

ALASKA LEGISLATURE SPECIAL COMMITTEE / SUBJECT FILES 8672

1080 SCOMM 28: JOINT GAS PIPELINE COMMITTEE. 1981-82

1 plant design and optimization necessary to obtain a
2 project cost estimate. It says nothing about giving the
3 definitive cost estimate.

4 BY: MR. DAGON
5 And we don't have one.

6 BY: MR. PARKER
7 It's talking about giving a design to where one could be ex-
8 tracted from it -- produced from it. And again, that -- in
9 any normal routine of building a project, if you're going to
10 go cost plus, you may not be worried about it. But if you'
11 trying to tie your costs down, you've got to develop the
12 scheme in which you want them to bid on, but don't tell them
13 what your price has got to be.

14 BY: MR. MILES
15 Mr. Parr.

16 BY: MR. PARR
17 You know, you've got to settle it down for a country boy
18 You're going to have to get some kind of a price within 1
19 plus or minus, right?

20 BY: MR. PARKER
21 No, we're going to

22 BY: MR. PARR
23 That's what this optimization design thing is in the company
24 Okay, within 15%, isn't that right?

25 BY: MR. PARKER
No, it says give ...

J & R Associates

P.O. Box 29 • DOUGLAS, ALASKA 99824

JUDY JONES
586-6846

RITA STONICH
789-0208

1 BY: MR. PARR

2 They tell me you can't bid a design unless you know what
3 you're going to do. This gentleman was telling us a while
4 ago -- those chemicals -- those petrochemicals that had poten-
5 tial up there -- he didn't have the actual ones we might --
6 what might be the ones developed here, and I'm not an engineer,
7 maybe it doesn't cost any different price to produce one
8 petrochemical than it does another. But I'd be kind of sur-
9 prised. If you don't know what petrochemicals you're going
10 to produce, how can you come up with your 15%, plus or minus
11 estimate?

12 BY: MR. PARKER

13 Because what we did was to give a configuration that was
14 going to be built first. And what that estimate is coming on
15 is what is committed to be built.

16 BY: MR. PARR

17 In other words, not the complete project? Minus all the in-
18 sides of the building, or what?

19 BY: MR. PARKER

20 I think when you say complete project, I think that you heard
21 today, that I question whether you ever finish a processing
22 plant such as this. You heard Tesoro looking at adding
23 additional units from a yield standpoint. You're talking
24 about the other refineries -- that we could add this, add
25 this and extract. It's a continuing process. It doesn't make

J & R Associates

P.O. Box 29 • DOUGLAS, ALASKA 99824

JUDY JONES
586-6846

RITA STOINICH
789-0208

1 feasible sense to try to start up a complete facility that
2 has everything in it. Instead, you must build it in stages
3 and that's exactly what was contemplated in the testimony
4 and that's exactly what the crude oil royalty contract
5 addresses itself to. And from that standpoint, we feel that
6 we are in compliance and we're preceeding just as fast as we
7 can to bring this to a conclusion.

8 BY: MR. PARR

9 Mr. Chairman. Perhaps I'm just not very bright today but what I
10 don't understand is, how you can come within 15%. We don't
11 want to know -- I don't even know your figure, but for H in the
12 contract, you were to complete plant design and optimization
13 necessary to get a definitive project cost estimate ...

14 BY: MR. PARKER

15 To get one.

16 BY: MR. PARR

17 I know, sir. Definitive says, within no more than 15%
18 variance, right? And you're telling me you did that and you
19 don't even know what petrochemicals you're going to produce
20 yet.

21 BY: MR. PARKER

22 No, we don't.

23 BY: MR. PARR

24 That's what I have trouble believing.

25 BY: MR. PARKER

J & R Associates

P.O. Box 29 • DOUGLAS, ALASKA 99624

JUDY JONES
586-6846

RITA STONICH
789-0208

1 We know exactly what we're going to build.

2 BY: MR. DAGON

3 I misled you then. I misled you.

4 BY: MR. PARR

5 (Indisc.--simult. speech) I saw it and the way you talked

6 about it, you did not specify which petrochemicals?

7 BY: MR. DAGON

8 I'm sorry, sir. I misled you then, because we have asked

9 for an engineering estimate, a definitive bid -- not a

10 definitive bid, a fixed price for this plant.

