

ALASKA LEGISLATURE SPECIAL COMMITTEE / SUBJECT FILES 8672

1078 SCOMM 28: JOINT GAS PIPELINE COMMITTEE, 1981-82

latest worldwide forecast, the subcommittee also recommended:

—Longer term forecasts in light of the long lead time needed for "nearly all remedies" for projected crude shortages.

—Projections of production ranges on a country-by-country basis to convey political intentions as well as production costs and capital investment. "This information is more likely to produce accurate forecasts than the use of assumptions that price increases automatically induce more oil supply in the short run."

—Research on incremental costs of energy and conservation to "illuminate the potential for adjustment in the energy shortage in the long run."

Ranking minority member John Ashbrook of Ohio suggested the CIA stop downplaying the political intent of anti-American forces in key OPEC member nations. He maintained the recent attack on the U.S. embassy in Libya indicates U.S. oil supplies from Libya "are in jeopardy." Ashbrook also cited Soviet leaders' statements "as early as 1967" urging use of oil weapons against the West.

ASHLAND ASKS DOE FOR INCREASE IN CRUDE PRICE RELIEF

Washington 1/16—Ashland Oil asked the Dept. of Energy's Office of Hearings & Appeals to review price offers by nine companies under order to supply Ashland with 80,000 b/d (ON 11/29).

Ashland has completed purchase arrangements with all refiners (except Chevron) at a weighted average cost of \$16/bbl, Ashland attorney Fred Drogula told an OHA hearing. Drogula said the OHA order required the crude price to be based on delivery in November and December 1979 of lifting prior to Nov. 1, before the late-December round of price increases by several producing countries. He suggested the refiners were including those December increases in their offers.

That view was sharply criticized by several representatives of companies that claimed Ashland was trying to win extra price relief. Amoco's Paul Collier said Ashland's crude hardship claims weren't valid since the spot market has softened in recent weeks and the contract-spot price differential has been reduced from an average \$16/bbl to \$8/bbl.

In reviewing Ashland's current crude supply picture, Drogula noted Ashland recently bought 1.8-million bbl from Qatar for \$39/bbl.

Drogula also claimed Ashland will still face tight crude supplies when the relief order expires Feb. 29. The company estimates refinery runs for March through May will drop to 278,000 b/d, from just over 400,000 b/d currently, if relief isn't extended.

The present runs include crude obtained through the OHA relief and a 2.2-million bbl inventory drawdown.

STUDY SAYS WEATHER ALLOWS PT. CONCEPTION DELIVERIES; OPPONENTS ARGUE

Los Angeles 1/16—Weather conditions at the Point Conception, Calif., site of Western LNG Associates' proposed \$618-million LNG plant will permit interrupted deliveries of full project volumes from the plant, according to Keith C. McKinney, Western LNG president.

A two-year wind and wave study, commissioned by Western LNG after the California Public Utilities

was based on a high volume of data collected during the relatively quiet 1979, and inadequate samplings during the severe winter of 1978.

According to Strange, stormy weather knocked out Western LNG measuring devices for 25 days in January 1978 and during several subsequent storms that spring. "I don't think they could have landed a tanker during the entire month of January 1978," Strange said.

Western LNG said their measuring equipment functioned only 20% of the time during January 1978, but it attributed the outage to startup problems and vandalism rather than poor weather. "We could have maintained uninterrupted deliveries during the spring of 1978," McKinney said.

The California PUC is expected to begin hearings on wind and wave conditions in March.

ALASKA REVENUES TO REACH \$2.3-BILLION IN 1981, \$6.5-BILLION BY 1991

Anchorage 1/16—Decontrol of U.S. crude prices, coupled with increases in world prices, will result in a dramatic increase in Alaska's oil income over the next 15 years, according to a forecast for FY 1981 by the state Dept. of Revenue. The forecast estimates state income of \$2.33-billion from oil production taxes and royalties, \$500-million more than was estimated before decontrol was announced.

According to Rob Johnson, director of the Petroleum Revenue Division, 1982 petroleum revenue is estimated at \$3.46-billion, \$1-billion more than the earlier prediction.

The state's forecast, to be released soon, will show Alaska's petroleum revenue continuing to increase until it reaches a peak of \$6.55-billion in 1991, peak year of oil/gas production from Prudhoe Bay. After that, revenues will decline unless new reserves are discovered.

The forecast doesn't take into account corporate income taxes on oil companies or oil property taxes. The state's severance tax is 12.25% of the wellhead value.

CONGRESS TAXATION PANEL WOULD MERGE OLD AND NEW TAX RATES

Washington 1/16—The Congressional Joint Taxation Committee would simplify the windfall profits tax measure under which taxes on lower tier (old) and upper tier (new) oil, as proposed in House and Senate bills, would be merged into a single category.

The plan, outlined in a memo sent to Senate and House conferees, would in essence, eliminate the lower tier tax as a separate category and treat all oil discovered up through 1978 under upper tier rules. The plan wouldn't increase the tax burden of industry, in contrast to previous proposals, and would benefit those companies that hold a large portion of lower tier oil.

Congressional sources say the plan, which will be formally presented when the conferees meet later this week, is likely to be adopted but that several members are expected to complain about giving additional revenues to lower tier producers, who generally are the least likely to reinvest profits in new production.

The memo said the plan would remove much of the complexity from the proposal tax. In particular, the decline curves for lower tier oils, the marginal property category and the taxation of

of a mile apart were discoveries: Selatan-4, which flowed 4 979 b/d, and Selatan-12, 957 b/d. Natomas, with a 53% interest in the area, said the wells confirmed sufficient reserves for a third production platform, Selatan C, which should be producing by third-quarter 1980.

Amoco signed a joint-venture production-sharing agreement with Pertamina for the 4 250 sq mile Panai block in north-east Sumatra, while Marathon farmed into Cities Service's 4 315 sq mile Siri block off south-east Kalimantan. Marathon, Gulf, Amoseas, Mobil and Esso were awarded contracts in Agip's former Natuna Sea acreage.

Japan

Crude oil imports for the July-September quarter were 4 698 000 b/d — a rise of 9.5% over the year-earlier level. Government-level or direct deals with producing countries were boosted by 75% to 1 544 000 b/d, and crude imports developed by Japanese firms overseas came to 4 79 000 b/d (up 17%). Imports via the majors were 9% down at 2 573 000 b/d, and supplies from independents fell 36% to 102 000 b/d. According to MITI spot imports were 5.7% of the total, but the proportion is expected to rise to 11% in October-December.

Teikoku found natural gas at 190 000 cu m/d at Koshigi, in north-west Japan, while China and Japan were due to discuss joint exploration around the disputed Senkaku Islands at a meeting in Peking in November.

Malaysia

The Deputy Prime Minister stated that current crude output had reached 317 000 b/d — up 100 000 b/d from the average for 1978.

New Zealand

The government is proceeding with a plan to build a synthetic petrol plant using Maui gas as feedstock. The 530 000-t/yr capacity plant will use a Mobil process said to be able to produce a barrel of synthetic petrol for NZ \$23.00 and will be onstream in 1985. Approval was also given for a Maui gas-based LPG unit at Oaonui, with an ultimate throughput of 130 000 t/yr, to start production in 1981.

Taiwan

State company CPC found 2 000 b/d of crude and 70 000 cu m/d of gas at its CBK-4 wildcat. The discovery — the fourth successive find in the area off the Hsinchu coast — brought to 3 300 b/d and 450 000 cu m/d the combined flow from the new zone. CPC also reported a 140 000 cu m/d gas find in Chingchao Lake.

Thailand

Negotiations with the government over a price structure for the offshore gas recently discovered by Union/Mitsui on Block 10 in the Gulf of Thailand were reported to have been successful. The

Petroleum Authority of Thailand is to buy all the 100 million cf/d estimated production. Mitsui had planned to export its 40% share.

Vietnam

Deminex reportedly failed to find oil or gas in commercial quantities in four wells drilled offshore. Agip, however, was said to have encountered hydrocarbons in its second well prior to the rig being blown off-station.

NORTH AMERICA

Canada

Interest focused last month on the ministers' conference on energy, in Ottawa, dealing with Canada's energy problems and in particular with the issue of pricing. Major forces in the confrontation are Alberta, which advocates quick price rises to world levels, and Ontario, which strongly favours a much slower rising trend. There was also a wide gap on pricing between the positions of Alberta and the federal government.

Esso is spending \$470m on an enhanced recovery project at the Judy Creek field in Northwest Alberta. The company said the project, using carbon dioxide as the flooding agent, will result in additional recovery of 210 million bbl of crude from the field, which has been in production since 1959. It has yielded 28% of oil in place, but the CO₂ flooding is expected to bring the percentage up to 75-78%.

Fluor Canada was selected as main contractor for Esso's \$ (C) 7 billion *in situ* tar sands recovery project at Cold Lake, Alberta (see *Petroleum Economist* September 1979, page 381).

A new tar sands recovery technique using horizontal wells is to be tested by Gulf Canada Resources and the Alberta Oil Sands Technology & Research Authority at a cost of \$90m.

A group led by Gulf Canada is to build a \$200m natural gas processing plant in the Rocky Mountain foothills 40 miles south of Edson, Alberta. Gulf will be the operator with one-third interest, and the remainder will be shared by 16 other companies.

Westcoast Transmission proposed building a \$260m natural gas pipeline to Vancouver Island, where oil, propane and electricity are the current energy sources. A total of 500 miles of main trunk lines, spurs and laterals would be required. Startup throughput, in 1983, would be 61.4 million cf/d.

The bankrupt Come-by-Chance refinery has again been offered for sale following a year of exclusive negotiations between the receiver, Peat, Marwick Ltd and First Arabian Corp, a Paris-based group of Arab investors led by Roger E Tamraz. Peat, Marwick said talks would continue with First Arabian, with whom a price of about \$232m had been agreed, but added that "in view of the lapse of time... the receiver believes he must have the freedom to explore any (other) bids". The two sides had failed to

reach agreement on some key conditions, including financing commitments.

Dome suspended testing at its Nerlerk and Tarsuit wells in the Beaufort Sea at the onset of winter. Nerlerk showed non-commercial oil in two lower zones, and extensive oil-stained reservoir sand sections remain to be tested, Dome said. Nerlerk is the largest structure mapped in the Beaufort Sea, and the company said it considered the presence of oil "highly significant". Tarsuit also exhibited oil staining where tested. (See *Petroleum Economist* October 1979, page 430).

United States

Congress approved legislation giving President Carter the authority to draft and impose a standby gasoline rationing plan. Any such plan would be subject to Congressional review and could be implemented in either of two situations: a severe energy supply interruption (defined as a 20% shortfall below expected demand in motor fuels and heating oil over a period of 30 days or more) or when necessary to meet the USA's international energy programme obligations.

Texaco tested larger volumes of gas from its latest Baltimore Canyon well. After initially testing 5.5 million cf/d, the well yielded 14.2 million cf/d. Participants are Texaco and Tenneco, who are sharing expenses equally. In the Southeast Georgia Embayment area, Exxon's first wildcat was a dry hole. (See *Petroleum Economist* November 1979, page 480).

The New York Mercantile Exchange's board of governors approved the establishment of two futures markets for motor gasoline, one for leaded regular and the other for unleaded regular, based on contracts for 42 000 US gallons for delivery in New York Harbour. The contracts are subject to approval by the Commodity Futures Trading Commission. The NYME already operates futures markets for residual fuel oil and light heating oil. Trading in the latter set a monthly record in October when 5 895 contracts changed hands.

The Georges Bank lease sale, originally scheduled for November, was reset for 18th December. Environmental interests opposed to the sale succeeded in obtaining an injunction against it, but a US Supreme Court decision subsequently cleared the way. The sale is to be held in Providence, Rhode Island.

Tesoro is studying upgrading projects at its Kenai, Alaska, refinery involving expenditures of \$200m. The work would include increasing distillation capacity from 48 500 to 70 000 b/d and installation of a desulphurising unit. The company has already approved \$45m for a heavy gasoil hydrocracker and expansion of an existing naphtha reformer.

Santa Fe Engineering Services was awarded a contract to provide engineering and management support to the National Science Foundation for the planning of a 10-year, \$560m offshore scientific drilling programme. The *Glomar Explorer* will be converted into what Santa Fe said would be the largest drillship ever built, capable of drilling in water depths of 13 000 ft and to sub-

Chronological Summary of Alpetco Venture

R. Nafziger

2-19-80

Jan.-Sept. 1977: Firms bid for the state of Alaska's royalty oil. Alaska's Governor Hammond stated that 11 bids were received (Oil and Gas Journal, 1-16-78) while other industry publications stated there were 8. Among the more interesting offers was that of Alaska Petroleum who offered a \$1.50 premium per barrel on state royalty oil. John Barbour (of Barbour Oil) proposed that the state own the refinery and lease it to his consortium (a joint venture of Barbour Oil, Alaska Interstate and a New York Engineering firm-Ford, Bacon and Davis).

On November 27, 1977, only 4 of the proposals were still in contention. These were: 1. Alaska Petrofining, sponsored by Henry J. Kaiser of Kaiser Engineering in Oakland and several other engineering firms. They proposed to build a 250,000 b/d fuel and petrochemicals refinery. The project would have been financed through a tax-exempt nonprofit corporation.

2. Alaska Petrochemical: A joint venture of Alaska Interstate 60%, Barbour Oil 20%, and Alaska Consolidate Shipping 20% (this last firm was a joint venture of Seatrain and six native corporations). They proposed to build a \$1.5 petrochemical facility.

3. Alaska Oil and Chemical, backed by Guam Oil and Refining of Dallas and Alaska International Industries. They proposed to build a \$1 billion petrochemical plant and spend another \$1 billion on derivative plants.

4. Alaska Petroleum, a subsidiary of Coastal States Gas, wanted to build a \$400 million refinery to manufacture gasoline, jet fuel, fuel oil and burner fuel.

It appears that the 4 firms who were no longer in contention hadn't dropped out or hadn't been thrown out by the state but rather they had joined one of the four consortiums above. These other four were:

A. Pacific Resources of Honolulu, which originally proposed to build a 150,000 b/d refinery to meet the needs of Hawaii. They withdrew and joined Alaska Petrofining.

B. Alaska Consolidated Shipping had proposed to build a \$200 million refinery. They dropped out and joined Alpetco.

C. Alaska Interstate and Barbour Oil had proposed to build a \$1 billion complex. They withdrew this proposal in order to make the Alpetco one.

D. U.S. International Energy of Salt Lake City, had proposed a refinery. No information on what happened to their offer.

Also in late November, the state of Alaska hired Banner and Morse Associates, a Houston based management consulting firm to evaluate the proposals submitted. On the 30th of January, the firm completed their evaluation of the proposals and made recommendations to the state. They rated the proposals in the following order:

1. Alaska Petrofining

2. Alaska Petroleum

3. (a tie) Alpetco and Alaska Oil and Chemical

They recommended to the state that Alaska Petrofining be chosen in terms of its economic viability, general business merit and possibility of construction. Despite this recommendation, Gov.

Hammond chose Alpetco over the other three bidders. He said his choice was based on the fact that the firm agreed to a contract that imposed no risks on the state even if the project fails. Two of the losers in the competition told the governor that Alpetcos' project was unlikely to succeed without some form of price discount. However, the Governor said the state would lose nothing by giving Alpetco a chance. The contract was approved by the Alaska Royalty Oil and Gas Development Advisory Board but still had to be approved by the legislature.

Benchmarks stated in that contract provided that Alpetco -obtain 1.5 billion in financing within 18 months after the legislature ratifies the contract.
- that regulatory approval be obtained.
- that the sale of the product be committed within 18 months of ratification.

* The contract held that if all the benchmarks are met by the 18th month that from that time till the time the complex is built, the company could remarket the royalty crude in the lower 48. An Alpetco official said that crude probably would be sold on a long-term contract rather than on a spot basis. Alpetco would pay the in value price for the royalty crude. That price (as of 2-24-78) although subject to litigation at that time was \$12 per barrel.

In the 3-6-78 Oil and Gas Journal it was reported that :While the project is expected to win final approval, some industry spokesmen doubt the projects' feasibility. They say the facility would exceed Alaskas needs." In that same issue Governor Hammond said that he couldn't guarantee Alpetco will be able to compete in the world market. However, he said he approved the project partly because it "eliminates risks to the state and asks for no subsidy."

~~On 5-3-78 (Oil Daily) Jet-train purchased Barrow Ci~~

5-3-78: Seatrain purchased Barbour oil. Seatrain plans to offer the Alpetco stock related to the Barbour transaction to Alaska Consolidated Shipping, one of the three owners of ALPETCO, at the same price and terms of its purchase. Terms of the transaction were not revealed.

Seatrain Vice President James Trupp said the sale was prompted by the death earlier this year of John Barbour founder of the family-owned firm. Barbour was instrumentally behind the plan to use Alaska state royalty oil to fuel a petrochemical plant in Alaska.

The Alpetco partners plan to finance the proposed \$2.5 billion petrochemical plant through loans.

Alaskan state Representative Bill Miles said the Barbour share sale "will leave the consortium without one of its strongest partners." His special committee recommended rejection of the contract with Alpetco for a royalty oil refinery on the grounds that the project was unlikely to succeed without some future subsidy.

However, Alaska's Governor Jay Hammond is a firm supporter of the proposed state refinery. (Oil Dailey)

5-11-78: The Alaskan house again approved ~~xxxxxxx~~ the Alpetco contract. However it was on a 20-19 vote and included an amendment restricting the sale to crude oil that Alpetco processes within the state.

This would nullify a provision in the contract allowing Alpetco to market the oil outside Alaska while the plant is under construction.

Alpetco officials said before the vote that they couldn't accept such a change in the contract. Gov. Hammond's claims that the legislature doesn't have the power to amend contracts and can only approve or reject them. (Platts)

5-18-78: The Governor and Alpetco amended their contract to "clarify but not change Alpetco's contract. Among the amendments is an agreement that Alpetco won't take delivery of the crude until it has spend \$100 million on its proposed facility. Another was that the facility have the capacity to process 150,000 b'd. In addition, it was amended that if after six ~~xxx~~ years following contract approval the facility has a capacity of less than 150,000 b/d, the state's obligation to sell royalty crude will be reduced to the actual capacity. (Platts)

5-23-78: Earl Johnson, a Tulsa, Oil broker and a consultant to a special Alaska Senate Committee, who had earlier argued that the Alpetco venture wouldn't work and would ~~maximize~~ amount to indirectly subsidizing Alaska Petco by selling the company some state crude prior to startup of the facility, changed his mind. He stated that he misinterpreted contract provisions between the state and Alpetco.

According to Alpetcos president, Johnson "thought we could get a lower price for the royalty oil and undercut West Coast price." The contract assures Alaska of at least the California oil market price, said Cain.

Alpetco plans to export heavy fuel oil to a "lacific" country other than Japan but it needs an export permit to do so. Although such a sale will make it easier to finance the project, its not crucial Cain says.
(Platts)

6-20-78: Both houses of the Alaska Legislature approve Alpetco contract.

The first step in implementing the plan will be constructing ~~xxxxxx~~ a crude oil refinery with capacity to process 150,000 b/d. Additional units to further process crude into petrochemical products will be added in a phased development program over several years.

~~xxxxxx~~
(Oil Dailey)

8

6-26-78: Willard Hanzlik, Alpetco vice-president says the next 18 months will be critical to the project. That's the amount of time that the state has given Alpetco to round up \$1.5 billion in financing commitments and to obtain contracts to sell its product. "The next 18 months will tell us whether or not we have a go or no-go. If we get the commitments and contracts in place we could have a refinery in operation by 1982 or 1983.

Hanzlik says Alpetco realizes the project is an ambitious undertaking. But the availability of a long-term supply of crude is a strong asset. He also says the project has already received "some strong indications of support".

The legislature attached some clarifying amendments to the contract before approving it June 18. Among the amendments is a requirement that prohibit alpetco from taking any state oil until it has spend \$100 million.

Hanzlik says that under prior terms Alpetco could have purchased the oil once it had financing for \$1.5 billion. "Nevertheless, we are well committed to the project."

Another amendeemt reduces the volume of oil Alpetco can purchase should it build a smaller facility.

"If for some reason we decided to build a 50,000 b/d plant rather than 150,000 b/d then our crude supply would be reduced accordingly. But that really doesn't affect us since we plan nothing less than 150,000 b/d.

Alpetco selected Brown and Root Inc. , Houston, as construction and engineering manager.

Meanwhile private studies are under way to determine possible uses of Alaskan royalty gas. The gas would become available if and when a pipeline is constructed. Both the royalty gas and oil would come from the Alaskan North Slope

(Oil & Gas Journal)

(Oil & Gas Journal)

4-27-79: Dusseldorf Steel Firm, Thyssen expressed an interest in becoming a financier of the project. Japans export-import bank also expressed interested. (Platts)

6-19-79: the state of Alaska was negotiating with a number of oil companies to sell its royalty oil during the coming year until Alpetro is legally able to take delivery of the crude. The deals Alaska Natural Resources Commission Robert Leresch is known to be negotiating would guarantee the state the legal ceiling price for North Slope crude-about \$13 per barrel at the wellhead. Leresch is known to be negotiating with Marion Corporation of Mobil and Mid-American Pipeline of Chelsea, Mass. and Earth Resources of Alaska. Earth already has a commitment for 15% of the royalty oil and recently nominated to take 8% of that at its North Pole refinery, near Fairbanks. Leresch said the royalty oil looks attractive to buyers. When shipping costs are added to the \$13 bbl north slope wellhead price, the oil will be about \$22 when it reaches the U.S. Gulf Coast. (Platts)

7-26-79: El Aquitane officials express interest in Alpetros investment. (Platts)

10-12-79: E.F. Hutton acquires 22% interest in the complex (Oil Daily)

10-29-79: Charter acquires 70% interest. Although the industry literature does not account for the change in ownership the joint venture shares were reported at that time as being Charter 70%, Alaska Petroleum 23.4% (this share is broken down further into 75% Alaska Interstate, and the rest Alaska Consolidated Shipping) and E.F. Hutton 6.6%. (Wall Street Journal, Oil & Gas Journal)

10-30-79: Alaska Peto president states that construction of the complex will begin on June 1, 1980 (Platts)

11-7-79: Alpetco claims to have met all contract deadlines so far and announces that it intends to meet the Dec. 18 deadline, when it must have contracts for 70% of its plant output and should have filed for all of its permits.

J.T. Donnell, Charter Oil President, said most of the petrochemicals manufactured at the proposed plant will go to Japan and some to the West Coast. Jet fuel will be marketed in Alaska and Hawaii and gasoline and diesel fuel will be sold in Alaska and on the West Coast.

Alpetco officials also stated that their project will be financed with \$700 million in supplier credits from Japan and up to \$600 million in tax-exempt revenue bonds issued by the city of Valdez. The partners will put up \$400 million.

President Gordon Cain said Alpetco intends to build the project with fixed price contracts. Bids will be sought in two or three months, so they will be in hand by the time final permits have been issued, expected to be no later next than June or July.

(Platts)

2 other
refineries
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re/min:
2000 bbl
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11-20-79: Tesoro Petroleum asked the state of Alaska to supply its Kenai refinery with North slope royalty oil until Alaska Peto completes its refinery. Obviously Alpetco was furious. President Gordon Cain, said, "We might let them have some for six months while we are putting together processing deals, but not for three years while we're building the refinery. Alaska Natural Resources Commissioner Robert Leresche said "We are doing everything we can to get Tesoro a supply of crude. We are going to urge Alpetco to sell to Tesoro but the state can't unilaterally amend its contract with Alpetco. (Platts)

11-26-79: the city of Valdez passed an ordinance authorizing sale of up to \$600 million in tax-free revenue bonds as part of a financing package for Alpetco. (Platts)

12-18-79: ~~West~~ West Germany's Thyssen Rheinstahl Technik has agreed to provide \$750 in construction financing for Alpetco. The other sources of project financing are city of Valdez's bonds, \$600 million and \$350 million from the equity partners. Alpetco officers previously said that \$700 million in supplier credit would be provided by Japan. (Platts)

12-20-79: Alpetco allegedly met the Dec. 18 deadline set by the state of Alaska for arranging financing for the proposed complex. Thus the company is eligible to buy royalty oil. However, Natural Resources Commissioner Robert LeResche granted a one-month extension of the deadline to allow time for state consultant s to review the complex plan. (Platts)

Variation of General Electric matrix useful in deciding diversification moves

The executive summary, which comprises the first volume, will be of particular value because of the judgements made on all aspects of diversification. Purchasers of the report will be faced with a massive array of information on 23 different speciality chemical sectors and on an even larger number of product opportunities. Especially helpful is a chapter which suggests a number of ways of relating speciality opportunities to existing businesses. The merits of a number of portfolio and matrix approaches are discussed, including a variation of General Electric's well-known matrix of industry attractiveness versus company capabilities, which SIR's strategic planners have found useful when considering diversification moves.

Lack of interest in Alaskan refining surprising in view of feedstock security

In view of the well-publicised difficulties of establishing new refinery and petrochemical complexes in the United States, it is perhaps surprising that there was such a poor response when Alaska offered a long-term contract for the supply of 150,000 bbl/day of crude at the market price in return for an investment commitment. Only four proposals were received, the only two of any substance coming from Coastal States and Alpetco, owned by Charter Co (70%), E F Hutton (6.6%) and Alaska Petrochemical Co (23.4%), who were awarded the contract.

The State of Alaska will supply its royalty oil, which represents one-eighth of all the oil produced on State land, under a 27-year contract. Although the main objective is to help create employment opportunities, crude oil is not being supplied at subsidised prices. Alpetco will have to pay not less than the price which the State would have received had it followed the more usual practice of selling the oil to the producing companies.

Regular 'benchmarks' monitor Alpetco's performance

The State Governor awarded the crude contract to Alpetco two years ago, largely because the company agreed to invest a minimum of \$1.5 billion. The contract runs to the year 2006 and provides that the company receives 85% of the state's North Slope royalty oil up to a maximum of 150,000 bbl/day. To ensure that the project is pursued diligently, the contract includes six-monthly 'benchmarks' which specify the things which would normally be done at that stage.

