

ALASKA LEGISLATURE SPECIAL COMMITTEE / SUBJECT FILES 8672

1029 SCOMM 28: JOINT GAS PIPELINE COMMITTEE, 1981-82

P R O C E E D I N G S

6/24/81

MR. RAY:

The Free Conference Committee on House Committee Substitute for Senate Bill 524 please come to order. Commissioner Williams? With the agreement of the Committee it's the request of the Commissioner to make a few remarks.

COMMISSIONER WILLIAMS:

Thank you, Mr. Chairman. What I'd like to do is very briefly explain the rationale for the 3 factors that are used in the formula for apportionment in the bill that was referred to yesterday as Dankworth 3. Under the Multistate Tax Compact the 3 standard factors that are used for measuring business income in a state are the ratio of property, payroll and sales in that state to the worldwide property, payroll and sales. And then you take the average of those 3 ratios, and that gives you your apportionment factor. With respect to an industry such as oil and gas, particularly the oil and gas industry, those factors are not completely appropriate for the circumstances. That's why one of them is deleted in the version of the bill, and is replaced with an extraction factor. What happens is payroll is deleted so you have a property factor and a sales factor, but you do not have payroll - instead you have extraction. The reason for this

1 is simply -- well, first let me explain the deletion of
2 the payroll factor. The reason for the deletion of the
3 payroll factor is this is an enormously capital intensive
4 industry. When you compare their capital investment per
5 employee vis-a-vis other industrial corporations you find
6 that the ratio is 4 to 5 times higher. And that's something
7 that has held up over the last 5 years. That is to say,
8 they have 4 or 5 times as much capital per employee as
9 a steel mill or car manufacturer, something like that --
10 this is on average. The -- to give equal weight then to
11 payroll -- well, before I get to that. They have this
12 enormous capital intensiveness; they have very large
13 sales, of course, yet their profitability per dollar of
14 assets is about the same as the industry, as American
15 industry all together. It's a few percent difference,
16 but it's not grossly out of line. Similarly, their return
17 on their sales volume as a percentage is not very
18 different from their return on sales that industrial
19 corporations in the United States generally have. When you
20 look at return per number of employees, once again, you
21 find that the factor is very, very much higher - by a
22 factor of 4 or 5 dollars of profit per employee rather
23 than you have dollars of profit per employee for industry
24 as a whole. What this means, then, is that if you give
25 equal weight to the payroll, which is essentially how many

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1 employees you have in a state versus all the employees
2 everywhere of the firm, you are overstating the amount
3 of business income attributable to those employees. Thus,
4 we believe that it is appropriate to delete the factor,
5 and support its deletion. Now replacing it with an
6 extraction factor is to remedy a defect that you
7 have in the property factor. The property factor works
8 fine when you have an ordinary business that is simply
9 using land - you look at the value of land; you look at
10 the value of the buildings on it; and that ratio is
11 used. For a steel mill that works very fine. And after
12 a hundred years or 50 years when the steel mill is all
13 done producing steel, you still have the land behind.
14 You haven't destroyed or consumed the land. It's a very
15 big difference when you have an oil field. After 50 years
16 the oil is gone. You still have the use of the land, and
17 so when the production equipment is taken away you can
18 put something else in. But something that was there is
19 gone, and gone forever - or at least for 50 million years.

20 MR. RAY:

21 Could I interrupt you? Would you please close the door?
22 There's a considerable amount of noise here and some of us can't
23 hear too good. Thank you very much. I'm sorry, Commissioner.

24 COMMISSIONER WILLIAMS:

25 That's okay. Thank you. So the purpose of an extraction

1 factor, then, is to recognize the limitation of the
2 traditional property factor. That property reflects the
3 use of the property and the man-made things that are
4 placed on the property. But it does not adequately
5 reflect the fact that in an extractive industry you are
6 removing something from the land that is no longer there.
7 So it seems to us to be appropriate, again, to recognize
8 that fact and incorporate an extraction factor. That's
9 basically the gist of my comments today. Unless there
10 are questions, that's all I have.

11 MR. RAY:

12 Are there any questions from members of the Committee?

13 Thank you very much, Commissioner.

14 COMMISSIONER WILLIAMS:

15 Thank you, Mr. Chairman.

16 MR. RAY:

17 Gentlemen, we're in the position now -- sir?

18 MR. MALONE:

19 Thank you, Mr. Chairman. I do have a question on the
20 proposal that the Commissioner is speaking to.

21 MR. RAY:

22 I'm sorry, Representative Malone. I ...

23 MR. MALONE:

24 Thank you, Mr. Chairman. Commissioner Williams, in the
25 compromise proposal, I guess number 3 is being described,

1 if I've got the right lingo,
2 how would the new proposed tax law discriminate between
3 companies that may be engaged in several types of businesses,
4 including oil and gas, and those that are engaged in oil
5 and gas? In other words, how would you know where to
6 apply the apportionment formula to their income if you have
7 a consolidated return, if a company has had some oil and
8 gas business and then some other business activity that
9 was not oil and gas - how would you break out the
10 apportionment formula to concentrate that on their single
11 tax return?

12 COMMISSIONER WILLIAMS:

13 The Department always has had the option of allowing the
14 individual entities to report on their own return, and,
15 in fact, for instance, in the split between those, under
16 present law, those who are engaged in oil and gas are under
17 Chapter 21. They file a return under Chapter 21 with
18 all the calculations under that Chapter. If they are
19 part of a consolidated business, and there are other
20 corporate entities in the State who are also in that
21 consolidated business that aren't engaged in Chapter 21
22 activities, they file separate returns under Chapter 20.
23 The Department can require combined returns from those
24 other taxpayers, or it can allow separate returns to be
25 filed for each of those taxpayers. That rule would

1 presumably continue under this. There would be no reason
2 for it not to.

3 MR. MALONE:

4 Okay, so if you had a company that was engaged in various
5 types of businesses, and they were subject to apportionment,
6 being, say, a company that had reason to use some
7 apportionment for their income, then how would the
8 extraction factor fit in? It would only fit in to that
9 portion of their income that came from oil and gas? Or
10 would it cover those portions of their income that came from
11 other types of activities as well? Or would you use a
12 standard 3 factor apportionment formula there? That's a question, again,
13 how would you break that out?

14 COMMISSIONER WILLIAMS:

15 It would depend on the individual circumstances of a
16 corporation. But if it was appropriate in a given set
17 of circumstances you could look at -- let's say they were
18 in a mercantile enterprise, selling curtains -- and
19 it was appropriate in those circumstances to look at
20 the curtain sales separately we could apply the 3 factors
21 to the curtain business, and apply the other, the special
22 factors here to the oil and gas business income. The
23 Internal Revenue Code talks about unitary businesses,
24 and although we are using the term here consolidated
25 business, we are using that in a sense of who you can look

1 to gather to combine, in looking at that business.
2 Typically, for instance, where you have an oil company
3 and it owns a department store chain, the oil company is
4 engaged in one unitary business - the department store
5 chain is a different unitary business, and it would report
6 separately. And that would probably continue. They would
7 be different businesses.

8 MR. MALONE:

9 Well, what I'm getting at is that, you move away from the
10 standard 3 factor apportionment and put in an extraction
11 factor. And then you have a business that may be engaged
12 in various lines -- which one applies? And if the
13 extraction factor is carried over to the total income,
14 where, in fact, it might not make sense to apply it there --
15 whether that puts anything other than the conventional
16 3 factor formula in sort of a dangerous position?

17 COMMISSIONER WILLIAMS:

18 The way we would resolve that is either on an individual
19 case basis, or perhaps by regulation. I'll clarify it
20 to make it clear that the intent is to look at the type
21 of business. If you have an enterprise that's, as I say,
22 engaged in a mercantile operation of some sort, and another
23 one that's -- and part of its activity is as a wholly
24 owned subsidiary -- yet it is primarily also engaged in
25 oil and gas, You look at the type of business that it's

1 engaged in. You could, under the appropriate facts, say, the
2 mercantile business, department store or whatever it was,
3 was one unitary business, and the oil and gas was the other
4 unitary business. You then look at the business income
5 of the oil and gas unitary business and apply the 3 factors
6 under this section 72 and come up with the oil and gas
7 business income that was earned here. When you got over
8 to the mercantile unitary business, you would apply the
9 standard 3 factors, since the oil and gas factors aren't
10 apposite there, and you look at the mercantile business income,
11 apportion it according to the mercantile factors, the
12 standard 3 factors, and that would be the taxable income
13 from the mercantile business.

14 MR. MALONE:

15 Thank you, Mr. Chairman. I don't have any further
16 questions along that line. I would say, though, that
17 I think that that is a serious issue when moving to a
18 apportionment factor that may not be applicable to all
19 the types of business operations that a company is engaged
20 in. I think that that at least raises a question in my
21 mind as to how something like that would work.

22 MR. GARDINER:

23 Mr. Chairman, I don't have any more questions on ...

24 MR. RAY:

25 Were you trying to get my attention for some reason?

1 MR. GARDINER:

2 No. I will at some point when you are done here.

3 MR. RAY:

4 Well, then it would be within my prerogative to ask the
5 Committee at this time if they have any considerations,
6 or any proposals? Senator Dankworth?

7 MR. DANKWORTH:

8 Thank you, Mr. Chairman. As we discussed when I first
9 started, when we first opened that Committee, that I
10 had laid a couple of amendments of different types on
11 the table for our discussion over the last few days.
12 One was the settlement agreement. I think that's had pretty
13 thorough discussion. The second one was a proposed
14 settlement -- excuse me, I don't mean the word settlement.
15 It's a compromise amendment taken from the settlement
16 agreement. And the third one is the one that-- there were
17 some corrections that were made, including the Halford
18 amendment on page 3 -- that's before us now, and
19 I was just laying on the table, if it's permissible from
20 the Chair, that I'd like to offer that now as a Substitute
21 for the Committee, to consider that as a Substitute for
22 the Free Conference Substitute for Senate Bill 524.

23 MR. RAY:

24 Is that a motion, sir?

25 MR. DANKWORTH:

That's a motion.

1 MR. RAY:

2 Is there any objection?

3 MR. GARDINER:

4 Yes. Mr. Chairman, I'd like to offer -- if that's being
5 offered as an amendment to -- the only way I can do it
6 is offer an amendment to an amendment -- a couple other --
7 one bill that I offered yesterday to the Committee, and
8 a variation of that bill. So if that's the way you'd
9 like to conduct it.

10 MR. RAY:

11 Well, I suppose that it would be proper to move any
12 proposal that you have as an amendment and it's the
13 will of the body which one they pick or choose. I would
14 imagine, then, that a majority of 2 from each side
15 would make a determination as to which proposal would be
16 considered. We have a proposal before the Committee at
17 this time. I know that I am stepping outside of my
18 authority, but if I could ask you, Representative
19 Gardiner, does your amendment have any significant changes
20 other than what we have discussed yesterday?

21 MR. GARDINER:

22 Yes. Mr. Chairman, I have a proposal I made yesterday
23 and a variation of that that meets the third criteria of
24 the Governor's letter that none of the other proposals
25 that we've had before us do. That's why I would ...

1 MR. RAY:

2 And then it would be up to me to request that Senator
3 Dankworth, or to ask his feelings if he wants to hold
4 his motion in abeyance to give you opportunity to talk
5 to the Committee or to make a presentation to the
6 Committee. Otherwise, we have a motion pending.
7 Senator?

8 MR. DANKWORTH:

9 Mr. Chairman, if Representative Gardiner would like to
10 discuss another proposal, I'd be glad to withdraw my
11 motion to adopt the position I have for the purposes of
12 letting him discuss his amendment. If he wants to
13 move his, then fine.

14 MR. RAY:

15 Then I would ask, because of the time constraints, and,
16 of course, that to the will of the Committee that we
17 address the portion that we have not addressed previously,
18 if that's agreeable with the Committee.

19 MR. GARDINER:

20 Okay. There's a one page sheet that makes it real simple.
21 It just compares what I offered yesterday, and what I'm
22 offering today, and Senator Dankworth's bill, five of
23 the Governor's criteria that he stated in his letter.
24 Mr. Chairman, I think the difference -- the one criteria
25 in the Governor's letter that is not met, I think, by both

1 the proposal that I made, which I'm calling compromise
2 1, there yesterday, is the protection of the revenues at
3 risk. Under both the approach I offered yesterday and
4 under Senator Dankworth's bill as offered, the existing
5 money under 43.21, which the Attorney General said will
6 be \$2 billion -- we'll just have to litigate that and
7 see what happens -- it puts a lid on it. But that
8 \$2 billion is still at risk. And we're not going to know
9 for some years what happens to that \$2 billion. It does
10 have the benefit of, you know, cutting off increased
11 risk. But we will have \$2 billion at risk. What compromise
12 2 there does is it puts in a backstop, which is repealed
13 in 1985, which is at the time people estimate the suit
14 will be resolved -- but it has the effect of simply
15 backstopping those revenues at risk under 43.21 that has
16 no collection caused under it. It's at 17 mills, rather
17 than at the 30 and 20 that was in the original backstop
18 bill which the House passes. So that has the effect --
19 they credit everything that they pay under 43.21 against
20 the reserve tax of 17 mills. It grants them the warts
21 and the windfall profits deduction as in the other bill.
22 But I think that's an important criteria. One of things
23 that's not, again, backstopped beyond the \$2 billion is any
24 new suit generated over the bill that Ed has offered,
25 over the new apportionment formula, whatever is litigated

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1 over that will be at risk. We don't know whether that will
2 be litigated because it isn't in law yet. And we won't
3 know maybe for a while. But this second bill, I think, meets
4 the original criteria - it protects the State's revenues
5 in a better format than either of the bills. It improves
6 our legal position by passing the warts and granting the
7 windfall profits deduction. But it goes to a third
8 criteria, and that is it totally protects the revenues
9 at risk, that I don't think the other bills do.