11 BY: MR. PARR

12 Go back to the chart that had the petrochemicals on it. Not

13 that one. Go back to the chart that has English words on it.

14 Look at the top of that chart and see what it says and think

15 back about what you said about it, which was you didn't know

16 which petrochemicals you were going to produce yet.

17 BY: MR. DAGON

18 Oh, I set that right here. (indisc.) Excuse me. [looking

19 through papers] Mr. Parr, is that the list you mean?

20 BY: MR. PARR

21 Yes, I believe that's right. Would you drop it just a frac-

22 tion? What does it say up at the top? Potential.

23 BY: MR. DAGON

24 We fixed the design and that's why the letter to the Commis-

25 sioner, the most recent letter. It is that configuration

J & R Associates

P.O. Box 29 • DOUGLAS, ALASKA 99824

JUDY JONES
586-6841

RITA STONICH
789-0208

1 that is currently roughly about 18 million dollars worth of
2 engineering effort on that project. And a whole bunch of
3 other people are looking at what you do next. So we're trying
4 to get a fixed price on the phase 1 plant, the scheme that
5 we just looked at. Does that -- it may not satisfy you, but
6 does it answer the question?

7 BY: MR. PARR

8 I'm afraid it doesn't answer the question.

9 BY: MR. DAGON

10 Say it again, sir.

11 BY: MR. PARR

12 Okay, suppose when phase 2 time comes around, you have changed
13 your mind. You aren't going to produce a single one of those
14 things, right. You go to something else instead, instead of
15 those five or so you've got there and perhaps, why would it
16 differ, as long as it all comes out of crude oil. And that's
17 not going to make any significant change in the cost of your
18 plant?

19 BY: MR. DAGON

20 The cost of taking ethylene out of the flexicoker.

21 BY: MR. PARKER

22 Wait, Ron, the cost estimates you're getting does not include
23 any of this. And once you start this you will get another
24 cost estimate. You will go exactly through this same process
25 that you're going through now.

J & R Associates

P.O. BOX 29 • DOUGLAS, ALASKA 99624

JUDY JONES
586-6846

RITA STONICH
789-0208

1 BY: MR. PARR

2 Perhaps it's a matter, Mr. Chairman, of how I interpreted this
3 requirement number H. Let's let it ride for now.

4 BY: MR. DAGON

5 Is there anything else about petroleum by-products?

6 [various speakers indicating not now]

7 BY: MR. MALONE

8 I'd like to get a copy of the slide you showed of the product
9 slate. [affirmative response]

10 BY: MR. DAGON

11 Sure, basically that brings us up to where we are, and what we're
12 doing. Now I'd only like to show you one other slide that
13 we got off the track on. And that relates to the issue --
14 we have two, interim crude and financing. Willard's going to
15 talk about where we are in the financing and Mr. Parker will
16 address anything that has to do with the interim crude, but
17 everybody we meet in town on the street, the newspapers, say
18 what are you going to do with this interim crude and that is
19 probably as best a summary as we can make today. It says we
20 are going to try to sell, exchange it or process it to do two
21 or three things; one, to make money; two, to lead into a
22 product exchange and three, we're still talking about process-
23 ing agreements in-state with some of the in-state refineries.
24 That's roughly where we are and I'll be glad to get slides
25 for you that relate to processing. Sir?

J & R Associates

P.O. Box 29 • DOUGLAS, ALASKA 99824

JUDY JONES
586-6846

RITA STONICH
788-0208

1 BY: MR. MILES

2 Mr. Gardiner?

3 BY: MR. GARDINER

4 Are you presently negotiating with in-state processors in
5 terms of making sales to them?

6 BY: MR. DAGON

7 I think Willard can answer that, right up to and including
8 the last Royalty Oil Board.

9 BY: MR. WILLARD HANZLIK

10 We had, during the negotiations of the Royalty Board with
11 various potential purchasers of royalty oil for the 17-day
12 window period and beyond, had given a written undertaking to
13 the commissioner that we would be willing to make portions of
14 the oil purchased by ALPETCO available to any in-state
15 refiner who could demonstrate two things, one, that the oil
16 would be used in-state and two, that it would be taken on
17 volumes that were consistent, i.e., we did not want to be
18 put in a position whereby we would sell 5,000 barrels one
19 day and 10,000 the next. It had to be a constant stream and
20 there were, as I understand it, no responses indicating an
21 interest by any of the in-state refiners to that offer.

