses of the earnings — and the legislature will decide those uses.

The governor suggests a citizens' corporation, Alaska Inc., could be established to distribute those earnings either in health or income benefits to senior citizens or cash dividends to state residents.

Other options include reinvesting the earnings in the permanent fund, pledging the earnings as security for state and local bonds, additional revenue sharing, letting earnings flow into the general fund, lower state income taxes, or return dividends as tax credits.

Critics of a permanent fund are not campaigning against it. They have expressed their views in newspaper columns since last January.

Former Attorney General John Havelock wrote in May, "Who will benefit from establishment of a big, state bank? Those who manage it and those in a position to borrow large sums of money."

He said, "The state will have to hire a lot of people to manage all that money. We will be creating a new class of men of great, quiet power."

Former State House Speaker Tom Fink said the framers of the state constitution wisely prohibited the formation of any permanent funds. He says government ought not ever have more money than it needs to be financially sound. A permanent fund will simply dangle a large slush fund for misuse.

"Now or in the future," he says, surplus monies should be used to pay for capital improvements on a cash basis, rather than going to the bond market; pay off existing debt; and reduce state taxes. And if there is money left over, it ought to be given back to the people.

"We should be appropriating annually about $50 million in cash from 1978 to 1982 to build the new state capital," Fink said, "and not through the issuance of bonds."

Malone, chairman of the state House Finance Committee, argues that with state revenues conservatively estimated at $18 billion to $20 billion over the next decade, there will be plenty of money to move the capital or other projects even if 25 per cent of royalties and bonuses go into a permanent fund.

Bob Richards, executive vice president of Alaska Pacific Bank and a consultant to the state Investment Advisory Committee, says the permanent fund has "the potential for good."

The fund "would enable Alaska in the 1980s to exhibit a certain degree of economic maturity by becoming a net exporter of capital," instead of importer, he said.

By possessing capital, Alaska in the 1980s would have leverage to attract enterprises which help diversify the state's economy.

"The state of Alaska could induce industries to invest in plant facilities in Alaska by agreeing to provide them with the capital required for such projects," Richards said, "possibly at a lower cost than rates required for projects elsewhere in the world."

Trudeau Enjoys Japan Holiday

KANAZAWA, Japan (AP) — Prime Minister Pierre Trudeau of Canada took time out Saturday from his official schedule to enjoy an autumn holiday in this western Japan sea coast city.

Accompanied by his wife, Margaret, Trudeau watched a classical Japanese theater performance for 30 minutes in the morning and enjoyed lunch at a Japanese-style restaurant.

The prime minister and Mrs. Trudeau were scheduled to go sightseeing around Kanazawa on Sunday before returning to Tokyo on Monday.

He has had an audience with Emperor Hirohito and a busy round ...

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TIMES
11/1/76

No Answer Likely On Resource Fund

The attorney general's office apparently will not have an answer before tomorrow's election on whether the state's Renewable Resources Development fund will continue in existence if voters approve the concept of a permanent fund.

The 1974 state legislature passed a law providing that 5 per cent of the state's income from oil and gas lease sales would be used for renewable resources, such as tourism, fisheries and timber. The law is to go into effect July 1, 1978.

Assistant Attorney General Rod Pegues in August said his own opinion is that the proposed permanent fund constitutional amendment, if approved, would automatically void the earlier law.

However, Commission of Revenue Sterling Gallagher said this week he has asked the attorney general for an opinion and the question.

Assistant Attorney General Will Condon said Friday that Pegues is on vacation and he hasn't had time to research the question but would do so next week.

The proposed constitutional amendment specifes that at least 25 per cent of the state's income from oil and gas royalties and bonuses would go into a permanent fund, which must be used for income-producing investments.

The amendment also states that dedicated funds in existence at the time of the amendment's passage would not be affected.

Condon said the attorney general's office last year issued an opinion that dedicated funds are unconstitutional.

The state constitution prohibits the dedication of income from taxes and license fees.

It was the basis of that opinion that Gov. Jay Hammond vetoed the 1975 legislature's act creating a permanent fund. He said a constitutional amendment was needed to create the fund.

TIMES 10/14/76

Panel Mulls Permanent Fund

By SUSAN ANDREWS
Times Staff Writer

The state's expanded Investment Advisory Committee yesterday heard from a succession of consultants how Alaska could structure a permanent fund and ways that fund could be used if approved by Alaska's voters Nov. 2.

The proposed permanent fund, which would be derived from 25 per cent of the state's income from oil and gas royalties and bonuses, would total $1.88 billion by 1985 from royalties alone, a Department of Revenue report shows.

The consultants, hired under the committee's $135,000 permanent fund budget, said a strong chief executive officer is essential for the success of an investment fund. "The management should be above politics but accountable to the public," they said. The legislature should set policy but should not be involved in the day to day operation, including the loan-making decisions.

Venezuela and Saudi Arabia, as well as the Canadian province of Alberta, were cited as examples of governments that divert excessive oil wealth into development banks for a variety of uses.

Lanie Fleischer, a new committee member, said the committee should first decide the goals and objectives of the fund before considering its structure. She asked acting chairman Eric Wohlforth when another meeting could be set to decide goals.

Commissioner of Commerce and Economic Development Tony Motley said it would be presumptuous of the committee to set goals before the voters approve the fund.

(See Page 2, Col. 5)

Advisory Committee Mulls Permanent Fund Proposals

(Continued From Page 1)

The proposed constitutional amendment setting up the fund stipulates that the money is to be used for income - producing investments.

"If, the week after the election, the voters start hearing talk about social costs versus social benefits, they will think they have been had," Motley said.

Commissioner of Revenue Sterling Gallagher said the 11 additional members of the advisory committee, named by Gov. Jay Hammond early this month, are only temporary additions.

He said they were appointed only to advise the governor on the establishment of the permanent fund and their job will end when the legislature convenes in January. By then, Gallagher said, the committee will have come up with recommendations for legislation setting up the fund and its management.

"I hear public support for the fund from three sectors," the commissioner said, "from those who favor a savings account approach, those who want it used to provide assistance in community development and those who want it to provide economic diversity in the state."

He said he sees as a major goal the strengthening of the state's economic base by investing in renewable resources and by policies which would reduce seasonality of employment.

The committee will meet again Nov. 5 and 6 if the amendment passes.

Panel Asks Fund Guidelines

TIMES 11/7/76

By KAY BROWN
Times Staff Writer

The state's Investment Advisory Committee has directed Revenue Commissioner Sterling Gallagher to draw up a law governing temporary investment of the Alaska Permanent Fund.

The permanent fund, established Nov. 2 with voter approval of a constitutional amendment, will set aside at least 25 per cent of certain oil revenues for income-producing investments.

State officials say the permanent fund could exceed $2 billion by 1980.

The advisory committee, winding up a two-day work session in Anchorage, yesterday asked Gallagher to write a statute that would allow investment of the permanent fund in much the same way the Revenue Department currently invests surplus state revenues.

Many members of the committee said a short-range investment plan is needed because the long-range social goals and uses will take much more study and public participation.

Some hope the next legislature can at least work out the structure of the fund, but others envision a two-year public debate over the goals, investment procedures and structure.

The advisory committee will make short-term recommendations for investment of the fund, which will begin accumulating money in about four months. The committee may also present a wide range of alternatives for the permanent structure and purposes of the fund.

The committee's recommendations will go to Gov. Jay Hammond, who in turn will make recommendations to the legislature when it convenes in January.

Gallagher said his proposal will be to invest the fund on a temporary basis in "conservative, safe" securities through the Department of Revenue while the public debate continues.

The committee asked Gallagher to make his recommendation at its next meeting, scheduled Dec. 3-4 in Anchorage.

The committee also adopted a motion asking state Attorney General Avrum Gross to examine four legal questions regarding the fund's structure:

—What does the term "income-producing" mean?

—How much latitude would the legislature have in dividing the fund, investments made through the fund, or boards governing the fund into geographic regions of the state?

—How much power could the legislature delegate to a permanent fund management board?

—Could some or all of the board members be appointed by the legislature?

Anch. Times oct. 8, 1976

Meekins Says Hammond Wants Control Of Fund

House District 7 candidate Russ Meekins Jr. yesterday warned Bartlett Democratic Club members of what he termed attempts by Gov. Jay Hammond to seize control of the proposed state permanent fund.

The fund, which would set aside 25 per cent of the state's mineral resource revenues, will appear as a proposed constitutional amendment on the Nov. 2 general election ballot.

Meekins charged that Hammond is trying to control the fund through the investment advisory board, which the candidate claimed has no legal authority over the fund.

"The advisory board is a hoax by Hammond. He says they can advise the legislature on uses for the fund. He wants to establish the precendent that the board has authority," he said following the Democratic club's weekly lunch meeting.

Meekins said the board was established originally to handle the $900 million the state received in 1969 oil lease sales. Hammond packed the board with his own people when he named five new members last week, Meekins said.

"He wants to limit the amount of money invested for development of the state's economy," the candidate said.

"Whoever runs the permanent fund, if it is one person, would be a superman with more influence than the governor," he said. "The legislature will determine who controls it. That will be the most important decision of the session."

Anchorage Daily News, Friday, October 15, 1976–17

Panel divided on permanent fund use

Alaska's newly expanded Investment Advisory Board met here Wednesday to examine potential use of the proposed permanent fund — and showed there is considerable difference of opinion about that topic.

In a day-long discussion in which they examined projections about the fund and heard from economists and other financial experts, the panel members posed questions which indicate sizeable differences in how they perceive the fund's future.

THE PERMANENT FUND, which is listed on the November ballot as Proposition 2, asks voters to approve a constitutional amendment to establish an investment account for 25 per cent of certain state oil revenues. The fund is constitutionally designed to be safe from day-to-day spending, but will leave to legislative action precise design of the operation.

Alaska banker and economist Bob Richards told the panel that Alaska's economic history since the gold rush at the turn of the century has not been a pattern of boom-and-bust and should not be predicted to be one in the future.