10 MR. MALONE:

11 Thank you, Mr. Chairman. I'd like to speak to the
12 proposal also. The -- as Representative Gardiner outlined,
13 in the alternate proposal the revenues collected under
14 43.21, with the technical amendments and the windfall
15 profits tax exemption provided, the remaining revenues
16 would be protected under the proposal, at least to some
17 degree. Not at 100%, but by the time that the tax expires --
18 that the reserves tax would expire -- there would be a very
19 small amount of uncovered revenues. I think that that's
20 an important question. Right now the liability that exists there
21 is on the order of \$1 billion and will climb rapidly.
22 Or if it doesn't climb rapidly, then we face, because of
23 a new apportionment formula, then I think that we face
24 possible legal problem with the new apportionment formula.
25 I think that the, basically the approach is to use the

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1 severance tax to offset at least a portion of the revenues
2 from the windfall profits tax deduction and the technical
3 amendments. And then use a reserves tax to offset all but
4 not -- a portion of but not all of the revenues collected
5 under 43.21. That has the advantage of not raising any
6 new issues, or giving any real potential for new issues
7 arising because the basic parts of the law aren't being
8 completely rewritten, they're just being cleaned up. And
9 protects the State's income through a very traditional --
10 or most of the State's income collected under the remaining
11 provisions of 43.21 -- under a very traditional form of
12 state and local government taxation. I think that the
13 approach has the certainty that would be needed, and I
14 think if that approach were adopted by this Conference
15 Committee, and adopted by the legislature, I think it
16 would eliminate the need to address this question again
17 in this legislature.

18 MR. RAY:

19 Commissioner Williams, have you had an opportunity to look
20 at this proposal at all?

21 COMMISSIONER WILLIAMS:

22 Just now.

23 MR. RAY:

24 Is there any discussion on the proposal? Are there any
25 questions by any of the members to the proposer? That's

1 the end of your presentation, sir?

2 MR. GARDINER:

3 Yes. I'd just say one thing. I think it covers that
4 one criteria that the other bills we are looking at
5 doesn't - that protects the State's revenues at risk.
6 You know, people have talked about reserve accounts
7 and what about that \$2 billion hanging out there, and
8 what about new suits -- and I think that that's where
9 this bill goes farther than the other bills, and it still
10 has the same financial impact on the producers that the
11 other bills have. You know, we are basically not
12 arguing over how much -- you know, the bills have about
13 the same revenue effect. But the question is, how much
14 it protects what's at risk. And I think this goes further.

15 MR. RAY:

16 Representative Malone, did you have something further?

17 MR. MALONE:

18 No, I think Representative Gardiner said -- I think the
19 other thing is that no new issues would be introduced into
20 possible litigation. That's another advantage of this
21 bill.

22 MR. RAY:

23 That ends the discussion on the proposals. Is there any
24 discussion from any of the members on any of the proposals?
25 Are there any questions necessary to be answered? The

1 Chair is open for motions. Senator?

2 MR. DANKWORTH:

3 Mr. Chairman, I'd like at this time to -- after hearing
4 that discussion -- I'd like to replace my motion that I
5 just had prior to that discussion. And that we adopt
6 that which has been passed out and better known, I suppose
7 as Dankworth 3, and have that as the Committee Substitute
8 for Senate Bill 524, I suppose, would be the motion, or
9 let it be Free Conference Committee Substitute for Senate
10 Bill 524.

11 MR. RAY:

12 For identification purposes, the proposal that is being
13 suggested is this Dankworth 3.

14 MR. GARDINER:

15 Is that changed from yesterday?

16 MR. DANKWORTH:

17 Yes, it did. It had -- the only addition has been that --
18 and I think I spoke to it a moment ago -- is that it
19 has the Rick Halford -- on here ...

20 MR. RAY:

21 The changes in this bill, to my knowledge, are on page 3.
22 Lines 9 and 10 have been changed to 4 million -- from 2 million
23 to 4 million.

24 MR. DANKWORTH:

25 With that, sir, I move the Committee Substitute.

1
2 MR. RAY:

3 The motion before the Committee is to adopt Dankworth 3
4 as Free Conference Committee Substitute for Senate Bill 524.
5 Is there discussion? Are you ready to vote? Stand at
6 ease. The Committee will come back to order. There is
7 a technical change on page 15, line 5. A "b" should be
8 "h". Line 15, I'm sorry. They haven't any "b".
9 I thought it was pretty far down on the page to be 5,
10 but I thought...

11 MR. GARDINER:

12 "H"?

13 MR. RAY:

14 "H". It should be "h" instead of "b". Is that change
15 agreeable with the Committee? Is there an objection to
16 that? We have the motion before us is for the adoption
17 of Free Conference Committee Substitute for Senate Bill 524.
18 And that Substitute is the Dankworth 3 amended. Are you
19 ready for the vote? All those in favor do so by holding
20 up your right hand. All those opposed. Let it show
21 that the 3 Senate members were in favor. Representative
22 Halford and Representative O'Connell were in favor.
23 Representative Gardiner was opposed. Does anybody want
24 to change their vote? Then the Free Conference Committee
25 Substitute has been adopted. Yes.

1 (conversation between Mr. Ray and Mr. Dankworth)

2 MR. RAY:

3 Before I sign this I am going to take the privilege of
4 the, as the Committee Chairman. I have a few words to
5 say. I personally feel that, as a legislator and as a
6 member of this legislature, that I owe an apology to
7 the people of this State for the manner in which we have
8 handled this entire oil taxation policy. I believe
9 that until such time as we can establish in a competent
10 court of jurisdiction, a firm taxing policy so
11 that we know exactly what we are doing, we will never
12 have any fiscal responsibility, we'll never have anything.
13 That was one of my preferences as far as the settlement
14 is concerned. I will be more than happy to go to a
15 settlement in a court of law. That doesn't bother me a
16 bit. In fact, I think it would assist us, as legislators,
17 to make that determination so we'll know once and for all
18 exactly where we stand and what we can do. 'Til that
19 time any settlements and continual tinkering and fooling
20 around with this thing, we'll never get anywhere. That's
21 my own personal opinion. If I owe an apology to the
22 Committee - you have it. 24th today? Copies of the
23 Free Conference Committee report. The meeting is adjourned.

24 (meeting adjourned)
25

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I, JUDITH R. JONES, a Notary Public, duly commissioned and qualified in and for the State of Alaska, do hereby certify that the foregoing June 24, 1981 meeting of the Free Conference Committee on Senate Bill 524 was recorded by me and thereafter transcribed by me or someone under my direction.

I further certify that I am not a relative of any of the parties nor financially or in any other way interested in the outcome of the proceedings.

Notary Public, State of Alaska
My Commission Expires: 11/30/84

SCOMM

28:10

MALE VOICE: We will call the formal meeting together and call up the House Bill 211 and I would like to call on Byron Malott, Alaska Federation of Natives President. Would you please state your name for the record.

MALOTT: Byron Malott, President of the Alaska Federation of Natives.

MALE VOICE: Im not sure Mr. Malott how you would like me to proceed I do have a number of comments on the House Bill 211, a number of issues that ???? that VOICE IS VERY FAINT.....

MALE VOICE: Mr. Malott, I think that we would like to get your stand for the Federation of Natives on the House Bill 211 if you have something.

MR. MALOTT: The AFN has formally taken a position on this particular piece of legislation I guess I can admitt to some surprise that this particular piece of legislation in light of the fatality of what is happening would be to in Washington in pursuit of this particular time I understand it that it speaks, the land use planning ???? Senator Gravel is proposing in legislation that he is in the process of drafting an idea that he is pursuing for several years now the reaction and generally in the past has been decided negatively. I have a number of concerns that the legislation, I think that one major problem with the bill is that it doesnt speak to or how policy will be developed to build a state wide planning system and creating a single state wide body without any local or regional or any kind of system to allow the kind of input that would make the system work. One of our concerns is and has been consitently been that planning probably works best if it does have significant local and regional input in a very formal kind of way, and I think that in that regards is particularl against the

legislation is lacking. I think that it is important to note also Mr. Chairman that there is no question that the Native land owners would be most significantly impacted in the future when you start looking at this general proposition of state wide land use planning and the largest single private land owners there is no question that that is going to continue to be the case for a long time to come, but I think that any legislation needs to recognize that circumstance because we aren't like any other private land owner, we own roughly 12% of the total land management of the state and we will own lands of today to us roughly 1/3rd of the amount of the state itself will own, I've got problems with Senator Gravel's bill speaking to the appointment for example the Native by the Governor and the Secretary if 80% of our lands are placed within the jurisdiction of this land use planning system, to me that is the ?????? in our participation of the voluntary and that the special fact that native origin needs to be recognized that the other concern we have which the Gravel legislation and I mention that because there seems to be a state piece of companion legislation is the obvious use of ?????? writing into federal legislation some kind of study of the possibility of state wide property tax. ?????????? MUMBO JUMBO..... put a scare into the natives which would be the study of the state wide property tax and not the negative encouragement to us to op to place a land ?????????????????? which is concentrated on by the legislation. But getting back to the recognition of our land ownership, I think that if this bill is going to be pursued that we would offer specific amendments to have a certain number of members of this commission reinstitutionalize by designated two or three scenes for private land owners in a way that it would suit them, native land owners would definitely apart of the policy, planning ???????? contemplated by this particular legislation, for a general comment we would be opposed to any legislation that wasn't based on a recognition of common planning that didn't provide for equal participation by all parties in land use of planning.

MR. MALOTT:

I wasn't based on good faith, understanding this business of writing legislation to some how compel private land owners to become part of the system, opposed to other more positive approach to mutual beneficial agreements, I think that this ?????????? Very Garbled..... Discuss this with Senator Gravel and get federal legislation he at this point he still thinks that it needs to be tied kicking and screaming into this kind of process, so he still feels somewhat strongly about having those kind of features in legislation, I don't think that that is necessary because we do believe,, and they may have been for example the spending only major institution that is joined to a private institution that has joined the state, and the land use commission is calling for some kind of land use management system. In any federal D-2 legislation you must show ????????... Again being sensitive to the concerns that prompt this kind of legislation ?????????????? did send a letter to Secretary Atkins about a month ago calling for the Secretary to begin the process of intermanagement on all federal lands in Alaska and use his good offices to urge the state to participate in that type of planning process and pledge that native land owners in Alaska will cooperate in every way that we could work with him to begin the process of somekind of cooperative system of land management in Alaska. Those are general comments Mr. Chairman and I haven't singled out any particular feature of legislation specifically but willing to while .????????????????.....

MALE VOICE:

Are there any questions from the committee? HUMBO JUMBO..... I would be interested in hereing specifically and what is to the bill, I would point out this 211 77 ?????? /????????????????? the usual bill itself usually has more ?????????????????????????? than say specifically to be to draft Senator Gravels.

MR. MALOTT:

We would for example propose that the new sub-section be added on to page 1 exception 41 4145040 the new sub-section C which would

MR. MALOTT:

be essential to the members of the, well first we would change the amendment to suggest that the number of comission members expanded from 7 to 9 and we would add a new subsection which would be essentially 3 members of the comission shall be private land owners and representatives of each land owners shall be appointed by the government ?????????, VERY FAINT.?.....Participation of private land owners ????????// a little bit earlier The bill that I have a copy of has a page 3 line 13 and 14 deletion after the word landowner and Im not sure what ?????? or if it was an amendment ????????????? that I first mentioned ????????????? deletion?????????. On page .???????????????????????????????? I might mention Mr. Chairman in the D-2 legislation that is presently being acted upon in the house HR-39 AFN has worked vigurously to land ?????? idea that has been approved by the subcommittee. I am pretty certain we can get it through the house has not been any major position to that concept that even the state administration to begin conceptual ???? that is the idea....

MALE VOICE:

Mr. Chairman I just wanted to say the same thing Mr. Snyder did, I think that maybe you were under the impression that this companion legislation was introduced by members of the house, Senator Gravel and that what Senator Gravel ????????? it is possible ????????? accompany his but as Mr. Snyder says this was introduced over a year ago, at that time we didnt even know that Senator Elect had in mind.

MALE VOICE:

It seems to me as Chairman that if Senator Gravel is to introduce this bill this concept with federal appointments by the Secretary of Interior that two bills would have to be conforming to some point or other I did read a transcript of the ?????? lease ??? I assume that Im not sure of the future of this ????????? the co chairmans opposed to the single rational ????????????? But I guess basically what we are saying is that, I would like to back up for a moment if I could, the other feature that I think is

MALE VOICE:

intriguing is Senator Gravel's approach to the idea of folding in policy making or a number of other federal statutes effect ?????? bringing those acts jurisdictions ?????? commission coastal management act, clean air act, water quality standards and I doubt that he can achieve that ???????? Blood Sweat and ??????????????VERY MUMBO JUMBO..... If that were able to be accomplished it is an Alaskan commission to assume responsibility for policy making implementation for those federal statutes that regardless if we do anything or not is very significant in fact on Alaska and I think that there is a whole lot of ????? that is said??????????/

MALE VOICE:

Mr. Malott I dont believe that the natives want to put their private land into this thing, -----

MALE VOICE:

The way the bill is now we would have problems with it, as I said we are able to become part of an overall management planning system based on good faith and agreements voluntarily entered into, served particular origin for this hopefully as well as publicly, I dont think that there will be any major problems, I wouldnt want us to be, Senator Gravel's legislation is essentially black mailed to have participants in order to ?????????????? In any event I think the federal congress will take care of us, if that is the question????? ??????

MALE VOICE:

Do we have any other questions?? Do you want to continue on?

MALE VOICE:

I would just like to state that there are a number of things that natives are concerned with in their land ownership, both in their lands and other public ????? federal and that is continued protection to maintain liability and the opportunity for living the subsistence life style of those people who so choose, both native and non. The other concern that we have got is that with the

MALE VOICE:

the property taxation initially, that some people mis-understand that the problem thinking that were land owners just like any other land owners, congress never intended that, because congress wouldnt have written the moratorium into the legislation when it passed, congress wouldnt be so quick to recognize the problem as it is now, there is no question that congress is confused because in the instance of large land ownership relatively small cash position relatively few numbers of people, theres just no question that any tax will result those lines that we alternately lost ????? congress never intended ?????.. Lands that are developed, lands that are put into productive use ..?????? question????????

MALE VOICE:

Are there any questions for the committee?