22 BY: MR. GARDINER

23 Why do you think they wouldn't be interested if they tell us --
24 they've been telling the state they need crude supply, but
25 you offered them crude and they're not interested?

J & R Associates

P.O. BOX 29 • DOUGLAS, ALASKA 98624

JUDY JONES
586-6846

RITA STONICH
789-0208

1 BY: MR. HANZLIK
2 Your guess is probably as good as mine.
3 BY: MR. PARKER
4 You should ask them.
5 BY: MR. GARDINER
6 You mean you really don't have an idea? I mean I will ask
7 them but I would think that you guys were in the business,
8 you should know more than I do.
9 BY: MR. PARKER
10 No, I don't. No, I don't.
11 BY: MR. DAGON
12 Willard, would you like to bring us up to date?
13 BY: MR. HANZLIK
14 Let me take a moment -- there was considerable discussion
15 earlier today on the various aspects of the project financing.
16 I think there may be some misunderstandings or misconceptions
17 of it. Let me give you as complete an update as I can at
18 this time and hopefully this will answer your questions. To
19 simplify or to restate, there are three major pieces to the
20 financing plan. One is foreign credits, that is, sources of
21 debt financing obtained outside the United States; two, U. S.
22 debt, and this would be both taxable corporate debt and tax-
23 exempt financing issued under section 103 of the Internal
24 Revenue Service Code and, three, equity supplied by the
25 investors or partners in the project. Further, there will be

J & R Associates

P. O. Box 29 • DOUGLAS, ALASKA 99824

JUDY JONES
586-6846

RITA STOINICH
789-0208

1 interim construction financing that has been earlier discussed,
2 and, in addition, there will be operating or working capital
3 requirements for the facility of a significant amount. As
4 you know, ALPETCO has commitments for each of the long-term
5 pieces and for the interim construction financing. The 750
6 million dollar commitment to arrange financing from Thyssen,
7 Rheinstahl, Technik, is the largest single piece,
8 followed by the City of Valdez, backed by the Underwriting
9 Syndicate, led by E. F. Hutton, for up to 600 million and
10 the equity supplied by the partners of 350, for a total of
11 1.7 billion. In addition, two U. S. commercial banks have
12 given a commitment for 150 million interim financing, plus
13 there is a back-up to that given to us by Thyssen, that
14 if for some reason the financing were not available from these
15 banks, Thyssen would similarly arrange it. Let me digress a
16 moment -- before I get into the status of each of these and
17 discuss for a moment our relationship with Thyssen and why we
18 have taken this path. From the very beginnings of attempting
19 to put this project together in Alaska, critics have said
20 and people have testified before your committee and others
21 that the risks of building a project of this size in Alaska
22 are far too great and that it can't be done. We have felt
23 all along that risks of construction nature, completion nature
24 and performance, had to be covered in some manner. While
25 there may be other ways to solve these problems and provide

J & R Associates

P.O. Box 29 • DOUGLAS, ALASKA 99824

JUDY JONES
586-6846

RITA STOINICH
799-0208

1 for this risk, the route we chose, was to seek a major inter-
2 national engineering construction contractor or, in this case,
3 two contractors, who would combine and give us a fixed price,
4 turnkey construction contract to complete this facility.
5 Now I'll be very quick to tell you there are no U. S. companies,
6 to my knowledge, who would undertake to do this. We have
7 spoken to virtually all of them, at least all of them that
8 are of a size and whose financial statements would support
9 this kind of an undertaking. There are, however, corpora-
10 tions operating in the international environment who not only
11 are willing to do it, but who have experience in doing it and
12 Thyssen is one of these. Thyssen has built within the last
13 10 years, 2 or 3 plants of comparable size in perhaps as
14 hostile an environment as the cold weather of Alaska, although
15 this has been -- these have been primarily middle eastern
16 projects and just the complement of cold weather -- in which
17 Thyssen has undertaken basically to do the same thing for us
18 as they have done for other projects. That is, give in a
19 reasonable period of time, a fixed price, arrange the financ-
20 ing for it and complete by delivering a project to the owners
21 that is started up with a completion and performance guarantee
22 provided. Now clearly there is a price to be paid for this
23 kind of a procedure. It is not the same as going to a Fluor
24 or a Bechtel, or any comparable major and capable U. S.
25 contractor, giving them a set of specifications and going out