Because of that, he said, the potential use of the permanent fund need not be directed especially at those areas. "There is no reasen for the state to panic about going into a bust and go explicitly into a program of spending designed to couanter that," he said.

The Anchorage Times

Financial Experts To Address Panel

The state's new Investment Advisory Board will meet in Anchorage tomorrow to hear advice from financial consultants as to the best way to manage the state's proposed permanent fund — and what the effect on Alaska's economy will be from such a fund.

Members also will work on proposed legislation for structure and management of a permanent investment fund — legislation to be introduced at the start of the legislature's next session, if voters approve a constitutional amendment on the Nov. 2 ballot.

The proposed amendment to the state constitution would require that at least 25 per cent of revenues from oil and gas lease sales and production, and from federal revenue sharing payments, would go into a permanent fund.

Earnings from the fund's investments, which must be in profit-making ventures, would go into the general fund, but the permanent fund could not be touched by the legislature.

The all-day session, beginning at 9:30 a.m., will be held in the Department of Revenue's ground floor conference room at 509 W. Third Ave., across from the Anchorage-Westward Hotel.

Speakers will include Commissioner of Revenue Sterling Gallagher at 9:30; advisory board Chairman Bob McFarland at 10, Alaska Pacific Bank Vice President Bob Richards at 10:30, consultant Ken Butler from White Weld Co. of New York City at 1:30 p.m. and consultant Peter McDowell of Price Waterhouse Co., Washington D.C., at 2:30.

At 11 a.m., Vince Wright of the Department of Revenue will present an update on revenue projections for the permanent fund.

According to Deputy Commissioner of Revenue Jim Edenso, who has been working with the advisory board since August, Gallagher will comment on questions raised in regard to safeguarding and managing the general fund.

Richards will discuss the Alaska economy and how it will be influenced by the permanent fund.

A bust of Abraham Lincoln stands in a place of honor in San Marino's Government Palace in Italy. The people of this small, independent Republic wrote to Lincoln in 1861, expressing their concern and sympathy over the Civil War and declared him an honorary citizen.

Cause For Concern

Anch. Times Oct. 13 1976

WE ARE ADVISED that we conferred too much power on the state's Investment Advisory Board last week when we described its members as key figures in the handling of billions of dollars of public funds, if the voters approve the idea of creating a permanent fund Nov. 2.

We have been told by two state officials that the advisory board will have no such powers. If the permanent fund proposal is approved, the provisions for administering it must be made by the legislators after they convene at Juneau next January.

Consequently, it appears that our concern was misdirected. Instead of the advisory committee, we should be concerned with the agency that is to be created in the next legislature.

GREAT CONCERN is appropriate, whether it involves the Investment Advisory Board or some other agency. The proposal on the ballot is that 25 per cent of the state's oil, gas and mineral revenues be set aside in a permanent fund which the legislature could not use for appropriations. The fund would be for investment in income - producing ventures which are to be specifically designated by law.

Even though this may be the greatest idea in modern times and it is hoped will augur the day when Alaskans have a government supported by the equivalent to an endowment, it might also be a monster with insidious consequences. The fund will be so huge that it could, and probably would, dominate this state. It could even control the destiny of major national enterprises.

A BILLION DOLLARS in oil royalties will start flowing into the state treasury next year when production from Prudhoe Bay begins. This annual revenue is expected to double in a short time. There are indications that the royalties will soar higher as more discoveries are made and Alaska becomes the biggest domestic source for the nation's petroleum supplies.

Such huge numbers mean that the proposed permanent fund would also be huge. Estimates show it would be two billion dollars in less than 10 years. A fund of that size could control the entire state economy. Whoever controls the money could become the power center of the state.

SOME SUBJECTS that are worthy of public concern include those noted by Thomas Kelly in The Anchorage Times last Sunday. He cited the unanimity among politicians as unusual and suggested that the motivating factors behind that unanimity should be studied.

Kelly mentioned that some politicians see the permanent fund as a way to put big money in a deep freeze so it won't be available for building a new state capital. Others may consider it a means of stopping economic development. Still others may see it as a power center from which they could control the lifestyle of the state, its economy and its politics.

We have heard none of these possibilities discussed publicly. But they should be.

IT MAY BE TRUE that we zeroed in wrongfully on the Investment Advisory Committee as the agency that would handle the fund. But the error is only that of a bowler who rolls the ball down the wrong alley.

It is probably inevitable that the governor will appoint the members of whatever agency the law provides for administering the multi - billion - dollar fund and he could, if he wished, name the same personalities already named for the advisory committee. It would be the governor's choice.

The danger is that the absolute power that would be created in connection with the fund could corrupt the state administration.

Control of the permanent fund could become the prize up for grabs in every election. Indeed, the power that comes with the money could attract special interests — good or bad — from other parts of the nation to become involved in this state's politics.

These possibilities are worthy of thorough discussion and understanding if the voters of Alaska are expected to mark their ballots intelligently Nov. 2.

Panel Mulls Permanent Fund

Anch. Times
Oct. 14, 1976

By SUSAN ANDREWS
Times Staff Writer

The state's expanded Investment Advisory Committee yesterday heard from a succession of consultants how Alaska could structure a permanent fund and ways that fund could be used if approved by Alaska's voters Nov. 2.

The proposed permanent fund, which would be derived from 25 per cent of the state's income from oil and gas royalties and bonuses, would total $1.88 billion by 1985 from royalties alone, a Department of Revenue report shows.

The consultants, hired under the committee's $135,000 permanent fund budget, said a strong chief executive officer is essential for the success of an investment fund. "The management should be above politics but accountable to the public," they said. The legislature should set policy but should not be involved in the day to day operation, including the loan-making decisions.

Venezuela and Saudi Arabia, as well as the Canadian province of Alberta, were cited as examples of governments that divert excessive oil wealth into development banks for a variety of uses.

Lanie Fleischer, a new committee member, said the committee should first decide the goals and objectives of the fund before considering its structure. She asked acting chairman Eric Wohlforth when another meeting could be set to decide goals.

Commissioner of Commerce and Economic Development Tony Motley said it would be presumptuous of the committee to set goals before the voters approve the fund.

(See Page 2, Col. 5)

Advisory Committee Mulls Permanent Fund Proposals

(Continued From Page 1)

The proposed constitutional amendment setting up the fund stipulates that the money is to be used for income - producing investments.

"If, the week after the election, the voters start hearing talk about social costs versus social benefits, they will think they have been had," Motley said.

Commissioner of Revenue Sterling Gallagher said the 11 additional members of the advisory committee, named by Gov. Jay Hammond early this month, are only temporary additions.

He said they were appointed only to advise the governor on the establishment of the permanent fund and their job will end when the legislature convenes in January. By then, Gallagher said, the committee will have come up with recommendations for legislation setting up the fund and its management.

"I hear public support for the fund from three sectors," the commissioner said, "from those who favor a savings account approach, those who want it used to provide assistance in community development and those who want it to provide economic diversity in the state."

He said he sees as a major goal the strengthening of the state's economic base by investing in renewable resources and by policies which would reduce seasonality of employment.

The committee will meet again Nov. 5 and 6 if the amendment passes.

FBKS. Oct. 14, 1976

Arco will drill exploratory well

Atlantic Richfield Co. has announced plans to drill an exploratory well in the northeast Gulf of Alaska.

The well is the second to be drilled on oil and gas tracts leased by the federal government last April. Shell Oil Co. began drilling in late August.

Arco says the well will be drilled using the semi-submersible drilling vessel "Ocean Ranger." The vessel recently completed a stratigraphic test well in the Bering Sea, and is expected to move to the new location over the weekend. The well will be spud as soon as possible.

The well site, designated Salome 72-1, is about eight miles south of Cape Yakataga, 97 miles west of Yakutat. The site is a joint lease by Arco and Shell. The name "Salome" is a code designation assigned to a promising rock formation by the companies.

The Shell Oil site is about 32 miles west of the Salome location on a tract leased by Shell, Arco, and two other companies. Shell is using the Sedco 706 drilling vessel. Support for both drill rigs will be coordinated, Arco said.

Columbus brought the first cattle — similar to Spanish fighting bulls — to the New World in 1493.

Perspective

Is 'Permanent Fund' Proposition No. 2 A Politically-Inspired, Elaborate Hoax?

By Joe LaRocca

(This is another in a series of columns dealing with proposed amendments to Alaska's constitution which will appear on November's general ballot ballot.)

It may not be readily apparent to most Alaskans that the state's currently presiding political establishment has perpetrated an elaborate hoax upon them in the form of its politically-inspired proposal to establish a permanent state fund, mainly from future oil and gas revenues.

Together, and with much fanfare, the Ninth Legislature and the Hammond administration have forged a proposed constitutional amendment designed to remove the state constitution's prohibition against dedicating funds for special purposes. The proposal will appear on the November ballot as *Proposition No. 2: Permanent Fund From Non-Renewable Resource Revenues.*

If approved by voters, it would require state officials to deposit into a permanent fund "at least 25 per cent" of all future revenues from lease rentals, royalties, royalty sales and bonuses which the state receives from mineral interests on state land, as well as the state's share of revenue derived from mineral interests on the federal domain in Alaska. (It should be noted that the single largest source of future state revenues — the severence tax on oil and gas produced on state lands, which one day soon will produce revenues exceeding $1 billion per year — has been specifically *excluded* as a source of revenue for the proposed permanent fund.)

If voters adopt the proposed constitutional amendment, the principal of the permanent fund could be used "only for income-producing investments permitted by law," which means that the legislature alone would be empowered to prescribe where and how monies from the permanent fund could be invested. Any income earned from those investments would go into the state's general fund, to be used like any other public monies.

SIMPLISTIC THEORY

Presumably voter approval of this proposed amendment would prevent future legislatures and governors from squandering all of the state's liquid assets — as the current and past ones did the bonus revenues from the $900 million North Slope lease sale in 1969 — by compelling them to create and systematically feed an unspendable money pool that would perpetually grow.