Alpetco have already met the first three 'benchmarks'. The most important provisions of the latest included the expenditure, or commitment to spend, \$10 million; the filing of an environmental impact statement and applications for all necessary permits; and the arrangements to finance \$1.5 billion. The first crude oil supply is due to be made on 18 July 1980 but, according to contract, before then the company must have spent \$100 million.

Crude oil sales will help offset higher construction costs in Alaska

Mr Gordon A Cain, president of Alaska Petrochemical, whose 75% majority owners are Alaska Interstate with Seatrains holding 22% and six Alaskan companies holding the balance, tells me that he expects this requirement to be met. By exercising the right to take crude from 18 July 1980 until plant start-up, the partners hope to recover a substantial part of the construction premium, the cost of building plant in Alaska being 1.6 times the rate for the Gulf Coast. Incidentally, any profits made on the sale of crude oil supplied before start-up must under the terms of the contract be invested in

Cost comparisons meaningless when there are so few refinery locations in the US

the project.

It should be said that comparisons of capital costs do not mean much in this context, because there are few places in the US where it would be possible to build a refinery today. Also, part of the construction premium is due to the need to build a power plant which would be available elsewhere in the US. However, the question is not whether it is better to build in Alaska, but whether the partners can justify the cost of construction in Alaska.

I have few doubts on this score, particularly in view of the feedstock security. Also, feedstock costs will be lower than average. If the company were buying crude oil at late-1979 prices, it would be paying between \$5.00 and \$10.00 a barrel less than the comparable spot price. With a stable crude market, the price in Valdez, where the plant will be built, will be about the going price for Alaskan crude, less freight from Valdez, minus \$1.00 to \$2.00 per barrel.

West Coast markets will be main target for petrochemicals from Valdez

The main target for petrochemicals produced at Valdez (benzene, toluene, xylenes and sulphur), will be the Pacific basin, particularly the US West Coast. As I pointed out a few years ago, at the time when Dow Chemical abandoned their Californian project, West Coast markets would provide a solid loading for a new petrochemical complex (Insight 124). Jet fuels will go principally to Hawaii with fuel products being transported both to the West Coast and Hawaii.

Mr Cain expects that further petrochemical plants will be added in due course, based either on the company's own raw materials or on natural gas liquids from the North Slope. The next unit is likely to be an ethylbenzene or an ethylbenzene-styrene monomer plant with a joint venture partner. All petrochemical developments at Valdez are likely to be carried out on a joint basis.

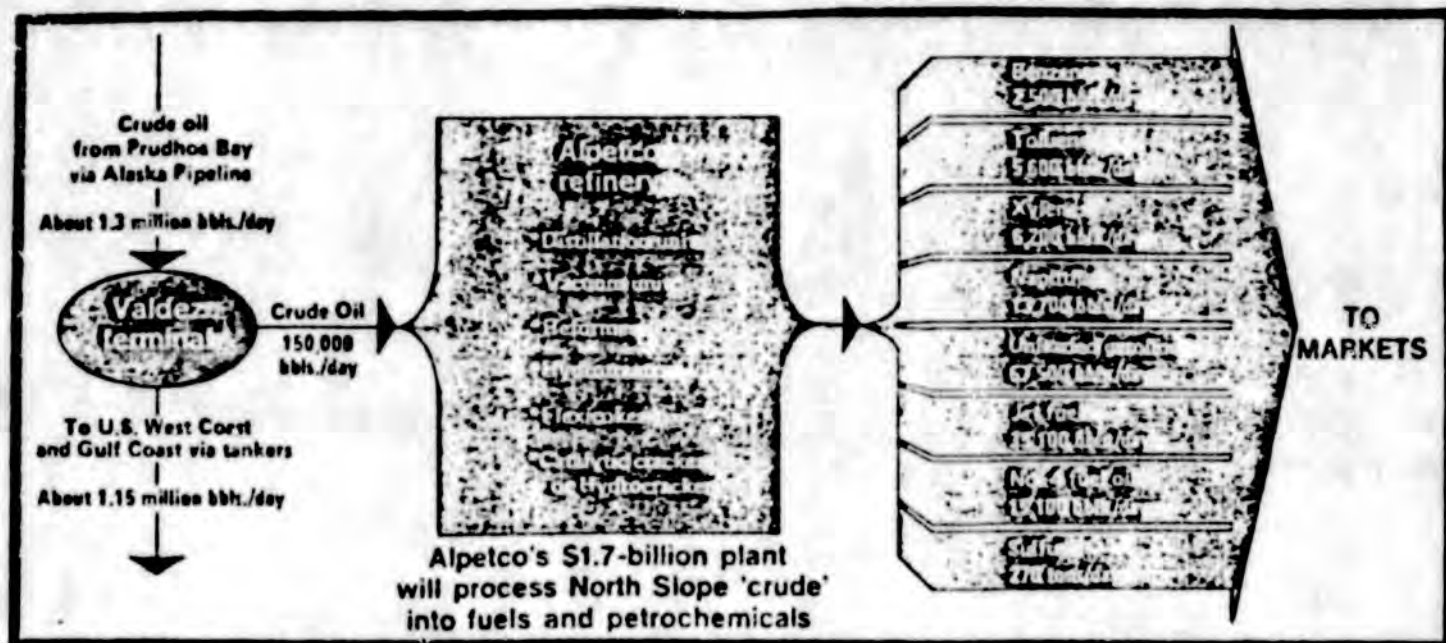
Contractors see major changes in client trends and nature of the work-load

The chemical contracting industry has had to adapt itself to many changes in the past five years, and will need to continue doing so in the 1980s. The workload has tended to shift from the traditional, industrialised nations to developing countries. At the same time, the accent has switched from the design and engineering of single plants to turnkey projects which frequently require the development of an infrastructure. Thus, the cost of individual projects has increased enormously and with it, the risks to the contractor.

Contracting companies now have to offer a different and more comprehensive range of services, including training of operators, commissioning and long-term maintenance. Companies have also had to develop skills at putting together imaginative financial packages. Particularly in developing countries and the Communist-bloc they are finding themselves in the position of having to advise clients on product marketing or are actually participating in barter and buy-back deals.

Buyers' market puts the emphasis on risky, fixed price contracts

As long as the Middle East remains a buyers' market, there will be pressure for contracts to be signed on a fixed price basis. Thus, managements will need to be extremely careful about their risk exposure. The large, efficient engineering companies may well continue to prosper, but some medium-size companies may fall by the wayside, or be



Petrochemicals coming—from way up north!

Before this year is ended, Alpetco Co. (Houston) expects to award contracts for construction of an Alaskan refinery and petrochemical complex that initially will consume 150,000 bbls./day of crude oil—more than one-tenth of the amount produced at Prudhoe Bay, the largest U.S. oil field.

First-stage facilities, which will cost an estimated \$1.7 billion and are slated for late-1983 startup, will produce unleaded gasoline, jet fuel, industrial fuel oil and petroleum naphtha, as well as elemental sulfur and the three principal aromatic chemicals: benzene, 37 million gal./year; toluene, 575 million lbs./year; and mixed xylenes, 670 million lbs./year (see flow chart).

Most of those products are to be marketed on the U.S. West Coast and throughout the Pacific Basin by The Charter Company's Oil Group subsidiaries, which now operate one refinery on the Houston Ship Channel and another in the Bahamas, and which have been marketing petrochemicals, solvents, gasoline and other refined petroleum products for more than 20 years. Charter has a 70% equity interest in Alpetco, whose other owners are Alaska Petrochemical Co. (Houston), 23.4%, and the E.F. Hutton Group (New York), 6.6%. In turn, Alaska Petrochemical is owned by Alaska Interstate Co. (Houston), 75%; by SeaTrain Lines, Inc. (New York), 22%; and by six regional companies

that are owned by native Alaskans, 3%.

Gordon A. Cain, a twice-retired, 68-year-old chemical industry veteran, who in 1977 was drafted to serve as president of Alaska Petrochemical, is spearheading the project. Cain began his industry career as a chemical engineer with Freeport, launched the Petro-Tex butadiene operation for FMC and Tenneco, and later headed Conoco's chemicals and plastics business (CW, Oct. 1, 1975, p. 40).

Tapping the TAPS: Alpetco will build its refinery and chemical units at

**Already being considered:
a unit to make styrene,
using off-gas ethylene**

Valdez, a town that boasts an all-year ice-free seaport on Alaska's southern coast. Also at Valdez are the 18 big storage tanks of the Trans Alaska Pipeline System (TAPS) terminal, from which the new refinery will get its crude-oil input under a 26-year contract with the state government. Sea-going tankers regularly enter the Valdez harbor to take on Prudhoe Bay crude for refineries on the U.S. West Coast and Gulf Coast, and after 1983 will also be picking up consignments of Alpetco's petrochemicals and other refined products at that same port.

Alpetco's entitlement to buy state "royalty oil" is expected to begin July 18. Until its own plant is built, the company will have the crude oil processed in other companies' refineries on the U.S. West Coast, and the products will be shipped to customers through Charter's marketing arm.

C. F. Braun & Co. (Alhambra, Calif.) has been designated managing contractor. Construction will be assigned to a joint venture set up by Thyssen-Rhein-stahl AG (Dusseldorf, West Germany) and Foster Wheeler Corp. (Livingston, N.J.).

Even before the first-stage facilities are blueprinted, Cain is thinking about the petrochemical units that may be added later on. One possibility: a plant to make ethyl benzene and styrene. Cain says benzene from the reformer could be alkylated with ethylene recovered from the refinery off-gases.

Biggest element in the financing package: up to \$750 million worth of trade credits, arranged by Thyssen. The city of Valdez, which issued more than \$1 billion worth of revenue bonds to help finance construction of the TAPS terminal, will provide up to \$650 million in similar financing for the Alpetco project. And up to \$350 million will come from the equity owners, who hope to earn much of their share by selling refined products made from their 1980-1983 allotments of North Slope crude. □

UNITED STATES

ALPETCO GETS HALF OF PLANT PROJECT COSTS FROM W. GERMANY'S THYSSEN

Anchorage 12/17—West Germany's Thyssen Rheinstahl Technik has agreed to provide \$750-million in construction financing for Alaska Petrochemical's \$1.5-billion refinery-petrochemical plant at Valdez. The agreement was confirmed by Alaska Natural Resources Commissioner Robert LeResche, who said he had met in Seattle last week with Alpetco and Thyssen officials.

The other sources of project financing are \$600-million in tax-exempt bonds issued by the city of Valdez and \$300-million from the equity partners. Alpetco officials previously said that \$700-million in supplier credits would be provided by Japan (ON 11/7).

Alpetco vice president Willard Hanzlik has refused to discuss the Thyssen agreement, saying that LeResche would officially disclose financing on Dec. 18—the state of Alaska's deadline for a financing package. Hanzlik also refused comment on whether Alpetco will meet that deadline for other state requirements, including environmental studies and potential markets. The benchmarks were set in the contract to sell Alpetco 50,000 b/d of royalty oil.)

BY WASHINGTON

**ALPETCO MEETS FINANCING DEADLINE
FOR \$1.7-BILLION VALDEZ REFINERY**

Anchorage 12/19—Alpetco met the Dec. 18 deadline set by the state of Alaska for arranging financing for the proposed \$1.7-billion refinery-petrochemical project at Valdez, and the company is thus eligible to buy Alaska royalty oil (ON 11/30).

(However, Natural Resources Commissioner Robert LeResche granted a one-month extension of the deadline to allow time for state consultants to review the complex plan. He emphasized Alpetco didn't request the extension.)

West Germany's Thyssen Rheinstahl Technik agreed to provide \$750-million in construction financing (ON 12/18). \$600-million will be ensured through industrial revenue bonds approved by the city of Valdez.

(Alpetco partners will provide \$350-million, not \$300-million as reported in OILGRAM NEWS Dec. 18.)

Alpetco partners are: Charter, 70%; E. F. Hutton, 6.6%; and Alaska Petrochemical, 23.4% (ON 10/23). Alaska Petrochemical, which initially proposed the project, is owned 75% by Alaska Interstate, 22% by a Seatrain subsidiary and 3% by six Alaskan regional native corporations.

(Thyssen and Foster Wheeler Energy will engineer and construct the facility under a fixed-price contract.)

UNITED STATES Charter Co. will acquire a 70% share in reorganized Alpetco, which plans a \$1.5-billion Alaskan refining-petrochemical complex at Valdez, the port terminal of the Alaskan oil pipeline. Alaska Interstate's share in Alpetco will shrink to 23.4% from 75%. And the E.F. Hutton investment house will end up with only 6.6% after revision of its preliminary agreement to inject capital into the plan (PIW Oct.22,p.11).

Platts

**(TESORO, LAMENTING KENAI PLANT'S
SHORTFALL, ASKS FOR ALASKAN OIL)**

Anchorage 11/21—Tesoro Petroleum vice president Jim Smith said at the Alaska Royalty Oil & Gas Development Advisory Board meeting here yesterday that the firm's Kenai refinery is now operating about 4,500 b/d short of its 48,500 b/d capacity.

By the first of next year, he stressed, the shortfall will be 15,000 b/d. (One of the alleged causes is a sharper-than-expected production decline in the Cook Inlet field ON 11/20). The Alaskan market will be impacted by higher prices stemming from import costs, he asserted.)

He suggested the state sell Tesoro 10,000 b/d of uncommitted royalty oil from Prudhoe Bay or sell Tesoro 5,000 b/d from next July 1, when the state expects to start taking its royalty oil in kind, through July 18, 1980,

when Alaska Petrochemical can take delivery of the royalty oil if it meets conditions in its contract with the state (ON 11/7).

State Seeks Producers' Assurance

Alaska Natural Resources Commissioner Robert Leresche suggested the board meet again on Dec. 28 to consider a contract to sell Tesoro the royalty oil during the requested 17 days. However, he said the state won't take oil in kind unless it has assurance from Prudhoe Bay producers that it can withdraw its request on 30 days' notice should Alpetco fail to meet contract conditions.

Smith said Tesoro's plan is to trade the North Slope crude for a long-term supply of sweeter Cook Inlet crude, which its Kenai refinery was designed to process. Long-range Tesoro plans call for converting the refinery to the higher-sulphur North Slope crude in about five years.

Smith intended to ask the state to amend its contract with Alpetco to require sale of a portion of royalty oil to Tesoro until Alpetco's refinery is constructed. However, both Alpetco and Leresche had problems with that proposal and it wasn't discussed at the advisory board's meeting.

Meanwhile, the city of Valdez has passed an ordinance authorizing sale of up to \$600-million in tax-free revenue bonds as part of a financing package for the Alpetco refinery.



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TESORO STEPPING UP EFFORTS TO GET ALPETCO'S ROYALTY OIL

Anchorage 11/19—Tesoro Petroleum has asked the state of Alaska to supply its Kenai refinery with North Slope royalty oil until Alaska Petrochemical completes its proposed refinery at Valdez (ON 11/1).

However, Alpetco president Gordon Cain said his company opposes any requirement to sell to Tesoro. "We might let them have some for six months while we are putting together processing deals," Cain added, "but not for three years while we are building the refinery."

Alaska Natural Resources Commissioner Robert Leresche said: "We are doing everything we can to get Tesoro a supply of crude. We are going to urge Alpetco to sell to Tesoro." But he noted the state can't unilaterally amend its contract with Alpetco.

"Tesoro was asleep at the switch and didn't enter into the bidding (for North Slope royalty crude). But it's in the state's best interest to supply Tesoro if we can," Leresche said.

Tesoro wants to purchase oil during Alpetco's plant construction that it can trade for an eight-year supply of Cook Inlet crude for its Kenai refinery. Tesoro expects new sources of oil to be available from the North Slope after eight years to fill Tesoro needs.

Under its contract with the state, Alpetco can take delivery of royalty oil as early as next July if certain benchmarks are met, including spending \$100-million on the Valdez refinery by that time. Cain claimed Alpetco needs that oil so it can build markets. Until the refinery is built, Alpetco will pay another refiner to process the oil.

Tesoro and Alpetco are expected to argue their cases on Nov. 20 at a meeting in Anchorage of the state's Royalty Oil & Gas Development Advisory Board.



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INSIDE OILGRAM TODAY

- **SOHIO** calls U.S. Energy Dept. price-violation claim against nine refiners grossly overexaggerated.
- All oil-exporting terminals in Iran have been shut down and prospects for reopening are unclear.
- Former Kuwaiti Oil Minister foresees OPEC's \$23.50 price ceiling lifted to \$30 by year's end.
- U.S. Supreme Court forbids Interior Dept. to open Georges Bank lease bids; will review issue.
- Alaska Gov. Hammond says his state wants NGL from Prudhoe Bay as condition for gasoline participation.

U. S./CANADA

ALASKA WANTS PRUDHOE GAS LIQUIDS AS CONDITION FOR STATE ROLE IN PL

Washington 11/6—Alaska Gov. Hammond has told Energy Dept. Officials that dedication of Prudhoe Bay natural gas liquids to the state for development of a petrochemicals sector will be a critical factor in deciding on state participation in the proposed Alaska gas pipeline (ON 11/6).

Following a meeting yesterday with Energy Secretary Duncan and Deputy Secretary Sawhill, Hammond met today with Vice President Mondale and Senate Energy Committee Chairman Jackson (D-WA) to discuss conditions for state participation in the project and the financing plan proposed by Exxon (ON 11/6).

A Hammond spokeswoman told OILGRAM NEWS that "political considerations" make it necessary to "preserve the option" of developing a major petrochemicals plant before the state will join the project.

Duncan and Sawhill were supportive of the idea, she said, although no firm assurances were given.

A state task force is expected to meet Nov. 20 to review specific proposals for financial participation in the project.

ALPETCO SAYS IT WILL MEET ALASKA STIPULATIONS FOR ROYALTY CRUDE

Anchorage 11/6—Alaska Petrochemical has met all of its contract deadlines so far and intends to meet the next deadline, Dec. 18, when it must have contracts for 70% of its plant output and should have filed for all permits for its proposed \$1.5-billion project at Valdez, according to O. Charles Honig, Alpetco chairman.

Honig, who also chairs Alaska Interstate Co., one of the project's partners, said at a press conference here: "We don't plan to ask for an extension."

The contract deadlines were set by Alaska when it agreed to sell Alpetco up to 150,000 b/d of the state's royalty share of North Slope crude provided Alpetco builds a refinery-petrochemicals plant in the state.

Alpetco partners, Alaska Interstate, Charter and E. F. Hutton, sent officials here yesterday for meetings.

J. T. Donnell, Charter Oil president, said most of the petrochemicals manufactured at the proposed plant will go to Japan and some to the West Coast. Jet fuel will be marketed in Alaska and Hawaii, and gasoline and diesel fuel will be sold in Alaska and on the West Coast.

Tesoro a Spoiler?

(Asked about Tesoro Petroleum's plan to expand its Kenai refinery and obtain a share of North Slope royalty oil, Honig said: "We don't think Tesoro should try to get a first mortgage on oil we have a first mortgage on" (ON 11/1).

When the state was trying to find buyers for its North Slope royalty oil, Honig said, Alpetco was one of those in line. "That's when the line formed, not today," he asserted.

Alpetco officials said their project will be financed with \$700-million in supplier credits from Japan and up to \$600-million in tax-exempt revenue bonds issued by the city of Valdez. The partners will put up \$400-million.

President Gordon Cain said Alpetco intends to build the project with fixed price contracts. Bids will be sought in two or three months, so they will be in hand by the time final permits have been issued, expected to be no later next than June or July.

Charter will finance 70% of the project, with Alaska Interstate holding 23.4% interest and E. F. Hutton, a 6.6%.

— ON TANKER

— TARGETS GRAND BANKS WORK



PLATT'S

OILGRAM NEWS

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**(ALPETCO REFINERY CONSTRUCTION
TO START AT VALDEZ IN JUNE 1980)**

Anchorage 10/29—Alaska Petrochemical president Gordon Cain says construction of the 150,000 b/d Alpetco refinery at Valdez will begin next June 1 (ON 10/23).

The \$1.5-billion project will be broken into 10-15 \$100-million fixed-fee contracts and is expected to take up to three years to construct, notes Cain. The first phase will include the refinery, 9 mi. of pipeline and a loading dock for ocean-going tankers. Initial products, Cain said, will include unleaded gasoline, jet fuel, diesel fuel, LPG and petrochemicals.)

EXPLORATION

THE Bureau of Land Management will auction off 125 tracts totaling 592,216 acres in the Gulf of Mexico at a sale scheduled for Nov. 27.

The tracts lie 3-109 miles off Texas, Louisiana, Mississippi, and Alabama in waters 20-1,640 ft deep.

The U.S. Geological Survey estimates that the area has potential for 50 million bbl of oil and 684.7 billion cu ft of gas.

► Adobe Oil & Gas Corp., Midland, Tex., has acquired from Elf Aquitaine Inc., Houston, a 22.5% interest in 131,500 net acres under about 200,000 gross acres in the Northwest North Dakota portion of the Williston basin for \$2.8 million.

DRILLING-PRODUCTION

SANTA Fe International Corp. has ordered a jack up from Mitsui Ocean Development & Engineering Co. Ltd., Awazu, Japan.

Delivery is scheduled for November 1980 at a cost of about \$26 million. The unit, designed to drill in maximum water depths of 250 ft, will be rated to 25,000 ft.

► Temple Drilling Co., Houston, has ordered a jack up from Bethlehem Steel Corp.'s Beaumont, Tex., shipyard. Delivery to Temple's Tidelands Ltd. II partnership is scheduled for October 1980. The cantilevered rig will be capable of drilling in 150 ft of water to a depth of 25,000 ft.

► Comet Drilling Co., Lafayette, La., has completed modification of its Rig 6 to extend the efficient operating range to 15,000 ft with 4.5-in. drillpipe. A 20,000-ft rig is scheduled for delivery in November.

ALTERNATE FUELS

THE U.S. and Germany will attempt to extract heat from deep-lying strata of hot dry rocks at Fenton Hill, N.M.

The International Energy Agency agreement calls for a 4-year program with a \$60-million budget. The Department of Energy will conduct the program involving research, development, and demonstration.

The project is one of several collaborative energy projects being conducted under the auspices of the IEA.

► Mapco Inc. will receive a \$29.1-million government-guaranteed loan from the Bank of America to develop geothermal resources in southern California's Imperial Valley. Nineteen

wells will be drilled in an effort to develop enough power to justify construction of a 45,000-kw power plant.

► The Department of Energy has awarded Dow Chemical U.S.A.'s oil and gas division a \$9-million contract to drill a geopressured-geothermal well in South Louisiana. The North Parperdue field location is staked about 10 miles south of Lafayette in Vermilion Parish. Drilling is scheduled to begin early next year. Target reservoir is a confined, water-bearing sand located on a fault block on 939 acres. The sand is about 50 ft thick.

PROCESSING

U.S. refinery crude oil capacity is expected to reach 18.1 million b/d by the end of the year, The Energy Department says.

That level would be a 3.4% increase from the 17.51 million b/d reported at the end of 1978.

Most of the growth will be the result of expansions of existing refineries.

► Phillips Petroleum Co. is laying a pipeline system to gather, process, and sell natural gas produced by independent operators in Giddings oil and gas field about 60 miles east of Austin, Tex. The system is expected to be in operation in late November. A conditioning facility in the field will handle the gas until a cryogenic processing plant is completed next spring near Giddings.

► Columbian Chemicals Co., a subsidiary of Cities Service Co., is closing its carbon black plant in Seagraves, Tex. Adverse economic factors forced the closing of the 80-million-lb/year plant. Capital investment required to modernize the plant couldn't be justified under today's market conditions for carbon black. Shell Oil Co. is joint owner.

► Arco Oil & Gas Co. let contract to Helix Process Systems, Westborough, Mass., for conceptual design and engineering of a nitrogen reinjection/NGL facility at Arco's Block 31, Crane County, Tex., complex. Arco, which has been injecting flue gas into the West Texas field for 13 years as part of an enhanced recovery project, plans to process the produced gas stream to recover NGL, methane, and nitrogen. Nitrogen will be reinjected into the field.

► Monsanto Chemical Intermediates Co. plans a multimillion-dollar energy conservation and environmental control project for its maleic an-

hydride unit at its J. F. Queeny plant in St. Louis. The company figures the project will save 850 billion BTU/year. Completion is scheduled in 1981. All maleic anhydride production will be converted to butane feedstock from benzene using conversion technology developed by Monsanto.

► Borden Inc.'s chemical division is installing a selective oxidation unit at its 1,000-ton/day Chemico design ammonia plant at Geismar, La. The process, licensed from Engelhard Industries Division of Engelhard Minerals & Chemicals Corp., Union, N.J., is expected to increase ammonia production capacity an average of 3.7% without increasing natural gas feedstock requirements.

COMPANIES

THE Charter Co. and E. F. Hutton Group Inc. have joined Alaska Interstate Co.'s venture to build a 150,000-b/d refinery and petrochemical complex at Valdez, Alaska.

The joint venture, which will continue to use the Alpetco Co. name, will be owned 70% by Charter, 23.4% by Alaska Petrochemical Co., and 6.6% by E. F. Hutton. An earlier report credited E. F. Hutton with a 22% interest (OGJ, Oct. 22, p. 32). (Alaska Interstate holds a 75% interest in Alaska Petrochemical.)

► Arkansas Louisiana Gas Co. during the first 9 months of 1979 acquired natural gas reserves totaling more than it expects to withdraw from reserves during the entire year. In what the company says is its best acquisition record in 5 years, Arkla acquired 329 billion cu ft of gas. It expects to withdraw 328 billion cu ft from reserves this year. The new reserves include 70.5 billion cu ft proved up by Arkla's exploration program. The rest was acquired under long-term gas purchase contracts with other producers.

► Cities Service Co.'s capital expenditures this year will be about \$750 million, a record. The outlay is an increase of \$113 million from 1978 spending. Cities' goals are to increase its reserves of conventional hydrocarbons, seek additional alternate sources of energy, expand chemical activities, and improve profitability from mining.

► Crystal Oil Co., Shreveport, La., has sold its refinery in Princeton, Ind., to the First National Bank, Bartlesville, Okla., for \$2.3 million.