J & R Associates

P.O. Box 29 • DOUGLAS, ALASKA 99624

JUDY JONES
586-6646

RIYA STONICH
789-0208

1 on a cost plus basis as will most major projects be done today
2 in this country. This is a completely different approach.
3 It's an approach that we feel makes sense and one which fits
4 the project because it is not being undertaken by a major oil
5 company. Now, why Thyssen in particular? Mainly because they
6 offered to put together all the ingredients of this program
7 that we felt were essential. We talked with several other
8 companies, both in Europe and outside of Europe and in the
9 end, Thyssen came forward with the most aggressive and complete
10 proposal. And I would like to comment that in light of
11 recent credit problems with the Federal Reserve and other
12 credit restraints imposed by our government, that it is
13 fortuitous that our commitments were, in fact, from Thyssen,
14 because had they been from domestic financial sources, it is
15 conceivable that the project may have been impaired. And I
16 will restate that it is not only usual, but customary for
17 Thyssen to undertake projects this way.

18 BY: MR. MILES

19 Mr. Gardiner.

20 BY: MR. GARDINER

21 You said that you would pay a premium for doing this type
22 of turnkey operation. What is that premium?

23 BY: MR. HANZLIK

24 It's the price that the contractor, in this case Thyssen and
25 Foster, Wheeler, who have formed a joint venture -- it will

J & R Associates

P.O. BOX 29 • DOUGLAS, ALASKA 99624

JUDY JONES
586-6846

RYA STONICH
789-0208

1 be a price they feel will compensate them for taking the
2 risks that we're not willing to take, i.e., that the costs
3 will be what they say they're going to be, that there will be
4 no interference or interruptions to the work program and that
5 everything, when it's put together, will operate as they say
6 it will and no one knows what that contingency will be.

7 BY: MR. GARDINER

8 So basically, you're going to pay more, but you feel you're
9 getting more because they're guaranteeing an end product.

10 BY: MR. HANZLIK

11 That's right.

12 BY: MR. PARKER

13 That's why the point I made is so imperative that you scope
14 that project so that you don't end up starting out with yes,
15 we'll do this and end up with a change and have to pay the
16 price for change orders. And whatever they charge will come
17 out in this firm price bid.

18 BY: MR. MILES

19 I have some questions on the whole subject of commitment,
20 Mr. Hanzlik. The consultants, what have you, for the State
21 have indicated certain basic elements which commitments will
22 contain if they're legitimate. That comes right out of his
23 memo. The amount of the primary loan, I guess -- I presume
24 we're talking about 750 million, is that ...

25 BY: MR. HANZLIK

J & R Associates

P.O. Box 29 • DOUGLAS, ALASKA 98624

JUDY JONES
586-6846

RITA STONICH
789-0208

1 I don't know what you're referring to, Bill, I'm sorry.
2 BY: MR. MILES
3 Well, I'm talking about the Thyssen commitment, that you ...
4 BY: MR. HANZLIK
5 Yes, that's correct.
6 BY: MR. MILES
7 The amount is 750 that they'll arrange. They'll arrange
8 that. That's their language.
9 BY: MR. HANZLIK
10 Yes, that's right.
11 BY: MR. MILES
12 Is there any secondary or contingency funds available? He
13 just gives a list of things. I'd just like to see if they're
14 in the commitment.
15 BY: MR. HANZLIK
16 I guess I don't understand your question. The answer is no,
17 Thyssen has undertaken to provide us up to 750 million dollars
18 worth of financing from export sources for the project and
19 as far as -- if more than 750 is needed, will they provide
20 more? That isn't what it says. It say 750.
21 BY: MR. MILES
22 Is there a drawdown schedule?
23 BY: MR. HANZLIK
24 No, there is not.
25 BY: MR. MILES