The impulse for this simplistic theory stems from widespread citizen outrage over the state's rapid dissipation of the $900 million lease sale surplus, and it incorrectly assumes that if those bonus monies had been irretrievably deposited into a permanent fund at the outset, succeeding legislatures and governors would have been forced to curb their fiscal extravagance and the explosive growth of government that has occurred since.

Nothing could be further from the truth. It's now a matter of record that — pending the depletion of the $900 million — the current legislature and administration (initiated or proposed) a program of deficit spending in only two years which nearly equals the level of deficit spending that their predecessors achieved in six.

The hoax derives from the fact that advocates of the permanent fund now holding public office who thus parade under a banner of fiscal restraint have relentlessly pursued a policy of massive spending which wholly ignored the lack of surplus general funds, and are now plunging the state another three-quarters of a billion dollars, or more, into debt.

The obvious inference: if the absence of any surplus in the state's general fund failed to discourage today's advocates of a permanent fund from massive deficit expenditures, there's surely no reason to believe that the creation of such a fund would deter them or their successors.

Indeed, recent events lead one to the opposite conclusion, for it was the current administration and legislature — putative authors of the permanent fund proposition — who this year have proposed by far the largest package of bonded indebtedness ever, totaling nearly a quarter of a billion dollars; while at the same time borrowing, over a two-year period, another half-billion dollars from future oil tax revenues in direct violation of the constitutional prohibition against incurring public debt for more than a year without express approval of the electorate.

The simple truth is that the current legislature and governor have used the motherhood-mystique of the permanent fund to lull the public into acceptance of the notion that they are practitioners of fiscal restraint when, in fact, the opposite is the case.

MASSIVE ABUSE

Even if the hoax I've described did not prevail, and one assumed good intentions on the part of permanent fund advocates, there are compelling reasons why a dedicated fund is not in the best interest of the state, and should be rejected by voters.

Alaska's existing constitutional prohibition against dedicated funds is a considered product of the unvarying history of massive abuse in other states where dedicated funds were not prohibited. They led inevitably to irrational fiscal policies, administrative corruption and inflexible taxation programs. As a result, in most cases, states which once allowed dedicated funds, now wisely prohibit them.

Much is made of the fact that part of the principal of the proposed permanent fund could be used to provide Alaskans with long-term, low interest loans for homebuilding or business and industrial development ventures. But unless these loans are made available at more attractive rates and terms than the commercial banks are offering, they would obviously be of small help to those seeking them and, in that case, probably would not provide the return on investment which the proposed constitutional amendment contemplates.

On the other hand, if the terms and rates *are* made more attractive, one then finds the state in the ticklish business of subsidizing private borrowers with public funds, in competition with the commercial banking community. At the same time, the requirement that the fund principal may be used only for "income-producing investments" fails to take into account the risk factor inherent in the lending industry, and would put every failed loan in direct violation of the state constitution.

ANYTHING GOES

One is even more trouble by the verbiage contained in Proposition No. 2 which would allow the permanent fund to be used for investments "permitted by law," which means — to anyone familiar with the free-wheeling legislative process — that anything goes.

As one unsuccessful State House candidate from Fairbanks, Nancy Brown, has perceptively suggested, voters should demand to know, in writing, much more about what investments would be permitted, and under what conditions, before adopting Proposition No. 2. For if they do not, they are indeed buying a pig in a poke. But, unfortunately, there's little doubt that the voters will blindly approve Proposition No. 2, for the concept of a permanent public fund has already been sanctified by the state's self-serving political establishment and Alaska's unthinking news media.

Anchorage Daily News, Friday, October 15, 1976—17

Panel divided on permanent fund use

Alaska's newly expanded Investment Advisory Board met here Wednesday to examine potential use of the proposed permanent fund — and showed there is considerable difference of opinion about that topic.

In a day-long discussion in which they examined projections about the fund and heard from economists and other financial experts, the panel members posed questions which indicate sizeable differences in how they perceive the fund's future.

THE PERMANENT FUND, which is listed on the November ballot as Proposition 2, asks voters to approve a constitutional amendment to establish an investment account for 25 per cent of certain state oil revenues. The fund is constitutionally designed to be safe from day-to-day spending, but will leave to legislative action precise design of the operation.

Alaska banker and economist Bob Richards told the panel that Alaska's economic history since the gold rush at the turn of the century has not been a pattern of boom-and-bust and should not be predicted to be one in the future.

Because of that, he said, the potential use of the permanent fund need not be directed especially at those areas. "There is no reason for the state to panic about going into a bust and go explicitly into a program of spending designed to couanter that," he said.

Meekins Says Hammond Wants Control Of Fund

TIMES 10/8/76

House District 7 candidate Russ Meekins Jr. yesterday warned Bartlett Democratic Club members of what he termed attempts by Gov. Jay Hammond to seize control of the proposed state permanent fund.

The fund, which would set aside 25 per cent of the state's mineral resource revenues, will appear as a proposed constitutional amendment on the Nov. 2 general election ballot.

Meekins charged that Hammond is trying to control the fund through the investment advisory board, which the candidate claimed has no legal authority over the fund.

"The advisory board is a hoax by Hammond. He says they can advise the legislature on uses for the fund. He wants to establish the precendent that the board has authority," he said following the Democratic club's weekly lunch meeting.

Meekins said the board was established originally to handle the $900 million the state received in 1969 oil lease sales. Hammond packed the board with his own people when he named five new members last week, Meekins said.

"He wants to limit the amount of money invested for development of the state's economy," the candidate said.

"Whoever runs the permanent fund, if it is one person, would be a superman with more influence than the governor," he said. "The legislature will determine who controls it. That will be the most important decision of the session."

Committee Suggests Three-Level Fund

By SUSAN ANDREWS
Times Staff Writer

The state's Investment Advisory Committee yesterday decided the new permanent fund should have a three-level structure, with a policy-making board independent of the fund's chief executive officer and a lower-level operating or management board.

The policy-making board should have 11 members, including two from the state legislature, two from the administration and seven public members to be appointed by the governor. They would serve staggered four-year terms, according to the committee's recommendation.

The Investment Advisory Committee will recommend to the legislature that the operating board have five members, including the chief executive officer and four public members, appointed by the policy board.

The committee has been asked to come up with recommendations for structuring the permanent fund before the legislature convenes in January.

Alaskan voters Nov. 2 approved the concept of a state permanent fund, which would be derived from at least 25 per cent of the state's revenues from oil and gas royalties and lease bonuses. The constitutional amendment specified only that the fund must be used for income-producing investments. It remains for the legislature to set up how the fund will be operated and what will be its goals and objectives.

It has been estimated that the permanent fund will total between $2 billion and $3 billion within 10 years if 25 per cent of royalties and bonuses is dedicated to the fund. The state legislature could dedicate more than 25 per cent but not less.

Yesterday's morning-long session was not publicly announced in advance because, Commissioner of Revensue Sterling Gallagher said, the panel wanted to avoid the "grandstanding" that went on at the committee's last meeting.

At the committee's next scheduled meeting Dec. 16 and 17, consultants from White Weld, a financial consulting firm, will discuss decentralizing the fund.

Chairman Eric Wohlforth said the extent to which loans made by the fund should be regionalized as a question that the committee needs to address.

Committee member Jim Crawford replied, "Isn't that something the policy board will take weeks and months to decide?"

Member Jamie Love said he thinks the people who live in affected communities should have some say in economic development loans made by the state.

" Maybe they want housing instead of jobs," he said, "Or maybe they would encourage some industry as opposed to others.

"This should be institutionalized so a community won't be steamrollered by a central committee," he said.

Wohlforth said the state has an existing vehicle, the Industrial Development Authority, for making loans, which provides that no project will be approved without the consent of local areas.

"I'm for using existing governing boards, in local areas, not creating new ones." He said the authority has been on the books for seven years but hasn't been used.

The emphasis of the committee's discussion was on loans. Crawford said, "We keep talking about lending. We should be talking about investments and making money for the state."

Wohlforth replied that it is clear the legislature will be making "public sector-type investments."

Crawford also asked, "What if the legislature decides simply to make the permanent fund a savings account?"

Gallagher replied, "That's not likely, judging from the public hearings in Ketchikan." At the first Alaska Public Forum held in Ketchikan last weekend, the participants said they thought the state's new oil and gas wealth should be used for development of the state's renewable resources, or for loans for community improvement. Saving the money was a third choice.

Another question that needs to be addressed, Wohlforth said, is whether the permanent fund will assume the responsibility of the various existing state loan programs or fund those programs.

The committee decided that the permanent fund's policy-making board should:

—Hire and fire the fund's chief executive officer.

—Set goals and conduct a "sector al analysis" to determine the needs in various regions and industries within the state.

—Conduct financial audits and analyze the management operations.

—Evaluate programs, and, perhaps, approve loans of over a specified dollar amount.

The policy board also will make periodic reports to the legislature and the public. It would set the chief executive officer's salary and approve the operating budget.

The management-level operating board will have the job of approving loans and investments, after screening by the chief executive officer and his staff.

The committee's feeling was that loans of under a certain dollar amount could be approved by the staff without board approval.

Consultants from Price Waterhouse, have emphasized that no member of the policy-making board should serve on the operating board. The two boards should be completely separate so that the day-to-day loan decisions are not subject to political influence.

Gallagher said he envisions the public members of the operating board as being "financial wizards" — persons with financial expertise.

Love said the primary purpose for loans from the permanent fund "will be for social goals," so he didn't think the operating board should be structured like a commercial bank "whose goal is to make money."

But Jim Rhode, administrative assistant to state Rep. Hugh Malone, pointed out that "if the legislature says 20 per cent of the fund will go to housing and the policy board says where those loans should be directed, then you don't need five or ix consumer representatives on the erating board."

Permanent fund in '80: it could be $2 billion

News 11/6/76

By PAUL NUSSBAUM
Daily News Staff Writer

The state's Investment Advisory Board on Friday explored ways of increasing the leverage of Alaska's newly-approved permanent fund, which officials say could exceed $2 billion by 1980.