45 minute recess.....

MEETING IS CALLED BACK TO ORDER.....

TAKE UP HOUSE BILL NUMBER 815...

CHATTERTON:

Thank you Chairman, for the record Representative Chat Chatterton for District 10, I appreciate the opportunity to come before your committee to testify in favor of house bill 815, I approximately not quite a week ago discussed the title 31 chapter 5 mentioned that the TAPE WENT BLANK/////

#64 S.1 March 2, 1978
HOUSE BILL 815, HOUSE RESOURCES COMMITTEE

MALE VOICE: VOICE FAINT.They are recommending that our figures were used by the department of revenue ??????????????

MALE VOICE: We are skipping Section 11,

MALE VOICE: Here to Section 13?????????VOICES VERY FAINT.

MALE VOICE: The provision is made in the 12th but we feel the director of the division of lands has all kinds of authority and we dont think that it is necessary to put this provision in AS 38 I think that the language of AS 31 gives us regulatory responsibilities, authority and we dont think it is necessary and we are recommending that the ???????

MALONE: Well than without the amendment or the inclusion of the language 3105 how would you get at the possession here if you take the cost, what are the other authorities for is wording,

MALOTT: AS 38 the fact is that to permit the division ?????? If we permit the division of land to voluntarily enter into an agreement on one hand is ????? criteria that the department has to follow up with a compulserly, now ?????? had any problems at the beginning of the year, under the voluntary provisions ?????????????? and the ????????? or the operator ?????????? the operator has an operating agreement among themselves ?????????????? and we dont think that the ?????? that were set out here should be making ?????????? If we would ?????????????? ??????????????????????????????????????

MALOTT: If agreement can not be leased within then,
then we can ???????? VOICE IS FAINT

CHATTERTON: Thank you Mr. Chairman, I would like to
????????? VOICE IS TO FAINT.....

PARTIAL OF TAPE IS TO FAINT

MALE VOICE: The case in the court may be decided on
basis of ????????? or decided on the basis
??? I dont know (PERSONS VOICE IS UNCLEAR)
it may be once decided that in such a way
that the amendment be opposed here as in
section 12 might be un-necessary, we could
also decide the other way as far as that
goes, the problem if decided the other way
could be taken care of by ?????? in the
future, but depending on what the
legislation wants to do, of course that is
only one of the parts, sections or questions
but probably one of the most important parts
for the state to decide, I would argue that
as a matter of public policy at a minimum
that you might to detain section 12 in the
bill where the section indicates that it
would provide the language of the discussion
that would appear in a lease form even if
????? of 1.8 . VOICE IS FAINT....

CHAIRMAN: Are there any questions from the committee?

MALE VOICE: Mr. Chairman I would like to go back to the
second item that was recommended by the
Department of Natural Resources to in effect
the bill, on the Section 3, excuse me
Section 4 , having to do with the
confidentiality of the requirements, I can
understand where you mentioned earlier that
from the ?????? information and under the law
it has to be specifically between March and
??????? VOICE FAINT..... How would an
opposed amendment -----NOTHING WENT
BLANK---

MALOTT:

Under the proposed amendments it seems to me that it is to some extent it ties the departments hands

MALE VOICE.

I would like to go over the whole question on confidentiality of the report, I am particularly interested in one comment that came out as far as the drilling by the department of interior, ????????-----

VOICE IS FAINT-----

NEXT FEW VOICES ARE FAINT-----

STILL FAINT-----

QUITE A BIT OF TAPE IS FAINT

MALE VOICE:

Except for the possible retroactive effect of ????? of the bill I think then that, as I understand it the argument to make is perhaps because similar things are being treated differently in the law that perhaps the point may be raised that ??????VOICE TRAILING OFF----- may not be adequate grounds for that type of ??????????VOICE FAINT.....-----

SOME TALKING BUT VERY FAINT-----

CHAIRMAN APPOINTS CHATTERTON TO SPEAK AND CHATTERTONS VOICE IS TO FAINT...

MORE VOICES BUT TO FAINT TO TRANSCRIBE

TAPE ENDED.....

SENATE RESOURCES 5-22-78
SIDE ONE OF REEL C & D

MALE VOICE:

That really make me start to get a little nervous, with the data that we have available from the companies we could offer up front based on maybe the most unpopular of these as it related to that tract. We lets assume that we did not get an enthusiastic reception to that offering then the comissioner would turn around and say well that doesnt look to good lets reject the bill, and so we are way down the road with no leases working, is it possible for that senario to happen?

SOME ONE ANSWERS BUT YOU CANT UNDERSTAND WHAT HE SAID.....

I have seen that, I understand that, It was that that we were trying to get away from and get some other options, and apparantly we havent done that, we have just brodened the base here a little bit, that is what concerns me the most.

MALE VOICE

Are you asking whether or not he must lease under this bill?.

MALE VOICE:

I was more talking to the chairman and other members of the committee in terms of some concerns that really begin to look towards my thinking here that we might be opening up a whole catagory that we might want to sit and look at.

THAT SAME VOICE AS BEFORE, I CANT MAKE OUT WHAT IT IS HE IS SAYING.....

But I was wondering if maybe if we didnt reserve the right to reject the leases than we might get one the better lease out. Any way i just want you to be aware of that concern. This just may put us in a worse position than what we are in right now. If that is possible.

MALE VOICE:

On page 5, Subsection "I", is a provision which introduces for the first time as far as I know into Alaska a so called exploration ?? credit system, this was recommended in the house resources committee by an oil company and the committee excepted it as their own and it is still in there, it gives the, it will allow the state to pay an incentive credit towards royalty, rental or taxes for the costs of drilling wells somewhere based on ??? of this bill and also the cost to do physical work and as you know Mr. Chairman Mr. Polford of Alberta will be here on Wednesday to explain how they, Alberta handled their ??????? system, so perhaps I don't need to go into great detail on that, it does apply to footage drills and geophysical costs accredited to the royalty, rental or taxes not to exceed 50% of the payment toward which the credit is due to apply, your main credit may exceed 50% of the cost of the drilling or the geophysical. The credits the way Alberta does it they do have a fixed period of time and a certificate is issued to the person, he has so many years to take that credit and ??? rental, royalty or taxes and Alberta I believe they are not transferrable I guess we can find out Wednesday why that is and here it does say that during that period of time those credit could be assigned, transferred to another company, in other words is a person decided that they have certificates for a half million dollars and decide to leave the state. Question what can they do, assign them to another company or can they cash them in?/?? and in Alberta I believe they cannot assign them but in some cases they can cash them in, probably buy back on the geophysical one, if the company is showing that in fact it cannot.

MALE VOICE:

Can I try another question, under this section I assume that the credits were issued here through several different organizations for the work they did as it is spelled out here, what and then the information was turned over to the state after the leases had been made, what particular value here accrues to the state by having this information after it has leased the land?

MALE VOICE:

The major ??? is that if the well is unsuccessful if it is not a discovery at a later time other people will come back into the same area looking for oil there are new theories there is more information they publish the easier it is to go back??

MALE VOICE:

Rather than buy these holes, we didnt get the information in time know what we were seeing or in time for us to determine what lease land we were going to offer before we comitted the land, wouldnt it be better to have the geophysical information then this provided in the bill that was put in for your department which is still in the legislation? Call for that information after the time made available to the state, certainly not a period of time before the lease. In other words what I am saying shouldnt we, what accrues to us? shouldnt we after the geophysical information and drilling information that didnt result in production and comes after the time we lease it shouldnt we say well were not going to lease any state land to anybody for any purpose unless stuff that falls in that catagory goes into the knowledge that man kind has derived from the oils of the earth and so forth for all peoples future use, once it is beyond the use for ??? interest and not particular lease sale, I think that we are buying a ???/? something that we could reasonably require that they give to us, or otherwise something that they were going to throw away anyway. It just isnt available, why should we buy that.

MALE VOICE:

They dont actually throw it away, it is very valuable property and if you trade for other information after the unsuccessful well.

MALE VOICE:

After they drop the leases.

MALE VOICE:

What we are doing here, I think I understand you Senator, your saying why doesnt the state insist that all geophysical information be made public at the leases.

MALE VOICE: Afterwards, after a reasonable time in there so that the public information cannot be used by competitors, certainly the owner of the land in the case where it is the state should have access to that information for posterity, later on even if the company gets out maybe the time should be when they cancel their lease rather than come along and buy it. if you are going to buy something why dont we buy half as many new holes that we go pay for to have drilled ourselves.

MALE VOICE: Well the state can do anything it wants it is the land owner.

MALE VOICE: If we are going to spend our money that way you know by giving them credit, why shouldnt we go do some public exploration half as much as what the credit is going to be so it will come out even, you would end up with at least more holes punched than more exploration. Instead of buying a receipt, thats where I have trouble by, I dont see where it would effect you and your program if we didnt have I in there at all. And you certainly wouldnt object to getting the bill ??? instead of a different bill that gives you this information in a reasonable time. There was such a bill put in for request for the oil gas and lease. Its not moving very fast.

MALE VOICE: Allowing the state to acquire geophysical information? YES

That is an option. We did not opt for that option if you will, to put the state directly in the business of acquiring and analyzing a possibly competing in spite of what perhaps some of the critics feel, we felt that it was best to tie it to some sort of incentive credit system where the company would have the option to release the information or not. As the case may be but that is still in legislation.

MALE VOICE:

It seems like they have problems that whether when this is on private land it is certainly of a different nature then when it is on public land, how in the picture we must be considering laws that work on two different lands, always in the case where I have talked to the release of the information after its serious proprietary rights are passed so that it be in the public domain always was apply to public lands in other words our state land but certainly it is in the ??? of the land owners such as the Native Corporation between them and the companies to keep the information secret for ever if they wanted. I think we have two different things were talking about here. One we own the land and it plain just should be were going to have geological or geophysical information supplied to the future generation for future use even if they dont happen to be oil and gas /???? The information was gave to them by allowing what ever ecological damages there are to the land by allowing exploration should not be wasted, nor do I think we should go buy it, part of the privilege of going on the state land. It seems to me that it wouldnt make any difference if there is oil on that state land you cant drive them away with a club if there is no oil there you can give them all the incentive in the world and they wont go for it. I'd like to hear the impractical things Alberta is doing. Its so bad that they get rich off it.

MALE VOICE:

Page 5 Subsection "J" gives the commissioner authority in the later stages of production decline to reduce royalty after two years of production.

MALE VOICE:

This would be even if they had bid on one of these systems that has all the language in it that is absolutly fixed royalty of no less than 1/8th then according to this it should be less than 1/8th.

MALE VOICE:

There is a showing by the operator that his costs, languages is insufficient to produce a reasonable rate of return on respect to the lessee total investment appeal it can show that in later stages of production he is not into money, comissioner has the right to the reduce the royalty, I believe Mr. Lipton was concerned and is still concerned about the royalty bidding concept reading to premature schedule.

MALE VOICE:

Then he suggests that we not have that in there because we have a severance tax bill for adjusting that all the way down to where we dont get any severance tax, I suppose that our income tax will adjust down to where we dont get any income tax, we ought to be able to loose something in there, where he says well if the point dips there whats the difference.

MALE VOICE:

We believe that this language did not allow him to just arbitraililly to do what you just outlined there chairman, where some one bids a very high figure and then immediately comes in and says I made a mistake would you please reduce my royalties. We think we tied it to later stages of production and force the operator to make a showing that after two years of production that his income in regards to hi total investment is insufficient for him to make a profit. Thats how I understand it.

MALE VOICE:

Jack could you assure me that this wont be used, or that there is no incentive here to be used like the contractor that sharpened his pencil because he read the contract very closely and he knows that this is a contract that is particularly loosely worded so that he can get lots of change orders and lots of add ons, you know it looks perfectly designed for that, the guy who bid first, the bid on the surface he didnt figure a sharp pencil he looked at it and bid this amount and he wasnt intending on using a sharp pencil the other guy figured that he could get away with a sharp pencil. It is like the Chairman says once you get 4 or 5 years down the line

the guy that planned on using a sharp pencil is sure enough that it is in there and in the future then you are going to get all sharp pencil bidders instead of honest bids.

MALE VOICE:

I can only say that at least in the Federal system that the royalty is asked for they put a minimum \$25.00 an acre fixed bonus before you can even get an agreement, royalty bidding will be used on no structures and before you become a bidder you have to put a large amount of money, I dont think that it will be used by competitors purposely over bid and I think it can be structured that it cant be.

MALE VOICE:

I keep recalling the contractors veto that you first have to get the bid before you can do anything else and also that if you go to high you end up broke, but the guy that was almost who got the second high bidder never got anywhere.

MALE VOICE:

I dont mean to be cavalier but all the systems take care of a pretty administration.

MALE VOICE:

It makes sense how it sounds when he said it.

MALE VOICE:

Page 6 Subsection "K" permits the comissioner to deferr any part of the cash bonus payment but no later then five years from the date of the sale, this again is a method of softening the so called up front money. The bonus allows him to stagger those payments up to five years. Subsection "L".

MALE VOICE: We dont want to cancel just to deferr.
Im not sure how much further we would go.

MALE VOICE: It requires that he adopt all regulations necessary for reasonable understanding and evaluation of a particular bidding method for the public announcement and return the proposed sale. So that everyone knows the rules/ Subsection "M" allows the state to store or trade its royalty with the lessees consent so long as the state receives its share back in 15 years or one half of the estimated life in the field.

MALE VOICE: Is ???? still here or has he left?
HE LEFT.

I was wondering how this might effect us in regards to AS 31 and the underlift and the overlift we were talking about, we start to get into that area on our own we should prolong the taking of our share for any length of time it seems like we might get into the underlift and overlift limitations we are dealing with that we were talking about, that is why I was wondering if ??? was here, I request that someone atleast check through with ???? on that.