J & R Associates

P.O. Box 28 • DOUGLAS, ALASKA 99624

JUDY JONES
586-6846

RITA STOINICH
789-0208

1 Are there terms?

2 BY: MR. HANZLIK

3 No, there are not. If you'll let me complete my statement as
4 to where we are on each piece of these financings, perhaps
5 that will help you. Because there is a considerable amount
6 of work being done on each of these areas by my staff, the
7 lawyers and myself which are on an ongoing basis. As far as
8 the foreign loans go, which is being undertaken and managed
9 by the Thyssen financing group in Dusseldorf, West Germany,
10 they, together with our lawyers, lawyers for the trustee,
11 lawyer for their U. S. financial advisors, are working on and
12 preparing and are now on probably their third generation of
13 indenture documents, which are probably 4 or 5 inches thick,
14 having to do with the mechanisms of putting together the
15 necessary security packages and the necessary handling of the
16 various funds for disbursements, the terms of the loan and
17 whatnot. Thyssen is meeting actively with financial institu-
18 tions, not only in Europe, but also in the Far East and work-
19 ing together with the governmental agencies to define the
20 support that these various agencies can give in guaranteeing
21 various pieces of this financing. We have named, together
22 with Thyssen, the trustee for the financing which is a major
23 U. S. financial institution, and this work is on a very fast
24 track. In fact, Jim Frances and I are returning this week to
25 complete the next series of documents on this. The goal from

J & R Associates

P.O. Box 29 • DOUGLAS, ALASKA 98624

JUDY JONES
586-6846

RIYA STONICH
789-0208

1 Thyssen is to move this along so that by mid-summer or late
2 summer, we'll have in place the known pieces of exactly where
3 each piece of this financing will come from. Now the second
4 item, major item, is the bond financing. And I'd like to
5 clarify something on this. The number 600 million is used
6 in the materials submitted on the 18th of December. It is a
7 number which is consistent with the Internal Revenue Service
8 ruling request which will be filed later this week in Washing-
9 ton by counsel to the underwriter. And it is an aggressive
10 approach to the Internal Revenue Service which is typical of
11 projects of this or any other sort, for every possible --
12 every certain and every probable -- item which may qualify
13 for tax exempt financing is listed and defended and the
14 Internal Revenue Service comes back and declares whether or
15 not items qualify. To the extent that items qualify, then
16 very attractive interest rates are available through this
17 mechanism. To the extent that the IRS declares that an item
18 does not qualify, then Hutton will underwrite on a taxable
19 basis the same amount of financing. So there isn't any
20 diminution of funds at all. It's simply we're striving to
21 minimize the financing costs by maximizing the portions of
22 tax exempt financing available. There's a possibility that
23 we may want to issue one batch of these tax exempt bonds as
24 early as this summer. There's a provision in the Internal
25 Revenue Service regulations that provides for early sales of

J & R Associates

P.O. Box 29 • DOUGLAS, ALASKA 99624

JUDY JONES
586-6846

RITA STONICH
789-0208

1 these bonds and permits companies to use these for purposes
2 other than tax exempt, later to be refunded for tax exemption,
3 so there are some attractive timing availabilities here.

4 BY: MR. COTTEN

5 On your own prediction, what portion of that 600 million
6 dollars do you think will qualify?

7 BY: MR. HANZLIK

8 We think that 450 is dead certain. And the balance of 150
9 are items which, depending upon the current way the wind is
10 blowing in the Treasury Department, may or may not qualify.
11 And it's what the lawyers call a grey area.

12 BY: MR. COTTEN

13 Of that 450, I assume that by that you mean they are very
14 specifically delineated in Section 103 of the IRS Code that
15 those projects would qualify.

16 BY: MR. HANZLIK

17 Absolutely. Absolutely.

18 BY: MR. COTTEN

19 Would you mind giving a few examples?

20 BY: MR. HANZLIK

21 I'm sorry I left -- I don't have a copy of the ruling request.
22 We'd be happy to make that available publicly as soon as
23 it's filed. Basically, it includes product storage, marine
24 facilities, power generation facilities, pollution control
25 equipment, certain costs related to the development of an