Two New York financial advisors to the board outlined possible methods of increasing the economic effect of the state's permanent fund. The permanent fund, approved by the voters in Tuesday's general election, will set aside at least 25 per cent of revenues from mineral, oil and gas income for income-producing investments.

Local banker and economist Bob Richards urged the board to use Alaska banks in investing the permanent fund revenues. Richards said bankers would complement the fund's long-term investments with commercial short-term investments.

"Your alternatives and choices are very broad," investment advisor Ted Swick told the board Friday. Swick and Charles Fuhrmann II, vice presidents with White, Weld and Co. Inc., an international investment banking firm, outlined several methods of extending the fund's economic leverage:

—Direct borrowings on the fund to create a larger pool of funds, either with tax-exempt borrowings or debt issues in the capital market.

—Guaranteeing other loans or guaranteeing other people's securities.

—Providing subordinate capital as a financial participant in other projects.

Swick was asked to answer one of the prime objections to establishment of a permanent fund — why set aside money that might be used to pay off state indebtedness immediately?

"I don't envision the existence of the permanent fund making it never necessary for additional funds in the general fund . . . There's no sense paying cash for something that is going to benefit people now and down the road . . . one of the objectives is to have the guy who will use the facility 30 years from now help pay for it," Swick said.

Richards, one of the paid consultants of the board, lobbied for a role by state banks in dispersing the permanent fund investments.

WILLIAM J. TOBIN
Associate Editor
And General Manager

CLINTON T. ANDREWS JR.
Managing Editor

Cause For Concern

WE ARE ADVISED that we conferred too much power on the state's Investment Advisory Board last week when we described its members as key figures in the handling of billions of dollars of public funds, if the voters approve the idea of creating a permanent fund Nov. 2.

We have been told by two state officials that the advisory board will have no such powers. If the permanent fund proposal is approved, the provisions for administering it must be made by the legislators after they convene at Juneau next January.

Consequently, it appears that our concern was misdirected. Instead of the advisory committee, we should be concerned with the agency that is to be created in the next legislature.

GREAT CONCERN is appropriate, whether it involves the Investment Advisory Board or some other agency. The proposal on the ballot is that 25 per cent of the state's oil, gas and mineral revenues be set aside in a permanent fund which the legislature could not use for appropriations. The fund would be for investment in income - producing ventures which are to be specifically designated by law.

Even though this may be the greatest idea in modern times and it is hoped will augur the day when Alaskans have a government supported by the equivalent to an endowment, it might also be a monster with insidious consequences. The fund will be so huge that it could, and probably would, dominate this state. It could even control the destiny of major national enterprises.

A BILLION DOLLARS in oil royalties will start flowing into the state treasury next year when production from Prudhoe Bay begins. This annual revenue is expected to double in a short time. There are indications that the royalties will soar higher as more discoveries are made and Alaska becomes the biggest ...ic source for the na...roleum supplies.

... numbers mean ...ed permanent ...e huge. Esti...ld be two billion dollars in less than 10 years. A fund of that size could control the entire state economy. Whoever controls the money could become the power center of the state.

SOME SUBJECTS that are worthy of public concern include those noted by Thomas Kelly in The Anchorage Times last Sunday. He cited the unanimity among politicians as unusual and suggested that the motivating factors behind that unanimity should be studied.

Kelly mentioned that some politicians see the permanent fund as a way to put big money in a deep freeze so it won't be available for building a new state capital. Others may consider it a means of stopping economic development. Still others may see it as a power center from which they could control the lifestyle of the state, its economy and its politics.

We have heard none of these possibilities discussed publicly. But they should be.

IT MAY BE TRUE that we zeroed in wrongfully on the Investment Advisory Committee as the agency that would handle the fund. But the error is only that of a bowler who rolls the ball down the wrong alley.

It is probably inevitable that the governor will appoint the members of whatever agency the law provides for administering the multi - billion - dollar fund and he could, if he wished, name the same personalities already named for the advisory committee. It would be the governor's choice.

The danger is that the absolute power that would be created in connection with the fund could corrupt the state administration.

Control of the permanent fund could become the prize up for grabs in every election. Indeed, the power that comes with the money could attract special interests — good or bad — from other parts of the nation to become involved in this state's politics.

These possibilities are worthy of thorough discussion and understanding if the voters of Alaska are expected to mark their ballots intelligently Nov. 2.

Permanent fund raises use issue

Creation of a permanent fund, which could total $3 billion by 1985, tops a list of four proposed constitutional amendments on Alaska's general election ballot.

Proposition 2 asks voters to endoresе a constitutional amendment establishing the fund, which is to serve as an investment account into which 25 per cent of certain oil revenues will be channelled.

THE FUND COULD only be used for profit - making projects — such as loans, commercial investments or bonds. Earnings from the fund would be available for general state spending — but the fund itself would not.

The proposal passed the legislature last session by greater than two - thirds majority and so will become law if voters approve it. There has been little organized opposition to the proposal and it is expected to receive a substantial majority of the vote.

Nobody knows exactly how the fund will be used; that decision will be made by legislative action in the future. Although the fund is protected against certain kinds of useage, its precise organization and management have been left flexible by designers.

A FREQUENT ARGUMENT against the fund comes from opponents who say dedicated funds are insensitive to future, unpredictable needs. What if there is some unexpected need in the future, they ask, and much of the state's assets are locked up in the fund and can't be reached for solutions?

To that complaint, proponents answer that the flexibility of allowing future legislatures to decide on precise uses will prevent the "locked up" circumstance.

There have been many proposals for possible fund uses. They range from paying direct dividends to Alaskans to using the money to underwrite such vast projects as hydroelectric dams. But, whatever use it is put to, the permanent fund money would have to be a money - maker. Politicians could spend the interest, but never the principle.

"THIS FUND CAN BECOME a tool whereby Alaska can take some of today's mineral wealth and prepare for the future by investing in the development of human and material resources that will remain productive for many generations," says Commissioner of Revenue Sterling Gallagher.

That view is widely shared among Alaska's leaders. House Finance Chairman Hugh Malone, D-Kenai, shepherded the proposal through the last legislature and talks of its possibilities in sweeping terms. "This is a chance to let average Alaskans have a stake in managing some of the oil wealth. It's more than a bank account; it's a way to change some basic patterns."

Malone says that if the fund is used, for example, to make business loans available to Alaskans, that will be, in effect, letting them personally manage part of the state revenue.

THE FUND ALSO is seen by some planners as a tool to help control the growth of state government. By earmarking 25 per cent of certain revenues for the investment fund, there is obviously less left to be spent on operating expenses — more personnel, more offices, more programs.

As drafted, the fund would be fueled by contributions of at least 25 per cent of all mineral lease rentals, royalties, royalty sale proceeds, federal mineral revenue sharing payments and bonuses received by the state. Projections show the fund topping $1 billion by 1983 and reaching more than $2 billion in 1985.

Fund Advisory Group Split

By SUSAN ANDREWS
Times Staff Writer

The state's Investment Advisory Committee yesterday attempted to come to grips with a state permanent fund. But following a day-long meeting, members still disagreed over whether they could suggest how the fund should be structured since they still haven't determined its goals.

Assistant Commissioner of Revenue Jim Edenso said the question of goals and what the state should to with income from permanent fund investments will take public participation.

But, he said, "I fully expect to see this committee come up with a product by January. We're trying to construct something. We have hired expensive consultants. We've spent a considerable amount of money and listened for hours on end.

"We can't answer what the goals are but we can take a cut at how the fund should be organized and structured and how it will relate to the public, the legislature and the administration."

The committee's recommendations will go to the governor.

Fairbanks banker Frank Murkowski, one of three representatives of the state Chamber of Commerce who testified during yesterday's public hearing, said he envisions the state getting involved in long-term, large-development loans.

Committee member Jamie Love asked, "Should the social impact of loans be considered and their impact on the quality of life?"

Anchorage accountant Bill Scott, also appearing for the state Chamber of Commerce, replied that there is likely to be social impact — including the creation of jobs — but that should not be the prime consideration in making a loan from the permanent fund.

Love persisted, questioning

(See Page 2, Col. 1)

Fund Advisory Group Split

(Continued From Page 1)

whether the fund should concentrate on growth or quality of life. "Why not both?" Scott responded. "That has to be a legislative decision."

Revenue Commissioner Sterling Gallagher suggested the committee draw up several alternative ways the fund could be structured. One would emphasize the savings account concept, another long-term investments and a third a smorgasbord of goals, including community development projects.

Scott said the permanent fund needs a strong and able leader. He said the fund should be a separate state entity with its management answerable to the legislature. He suggested the enabling legislation contain provisions to review the fund's operation and its success rate to determine if it is achieving its purposes.

State Chamber Manager Don Dickey of Juneau said the question of structure is a key issue and the chamber wants to come back later with recommendations.

Al Fleetwood, representing the Alaska Bankers Association, said his group would have firm recommendations in 45 days. "It's a little difficult to get the state's bankers to agree on anything but I think we can arrive at a concensus on this question," he said. Sen. Jalmar Kerttula, D-Palmer, commented that it is difficult for banks "to agree on anything except raising interest rates."

Kerttula had been giving the bankers a hard time earlier. He blamed the banking community for the state's heavy losses in the stock market several years ago and urged the advisory committee to build in protections if the fund uses the existing banking system to handle loans.

Muskowski replied that when you go in the stock market, you take risks. "It's a matter of when stocks are sold. The market went down. Maybe the state had some bad advice. They sold at a loss. If they had waited six months or a year, there would have been a profit."

Wohlforth suggested several ways the fund's advisory board could be selected, including direct vote by the people or by appointment by the governor and confirmation by the legislature.

State Rep. Russ Meekins, one of only a few legislators present for the discussion, said privately he envisions a nine member board with three legislators as members and six from the public, representing "diverse interests." He sees a three - level structure: under the policy - setting advisory board would come a manager of the fund and under him an operating board with experts from the banking community to advise on specific loans. The legislature would have no direct authority over which loans would be granted but lawmakers would specify how much of the fund should be used for specific types of loans.