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Joint Venture Planned By 3 Firms to Develop Oil Refinery in Alaska

By WALL STREET JOURNAL Staff Reporter
HOUSTON — Alaska Interstate Co., Charter Co., and E.F. Hutton Group Inc. announced an agreement to form a joint venture to develop a 150,000-barrel-a-day oil refinery in Alaska.

The Valdez facility has been under development by Alaska Petrochemical Co., a 75%-owned subsidiary of Alaska Interstate, and is at the environmental study stage.

Alaska Petrochemical has a contract with the state of Alaska to let the company buy 150,000 barrels of oil a day for 27 years, depending on certain contract terms being met such as the investment over \$1.5 billion in six years. The facility will be completed about late 1983.

In Jacksonville, Fla., Charter noted that the joint venture will be owned 70% by Charter, 23.4% by Alaska Petrochemical and 6.6% by E.F. Hutton. The venture will be called Alperco Co.

Charter also noted that crude-oil deliveries could be available to the joint venture as early as next July if certain contract conditions are met, including the venture's spending at least \$100 million on the refinery.

A Charter spokesman emphasized that the venture isn't committed at this point to spending \$1.5 billion.

Beulah Lines Inc., a New York-based steamship concern, owned 49% of Alaska Consolidated Shipping Inc., which will be the "shipping arm" for the Alaskan refinery venture. A group of six Alaskan regional native companies owns 51% of Alaska Consolidated Shipping. Beulah also said it owns 22% of Alaska Petrochemical Co.

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Hutton Acquires 22 Pct. Interest In Alaska Plant

HOUSTON — What is sauce for the goose is not always the same for the gander.

While some White House, Congressional and federal regulatory officials have proposed banning members of the petroleum industry from acquisitions outside the energy field, no notice apparently has been given to the exact opposite.

The latest non-industry firm to enter the energy field is the E. F. Hutton Group Inc. which acquired a 22 percent interest in the proposed Alaska Petrochemical Co. (Alpetco) refinery at Valdez, Alaska for an undisclosed sum.

Alpetco, 75 percent-owned by Houston-based Alaska Interstate Co., holds a 27-year supply contract with the State of Alaska to purchase up to 150,000 barrels per day of North Slope royalty crude oil.

Hutton's participation in the project is retroactive to include a share of its \$7 million cost factor to date.

Alpetco Project Would Be Biggest Since Garyville

HOUSTON — (Plans) for a \$1.5 billion refinery and petrochemical complex, Alaska's largest, moved off the drawing board with the selection of C-E Lummus as managing contractor of the Alaska Petrochemical Co. (Alpetco) project.

(It also would be the first major refinery to be built in the U.S. since completion of Marathon Oil Co.'s Garyville, La. (the former ECOL refinery) facility in 1977.)

Planned for a 150,000 daily barrel capacity, the Alpetco refinery, targeted for construction at Valdez adjacent to the Alyeska Pipeline's southern terminus, would process throughput from State of Alaska royalty oil under a 27-year purchase agreement ratified by the Alaska legislature.

Headquartered in Houston, Alpetco is a joint venture of

Alaska Interstate Co. (70%), Seatrain Lines Inc. and Alaska Consolidated Shipping. The latter represents a 51-percent partnership of six native Alaskan regional cooperatives and Seatrain.

Will Be Alaska's Biggest
(When completed, the Alpetco refinery will be Alaska's fourth and largest with a throughput capacity some 65 percent more than the aggregate of its predecessors: Chevron USA Inc. (22,000 b/d), Earth Resources Co. (22,600 b/d) and Tesoro Petroleum Corp. (48,500 b/d). The Chevron and Tesoro plants are located on the Kenai Peninsula. The Earth Resources facility is at the town of North Pole.)

An Alpetco spokesman said some 18 process units and related offsite and storage facilities will initially occupy the 1,600-acre Valdez tract.

price, are currently underway in Mexico City, and there is some expectation that an agreement could be announced when President Carter and President Portillo meet in September.

The six companies that signed a letter of intent to import Mexican gas, before the proposed deal was aborted by Energy Secretary Schlesinger were Texas Eastern Transmission, Transco, Florida Gas, Southern Natural Resources, El Paso and Tenneco.

Other companies that have said they want part of Mexico's surplus include United Gas Pipe Line and Public Service Board of San Antonio, which wants to arrange a direct exchange for electric power.

INTERPROVINCIAL MAY HAVE TO REPLACE FAULTY PL SECTION—CANADA BOARD

Calgary 7/25—A 58-mi. section of the Interprovincial Pipe Line, which delivers 900,000 b/d of crude to north-central U.S. and Ontario from Edmonton, may have to be replaced.

The National Energy Board has called for a meeting with Interprovincial before Aug. 10 to discuss problems in the section near Edmonton, which has experienced five breaks since it was laid in 1969.

All five breaks in the 36-in. line occurred in a longitudinal-weld gateway.

U.S. 'GAS,' DISTILLATE STOCKS UP

Washington 7/25—Following are the principal data from API's weekly statistical summary of U.S. operations for the weeks ending July 20 and July 13 and the corresponding week last year (stocks in thous. bbl; all others in thous. b. d):

	Week Ending		
	July 20	July 13	7/21/78
REFINING			
Total Inputs	15,917	15,765	15,778
Gasoline (total)	7,133	7,146(r)	7,459
Gasoline (unleaded)	3,082	2,856	- - -
Kerosine*	914	931	874
Distillates	3,141	3,120	3,191
Residual	1,514	1,554	1,724
% Operable Capacity	86.8	87.0(r)	91.6
IMPORTS			
Crude	6,876	6,909(r)	6,786
Residual	967	747	1,226
Other Products	653	707	525
STOCKS			
Crude	323,350	324,121	335,501
Gasoline (total)	234,225	233,171	221,844
Gasoline (unleaded)	68,237	68,337	- - -
Kerosine	45,417	45,522	46,085
Distillates	157,011	150,270	175,551
Residual	81,926	82,422	76,564
Unfinished Oils	108,781	107,431	111,061

(r) Revised; *Including Jet Fuel

BRITISH COLUMBIA GAS PRODUCERS FEAR ALASKA PL WILL USURP EXPORTS

Calgary 7/25—British Columbia gas producers fear that prebidding of the Alaska Highway gasoline could threaten their existing U.S. export markets.

Richard Galloway, president, Quintana Exploration of Calgary, outlined the concern in a submission to the National Energy Board gas export hearings now underway in Calgary (ON 7/26).

ATHABASCA OIL SANDS OUTPUT VIABLE IF WORLD PRICE ABOVE \$25/BBL—SOIND

Calgary 7/25—John Swearingen, chairman, Indiana Standard, said at a press conference here that Athabasca oil sands production will be economically viable if world oil prices stay above \$25/bbl.

However, no matter what the price, he said, oil sand development is essential if the industrial nations don't want to become subservient to the whims of OPEC nations.

TRANSCANADA EYES SABLE IS. PL

Halifax 7/25—TransCanada PipeLines has proposed distribution of Sable Is. natural gas through a maritime regional pipeline by 1982.

It will incorporate two new companies, one to ship the gas to the mainland, the other to operate a regional pipeline to distribute gas to consumers.

TransCanada initially plans to condense the Sable Is. gas at or near the wellhead and ship it via tanker to the pipeline head at the Straits of Canso.

ALASKA OFFICIAL TALKS TO FRENCH ABOUT INVESTING IN ALPETCO PLANT

Anchorage 7/25—Alaska Natural Resources Commissioner Robert Leresche said Elf Aquitaine officials whom he just visited in Paris are seriously interested in investing in Alaska Petrochemical's proposed Valdez refinery (ON 4/27 and 5/8). "They wanted to check their facts with me," Leresche said, adding, "they intend to decide soon whether to put money into the project."

(Leresche also said he discussed the possibility of U.S. subsidiaries of both Elf and another French company, CFP. Total, bidding in the U.S.-Alaska, December Beaufort Sea sale.)

ELSEWHERE IN THE INDUSTRY

BATTELLE OPENS H2S CENTER: Battelle has established a Hydrogen Sulfide Materials Center that will determine and evaluate effects of hydrogen sulphide gas on materials used in the oil/gas industry.

TOSCO EYES STOCK SALE: Tosco is considering sale of 3.5-million shares to finance an expansion of its domestic refining capacity and development of commercial oil shale production. Proceeding with the oil shale project is contingent on implementation of the President Carter's new synthetic fuels program.

INTERNATIONAL

JAPANESE INSTITUTE PAINTS TIGHT, BUT HOPEFUL, NATIONAL SUPPLY PICTURE

Tokyo 7/25—The Japanese Energy Economics Research Institute estimates the nation's 1979 crude and products imports will total between 299.4-million and 313.2-million kl and between 307.9-million and 313.2-million in 1980. It forecasts that 1979 domestic oil demand will be 310.6-million kl and 313.6-million in 1980.

The Institute says there could be a 10-million kl supply shortfall at the end of the current year if the foreign markets

ALASKA RESOURCES COMMISSIONER DICKERING TO SELL STATE OIL

Anchorage 6/18—The state of Alaska is negotiating with at least four oil companies to sell its 12.5% royalty share of Prudhoe Bay oil during the coming year until Alaska Petrochemical is legally able to take delivery of the state's 150,000 b/d crude.

Alaska Natural Resources Commissioner Robert Leresch said the state intends to double its income from the royalty oil to an estimated \$30-million net profit during the year.

The deals Leresch is negotiating would guarantee the state the legal ceiling price for North Slope crude—about \$13/bbl—at the wellhead. That's an increase of nearly \$7/bbl, or \$1-million/d.

Leresch is known to be negotiating with Marion Corp., Mobile, Ala., and Mid-America Pipeline, Chelsea, Mass. Earth Resources of Alaska learned of the talks and contacted Leresch. Earth Resources already has a commitment for 15% of the royalty oil and recently nominated to take 8% of that at its North Pole refinery, near Fairbanks. The oil is needed to supply additional jet fuel for international air carriers now refueling in Fairbanks because of a fuel shortage in Anchorage.

Leresch said the royalty oil looks attractive to buyers. When shipping costs are added to the \$13/bbl North Slope wellhead price, the oil will be about \$22/bbl when it reaches the U.S. Gulf Coast, he noted.

According to Alpetco's contract with the state, the firm must spend at least \$100-million and 25 months must elapse after legislative approval of the contract before Alpetco can take any oil. That would make it late June, 1980. Alpetco won the contract on condition it build a refinery in Alaska. It has selected a site in Valdez (ON 4/27).

—Susan Andrews

FALL TRIAL URGED IN MOBIL PRICE SUIT

New York 6/18—A magistrate in federal court here has recommended to the presiding judge that the trial for an antitrust suit against Mobil Oil be postponed from mid-July to early October in order to properly complete discovery proceedings.

The suit, filed in July 1977 by Petroleum Four Contractors Inc. of Brooklyn, a gasoline and diesel distributor, charges Mobil and one of its distributors, Unlimited Petroleum Inc., with "unlawful price discrimination."

Two other charges—exclusive dealing arrangements and attempting to monopolize trade—were dismissed by U.S. District Judge William C. Conner in a 22-page opinion in July 1978.

He refused to dismiss the price-fixing charges, which allege that in 1976-77 Mobil charged Petroleum Four higher unit prices than it charged Unlimited Petroleum. The judge said, "This is an adequate allegation of discriminatory pricing under the statute. . . . The rule . . . is that once a plaintiff has shown discrimination in pricing the burden of proving the absence of the anti-competitive effect shifts to the defendant."

ENDANGERED SPECIES PANEL TO REVIEW PITTSTON CASE

Washington 6/18—An Endangered Species Review Board, the first to be appointed under a 1978 amendment to the Endangered Species Act, has begun considering the conflict between Pittston's proposed Maine refinery and proponents of bald eagles and whales (ON 6/8).

The review board will decide by Aug. 3 whether to exempt bald eagles and the whales in the area from the act to allow Pittston to build a 250,000 b/d refinery near Eastport. The recommendation will then go to the Endangered Species Committee, a Cabinet-level body chaired by Interior Secretary Andrus, for a final decision.

The board, consisting of Laurence Lynn, Harvard professor of public policy; John Menario, president of the Greater Portland Chamber of Commerce, and federal administrative law judge Francis Young, is expected to hold a prehearing conference June 27 here.

Today was the deadline for motions to intervene. June 25 is the deadline for filing comments on issues to be raised at the prehearing conference. Interested parties are asked to contact Raphael Semmes, Office of Policy Analysis, Interior Dept., Washington, D.C. 20240. Tel. (202) 343-5978.

GULF DECIDES AGAINST PURSUIT OF DOE PRICE 'TRANSACTION' SUIT

Houston 6/18—Gulf Oil won't appeal a Philadelphia court dismissal of its suit to prevent the Energy Dept. from withdrawing from the "transaction" suit (ON 6/11).

Gulf had "hoped that the court would let the case go on to a final judgment."

Nonetheless, Gulf "is pleased" its interpretation of the transaction rule in oil price regulations has finally been accepted by DOE after nearly four years of administrative proceedings and litigation.

The company is now being returned \$2-million, plus interest, from an escrow account it was forced to establish in accord with DOE's claim it had overcharged Virginia Electric & Power for fuel supplies.

CORCO ORDERS UNION OUT OF REFINERY

Ponce, P.R. 6/18—Commonwealth Oil Refining over the weekend shut out members of the Independent Union of the Petrochemical Industry of Puerto Rico and continued refinery and petrochemical plant operations with supervisory personnel.

The move followed the midnight, June 15 expiration of the contract between the two sides.

CORCO said it had no alternative but to order union members out because of the union refusal to offer minimum guarantees to operate the plant without interruption pending negotiation of a new contract.

DOE WINS CONVICTION

AGAINST OIL PRICE REFINERS

PLATT'S OILGRAM NEWS

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GERMAN FIRM INTERESTED IN FINANCING ALASKA REFINERY

Washington 4/26—Alaska Petrochemical Co. and Alaska state officials met yesterday with top-level officials of a major West German contracting firm to discuss financial backing of Alpetco's proposed 150,000 b/d refinery complex at Valdez, OILGRAM NEWS has learned (ON 11/21/78).

Alpetco has been searching for financing of up to \$5-billion. The Dusseldorf steel firm, Thyssen, has expressed interest in becoming a major financier after it checks out the project with its bankers and the city of Valdez.

Part of the refinery would be built with money raised through Valdez municipal bonds, according to a source close to the negotiations. Other attractions of the project include Alaska's commitment to provide royalty oil for the refinery's main products—jet fuel and unleaded gasoline—will be in high demand when the project is completed in 1982 or 1983.

Alpetco has until Dec. 18, 1979 to come up with financing for the project. Japan's Export-Import Bank has expressed interest in financing some of the cost of equipment for the project.

Thyssen's decision is expected by mid-summer.

UNITED KINGDOM—Sharp gains by fuel oil, naphtha and jet fuel helped boost inland product consumption 3.4% in the Jan.-April period, to 22,397,000 tons. Fuel oil rose 5.7% to 4,255,000, naphtha 9% to 1,403,000, jet fuel 6.2% to 930,000, gas oil 1.5% to 4,255,000 and gasoline 1.5% to 4,206,000 tons. Diesel fuel fell 3.6% to 1,405,000. Refinery output dropped 1.7% to 24,040,000, with net product imports 436,000 tons. May stocks rose to 93 days from 88 in April.

UNITED STATES—The coal association's first five-year forecast since 1969 sees coal output rising an average 5%-7% a year through 1982 despite a 2.7% drop in 1978 due to the three-month coal strike. In 1982, output would reach 874- to 961-million tons, with most of the increase from western areas. Coal demand would rise an average annual 5.7%-7.7% through 1982, to 817- to 898-million tons. This includes 57- to 63-million for exports, which would grow an average 5.4%-7.4%.

For this year, the National Coal Assn. sees production dropping to 670-million tons. But it estimates total demand will rise 3.7% to 698-million, with the shortfall met from stockpiles. This would include export demand for 48-million (down 10.6%), including 17-million for Canada (off 1.2%) and 31-million tons for other markets.

UNITED STATES—The estimate of uranium available in the U.S. has been hiked as of Jan. 1978 based on recoverability for \$50 or less per pound. The estimate of reserves is increased 6% to 890,000 tons, and that for "probable" potential resources is raised 1.8% to 1,395,000 tons. The total comes to 4,365,000 tons including 1,515,000 in "possible" and 565,000 in "speculative" potential resources.

UNITED STATES—Alaska's state government has approved a contract committing up to 150,000 bbl of its royalty oil to a proposed petrochemical refinery (PIW March 20,p.8). Under the terms of the contract, the joint-venture Alpetco has agreed to spend \$100-million within the next 25 months and meet other requirements including obtaining U.S. regulatory approval, financing commitments, and product purchase agreements.

Interests in Alpetco have recently shifted: Houston-based Alaska Inter-

state still holds 60%, but Seatrain has acquired Barbour Oil's 20% in addition to an indirect 9.8% it owns through the 20% holding of Alaska Consolidated Shipping, a 49-51 Seatrain venture with native Alaska companies. Seatrain plans to offer its newly acquired 20% to the joint venture, which would leave Seatrain with 19.6% of Alpetco.

UNITED STATES—On a seasonally adjusted basis, the oil import bill rose 5.8% more to \$3.32-billion in May from \$3.14-billion in April and \$2.94-billion in March. On an unadjusted basis, however, May oil imports were down 8.6% from April.

Overall, the U.S. trade deficit narrowed 22% to \$2.24-billion in May as exports rose 1% to a record \$11.75-billion and total imports slipped 3% to \$14-billion. The May deficit was the 24th in a row but the smallest in eight months. For the Jan.-May five months, the deficit totals \$14.77-billion, up 79% from year earlier.

UNITED STATES—The issue of oil company "vertical" divestiture, though fairly dormant since the last presidential election, has reared its head again, on two fronts. Though lacking any visible support from the Administration or Energy Dept., the Justice Dept. is recommending to Congress that integrated oil companies be barred from new pipeline acquisitions and probably should sell some existing major trunklines. Just a week earlier, a Senate antitrust subcommittee report recommended full oil company divestiture of pipelines.

On another divestiture issue, integrated oil company ownership of retail gasoline outlets, the Supreme Court recently upheld a Maryland law banning ownership by refiners. The ruling's impact is currently limited, but it could support moves in 32 other states where similar laws are in the legislative hopper.

UNITED STATES—Government-chartered tankers carried some 63% of the total crude oil lifted for the strategic oil stockpile through mid-June. Since the program began last September, approximately 16.6-million barrels of oil have been delivered by government-chartered tankers, and another 10-million by tankers provided by the oil suppliers.

So far, the government has chartered 22 tankers, including four large

VLCCs, for periods up to six months. It hopes to fix longer term charters.

USSR—The U.S. Government approved the sale of over \$140-million worth of U.S. drill-bit technology to the Soviet Union but has delayed approval of an electron beam welder used in the manufacture of high-quality drill bits. Texas-based Dresser Industries plans to supply the approved technology in 1979-80. The U.S. President retains final authority over the sales and his National Security Council is now weighing the effectiveness of oil technology sales as a lever in U.S.-Soviet relations.

The U.S. Government, in a policy reversal, recently decided to permit export to China of airborne survey equipment (PIW June 19,p.10).

New Publications

"North Sea Offshore Developments, Production & Tanker Demand," from IIPD Shipping Publications, 34 Brook St., London W1Y 2LL, 68 pp. £35 UK only; \$85 all overseas orders.

"BP Statistical Review of the World Oil Industry, 1977," from British Petroleum Co., Britannic House, Moor Lane, London EC2Y 9BN, 32 pp. fr

In New Posts

Shell UK managing director John Raisman takes over from deputy chairman John Greenborough as chief executive. He also becomes a deputy chairman and Shell International Petroleum's regional UK-Ireland coordinator. Desmond Watkins, formerly president of Shell Venezuela, succeeds him as managing director.

S. Ketharaman is new managing director of Indian Oil Corp. (Marketing Division). He was formerly executive director of India's Oil Coordinating Committee.

Geoffrey Stockwell will move up to chairman of the Iraq Petroleum/Abu Dhabi Petroleum group of companies as of Aug. 1. Ian MacPherson succeeds him as managing director.

L. Wilson Berry, Jr., is named vice president and resident director of Texaco Sandia in Riyadh.

J. W. Bushby, formerly with BP Alaska, is now director of manufacturing and supply for BP Oil, UK.

Rodney L. Grandy, Jr., executive vice president of Essochem Europe, is named a senior vice president management committee member Exxon Chemical Co., succeeding Kay B. Nesbitt who is now president.

Alpetco could have purchased the oil once it had financing for \$1.5 billion. "Nevertheless, we are well committed to the project."

[Another amendment reduces the volume of oil Alpetco can purchase should it build a smaller facility.

"If for some reason we decided to build a 50,000-b/d plant rather than 150,000 b/d, then our crude supply would be reduced accordingly. But that really doesn't affect us since we

plan nothing less than 150,000 b/d."

The Houston-based company was formed in 1977 by Alaska Interstate Co. 60%, Barbour Oil Co. 20%, and Alaska Consolidated Shipping Inc. 20%, jointly owned by Seatrain Lines Inc. and six Alaska native regional corporations. However, Seatrain Lines is said to be planning to purchase Barbour's 20% interest.

[Alpetco earlier selected Brown & Root Inc., Houston, as construction and engineering manager.]

Alpetco beat two other groups vying for state approval to build fuels refineries that would have used the state royalty crude (OGJ, Jan. 16, p. 44). A third called for further study of Alaskan needs.

[Meanwhile, private studies are under way to determine possible uses of Alaskan royalty gas. The gas would become available if and when a pipeline is constructed. Both the royalty gas and oil would come from the Alaskan North Slope.]

Teapot Dome development finds new pay zones

THE Navy's development of Teapot Dome field in Natrona County, Wyo., has resulted in two zone discoveries expected to help bolster the field's production rates, which have been less than anticipated.

The Navy is engaged in a 5-year program to fully exploit the field by drilling about 500 wells and launching a waterflood (see map, OGJ, Feb. 28, 1977).

Officials say an Upper Cretaceous Muddy discovery last October and a Lower Cretaceous Lakota find in May could result in more than 2 million bbl of increased reserves.

Before the recent discoveries, consulting geologist William H. Curry, Jr., Casper, Wyo., estimated the 2,920-acre field held proved reserves of 2.3 million bbl, probable reserves of 5.8 million, and possible reserves of 30 million.

Teapot Dome field's production had been from four horizons.

The Shannon, ranging from a depth of 400 ft on the north to 1,400 ft on the south, yields 33°-gravity oil. The Niobrara shale, from 600 ft on the north to 2,500 ft on the south, yields 37°-gravity crude. The Second Wall Creek, also known as the Second Frontier, is the main producing horizon, yielding 37°-gravity oil from 2,200 ft on the north to 3,300 ft on the south. And one 5,600-ft Tensleep well produces 29°-gravity, asphaltic, 1.5%-sulfur oil. All production is via pump.

Discoveries. The Navy was drilling to the Tensleep last fall at a well in 10-39n-78w when it found an excellent show in the Muddy at about 3,700 ft. The well was completed to flow 400 b/d of 40°-gravity oil from the Muddy. Production now is 340 b/d through an 18/64-in. choke.

Another Tensleep producer in the same section years ago had yielded oil on a Muddy drill stem test at 3,700 to 3,800 ft. The Navy recently re-

entered that hole and completed it to flow 300 b/d from the Muddy.

The Navy was drilling another Tensleep probe last May in section 10, only 2,000 ft from the Muddy discovery well, when a Lakota drill stem test at 3,800 ft filled the hole with light, gassy, 40°-gravity oil. The well was drilled on for completion in the Tensleep, and the rig was skidded to drill a second well for a Lakota completion.

Nearest Lakota production is about 4 miles northwest in Salt Creek field. Nearest Muddy production is about 3 miles south, outside Teapot Dome field in 26-38n-78w.

Drilling program. In its 1977 fiscal year from Oct. 1, 1976, to Sept. 30, 1977, the Navy drilled 76 Shannon wells and 76 Second Wall Creek wells.

It plans to drill 100 Shannon wells this fiscal year, of which 56 have been completed, and 24 Wall Creek wells. Also, a 15-well Niobrara shale program will begin in midsummer.

The Navy has drilled three Tensleep wells and five Muddy wells during the past 18 months and plans to drill two more Muddy-Dakota-Lakota wells this year.

Cost of the 1977 program was \$24 million. This year's program is budgeted for \$16 million. The Navy is working four rigs—one a Department of Energy rotary—and nine workover rigs, including two DOE units.

Based on 10-acre spacing of Wall Creek Wells, the Navy originally estimated that it could push field production to 20,000 b/d at the end of the 5-year program.

That plan would have required drilling of 54 Wall Creek wells this year, but Cmdr. Ronald Furdock says a computer analysis showed productivity from that spacing "was overestimated greatly." Now 24 Wall Creek wells will be drilled this year on 20-acre spacing.

But as a result of the Muddy-Lakota discoveries, the Navy will drill four delineation wells to that general depth this year and is adding 10 more wildcats to its 1979 program.

The 1979 program also will include 73 Shannon wells, about five Wall Creek wells, 20 Niobrara wells, and four Muddy wells for a total of 112.

Production progress. Oil output currently is 2,600 b/d from 244 of the 288 wells in the field. The other 44 wells are shut in for various reasons, several due to high GOR's which result in more associated gas than facilities can handle.

The Navy now estimates that when the development is completed, Teapot Dome will produce about 6,000-8,000 b/d from primary and secondary recovery, not including potential output from the newly opened Muddy and Lakota zones.

Nearing completion is a 60-mile crude-gathering system which ranges from 2 3/4-in. flow lines to 8 3/4-in. trunk lines. The \$3.5-million system includes eight tank batteries, 10,000 bbl of storage, pumps, and treaters.

The system mostly is complete except for flow lines to 42 newly completed wells. When they are hooked up and gas-handling facilities are installed, production should jump to 4,000 b/d.

A gas-gathering system is under way, which will use some of the associated gas for heater treaters and reinject the rest into the gas cap of the Second Wall Creek to maintain pressure. The 6-mile-plus system, including a 6-MMcf/d gas-injection plant, will cost \$580,000.

Work is progressing on a waterflood of the Second Wall Creek at the north end of the field. It abuts the South Salt Creek field flood, which began in the Second Wall Creek in 1965.