J & R Associates

P.O. Box 28 • DOUGLAS, ALASKA 99824

JUDY JONES
586-6846

RITA STONICH
789-0208

1 industrial site. There may be something else. I can't give
2 you the numbers for each of those categories, because I'm
3 just not -- I don't have them on the tip of my tongue. There
4 hasn't been any change in the plans regarding equity for the
5 project -- each partner has given its undertaking which has
6 been referred to earlier today. We have also given to the
7 commissioner and supplied in writing each partner's obliga-
8 tion to reinvest the profits earned as a result of taking
9 crude oil early in July to the project in fulfillment of the
10 equity requirement for the project. Now there's one point
11 I'd like to make quite clear and I guess you learn from
12 experience and I'm distressed to see excerpts taken out of
13 contracts and said, well, this is what you said you were
14 going to do then, but things have changed now. Let me make
15 something clear on this financing. You all have observed
16 the unfoldment of the other major project that you're re-
17 viewing, the gas pipeline. You've seen many changes in
18 direction as far as the financing plan, as far as who the
19 participants are and even as far as the scope of the project,
20 regardless of the size or the costs related to the project.
21 While this project is a lot different than that in most
22 regards, in fact is further along in its project definition,
23 I think, the ultimate financing of how this project gets put
24 together late this year may be different from what I've just
25 articulated to you because financial markets are changing.

J & R Associates

P.O. Box 29 • DOUGLAS, ALASKA 99824

JUDY JONES
586-6846

RITA STOINICH
789-0208

1 They're changeable. Thirty days ago, after the president of
2 the Federal Reserve Bank made a statement which scared most
3 U. S. financial institutions, we were frankly concerned that
4 aspects of the financing might be jeopardized because U. S.
5 financial institutions might not be able to make -- fulfill
6 their commitments to lend. That picture has changed about
7 180° in the last month. In addition, foreign financing
8 sources have opened up. We're involved right now with putting
9 hopefully, the finishing touches on the financing to be
10 acquired by a syndication in Eurodollars in Europe before June
11 to fulfill other requirements for the additional monies needed
12 to make expenditures by the end of June. That initially was
13 being arranged in the U. S. We had to move outside the U. S.
14 because that's where the capital markets would supply funds.
15 I guess what I'm saying is that as market conditions change
16 and problems and opportunities arise, we will always seek
17 the most efficient and lowest cost financing tools available
18 in order to make this project even more viable. So I trust
19 that no one will say, well, you said you were going to sell
20 600 million dollars worth of bonds, you didn't do that. The
21 point is, the project will be financed and it's our job to
22 do it in the most efficient way.

23 BY: MR. MILES

24 I think we understand that as the project goes forward, it
25 will be financed and that there may be certain things that

J & R Associates

P.O. BOX 29 • DOUGLAS, ALASKA 99624

JUDY JONES
586-6846

RITA STONICH
789-0208

1 have to change. However, we're coming to a watershed. We're
2 coming to an Armageddon -- there's a bridge that's going to
3 be stepped over here in a couple of months and it seems, at
4 least from what research has been done thus far and that's
5 the purpose of these hearings, that the project has gone 180°
6 from petrochemicals to a refinery. The financing question has
7 gone from a 2-1/2 billion dollar project to a 1-1/2 billion
8 dollar project. The number of full-time, permanent jobs has
9 been reduced by 75%. The revenue of the state is dropping.
10 It seems like almost every major aspect has substantially
11 changed from where we were a year and a half ago and we under-
12 stand that the price of oil changes and financial markets
13 change and everything else changes, but nevertheless, we're
14 being asked to make that commitment. So you have to under-
15 stand our concern.

16 BY: MR. PARKER

17 Sure.

18 BY: MR. GARDINER

19 The problem isn't that just they're changing, it's like they
20 are all changing on the negative side, right. Nobody's
21 proposing to increase any of the benefits to the state that
22 we talked about. These are changing and the answer is now,
23 well, the petrochemical facility is kind of phase 2, when we
24 get there.