MALE VOICE: Page 6 Subsection "N" in case that the lease may not exceed 5,768 acres presently that is the offshore maximum the up land maximum is 2,560 acres we just made it easier to deal with having a large one size maximum and must be for a period of five years presently the state leases are ten years except in Cook Inlet where the discretion is to the comissioner to reduce it to ????? However the comissioner may grant a lease longer than five but not to exceed ten if he finds the longer period is necessary to encourage exploration and development in areas where environmental conditions severally restrict operations. This is similar to provisions in both the Federal OCS and a lease shall be automatically extended as so long as it is producing quantities or is comitted to the unit, the lease on which there is a well capable of producing does not expire unless the operator is allowed a reasonable time to place the well on a producing status. When it is in its

in its extended period the commissioner may issue
Im sorry increase lease rental so long as the
increase is not over 150% of the preceeding
year. This trys to handle the matter of
shredding fields that are capable of producing
but are not, this give the commissioner
authority to up the rentals to encourage the
operator to produce. But they do not have to
exercise the authority but he does have the
economic authority to pressure the operator to
find the market and get it to market. On line 5
or 6 drilling is comenced on the expiration
date of the primary term the operator is given
90 days to continue with reasonable dilligency,
the lease continues in affect until 90 days
after he ????? drilling. Then if the lease
ceases to produce, the lease is not terminated
if within 60 days after production ceases the
operator is to be working or drilling and he
continues ??????????????. So we hope we have not
made it possible to the commissioner to
terminate a lease without giving reasonable
means for the operator to continue on if he
chose to.

MALE VOICE: Is 60 to 90 days a reasonable amount of time.

MALE VOICE: Yes I think so. It is in the existing law right now.

Subsection "O" after the well is plugged and
abandoned the rental rate that was in effect of
a year of abandonment is maintained for the
remainder of the lease term, rentals are payable
in advance they continue until the income to the
state of the royalty or the net profit which
exceed the rental income for 3 sucessful years.
And you have set forth the rentals that are
being proposed in this bill today a competitive
lease is ????? these are so called escalating
rentals we ??????????/????????? proposal well
that was wage to it. I should add that first
draft of ten year lease would be very steep with
escalating rentals from the last five years upto
the committee process. Page 8 Subsection "P"
whereas today it is manditory that the state
issue a shore lands lease included in an
existing Federal lease, shoreland lease being a
lake or navigatble river bottom, this makes it
descretionary both within a Federal lease or
private lease. ??????????????????????

MALE VOICE: It wasnt your intention to make it the holder of the federal lease or private lease.

MALE VOICE: Subsection "Q" Page 8, the provision in the existing law having to do with ??????zation, Same with "R" and "S" same with "T" same with "U" that has to do with development of drilling contracts.

MALE VOICE: What is this "T" again it gets into the ???? we work with in APEC, isnt that it?

MALE VOICE: On the bottom of page 9 subsection "B" deals with the subsurface storage of oil or gas whether or not it is from state land.

MALE VOICE: I think that we need to note again the differences between the bill we just took up and Section "T" and this one because we are going to have to decide that they are substantially different I believe. I think that is another place that we need some input for. Cause its both of them. One of them, this one here that were reviewing now is 180 "T" and its entirely as different language then the language in the one proposed 180 "T" in 815, so are many of these provisions, isnt that true?

TRUE.

Now they didnt do to much apparently to 180 in the other bill we are dealing mostly with 180, so where they did get into 180 ????????

MALE VOICE: Page 10, Subsection "W" deals with the local hire provisions which is in the existing law. "X" is a new provision which states that if a track fails to recieve a bid for five years,

that, well I better back up here, this provision was originally drafted to say that if a competitive track did not receive a bid it could be put up under another competitive system for non-competitive. A non-competitive provision is specifically prohibited now as it was amended by the house finance committee, so the way it reads now is that if any track did not receive a bid it may be offered on another competitive system so long as its term remain 5 years, its size may be unlimited and its rental may be less then those stated in the rental section.

MALE VOICE: They can do that anyway, you just give them permission if they need it, and its right back on. This is just waltzing.

MALE VOICE: They wouldnt have to make it a maximum size of 57 or 60 and they would have make the rentals a dollar in the first year.

MALE VOICE: That would be required under existing regulations or something?

MALE VOICE: Read this, it says immediately offered for lease on regulations adopted by ??????.

MALE VOICE: It must have a sliding scale royalty. It can be larger then 57,60 and the rentals can be anything they so desire.

MALE VOICE: Bottom of page 10, Subsection "Y" permits the authority to the comissioner to restrict joint bidding for the purpose of promoting competition. I might add that this is also in the federal legislation. Subsection "Z" gives the state the right to purchase for instate use a specified volume of oil or gas and the purchase oil or gas can be treated the same as the disposal of royalty oil under section 182 of this chapter. This provision would protect the state contacts to sell its royalty oil and at a later date the comissioner for what ever reason reduces the royalty that is coming to the state. The state would be able to buy that amount and more for instate.

MALE VOICE: If we took this provision from New Mexico which legislature in that state has given to the executive the authority to purchase 100% of the oil or gas in the state for New Mexico use. It has not been challenged in court but it remains on the books and this provision is a method to simply give the state the authority to purchase ?????? sale of or in state use oil or gas.

MALE VOICE: Who takes care of the diminishing royalty oil?
?????????????????
VOICES ARE FAINT.....SOME TALKING BETWEEN
THEMSELVES.....

MALE VOICE: I think the important thing is, is the way it is worded, it indicates that the commissioner has the right to put in a lease if he so cares to
????????????????????TAPE WENT BLANK.....

VOICES ARE FAINT.....

MALE VOICE: As a non-chairman member of the committee for the record my name is George Falighty and am appearing on behalf of ?????? Company and specifically for the Royalty Oil ?????? Concept, Now as you ?????????????? summary of the contract, so unless VOICE IS FAINT - FADES IN AND OUT.....I would like to correct ?????? What I did say for the record is that I did advise my client to take the case to court.????????????? avoice is mumbled.....

FAINT VOICES.....

The presidents of the company is bid and naturally referred to ???????

FAINT VOICES.....

HALF OF TAPE IS FAINT.....

ALL OF REMAINDER OF TAPE IS TO FAINT.....

SENATE RESOURCES: 5/26/78

SIDE "A"

MALE VOICE ...I'm sorry to arrive so late. Did we work out the amendments that were pretty well agreed upon earlier?

MALE VOICE Copies of the amendment ...just today and ...

MALE VOICE We haven't even got any big problems.

MALE VOICE Well unless...

MALE VOICE We have one little hang-up on the differences here about whether ...another instate refinerer would have some right to it if they had a part of a committed for some time to an outside source. Something over you know, the difference between there's a ...actual process ...We just have a...

MALE VOICE Madam Chairman, ...I understand what Senator Huber's saying, on the other hand, I...the amendment for satisfies the same function that he has in my mind and I just think we're maybe at a point to where the real function. I guess the summary is that it's doubtful that any rephrasing or clarification or expansion, of the explanations here would have the effect of putting this beyond legal challenge and so I suppose that question could be raised. But it certainly seems clear to me that the way define (capacities?) is clear enough. Now you might want to redefine temporary as to meaning two weeks, three weeks, one year or something along that line

SENATE RESOURCES: 5/26/78

SIDE "A"

Chairman: ...Just lost my form, would you see if it's in the in the hall?

Chairman: We do have a form now and we will ...meeting to order and the first item of business we have before us today is how to deal with pollution number 1C, including the sale of royalty oil... company of Alaska. In your pamphlets you will find a summary and also a letter from Mrs. (?) and a letter from Mrs. Falighty(?). And Mrs. Bonet is out of town today. I don't remember whether she sent someone else over for the administration or not. I don't see anybody raising their hand. Okay, we'll continue to ...Mrs. Falighty.

MALE VOICE It's dangerous to trade one's time with....
(laughter)

G. FALIGHTY Mr. Brown, Chairman and members of the committee, for the record, my name is George Falighty, I'm appearing on behalf of the judicial subcommittee(?) and instead of waiting for the... the (?) that you have before you now. As you indicated, all the members have been given early on a summary of (?) point with the contract and so unless you all a lot of questions, I'm going to very, very brief...remotely indispensable for...my wife. (somebody coughing)...There's one important belief that the crude oil which is being purchased ...for an existing requirement and secondly, all of the oil being purchased not to cost us food and utilities. I'd like to correct an item which was cleared under the AT yesterday, or I guess.... today. A comment I was supposed to have made yesterday and also for the record, the ...the comment ... It was indicated in the AT before that I make a comment that I would advise on ... (?) refinery to take the state to court if at any time they would deny the royalty oil Petco contract. That is not what I said. What I did say, and for the record Madam Chairman, and ...a little bit. For the record, what I did say was I would advise my client to take this case to court if North Pole Refinery were denied royalty oil that was being exported by any ...I do not pick on El Petco ...anyone at all. It is my feeling that the statute had its existing specific in that royalty oil is for the internal needs for both metric and industrial needs of the people of the State of Alaska and so long as any refinery, or any processes, doing whatever they were doing with the royalty oil is providing products for the Alaska market, that refiner...they ... a good foot and if any other purchase(?) is forming for the oil and another refinery was begging, then I think that the final fool is the pollutions(?) products for the market, they should have their oil. ...committee I want to (?) clear for the record before this committee...

MALE VOICE Are there any questions regarding ...

MALE VOICE Just a question (FADED)

...let me state that the presidents of the company instead and perhaps i should refer to...because he is the one who will sign the contract

MALE VOICE (CONT.)...To answer your question, the price that we would pay for the royalty oil....the average price that the state is now receiving from the sale of royalty oil,...four and a half dollars ...seven dollars and the price that we would pay would be average of (FADED) What that is ...depending on wherever we ...sale I(?) make. ...the number that we're talking about is about \$5.95.....that price...the other prices of oil that they'll buy...major industry...

MALE VOICE ...Not any more ...most people got to ...because I still got a different understanding of what was his question. How, I think you asked me ... something different from what the state might be getting ...somebody else

MALE VOICE What I asked is, whether or not the delivered price of the oil. Under a contract...could buy more of the oil from the state (?)... price...but North Pole Refinery has been more or less North Pole I'm interested in (contributing?)

CHAIRMAN Did I answer your question?

MALE VOICE (FADED)

CHAIRMAN ...approximately.....And the reason I can't give you a more accurate number is the royalty oil sale relies on (?)... Each month the sales change so it would be just ...

MALE VOICE (INDISCERNIBLE) (103-106)

MALE VOICE ...clarify this, ...we buy some company....

MALE VOICE ...if we agree to buy...but there's (?) in the contract and the (FADED) there was a price. Therefore the (?) Now, you know the old ...could be(INDISCERNIBLE)...

(113-118 TOO FADED)

MALE VOICE We hope they'll classify this as ...

MALE VOICE Are there any other questions...

MALE VOICE (INDISCERNIBLE) ...probably one of the private parties shipping this(?) oil approved shouldn't mean... accept. It has (?) oil towards probably has... to go to the lowest possible price there is... his oil is worthless...somebody else. If you were negotiating with what I'm (?)... flood with outlet(?)...he would start using higher oil (?) prices. Now, what you're actually paying the state is the (?) of what the state is getting and the more of the state's oil that is sold on the East coast is the longest shipping that you pay the price with ...more of the state's oil and ...process from the work date the higher the price you pay on the royalty oil til it balances out because that's all that you ask... you have...fuel.....highest price you...

MALE VOICE ...the lowest prices on (INDISCERNIBLE)... Are you...?

MALE VOICE Yes, and ah, you know, well with ...you ought to keep a supply of oil through the cheapest....lower prices just get super (proficient?)...their average...

MALE VOICE What was done.....okay, we want the higher prices, and you thought as you, you want the lower prices... leaves a very (?) average...market's changed. And wait awhile ...but we always (147-149)...and we adopted the same philosophy that we need to get straight... be on the West coast and therefore our prices are

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MALE VOICE (CONT.) very high.....So we use an average price and we've said the price for the ... significant difference, the more ...then that gives you the basis on the prices you ... Sit down with that, and say hey market cost is a big

(158-160 unclear)

MALE VOICE (same as above)And we realize that could work against us...situation.....

MALE VOICE (INDISCERNIBLE)

WILL LET THE TAPE GO ON UNTIL THERE IS SOMETHING I CAN DECIPHER OUT OF IT(160-172)

MALE VOICE We would not be embarrassed upon about anything that goes on with any state officials.....and you may not like our reasoning but...

MALE VOICE (INDISCERNIBLE) (175-178 unclear)

MALE VOICE Are there any more questions? (180-183 unclear)

MALE VOICE Madam Chairman, if there is no further testimony or questions that might ... (186-210 NOTHING ON TAPE)

MALE VOICE ...we could meet (?) ...Resolution, that's is House concurrent(?) Resolution number 112 amending conditions as approved in the sale of royalty oil for the and in your pamphlets you'll find the amendment (?) of some...that were adopted yesterday.....this resolution (?) today

I'M GOING TO HAVE TO SKIP FROM 224 TO WHEREVER TIL I CAN MAKE SOMETHING OF THIS TAPE

(224-239 INDISCERNIBLE)

MALE VOICE Madam Chairman, the motion is ...committee... was to use the house vehicle and to delete the house amendment and include the proposed amendment.

I don't think you got that substituted here... substituted ...I guess you're right. The original bill plus these amendments.

MALE VOICE And we deleted the house amendments.

MALE VOICE Well they say here, ah, to change the subject (?)...more house (?) resolution than the 112...

MALE VOICE Ah, let me state what I think happened yesterday. I think my motion yesterday was to, I moved House Concurrent Resolution number 112 and asked that we delete House amendment and include the proposed amendment as mentioned in this amendment dated May 17, '78...

MALE VOICE INDISCERNIBLE

MALE VOICE Okay, it's still the house vehicle

Right. We'll call the Senate committee ...

(260-266 unclear)

MALE VOICE There was some significant differences as I understand in terms of what the house...and the way the house (?) are. (amendments?)

MALE VOICE But we struck those amendments

Particularly ...the only thing I found was the (?) resolved...course that was definitely the whole...

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MALE VOICE That comes more closely to ,

MALE VOICE More closely to the original...

MALE VOICE It is the intent of my motion to

You have the original...(?) 112 in your pamphlet.
You have the House Concurrent Resolution number 112
amendment and...You substituted for House Concurrent
Resolution ...