Fenix & Scisson Inc. manages the Teapot Dome program for the Navy under a cost-plus-fee contract.

Seatrain Buying into Alaska Petchem

NEW YORK (UPI)—Seatrain Lines Inc. has arranged to buy the 20-percent interest in Alaska Petrochemical Co. held Barbour Oil Co. The shares will be reoffered to Alaska Consolidated Shipping Co., 49 percent of which is owned by Seatrain and the majority by six Alaskan companies. Alaska Consolidated Shipping already owns 20 percent of Alaska Petrochemical.

At the same time, Alaska Petrochemical disclosed that the Alaska legislature has ratified its 27-year contract to buy up to 150,000 barrels a day out the state's share of oil from Prudhoe Bay oil on Alaska's Arctic Slope, and to build and operate a major petrochemical plant in the state.

Alaska Interstate Contract Approved

HOUSTON (DJ) — Alaska Interstate Co. said both houses of the Alaska State Legislature have approved the contract between the state of Alaska and Alaska Petrochemical Co., which is 60 percent owned by Alaska Interstate.

The 27-year contract is for the purchase of 150,000 barrels per day of the state's royalty crude oil and for the construction and operation of a refinery and petrochemical facility in Alaska.

The contract required legislative approval before becoming effective.

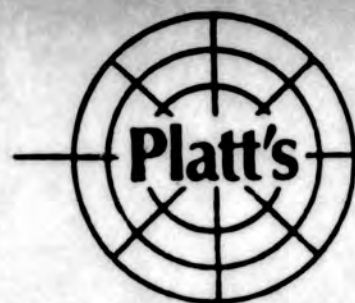
The first step in implementing the Alaska petrochemical plan will be constructing a crude oil refinery with capacity to process 150,000 barrels a day. Additional units to further process Alaskan crude oil into petrochemical products will be added in a phased development program over several years.

The company is studying alternative sites for the proposed facility and expects to make a site selection within the next few months.

Seatrail Lines Inc. which said it has arranged to purchase from the privately-held Barbour Oil Co. its 20 percent ownership in Alaska Petrochemical Co.—increasing Seatrain's interest to 29 percent—said the newly-acquired interest

would be offered to Alaska Consolidated Shipping under the same joint venture arrangement.

Alaska Consolidated Shipping already owns 20 percent of Alaska Petrochemicals.



OILGRAM NEWS

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(CONSULTANT REVERSES STAND ON ALPETCO)

Juneau 5/22—Earl Johnson, a Tulsa, Okla., oil broker and a consultant to a special Alaska Senate committee, has said that he's now convinced that the state wouldn't be indirectly subsidizing Alaska Petrochemical by selling the company some state royalty crude prior to startup of Alpetco's proposed petrochemical facility. Johnson admitted that he misinterpreted contract provisions between the state and Alpetco (ONS 5/18).

According to Gordon Cain, Alpetco president, Johnson "thought we could get a lower price for the royalty oil and undercut the West Coast price." The contract assures Alaska of at least the California oil market price, said Cain.

Alpetco plans to export heavy fuel oil to a "Pacific" country other than Japan but it needs an export permit to do so. Although such a sale will make it easier to finance the project, it's not crucial, Cain said.

Principal of McGraw-Hill, Inc. 1221

Corporate Offices: Harold W. McGraw, Jr., President, R.

U.S. GASOLINE OUTPUT CONTINUES UP

Washington 5/17—U.S. gasoline output has increased by about 200,000 b/d to over 7-million b/d in the week ending May 12 in line with the warm-weather driving season, according to American Petroleum Institute figures.

The more than 206-million bbl of gasoline stocks on hand are down slightly from the 255,069,000 bbl inventoried for the week ending May 13, 1977.

The home heating season has apparently ended, reflected in the slight increases in distillate output and stocks.

Following are the API figures for the last two weeks (refining and imports in b/d; stocks in bbl):

REFINING		May 12	May 5
Total Inputs		15,009,000	14,609,000
Gasoline		7,038,000	6,831,000(r)
Distillates		3,086,000	3,005,000
IMPORTS			
Crude		5,571,000	4,868,000
Products		1,919,000	1,946,000
STOCKS			
Crude		339,467,000	345,754,000
Gasoline		246,062,000	248,740,000
Distillates		137,774,000	136,843,000
Residual		74,458,000	71,847,000
Unfinished oils		112,827,000	114,221,000
(r) Revised			

ALPETCO AND ALASKA AMEND STATE ROYALTY CRUDE CONTRACT

Juneau 5/17—Alaska Gov. Hammond and Alaska Petrochemical officials today amended their contract to clarify but not change Alpetco's contract to buy the state's Prudhoe Bay royalty oil. Among the amendments is an agreement that Alpetco won't take delivery of the crude until after it has spent \$100-million on its proposed Alaska facility and not until 25 months after approval of the contract by the state legislature.

In another amendment, Alpetco's petrochemical facility will have the capacity to process at least 150,000 b/d. This was the intent of both parties but the amendment offers a "clearer" statement, Hammond said. It also specifies that if after six years following contract approval, the facility has a capacity of less than 150,000 b/d, the state's obligation to sell royalty crude will be reduced to the actual capacity.

The amendments will be referred to the Royalty Oil & Gas Development Advisory Board, which meets May 19. If approved, it will be added as amendments to the resolution now pending in the Senate.

CORCO HAS \$187-MILLION NEGATIVE NET WORKING CAPITAL POSITION

Houston 5/17—Commonwealth Oil Refining had a net working capital position, including its estimate of bankruptcy claims, of -\$187,836,000 as of last March 31.

Total assets as of the same date amounted to \$527,682,000, compared to \$558,019,000 on March 31, 1977, and total liabilities amounted to \$412,884,000 compared to \$418,827,000.

These figures, presented by court-appointed fiscal agent Robert Baker, went unchallenged during the first meeting May 15 of creditors associated with CORCO's Chapter 11 bankruptcy proceedings (ONS 5/16).

The company's unaudited 1978 first quarter net loss amounted to \$12,671,000, compared to a net loss of \$6,290,000 during the first three months last year. Total shareholder equity as of March 31 amounted to \$114,798,000, down from the \$139,192,000 on the books as of March 31, 1977.

Baker says the expectation is that the creditors meeting will be reconvened after the venue question is settled, at which time a committee of unsecured creditors will be elected. If it isn't elected, the bankruptcy court has the authority to appoint such a committee. Whichever route is taken, the group will become the formal creditors committee for future dealings with the court. Under Chapter 11 proceedings, only unsecured creditors are deemed to have standing, court sources said.

Meanwhile, presiding Judge Joseph Elliot said he won't rule from the bench on the Government of Puerto Rico's motion for a change of venue, but expects to hand down a ruling shortly after conclusion of the hearings.

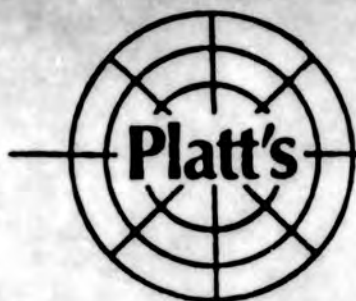
In a separate statement, CORCO president Gary Davis said the principal reason for the 1978 first quarter losses was a drop in revenue of \$63-million caused by a reduction in the Puerto Rico refinery's throughput to 130,500 b/d from 178,400 b/d in the 1977 first quarter.

He ascribed the throughput drop to the company's unstable financial condition, which made it impossible to obtain sufficient feedstock, and a major fire and explosion at the refinery last Feb. 19.

In Washington, the Energy Dept. and the Securities & Exchange Commission confirmed they have jointly asked for a change of venue motion to move the CORCO case to a Puerto Rican court.

DOE said it wants the case moved to Puerto Rico because of its dual concern to supply Puerto Rico and for the large independent sector of the industry. DOE's argument is that if the Corco plant shuts down, it would have to allocate products to Puerto Rico and this could be logistically difficult.

SHELL INCREASING WILLISTON WORK



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ALPETCO OFFICIALS TESTIFY BEFORE THREE ALASKA COMMITTEES

Juneau 5/15—Alaska Petrochemical president Gordon Cain and chairman Charles Honig were scheduled to testify late today before the state's Senate Finance and Resources committees and a special Senate panel which are jointly considering Alpetco's contract to buy up to 150,000 b/d of the state's royalty crude (ONS 5/11).

Alpetco vice president Willard Hanzlik has said that it's essential that Alpetco have the right to buy the royalty crude in case oil isn't available from other sources to "prime the pump." He said that the crude would be traded to existing refineries in exchange for products to enable Alpetco to build markets before its proposed \$2.8-billion petrochemical facilities start up.

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Avenue of the Americas, New York, N. Y. 10020

Robert H. Landes, Secretary; Ralph J. Webb, Treasurer

CAPITAL SPENDING PLANS OF THE PETROLEUM INDUSTRY

(Millions of Dollars)

	1976-77		1977-78		1978-79		1979-80		1980-81	
Function	1976 Actual	% Change	1977 Actual	% Change	1978 Planned	% Change	1979 Planned	% Change	1980 Planned	% Change
Production	\$13,058	+13%	\$14,757	+19%	\$17,581	-4%	\$18,859	+3%	\$17,385	+7%
Transportation (1)	7,216	-35	4,690	-17	3,893	-41	2,297	-10	2,067	+58
Refining	2,502	-20	2,002	+69	3,383	+21	4,093	-4	3,929	-19
Petrochemicals	1,278	+11	1,419	+12	1,589	+35	2,145	+41	3,024	+19
Marketing	632	+25	790	+47	1,161	+3	1,196	+6	1,268	-5
Other (2)	3,058	+47	4,495	+12	5,034	+9	5,487	+21	6,639	+30
Total	\$27,745	+1%	\$28,153	+16%	\$32,621	-2%	\$32,077	+7%	\$34,292	+12%

(1) Includes only oil pipelines; does not include gas pipelines.

(2) Includes coal mining.

Source: McGraw-Hill Economics Dept.

CAPITAL SPENDING BY OIL INDUSTRY TO RISE 16% IN '78, SURVEY SHOWS

New York 5/10—The U.S. petroleum industry plans capital spending of \$32.6-billion this year, up 16% over 1977 spending of \$28.2-billion, according to the annual survey by McGraw-Hill Economics Dept.

The 16% rise compares with a gain of only 1% in 1977 capital spending over 1976. Between 1978 and 1979, the industry expects its spending to drop 2%. But preliminary plans call for a resumption of higher spending after 1979.

The biggest percentage rise in spending slated for 1978 is in refining, where a 69% increase is planned following a 20% drop in 1977 against 1976.

The survey shows U.S. industry as a whole plans a 17% rise in capital spending this year to \$159.27-billion.

CANADA ASKS DOME TO REASSESS LEAK

Ottawa 5/10—The federal government has ordered Dome Petroleum to reappraise a gas leak from its abandoned Timgmark-91 in the Beaufort Sea as soon as ice moves away from the well (ONS 9/8/77). Dome must prepare the assessment and a plan for corrective action within 30 days.

An investigation last September, prior to the end of the drilling season, showed leakage outside the drill casing, resulting in drilling mud deposits at the well's seabed opening.

A Northern Affairs Dept. environmental report calls for reevaluation of a Dome program to dilute the drilling wastes to reduce toxicity and asks that the results be applied to this year's drilling.

ALASKA HOUSE LIMITS CRUDE SALE

Anchorage 5/10—The Alaska House on May 9 again approved a contract to sell the state's Prudhoe Bay royalty oil to Alaska Petrochemical (ONS 5/4). However, the House, in a 20-19 vote, adopted an amendment restricting the sale to crude oil that Alpetco processes within the state.

This would nullify a provision in the contract allowing Alpetco to market the oil outside Alaska while the plant is under construction.

Alpetco officials said before the vote that they couldn't accept such a change in the contract. Gov. Hammond's administration claims that the legislature does not have the power to amend contracts and can only approve or reject them. The contract still must be approved by the state Senate.

API RAPS STATES' OVER-REGULATION

Toronto 5/10—State governments, pushed by "activist" legislatures, have stirred up an "explosion" in state monitoring, inspection and regulation of oil refinery facilities in the last decade, American Petroleum Institute state relations director Frank Jandrowitz said at the API midyear refining meeting here today.

The states have maintained traditional plant regulatory activities while increasing their oversight in the environmental and health fields, he said.

The "horse and buggy" days of state government are over, Jandrowitz noted, pointing out that lawmakers are younger, stay in session longer, and tend to pass broad policies that state officials must interpret and implement. Further, the states now command the funds and manpower to carry out highly sophisticated technological monitoring, which often goes beyond federal mandates, he said.

HOLLY SUGAR SEEKS GASOHOL LOAN

Colorado Springs 5/10—Holly Sugar Co. has applied to the Agriculture Dept. for a \$15-million guaranteed loan to construct a gasohol plant in Tracy, Calif., north of San Francisco. The proposed plant would process 300,000 tons/yr of sugar beet molasses to produce ethanol.

ELSEWHERE IN THE INDUSTRY

HAMILTON BROS. RECAPITALIZATION: Hamilton Brothers Petroleum of Denver plans to simplify its capital structure if shareholders approve a recapitalization plan to be submitted to a special meeting this fall. The plan foresees tax-free conversion of each share of outstanding common stock into one share of new common and one-third share of a cumulative non-voting preference stock. Also, outstanding Class A shares would be converted one-for-one into the new common.

PETROLANE EVOLVES: Chairman R. J. Munzer of Petrolane of Long Beach, Calif., said petroleum services will account for about half the company's earnings this year compared with 17% five years ago.

COASTAL FORUM: The Coastal Plains Regional Commission (Virginia, North Carolina, South Carolina, Georgia and Florida) is sponsoring a Coastal Plains minerals forum in Atlanta Nov. 8-9 to familiarize the mining and oil industries with data resulting from recent aeromagnetic and aeroradioactivity surveys flown under a cooperative program of the commission and U.S. Geological Survey.

The Coastal Plains Center for Marine Development Ser-

Seatrain Purchases Barbour Oil

JUNEAU (Reuters)—Seatrain Lines Inc. has purchased the family-owned Barbour Oil Co. which owns a 20 percent interest in Alaska Petrochemical Co. (Alpetco), it was disclosed in a letter from Alpetco President Gordon Cain to Natural Resources Commissioner Robert Leresche.

Seatrain, according to the letter, plans to offer the Alpetco stock related to the Barbour transaction to Alaska Consolidated Shipping, one of the three owners of Alpetco, at the same price and terms of its purchase. Terms of the transaction were not revealed.

Seatrain and six regional native corporations form one of the three

Alpetco owners, Alaska Consolidated Shipping, in which Seatrain owns 49 percent and the native corporations hold 51 percent. Prior to the Barbour deal, Alaska Consolidated held a 20 percent interest in Alpetco.

Seatrain Vice President James Trupp said the sale was prompted by the death earlier this year of John Barbour, founder of the family-owned firm. Barbour was instrumentally behind the plan to use Alaska state royalty oil to fuel a petrochemical plant in Alaska.

The Alpetco partners plan to finance the proposed \$2.5 billion petrochemical plant through loans.

Alaskan State Representative Bill Mills said the Barbour share sale "will leave the consortium without one of its strongest partners." His special committee recommended rejection of the contract with Alpetco for a royalty oil refinery on the grounds that the project was unlikely to succeed without some future subsidy.

However, Alaska's Governor Jay Hammond is a firm supporter of the proposed state refinery.



Strupp of ALPETCO: The plan would create more than 4,000 jobs in the state.

CHEMICALS

Alaska's ambitious oil complex

The state of Alaska moved a step closer last week toward an ambitious plan to use its share of Prudhoe Bay oil. Alaska's oil and gas royalty board approved a contract to sell the oil, amounting to nearly one-eighth of all Prudhoe Bay production, as feedstock for a \$2.5 billion refinery and petrochemical complex in the state. The 27-year agreement, for up to 150,000 bbl. of oil per day, will nearly double the state's refinery capacity. And the petrochemical plant could provide a major infusion of revenue and jobs into the state.

Although the agreement between Alaska and Alaska Petrochemical Co. (ALPETCO) does not become effective until the state legislature approves it, the company is already scrambling. ALPETCO won the contract in part because its plan for use of the royalty oil offered the state the greatest potential tax revenue, plus creation of more than 4,000 permanent and temporary jobs. But the contract sets up a rigid timetable that the consortium must clear; otherwise the state can cancel out. And the company still has to line up customers and financing. "I didn't think anybody could make a facility like this," says Lyall, board member Richard A. Lyon. "But now I think ALPETCO's chances are better than even."

Partnership. Members of the consortium include Houston-based Alaska Interstate Co., which controls Anchorage Natural Gas Co. and which owns 60%, Harbar Oil, a family-owned company also based in Houston, which owns 20%, and Alaska Consolidated Shipping, a company owned by New York's Seatrains Inc. and an Alaska native regional partnership, which also holds 20%.

In its bid to secure funding, ALPETCO is looking for private investors. "We are not alone in this," says Strupp. "We have a number of other companies that might also be interested."

customers for the petrochemical feedstocks. "Even a company as big as Atlantic Richfield might not do a project like this all by itself," explains Peter Spitz, president of Chem Systems Inc., ALPETCO's consultant for planning, marketing, and technical matters. ALPETCO has already approached Du Pont Co. and Hercules Inc., among others. "I think we have talked to every major chemical company in the U.S.," says James J. Strupp, a vice-president of both Seatrains and ALPETCO, who has been working on the project for more than two years.

U.S. companies have so far taken a wait-and-see attitude. But Spitz and others are counting on the West Coast to absorb as much as 60% of the petrochemical plant's output. They reason that cancellation of Arco and Dow Chemical Co. petrochemical plants there should create the needed demand. "We are betting that feedstock security through the year 2000 will be very important to a certain number of companies," says Spitz.

ALPETCO is also eyeing the Japanese market. Though the Japanese petrochemical industry is now depressed, Strupp says, "their projections and ours say they will need the product in the mid-1980s." Officials of Nippon Iwai, Mitsui, Marubeni, and Sekisui Chemical, he adds, have all expressed interest in purchasing some petrochemical production. Some Japanese sources, however, expect the petrochemical glut to continue well into the 1980s, and they rule out the possibility of Alaskan imports.

The coal factor. One reason the petrochemicals may be difficult to market is that the economic criteria set down by the board create some of the most difficult conditions under which such a complex has ever been built. The purchaser is required to pay the same

high price for the oil that the state is now getting from oil companies. And ALPETCO will be laboring under capital costs estimated to be 30% to 40% higher than they would be if the same plant were built in the lower 48. ALPETCO is also likely to have to ship the oil from the Alaska pipeline terminal at Valdez to the state's preferred location on Cook Inlet, site of most of Alaska's heavy industry. The short but expensive tanker haul would cost about 37¢ a bbl.

Gordon A. Cain, head of Petro-Ten Chemical Corp., a Tenneco Inc. subsidiary, accepted the ALPETCO presidency on condition that the state legislature approve the agreement. Cain's experience in negotiating with the Japanese, and his widely respected position within the industry, enhance the project's chances for implementation. "If ALPETCO can make this work, it will be profoundly in the state's best interest," says royalty board member Lyon. "And if they can't do it, no one can."

WORLD TRADE

A European scheme to defend the dollar

The U.S. dollar plunged to record lows this week, as the foreign-exchange markets grew more certain than ever that the Carter Administration has neither the will nor the means to defend it. The dollar was especially battered by reports that Iran is joining Kuwait in calling for a new pricing system for oil based on a grid of currencies instead of just the dollar—a move that would, in effect, increase oil prices.

The plummeting dollar has a growing number of Europeans, led by the Germans, demanding that the U.S. sell bonds denominated in German marks and Swiss francs to generate enough foreign exchange to intervene and defend the dollar. There is a growing feeling in Europe that swap arrangements between the U.S. and European central banks will provide sufficient German and Swiss funds for the U.S. to defend the dollar and that the sale of foreign-denominated bonds by the U.S. may be the only way to correct this.

Anxiety in Europe is being heightened by the spread of currency controls. Switzerland this week increased the penalty on Swiss franc accounts held by foreigners and extended the penalty to foreign central banks that are dumping dollars in Switzerland. Germany is expected to impose controls of its own if pressure on the dollar continues.

Some European money raisers

Interior on track for Mar. 28 embayment sale

INTERIOR Department officials firmly intend to proceed with the scheduled Mar. 28 sale of offshore oil and gas leases in the Southeast Georgia Embayment despite pleas of environmentalists for a delay.

Interior Solicitor Leo M. Krulitz in a speech at Charleston, S.C., said the sale is part of a carefully designed program for U.S. offshore development which includes tough environmental standards and close cooperation with affected coastal states. Krulitz addressed the southeastern conference on offshore oil development.

His talk came as a Georgia environmental group prepared to ask Interior Sec. Cecil Andrus to delay the sale until Congress has acted on amendments to the OCS Act.

Cecil Phillips, executive director of the Georgia Conservancy, says his organization is seeking to insure that the OCS Act amendments are in place before the sale is held. The group is concerned that the OCS amendments, if passed after the sale, perhaps could not be applied retroactively to the embayment leases.

Similar fears by Massachusetts environmentalists led to a court fight in Boston and rulings that prompted Secretary Andrus to postpone the

Georges Bank sale scheduled last Jan. 31.

Warning. Krulitz warned in his address that "if the department's ability to get needed oil and gas reserves into production is continually thwarted in court—even after painstaking efforts to address environmental issues—I fear this may invite the Congress to reexamine the statutes which foster such delays."

Krulitz, Interior's chief legal officer, said his department worked hard to accommodate state governments and environmental groups in advance of the planned Georges Bank sale in January and believed the sale could be held as scheduled without litigation. The U.S. Court of Appeals in Boston enjoined the sale in a suit brought by the State of Massachusetts and environmental groups.

"We did everything we could, short of postponing the sale, pending passage of legislation amending the 1953 OCS Act," Krulitz said. "We gave the states 80% of what they wanted. They sued for the remaining 20% and succeeded in enjoining the sale."

Interior has worked out procedures to give the states full participation in planning for lease sales, Krulitz said, but that participation can only occur with adequate advance notice through

a sound schedule, rigorously observed.

Protection insured. Krulitz said intergovernmental cooperation has been a key part of preparations for the Mar. 28 sale. The proposed leases include stipulations which reflect conditions unique to the area as well as some now common to all OCS sales.

"We are not trying to ride roughshod over environmental concerns," he said. "Nor are we deaf to pleas from states for a chance to participate in decisions which will vitally affect their futures. All we ask is cooperation as we balance environmental concerns against the need to tap the vast potential of the U.S. OCS to meet our critical energy needs."

Eastern gulf action. Interior, meanwhile, announced that a draft environmental impact statement is available covering the proposed December 1978 lease sale of about 665,900 acres in the eastern Gulf of Mexico.

The 137 tracts involved are located off Texas, Louisiana, Mississippi, and Alabama.

A public hearing on the statement is scheduled for Apr. 11 at the New Orleans OCS office of the Bureau of Land Management. The hearing will give state and local agencies and other public and private interests a chance to comment.

Alpetco gets nod to process Alaska royalty oil

ALASKA Petrochemical Co. (Alpetco) has won preliminary approval to process up to 150,000 b/d of Alaskan royalty crude.

Gov. Jay Hammond and the Alaska Royalty Oil & Gas Development Advisory Board approved a 27-year contract that could lead to construction of a petrochemical complex. Final approval by the state legislature is expected within 2 months.

Once the legislature ratifies the contract, Alpetco will have 18 months to obtain an estimated \$1.5 billion in financing. The total value is projected at \$2.5 billion. It also would have to obtain regulatory approvals and commitments for sales of products.

Between the end of the 18-month period and plant start-up, Alpetco would have the option to remarket the royalty crude in the Lower 48. An Alpetco official says the crude probably would be sold on a long-term contract rather than on a spot basis. Alpetco would pay the in-value price for the royalty crude. That price, al-

though currently subject to litigation, is estimated at about \$12/bbl.

While the project is expected to win final approval, some industry spokesmen doubt the project's feasibility. They say the facility would exceed Alaskan needs.

Hammond says he can't guarantee Alpetco will be able to compete in the world market. However, the governor approved the project partly because it "eliminates risks to the state and asks for no subsidy." Hammond didn't want the state picking up the tab for completing a project after a private venture failed. The contract also provides job training and gives hiring preference to Alaskans.

No engineering work has been done. Construction start thus is at least a couple of years away. Plant operation is estimated about 5 years away.

A site hasn't been selected. But a probable location is on the Kenai Peninsula, with the crude being barged or tankered from Valdez.

Alpetco says the proposed plant

would have capacity to process 30,000 b/d of crude into fuels products. However, most crude would be used for manufacturing olefins and aromatics, although no final product mix has been determined. The petrochemical facility also could include a world-scale, 1-billion-lb/year ethylene plant.

Alpetco was formed last year by Alaska Interstate Co. 60%, Barbour Oil Co. 20%, and Alaska Consolidated Shipping Inc. 20%, jointly owned by Seatrain Lines Inc., and six Alaska native regional corporations. Brown & Root Inc., Houston, is project manager.

Alpetco beat out Alaska Petroleum Co., a subsidiary of Coastal States Gas Corp., and Alaska Petrofining Corp., sponsored by UOP Inc. and Kaiser Engineers (OGI, Jan. 16, p. 44). Both proposals called for construction of fuels refineries. A third proposal by Alaska Oil & Chemical Co., sponsored by Purvin & Gertz Inc. and Alaska International, called for further study of Alaskan fuel needs.

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NUMBER 1

Alaska Petchem Will Buy State's Royalty Crude Oil

JUNEAU, Alaska—Alaska Petrochemical Co. has signed a 27-year contract with the state of Alaska to purchase up to 150,000 barrels per day of the state's royalty crude oil and to construct and operate a major petrochemical facility in Alaska. The contract, which was approved by Alaska's Royalty Oil and Gas Development Advisory Board, must be ratified by the Alaska Legislature.