25 BY: MR. PARKER

J & R Associates

P.O. BOX 29 • DOUGLAS, ALASKA 99624

JUDY JONES
586-6846

RITA STONICH
789-0208

1 You know, we sort of disagree that it's changing, as such.
2 Maybe I have not done the research that maybe your staff has,
3 but I have done some research in reference to the testimony.
4 And I think, without a doubt, it's very clear, the intention
5 of this thing being put together in a phase-type approach.
6 I go back to Gordon Cain's testimony. The core of this
7 operation will be an oil refinery which is shown on the left
8 side of the screen. And this refinery will be, for all
9 practical purposes, the same as any other refineries that
10 have been proposed to be built. The one difference is that
11 it will take that part of the gasoline fraction that is not
12 necessary for the Alaskan market and some part of the heavy
13 fuel and convert into petrochemical feed stocks. Now from
14 this point on, precisely, we do not -- we do, precisely,
15 what we do is not clear because this will be determined by
16 the market and by the nature of the partners that we get.
17 So what they're really talking about, that is the core of
18 that thing. We're not trying to basically mislead from that
19 standpoint.

20 BY: MR. MILES

21 Mr. Chatterton.

22 BY: MR. CHAT CHATTERTON

23 Thank you, Mr. Chairman. I'd just like to say my recollec-
24 tion of the testimony.--we're speaking to 30,000 barrels a
25 day that was going to be processed ... (indisc.simult. speech)

J & R Associates

P.O. Box 29 • DOUGLAS, ALASKA 99624

JUDY JONES
586-6846

RITA STOINICH
789-0208

1 BY: MR. PARKER

2 Let me tell you, when you process 30,000 barrels a day, you
3 don't get 30,000 barrels a day of fuel products and you don't
4 get 30,000 barrels a day of petrochemicals. You process
5 150,000 barrels a day or 30,000 barrels a day and depending
6 on the hardware that you build, has a direct bearing on what
7 the yield that comes out of it. So it's not like saying
8 you're going to process 30,000 barrels a day for a day.
9 Every petrochemical plant, I think, in existence, has to
10 start with a feed stock. The majority of them buy those
11 feed stocks coming out of a refinery and/or they use natural
12 gas liquids. We got to have the building plot, we got to
13 get the thing started. We got to be to the point where we
14 can go to other partners, if necessary, to build downstream.
15 And I think that was the intent in the testimony to begin
16 with. I think that is the intent from the standpoint of
17 what the contract says, when it defines a petrochemical
18 facility and there is a definition of fuels refinery that is
19 recognized by the industry. And there's a definition of a
20 petrochemical facility that is defined by the industry.

21 BY: MR. GARDINER

22 What is that definition?

23 BY: MR. PARKER

24 Do we have at Ron?

25 BY: MR. DAGON

J & R Associates

P.O. Box 29 • DOUGLAS, ALASKA 99824

JUDY JONES
586-6846

RITA STOINICH
789-0208

1 Yeah. Well, in general -- we permitted, for example, we
2 talk about the EIS -- in excess of 15% of the feed stock in
3 chemicals or chemical feed stocks qualifies as a petrochemical
4 facility, but that's a contest I'm not sure you want to get
5 in because then you have to define naphtha. I'm not sure how
6 you do that. We obviously consider it a feed stock and are
7 looking for more.

8 BY: MR. MILES

9 Anything over 15%, is considered a petrochemical, is that what you're sayin

10 BY: MR. DAGON

11 Yes, sir.

12 BY: MR. MILES

13 ... is considered a petrochemical facility?

14 BY: MR. DAGON

15 ... facility. There's a category of ...

16 BY: MR. GARDINER

17 Whose definition is that?

18 BY: MR. DAGON

19 That's EPA's.

20 BY: MR. GARDINER

21 We thought we were talking about an industry definition, not --
22 EPA isn't exactly the industry.

23 BY: MR. DAGON

24 I'm sorry. No, actually it's not. (indisc.)

25 BY: MR. PARKER

J & R Associates

P.O. Box 29 • DOUGLAS, ALASKA 99824

JUDY JONES
586-6846

RITA STOINICH
789-0208

1 That's not an industry definition?

2 BY: MR. DAGON

3 Well, yeah, it's established by the American Petroleum
4 Institute.

5 BY: MR. GARDINER

6 You know, I mean basically, it seems in my mind -- I get the
7 argument that like, right, we're going to build a refinery
8 now and later after we get that done, then we'll go on to a
9 petrochemical facility because obviously only a small percen-
10 tage is going into petrochemical facilities at this point and
11 you show phase 2, right? That's where you're going to get in
12 petrochemicals. But, I think like, if it's only producing
13 15% petrochemicals out of it -- I wouldn't call it a petro-
14 chemical facility. I mean, it seems like only common sense
15 that if you're producing 80 or 85% refined fuels, then I'd
16 title it a refined fuel plant. Or whatever it's producing,
17 that's what it is, right? And I don't see how you can call
18 it a petrochemical facility. And I think as Mr. Chatterton
19 said, at the time when the contract was approved, people
20 were hearing numbers like -- well the only refined products
21 we're going to make are going to be marketed here in Alaska
22 and the rest of it was going to be in petrochemicals. But
23 we spent all the time talking about ethylene and benzene and ...