(277-335 totally indiscernible

MALE VOICE ...Madam Chairman, if I might I'll just run over them
individually as rapidly as I can. Number one,
...article 1.13, ..defines total project cost and
if there was an (?) an arriving ...total project
cost is the purchase of the oil (?) That money
would apply to ...

TAPE TOO FADED WILL TRY SIDE B

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MALE VOICE: Im sorry we are running so late but we worked out the amendments that were pretty well agreed upon earlier.

MALE VOICE: We havent even got any real problems, we have one little hang up on the difference about whether another instate refiner would have some right to it if they had a part of it comitted for some time to an outside resource, something over the difference between their capacity and their actual processing quantity a certain times. Thats the only part of it.

MALE VOICE: Mr. Chairman I understand what Senator ???? saying I on the other hand Item 4 of Amendement 4, satisfys the same function that he has in my mind and I just think were at a point where the real summary is, I think it is doubtful any rephrasing or clarification or expansion of the explanations here would have the effect of putting this beyond legal challenge, so I suppose that question could be raised but it certainly seems clear to me that the way they defined capacity is clear enough, now you might want to redefine temporary as to meaning 2 weeks three weeks one year something along that line, but capacity as I reviewed it yesterday seems to be clearly defined, there either producing it or shutting down part of their capacity shut down because of temporary reductions and market conditions. So for temporary purposes it is defined and I dont see that it is allowed accept specifically stated.

MALE VOICE: Mr. Chairman I think that is what Bill said, as far as my concern it looks to me right now , it does look like a definition there both of the temporary for that particular use, you might clarify it.

FAINT VOICES.....

SOME ONE SPEAKING THEIR VOICE IS UNCLEAR....

MALE VOICE: You know Im only trying to ????????

MALE VOICE Both Mr. Falighty and Mr. DeLong wanted...(FADES)

MALE VOICE Madam Chairman, I...Senattor Huber appears ah late and let me go back to expand a little bit on what ...today(?). Senator you want... you see, North Pole feels that the statutes will take care of it and the way the statute is written. That's why as I indicated before that North Pole has no problem with their Petro contract because their...and the temporary matter is something else, but it's an oil contract. If indeed there is a ...there is ex...oil (?) being exported of the state and another in-state (?), the statute itself is what we'll stand behind and so that's why I don't think you really have to worry about it...in my opinion.

MALE VOICE I'm only saying that we have lived here...

MALE VOICE I know what you're talking about

MALE VOICE For the record, my name is Frank Jones(?)...I think yesterday we, both George and myself, the Senate special sessions committee of special projects brought up the fact for the record that we had an interpretation of Alaska Statute ah, what is it?

MALE VOICE 138...

FRANK JONES (indiscernible) Ah, right and of the administration... Deputy Commissioner of Natural Resources had a different interpretation. I also went on to say that the legislative charge to the Royalty Oil and Gas Board made it more specific on the eighth statement, so what they wanted the Royalty Oil and Gas Board to list as priorities in allocated oil and gas. And there was no doubt that the in-state use had first priority and I would say, rather than try to address that in the Alpetco contract, I think that that should be addressed by the legislature itself as to what did they really mean when they wrote 138.05. Did they mean what we say it meant as outlined in yesterday's session? Or did they mean what the administration says, that they can go ahead and commit the oil and if it's available, then yeah, in-state can use it or truly (?) in-state uses have first priority and I think it's as basic as that. I would hate to see the legislature go ahead and amend the Alpetco contract which could put them in a position of (?) more thought to really what 138.05 means and (fades)...

MALE VOICE One short question if....Frank, do you think that this...Bill mentioned, defining temporary there would be of any help whatsoever?

FRANK JONES I think it all comes back, Senator...to really what 138.05 mean? Alpetco is saying that if no one else needs the oil, whether we run it through our facilities is (?) academic and I can agree with them.

MALE VOICE I agree with that...

FRANK JONES I think he's saying, and this is you know, if we don't need it we'll give it to somebody else. I kind of ha...I have to be biased. I say that we're an in-state user supplying in-state needs and the way I read 138.05, I think I'm at the top of the list and the administration says no, you're not. And I think, I say well, fine.

MALE VOICE It's only a matter of, you're at the top of the .

MALE VOICE (SAME) list so long as price...

FRANK JONES Well there are eight conditions and I would... that's one of the conditions and I'm saying everything else reads equal other than the fact of availability. I'm saying that yeah, the other seven issues are going to drop out. And I'm saying everything else being equal, if I am using processing, for in-state use a hundred percent, then it seems to me on the 130.05 plus the legislative choice, the Royalty Oil and Gas Board is very clear under the eight conditions there. So all I caution, legislature is, I hope they don't try to amend something which creates further fog to interpretation of 138.05.

MALE VOICE We've adopted the other amendments so...

MALE VOICE The North Pole?

MALE VOICE No..

MALE VOICE Oh, you mean the statute he's referring...

MALE VOICE No, no. I know that one. I mean the Alpetco...

MALE VOICE We're on Alpetco now...

MALE VOICE Then we've adopted no changes...

MALE VOICE I don't Senator, I don't believe that we can amend this. We either...

MALE VOICE They came.....

MALE VOICE Except that we don't, you know.

MALE VOICE Okay. Well I'm ready to accept it..

MALE VOICE (faded) adverse(?) to the amendment, then the resolution...pass the resolution

MALE VOICE Okay (?) not to pass the resolution itself...

MALE VOICE These amendments were passed by the Royalty Oil and Gas Advisory Board, not by the legislature

MALE VOICE Right.

MALE VOICE Madam Chairman, are there other people to testify or...

CHAIRMAN (unclear) Thank you Mr. (?) Is there anyone else who wishes to testify on Alpetco contract

MALE VOICE If not Madam Chairman, I move that (?) consent that we pass out Senate Committee subcommittee for House Concurrent Resolution No. 112, with (?) to pass

CHAIRMAN Senator Sumner has moved that we pass out HCR 112

MALE VOICE Madam Chairman, would you mind, I think I'm going (FADED)...

MALE VOICE Amend (indiscernible)

MALE VOICE Thank you...I think I...

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MALE VOICE How many do pass it?

CHAIRMAN I think individual recommendations may go better

MALE VOICE Okay. Fine

CHAIRMAN Are there any objections? (fades)...

MALE VOICE That was the point, I was (?) amended

CHAIRMAN Now, also back to bottomfish, is there anything else tonight?

CHAIRMAN Yeah, we're going to (?) another bill, find out ... energy... (MUCH TALKING AT ONCE)

(120-135 INDISCERNIBLE)

MALE VOICE You have something for me to sign in the Alpetco? There you go, now I'm going to bug out.

MALE VOICE (INDISCERNIBLE)

MALE VOICE Well no, I missed my, I have to leave today, I'll be going to Norway

(138-146 INFORMAL CONVERSATION)

CHAIRMAN The next bill that we'll take up today...

CHAIRMAN: The next bill that we'll take up today is Committee Substitute for House Bill 815, Finance and Mr. Hols(?) will testify on this...

MR. HOLSWILL(?) Madam Chairman, for the record, my name is Bill Bill Holsworth and having been the author of the original act, and having (?) to legislature in 1955, why I have very little really to say on it. The author of this particular bill, I assume, will have quite a bit to say. I only have two basic comments. On page 10, line 19,

CHAIRMAN I only have nine pages

MALE VOICE I'm sorry Madam Chairman. My notes are on the bill and these notes are on the other bill

MALE VOICE Which bill....

CHAIRMAN Substitute for House Bill 815, Finance.

MALE VOICE We'll go with you Senator if you'll just tell us where to go.

MALE VOICE There has been some concern...There's been some concern expressed in previous testimony on the mandatory...mandatory end of it(?) and in the several years in which I handled the units that were established in the Cook Inlet area, We have one shining example of a case where a mandatory unit division is important. We were not successful in being able to create a mandatory unit on the middle ground solar structure(?) in Cook Inlet because it was split evenly between two operators and neither one of them would agree to let the other manage the unit. That was, but it's now (amicable?) and (?) with the two. And as a result of that, and I think both operators agree today that if they had been forced to be used...the recoveries and the economics of it would have been much better and the result of what happened was, they had to actually put a water barrier between, split the field by a water barrier mechanically and operate it as two separate structures which in the end was not very ...

MALE VOICE Madam Chairman...

CHAIRMAN Yes Senator...

MALE VOICE I hate to interrupt but I'm not sure I'm with him. Are we on Committee Substitute for House Bill over 854 Finance?

CHAIRMAN 815 Finance

MALE VOICE Okay, okay I thought you said 854 Finance

CHAIRMAN No, 815, relating to Oil and Gas Conservation

MALE VOICE Specifically, what are you addressing here?

MALE VOICE Well, the mandatory provision.

CHAIRMAN Under what section, Mr. Holsworth

MR. HOLSWORTH I didn't actually spell it out in my ...

MALE VOICE We had quite a bit of ...

MALE VOICE Madam Chairman, I think it's on page eight, line 6, starting on line 6. Section, subsection...

MALE VOICE Subsection 0?

MALE VOICE ...said, 'with their agree'...remember that, with the brackets...

CHAIRMAN Oh where it says, 'except the (?) amendment to the plan of utilization relates only to the rights and obligations'?

MALE VOICE Amendment will be on Bills 854 Finance...Or are we going (laughter)

MALE VOICE ...both have trouble going back and forth between these two bills.

MALE VOICE I'm sure Exxon will remember (FADES)

MALE VOICE Subsection (UNCLEAR)

CHAIRMAN Section 16? On the very last page?

MALE VOICE Yeah

CHAIRMAN But it's where the state may require unit...

MALE VOICE Line 10

CHAIRMAN Unitization where 62 1/2% of the owners of royalty interest agree and that is to be repealed.

MALE VOICE Well that is the one that sets out to 62 1/2% of the...

MALE VOICE What section is that?

CHAIRMAN Section 16 on page 9.

MALE VOICE That's a repealant

CHAIRMAN Right

MALE VOICE And...that's right, well now I got them straight. Well we looked that one up, that was from the repealing took out that...

CHAIRMAN And as I understand it, repealing that allows the state to force unitization for conservation purposes.

MALE VOICE On their side of the structure...The language in 815 is (indiscernible) gives that authority.

MALE VOICE I remember looking it up now even.

MALE VOICE (FAINT)...page one in here...section...

CHAIRMAN Well it says the measuring and monitoring of oil and gas purchase...

MALE VOICE Madam Chairman, excuse me.

CHAIRMAN Oh right, in the middle of page 3, item 4, the unitization and adoption of one or more of the unitized methods of operation is for the common good.

MALE VOICE Remember I told you we took the bracketed language out and that was again ...it will result in the

MALE VOICE (CONT.) general advantage of the owners of the oil and gas (unclear) in the That goes along with that other repealer

CHAIRMAN And here is the author of the bill, now...

MALE VOICE Well, is that it?

MALE VOICE Then the only other comment I had is on page 2, line 23. There's been some concern expressed by industries in the underlined language, the word 'person' on the end of that line. This could in effect say that any stockholder in an oil company might be a person owning an interest and I think, what I would suggest, the word person be changed to....directly to mean (FADES) In other words, if the problem of filing or a petition by the department or a lessee holding an interest in the ...

MALE VOICE Are we trying mark this up now and make changes? Do we want to...

CHAIRMAN If we find things that we agree with, yes we can do that. Cause we'll still keep right on working on it and we're going to hear from Representative (?) also...

MALE VOICE ...I propose that we accept that one unless we have some reasons not to...

CHAIRMAN That makes sense to me too. You want to make such a motion...

MALE VOICE I would move that we would replace persons on line 23, page 2 to lessee.

CHAIRMAN Is there any objection

MALE VOICE That's unanimous

CHAIRMAN So ordered.

MALE VOICE Madam Chairman, before he leaves...I'd like (?) that ...or maybe the sponsor wants to do that but that's one of the areas of concern that I have and just so that I can understand your ground rules, I, this is a complicated, both of these bills are complicated bills as you know, have taken a fair amount of time on the contract or the resolutions that we talked about. (?)....at once and I asked your indulgence because in this area complexity, I am an infant treading lightly and I am not into spiel in some of these things so...I would urge that if we do move forward on this one, that unless it's., if I may ask you at the end of the bill that we allow another 3 days. I know we're talking a 2 day longer delay but I would spend part of my weekend trying to get up to speed with the amendment and do a work session myself on the bill ...if you'll entertain that at the time.

CHAIRMAN Let's see where we are then. This particular little amendment, I see no reason for us to pass that by. It's the type of thing that you could forget to do if you don't do it at the time but any major action that

CHAIRMAN (CONT.) we take will...

MALE VOICE I think Madam Chairman that if we have anyone in this room that thinks he knows the bill and thinks that we're wrong...I think I would like to hear from them... I think (?)...let's get that one out of the way.

CHAIRMAN Right.

MALE VOICE Madam Chairman, on the other part on the mandatory, I think the author of the bill...

CHAIRMAN Okay, thank you Mr. Mr. Holsworth.

MR. HOLSWORTH I just wanted to mentioned that particular structure which should have been

MALE VOICE Will Mr. Holsworth be remaining so that we can pick on him for ...

CHAIRMAN I think so. Representative (?)