Alaska Petrochemical is 60% owned by Alaska Interstate Co., 20% by Barbour Oil Co., and 20% by Alaska Consolidated Shipping Inc., a jointly owned corporation of Seatrain Lines, Inc. and six

(Continued on back page)

Alaska Petchem

(Continued from page 1)

native regional corporations. It was formed in 1977 for the purpose of bidding for the purchase of Alaska's royalty crude oil and developing a petrochemical facility in Alaska.

The contract provides for certain performance benchmarks including obtaining regulatory approvals, financing commitments and commitments for sales of products within 18 months of ratification by the legislature. After these performance benchmarks are met and prior to completion of the petrochemical plant, the company has the option to purchase the royalty oil for shipment to the lower-48, Alaska Petrochemical said.



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- Aramco January exports took 2-million b/d tumble from late 1977 levels (p. 3)
- U.S. Supreme Court gives nod to companies to start Baltimore Canyon drilling (p. 5)
- Saudi Minister affirms crude capacity won't rise beyond 14-million b/d in early 1980s (p. 5)
- Sonatrach sounds out El Paso on a price hike under its first LNG contract (p. 3)
- Alt-Laoussine hits U.S. LNG stance; warns delays may force Algerian gas to Europe (p. 3)

U. S./CANADA

ALPETCO GETS CONTRACT TO REFINES ALASKA'S N. SLOPE ROYALTY OIL

Anchorage 2/21—Alaska Governor Jay Hammond has chosen Alaska Petrochemical (Alpetco) over three other bidders for the state's royalty share of Prudhoe Bay oil. Alpetco intends to build a \$2.5-billion facility in Alaska to refine fuels and petrochemicals for world markets (ONS 1/30).

Hammond chose Alpetco, he said, because the firm agreed to a contract that imposes no risks on the state even if the project fails. Alpetco has 18 months in which to come up with markets for 70% of its products.

Two of the losers in the competition, Alaska Oil & Chemical and Alaska Petroleum, told the governor that Alpetco's project was unlikely to succeed without some form of price discount. However, the governor said the state would lose nothing by giving Alpetco a chance.

The state's royalty share of Prudhoe Bay oil will be 150,000 b/d when the Trans-Alaska Pipeline is carrying 1.2-million b/d. A fourth competitor for the royalty oil was Alaska Petrofining.

Alpetco is a joint venture of Barbour Oil of Houston, Alaska Interstate and Alaska Consolidated Shipping, which is composed of six Alaska regional corporations and Sea-train Lines. Brown & Root of Houston is the project manager.

CANADA OPTS FOR 56-IN. DIA. FOR LINE TO BRING ALASKAN GAS

Ottawa 2/21—The Canadian government has selected 56-in. diameter low pressure pipe for much of the \$10-billion Alaskan natural gasline that will run through its territory.

In announcing National Energy Board's decision to the Commons, Deputy Prime Minister MacEachen said the choice will allow use of the thin-walled pipe manufactured in Canada. But the opposition parties said the large pipe will attract more competition from Japanese and European suppliers and renewed their call for legislated guarantees specifying a minimum Canadian share.

The government says such legislation would violate international trade agreements and adds that Canadian steel companies involved feel they will be competitive.

Foothills Pipe Line Yukon, which will build the Canadian portion, says it aims at 90% Canadian content for its part of the line.

The decision reaffirmed that the Canadian government will go ahead with a branch line from the Mackenzie valley to also move Canadian gas to markets through the Alaskan line. Ottawa held open the possibility of a Dempster lateral for Canadian gas when it signed the Northern pipeline agreement with the U.S. last fall. An application for that line would be filed in 1979.

A Foothills spokesman said without Canadian supplies, the 56-in. line would be too large. The only other way to reach capacity would be to loop the section from the North Slope to Whitehorse to ship more Alaskan gas.

In its report, NEB said it plans a new study of gas supply and demand next year and expects it "will still indicate a need for the Dempster lateral prior to 1990."

NEB's decision ends five months of technical talks between Canada and the U.S. The New Democratic Party described it as "total capitulation to American interests."

It said U.S. gas firms wanted the 56-in. size because it would bring in more competitors, leading to lower prices for the pipe and therefore lower costs to U.S. consumers.

NEB chairman Jack Stabback rejected these charges, saying competition would have been just as great for the 48-in. thin-wall pipe, the NDP wants used in the line.

In its report, the NEB says cost of the initial line to move 2.4-million Mcf/d from Alaska is \$4,413-million in the 56-in. line, compared with \$4,234-million in the 54-in. line and \$4,418-million in the high-pressure 48-in. line.

Boosting capacity through more compressor stations to



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Monday, January 30, 1978

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INSIDE OILGRAM NEWS

- Special OPEC meeting to discuss marker crude price unlikely, spokesman in Vienna says (p. 3)
- Price index for LNG Columbia Gas may buy from Iran to be tied to future energy prices (p. 4)
- Two-thirds of known liquid petroleum reserves in Mexico Gulf have been depleted, USGS says (p. 2)
- Rep. Breaux will make another attempt at compromise OCS bill in House on Jan. 31 (p. 2)

U. S./CANADA

GASOHOL TAX BREAK LAW PASSED BY COLORADO REPRESENTATIVES

Denver 1/27—The Colorado House of Representatives passed unanimously a bill taxing gasohol at only 2¢/gal rather than the current 7¢ for petroleum gasoline.

The measure stipulates the gasohol must be blended with at least 10% alcohol derived from agricultural and forest products. It also requires state-owned motor vehicles to use the blend.

The bill, which goes to the Senate for consideration, is intended to help Colorado land one of the proposed federal pilot plants to produce gasohol. Legislative leaders said they hoped to complete action on the measure by Feb. 1, the federal deadline for the site decisions.

REFINERY PROPOSALS GET NOD IN ALASKA ROYALTY OIL STUDY

Anchorage 1/27—Two proposals to buy the state's Prudhoe Bay royalty oil and build refineries in Alaska rank ahead of two proposed petrochemical facilities in a technical and economic comparison prepared for the state. The state hopes to award a contract by Feb. 1 (ONS 12/27/77).

Alaska Petrofining ranks first and Alaska Petroleum is second among four royalty oil bidders in the comparison by Bonner & Moore, Houston consulting firm.

The comparison, prepared for the state's Royalty Oil & Gas Development Board, says Alaska Petrofining's proposal is best in terms of basic economic viability, general business merit and probability of construction. Alaska Petroleum ranked second in most cases.

The two other proposals, by Alaska Petrochemical and Alaska Oil & Chemical tied for third place.

ALTA. SALE NETS \$22.7-MILLION

Calgary 1/27—A Jan. 24 land sale saw an additional

NEB GRANTS TRANS MOUNTAIN AVERAGE 11% HIKE IN TOLLS

Ottawa 1/27—Trans Mountain Pipe Line has been granted an average increase of 11% in tolls charged on its crude pipeline between Edmonton and Vancouver, effective Feb. 1. The National Energy Board said the new rates are well below the general 49% increase sought by the company.

Exact tolls depend on the quality of the oil and the distance traveled. In general, the board ordered reductions in rates on short hauls while allowing an increase of 13% on the main volume of business between Edmonton and Vancouver.

The rate from Edmonton to Vancouver for less than 30-gravity oil will rise to 61.5¢/bbl from the current 55¢. The company had sought 81.8¢. The rate for 100-gravity oil over the same distance will be 41.5¢, up from the current 35¢ but still below the 52.1¢ asked for by Trans Mountain.

On the shorter haul between Kamloops, B.C., and Vancouver, the company asked for a rate of 44¢, compared with the 29.6¢ now charged. But the board set the rate for that section at 22¢.

TAPS REPAIR PROGRESSES

Anchorage 1/27—Reconstruction of Pump Station 8 on the trans-Alaska pipeline is on schedule and the station should be back in operation in March, according to Alyeska Pipeline Service president William Darch.

The major mechanical equipment has been installed he said, and what remains is electrical and instrument work and cleanup. The station was destroyed by an explosion last July.

Sub zero weather in November and December along the entire length of the 800-mi. line was a stringent test of the line's design, he said, adding that the design has proved itself.

IN THE INDUSTRY

PEABODY PURCHASES: Peabody International, Stamford, Conn.-based oilwell equipment and services company, has acquired Churchill Pumping, Chanute, Kan., and Vann Tool, Artesia, N.M.

NEW UOP GROUP: Process division of UOP has organized a new products group for marketing catalysts, adsorbents, refinery chemicals and instruments to the petroleum and petrochemical industries.

GATHERING LINE SET: Producer's Gas (Lear Petroleum) plans a \$9-million, 100-mi. gas gathering and transmission system in a four-county area northwest of Houston. The 50,000 Mcf/d uncompressed capacity system will purchase gas for sale to United Texas Transmission and is

Moves made to save Indonesian LNG project

ALTHOUGH a new pricing rule for imports of liquefied natural gas threatens to scuttle a project to move Indonesian LNG to California markets, efforts are being made in Jakarta to rewrite purchase contracts to meet the requirement.

Pacific Lighting Corp., through its Pacific Indonesia LNG Co. subsidiary, hopes Indonesia's Pertamina, the government-owned oil company, will agree to escalation of LNG prices based on U.S. economic conditions—and not on the price of foreign oil and domestic products.

At stake is an LNG project which eventually would move 540 MMcf/d of gas to the Los Angeles and San Francisco areas for Pacific Lighting and Pacific Gas & Electric Co., a partner in the project.

Faced with competition from Japan, which already is taking much of Indonesia's gas and wants more, Pacific Lighting must convince Indonesia that its long-term interests lie with a project linking it with the U.S., despite the long delay in its approval and possibly lower prices.

The Los Angeles utility holding company has been working on the Indonesian project for more than 4 years and still must obtain approval not only of the pricing plan but also the receiving terminal site in California.

DOE action. The Department of Energy, in approving the project in general (OGJ, Jan. 9, p. 36), failed to authorize use of a site at the western end of the Santa Barbara Channel near Point Conception—the only one a 1977 California law will allow.

Instead, DOE conditionally authorized a site at Oxnard, at the eastern end of the channel.

David J. Bardin, administrator of DOE's Economic Regulatory Administration, indicated the U.S. will work with California in selecting a site mutually agreeable to both state and federal agencies.

If Pacific Lighting can overcome the problems of price, siting, and other unresolved issues such as allowing future price increases to reflect the higher cost of shipping LNG, it must then obtain financing for the \$2-billion project before starting construction.

Critical portion. The terminal and regasification facilities, according to Pacific Lighting, is the "critical path" portion of the LNG project. It will take 3 years to build once financing is completed.

The most optimistic guess on start

of work for the terminal is a year from now.

At the Indonesian end, Pertamina would simply expand its present terminal and gasification plant at Arun, Sumatra, where it presently operates a three-train system for LNG exports to Japan.

It would add another three trains for the U.S. project.

Construction of LNG carriers already is well under way. Three of the required nine vessels have been built, and these could handle the start-up volumes.

Under the timetable set by Pacific Lighting, shipments will start in 1982 at a rate of 160 MMcf/d and increase by 80 MMcf/d each 6 months until the final 540 MMcf/d is reached. The last increment would be 60 MMcf/d.

Four projects competing to process Alaskan royalty oil

FOUR projects to process Alaskan royalty oil are still in the running for state approval.

Bonner & Moore Associates Inc., Houston, is evaluating the proposals for Alaska's Royalty Oil & Gas Development Board. A selection could be made later this month after the state legislature convenes.

The four projects being evaluated include two fuels refineries and a petrochemical complex. Proposed sites are in the Eklai Peninsula area. A fourth is a proposed study to determine what kind of plant would best suit the state's needs.

The pending projects include a proposal by Alaska Petroleum Co. to build a 150,000-b/d refinery. Some fuel-oil products would be marketed in Alaska. But the plant mainly would be producing low-sulfur residual fuel oil for West Coast consumption in the Lower 48.

Alaska Petroleum is a subsidiary of Coastal States Gas Corp.

Alaska Petrofining Corp. proposes a 250,000-b/d fuels refinery to manufacture low-sulfur fuel oil for generating electricity on the Lower 48 West Coast. Some products would be produced for Alaskan markets. The project, sponsored by UOP Inc. and Kaiser Engineers, would be financed through a tax-exempt nonprofit corporation.

Alaska Petrochemical Co. would build a 150,000-b/d petrochemical plant

Pacific Lighting expressed satisfaction last week that DOE left consumer pricing of the regasified LNG to the California Public Utilities Commission. But the ruling on escalation has created a serious problem.

Under Pacific Lighting's contract with Pertamina, the basic price of \$1.25/Mcf (for Indonesia) would escalate under a formula pegged 50% to the Indonesian oil-export price and 50% to the U.S. wholesale price index for fuels and related products. In theory, the price could decline—but not below a figure sufficient to cover Indonesian debt and operating costs.

DOE, in contrast, ruled that escalation must be based on domestic economic conditions such as the consumer price index or an index based on the gross national product.

for manufacturing ethylene and small quantities of propylene and benzene. Supporting the venture are Alaska Consolidated Shipping, Alaska Interstate Co., and Barbour Oil Co., Houston. Brown & Root Inc. is project manager.

Further study of Alaskan needs is proposed by Alaska Oil & Chemical Co., sponsored by Purvin & Gertz Inc. and Alaska International. The 2-year study, the companies say, would be designed to determine what kind of facility should be built—including the costs and benefits to Alaska.

Bonner & Moore study. Bonner & Moore says the broad objective of its evaluation is to decide how Alaskan oil reserves can be used to promote industrialization. Alaskan royalty crude will amount to 150,000 b/d when production peaks in Prudhoe Bay field.

The consulting firm, under another contract with the State Revenue Department, also is studying potential uses of Alaskan royalty gas. The long-term study will consider major transportation and processing alternatives for royalty gas and gas liquids. The gas would become available upon completion of a pipeline in the 1990's.

Alaska Gov. Jay Hammond in Houston last year said 11 proposals for refineries and petrochemical plants had been submitted to the Oil & Gas Royalty Board. Capacities ranged from 150,000 to 250,000 b/d.

MID-1978 START ON ALASKAN ROYALTY OIL PLANT IS URGED

Houston 12/22—Preliminary work on an Alaskan refinery or petrochemical complex should begin in mid-1978, according to Bonner & Moore Associates, Houston-based management consulting firm. The company was retained by Alaska to evaluate proposals for the purchase of the state's 150,000 b/d of Prudhoe Bay royalty oil (ONS 11/15).

Only four of the original eight proposals are still in contention, and B&M president J. F. Moore says his firm will be in a position to make a recommendation to the state's Commissioner of Natural Resources by the middle of next month. The commissioner in turn will make his recommendations to the Legislature.

The proposals still in contention are:

- Alaska Petrofining, sponsored by Henry J. Kaiser of Oakland, Calif., and several engineering firms, which proposes a 250,000 b/d fuels and petrochemical refinery to process not only Prudhoe Bay crude but "all potential" oil sources in the state.

- Alaska Petrochemical, a joint venture of Alaska Interstate, Barbour Oil and Alaska Consolidated Shipping, proposing a \$1.5-billion facility using 150,000 b/d for 25 years.

- Alaskan Oil & Chemical, backed by Gulf Oil & Refining of Dallas and Alaska International Industries, proposing to build a \$950-million petrochemical plant and spend another \$1-billion on derivative plants.

- Alaska Petroleum (Coastal States Gas), which wants to purchase 150,000 b/d for 20 years and build a \$400-million refinery to manufacture gasoline, jet fuel, fuel oil, burner fuel and sulfur.

Pacific Resources, Honolulu, which originally proposed a 150,000 b/d facility to meet the needs of Hawaii, has withdrawn on its own behalf and joined the Alaska Petrofining group.

As a second part of its contract with the state, Bonner & Moore will look into a number of hardware options to utilize natural gas liquids.

U.S.-CANADA GAS TIME SWAP SEEN POSSIBLE BY ALTA. ENERGY CHIEF

Edmonton 12/22—Alberta Energy Minister Don Getty believes the concept of a time-swap sending Alberta gas to the U.S. now to be returned later is "beginning to look like a possibility."

After talks with Canadian Energy Minister Alastair Gillespie, Getty said "the time for fencing around with the U.S. is over" and an application for increased shipments to the U.S. should be made to Alberta and federal authorities.

According to Getty, the Alberta government won't specify that the return be made in natural gas but in "equivalent energy," which could be electric power or coal.

U.S. Vice President Mondale is scheduled to visit Edmonton in January, Getty noted, adding: "I don't know what Mondale is going to talk about if it isn't gas swaps."

WASHINGTON

NCPR SAYS MARYLAND DIVESTITURE LEGISLATION SHOULD BE UPHOLD

Washington 12/22—National Congress of Petroleum Retailers has asked the Supreme Court to reaffirm the constitutionality of certain sections of Maryland's divestiture legislation.

EPA ASKS REFINERS TO INVENTORY THEIR OUTPUT BY NEXT MAY 1

Washington 12/22—U.S. Environmental Protection Agency, as part of its effort to identify all potentially toxic substances, is asking U.S. refiners to inventory by next May 1 all chemicals and products manufactured or imported into the U.S. EPA Administrator Costle took the action through the authority of the Toxic Substances Control Act of 1976.

The inventory will be used as a "roadmap" to guide future EPA actions on toxic substances, particularly future testing of potentially hazardous materials. But the first step, EPA said, is to determine exactly what is being produced and in what quantities.

STATE DEPT. APPLAUDS CONTINUED OPEC FREEZE

Washington 12/22—The State Dept. applauded OPEC's "apparent decision" not to raise oil prices for six months and said it supports efforts to make the present prices hold throughout 1978.

The statement said that some OPEC countries clearly shared the U.S. belief that new price rises would bring major economic problems that would eventually hurt OPEC interests.

President Carter will visit Iran and Saudi Arabia in early January and is expected to urge the two countries to hold the price line inside OPEC.

But the latest setback on the gas section of the energy plan is considered likely to reduce his credibility since many OPEC members link U.S. energy conservation efforts with continued price stability (see related story in this issue).

CONFEREES KILL LATEST COMPROMISE, ABANDON EFFORTS FOR THE YEAR

Washington 12/22—House and Senate energy conferees today abandoned for the year efforts to resolve the natural gas pricing issue, killing 16-2 the latest compromise proposal and quitting until January in anything but a conciliatory mood.

Sen. Johnston (D-LA), chief proponent of a pricing scheme that would have put controls on both intrastate and interstate gas and let prices rise quickly from an initial \$1.75/Mcf, told the conference "all bets were off" and he was withdrawing his support (ONS 12/22).

"I want to get off this ship before it explodes," he said, characterizing the compromise as a "turkey" that had virtually no support.

"I'm at wit's end where we go from here," he said, adding that "we simply have to get a new idea and a new approach, and I don't know that one exists."

Backing for the plan, designed during a 14-hour secret session that ended late Tuesday night, began to disintegrate early Wednesday morning. Later, it was clear that if the proposal were brought to a vote it would fail.

Johnston said Energy Secretary Schlesinger supported the compromise, but he still didn't know how President Carter stood on the issue.

Attacks on the plan came from both strong supporters of deregulation and members who have fought to keep gas under controls. Sens. Metzenbaum (D-OH) and Durkin (D-NH) and Abourezk (D-SD) called the plan a disaster, while Senate Energy Committee chairman Jackson (D-WA), ab-

and provincial industry departments. An expanded future market for calcium carbide in the Canadian steel industry was also identified by the federal Dept. of Industry, Trade & Commerce.

In addition, tentative programs to meet Quebec's new and stiffer environmental standards have been developed with the provincial Environment Ministry.

Beal said that a program is nearing completion to permit continued operation of the plant. The program will be dependent upon capital grants from the federal government for plant modernization and a new labor agreement that will assure improved productivity.

OILGRAM NEWS HEARS

That the state of California is taking an

initial hard line on Ohio Standard's proposed Long Beach marine terminal in order to win concessions from the U.S. government before ultimately approving the Long Beach project (ONS 6/20).

Such concessions may include, sources say, a better break from the federal government on shared control of OCS leases; increased allocation of natural gas to California from the Federal Power Commission; the addition of a western leg to a proposed natural gas pipeline system from the North Slope; and the authority to regulate air quality standards beyond the three-mile state limit.

NEW COMPANY FORMED TO BID FOR ROYALTY OIL IN ALASKA

Anchorage 7/19—Six Alaska native corporations have joined with Alaska Interstate and Barbour Oil to propose a \$1-million refinery to process the state one-eighth royalty share of Prudhoe Bay oil (ONS 6/30). A new company, Alaska Petro Chemical, has been formed to build and operate the refinery.

It is 60% owned by Alaska Interstate, with Barbour Oil and Alaska Consolidated Shipping each owning 20%. Alaska Consolidated Shipping is a joint venture of six native corporations and Seatrains Lines.

The proposal is one of eight expected to be presented to the state by an Aug. 1 deadline, with a final contract to be negotiated by Feb. 1.

Both Alaska Consolidated Shipping and Alaska Interstate-Barbour Oil had made separate proposals to buy the royalty oil. Alaska Interstate chairman O. Charles Houpp said by joining forces "it greatly strengthens our proposal."

WASHINGTON STATE VOTERS WILL GET CRACK AT 'GAS' TAX HIKE

Seattle 7/19—The Washington state gasoline tax, raised to 11¢/gal from 9¢ July 1 by the Legislature, will revert to the lower level if an initiative on the ballot at the November general election is approved by the voters.

King County Assessor Harley Hoppe, an unsuccessful candidate for governor last year, spent \$20,000 from left-over campaign funds to secure more than 100,000 signatures in one week to win a place on the ballot for the measure. He was strongly supported by Urban Liberal Foes of Freeways, who oppose raising taxes to finance new highway construction.

EXXON'S GARVIN SAYS SEN. CHURCH MISREPRESENTS ARAMCO TAX ISSUE

New York 7/19—Exxon Corp. chairman C. C. Garvin, Jr., has refuted demands by Sen. Church (D-ID) that the U.S. Internal Revenue Service disallow the use of foreign tax credits by the U.S. shareholding companies of Aramco and other oil companies operating in OPEC member state (ONS 6/28).

In a letter to President Carter, Garvin referred to a June 28 letter Church sent Carter alleging that Aramco's parents underpay U.S. taxes on income from their Saudi operations and urged Carter to reverse the present IRS practice.

Church claimed that company payments to OPEC governments are in reality fixed per-barrel charges and shouldn't be credited as income taxes.

Garvin's letter said Church was publicizing "erroneous conclusions . . . based on a misunderstanding of the facts."

Garvin said Church "seems to be arguing that the governments of oil-producing countries are not entitled to have income taxes," but doesn't give reasons why.

"Even if it were to be contended by the U.S. government," Garvin says, "that the upper portion of foreign income tax on income from oil extraction should be regarded for U.S. tax purposes not as income tax but only as royalty, there would be no increase in U.S. tax revenue since U.S. law now contains a special provision" which allows foreign oil income to be credited only up to 48% of that income.

"There is, therefore, no way in which any portion in excess of 48% of foreign income tax on foreign oil-extractive income can be used to offset U.S. tax on income other than that from foreign oil production."

Garvin denied that U.S. shareholders in Aramco can use Saudi taxes paid by Aramco to reduce their U.S. tax. Dividends received from Aramco by Exxon, Mobil, Texaco and Standard of California must be included in U.S. taxable income in the same manner as dividends from other U.S. companies, he said.

Church also is mistaken to claim that oil company payments to OPEC governments are fixed per-barrel charges, Garvin said, adding that in Saudi Arabia the income tax is a percentage of net income tax is a percentage of net income "in accordance with U.S. concepts."

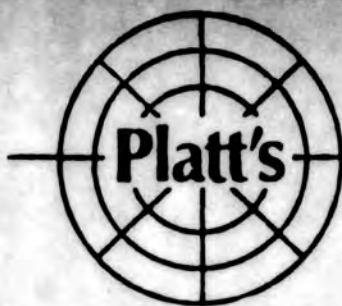
Referring to Church's charge that the various nationalization and fee arrangements being negotiated between the oil companies and some OPEC countries, including Saudi Arabia, are "artificial," Garvin explained:

"It's anticipated that when a new agreement is signed Aramco will purchase oil from Saudi Arabia at market prices. Such purchases will not result in income in Saudi Arabia; thus no income tax will be paid in Saudi Arabia and no claims will be made for credit against U.S. tax as a result of these purchases."

However, Aramco will assist Saudi Arabia in the continued production of oil and gas in that country and will receive income which will be subject to the Saudi income tax. "Provisions of U.S. tax law should apply to these tax payments in the same manner as they apply to other companies with income in Saudi Arabia," Garvin said.

IN THE INDUSTRY

CROWN GETS DIRECTED VERDICT: Crown Central Petroleum said U.S. District Judge Wilbur D. Owens, Jr., in the Middle District of Georgia has granted a directed



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Tuesday, November 15, 1977

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SEND SEE SAINT MODE

ALASKA ROYALTY BIDDERS NAME SITES FOR PETROCHEM PLANTS

Anchorage 11/14—Alaska Petrochemical, one of four contenders for the state's royalty share of Prudhoe Bay oil, has selected the former Wildwood military reservation on the Kenai Peninsula as its preferred site for a \$1-billion petrochemical refinery complex (ONS 8/8).

Alpetco and the other bidders discussed their proposals with the Royalty Oil & Gas Development Advisory Board at meetings in Valdez.

Among the other bidders for the royalty oil, Alaska Petrofining says it is considering sites at Haines or North Kenai but hasn't ruled out Valdez and Berners Bay near Juneau.

Alaska Petroleum ranks Port Nikiski, Beluga-Tyonek and Point Mackenzie as tops among 14 sites studied.

Alaska Oil and Chemical says the Kenai Peninsula would be the most appropriate place for a petrochemical complex, preferably in the North Kenai area near existing plants. Second choice would be on the west side of Cook Inlet near Tyonek.

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Robert N. Landes, Secretary; Ralph J. Webb, Treasurer

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Petrochem Plant for Alaska?

HOUSTON — Alaska Petrochemical Co. plans to submit plans to the state of Alaska later this month for a \$1 billion, 150,000 barrel per day petrochemical refinery using as feedstock the state's one-eighth royalty share of crude oil produced on the North Slope, a spokesman for Virginia International Co. told The Oil Daily.

Alaska Petrochemical is a newly formed company, owned by Alaska Interstate Co., Barbour Oil Co. and by Alaska Consolidated Shipping.