Robert Barnes, president of Alaska Statebank and a member of the advisory committee, suggested that the fund be used in part to provide more home mortgages for Alaskans. He said that because money now comes from Outside lenders, they set the criteria for loans. He said, "I'm up to here in mobile home loans. We can't sell them. You tell someone in San Francisco that a mobile home is selling for $35,000 and he falls on the floor. The fact that the average home here sells for over $65,000 also is hard for Outside lenders to understand."

The committee also heard from Phillip Daniel, representing United Fishermen of Alaska, who urged the committee to set aside money for loans to fishermen to convert boats for bottom fishing and for construction of processing plants. And Robert Smith, manager of Central Alaska Utilities, appealed for a $10 million fund for long-term loans to utilities. He said utilities now must finance long range construction, such as a pipeline with a 33-year life, with five to seven year loans. "This puts the burden on today's customers."

Consultants Ted Swick and Charles Fuhrmann of the New York-based firm of White-Weld said the investment fund has the potential for a triple A credit rating. Anchorage consultant Bob Richards called that judgment "exciting."

In his report, Richards said the state's banking system "offers an efficient conduit through which the permanent fund could channel certain of its investments. Large lending institutions in the Lower 48 already use Alaska banks for serving consumer loans, he said.

He also said consideration should be given to allowing Alaska banks to participate in large economic development type loans.

Lone Gunman Attempts Robbery

A lone gunman attempted to rob a night clerk at the Sheffield House, about 2:15 a.m. today at the Sheffield House, Fifth Avenue and F Street, after asking change for a $5 bill, Anchorage police report.

Clerk Mike Bradley ducked out of

Committee Suggests Three-Level Fund

By SUSAN ANDREWS
Times Staff Writer

The state's Investment Advisory Committee yesterday decided the new permanent fund should have a three-level structure, with a policy-making board independent of the fund's chief executive officer and a lower-level operating or management board.

The policy-making board should have 11 members, including two from the state legislature, two from the administration and seven public members to be appointed by the governor. They would serve staggered four-year terms, according to the committee's recommendation.

The Investment Advisory Committee will recommend to the legislature that the operating board have five members, including the chief executive officer and four public members, appointed by the policy board.

The committee has been asked to come up with recommendations for structuring the permanent fund before the legislature convenes in January.

Alaskan voters Nov. 2 approved the concept of a state permanent fund, which would be derived from at least 25 per cent of the state's revenues from oil and gas royalties and lease bonuses. The constitutional amendment specified only that the fund must be used for income-producing investments. It remains for the legislature to set up how the fund will be operated and what will be its goals and objectives.

It has been estimated that the permanent fund will total between $2 billion and $3 billion within 10 years if 25 per cent of royalties and bonuses is dedicated to the fund. The state legislature could dedicate more than 25 per cent but not less.

Yesterday's morning-long session was not publicly announced in advance because, Commissioner of Revensue Sterling Gallagher said, the panel wanted to avoid the "grandstanding" that went on at the committee's last meeting.

At the committee's next scheduled meeting Dec. 16 and 17, consultants from White Weld, a financial consulting firm, will discuss decentralizing the fund.

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Wohlforth replied that it is clear the legislature will be making "public sector-type investments."

Crawford also asked, "What if the legislature decides simply to make the permanent fund a savings account?"

Gallagher replied, "That's not likely, judging from the public hearings in Ketchikan." At the first Alaska Public Forum held in Ketchikan last weekend, the participants said they thought the state's new oil and gas wealth should be used for development of the state's renewable resources, or for loans for community improvement. Saving the money was a third choice.

Another question that needs to be addressed, Wohlforth said, is whether the permanent fund will assume the responsibility of the various existing state loan programs or fund those programs.

The committee decided that the permanent fund's policy-making board should:

—Hire and fire the fund's chief executive officer.

—Set goals and conduct a "sectoral analysis" to determine the needs in various regions and industries within the state.

—Conduct financial audits and analyze the management operations.

—Evaluate programs, and, perhaps, approve loans of over a specified dollar amount.

The policy board also will make periodic reports to the legislature and the public. It would set the chief executive officer's salary and approve the operating budget.

The management-level operating board will have the job of approving loans and investments, after screening by the chief executive officer and his staff.

The committee's feeling was that loans of under a certain dollar amount could be approved by the staff without board approval.

Consultants from Price Waterhouse have emphasized that no member of the policy-making board should serve on the operating board. The two boards should be completely separate so that the day-to-day loan decisions are not subject to political influence.

Gallagher said he envisions the public members of the operating board as being "financial wizards" — persons with financial expertise.

Love said the primary purpose for loans from the permanent fund "will be for social goals," so he didn't think the operating board should be structured like a commercial bank "whose goal is to make money."

But Jim Rhode, administrative assistant to state Rep. Hugh Malone, pointed out that "if the legislature says 20 per cent of the fund will go to housing and the policy board says where those loans should be directed, then you don't need five or six consumer representatives on the operating board."

Twenty-seven of the 55 delegates to the Alaska Constitutional Convention of 1955-56 gathered on the Fairbanks campus of the University of Alaska on April 23-24, 1966 to observe the 10th anniversary of the ratification of the constitution by Alaska voters and to take part in dedication of Constitution Hall, where the convention had been held. Posing for this reunion photo are, back row, from left, Maurice Johnson, Thomas Stewart (secretary of the convention), Douglas Gray, Victor Fischer, Leslie Nerland, Chris Poulsen, Tom Harris, Barrie White, John Hellenthal, Jack Coghill, Irwin Metcalf and James Hurley. In middle row, Katherine Nordale, William Knight, Dora Sweeney, Ralph Rivers, Helen Fischer, Edward Davis, Dorothy Awes Haaland and William A. Egan. Front row, Herb Hilscher, George Sundborg, James Doogan, M.R. (Muktuk) Marston, Warren Taylor, Seaborn J. Buckalew, W.W. Laws and John Cross.

Constitutional issue

Delegates disagree on permanent fund

By ANDY WILLIAMS
Daily News Staff Writer

FAIRBANKS — For a supposed "motherhood" issue, the proposed constitutional amendment to establish a permanent fund drew considerable flak at a meeting of constitutional convention delegates here last weekend.

The fund drew support from members of the Hammond administration and legislators who proposed it as a means to save some of the revenue from development of oil and gas resources. The amendment on the Nov. 2 election ballot would revise the constitutional prohibition against dedicating funds and establish a permanent fund for at least 25 per cent of revenues from future lease sales and royalty payments.

SUPPORTERS SAID the fund would be used to generate investments within the state and would ensure that some oil and gas revenue was saved and not used for government operating expenses, as most of the $900 million from the 1969 Prudhoe Bay lease sale was used.

But opponents said there were excellent reasons why the constitution was drawn to prohibit dedicated funds. They said it could establish a "fourth estate" of government with little accountability and great potential to do harm, and could lock up money from more urgent needs.

The permanent fund was a chief topic of discussion at two of the workshops at the meeting of delegates to the 1955-56 constitutional convention and an underlying topic of concern in many discussions during the three-day session.

IT WAS MOST roundly criticized during a workshop on the constitutional role of the executive Saturday. Participants said there were tremendous implications to establishing a government agency with the power to allocate large sums of money apart from the constitutional authorities of the legislature and the executive, and questioned whether the concept had been well thought out.

Speakers said the fund could contain $2 billion by the mid 1980s. The agency that administered the fund could greatly influence the economy of the state by its management policies, they said.

In addition, they said the management system had yet to be established by the legislature. If the administrating agency was independent of the executive and legislative branches, it could operate with little accountability, they said. If it were tied too closely to government, its decisions could be subject to political influence, they said.

WALT PARKER, state co-chairman of the Federal-State Land Use Planning Commission, said questions of the fund's management structure were more important than questions of the potential size of the fund. He said management of the fund was not a subject of the constitutional amendment but subject to change by the legislature at any time.

"Until we can come up with answers to that it may not be advisable to go forward with the concept," he said.

Andy Warwick, a former legislator and state commissioner of administration, also expressed reservations about the fund. He said the purpose of government was to raise taxes to pay for essential services. "Here the government is taxing, using some of it and setting some of it aside," he said.

JOHN HAVELOCK, former state attorney general, said the prohibition against dedicated funds was to keep one legislature from "tying the hands" of a future legislature in appropriation of funds. He also said a community's standard of living historically improved over time.

"What we are doing is saving for people down the road who aren't going to need it as much as we do," Warwick said.

A second workshop Saturday on finance and taxation included some supporters of the fund.

Rep. Steve Cowper, D-Fairbanks, and Commissioner of Revenue Sterling Gallagher said it was the only practical way of ensuring that oil and gas revenue was saved. Eric Wohlforth, former state commissioner of revenue and moderator of the panel, said it was "logical to extend the benefits of all revenue as long as possible."

BUT KATHERINE Nordale, a constitutional delegate from Fairbanks, said dedicated funds had not worked well in other states. She said Texas had a $700-million fund that could be used only for buildings on the Texas university campuses. She said the funds were too much for the purpose and were needed elsewhere but could not be touched.

Barrie White, also a delegate from Anchorage, said the fund could be used irresponsibly by the legislature and the governor.

Gallagher said permanent funds for resource revenue recently had been established in New Mexico, Montana and Wyoming and appeared to be working satisfactorily.

Cowper said the legislature attempted to establish the fund by statute but that the governor had vetoed the bill and said it must be done by constitutional amendment.

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Official Finds Excitement In Fund's Creation

By SUSAN ANDREWS
Times Staff Writer

Jim Edenso says the most exciting thing happening in the Western Hemisphere is the creation of Alaska's permanent fund, which is expected to total at least $2 billion within 10 years.

Edenso, deputy commissioner of revenue, has been asked by state Revenue Commissioner Sterling Gallagher to work with the state's Investment Advisory Committee in drawing up recommendations to the legislature on how the fund should be structured.