REPRESENTATIVE Thanks Madam Chairman. Madam Chairman and members of the committee. For the record, I am Chad Chatterton, Representative of ...First of all I will pass out and not address immediately Madam Chairman, if I may some of the proposed amendment to, for House Bill 815 which covers a point that was discussed here by Director Gilbert, that would be last hearing on the bill. I will try not to forget it. I think the best way that I can go right now, of course I would urge the adopting of these proposed amendments and to answer any of the questions...check it in the bill...I would like to address Senator Sumner's question about the mandatory unitization because I know there are members of the industry that oppose that. First of all I'll mention that mandatory unitization, or unitization providing a majority of the people agree or some portion of the percentage of the people agree to do it. Anyway you cut unitization, why it's a double edged sword. Sometimes it works in favor, specifically, specific interests. Sometimes it may work in specific disfavor. The point that I would like to make Madam Chairman is very simply this, that we do have a statute which this bill is dealing with which is our oil and gas conservation statute and very fundamentally and very faithfully, that statute requires to protect those rights and to prevent waste. There's many definitions of waste. I won't go into that but, in essence is to make sure that each individual owners of mineral interests in the state, to make the least, why gets his fair share of that, of what is the... and also asks the state to be sure that to maximize our recovery of oil and gas by not being wasteful with underground or otherwise of a resource of that nature. Now in the last several decades, why, one of the best tools available to the industry for the insured that (?) rights are protected and waste is... seem to point to underground waste. The best tool has been available is the (?)...the tool that is known as unitization. That is basically where an entire pool, or accumulation of oil, land or gas lying beneath lands owned by varying interests is managed as a simple pool by that tool of management which unitization provides. Why basically, well, the rights can be protected and waste, underground waste can be best prevented. Now why the question of mandatory unitization? Well, Madam Chairman, we have a showcase example on state leases in Alaska of where, by the virtue of not having this waste has indeed occurred(?) by the definitions

REPRESENTATIVE

(CONT.) of waste and the definitions section of this chapter. It's most unfortunate, in fact the interest owners, I'm sure, in that venture now wish, very truthfully, that maybe they had been forced to unitize. So I submit that I do not visualize the State of Alaska ever having to gear up, it would be beyond comprehension that the State of Alaska should ever have to gear up, to be able to sit down and (pick?) the very ownership interest in the common pool of oil or gas and (?) out ...I submit, and industry points, has pointed this out to this committee that we can't do it, but I further submit to you Madam Chairman, while we probably will never have to use it, having the hammer over their head will insure that they stay at the negotiating table at the bargaining table until they unitize management of the single oil or gas pool is accomplish and that is the purpose. Now I'll rest my case on that, on that particular point right now. We did, Madam Chairman, I think, the last time this bill was before you, also I think there was an amendment proposed. I don't know whether the committee adopted it but I don't want it dropped through the cracks from consideration and that was the changing (effectively?)...an effective date immediately a number of ...

CHAIRMAN

Yeah, we did adopt that.

MALE VOICE

Madam Chairman, This must be an appropriate point because these amendments, these given here as I notice as I put them in the bill, are exactly what I think both he and (?) were agreed to the other day. I'd ...sent for the adoption of the amendment proposed.

MALE VOICE

Would...Bill, ...I did try to listen to...at the same time I've been trying to go through them ...my one-track mind gets in my way. I would like, I got the problem too, I want to read...I can't agree ...

MALE VOICE

They're basically just all one, Madam Chairman and me...introduced the first amendment

MALE VOICE

I followed....way down on page 9, lines 3 and 4...

MALE VOICE

...page 9, lines 3 and 4, on line 4

TALKING AT ONCE

MALE VOICE

...We were going to change it and then finally ended up going back to the original language.

MALE VOICE

I crossed a lot of things out here then wrote into the

CHAIRMAN

And now he wants us to cross it out again

MALE VOICE

Well I thought, I thought they sort of retracted to proposals we made at the time that to do it exactly this thing here and ...

MALE VOICE

Madam Chairman...

CHAIRMAN

You just added the words or lease...you did a cross-out.

MALE VOICE

Clearly, I knew there was some confusion and I could not stay for (?)'s testimony last time and that's why the (?) proposed amendment (FADES)

CHAIRMAN

Madam Chairman, I remember that you had some concern about the way that (?) wanted to do it and he's hopefully agreed with your assumption.

CHAIRMAN: Oh, Senator Hubert, you moved that we adopt the...
oh I mean Senator Sumner did then, Senator Huber
objected?

SENATOR HUBER No, I don't really object. I'd just like to hold on
just take longer...

CHAIRMAN No problem, Senator Sumner has moved that we adopt
the amendments as prepared by Representative
Chatterton, page 7 and page 9 on the typewritten
sheets that we have

SENATOR HUBER (indiscernible)

CHAIRMAN Senator Huber has asked again on his consent. There
is no objection, that is so ordered.

MALE VOICE (INDISCERNIBLE)...(laughter)

CHAIRMAN Senator Sumner thought we had. I thought we had.
Reed was wondering whether we had taken actual,
formal action on changing the effective date.

MALE VOICE I thought we had but do it, make it immediate
isn't that...?

CHAIRMAN Right

MALE VOICE Let's see...

MALE VOICE You know, we may be getting around to where immediate
is slower than the date that's on there

MALE VOICE Yeah

MALE VOICE No, Madam Chairman, I for one would like to hold on
whether we do that, at least for right at the moment.
I'm going to flag that as one of the things I want to
look at a little farther.

MALE VOICE Representative Chatterton's respond to...

MALE VOICE Senator, this to me is a very great (FADES) Already,
several millions of dollars have been spent drilling
wells on the premises. They would be drilled into a
lease sale which the state, they planned to hold, but
is yet is never held. The 24-months is expired on a
few of those and the 24-months is about to expire on
many more. In fact, I think the next one is about like
to on Wednesday. Now I consider that proprietary
interest and truthfully, if we wait til July 1, why
some of that proprietary interest is costing some
members of the industry considerable money. It's
going to become public information(?)... I strongly
urge that you....M

MALE VOICE Madam Chairman, I'm not wanting to imply that I had
objection to it. One of the reasons I was going to
hold is to get with Representative Chatterton and let
him bring me up to speed on some of the things that
I just don't have the capacity to (?) and because I
don't know and I promise that immediately after
adjournment, over the weekend, I will be up to speed
when we come back at the next committee meeting.

CHAIRMAN I don't know whether any of these leases are going to expire during the next five days or not. But that has been the urgency...

MALE VOICE But if they do, they will. Regardless of what happens. If there were one setting two weeks out, then maybe I'd be holding those up.

CHAIRMAN There may be, I don't know.

MALE VOICE I have nothing further...Madam Chairman

CHAIRMAN Are there questions by the committee members?

MALE VOICE ...currently in law.....

MALE VOICE July 1st, Madam Chairman and Senator Huber, July 1st is my choice because it's the beginning of the fiscal year and realizing that I was (FADES)...aware of problem (UNCLEAR)

CHAIRMAN Do any of the other committee members have questions for Representative Chatterton? Thank you...I guess you're still in session.

CHATTERTON Yes (UNCLEAR)

CHAIRMAN I believe that the department has sent the gentleman down, Lonnie Smith?

LONNIE SMITH Lonnie Smith.

MALE VOICE (8:15?)...and on the

MALE VOICE Ah, no Ma'am, not unless there's a, particular questions that...

CHAIRMAN The problem with this bill is that we don't know the questions to ask. If there's anything that you think we should be aware of, we'd appreciate your pointing it out to us.

MALE VOICE Well in going over it with Mr. Hamilton, we didn't have anything in particular. Is already...ah, no (?) example in....Unless you have some new questions...

LONNIE SMITH I'm Lonnie Smith. (?) State Division of Oil and Gas... There are some wording possibilities. I think that was brought up before. Possibly.....if Bill 830 is passed and Chat may have addressed this...already.

CHAIRMAN We have notes on that and...

LONNIE SMITH It's my understanding that most of these things have been addressed. The, on page 9, on that line 4 there. Possibly the wording there, the word unit should be deleted.

CHAIRMAN We've done that too...

LONNIE SMITH You could argue with the rest of everything but we had concern about that...

MALE VOICE I think this last...over here didn't end up deleting this and ended up taking care of the problem wanted to delete it

CHAIRMAN Yeah, we took out the word unit and oh, and after each separately owned track, put in or lease...

MALE VOICE Yes.

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MALE VOICE As soon as a good lawyer (?) to pick out one word,
two words in 3 places...

(586-590 INDISCERNIBLE)

CHAIRMAN Are you comfortable now with this?

MALE VOICE Yes

CHAIRMAN Thank you Mr. Smith

MALE VOICE If we could get Bill to speed up a little bit?

MALE VOICE (INDISCERNIBLE)

MALE VOICE If we have some extra time on this, I've got some
things that need to be reviewed. I'm not going to
manage to (?)...

CHAIRMAN Including the Criminal code

MALE VOICE I thought I'd take that fishing

MALE VOICE ...took a day and a half out of this interim period
where I was going to try to study this

CHAIRMAN Then you'll know we're on the...

MALE VOICE I'll tell you what, I'll take my notes and go in a
corner, you're going to carry 54 and you're not
going to pass that out today.

CHAIRMAN No...I doubt that we can finish these today

MALE VOICE Then I'll see if I can come back, I'll do my best to
be back

CHAIRMAN I think we'll take a five-minute break before we start
on 854

END OF SESSION ON HB 815, FINANCE

CHAIRMAN

Bring the meeting back to order and the first witness that we have today, and I believe our last witness on 854...I think we'll start working on the bill.

MALE VOICE

Madam Chairman, for the record, my name is Bill (?). In my testimony on 854 and I'm speaking to Finance, Committee Subcommittee Finance. It is not going to be on any positions taken on the various types of ...With one exception and that is on page 10, line 19 there is a provision that says however a non-competitive leasing is prohibited. I know that non-competitive leasing has been a problem in the past but after all, the state's still going to have a lot of what we call moose pasture which is of nominal value and would probably be st be leased on a non-competitive basis and available for independent or small operators who have traditionally made a majority of new discoveries throughout the history of the industry. If this type of land is offered only on a competitive bid basis, the cost of putting up a sale in which there would be likely few if any bids would cost more than the value you might get in and bid to receive at the sale and I think where this type of land is basically what they highly prospective and moose pasture type, there still is room for non-competitive leasing...

MALE VOICE

Can I interrupt Bill for ...

CHAIRMAN

Surely

MALE VOICE

Bill, it looks to me like where they say however, non-competitive leasing is prohibited, then they went on and it looks to me like that, and I wish you would put it to rest ...cause they went on and described one other type of leasing on the front end. The sliding scale royalties is not less than 12 1/2 percent and all of these things that that type provides and it seems to me that the very close alternative to non-competitive leasing. That's how I read that. That rather than it having it prohibit non-competitive...

CHAIRMAN

I read it the same way

MALE VOICE

I see that they went to this particular one that is almost non-competitive leasing and says you can do this...

END OF TAPE END OF TAPE END OF TAPE END -

SIDE "C"

MALE VOICE ...writing the term into it saying that they also have the right to purchase other quality(?)

MALE VOICE I think that's right Bill. I think that the Chairman should guess ...I don't think that we'd want... It says what may be in a lease, is the way I read it.

CHAIRMAN ...specific to the lease

MALE VOICE Well if it says in effect, then possibly does the lease have the language in the lease...

CHAIRMAN That's what I took it to mean and I think that...

MALE VOICE (INDISCERNIBLE)

MALE VOICE What I would like to do Madam Chairman, is use the blackboard and indicate like I did for the House Resources Committee the...

MALE VOICE Madam Chairman, would that...while we're right in that and our head and bones are ..., try this... An oil or gas lease may provide for...may reserve, that's the way...may reserve through the state the right to purchase for each state use of specified power(?) If the lease don't give it to the state, but it may reserve to the state, the state may reserve...

CHAIRMAN I think we're probably going to be doing quite a bit of remodeling on that paragraph.

MALE VOICE Let's mark this

CHAIRMAN Yeah, I have it marked on mine here. Did you and Bill get your...

MALE VOICE If you just took the word, give out and put reserve in place of it and try reading, it reads

CHAIRMAN Representative Chatterton off the floor here, the purpose of his being here could be taken care of in just a few minutes. I think we should interrupt and do that so that he can get back up there So Bill, if if you would excuse us.

MALE VOICE We need (Phil?) as well as anyway. Madam Chairman, also, will...now...

CHAIRMAN If Bill gets through

MALE VOICE (FADING OUT) (laughter)

MALE VOICE You going to share that with the rest of us?

MALE VOICE Madam Chairman, I know that you wanted to move this bill today, so I'll take advantage of the interruption to talk about it since...

MALE VOICE (INDISCERNIBLE)

CHAIRMAN 815

MALE VOICE When Bill was before us earlier, I had misinterpreted what he said

CHAIRMAN As did I

MALE VOICE And, I would like to ask him to come and clarify one point in question with regards to forced unitization if he would, and then I'll make ... and what did the discussion between Representative Chatterton on the (sub?) was is that ...he does not agree with the amendment that I'm about to propose, he supports my right to make the amendment. (laughter)

MALE VOICE What page and line are we on?

TALKING AT ONCE

MALE VOICE Yes, it's one of the amendments

CHAIRMAN One of the repealers section...page 9

MALE VOICE Yes, one of the amendments that I will propose will be to delete Section 16 which is on page 9, line 10.

MALE VOICE (INDISCERNIBLE)

MALE VOICE And Bill could tell us essentially what his feelings about that

BILL (?) Yes, Madam Chairman, I realize that I gave the wrong impression when I indicated that mandatory unitization was necessary and then pointed out the example of the middle ground so it was happened to be split 50-50 and the impression was that I felt that...went along with the language in the bill. There should be no percentage of ownership required in breaking up ...I do not agree with that. I have always felt that the existing language of 62 1/2 percent to be very workable throughout(?). This was a rather rare case but I doubt that that started the thing ... happened again. I think that there should be a majority of the leaseholders and landowners...which would concur in the mandatory section.

MALE VOICE That was my feeling although I didn't know if I'm suitable enough to offer the amendment before.

MALE VOICE When you say that, do you mean numbers of leaseholders or num...or a amount of acreage?

BILL (?) The amount of acreage.

CHAIRMAN Amount of acreage in the pool?

MALE VOICE Well, around the unit that you're going to put together

BILL Units pool

MALE VOICE Ownership (indiscernible)...acreage, it isn't the number of owners, it's the acreage owned. In other words, if one (?) had 50,000 acres and all the rest put together had 40,000 acres, well 50,000 acres could do it.

BILL Well the present percentage is 62 1/2 percent.

CHAIRMAN Well I'd like to look at that statute because what I wrote down the other day was where the state may require unitization where 62 1/2 percent of owners and royalties interest agrees

BILL Well that's the current law but this, as it's writ-

BILL (CONT.) ten, this bill, it would repeal

CHAIRMAN I realize that but if you're trying to return it to the current law, what I'm trying to find out is whether it's acreage or 62 1/2 percent of the owners and royalty

MALE VOICE Me too

CHAIRMAN Yeah

BILL I'm trying to get back into the original or the... the law as it was before...