An Alaskan Interstate spokesman said the proposed facil-

ity would produce middle distillates for sale in the lower 48 but also might make gasolines, fuel oils and jet fuels for in-state consumption only. The site of the refinery has not been set, he said, though the Valdez area is considered "most attractive" for the proposal.

Alaska Petrochemical's is the only proposal for a petrochemical refinery, the Alaska Interstate spokesman said. The company hopes to provide a foundation for the building of Alaska industry, an economic base that heretofore hasn't existed in the state," he added.

The suggested refinery could provide as many as 1,500 Alaskans with permanent employment of the highway and pipeline construction industries.

This is one of several proposals put forward to the state for the use of its royalty crude. The Virginia International spokesman pointed out that this proposal, however, has "political" advantages as Alaska Interstate is already a major factor in the state's economy and Alaska Consolidated Shipping is owned by six Alaska native corporations along with Seatrain Lines Inc. The Alas-

(Continued on page 7)

Petrochemical Plant Proposed

(Continued from page 1)

Alaska Interstate spokesman pointed out that his company and Alaska Consolidated Shipping have 34,000 Alaskan shareholders between them.

Alaska Interstate detailed the proposal at its annual meeting here, in which company stockholders approved the acquisition of Virginia International Co. The merger plan was approved earlier by shareholders of Virginia International, and the merger became effective last Thursday, according to Virginia International.



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INSIDE OILGRAM NEWS

- Saudi Arabian crude price probably will be increased on July 1, Yamani said in Riyadh (p. 2)
- UK exploration activity in North Sea reaches peak levels of 1975 prior to economic cuts (p. 3)
- U.S. Law of Sea negotiator Richardson says an unsatisfactory treaty is worse than no treaty (p. 3)
- U.S. Appeals Court uphold FPC's 1976 decision to raise natural gas price to \$1.42/Mcf (p. 4)
- House Ways & Means Committee approves plan cutting Carter's oil, gas users tax for industry, utilities (p. 5)

U. S./CANADA

BEAUFORT SEEN MAJOR PRODUCER

Tuktoyaktuk, N.W.T. 6/17 — The Beaufort Sea will "almost inevitably" become a major oil and gas field equal in importance to the Prudhoe Bay area, Gordon Harrison, drilling manager, Canadian Marine Drilling (Dome Petroleum) forecast in an interview here.

Production of oil alone is expected to be sufficient to meet Canada's present oil requirements for 16 years, or about 35-million bbl, he said.

MUSN'T GIVE UP ON U.S. OIL, GAS RESERVES— AMOCO'S BARR

Gulf Shores, Ala. 6/17— "It's much too early to give up on finding and developing substantial new supplies of oil and gas" in the U.S., Amoco Production (Indiana Standard) executive vice president Kenneth J. Barr said today.

The new supplies, Barr told the Alabama Petroleum Council, "will cost more to find and produce, but many will be economic at today's world prices."

Barr said the consensus of industry specialists is that the potential exists to find more than 100-billion bbl of oil and 600-billion Mcf of gas to add to the domestic proved reserves of 37-billion bbl of oil and 216-billion Mcf of gas.

Furthermore, he added, these estimates are based on present or lower prices than the costs of crude imports at \$14.50/bbl, or planned imports of liquefied natural gas at \$3.50/Mcf or higher, which is equivalent on an energy basis to \$20/bbl of oil.

"I'm sure much more could be made available at these prices, the prices the OPEC countries will demand in the future, and the cost of other alternative supplies," Barr said.

GROUP PROPOSES TO BUY ALASKAN ROYALTY OIL, BUILD BIG REFINERY

Anchorage 6/17— A joint venture has proposed to buy all of Alaska's royalty share of Prudhoe Bay oil for the next 20 years and build a \$1-billion refinery at Valdez.

Partners with Barbour Oil, Houston, in the venture are Alaska Interstate, Houston, and Ford, Bacon & Davis, New York.

The state would own the refinery and lease it to the group, with estimated income to the state of \$100-million/Barbour Oil's John D. Barbour said.

Don Wold, executive director of the state's Royalty Oil & Gas Development Advisory Board, calls the proposal one of several received by the board as a result of a new solicitation— the state's third— for bids to purchase the royalty oil. The oil will total an estimated 150,000 b/d when the trans-Alaska pipeline is at 1.2-million b/d capacity.

The proposed refinery would manufacture middle distillates, gasoline, naphtha, benzene, and other products.

To finance the complex, Barbour is proposing that Alaska issue development bonds, to be amortized by the state's lease charge to the operators. The lease price would include the estimated \$30-million/yr in taxes the refinery would pay if privately owned.

The joint venture would act as a brokerage agent for the crude, marketing it during the time refinery is under construction.

EXXON TO ABANDON RETAIL OIL HEAT BUSINESS IN NORTHEAST

Baltimore, 6/17— Exxon U.S.A. said it plans to abandon the retail end of its home heating oil business in the U.S. northeast (ONS 6/8).

A spokesman here said Exxon is negotiating to sell its remaining company-operated retail oil heat business to local distributors in cities from Boston to Norfolk, where it holds about 161,000 accounts.

Exxon said its decision to get out of the retail end of the business was based in part on the fact that the operations were only marginally profitable. A two-year, in-house study showed that the retailing could best be handled by local heating oil distributors.

Exxon said it will offer to supply heating oil to the distributors. Retail oil heat sales account for less than 7% of the Exxon's space heating oil sales. The balance already is sold through distributors.

CALIF. STATE, REGIONAL AGENCIES DISAGREE ON ECO- RULES FOR SOHIO

Los Angeles, 6/17— The South Coast Air Quality Management District has set down a series of environmental regulations to control Sohio's operations.



Alaskan Refinery Proposed

ANCHORAGE (Reuters)—A joint venture, led by Houston oilman John D. Barbour, has proposed to purchase Alaska's share of crude oil royalty from the Prudhoe Bay and build a \$1 billion refinery complex at Valdez. John Barbour said.

Barbour was here to meet with Alaska's natural resources director, Robert Leresche, and said his group will have a detailed, preliminary plan by July 15.

The venture, besides Barbour's oil interest, includes Alaska Interstate Corp. of Houston and Ford Bacon and Davis Inc., an engineering and construction firm based in New York.

Under Barbour's proposal the state would own the refinery and lease it to the joint venture, with estimated annual income to the state of about \$100 million, Barbour said.

THE STATE'S director of royalty and oil and gas development, Don Wold, termed the proposal "one of several solid proposals which have been received by the board as a result of a new solicitation for bids to purchase royalty oil."

The Royalty Board is in its initial phase of considering several proposals for use of its royalty oil from Prudhoe Bay.



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Thursday, June 30, 1977

Page 1

2ND GROUP TO BID FOR ALASKAN ROYALTY OIL, BUILD REFINERY

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The project would require about three years' construction time as well as provide 2,500 jobs during construction. An estimated 250 to 300 permanent jobs would be created to operate the facility.

The proposal will be made by company subsidiary

Energy Resources and several other partners who haven't been named publicly.

The proposal is the second fullscale refinery proposal that the state's Royalty Oil & Gas Development Advisory Board expects to consider after the Aug. 1 deadline for offers.

The other billion-dollar plant was proposed recently by Barbour Oil in partnership with Ford Bacon & Davis, International Engineering & Construction and Alaska Interstate Corp. (ONS 6/20).

While the Barbour plan calls for the state to build the refinery through development bonds and lease it to the operators, International Energy plans private financing.

related to a commitment by Canada to decide a pipeline route before Sept. 1, Allmand replied "it may have something to do with it."

Canada has promised President Carter it will try to make a decision before the Sept. 1 deadline when he must make his choice on the pipeline routes.

News of the inquiry caught Energy Minister Alastair Gillespie by surprise. He first heard about it when he read Allmand's statements in a newspaper.

Allmand said in an interview that the decision to hold the Yukon inquiry was made by his department, not by the federal cabinet.

ALASKA PETROLEUM SWEETENS BID FOR BUYING ALASKA ROYALTY OIL.

Anchorage 3/11—Alaska Petroleum has given the Alaska Oil & Gas Development Advisory Board a proposal to build a \$300-million to \$400-million refinery (ONS 1/6).

The company is competing to buy the state's one-eighth royalty share of oil. It originally offered to buy it at the going market price plus a \$1/bbl premium in a 10-year contract, extendable for another 10 years if the refinery were built.

The new offer confirms the refinery plans and would increase the premium by a 50¢/bbl.

Alaska Petroleum (Coastal States Gas) is competing for the royalty oil against Alaska Consolidated Shipping, a consortium of Seatrail Lines and six Alaskan native corporations bankrolled by the 1971 Alaska Native Claims Settlement Act.

The board approved a one-year extension of Tesoro-Alaska Petroleum's contract for Alaska's Cook Inlet oilfield royalty oil.

Aired at the session was a letter from the Alaska Natural Resources Commissioner to all North Slope leaseholders asking they agree, by March 15, to let the state take back its oil in kind, rather than cash, on a one-month notice instead of six months. The agreement would short circuit Federal Energy Administration regulations forbidding Alaska from "Indian giving" its oil without permission from the oil's buyers.

A new and stiffer oil and gas tax package introduced to the Alaska Legislature is expected to bring "screams of protest," from the industry, legislators predicted (ONS 3/10). One said the package, designed to bring Alaska millions of dollars more each year, "will bring oil industry threats to take their marbles and go home."

The big three leaseholders at Prudhoe Bay—Atlantic Richfield, Ohio Standard and Exxon—said they will respond to the package at hearings beginning March 21 in Juneau.

SEC SUES NEW MEXICO FIRM TO BLOCK INVESTMENT OFFERINGS

Denver 3/11—The Securities & Exchange Commission said it filed a suit in U.S. District Court at Albuquerque to stop a Roswell, N.M., firm from offering investment contracts in connection with Bureau of Land Management oil and gas lease lotteries.

The action was brought against Max Wilson, Incorp., Max Wilson and his son, Robert M. Wilson.

The SEC said the Wilsons were misleading investors by guaranteeing an offering price if the investor won a BLM lease. "The truth of the matter," the SEC complaint said, "is that the defendants' guaranteed offering price is

GAS WATCH

TEXAS EASTERN BUYS HOUSTON GAS

Washington—Federal Power Commission chairman Dunham has authorized an emergency purchase of up to 7-million Mcf by Texas Eastern Transmission from Houston Pipeline. The gas will be delivered at the rate of up to 50,000 Mcf/d and the price will be \$2.02/Mcf. The gas will be commingled with intrastate gas in transportation, but won't subject Houston Pipeline to FPC jurisdiction.

EQUITABLE GETS CUPK OF CANADIAN GAS

Washington—Federal Power Commission has ruled that Equitable Gas of Pittsburgh may purchase 525,000 Mcf of gas imported from Canada by Columbia Gas Transmission. Last month, the commission authorized Columbia's import of 12-million Mcf from Canada, but said other pipelines may have access to the gas, if necessary.

IN THE INDUSTRY

PLATFORM FIRE: Three men were injured in a flash fire during a well workover at Sun Oil production Platform A on Vermillion 320, about 110 mi. offshore. The well was shut in, and production from other wells on the platform was interrupted briefly.

COAL BUY: General Exploration, Dallas, has agreed to buy Lazam Mining, with about 200-million tons of steam coal reserves in Kentucky. Genex will issue a million shares of 5% convertible preferred stock with a par value of \$15.60, which will be convertible to common stock on a one-for-one basis.

INTERNATIONAL

SHELL HAS JOINED MOBIL IN OFFICIAL COMPLAINT AGAINST FRENCH ALLOCATIONS

Paris 3/11—Shell's French subsidiary has filed an official appeal with the Conseil d'Etat (France's equivalent of the U.S. Supreme Court) to the government's refusal to change its allocations of the domestic products market, the company confirmed today.

Shell thus joined Mobil in an official complaint to the French high tribunal against what they consider government discrimination against the international companies in the allocations (ONS 3/8).

Also, industry sources said today that Exxon's French subsidiary Esso SAF is considering its next step while studying the letter from Industry Minister Michel d'Ornano's letter refusing to alter the market division.

The new developments followed a press conference yesterday during which Esso president Henri Lamaison complained about his company's share of the gasoline market. But he emphasized that his main concern is the future allocations scheduled to be made in June 1979. He said:

"We invested a lot to earn our part of the gasoline market. When the government decided on the market allocations last June, I was very unhappy, ulcerated."

On his company's new investments in France, Lamaison said "we're bitter when we're badly treated by the government. We've worked well for the nation." However, he



ices plant in West Valley, New York, 12 waste nuclear products for processing. for a few dozen workers monitoring the buried in a giant storage area.

Alaska to Hold Oil Pipeline Inquiry In Bid for a Voice in Setting Rates

By WALLACE TURNER
Special to The New York Times

SAN FRANCISCO, March 22—Alaska, seeking a voice in setting the rates for oil moving from its North Slope, has scheduled hearings in Anchorage next month to explore its charges that construction of the Trans-Alaska Pipeline was mismanaged.

The Alaska Pipeline Commission contends that the alleged mismanagement caused the pipeline to cost too much and it argues that the extra cost should not be recoverable by the pipeline's owners in higher rates for moving the oil.

As owner of a one-eighth royalty in the Prudhoe Bay field, Alaska has a compelling interest in the tariffs. The state's oil will be sold for the market price less the cost of delivery and the higher rates would mean a loss of revenue to the state.

The hearings April 11 to 14 will explore what a commission member, Robert A. Breeze, called "threshold issues" to the basic intent of the state commission to investigate management in the construction period. Officials of the Alyeska Pipeline Service Company will attend.

The commission's authority to set rates covers only oil moving to refineries with-

in Alaska. The Interstate Commerce Commission will set tariffs for most of the oil. But the Alaska commission hopes, said Mr. Breeze, an Anchorage lawyer, to issue findings that will influence the I.C.C. rate-making process.

The most recent cost figure for the pipeline is \$7.7 billion, which is up from the \$5.8 billion estimate of 1974. But Mr. Breeze said in an interview here yesterday that "we hear it will go up to about \$8.3 billion." Interest costs of far more than \$1 billion will be recoverable also.

The initial maximum flow level projected will be 1.2 million barrels a day, which is 438 million barrels a year. Alaska's share would be 54.7 million barrels. A difference of just a cent a barrel in the tariff would mean \$547,500 a year to the state.

Access to Data Is Sought

The Alaska commission's struggle with Alyeska is over the body's attempt to get access to information on which to base its study of rates, Mr. Breeze said.

Mr. Breeze listed the following issues as among those to be taken up at the hearing next month.

Records are not kept in Alaska where the state can reach them by subpoena to amortize construction costs.

Alyeska is a shell. The state's dispute is with the eight pipeline companies that financed the construction and will own the line. These eight concerns are subsidiaries of oil companies that have the Prudhoe Bay leases.

He listed the companies and the percentages owned as: Solio Pipe Line, 33.34 percent; BP Pipelines, 15.64; Arco Pipe Line, 21; Exxon Pipeline, 20; Mobil Alaska, 5; Union Alaska, 1.66; Phillips Petroleum, 1.66; and Amerada Hess, 1.1.

The commission believes the owner companies have already been using the costs of the pipeline to cut their Federal taxes by claiming investment credits. In effect, this could lead to them recovering more than their entire investment, since the tariffs for shipping oil are supposed to amortize construction costs.

The leverage of borrowed money is extremely high, with only 5 percent equity, which means that under the I.C.C. rules that allow recovery of financing costs the tariffs will be much too high.

The estimates of the volume of oil moving through the pipeline need examination.

Genesco Studies Hinerfield, Yunch

Continued From Page D1

selected. It would mean that Genesco has opted for a manufacturing executive to head its business. About 55 percent of Genesco's \$1.1 billion sales in its last fiscal year ended July 31 was in manufacturing; the rest in retailing.

But if Mr. Yunch or another retailer is selected, the choice would signify that Genesco is primarily interested in a merchant to shore up its lagging earnings performance.

The 60-year-old Mr. Yunch, who was recently named to the board of W. H. Rouse Inc., spent more than 30 years at the Macy organization, functioning as chief executive first at the Bonberger division in New Jersey, and then at the Macy New York Co. up before being appointed corporate vice chairman.

The new Genesco chief will replace

Franklin M. Jarman, the former chief executive and present chairman who is slated to leave that post by Aug. 1. A recent Form 8-K filed with the Securities and Exchange Commission indicated that Genesco has agreed to pay him \$431,667 over 28 months starting with his resignation date.

On Monday, Michael Brandon, vice president for public relations of Genesco, said in Nashville, the company's home base, that Genesco has decided to drop Knight & Zabriskie, the New York executive recruiting concern that was designated to help the selection committee find a suitable chief executive officer.

But Charles Zabriskie Jr., president of Knight & Zabriskie, insisted that his company was still being retained. However, Mr. Jarman said yesterday that the committee and the full board would meet today and "make a final decision" regarding the search concern.

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While the Barbour plan calls for the state to build the refinery through development bonds and lease it to the operators, International Energy plans private financing.

each generated by operations in the early years, the company says.

Estimates of contingency financing, to cover any cost overruns, has been increased by \$115-million to \$1.87-billion, the company told the board.

It still intends to ask government to guarantee availability of funds if the cost overruns exceed that figure, an occurrence Arctic Gas says is unlikely.

Arctic Gas was forced to redesign about 250 mi. of its pipeline when it found troubles could develop with frost heaves. Testing had shown the weight of fill on top of the pipe would keep it from moving, but a further investigation by a government agency showed faults in the test equipment.

The company says it now plans a variety of new measures, including insulating the pipe and burying heating cables near it in some sections. In other portions of the pipeline, where chilling of the gas has stopped, the problem may be thawing the surrounding earth and settling the pipe. There, the company says it plans to use underground pile supports to hold the pipe in place.

FLORIDA PLANNING TO LEASE BIG CYPRESS PRESERVE LAND

Tallahassee, Fla. 2/22—Florida is preparing to lease state-owned land in the 570-acre Big Cypress National Preserve in southwest Florida for oil exploration.

The Florida cabinet will take cash bonus bids on March 1 on the first state tract, one of a handful that has been in public ownership since Florida became a state. The tract offered for lease is in a remote area situated 6 mi. north of the Everglades training airport. It may soon be followed by offerings of oil rights to more state-owned lands.

The state owns a full mineral interest in at least 16 sq. mi. sections, more than 10,000 acres.

"We certainly need more exploration to recover our mineral resources and if it can be done without damage, the state should proceed," said James T. Williams, of the Bureau of State Lands.

"We are going to try to stop it," said John Jones, executive director of the Florida Wildlife Federation. "The first obligation of the Dept. of Natural Resources ought to be to protect this area, not to promote the destruction of its natural resources."

ALASKA OIL GETS NEW BIDDER

Anchorage 2/22—Alaska Consolidated Shipping, a joint venture of six native regional corporations and Seatram of New York, was scheduled to make a formal proposal today to Alaska to buy, refine and transport the state's Prudhoe Bay royalty oil.

The proposal is in competition with one already submitted by Alaska Petroleum (Coastal States Gas), which has been trying for two years to buy the state's 150,000 b/d of Prudhoe Bay oil (ONS 1/6). That volume is expected when the trans-Alaska pipeline is in operation at 1.2-million b/d.

Alaska Petroleum wants an initial 10-year contract while it completes feasibility studies and constructs a refinery, if a refinery is found feasible. Alaska Consolidated Shipping's plan calls for construction of a \$200-million refinery.

U.S. DEGREE DAYS UP

New York 2/22—The five reporting regions of the U.S. had 29% more degree days (colder weather) in the current heating season (through Feb. 19) than in the like portion of the 1975-76 season and 20% more than normal, according to National Weather Service reports from key points.

The West Coast had fewer degree days than last year and fewer than normal. All other regions had more degree days than last year and more than normal.

	Sept. 1-Feb. 19			Week Ended 2/19/77
	1976- 1977	1975- 1976	Normal	
<u>East Coast</u>				
Boston	4,220	3,422	3,745	251
New York (a)	4,174	3,252	3,312	231
Philadelphia	4,313	3,074	3,396	236
Washington	3,678	2,559	3,022	210
Average	4,096	3,077	3,369	232
<u>Great Lakes</u>				
Buffalo	5,394	4,326	4,527	303
Chicago	5,436	4,021	4,239	271
Cleveland	5,400	4,076	4,126	311
Detroit	5,441	3,954	4,201	353
Toronto (a)	5,093	4,167	4,439	210
Average	5,353	4,109	4,306	290
<u>Midwest</u>				
Denver	3,924	3,738	4,010	172
Minneapolis	6,328	5,209	5,737	301
Omaha	5,048	3,926	4,308	236
St. Louis	4,612	3,378	3,431	222
Average	4,978	4,063	4,372	233
<u>West Coast</u>				
San Francisco	1,684	1,961	1,755	49
Portland	2,882	2,799	3,077	115
Average	2,283	2,380	2,416	82
<u>Southeast</u>				
Birmingham	2,975	2,149	2,165	144
Charleston, S.C.	2,300	1,535	1,648	122
Nashville	3,766	2,471	2,750	191
Raleigh	3,593	2,354	2,591	206
Average	3,158	2,127	2,289	166
U.S. Average*	4,230	3,269	3,516	227

Degree days are on 65 deg. F basis.

(a) Readings at city offices. Readings in other cities taken at airport offices.

*Calculations include weighting of regional averages according to relative importance of individual regions' consumption of heating oils.

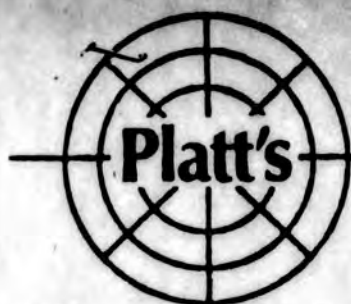
CALIF. GETS NEW SITE PLAN

Sacramento 2/22—Gov. Brown has proposed a major change in how and where industrial plants are located in California.

The proposal calls for the designation of sites and preparation of maps in each of 10 regions in the state, setting aside what in effect would become regional industrial parks.

Business and labor groups were highly critical of the Brown administration after Dow Chemical recently withdrew plans for a \$500-million petrochemical complex in Solano County (ONS 1/21). The company blamed environmental red tape for its decision.

was the reason for the



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Thursday, January 6, 1977

Page 1

ALASKA SEEKS BETTER OFFER ON PURCHASE OF PRUDHOE ROYALTY OIL

Anchorage 1/5—Sale of Alaska's Prudhoe Bay royalty oil appears unlikely to be approved during this session of the Legislature despite a recent meeting of state officials and of Alaska Petroleum Co. (Coastal States Gas) president George Shiolev.

Natural Resources Commissioner Guy Martin said the meeting with Alaska Petroleum "explored all kinds of alternatives." Taking part were representatives of the Natural Resources Dept., the Commerce and Economic Development Dept. and the governor's Division of Planning and Policy Development.

Martin said Alaska Petroleum's present offer is "not much improved from an earlier offer. We felt it should be" (ONS 6/16/76).

Alaska Petroleum lawyer Ron Birch said, "we have submitted half a dozen proposals. We wish the state would submit a pro forma contract to us and see if we can meet it."

The state has offered the royalty oil to a purchaser who will agree to build a refinery in the state. Contracts for sale of royalty oil and gas must be approved by the Legislature after first obtaining the endorsement of the

Continued on next page

state's Royalty Oil & Gas Development Advisory Board.

The state's oil and gas leases at Prudhoe Bay require that the state give six months notice to producers before taking its one-eighth royalty share of oil or gas in kind. Alaska Petroleum is urging the state to approve its contract so six months notice can be given prior to the start-up of the trans-Alaska oil pipeline.

Martin said such action is unlikely and the state initially will take its royalty share in money rather than oil.

Alaska Petroleum has offered 1¢/bbl above the market price for the oil, with an initial 10-year contract while it completes feasibility studies and builds a refinery if studies find it is feasible. It wants a second 10-year contract to supply oil to the refinery.

Martin said the royalty board is debating whether the state should commit its oil for export in exchange for a feasibility study. In that case the state would exercise its option of taking the oil in cash until a feasibility study is completed.

Another option, Martin said, is that the Alaska Petroleum contract be tightened up to allow export for only one to three years while a feasibility study is completed or to set "very rigid mileposts for performance."

Although the state has received other offers for the Prudhoe Bay royalty oil, expected to reach 150,000 b/d when the trans-Alaska pipeline is in operation at 1.2-million b/d, Alaska Petroleum is the only serious contender at this point.

Birch said the problem confronting Alaska Petroleum is that "we don't know who is speaking for the state." He said he isn't even certain the Hammond administration really wants a refinery.

"We stand ready today, as we did two years ago, to purchase the oil and build a refinery," he said. "We framed a proposal we thought was consistent with the royalty board, including the ability not to go ahead with a refinery if the state made that decision. Then we were criticized by Revenue Commissioner Sterling Gallagher for non-construction of a refinery.

"We will attempt to be responsive but at this point, after two years of submitting proposals, Alaska Petroleum is unclear as to what it is the Hammond administration desires. We have repeatedly offered and continue to offer to sit down with Gov. Hammond or Commissioner Martin or Commissioner Gallagher or the Royalty Board or any combination thereof in an attempt to negotiate a contract for the state's royalty oil and a refinery for the benefit of the state of Alaska.

"But instead of a negotiating session, we have been asked on no less than six occasions to attend information sessions, where we briefed various and changing members of the Hammond administration on the status of our proposal."

--Susan Andrews

SCOMM

28:31

MEMORANDUM

To: File
From: Fred Boness ^{FB}
Dated: December 7, 1979
Re: Alpetco

On Thursday, December 6, 1979, I met in the morning with Mark Hulsey and Ben Cassler (attorneys for Charter Oil) for about an hour and a half; and in the afternoon with the same two individuals plus Mike Spaan for about 45 minutes. At the morning session, we discussed the submitted take-or-pay contract; and I indicated why I believed it was not truly a take-or-pay contract. I indicated to Mark that there was no obligation to deliver products and hence no obligation on the part of Charter Oil to make even floor payments for price payments. I also indicated that it was unclear what payments were to be made because under 2.01 and 2.02 the switching back and forth between the use of the word "product" and the use of the word "products" was quite confusing.