The committee will meet again for two days next month to try to complete its suggestions before the legislature convenes in January.

Alaska's voters Nov. 2 approved the concept of a permanent fund by adopting a constitutional amendment. The amendment specifies that at least 25 per cent of the state's income from oil and gas royalties and bonuses will go into the permanent fund, which must be used for income-producing investments.

The income-producing stipulation is not as limiting as it sounds, Edenso pointed out. For example, money from the fund could be used for any number of projects, including financing docks and roads, simply by buying bonds from local communities and earning interest on those loans.

Other supporters of the fund view it as the source of funds for development of the state's renewable resources, for large-scale economic development projects, and for long-term, savings type investments. How the fund is to be used is another [illegible] the

JIM EDE[illegible]O
Advises Com[illegible]ttee

Franc[illegible] State Coll[illegible], now a university, where he [illegible]jored in finance. [illegible] Hayaka[illegible] the newly-elected California state senator, was college president then, and Edenso describes him as a "colorful fellow."

Edenso went on to earn a master's in business administration from Stanford University, again majoring in finance.

His background includes 12 years' experience in data processing, including work during his undergraduate days to finance his college education.

He went to work for the Bureau of Indian Affairs in Juneau, concentrating on development financing. Although the office is in Juneau, the financing is statewide, he noted.

Edenso was deputy to Tony Motley, commissioner of Commerce and Economic Development, for 18 months, where he managed the state's existing loan funds, including $115 million in veterans' loans. He switched to the Revenue Department in August when it became apparent the permanent fund was on the horizon.

Edenso, who is not married, said he now spends two or three days every other week in Anchorage, working on the permanent fund.

He has also been redoing the treasury division's financial and accounting reporting system, in anticipation of handling a great deal more money. "We've been able to do it with a manual system, but now hope to handle it by computer, through the state's data processing system."

In addition, he supervises the day-to-day operation of the treasury division, which handles the state's finances now with a staff of only 13. Edenso said they are recruiting now for a cash manager and a debt manager.

ALASKA RESOURCES

Assessing The Permanent Fund

By Thomas E. Kelly

ON THIS coming general election day Alaskans will have the opportunity to make one of the most significant decisions regarding the future of the state since the advent of statehood.

The issue is a proposed constitutional amendment establishing an Alaska Permanent Fund for certain proceeds derived from non-renewable resources.

If any one issue has a chance of adoption by a wide majority of voters, this one does. A true applie pie and motherhood proposal, the permanent fund has been supported by politicians on both sides of the aisle, the state administration, business and, in general, John Q. Public.

FEW CAN FAULT the concept of a permanent fund to curb excessive government spending of huge anticipated revenues from oil and gas production once the pipelines from the North Slope go on stream. The prudent man "salts" away income that will last only for the life of a depletable resource. We made a bad mistake in the past and whooped off the $900 million from the 1969 lease sale and to make the same mistake twice would be intolerable.

Could anything be wrong with establishing a permanent fund? A little bit of sober thought and assessment of the proposal is appropriate before we alter the constitution, because once structured in the cornerstone of government it isn't likely to be changed.

Isn't it a bit odd that people with diametrically opposite political and philosophical viewpoints would all get on the same bandwagon on the permanent fund issue? Could there be ulterior motives by advocates who really don't care about the rising cost of government?

At the risk of being branded a heretic, suppose the reason some are supporting the permanent fund is to amass great power and control the government of this state as they see fit. Could it be that diehard opponents of the capital move see the permanent fund as another means to delay or sidetrack the transfer of the seat of government? Or how about the no-growthers who envision a permanent fund as a way to curb economic growth and development?

THE PROPOSED amendment states that "the principal of which shall be used only for income producing investments specifically designated by law." The income from principal investments goes into the general fund to be appropriated any way the legislature sees fit, so a spending moratorium will not, in reality, be achieved.

Important public works projects such as a causeway across Knik Arm, new and improved means of transportation, public buildings in a new capital city probably would not quality as income-producing investments and would therefore not be eligible under the fund.

True, debt financing through bonding is always possible, but who wants to vote for a general obligation bond issue and potentially higher taxes if the state coffers contain hundreds of millions of dollars as surplus funds? There is a fundamental but perhaps tarnished American principle that our government is not supposed to be a capitalist to itself and that it is only supposed to make and spend the money it needs to provide services that people can't provide for themselves.

Many people are not aware that Alaska already has a dedicated fund. Adopted in 1974, AS 37.11.010 (The Alaska Renewable Resources Development Fund) may be unconstitutional but it hasn't been challenged. Besides it's a damn good law. If it violates the constitution it probably isn't the "Lone Ranger." Try local hire and limited entry outside the state and you might have a problem.

THE ALASKA renewable resources development fund was enacted to provide that not less than 5 per cent of the receipts from mineral lease bonuses and rentals on state lands shall be deposited into the fund. Appropriation from the fund is specifically designed for capital and operating expenditures for the rehabilitation, enforcement and development of renewable resources programs.

Although the act has a self-destruct provision after it reaches a balance of $250 million, it is a law that can be changed, continued or modified by succeeding legislatures. The point is that it is a good law with clear and understandable provisions and if the people don't like it a change can be made.

Not so a constitutional amendment that provides for a permanent fund where the investment policy is yet to be determined.

A recent surprise to many was the latest appointments made by the governor to the advisory commission that will influence investment policy of the state after adoption of the permanent fund amendment. The credentials for membership on this very important committee apparently do not emphasize specific background or experience in the field of investments.

Except for a few well-qualified individuals, recognized and highly skilled investment counselors are conspicuously absent from the members of the commission thus far appointed. Is it a fair assumption that the deck is getting stacked with other than professionals in the complex science of investments? If so, how come?

IN SUMMARY, the questions we should ask ourselves before pulling the aye lever on November 2 are as follows:

1. Is it wise to amend the constitution to provide for future laws governing investments of the state within very narrow guidelines, i.e. the investment must be income producing?

2. Are there ulterior motives other than prudent control and limit of government spending from the general fund and are these other motives, if a fact, designed to serve the best interests of all Alaskans?

3. What is the current status and utilization of the renewable resources development fund and what might be its future under existing law?

Be a thoughtful voter, but vote!

Tom Kelly, former state commissioner of natural resources, is a consultant specializing in Alaska resources. He is a member of the Anchorage School Board.

decision which must be made by the legislature.

Edenso says he thinks the legislature, in drawing up legislation to establish the fund, will set the percentage at higher than 25 per cent. He would like to see it at 50 per cent.

"When the oil and gas are gone, that's going to be our source of revenue," he said.

Edenso said that money will start going into the permanent fund 120 days after the amendment's passage, and he thinks it is likely the governor and the legislature may wish the state's treasury division to manage the fund until legislation is approved setting up a separate management structure.

Setting the goals and objectives of the fund will take still longer, and Edenso says he wants public input into that decision. He believes it is premature for the public to say what should be done with the income from the fund, however, until all the ramifications can be pointed out.

For example, if the state decides to lower the state income tax, that may mean simply that more tax money will go to the federal government. And he said it may encourage more people to move to Alaska.

Investments within the state from the $2 billion permanent fund will in itself stimulate the economy and provide jobs and encourage population growth, he said.

Edenso sees the permanent fund as filling the gap that now exists in Alaska for long-term investment capital.

Commerical banks are limited to loans of a maximum of seven years, he said, and the state now is limited by law to a maximum of $100,000 in loans in which it participates with commercial institutions.

A more realistic limit now for state participation loans would be $500,000, Edenso said.

Born in the Southeastern community of Craig, Edenso grew up in Ketchikan and attended San

Rhode Studies Income Options

Thursday, November 4,

By SUSAN ANDREWS
Times Staff Writer

"Jim Rhode, the man behind the scenes of the House Finance Committee, has the job of looking at all the state's income alternatives and their consequences.

As administrative assistant to state Rep. Hugh Malone, D-Kenai, chairman of the powerful finance committee, Rhode has been studying the state permanent fund, which voters approved Tuesday, and he has been examining possible changes in the state's oil tax structure.

Rhode is looking at what happened in the province of Alberta, for example, when that government raised oil taxes.

And he and consultants to the legislature are studying countries such as Great Britain and Norway to see what changes they have made in oil and gas taxation and the impact of those taxes. He visited Scotland last year to study the onshore impact of North Sea oil development and how that country was able to put together a successful development with minimal impact.

Rhode says the Prudhoe Bay oil field can better be compared to North Sea oil fields than to oil fields in the Lower 48 because Prudhoe Bay is owned by the state. Most oil fields elsewhere in the U.S. are on private land rather than state land, he said.

Rhode describes himself as a liaison between legislators and their consultants. He recommends those to be hired and interprets what they say.

He finds his $28,000-a-year job satisfying and frustrating. He said it's satisfying to work with legislators like Reps. Malone, Steve Cowper and Clark Gruening who are "intrigued with new ideas and willing to look at different sides of a problem." But it is frustrating to work with "others to whom thinking in alternatives is an acquired taste — like trying to talk someone into trying

Rhode says he has tried to be available to members of "the other party" (Republicans). "It's very important to me that I am not seen as a political hire, even though my first concerns are scheduled by Hugh. I believe in the rule respecting the confidences of legislators. They must be able to think out loud, with their public stance taken at their own time and in their own words.

"There has to be someone who has read and thought about everything turned in to the committee. I don't do original research," in contrast to someone like Gregg Erickson, research director for the legislature's permanent staff, who Rhode said "knows more about oil and gas than anyone in Alaska."

One of the consultants whose work Rhode studies is Michael Tanzer, who Rhode called "a leading authority on oil profit potential. He is also a socialist. But he is being consulted for his expertise on profit potential, not for his views on state ownership. I separate the two.

"The chairman (Malone) describes me as the most right-wing man around him. I have disagreed with Tanzer on many of his ideas which I think are open to debate — probably angry debate."

Rhode's recommendation is that the legislature hire a conservative economist to study the Prudhoe Bay field profit potential and to check out Tanzer's conclusions. However, Rhode said not even the oil companies have disagreed with Tanzer's profit estimates, only his ideas on taxation.