CHAIRMAN Lee's looking it up right now

MALE VOICE Do you want to make any changes?

BILL No, I'm not proposing any changes

MALE VOICE Then that's one of those things that Chatterton agrees you have the right to try...

CHAIRMAN 105.110 b (?!) With the 62 1/2 percent of the unit area.

MALE VOICE It's acreage

CHAIRMAN It's acreage? Are there any questions for Mr. Hoisworth? If not, I would like to have Representative Chatterton present his rebuttal.

REP. CHATTERTON Thank you Madam Chairman...opportunity to present some rebuttals. First of all Madam Chairman, ...statute it is 62 1/2 percent of acreage. Now, Madam Chairman, no question has been raised so far in some of the sections of HB 815 with materially some degree for administrative purposes primarily for defense of practicality that give us quite a bit more latitude to statute in defining the area that should be unitized, included within the unit. Now, Madam Chairman, there are units existing in this state already that in strict interpretation that the statutes are illegal, very definitely there are some sections in 815 which makes those situations (legal?). Now because Anchorage has no, or a portion of acreage within a unitized, which now could be very generally circumscribed in (FADES) and because acreage in itself does not have any necessarily, does not have any relationship to the percent of participation of that particular, of a particular lease. ...that acreage does not necessarily, in no way is a measurement of the original oil implace the need for a particular lease. Acreage by itself is a poor measurement to use to give this permissiveness to have get voting percentages... And because some people, there can be leases included under language of 815 can be leases that has very little original oil placed beneath them, yet be included within the unit property at one point in time and have a voting power that controls, that could control the really, the people, at least ...had the maximum original oil included and they could plot the unit (provision?). Now I submit to you, Madam Chairman, one of my great concerns in this aspect is probably yet to develop in this state...we are about to have several million acres in private ownership in this state. I think there was a native land claims settlement act to ...what about 40 million acres..... It's conceivable to me that within a unit formed at some time or a unit trying to be formed that involving state land and private land where a more than 40 percent of the leases that wanted....somebody wished to have included within a unit fell upon private land that

REP. CHATTERTON (CONT.) this very fine tool, matter of tool for managing the reservoir might be denied to the state. Keep in mind also that we (UNCLEAR)...we get (INDISCERNIBLE) on oil And I would hate to see any denial for specific reasons between private industry and state industry to possibility of using this management tool for unitization...maximize recovery. I realize that it doesn't seem like a democratic way. I pointed out to you before Madam Chairman that hopefully it would never come to pass, I strongly suspect that the state has this accelerator for I rest my case and I would still very much you and members of your committee for the opportunity to make amends.

CHAIRMAN Thank you ... Senator (?)

SENATOR (?) What specifically, I didn't hear, but what specifically do you object to in 3105.110 d, would you repeal. Now I've listened to your narrative but in a few words, what is this going to do that's going to be an improvement over what you repeal/

REP. CHATTERTON Madam Chairman, One word, but a picture's worth a thousand words, may I use...

CHAIRMAN Sure

REP. CHATTERTON May I have a piece of chalk? I'll try to make this very simple and it'll only have two working interests only and we shall have the ownership line, all lands over in this direction are owned by owner A. All lands over in this direction are owned by ...Alaska And we have

SENATOR (?) Being the State

REP. CHATTERTON Right. And we have a discovery of oil and gas. And as the limits of the field are established, not by proportion (FADES)

MALE VOICE Nature does that too

REP. CHATTERTON Yes. We find that basically fetter(?) edge, that the very edge of the (fettered?) limits of this one common pool of oil and/or gas crosses this property line, of the state lands and private lands. The private land's owned by Owner A. We find that Owner A, that the best we can manage, why we will now draw a, some type of a boundary which we will call the unit boundary. Now we, the state says we want this management tool of managing this entire pool as one and in drawing this so that this can be properly managed, we find that 40 percent of this acreage is under land (tilled?) by Owner A. 60% is held by the State of Alaska.

MALE VOICE Well why didn't you put the 40 inside of the circle

REP. CHATTERTON Because this is the acreage within , or I can do it easily... 40 percent is owned by Owner A, 60 percent by the State of Alaska. And under existing statutes which is being suggested, or is in the bill now be repealed, this could not be unitized and Mr. Holsworth spoke to the point And waste was created. In fact to protect relative rights, protect the Oilman(?)'s right the right at least to get their original oil in place or whatever was coming back...Protect these rights in that particular instance that he first mentioned.

SENATE RESOURCES: 5/26/78 - SIDE "C" p.5

REP. CHATTERTON (CONT.) You actually had to go to the expense and everything else of putting a water barrier in.

339-TO THE REST OF THIS TAPE THE VOICES ARE CUT OFF...NOTHING LEFT TO BE FOUND ON TAPE

SENATE RESOURCES 5/30/78 (A & B of S.1) & SENATE RESOURCES
5/30/78 Side "C" of S.1..... Tapes are faint.

SENATE RESOURCES 5/30/78 (D of S.1)

MALE VOICE:

Well there is a bias towards the 5 years I mean it makes it an exemption or assumption to wherever ?????. I really think the State will benefit from it and thats why I am pushing.

MAN WITH ACCENT:

VOICE IS GARBLED..... require a longer period of time, present statute would be to 10 year, the point I would like to make in regards to the length of time of these conditions we are now operating in Alaska. Mainly the current exploration of onshore or offshore perhaps in the future we are encountering environmental conditions which is ?????.. We could work for 3 months or possibly 4 months a year if we stretch out ????? So this automatically restricts us 10 year 5 yeat lease to ???? 3 or 4 months each. The difficulty of organizing for example the ???? in the Northern area or such that it is so impossible not only for nogistical reasons but also for reasons of obstaining permits . To do any work in the first yeat of the lease. Trying to get a permit is trying to get the legistics of the permits or what have you together. Your left with in a 5 year lease 4 ??? which are perhaps 3 or 4 months each. This is alright if you have one lease of course, determine and get the work and perhaps one or een two wells tapped. If on the other hand you try to cover your risks and bid on multiple leases even though I think the wage will cover them you will be bery hard pushed in fact I would suggest possible to adequately ????? leases they gained. (Garble) leases that dont have a five year term. You know what were looking at today in Alaska is an extrodinary well which is on the North Slope for example costing anything from 8 million dollars to 20 million dollars this is

onshore well not a offshore well the offshore well is no doubtly will be in excess of that. ??? and the Gulf of Alaska the offshore wells approach 20 million and higher consequently you dont commit yourself to a well just on a whim you have to do it very carefully and be very aware of the risks that you are invoking. You cannot therefore in 5 years if you have multiple leases by multiple lets say 15 or 20 seriously consider drilling a well on all of those leases ????? eventually if you are going to do a responsible job and explore those leases in the best manner and try to find the most petroleum you need more time to find??????? Garbled.... The point is if you keep in 5 year leases is that many of them .???? will probably not be explored and the Operator will concentrate on what he considers to be the better leases he will do all his work on those and by practical constraints he will not touch these other leases which he thinks are quite a bit lower prospects, consequently a five year lease will be dropped and as soon as there dropped they are revoked to the state but of course the fact that no work has been done on these leases indicates to anybody that is thinking of bidding on that lease when its put up for future sale that the operator thought that its prospects were poor to nill. So the lease once it is released is down graded, consequently when it is put up for resale it is quite a bit lower, so the state is going to loose out, what the state wants to do is get all its leases explored and what I am suggesting is that you restrict the time of 5 year that will not happen, industry needs 10 year. We dont need pantyhose to drag our feet over the last year, it will take ten years to fulfill a logical explored program.

JACK:

This is no doubtly the most important revision in the Bill going to a ten year from a five year lease and I can tell what Rogers saying and the concern. Incidentally everything is true so I think this is a question from where your sitting or looking. He says that the first year you dont do anything well before you bid the lease

and gotten on the lease when you have done most of your geophysical work you ??? which is a 12 month lease ???? you have not obtained dependence to drill. But the point is, is that once you get on the lease and your acting reasonably and dilligently you can continue with that lease even if you had to drill for ten years. It is in the states interest to get the people on the lease and off and turn it over so they cant find the oil and bring it back to the state and thats basically the public interest. It is not to have people ??????????????????

SOMEONE INTERRUPTS::::: Mr. Roderk I hate to do this but I would suggest that in the states interest to have ??????????

JACK: True, your saying that you will take the best leases and explore them, its just that you wont be able to hold alot of other leases.

MAN WITH ACCENT: If we have five year terms we will be forced to do that, but with ten year terms we might very well plan a program to explore all the leases so is that we have adequate time.

JACK: Well than I agree with it but it gets down to how much the company holds and plans and how much time they have to plan. Our contention is that the states interest to have people preplan and decide what they are going to get, go out and get on the lease and start to drill they run into problems then the law protects that operator and he can continue on that lease till he decides he has a descovery or he has to get off.

MAN WITH ACCENT: No I have no objection to that except that first of all before a lease term you might plan to bid on twenty leases and you think they all have prospects or on the other hand you might bid on 5 lease that you think might be the cream and then you put 15 other bids on pieces that are not so ??????????? but the result of the first 5 might well

enhance. Till the actual sale takes place you dont know how many leases you are going to win so it is very difficult to do any real prearation until you actually win the leases and thereafter of course your program you can certainly set out a theoretical exploration program for a number of leases that you obtain in the sale to cover all those leases if I may tell you, you may not adequately do that if you only have 5 years or 4 years effectively in which to drill if you have 10 years well yes you could put a program up depending on how many leases you have. Now of course one has to accept the situation that you make discoveries and you are going to concentrate on those discovery areas that is obviously resonable management, consequently you could find yourself in a position where your exploratory program is modified ?????? significantly you concentrate on developing the discovery with the available rates rather than keep on drilling another circumstance for the extra 10 year period would work for the states advantage and the operators advantage because it would be more likely to result in every lease having a well on it and this is really what you are after.

JACK:

But if you did 15 to 20 leases and had a picture that showed intellegent bidding than presumably you either use those 15 or 20 if you could for exploratory or if you have got caught in buying what you are talking about and getting a discovery and shifting your picture over here and wanting to concentrate over here you would have to farm out those leases to some one else.

MAN WITH ACCENT:

Perhaps you would my point still remains if you do require the 10 year time ???????? or I'll remind you of the physical time to work ???????? rather than forsees the point Im telling you.

EVERYONE TALKING AT ONE TIME

MALE VOICE:

What it comes down to is that if you want the land explored here you want the maximum chance to have the land explored if you want the committee substitute the way it is written, we all know what happens is that you only got five years and you really get after it and you go to work if you have ten years you delay it and if you come up against five years and you want to keep the lease you dont want it to expire than you do what has been done as you know on the North Slope you put it into a unit which to extend the period of time or you farm it out, but in any event to get the maximum exploration of our land what you want is a committee substitute.

MALE VOICE:

Let me ask you this lets look ten years down the road and see where the state sometime we tend to look at to many short term benefits and not a logical program and there is two concepts, one is a idealistic concept and says hello on paper and this looks good and if you can do this and this, but when you get out there in the field it is a whole different story and I think thats what the other side of this point, so looking ten years down the road which way is the state better off, if it really wants a development program let it put some lease sales up regardless of if its 5 years or 10 years if we are talking the ten year period where they can develop a realistic program let them put up more for lease, I dont see that this just looks to me terribly restricted we have got a work commitment here, we are limiting them here in some instances certainly the bias is in that direction to limit them to 5 years. It is just not realistic, thats the name of the tune. It may look good on paper but its not realistic when you get into the field. It is the typ of thing that other states would do and a private owner of land if they wanted to maximize the development of the land and the exploration would do exactly this, thats what would experience in other states, really has shown us. and I just think having gone without a lease sale now for

MALE VOICE: four years and have had no development at all if you want to put it off another 10 years then you want the amendment but if you think we ought to explore our land and really get after it what we want is a committee substitute. (Laughing)....

MALE VOICE: I can see your problems on some of the environmental areas I think that when you start getting down above the area where I ??????? where you put up a lease for five years therefore, I would like the flexibility to hold them to five year leases in those areas and where its environmently stiff as the bill now says, going to a little longer period and some of the tough areas but you dont get that by making, holding all leases for 10 years the troublewith the ten year lease is that you can lease a large enough block to hold the competition down to where you find out whats there the beautiful part from the state is if you pick an area that isnt much we do come out better with a ten year lease than a five year lease but if you hit anything where we come out considerably poor with a ten year lease verses a five year lease because you have that much time to take your time on the drilling program. I dont want to make the change, I just think that the bill as it is is adequate to give us flexibility so that you can have a five year southern and a ten year arctic.

GARBLED DISCUSSION

MALE VOICE: Thats why I say I agree with Senator Tillian because Im just trying to turn the bias around, Im not trying to say ten years on everything. GARBLED CONVERSATION WITH MAN WITH ACCENT AND WHOM EVER.....

MAN WITH ACCENT: The fact that we are willing to except the idea that in areas with environmental problems the condition has the authority to prolong the leases ten years however we have come up against a problem when we read in the G & L Publication which was put out just before the leasing bill and what they had in mind for environmentally difficult areas was the ice zone in the Bofert Sea they ignored

the North Slope and all the other ????
areas in Northern Alaska consequently well
we said that is unacceptable because the
North Slope is just as difficult to us to
operate as the Bofert Sea will be as far as
time eliments are concerned, consequently we
made a suggestion that the leases should be
ten year except for the evironmentally easy
areas where it could be five year.

MALE VOICE: Now thats how I would like to see it turned
around and issue the leases for ten years
however the commissioner sales grant leases
for five years and those geographical areas
that permit year round work-----

MALE VOICE: Oh, wait a minute even Cook Inlet doesnt
make year round work, you would really screw
us on that one. A DISCUSSION BETWEEN
THEMSELVES.