2

Mark then explained that their proposed financing plan was to raise \$1.5 billion dollars by obtaining \$750 million dollars of supplier-type financing and that this financing would be backed up by pledge of the oil purchase contract, the product purchase contract, mortgages, the lease of the land, a security interest in goods, and similar matters. He specifically referred to my memorandum and said the things identified in there would be used as the security for supplier-type financing. He indicated an additional \$500 million dollars would be raised by the issuance of bonds by the City of Valdez and that these bonds would be backed up by the full faith and credit of the Charter Company and underwritten by E.F. Hutton. He provided me with a copy of a memorandum written by Kutak Rock & Huie on this subject. The remainder of the funds, in fact \$350 million rather than \$250 million, would be provided by equity commitments from Charter Oil and the other participants in the Alpetco project.

We then discussed at some length what kinds of information would be required in order to evidence "firm" commitments with respect to this type of financing. I used a very simple example. I said when you go into the bank to borrow money for your house, at the time the bank makes the commitment to provide you with money, they show you the loan document, the Deed of Trust, and all the papers required by the federal truth and lending law. They quote you an interest rate but say it might change a little bit depending on the market and they set aside some money for your loan. Then at closing the definitive documents are basically the same as the documents reviewed earlier except that the interest rate may be a little higher, names and addresses are filled in, and similar matters. I said it seemed to me that most all the paper was in place at the time the commitment was made and that the final closing at which definitive documents are concluded really is only a matter of filling in the blanks. Mark objected that my example was not realistic. He said that in the typically commercial situation, at the time of commitment not all the final documents would be prepared and that the commitment would be much abbreviated. We then discussed at some length whether a bank or banks would really commit \$750 million dollars without tying down a large number of details at the time it makes the commitment. Mark indicated that a number of the provisions were standard and usual and even cited my memorandum as indication that standard and usual terms existed. I said that may be so, but that there was nothing standard or usual about a \$750 million dollar commitment to a world scale petrochemical plant; and asked him when was the last time a bank has loaned \$750 million for such a facility. He said he knew of no such loan which had been made in several years. I suggested that then there was no standard and usual form and that that bank and State would want to see as much precision as possible as early as possible.

We then discussed in some detail the concept of project financing, with which it seems, Mark was really not acquainted. In order to aid them in understanding the concept, I provided them with pages 11, 12 and the first paragraph on page 13 of my memorandum, (citing certain law journal articles). I discussed with them the concept of project financing as presented to the State by Alpetco at the time of contract negotiations and approval by the legislature. I then pointed out to Mark that the financing plan they were advocating was not really a project financing at all and that this posed an additional problem. I indicated that the contract and benchmarks contained therein were based upon

the notion of a project financing and indeed the take-or-pay contract requirement contained in the Alpetco Agreement was at the heart of the project financing. That being so, I pointed out that Alpetco's change in a financing plan raised the possibility that it might comply with the short-term and long-term financing requirements benchmarks in the contract but not the requirement to obtain long-term, take-or-pay contracts. I indicated I did not know how Bob LeResche would want to handle that situation. I suggested that any change from the concepts developed at the time the contract was negotiated would make it more difficult for LeResche to explain to legislators and the public that the benchmark provisions had been complied with even, when, technically, they had not been complied with; but that on the other hand the basic objective of the contract was to sell oil and build a facility in Alaska and that everyone understood that financing was a key to the viability of the project. I said that I thought that if Alpetco presented a very tight and secure financing plan for \$1.5 billion dollars, LeResche might be able to conclude that the benchmark requirements were satisfied even if the financing proposal plan no longer hinged upon project financing.

In the afternoon, we rediscussed many of the principles and subjects delineated above. In addition, Mark wanted to make sure that it was my understanding that the Commissioner was going to give notice to the producers on or before January 1, 1980. I indicated that was my understanding and that I thought the Commissioner would do so because if Alpetco did not qualify to take the oil, he would be able to sell it to Tesoro or the producers. Mark was greatly relieved that the Commissioner would take that action because he believes Alpetco might now ask for an extension and attempt to satisfy the financing conditions before June 18, 1980 and request to take the oil on July 17, after compliance. I indicated that it was my understanding that an extension would not be granted costlessly; and that if Alpetco's thinking ran to the possibility of requesting an extension, they should immediately begin discussions with LeResche on such matters as it would be necessary to clarify the terms of an extension. Mark said if the Commissioner wanted to share in the profits of Alpetco's taking of the oil after July 17, then they were not interested in requesting an extension and that they would let the deal flounder. I said I could not speak for the Commissioner on that subject. We did not discuss, in any detail at all, whether it would be legal under the contract for the Commissioner to grant the extension and yet deliver oil on July 17. I did indicate

that I knew that LeResche had a problem with providing oil for Tesoro and that he may seek to delay delivery of oil to Alpetco, but that I really had very little information on what kind of terms the Commissioner would be willing to grant in an extension.

Although I indicated to Mark that his explanation of where they were in the financing arrangements was certainly not binding upon them with respect to their ability to maintain that they have complied with the requirements (as I interpreted the requirements) but that as I matched his explanation of where they were in the financing proposal I concluded that Alpetco had not complied with the requirement to obtain a firm financial commitment. He disagreed, although not vigorously, on the grounds that my interpretation of the requirement was not the only interpretation and that I was probably reading too much into the requirements. I agreed more than one interpretation was possible, but indicated that I believe my interpretation was 100% legally defensible based on the record and understanding of the parties as indicated by that record and that, as such, would be defensible in court if it ever came to such. We both, of course, agreed we didn't want it to do so; and that it probably never would.

✓cc: Robert LeResche

LAW OFFICES OF
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FREDERICK H. WONES
JOHN R. MESSENGER

November 13, 1979

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Robert E. LeResche
Commissioner, Department of Natural
Resources
Pouch M
Juneau, Alaska 99811

Dear Commissioner LeResche:

Enclosed is a memorandum reviewing certain aspects of the contract between the State of Alaska and Alaska Petrochemical Company. It is submitted pursuant to your request for a legal analysis of the requirements of Articles 10.2 and 2.2.

Although the memorandum itself explains the scope of the analysis we have undertaken therein, I wish to emphasize here what we believe to be the strengths and weaknesses of our analysis. First, it is important to keep in mind that we have undertaken only a legal analysis. Many, and probably most, of the questions and issues which must be answered in December (and at subsequent benchmark dates) are business decisions. Do the expected benefits in terms of tax revenues, employment opportunities, etc., continue to outweigh the costs and risks associated with the project? The answer to this question and its numerous permutations involves principally matters of business judgment and State policy. It is true that once the answer is decided upon, the ability to act in conformity with that decision, depends upon the legal structure of the agreement, but such structure does not really determine the answer.

Second, we have not attempted a comprehensive analysis of the contract since you did not request that. We have focused only on Articles 2.2 and 10.2, and particularly 10.2(3). In order to address adequately these articles, we have found it necessary to consider other terms in the

Robert E. LeResche
November 13, 1979
Page Two

contract; and we have done so. Necessarily, we have also addressed a number of general contract principles relevant to all aspects of the contract. On the other hand, there are several specific areas of the contract we have not addressed. For example, during our review of the files, we were reminded of the extent of concern and controversy surrounding Articles 2.3 and 2.4 of the contract. We have not addressed these articles in any fashion.

Third, our analysis and conclusion are somewhat less precise than we would like them to be. The reason for this is the lack of a specific set of facts. We have used three sources of information in formulating our conclusions. First and foremost we have relied upon the agreement itself. Second, we have reviewed the readily available record of negotiations, public review, and approval of the agreement to amplify the meaning of various contract terms. Finally, we have relied on the custom and common practices in the oil and gas, construction, and commercial and financial industries to provide additional insight into the contract. These sources, however, still leave unanswered a wide range of questions. We believe a review of whatever documents or requests Alpetco submits prior to, or on December 18, may lead to more precise legal conclusions than those expressed here.

We would be happy to meet with you or members of your staff to discuss our conclusions.

Sincerely,

PRESTON, THORGRIMSON, ELLIS,
HOLMAN & FLETCHER

By



Frederick H. Boness

FHB/sas
Enclosures

LAW OFFICES
PRESTON, THORGRIMSON, ELLIS & HOLMAN

420 L STREET - SUITE 404

ANCHORAGE, ALASKA 99501

(907) 276-1969

MEMORANDUM

TO: Robert E. LeResche, Commissioner,
Department of Natural Resources

FROM: Frederick H. Boness *FHB*

DATE: November 9, 1979

RE: Legal Analysis of articles 10.2 and 2.2 and
Related Provisions of the Agreement between
the State of Alaska and Alaska Petrochemical
Company

Introduction

This memorandum presents a legal analysis of articles 10.2 and 2.2 and related provisions of the Agreement between the State of Alaska (the State or Seller, hereinafter) and Alaska Petrochemical Company, (Alpetco or Buyer, hereinafter) as amended. We have endeavored to present a comprehensive analysis of these articles. We have relied upon two principal sources of information for our analysis. First, we have, of course, paid close attention to the language of the Agreement itself. In the absence of ambiguity, the language of the Agreement is definitely controlling. Wessells v. State, 562 P.2d 1042 (Ak. 1977) Second, we have reviewed the files relating to the solicitation of proposals to purchase state royalty oil, the negotiation of contracts and the approval of the Alpetco Agreement by the Royalty Board and Legislature. These files provide the additional background and context needed to determine if particular language is ambiguous and, if it is, what the parties intended. (Subsequently, we shall refer to information from the files as "extrinsic evidence"). In addition, we have relied on industry understanding and practice. Generally, where we have turned to industry understanding and practice we have found the information helpful only because it confirms conclusions reached on the basis of our interpretation of the contract and information from the files.

There are limitations on what can be stated in advance of specific actions by Alpetco to comply with the agreement. For example, in addressing the question of what is meant by "written commitments to lend or invest. . ." we have described what the State should expect such commitments to contain in order to assure itself that the commitment is not illusory. However, it is simply not feasible to imagine and evaluate all possible commitment documents which Alpetco might obtain and submit to the State. It is possible that problems not addressed in this memorandum will arise once Alpetco has disclosed what actions it has taken to comply with article 10.2. We strongly recommend that the specific commitments and contracts which Alpetco submits to the State in satisfaction of its obligations under article 10.2 be reviewed and evaluated to determine if they comply with the legal requirements of the Agreement.

Although our focus in this memorandum has been on the legal requirements of articles 2.2 and 10.2(3), it has been necessary to address other related provisions of the Agreement. We have done this in order to present what we believe to be a comprehensive statement of the options available to the State and the legal framework which governs each possible course of action available to the State. This memorandum is divided into the following general categories: 1) General Legal Principles; 2) The Eighteen Month Benchmark Requirements; 3) Granting or Denying Extensions of Time to Comply with Benchmark Requirements; and 4) Delivery of Royalty Oil Prior to Completion of the Petrochemical Facility.

I. General Legal Principles

In this first section, it is our purpose to review and summarize the basic principles and standards applicable to Alaskan contracts. Although this section might be simplistic for those already familiar with Alaska contract law, we have decided to include this brief discussion because this memorandum may receive wide and diverse readership. Additionally, the discussions which follow this section rely upon the basic principles discussed here. There are no Alaska court decisions (and very few decisions from other jurisdictions) which address any of the specific questions analyzed in this memorandum.

If it were possible to draft contracts which could have only one meaning, and that meaning was crystal clear to anyone who read it, at any time after the contract had been signed, there would be little need for contract law because

There are limitations on what can be stated in advance of specific actions by Alpetco to comply with the agreement. For example, in addressing the question of what is meant by "written commitments to lend or invest. . ." we have described what the State should expect such commitments to contain in order to assure itself that the commitment is not illusory. However, it is simply not feasible to imagine and evaluate all possible commitment documents which Alpetco might obtain and submit to the State. It is possible that problems not addressed in this memorandum will arise once Alpetco has disclosed what actions it has taken to comply with article 10.2. We strongly recommend that the specific commitments and contracts which Alpetco submits to the State in satisfaction of its obligations under article 10.2 be reviewed and evaluated to determine if they comply with the legal requirements of the Agreement.

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I. General Legal Principles

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If it were possible to draft contracts which could have only one meaning, and that meaning was crystal clear to anyone who read it, at any time after the contract had been signed, there would be little need for contract law because

there would be no basis for disputes between the parties (except possibly, that one party may believe a term "unfair" and wish to avoid the term for that reason). The real world, however, is not so simple. Words are almost always imprecise and efforts to limit this imprecision carry within themselves their own seeds of failure. An imprecise word or sentence is made precise by further explanation, but this explanation may contain its own ambiguities. Furthermore, many contract disputes arise not because the words of a contract are themselves imprecise, but because the parties attached different precise meanings to the words and discover this difference only after the agreement is in effect.

When a dispute arises over the meaning of certain words in a contract and the parties are unable to agree upon a resolution of the dispute the matter is ultimately left to the court to "interpret" the meaning of the contract. Day v. A & G Construction Co., 528 P.2d 440 (1974). Alaska's Supreme Court has concluded that for commercial contracts, a court should interpret a contract by attempting to determine the "reasonable expectation of the parties" which the court has explained to mean "'the sense in which the party using the words should reasonably have apprehended that they would be understood by the other party' and the meaning which the recipient of the communication might reasonably have given to it." Day, supra, at 444-45, Arctic Contractors v. State, 564, P.2d 30 (Ak. 1977).

In many jurisdictions, it used to be that a court would determine what this was simply by reading the language of the contract. If, after doing so, the court decided the language was "clear" or "unambiguous" the court would confirm that clear meaning and go no further. Alaskan courts have rejected this approach. Rather, Alaska's Supreme Court has recognized that even language seemingly "clear" on its face may be ambiguous, or even have a clear meaning other than that which the reader first perceives, when read and understood in the whole context in which a contract is negotiated and agreed upon. Thus, Alaska courts in interpreting a contract first look to extrinsic evidence to determine if the language of the contract is ambiguous. If the court determines the language is not ambiguous, it returns to the contract and states the meaning of the agreement. On the other hand, if the extrinsic evidence indicates ambiguity, then that evidence is used to help resolve the meaning of the contract. Wessells v. State, 562, P.2d 1042, 1044 (Ak. 1977). See also, National Bank of Alaska v. J.B.L. & K. of Alaska, 546 P.2d 579 (Ak. 1976).

The extrinsic evidence to which a court can look in its effort to interpret the meaning of a contract includes the facts and circumstances as they existed at the time the agreement was made by the parties, course of performance, course of dealing, and custom and usage. None of these are necessarily controlling, unless circumstances so indicates; but all may be useful in appropriate circumstances. See A. G. Construction Co. v. Reid Brothers Logging, 547, P.2d 1207 (Ak. 1976); Day v. A. G. Construction Co., supra. In our subsequent analysis, we have relied upon the extrinsic evidence to aid us in our determination of the objective meaning of the agreement.

II. The Eighteen-Month Benchmark Tasks

Perhaps more than any other provision in the Agreement, article 10.2 and especially 10.2(3) must be viewed in the total context of the contract negotiations. There can be no doubt but that both Buyer and Seller regarded this article as crucial. For example, O. Charles Honig testified before the legislature:

When it gets past the eighteen-month benchmark. . .when we succeed in putting [the financing and other 18-month benchmark requirements] together. . .from then on the likelihood of not going forward is very remote. . .

Commissioner LeResche testified: "The key benchmark is 18 months."

Before turning directly to a discussion of the specific terms of article 10.2(3) we believe it appropriate to review briefly the major steps and decisions leading up to a final agreement between the State and Alaska Petrochemical Company. As early as 1975 the Department of Natural Resources made a general solicitation of interest of persons who might wish to purchase state-owned royalty oil or gas from Prudhoe Bay. Although some interest was expressed, no agreement was concluded at that time. In the spring of 1977, with oil production expected to begin in June, two companies mounted an intensive effort to purchase royalty oil. One of these companies was Alaska Petroleum Company and the other was Alaska Consolidated Shipping. The former company had been offering to purchase royalty oil since 1975, but had not been able to commit itself sufficiently to construction of an in-state facility to satisfy state officials. Alaska Consolidated Shipping, likewise was not prepared to guarantee construction of an in-state

facility, but rather sought to purchase the oil and use tankers owned by one of its shareholders to transport the oil to markets in the lower 48 states. Each of these companies argued that under federal regulations, the State of Alaska would be prevented from taking its royalty oil in-kind if it did not elect to do so prior to the time at which oil production commenced. In response to this contention, the State administration obtained a ruling from the Federal Energy Agency and a "waiver" from the producers which made it clear that the State would be able to take royalty oil in-kind at a later date. At the same time these two companies sought to purchase oil, the legislature considered adopting legislation which would have required the Commissioner of Natural Resources to take royalty oil in-kind. Although this legislation did not pass, the legislature did express a strong desire that the executive branch sell royalty oil. As part of this expression, AS 28.05.182 was amended to create a presumption in favor of taking royalty oil in-kind.

During the summer of 1977, the Commissioner of Natural Resources made a formal solicitation of persons interested in purchasing royalty oil and constructing a facility in Alaska. That solicitation provided that interested parties should submit their initial proposals to the Commissioner by August 1, 1977 and final proposals by October 15. Part of the solicitation included advising companies of eight policy guidelines which had been adopted by the Royalty Board in May and which would govern, in part, the direction of any future sales of royalty oil. These policies included a statement that the price would not be less than the "in-value" price, and a statement that preference would be given to in-State facilities and those who proposed to build in-State facilities. Ten companies submitted proposals on August 1st.

On September 15, the Commissioner of Natural Resources advised each interested party of the State's view of its August 1, 1977 submission and offered recommendations on how the submission might be changed so that the companies revised submission of October 15 would be more acceptable to the State. Several of the companies chose not to revise their August 1st submission. Some companies withdrew their proposals and others were rejected by the Royalty Board, so that by the end of October, there remained only four competing proposals. During November, December, and January the Commissioner engaged in substantial negotiations with these four companies. Also during that time the Energy Policy Committee of the legislature advised the Commissioner

of its views on what a sales contract ought to achieve. In early December, Committee Chairman, Bill Miles, after holding public hearings, wrote Governor Hammond a letter which contained several very specific suggestions and recommendations. Among the Committee's recommendations were expressions that the "in-value" price be the floor for any sale of royalty taken in-kind and that the provisions contained in many of the October 15 submissions which allowed the price received by the State to drop substantially below that floor were unacceptable. The letter also contained a recommendation that the final contracts should include strong provisions for ensuring that a facility would be built in Alaska. It was suggested that the contract contain penalty clauses for failure to build in Alaska and reasonable termination provisions. The Committee's recommendations were before the Commissioner as he negotiated in December and January.

As negotiations neared an end in early February, the Commissioner of Natural Resources wrote to each company offering a final critique of its proposal and an opportunity to make final changes in its proposal in order to conform to the State's objectives. On February 22, 1978, the Commissioner agreed to a contract with Alaska Petrochemical Company. This agreement was submitted to the Royalty Board for consideration, and after hearings approved by the Board. In the legislature, the Agreement was quite controversial. After numerous hearings and debate, the prospect of legislative passage was uncertain. On May 17, 1978, the Commissioner of Natural Resources and Alpetco entered into an amendment to the Agreement which was intended to alleviate certain problems and concerns raised during the course of legislative review. On June 18, 1978, the Agreement, as amended, was approved by the legislature.

It is imminently clear from the policies adopted by the Royalty Board in May and the State Energy Policy Committee recommendations of December 6, 1977, that there were certain basic features which any contract had to contain in order to be acceptable. These included: 1) The price at which the State would sell its oil should be the "in-value" price or higher and reductions below the in-value floor should not be permitted; 2) The purchaser should be clearly bound to construct a facility to use or process the oil in Alaska; clauses which would allow the purchaser to escape this commitment were to be eliminated altogether if possible, and if not, must at least be drafted very narrowly; 3) The contract should include penalties for failure to per-

form; 4) No subsidy should be granted; and 5) The State should sell only a percentage (less than 100%) of its crude, not a specific quantity.

Viewed in this context, it is easy to see that article 10.2 is a direct response to the State's objective of ensuring that the company that purchased the State's royalty oil would also be committed to construction of a facility to use that oil in Alaska.^{1/} In the Commissioner's letter of September 15, 1977 to each prospective purchaser, the purchaser was asked to include as part of its commitment to construct a facility a timetable with checkpoints along the way and penalty provisions for failure to meet established checkpoints. Buyer, in its October 15th submission, provided a contract which contained as Buyer's construction obligation a provision which said that Buyer would 1) proceed to construct and complete a petrochemical facility with reasonable diligence, 2) commence detailed engineering design within 30 days of final approval of the Agreement by the legislature, 3) commence construction within a certain number of months (which number was left to be negotiated) after Buyer had begun receiving delivery of royalty oil, and 4) have completed substantially all initial construction relating to the Refinery within a certain number of months (which number was left to be negotiated) after Buyer received first delivery of royalty oil.

The October 15th proposal by Buyer thus did contain a rudimentary timetable as requested by the Commissioner's September 15th letter. However, it is apparent the State's negotiators were not satisfied with this timetable and that article 10.2 evolved as a way to gain the degree of specificity, certainty and commitment required by Seller and yet have sufficient flexibility to meet changing circumstances and conditions likely to be encountered by Buyer. O. Charles Honig stated in testimony before the legislature:

^{1/} The strength of this concern and the high degree of suspicion that a company would simply purchase State royalty oil and broker it on the Lower 48 spot markets without constructing any facilities in Alaska is amply demonstrated by the transcripts of the legislative hearings. See Transcript of Testimony, March 18, 1978, at 17, 21. Indeed, the May amendments to the Alpetco Agreement appear to be directed at closing "loopholes", real or perceived, which might allow the company to take royalty oil but never build such a facility.

[One] reason for these benchmarks being what they are is that in negotiating the contract terms, Commissioner LeResche said more than once, do not make the benchmarks too optimistic. Set the benchmarks so that you, in your own feeling, feel they will be obtainable and that we don't have to go back to the Legislature to revise benchmarks. (Transcript of testimony March 18, 1978, at 13)

The extrinsic evidence indicates the timetable of 10.2 was first developed in mid-December during negotiations held in San Francisco.

Article 10.2, and 10.2(3) in particular, were developed out of, and embody Alpetco's plan as it was presented in October and modified (although not significantly) thereafter. The addition of article 10.2 to the agreement did not represent a significant new idea, proposal or approach for either Buyer or Seller; rather it represented only an incorporation into the agreement itself of more of the detail of Buyer's proposal. This action had the effect of creating a stronger linking together of the agreement to buy and sell oil and the agreement to construct a facility in Alaska. Because article 10.2 was based on Buyer's already developed proposal, we can reliably use the Alpetco proposals of August 1 and October 15 to aid us in interpreting Article 10.2(3).

Although Article 10.2(3) contains eight separate requirements, these requirements are not all independent of each other. For example, the requirement to negotiate sale terms with prospective purchasers is partially superseded by the requirement to enter into contracts for 70% of the product output, and both contract requirements are important to (if not determinative of) the requirement to complete plant design and optimization since plant design depends on product output (which of course depends on product purchase contracts). Similarly, the interim financing commitment is integrally related to the requirement to obtain commitments to lend or invest of at least \$1.5 billion since the financing plan will have to be arranged as a unit rather than piecemeal. Finally, the contracts for the sale of product are crucially important to obtaining the financing commitments because of Buyer's plan to use "project financing." While the requirements are related, we shall, nevertheless, discuss them individually below because each must be complied with by Buyer.

A. The Ten-Million Dollar Expenditure

We need say relatively little about the benchmark which requires Buyer to expend or commit to expend \$10 million in Total Project Costs. Compliance with this requirement involves straightforward accounting matters and not much more. A potentially difficult question might have been raised with respect to which costs incurred prior to the effective date of the agreement were includable. However, a certified audit of expenditures for the period January 1, 1975 to June 18, 1979 was conducted by the accounting firm of Peat, Marwick, Mitchell & Co. and accepted by Seller on September 4, 1979. Thus, there exists a base of at least \$4.2 million as of June 18, 1979 upon which Buyer can build its future expenditures in order to satisfy its \$10 million obligation. There is another \$1.5 million of expenditures which was confirmed but not audited by the accountants.

Where an expenditure has actually been made, it would seem that any possible questions concerning the expenditure should be quite limited. Was the expenditure actually made and for the amount reported? Does the expenditure qualify as a "project cost"? Was it made by a party whose expenditures can be counted towards total project costs? Article 1.13 is important in answering these questions because it defines the limits of "total project costs." It is possible that Buyer may include expenditures which should not be attributable to fulfillment of its commitment under the agreement. However, the language of article 1.13 is broad. Thus, absent dishonesty or fraud, such improper inclusions are likely to be relatively few and we would expect minor if they occur at all. ?

If Buyer relies upon "commitments" to expend funds rather than actual expenditures, it will be necessary to evaluate the commitment to ensure that it qualifies. In evaluating such commitments to expend, there are several indicia Seller can look to, to determine if the commitment is bona fide. These include: 1) The party with whom the commitment is made, (Is the party reputable and qualified to perform the work called for? Is the party an independent contractor or an affiliate of Buyer?); 2) The timetable for performance and schedule for payment by Buyer; 3) The size of the payment to be made by Buyer in relation to the work called for; (Is it grossly undervalued--suggesting that the contractor might have no damages if the contract is breached. Or is it grossly overvalued, suggesting that the contractor and Buyer have an understanding that if the contract is

terminated Buyer will incur no costs and if it goes forward the contractor receives a premium for the speculative risk undertaken); 4) Any penalty provisions or liquidated damages terms (such terms provide a measure of the degree of commitment Buyer has made to its contractor); and 5) Any termination, default and force majeure terms which allow Buyer to avoid its obligation to make payments. In reviewing these terms and others which may be part of Buyer's "commitment to expend" funds, the State's analysis should not be directed solely toward individual terms and it should not attempt to decide if each term is "good" enough or "strong" enough. Rather the review should be whether any individual term or some group of terms are such that they make the commitment to expend illusory. If that is the case, the "commitment" does not qualify under the agreement.