Bills to change Alaska's oil and gas tax structure are not in any final stage, Rhode said. "Our feeling is that if the legislature gets better data, it will do less stabbing in the dark. It's in the oil companies' interest to have the facts before the legislature."

Rhode, who was born in Fairbanks and grew up in Juneau, is the son of the late Clarence J. Rhode, who was in charge of the U.S. Fish and Wildlife Service in Alaska in the years just before statehood. Clarence Rhode and another son were lost on the North Slope in 1958 while Rhode was on a patrol to establish caribou and goat populations. Their plane was never found despite one of the most extensive air searches in Alaska's history.

Rhode's father was said to have seen more of Alaska than any other man. A National Wildlife Refuge near Bethel is named for him and the federal government wants to expand the refuge.

Jim Rhode says his father worked out the arrangement for development of the Swanson River oil fields in the Kenai Moose Range. His father didn't want to see drilling in the moose range but the government had made the decision to allow it, so Rhode worked with the oil companies to make it happen with the least disturbance to the environment.

The Swanson River oil fields are now considered a model of the right way to develop oil.

"My father was not a preservationist. He found ways to permit joint use. I agree with that philosophy," Rhode said.

The three Rhode children were fed public issues "breakfast, lunch and dinner" while they were growing up. Rhode says his mother kept up her interest until her death in Juneau from a heart attack in 1972.

After graduating from high school in Juneau where he was student body president, Rhode earned a degree in political science and economics at the University of Washington and a master's degree in government and economics from Corpus Christi College, Oxford University, England.

Following Army duty, including a year as an intelligence officer in

JIM RHODE
Man Behind The Scenes

[K]enai, Sitka and Ketchikan.

More than 25,000 elderly and [c]hronically ill persons were vaccinated in special clinics statewide. [M]cGinnis said this constitutes a [la]rge majority of the high - risk per[so]ns.

State health officials plan to follow [th]e lead of federal health agencies in [a]dministering the vaccine to young [p]eople and have not received results [o]f dosage level tests from the Center for Disease Control in Atlanta, McGinnis said.

"We should know in about two weeks what is planned for the program for those under the age of 18," he said.

Approximately 700 persons a day have been receiving vaccinations at the public clinic in Anchorage. The clinic is located in the municipal health department building at 327

Biologist Prepares Kachemak Bay Draft

The first written reports on a two-year inventory of the sea life and birds in and around Kachemak Bay are in the preliminary draft stage.

The studies were commissioned as part of the state oil leasing controversy and the upcoming federal lease sale in that area

Department of Fish and Game biologist Loren Flagg says he believes the bay "is one of the richest in the world, if not the richest, in terms of shellfish production."

That's a belief he'd held for a long time, but now, he says, research statistics back him up. Flagg is the department's field project leader for habitat protection studies in Lower Cook Inlet.

The bay is not regarded as a major producer of shellfish, compared to state totals, except when its size is considered.

Sixty-two per cent of the shellfish caught in Cook Inlet are taken in the bay, an area comprising only 2.4 per cent of the Inlet.

One research project established that a major reason for the bay's productivity is the existence of two great "gyres" or whirlpools, that act to delay flushing of water out of the bay.

The delayed flushing action gives king crab larvae time to develop past the larval stage and sink to the bottom to start life as little crabs. The king crabs need 60 days for this cycle, while other shellfish require from 30 to 60 days, and the slowly moving Bay waters gives it to them, Flagg said.

Other factors make the bay a good nursery. One scientist involved in a study contracted to Rutgers University thought the glacial streams were bringing in just the proper amount of silica to build strong shells and skeletons. Also, clear water streams seem to provide the amount of fresh waterneeded to keep salinity at a proper level.

With the state getting ready for offshore oil drilling, more studies lie ahead for the Bay and for other coastal communities. Already, the information gathered would provide a good start on a set of nature books.

Biologists have never known, for instance, where baby crab, just past the free-floating stage, spend their first year of life. The answer is, hiding in their own offshore "flustrella pastures". They don't eat the flustrella, which is a fern-like animal with waving brown branches. They cling to it and dine off the plankton and other creatures that swim about the flustrella.

Even the department's "Mr. King Crab of the World", Guy Powell of Kodiak, was excited by these findings, Flagg said.

"He's been looking for a long time but never located the baby king crab nurseries over there."

Reports of the Kachemak Bay projects will probably be printed by early spring. Besides directing certain projects, the habitat protection division also is responsible for providing other agencies with pertinent information for their impact statements. Also, personnel are asked to provide comments on reports prepared by other agencies.

Right now Flagg is preparing comments on a statement prepared by the National Marine Fishery Service for the Kodiak area. He has lately been working with the Fish and Game staff at Kodiak on research projects as they prepare for the oil lease sale scheduled there in February.

Seven major projects have been pursued in Kachemak Bay in preparation of oil leasing, including bottom studies, shellfish larva distribution and abundance, post-larval king crab studies, intertidal and nearshore sub-tidal ecological studies, food habit studies, marine bird distribution and baseline hydrocarbon.

In addition to actual projects underway the department also has contracts with the firm of Dames and Moore for a combination of geophysical and biological bottom studies.

One Dames and Moore employee, Dennis Lees, assists the department with identification of specimens dredged from the bottom. As part of its contract, Dames and Moore personnel operated a sonar side scanner from the Department of Fish and Game vessel Pandalus in a bottom mapping operation.

One small contract with Rutgers University involves analysis of the contents of the stomachs of sea creatures dredged up from the bottom.

Research crews have principally used the Pandalus in their projects. The vessel right now is being used for crab-tagging operations in the Barren Islands area at the entrance to Cook Inlet.

Throughout the state the department has 15 boats, according to vessel supervisor Carl Lehman of Juneau. The Montague is stationed at Cordova, the Puffin Pandalus and Cutthroat at Homer, and the Resolution and Smolt at Kodiak, the Iliaska in the Ilimnna Lake area, and the rest in Southeastern Alaska. The Homer-based boats have been largely involved in research the last two years, while the others are chiefly used for carrying personnel and freight and for wildlife protection.

Divers were recruited for some of the underwater studies. They took a look at young king crab, for instance, bringing up specimens from shallower depths with a hand-held suction dredge. In deeper waters crews sent down a bottom skimmer, which was really a little sled with two nets mounted on it.

"It just bounced along skimming the botton," Flagg said. "We had good success with it."

The Anch[illegible] Times
[illegible] Pages · Anchorage, Alaska

BUDGET MAY TOP RECORD

Hammond Expects Criticism

Gov. Jay Hammond told a Ketchikan audience last night that next year's state budget would hit a record $900 million despite the battle cry for fiscal conservatism that prevailed during the recent legislative election campaigns.

This year's budget was around $750 million.

"Ironically, the next legislature will be branded the most profligate, spend-happy crew to hit Juneau, no matter who is sent," he said during a dinner speech sponsored by the Ketchikan Rotary Club, Central Labor Council and Chamber of Commerce. "Unfortunately, I'll have to share that dubious distinction."

He said the $900 million figure would only be achieved "if we're successful in cutting back, pruning, standing tough and making vetoes stick."

"There's really one way only in which governmental growth can be throttled down, and that is for the public to insist that we pay as we go or insist that we not go," he said. "Short of that, government growth will continue unabated, you can depend upon it."

The governor said that during the last year the rate of government growth had slowed to 12.9 per cent, but if that rate were projected 10 years into the future, the costs of government would have soared "into the stratosphere."

Hammond also praised the recent agreement reached between the federal Environmental Protection Agency and Ketchikan Pulp Co., the agreement between the U.S. and Canadian governments to pave the portion of the Alaska Highway between Haines and the U.S.-Canadian border near Beaver Creek, and the prospects for development of a molybdenum deposit by U.S. Borax near Ketchikan.

Hammond also roundly criticized the Anchorage Times, saying the newspaper's reports of information from the state pipeline coordinator's office about the state's position on natural gas pipeline routes led people who were at the meeting to believe the newspaper was reporting on an entirely different meeting.

He also criticized the Times for questioning his attitude toward the development of the molybdenum deposit, saying the newspaper preferred "apparently instead that we should have begged Borax to accept the state's blank check."

The state's position has been to allow the project to continue if it proved to be both environmentally and economically sound, Hammond said.

But Hammond said the most important development during the recent election was the creation of the state's permanent fund.

Lipton: Alaska Isn't Getting Fair Tax Share

By SUSAN ANDREWS
Times Staff Writer

Consultant Milton Lipton said ere yesterday the state of Alaska is ot receiving its proper share of income tax from oil and gas.

He told the legislature's interim Committee on Oil and Gas Taxation and Leasing Policy that a net proceeds tax is the "most desirable" vay to separate out income earned ere.

Lipton pointed out that oil companies are subject to Alaska's 9.4 er cent corporate income tax. But Alaska is a member of the Multi-State Tax Compact, in which income s apportioned to the various states. There are "gross inequities"in the mount of income tax paid to Alaska because of that apportionment. If income is not directly realized within he state, it eludes identification, he said.

He said a net proceeds tax, a tax n lieu of the income tax, would avoid legal obstacles resulting from Alaska's membership in the compact. The net proceeds tax is a tax on income from oil and gas properties, after certain allowable expenses have been deducted.

Lipton said the net proceeds tax would result in the oil companies paying more income tax to the states than at present. Alaska would not simply receive more of the pie. If it results in double taxation, then he said, that is a matter for the oil companies to work out with the other states who are receiving a larger share of income tax than is equitable.

An important aspect of in-lieu taxation, he cautioned, is a provision for crediting it against a company's corporate income tax.

State Rep. Terry Gardiner asked whether the same inequities would apply to income taxes paid in Alaska from production of fisheries and timber.

Legislative Research director Gregg Erickson said it is his understanding that one of the largest Japanese-owned forest products companies has never paid any income tax.

Rep. Hugh Malone, D-Kenai, said those questions need consideration by the legislature but "are beyond the scope of this committee."