MALE VOICE: Maybe if we changed the bias around then Im
willing to do it but there is no reason in
the world to force the waste in terms of
this sort of exploration to require in such
a period of time that you cant get the most
for the buck, its not to Alaskas benefit and
its not to the private developer. GARBLED
DISCUSSION

MALE VOICE: To me it is very self evident that would
include Prudhoe Bay for me its that you get
a new commission because GARBLED AND
LAUGHING.....

MALE VOICE: Even in Cook Inlet theres no way, there is
about 5 months a year that theres no way
your going to operate here offshore and that
looks like a pretty mild area theres just
when you equinox field comes you better be
out.

MAN WITH ACCENT: You know we have no desire to set in
concrete the terms of the describing an area
which qualifies for a five year lease we
have got to ?????? ?????????????GARBLED

MALE VOICE:

In the way this is written is that it could be for six years it just says not later were are not talking about 2 years 5 years or 10 years thats what I am concerned about it seems to me there is no arguement around the table as to what we intend or what we mean but I dont think this is clear enough to specifically pin point that you could issue a five and ahalf year lease on the North Slope the way this is written and it is true we could argue with them but we argued with Ted Smith after the session ended last year and what did that get us in terms of what we intended.

MALE VOICE:

We could change that to a term greater than five years to ten years. DISCUSSION
EVERYONE TALKING.....

MALE VOICE:

And I would agree with that.

MALE VOICE:

The oil gas lease uncovered a reasonable
???? must be for a period of five years the commissioner shall grant a lease of ten years when he find that a longer period is necessary to encourage exploration and development in areas where environmental conditions restrict operations, DISCUSSION
ALL GARBLED.....

MALE VOICE:

That way we have five year lease that work and ten year leases that work.

MALE VOICE:

There is only one thing wrong with that and thats your going to loose more than five months of the year and I think that five years is perfectly adequate to do the job.

MALE VOICE:

O.K. But I move the motion as you would.
VOICE IS FAINT ----a man is re-reading the part where the commissioner shall grant a lease for ten years when he finds that the longer period is necessary to encourage exploration and development in areas with environmental conditions severaly restrict operations.

MALE VOICE: Chairman, if I might make a suggestion, However all these issues are less than leases for five years could be extended to for a period not to exceed ten years in the event the environmental conditions severely limit operations.

MALE VOICE: I would oppose that, that would give the commissioner authority once somebody has bid and lost it gives somebody else the authority to extend the lease and I dont think that is a good idea.

MALE VOICE: You could have 3 or 4 people bid one person gets the lease and then the comissioner decides no it should be for a longer period of time so -----

AGREEMENTS TO THE STATEMENT JUST MADE, A SHORT DISCUSSION.

MALE VOICE: I would still oppose it because it would give him after the bidding is completed to extend the lease.

MALE VOICE: I think that a -----

MALE VOICE: I think that we are going to be at a compromised position as the chairman.

MALE VOICE: Do you want me to read it again???? EVERYONE AGREES TO THE MAN READING IT AGAIN.... I am reading the proceeding line first so that claim ????? so that period of five years the comissioner shall grant a lease for ten years when he finds that the longer period is necessary to encourage exploration and development in areas where environmental conditions severely restrict the operation.

THOSE IN FAVOR SAY I, One person said I.

SOME DISCUSSION ALOT OF LAUGHTER....

SOME ONE PLAYING WITH PENCIL IN MICROPHONE

MALE VOICE:

Bill, you must be aware these ???? oil companies to get the oil and the lease on the land as far ahead as possible the lowest possible rate at the longest possible years before you have to drill this allows you to have reserves locked up.

LAUGHING MORE DISCUSSION.....

MALE VOICE:

There are just two other areas and I'll just throw them out on the table at the same time one is the work commitment and I dont know how advisable that is, I would move to have it extracted. Its on the bottom of page 4. SOME DISCUSSION ON FINDING THE PAGE.....

MALE VOICE:

I dont want to take that one out.

MALE VOICE:

In regards to the alternate bidding techniques maybe if the committee would allow just three or four minutes I would like to ask that Mr. Mead comment on two items in the alternate bidding, one you have taken out and the other one is having to do with the profit and the net profit Oh, no I havent moved this these are just ideas that should be addressed and I know that he didnt get to testify but within two or three minutes he can address this problem and then you can make your decision asking him to make it in support of the motion. Mr. Mead would you be kind enough to address and take in the chairman at a word to be brief the alternate bidding and the problems that you address in regards to---Well its on Page 3, yes this is on the profit sharing, excuse me page 4.

JACK:????

Those profit sharing biddings have apparent advantages no front end money and payment correspondence with resources taken.

MALE VOICE: Mr. Mead the ??? does have a cash call.

MR. MEAD: Yes, but you have a profit share bid and you also have a fixed profit share payment, is that what you wanted me to address?

MAL VOICE: Yes.

MALE VOICE: 3 is the one we are discussing and it does have a cash bonus with a fixed royalty share and then a net profit.

MALE VOICE: It's not less than 12 1/2%. GARBLE

MR. MEAD: So this is a fixed share of net profit of 30%, Well that gets into a number of problems the first one is that it is not simple at all to define that net profit, thats a simple concept in a laymans frame work but when you down to dickering with it it is not simple at all we got experience with it its in the Long Beach sale and what has happened down there is there has been a great deal of dickering, fighting and an awful lot of litigation and it is all very expensive, it has taken a staff of 50 people down there to administer that one resevoir it is expensive at that means it comes out of the economic rents that should go to the state. All that has to be paid for and then there are a bunch of other problems that I can run over very quickly that come out of any system that has a profit share in it, and they go like this, a company is going to want to do a number of things like conduct research on better methods of producing oil, oil research is expensive, if you have a profit share track with a 30% or even a bid one thats higher you have to do your expensive research there, because the state will pay for it, or if you have got some rigs that arent the best you would alocate the good rigs that you have to the bonus tracks and the bum rigs to the profit share, the profits go down the state pays for part of it, another possibility in this comes out of Long Beach.

MR. MEAD:

It leads to what is called gold plating, do a lot of things that are expensive and the state pays for it because it is profitshare it all comes out of the people share all what they should get, and all you have to do to verify is take a look at the Long Beach situation. You find gold plating all over there, public relation expenditures are going to be done on the profit share bid, you have got to take people out and show them rigs and platforms, well what tracks are you going to do it on, do it on the profit share situation because the state will pay for it. All of that added up as one disastrous effect on the public, namely it comes out of the public share, and the people are going to get less revenue so it is difficult to administer, it is expensive as all get out, it really is not a very good system.

GARBLED.....

MALE VOICE:

You say this isn't a good option, now some of us want to see the option in there because we feel we have a particular digging, we have two land owners in the state of Alaska that we are interested in there are three, the Feds, the State of Alaska and 40 some million acres of Native Corporation divided up among some twelve corporations, now we find when we try figure out how to tax oil companies and how to lease to oil companies we find that the other twelve land owners meaning that the state, as the thirteenth land owner in that case come in and tell us that your making a burble, we have contracts with the oil companies just like you have now instead of you taxing the oil companies why don't you take your state land and lease it to them like we have with a royalty share of at least as great as what you've got and in most cases they show that they have more and a profit sharing arrangement in order to get your profits, so we have a situation they may not exist in California or elsewhere, we have two different classes of land owners, the State itself and the Native Corporations being the only two with

MALE VOICE:

mineral rights and one has one has gone to that type of leasing with the oild companies and tell us that ours is incompatible with that and so we end up somewheres in the problem in between, dont do anything and to heck with profits off the state lands, or the taxes or the royalties or anything else.

MALE VOICE:

Now you have got one of the best systems in the world right now, you've got a bonus bidding system and that captures all of the economic rent and further more it leases efficiently, you can have another system like profit sharing or royalty which will capture some economic rent and but it introduces inefficiency in the process itself, costly administration, a bureaucracy on the government side and the business side and if every last penny of that cost in the long run has got to come out of the public share, all I am saying is there are advantages apparant to the profit share system but you have got to realize it doesnt come without a cost and the public the people of Alaska are going to pay the cost and it is very expensive.

MALE VOICE:

Do you see the problems that exist when we have two systems of leasing, two methods of collecting the economic rent, the one says that you spoil ours by taking a tax, dont take a tax, now we are trying to find a way to work with it.

MALE VOICE:

Now I dont have a solution to that one at all, I dont know the answer to that. Isnt it really unfare to compare the Long Beach situation to what were talking about here in number 3, cause the Long Beach one involved a situation in which they bid net profits above 90% and they also had some cost plus provisions, so I mean the gold plating provisions in there really isnt an indication to what might happen under a different provision and different type of net profit bidding.

MALE VOICE:

Well not really lets take a situation where firms bid a 30% profit share or you have got a fixed 30% so that it will fit either case. The profit share bid in Long Beach was substantially more, it went all the way up to 100% but the operators, the thumbs group I think it was 95.4 or .6 or something like that, yes there was another 4% return that the companies get for everything they lay out, I figured out thats absolutely right what the companies retain on that thing, the share of profit they retain after the 4% turns out to be about 0.7%, so they get a reward of less than a penny on every dollar they save through efficiency thats no reward at all., but even with the 30% you have got a problem because dont forget there is also a 48% federal income tax and you combine a 30% profit share which is an income tax with a 48% income tax and you end up with an effective tax rate of 63.6% now that leaves and incentive to be efficient of only 36.4 cents on the dollar, now thats not much you are not going to get an awful lot of efficiency with that your going to get gold plating.

MALE VBOICE:

No... as long as you remove cost plus, why that cuts that back down.

MALE VOICE:

Now if you go to profit share bidding now you are going to get way above that 30% there is one merit to that proposal one of them has a fixed bonus now that will always prevent bidding up to 100% providing that you make sure that fixed bonus is not treated as a deductible expense, you have to make sure of that. But when you get up to 60 or 70% of the profit being paid out the incentive for efficiency goes way down and that costs the people of Alaska, that comes out of you economic rent,

MALE VOICE:

Did you in just making that ----- SOMEWHAT OF DISCUSSION NO ONE IS REALLY SAYING MUCH

MALE VOICE: We are better off to adopt that language, we already have on the books a ?????? we covered that and allows much more leeway we are better off with this language, we want to insure that it is not done just willy nilly ?????

MALE VOICE: What is it, did you read the current language?

MALE VOICE: The current language says that the commissioner for the purpose of encouraging the greatest ultimate recovery of oil gas ??? we can just take ??./ out of it and in the interest of conservation of natural resources after public hearing or when the state is entitled to the land beneath natural waters and that legally challenge by the United States and litigation initiative may wave the bend ???? or reduce the rental or minimum royalty or reduce the royalty on an entirely ????? a track or portion equal segragated to royalty purposes whenever in his judgement is necessary to do so in order to development, or whenever in his judgement the lease can not be ???? sucessfully operated under the terms.

MALE VOICE: You are better off with ?????.

MALE VOICE: And then Mr. Erickson says that we could strike oil and gas from this and he will put the appropriate language in here if we decide to go that route.

SO MOVED.....

Senator Croft moved, Senator Jullian seconded.

MALE VOICE: What is that word again, reinsert "J" and add the amendment which would release oil and gas from Section D and 3805140 all those in favor raise their right hand. Thats the last of it.

MALE VOICE:

With all individual recommendations the ??
has moved that we put out a senate committee
substitute for committee substitute for
????bill 864 resources with individual
recommendation is there any object? So
ordered.

MALE VOICE:

Give me something to sign....

ALOT OF TALKING AMONG THEMSELVES.....

MALE VOICE:

SCOMM

28:11

M E M O R A N D U M

TO: Senator Jalmar Kerttula
Representative Terry Gardiner
Co-Chairmen, Joint Gas Pipeline Committee

FROM: Staff *MWCAH*

DATE: May 11, 1981

RE: Proposed draft Committee Substitute for HB 200

Attached is a draft bill designed to accomplish the objectives set out in the Joint Statement on Oil Taxes issued by the Governor and legislative leadership on March 18, 1980:

Alaska's existing taxation and leasing policies currently provide significant incentives for petroleum exploration and development in the state. Hence, existing levels of taxation, stabilized since 1978, should remain stable at this time.

. . .

Both the Governor and the legislative leadership are determined that through their mutual efforts, a sound strategy for protecting oil and gas revenues will be found.

This draft bill was prepared at your request by Commissioner of Revenue Tom Williams, John Messenger and Fred Boness of the law firm Preston, Thorgrimson, Ellis & Holman and committee staff members Mark Wittow and Kevin McCarthy. We have discussed the main features of the proposed legislation with Attorney General Wilson Condon and will distribute the draft to Alaskan oil and gas producers, legislative advisors and other interested parties. The fiscal analysis for the draft was prepared by the Department of Revenue.

The draft bill accomplishes the following:

1. Grants a deduction under AS 43.21 for federal Windfall Profits Tax payments;
2. Enacts a reserves tax on producing oil and gas properties, similar to the Reserves Tax enacted in 1975, as a backstop for revenues collected by AS 43.21 in its current form;
3. Makes the technical amendments to AS 43.21 contained in HB 200 and SB 192, introduced at the request of the Governor. These technical amendments will improve the state's posture in the current litigation over 43.21, but could result in a tax reduction for Alaskan oil and gas producers of up to \$142 million in FY 81 and approximately \$60 million a year thereafter. (See fiscal note for HB 200, House Journal Supplement #10, 2/20/81).
4. Makes no changes to the current Alaskan oil and gas production (severance) tax (AS 43.55);
5. Exempts oil and gas lands of ANCSA Regional Corporations from the reserves tax in accordance with federal law, and allows all oil and gas income distributed under section 7(i) of ANCSA as a deduction from AS 43.21.

The Findings and Purposes section of the legislation is not yet completed, but will be available for the committee's

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Senator Jalmar Kerttula
Representative Terry Gardiner
May 11, 1981

consideration by May 18. The detailed fiscal analysis by the Department of Revenue and a legal analysis by Preston, Thorgrimson, Ellis & Holman will be submitted to the committee on that date. Preliminary numbers are being furnished to interested Alaskan oil and gas producers.

We are available at your convenience to discuss the proposed draft in greater detail. The legislative division of legal services is currently preparing a formal draft of the attached draft bill.