Finally, if Buyer relies on commitments to expend, the State should take some care to ensure that "double counting" does not occur. This might happen where Buyer or one of its affiliates contracts with a consultant, construction contractor, etc., for work and the consultant or construction contractor in turn subcontracts the work to another consultant or construction contractor. If each reports the expenditure and applies the commitment to the total of expenditures, there would be a double counting of what is really a single expenditure.

B. The Financing and Product Sales Requirements

As noted above, the benchmark requirements relating to contracts for the sale of product output and the financing requirements are part of the same package which Buyer must conclude. We will discuss them together here. The principal documents which describe in greater detail Buyer's plans for financing of its project are its August 1, 1977 submission and its October 15, 1977 submission. In addition, Buyer prepared and distributed an "Update and Restatement" of its October 15 proposal which is dated February 7, 1978 and a summary of its proposal, dated March 15, 1978. These documents also discuss Buyer's financing plan.

In the August 1, 1977 submission, Buyer's financing and marketing plans obviously were still undergoing development. At the time of that proposal, Buyer estimated an initial project cost of \$1.5 billion and planned "to procure debt and equity capital requirements through the sale of securities to be managed" by Kuhn Loeb & Co., and E. F. Hutton & Co. The letter from Buyer's financial advisers

addressing Buyers financing plans said nothing more assuring or specific than that the investment bankers were "of the preliminary opinion that the Project can be financed, subject, of course, to economic and monetary conditions existing at the time the financing is undertaken". On the marketing question Buyer did state that it intended "to seek marketing of its products under long-term 'take or pay' contracts."

In its October 15 proposal, Buyer described its plans for marketing in a more detailed, confidential submission. In this document, Buyer reiterated its intent to sell products on "long-term 'take or pay' purchase contracts with major chemical companies coinciding with the term of Alpetco's royalty oil purchase contract with the State of Alaska." Buyer indicated that as of October 7, 1977, Buyer had received "expressions of interest for two-thirds of the output of the plant. . .". Finally, Buyer noted that if it was not possible to obtain "acceptable contracts for the sale of substantially all of the project's output. . .," Buyer may approach the project in phases, constructing facilities over a longer period of time.

Buyer's financing plan was also described in greater detail in its October 15 submission. Buyer stated that two important conditions to financing were 1) the availability of crude oil feedstock to the project over the life of the financing and 2) profitable sale of the products over the life of the financing. The first condition Buyer explained could be met by a satisfactory contract to purchase royalty oil and the second by conclusion of long-term "take or pay" contracts with "financially strong purchasers." Additionally, Buyer indicated it would need to assure lenders that completion and operation of the plant would occur as projected and stated that these assurances would be obtained through "stand-by 'open-market' contracts for crude oil supply short-falls" and by "Brown & Root's guarantee of plant start-up."

Buyer indicated that interim construction financing could be arranged through a group of U.S. commercial banks provided that the banks are assured that "the construction loans will be 'taken down' by long-term lenders." In support of this conclusion Buyer presented a letter from Grenville H. Paynter, Senior Vice President of Chemical Bank in which Mr. Paynter expressed his belief that \$400 million of interim bank credit could be arranged through a banking group and that Chemical Bank would be willing to lend \$100,000,000 itself. On the question of long-term financing

Buyer stated 20 year bonds would be sold to institutional investors and that such bonds would provide for deferred interest and principal amortization until the facility becomes operational. Buyer's letter from Kuhn Loeb and E. F. Hutton was no more definitive than the earlier letter.

Buyer's February 7, 1978 "Update" which was prepared and distributed after Article 10.2 had been agreed to by the parties, but before the total agreement had been accepted by Seller and signed by the parties stated:

4. Financing the project. Alpetco and its financial advisors have developed a comprehensive financial plan to provide for all phases of the project, including equity and workable sales contract forms.

and further that Buyer had received:

6. Strong expressions of interest by Japanese trading companies and government leaders despite recent Alaskan newspaper stories to the contrary.

In elaborating upon these statements, Buyer stated that the project could be "financed using project financing techniques" and that "equity to support the project can be obtained if necessary." In this report Buyer explained the relationship between the product sales contract and the financing proposal. The long-term contract for the purchase of crude and the "matched" long-term sales contract would "guarantee lenders that monies borrowed to finance the project would be repaid." The product sales contracts, in order to provide assurance to lenders, would have to be "irrevocable and at a minimum provide for debt service (interest payment and principal repayment) even if for some reason the facility does not produce products for delivery to purchasers." Buyer stated such irrevocable sales contracts "are not uncommon."

In a February 3, 1978 report to Commissioner LeResche, Robert Butler of Smith Barney, Harris Upham & Co. confirmed Alpetco's proposed financing as a method used in the industry and stressed the importance of the "hell or high water," "take or pay" contract with the product user as a cornerstone to the financing. The concept of project financing and the importance of the take or pay contract are discussed and emphasized in two law journal articles available at the time. See "Project Financing for Offshore and

Onshore Gas Facilities -- Alternative Methods for Financing from a Legal Viewpoint," M.P. Martin, 28 Inst. O. & G.L. Tax 273 (1977); "Project Financing -- Oil and Gas Ventures", J.F. Hunt & H.L. Company, 27 Inst. O. & G.L. & Tax 215 (1977)

With the above information in mind it is easy to see the inter-relationship of Articles 10.2(3)(b), (c), (d) and (e). Furthermore, because of these inter-relationships, it seems likely that Buyer's satisfaction of these requirements will be accomplished almost simultaneously.

Subsection (b) requires Buyer to negotiate sale terms with prospective product purchasers and draft contracts for the sale of products, but it does not require Buyer to conclude final sales agreements. (b) also requires Buyer to delineate product requirements, quantities of products and production ratios. It is possible to satisfy (b) without satisfying requirements (c) or (h). However, with one exception, if Buyer complies with (c) and (h), Buyer will necessarily have complied with (b). It is therefore necessary to address only the exception. In order to avoid reading (b) as wholly redundant with (c) and (h), it seems likely that (b) requires Buyer to negotiate with prospective purchasers of products for the 30% of the products not sold in satisfaction of (c) -- assuming, of course, Buyer concludes contracts for only 70% of its products. Buyer, in certifying satisfaction of (b), should indicate what action it has taken to negotiate such contracts and submit to the State drafts of contracts if hopes to conclude. If Buyer does this, we believe it will have complied with (b) so long as the contracts it submits are reasonable.

Satisfaction of (c) is more demanding, since it requires Buyer to conclude contracts for the sale of at least 70% of the product output of the plant; several uncertainties exist. First, the agreement defines "petrochemical plant" to include off-site facilities such as power supply, water supply, port facilities and administrative buildings. At various times during Sellers public discussion of its proposal, Seller noted the possibility of making excess power available to the local community. It is our conclusion that (c) does not require Buyer to include this as part of its total output. Similarly, we believe that Buyer may not enter into a contract for a sale of water or power and count such contract towards satisfaction of (c). The language of (c) restricts Buyer's obligation to "product output" and we conclude this means the hydrocarbon products produced from the crude oil feedstock and not

ancillary goods and commodities produced principally to support the basic facility. Second, even if we restrict our consideration to hydrocarbons, what is "product output"? It is possible Buyer will use crude as fuel for the plant. If it did so, it is clear that that such crude would not count as "product output." More likely, Buyer will use fuel oil produced from the refinery portion of the plant as fuel. Should this be counted as "product output?" Although it is possible to argue the point either way, we believe the better conclusion is that it should not be included unless the contract to purchase the fuel to run the plant is with an independent, nonaffiliated party and that party must take the fuel if the plant does not use it. This could be the case where Buyer enters into an agreement to sell to a third party fuel oil on a take or pay basis and Buyer in turn agrees to purchase steam or electricity from that third party. In such case, the fuel would actually be plant fuel but the sale would be equivalent to any other take or pay sale. We note there is an incentive for Buyer to undertake a sale to itself of plant fuel as product output if Buyer is having difficulty satisfying (c). This incentive can be understood from the following example: Suppose Buyer will require 20,000 b/d to operate its plant. That leaves 130,000 b/d of products for outside sale. Seventy percent of 130,000 is 91,000. If we assume the fuel requirement is part of product output, then Buyer must conclude contracts for 70% of 150,000 or 105,000 barrels, however, if we net out Buyer's 20,000 barrel sale to itself for fuel, then it must only sell 85,000 of products to others. We believe if Buyer conducts a sale to itself or an affiliate of the plant fuel this sale should be counted in satisfaction of (c) only if it is on terms substantially the same as other sales. On the other hand if, as is likely, Buyer's need for fuel is taken "off the top" Buyer's obligation under (c) should be to sell only 70% of that which it has available for sales to others, not 70% of 150,000 b/d.

A third uncertainty is how the 70% is to be measured. Product output can be measured in terms of weight, volume, value, and perhaps other standards as well. The agreement does not specify the unit of measure and the issue does not appear to have been addressed during negotiation or review of the agreement. It may be that the matter is more theoretical than real, only when Buyer's product slate is identified will one be able to judge the significance of this issue. Perhaps more significant than the unit of measure is the period of time over which product output should be measured. It is clear from Buyer's submissions that two standards are reasonable and compliance with either

should satisfy the benchmark. One would be for the remaining length of the agreement itself and the other would be for the length of the loans (or bonds). On the other hand, we conclude product sales contracts for 70%, or even, of the product output for a shorter period, such as the first year's production of the plant, would not satisfy (c).

A fourth area of potential difficulty is whether a sales contract is really a contract for the purchase of product output. We would expect that as a minimum such a contract must contain terms relating to price (most likely a formula price of some kind), quantity of product, quality of product, length of the contract, perhaps a commitment by Buyer to provide product from other plants if Buyer's facility is inoperative, and terms establishing the conditions or events which will permit termination or modification of the product sales agreement. It is not necessary that this sales contract be long or complicated (although it may well be). The State should pay particular attention to the provisions, if any, which allow for future termination of the product sales contract, especially as to termination which might occur in the first year or two after the contracts are concluded. The State's right under (c) does not permit the State to dictate the terms of Buyer's product sales contracts, however, if the sales contract is sufficiently open-ended, the State could dispute Buyer's purported satisfaction of (c) on the grounds that 70% of the plant's output over the appropriate period of time, as discussed above, has not occurred.

Article 10.2(3)(d) requires that the Buyer obtain commitments to lend or invest \$1.5 billion and article 10.2(3)(e) requires Buyer to obtain interim financing for construction. Satisfaction of (e) is probably easier than (d), however, as a practical matter, it is unlikely that Buyer will be able to comply with (e) unless it has also complied with (d). This is so because interim lenders are unwilling to commit funds until they are absolutely certain that their loans will be "taken out" by the long term lender. See "Current Business Approaches -- Commercial Construction Lending," C.C. Livingston, 13 Real Prop., Probate & Tr. J 791 (Fall, 1978). One indicator that the State can look to in determining if Buyer has complied with its requirement to obtain interim financing is the size of the interim financing commitment. Subsection (e) does not require any particular size commitment but it does require that Buyer obtain interim financing "for the construction." Thus, the amount of financing arranged by Buyer must be sufficient for this purpose. The amount needed will have to be decided upon in

the light of the circumstances as they exist at the time Buyer arranges the financing. A useful guideline, however, is the letter from Chemical Bank to Messrs. Honig and Barbour of October 11, 1977 in which Grenville Paynter advised Alpetco that it was his estimate the project would require \$400 million in interim financing. An interim commitment of that size will require a number of investors to participate. Buyer's proposal was that this group would be headed by Chemical Bank. The form of the participation by other investors should be reviewed to be certain that each investor has truly committed funds for interim financing.

In the case of both requirement (d) and (e), a major concern for the State will be that the commitment is indeed a firm commitment. There is no absolute form that the commitment to lend or invest must take in order to satisfy Buyer's obligation. There are, however, certain basic elements which all commitments will contain if they are legitimate. For example, the party promising to loan the funds must have the resources to make the loan and the legal right and corporate authorization to do so. All loan commitments or equity investments should state the amount of the primary loan and also if there are any secondary or contingency funds available to Buyer. The commitment document likely will contain a drawdown schedule for the loan, which schedule, at least in the aggregate, should match Buyer's construction timetable and also the benchmark obligations for expenditures contained in the agreement. The commitment documents will establish an interest rate, term and repayment schedule. Buyer will most likely be required to pay a loan commitment fee. At least some portion of this fee should be payable by Buyer at the time the commitment is entered into. This fee may be refundable at the time the loan is delivered and it may also be a measure of liquidated damages. See "The Broken Commitment: A Modern View of the Mortgage Lenders Remedys" D.C. Draper, 59 Cornell L.R. 418, 427-28 (1974). Whatever arrangement is made, the obligations should be sufficiently onerous to provide a measure of assurance that the lender and borrower are each serious about the loan.

The loans will be secured by assignments of the product purchase contracts, the oil sales contract, leases of land acquired by Buyer, mortgages and/or security interests in materials purchased with loan proceeds and perhaps other forms of security as well. The commitment document should contain a detailed description of the facility, and most likely will be supported by engineering design and cost

estimates and economic analyses of the product markets and an estimate of the economic viability of the project. The lender will reserve to itself the right to have independent engineering and economic analysis conducted prior to disbursement of loan funds and the right to inspect and even to take over construction efforts if the project begins to fall behind schedule or escalates beyond projected costs. Most likely the lender will reserve the right to approve final plans and specifications, hiring of contractors, and perhaps major purchase orders. In a financing of the size required by Buyer, it is likely each of these basic elements will be specified in detail.

Although there will be contingencies such as those discussed above, the commitments required under (d) and (e) are binding contracts between Buyer and Buyer's lenders or investors; they are not expressions of interest by banks or other financial institutions.

C. The Environmental Impact Assessment.

Subsection (f) requires completion and filing of an Environmental Impact Assessment and (g) requires Buyer to file all material state, local, and federal permit applications. These requirements are neither particularly difficult nor onerous for Buyer to accomplish, and as such if Buyer fails to accomplish these, the failure will indicate lack of commitment by Buyer rather than an insurmountable problem. We have not endeavored to enumerate all the material state, local, and federal permits here because this information is more readily available from those agencies which have been meeting with officials from the Department of Natural Resources and Buyer on a regular basis. It should be noted, however, that (g) does not require that Buyer receive all permits, only that Buyer apply for them. The only question which might be raised is whether Buyer's application is so deficient that it really does not constitute an application at all. Such evaluation can be made only after a review of the application requirements and Buyer's application.

Subsection (f) refers to an Environmental Impact Assessment. This requirement is subject to at least two reasonable interpretations. One is that Buyer must prepare a report which documents and evaluates the environmental impact of a proposed facility and submit that report to the State. The other is that Buyer must prepare and file with the appropriate federal agencies the information they will require to prepare an Environmental Impact Statement. We

believe it is this latter interpretation that more nearly represents what the parties' contemplated. We do not believe, however, that Buyer is required to have done more than submit the information to the appropriate federal agencies. For example, (f) does not require that a final EIS be completed or even that a draft EIS be completed since it is the federal agencies rather than the Buyer who control the pace of preparation of those documents.

D. Plant Design

Subsection (h) requires Buyer to complete plant design and optimization necessary to obtain a definitive cost estimate. Compliance with this requirement would seem to be strictly a matter of fact although it may require the opinion of a professional engineering firm to determine if Buyer's work satisfies the requirement.

III. Granting or Denying an Extension of Time to Allow Buyer to Satisfy Benchmark Tasks

A. When Should an Extension be Granted or Denied?

Since, the Agreement does not specify a particular procedure either for Buyer to certify to Seller its accomplishment of the tasks specified in the Agreement or for the Seller to grant or deny an extension of time, we rely upon common sense and reasonable practice. It appears that for the 6-month and 12-month benchmarks, Buyer certified its accomplishment of the required tasks as part of its monthly report to the State. See Alpetco's letters of December 14, 1978 (Progress Report No. 6) and June 14 (Progress Report No. 12) and the Commissioner of Natural Resource's letter of September 4, 1979 to Gordon Cain. This procedure seems to be reasonable under the agreement and could be followed for the 18-month benchmark as well. However, we see a possible danger in this approach and, therefore, suggest the State consider a modification of the procedure used by it and Buyer for the past two benchmarks.

Since the 6-month and 12-month benchmarks were relatively easy to accomplish, there was probably little doubt that Buyer would achieve them. But, future benchmarks are much more difficult and accomplishment is less assured. Both the State and Alpetco should be concerned about what happens if Buyer fails to achieve the benchmarks but does not advise the State of this failure until the last minute.

Article 10.2 clearly provides that the Agreement terminates without further action on Seller's part, on

December 18, 1979, unless Buyer has accomplished all the tasks or unless Seller grants a 6-month extension.

It is reasonable to expect that the State will require some time to review Buyer's submissions before it decides whether or not Buyer should be granted an extension. If Buyer's submission and a request for an extension of time is made on December 18, one must ask: What is the status of the Agreement after December 18th and prior to the time the State grants an extension? And, if the Agreement is automatically terminated on December 18, can the State later revive it by granting an extension with retroactive effect? There is no simple, certain answer. We believe it is reasonable to assume the State has the right and power to review Buyer's information, taking a reasonable amount of time to do so, and thereafter grant or deny an extension which would have retroactive effect. It must be noted, however, that both during the negotiations and public review of the agreement there was skepticism about any future administration's willingness to terminate the agreement if the benchmarks were not satisfied. This concern was addressed, in part, by making the agreement terminate automatically rather than by leaving the matter to the State's discretion. With this in mind, it is conceivable that a court would conclude that the automatic termination provision of the agreement is controlling and that the State's power to grant an extension is limited to granting an extension prior to operation of the automatic termination provision. Our recommendation, therefore, is that the more certain and prudent course for both the State and Alpetco is to decide before December 18 whether or not an extension will be granted should the Buyer request one and formally to grant or deny the extension no later than December 18, 1979. To accomplish this, the State may wish to ask Buyer to advise it a month or so in advance of December 18, that Buyer intends to request an extension.

B. For How Long is an Extension Effective and How Many Extensions May be Granted?

Article 10.2(3), (4), (5), (6) and (7) authorize 6-month extensions. Article 10.2(8) authorizes a 9-month extension and Article 10.2(9) authorizes a 12-month extension. In each case, the extension permitted is only for a fixed period of time; that is, 6-, 9- or 12-months. Extensions of either a shorter or longer period of time are not permitted. The extensions are not cumulative and the State may grant only one fixed period extension for each benchmark period.

Article 10.2(10) allows a second, variable period extension for a specific purpose. If the State grants an extension for the 18-month benchmark, the tasks must be accomplished by the 24th month, or the contract automatically terminates (unless Seller grants the second extension authorized under 10.2(10)). At the 24-month benchmark the State may grant a new 6-month extension but only for the task required under the 24-month benchmark not for tasks enumerated under the 18-month benchmark.

The second extension, authorized by article 10.2(10), allows the State to extend any initial extension period for an indeterminate period of time which time elapses on the 90th consecutive day of the legislative session following granting of the extension. In practice, this provision works as follows: If in December of any year Seller grants a 6-month extension, that extension would run until June of the following year. Most likely the legislature would not be in session when that extension expires (June 18th) and certainly the legislature would not be in session for an additional consecutive 90 days after June. Thus, should Seller grant the second extension allowed under the agreement after granting an initial 6-month extension in December, the second extension would keep the agreement in force until the 90th day of the next legislative session (approximately mid-April).

If Seller grants an extension applicable to the 24-, 36-, or 48-month benchmarks, such extension would be granted in June and expire in December. A subsequent extension under 10.2(10) would operate until the 90th day of the legislative session starting in the following January.

An extension granted under 10.2(10) must be for a period which terminates on the 90th day of the next legislative session unless Buyer consents in writing to a shorter extension period.

The consequences of granting an extension under article 10.2(10) are not fully specified in the Agreement. Two plausible interpretations of the effect of granting an article 10.2(10) extension are possible. First, an extension under article 10.2(10) may be like any other extension authorized by article 10.2. Namely, if Buyer during the 10.2(10) extension accomplishes the task for which the extension was granted, then the Agreement remains in force. On the other hand, it seems the better interpretation of the

agreement is that an article 10.2(10) extension is limited to the purpose of "permit[ting] the Commissioner and Alaska State Legislature to consider an amendment or modification of [the] Agreement, particularly of the provisions contained in Article 10.2." Under this interpretation it would not matter that the Buyer accomplishes the task after termination of the initial extension period and prior to termination of the second extension period. The Agreement would, nevertheless, terminate unless the legislature amended the Agreement in a manner which ratified the late compliance. There are two reasons for concluding that this second interpretation is the correct one. First, the language of 10.2(10) states a specific purpose for which the extension is granted, namely to allow consideration of an amendment. Second, 10.2(10) differs markedly from the other extension provisions in that it is for an indeterminate period of time and it does not speak to "attainment of criteria stated" as do each of the extension provisions in articles 10.2(1)-(9). It seems logical that if 10.2(10) was for the purpose of allowing the Buyer to accomplish benchmark tasks the same language that was used repeatedly in articles 10.2(1) through 10.2(9) would have been used.

C. What is the Authority of Seller to Grant or Deny an Extension?

Article 10.1 establishes a 27 year term but makes clear that that term is subject to termination by either party under 10.2 or 10.3. Article 10.2 states that the "Agreement shall terminate" if specified tasks are not accomplished according to the timetable of 10.2 and further provides that the Commissioner "may extend" the time period for attainment of the criteria. This language seems crystal clear with respect to when the contract terminates and what discretionary power the Commissioner has to prevent such termination. Nevertheless, automatic termination is a harsh result, especially where substantial time and money have been invested under the agreement. See, 5 Williston on Contracts § 793 (3ed. Jaeger 1961); c.f. Land Development v. Padgett, 369 P.2d 888 (Ak. 1962). For that reason, the State should expect that a court will look very carefully at such termination to ensure itself that such result was indeed intended by the parties.

It is our conclusion that a review of the agreement and the extrinsic evidence confirms that the parties did intend 1) automatic termination of the agreement, and 2) absolute discretion to the Commissioner in determining

whether or not to grant an extension. The testimony of Buyer's attorney (Mr. Rogers) illustrates this first point well:

MR. CHATTERTON:

(Indisc. -- simultaneous speech)

MR. ROGERS:

To answer your question, the next termination point would be twelve months later, if we had not expended a billion dollars. At that point, by the preparatory language in 10.2, the contract is automatically terminated--no further action of any state official and we're sitting there with a 600 million dollars fuels refinery with no feed stocks. (emphasis added)

MR. CHATTERTON:

Okay supposing with my scenario, I got to that point and the state proceeded to terminate. I had my little plant. I'd spent my six hundred million dollars, or my share of the 600 million, and all of this and I didn't plan to go any further and the state comes--the Commissioner of Natural Resources says on this 48 months "we're canceling your contract". What recourse would I have if I didn't want the contract canceled?

MR. ROGERS:

It's specifically provided that the Commissioner does not have the authority to prevent the termination from occurring. He has certain authority to extend, particularly to allow ALPETCO to go to the legislature but he can't stop the termination of the contract.

MR. CHATTERTON:

No. So he says "the contract is terminated". Now ALPETCO says "the hell it is, buddy, I'll see you in the courthouse". Is that a fair scenario.

MR. ROGERS:

I don't understand where we're going with the analogy.

MR. CHATTERTON:

I'm saying that the state can't terminate the contract. I'm asking you how can the state terminate the contract.

MR. BERRY:

Show him where it can terminate it.

MR. ROGERS:

It just says that at the beginning of 10.2, this agreement shall terminate upon the failure of buyer to take each one of those. There is no action required on the part of the state. The contract expires. The state stops delivering the oil. You guys have got the oil. All you do is cut it off and (indisc.).

MR. CHATTERTON:

Then you go to the courthouse and sue us for breach of contract.

UNIDENTIFIED SPEAKER:

On what grounds?

MR. ROGERS:

On the grounds of economic loss. There is no right of action in any court of law. I know the Alaska laws are very similar to all the laws of the other states and there can be plenty of injury but unless there's a wrong, there's no (indisc.) And unless the state had done something wrong or has broken its contract, we have no remedy. Furthermore, I hate to go out on extended examples like this when that's playing economic Russian roulette and our lenders are not going to want to see that.

With respect to the discretion accorded the Commissioner, article 26.7, governing approvals and consents, is enlightening. That provision imposes a "reasonableness" standard upon each party when making approvals or granting consents called for in the Agreement. We doubt

that the Commissioner's decision to grant or deny an extension is either an "approval" or a "consent" required under the agreement. Nevertheless, article 26.7 expressly exempts from the reasonableness standard the extensions of time called for under article 10.2. The extrinsic evidence indicates that the parties knew, understood and accepted the fact that an extension was solely at the Commissioner's discretion. As a practical matter, including the right to an extension, even if solely at the Commissioner's discretion, represented a concession to Buyer, since Buyer at least would be able to present its case to the Commissioner who could then grant an extension, if he felt it proper to do so. In the absence of such right, automatic termination would result. If an extension was not to be solely at the Commissioner's discretion, only two other alternatives are possible. One would be an automatic extension -- which would be in effect no extension at all, but only a lengthening of the time period for compliance -- and an automatic extension upon satisfaction of certain conditions. There is no indication that either of these types of extensions were contemplated.

D. Does the Agreement Automatically Terminate if the Commissioner Does Not Grant an Extension?

There is one provision in the agreement which might be interpreted to modify or temper the termination provision of 10.2. Article 14.3 provides that "No. . . failure of performance under this Agreement shall be deemed to have occurred under this agreement unless such. . . failure of performance is material or substantial under all the circumstances. . . ." The only guidance as to what constitutes "material or substantial" is the qualifier that one must look to all the circumstances. The "circumstances" presumably include the agreement itself, the understandings and interests of the parties when they negotiated and entered into the agreement, and the events as they exist at the time of the failure of performance. With respect to the agreement itself the language is quite clear. If the tasks are not accomplished by a specific date, the agreement terminates unless an extension is granted. The timetable in the agreement, especially accomplishment of tasks at the 18-month and subsequent benchmark is clearly at the heart of the agreement. (See page 23 above). It could well be concluded from the structure and language of the agreement that any failure to comply with performance required under 10.2 -- even by one day -- is material and thus not excused. The extrinsic evidence supports this view. For example, there are references in the record to the rigid requirement