The net proceeds tax was one of three tax proposals introduced during the last session of the legislature on which no action was taken. Sen. John Huber, D—Fairbanks, said yesterday the net proceeds tax will be reintroduced, along with an increase in the severance tax, to bring Alaska in line with Louisiana, which has a 12 per cent tax on gross production. The third tax proposal, also expected to be considered again, is an "excess value surtax," or "windfall profits" tax aimed at Prudhoe Bay production.

Lipton, who serves as adviser to a number of oil companies as well as the governments of Alaska, Alberta and Indonesia, advised the committee that it is appropriate for the legislature to review the severance tax now.

"If there is an increase, it ought to be moderate," he said, "not out of line with the top rates in other states. And it ought to retain the idea that the severance tax is related to well productability."

Alaska's severance tax now ranges from 5 to 8 per cent, with the highest-producing wells paying the highest percentage. Lipton suggested that Alaska increase the percentage at the top and lower it at the bottom, so that marginal wells would not be discouraged from production.

Lipton was asked how the net proceeds tax would affect native corporations.

He said if their activity was conducted solely within Alaska, they would be directly subject to the 9.4 per cent corporate income tax. He pointed out that rate would apply to all their income, after subtracting losses. If the state goes the "in lieu" route, oil and gas income would be segregated from other income and losses from other activities could not be subtracted.

Committee Chairman Sen. Chancy Croft, D-Anchorage, asked if Lipton could have suggestions for the "in lieu" approach by mid-December, for the committee's consideration. He said that would be possible.

OIL, GAS CONSULTANT VISITS

Consultant Milton Lipton, at right, who is in Anchorage to meet with the legislature's interim committee on oil and gas taxation and leasing policy, chats with Deputy Commissioner of Natural Resources Jack Roderick prior to yesterday's meeting. With them is Mrs. Lipton, who accompanied her husband to Alaska.

...rding the severance tax, said his firm, Walter Levy ...ociates, did not endorse the ...r-barrel base which the leg... adopted. He said in the case ... Inlet oil production, the ...r-barrel clause has resulted ...dily-increasing tax burden, while the price of oil has been held rigid by price controls. He said a 1,000-barrel-a-day well in Cook Inlet now pays 23.6 per cent severance tax.

If the legislature retains the cents-per-barrel formula, Lipton suggested that it be structured so it doesn't retain the present inequities.

"The severance tax belongs in the total Alaska tax package," Lipton said, "but it ought not to be the determining tax in Alaska's income from oil and gas. If it were, that could have an adverse effect on exploration and development."

East Coast is set for big Atlantic oil search

By STEVEN RATTNER

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DAVISVILLE, R.I. — Two years ago, the Navy's vast marshaling yards and piers here, once a booming staging ground for equipment destined for military installations around the world, were abandoned in a wave of cutbacks.

Now, thanks to the advent of offshore drilling in the Atlantic Ocean, the potholed roads and cracked concrete yards are wearing a new face as oil companies and their suppliers begin mobilizing men, drilling rigs, and supplies at this former Navy construction base for the first wave of exploration.

IN AUGUST, 33 companies successfully bid $1.13 billion for 93 tracts in the Baltimore Canyon Trough off the New Jersey coast, about 125 miles from here, but before the drilling can begin, court challenges by environmentalists must be cleared and permits issued by the government. A few continue to predict that the first drill bit will turn by the end of the year but most now expect no action before next spring.

Meanwhile, about 30 of the various companies have taken space here and some of the equipment has already arrived, such as the rows of brightly painted tanks intended to hold thousands of gallons of "mud," a chemical mixture consisting partly of crushed walnut shells used to lubricate and seal drill holes.

The more easily moved items the ungainly rigs, the 200-foot supply boats that will ply the north-south route, and the hundreds of oilmen will mostly await a more definite startup date. As the exploration crests, a year from now, boxcars of supplies will be dispatched to the former Navy base, where the material will be sorted, packed aboard the supply ships and dispatched on the 12-hour run to the rigs.

SOME OF THE FIGURES are staggering. For example, each rig will ultimately need perhaps 15,000 30-foot lengths of drilling pipe. And Exxon alone estimates that it will be buying more than 40,000 gallons of water and 240,000 gallons of diesel fuel each month.

"Atlantic oil is going to be an enormous operation and we plan to be at the center of it," said John B. Dari, a transplanted West Virginian and division director of the Rhode Island Port Authority, which is leasing the 100 acres. "We may not be another Gulf Coast but if we get half that much we'll be doing real well," he added.

The keystone of the effort is the drilling rig and, as is the practice, the successful bidders have already begun to contract with companies who are specialists in exploration. The biggest bidder, Exxon, the nation's largest company, has hired Western Oceanic Inc. of Houston to bring the Pacesetter III drilling rig.

THE PACESETTER, like all the other rigs planned for this wave of drilling, is a "semi-submersible," meaning that, while from above water it resembles the familiar flat production platform, actully most of it floats beneath the water, anchored by long cables. From this perch, it can produce as many as two dozen wells by boring into the ocean floor at different angles.

Another semi-submersible, the Pedro J., visited Rhode Island some time ago when two "cost wells," designed to bring up the rock samples that provide the companies with clues to the oil and natural gas possibilities, were dug.

That operation left behind oil spill cleanup equipment belonging to Clean Atlantic, a consortium of the drilling companies, which functions in the case of an oil spill like a fire department at a fire. The equipment is rushed to sea, where plastic booms are used to contain the flowing oil while a suction device, looking like a giant vacuum cleaner, draws it into a separator. The oil is saved and the water poured back.

AND EVEN AS THE COMPANIES prepare to drill in the Baltimore Canyon Trough, they are looking ahead to the Georges Bank Basin, another promising oil and gas location east of Cape Cod, where one cost well has already been completed and another is tentatively planned for late next month.

In anticipation, a supply ship, the Calico Jack, arrived here last week and the Ocean Victory, yet another semi-submersible belonging to the Ocean Drilling and Exploration Company, is on its way here from the North Sea. At 254 feet high, when it arrives on Nov. 18 or so, it will have to be submerged by 70 feet to pass under the nearby Newport Bridge.

The state is leasing the facilities to the oil companies for a trifling sum, on the theory that the rewards are high. Most of the supplies needed by the oil companies — fresh water, fuel oil, groceries, hardware ranging from clamps to cable and talented machinists — will nearly all be provided by local concerns. In Rhode Island, one of only two states to lose population between 1970 and 1975 and still suffering from double-digit unemployment, the economic relief will be particularly welcome.

RHODE ISLAND authorities have mbitious plans for their new ndustry. The white clapboard forner admiral's residence sitting mpty on top of a small hill is intened for the local petroleum club. wo or three years down the road, ey estimate, 2,000 oil workers will e on scene and, at some point, hode Island even hopes that the idery production platforms will be ilt here.

But potential obstacles loom. For e thing, while the oil companies intain that they have chosen visville because it is the most kly usable facility, at 12 hours low boat, it is too far for a perent supply point. For another, de Island faces competition its neighbors — nearby New ord, Mass., for example, is senlocal workers to the Gulf Coast aining in oil production.

d from the onset, most of the oil cers plan to use Atlantic City e terminus for the airborne of men to and from the rigs.

Economist Describes Study He'll Make Of Lease Policy

A University of California economist yesterday outlined a $35,000 leasing policy study he has been contracted to conduct for the Legislative Council subcommittee on oil and gas taxation and leasing policy and the Department of Natural Resources.

Mason Gaffney, professor of economics at the Riverside, Calif., campus, Saturday told the subcommittee his study is in the preliminary stage and he was appearing to solicit input.

The purpose of the study is to review alternative gas and oil leasing policies used in the past and being developed, Gaffney said. "The function of the study is not to arrive at immediate conclusions, but to serve as a basis of debate in the 1977 legislature — and probably forever thereafter," he said.

Gaffney will study leasing policies in other countries and will encompass considerably more than a report released last year by the Department of Natural Resources' division of oil and gas conservation, director Hoyle Hamilton said.

Earlier in the meeting Hamilton briefed the subcommittee on tentative findings of Prudhoe Bay oilfield reservoir studies conducted by his division.

Gaffney explained the tasks he was assigned by Natural Resources Commissioner Guy Martin, cited the objectives of the study and listed a number of alternative forms of leasing and disposition of lands.

Martin directed Gaffney to produce an economic analysis of present state leasing policy; an analysis of alternative systems practical for use in Alaska; an economic and legal analysis of the interrelation of leasing and taxation alternatives and to spell out specific guidelines for administrators to follow in deciding among alternatives.

Gaffney listed what he said he thought were the 10 objectives of the subcommittee and the department in conducting the study: appraise the value of reserves in the ground and how much money can be collected for the state treasury; protect the environment; insure a smooth flow of cash, jobs and goods; encourage competition; encourage local participation; consider practicability for administrators; study the impact on the community; minimize an unequal distribution of wealth among lessees; insure openness of information and procedures to public scrutiny and maintain a high level of incentives.

Subcommittee Sen. Chancy Croft, D-Anchorage, said the study should also consider coordinating lease sale timing with native land claims settlements.

Gaffney detailed several possible leasing policy alternatives; including: bonus bidding, royalty bidding, profit share bidding, rent share bidding, land share bidding, work commitment bidding, volume bidding, contract exploring and sale fee simple title.

In his briefing on the Prudhoe Bay oilfield, Hamilton said the reservoir covers an area equivalent to the entire Anchorage municipality stretched to include Eagle River. At its deepest point the reservoir extends a distance twice the height of the Anchorage Westward hotel tower, he said.

The study was conducted in two phases at a cost of $340,000 and over a period of 21 months. The study estimated Prudhoe Bay oil reserves at 19.1 billion barrels and gas reserves of 35.1 trillion cubic feet.

As much as 80 per cent of the gas is recoverable, but only 40 per cent of the oil is, Hamilton said. The study concluded oil recovery would be limited to 7.8 to 8 billion barrels for any mode of operation.