24 BY: MR. PARKER

25 Let me finish. I didn't make my point. There is other

J & R Associates

P.O. Box 29 • DOUGLAS, ALASKA 99624

JUDY JONES
586-6846

RIYA STONICH
789-0208

1 testimony in there where they talk about -- it shows the
2 various ways that ALPETCO can work with others in putting
3 together in Alaska this type of a facility. They're talking
4 about petrochemicals downstream. It says as Gordon said,
5 we might bring in a big partner, a chemical company, who
6 might agree to build additional olefins plants, as an
7 example. Those are the type things and to be honest with
8 you, we are to go to Valdez tomorrow. Dow Chemical is going
9 to be in Valdez tomorrow to talk to us. Now the contempla-
10 tion of building this facility and continuing on with it,
11 I think, was the intent and all we're trying to do is get
12 that building block and go forward.

13 BY: MR. MILES

14 I think I can understand that something has to be done in
15 building blocks, but I guess I don't understand that phase
16 2 doesn't begin for 15 years and that seems to be what you're
17 saying.

18 BY: MR. PARKER

19 We didn't say that.

20 BY: MR. MILES

21 There's a 15 year proposed contract for the -- can I finish
22 please? ... for the existing proposed product mix which is
23 80% fuels. So if we're going to get into serious petro-
24 chemicals, it seems like it's not going to happen for 15
25 years or so. And I don't think that's what the people of

J & R Associates

P.O. Box 29 • DOUGLAS, ALASKA 99824

JUDY JONES
586-6846

RITA STOINICH
789-0208

1 Alaska or my constituency thought they would get.

2 BY: UNIDENTIFIED SPEAKER

3 May I respond to that?

4 BY: MR. MILES

5 Yes.

6 BY: UNIDENTIFIED SPEAKER

7 I think I can see where there may be an area where --
8 without having all the benefit of where we are, it's possible
9 that one could be led, perhaps, to the wrong conclusion.
10 Let me try to explain it by saying that the 70% product offtake
11 contract entered into by Charter was entered into because
12 Charter is a major marketer of all the products, chemical
13 and fuels, that will be built by this facility from the very
14 beginning. And this gives us the flexibility of calling on
15 Charter's literally world-wide marketing experience -- they
16 market about 400,000 barrels of product a day--it enables us
17 to call on their expertise and have the flexibility, as soon
18 as the markets permit, to enter into contracts for other
19 products with other parties. If this contract had been
20 entered into with say one of the major oil companies, then it
21 would be a binding contract which could not be unilaterally
22 changed. The fact that the products are being taken and
23 marketed by the most financially capable partner within this
24 group, gives the project the flexibility that we think is
25 important. And so don't be misled that the fact that

J & R Associates

P. O. Box 29 • DOUGLAS, ALASKA 99824

JUDY JONES
586-6846

RITA STOINICH
789-0208

1 Charter's entered into the products, doesn't mean that there
2 can't be changes in what those products are over time.

3 BY: MR. PARKER

4 The other point, I think, without a doubt -- we believe --
5 we believe that the current configuration that will be
6 built in the first stage, qualifies as a petrochemical com-
7 plex.

8 BY: MR. PARR

9 Mr. Chairman?

10 BY: MR. MILES

11 Mr. Parr.

12 BY: MR. PARR

13 This information was also furnished by ALPETCO in '78
14 called "Case LE-1" . And as I read it, this ALPETCO was going to
15 be producing 4% of U.S. plus Pacific Basin requirements
16 in benzene, toluene and xylene in 1985, 3% of those require-
17 ments in ethylene, propylene and butadiene, and 600 million
18 pounds a year -- what's the other one -- different figure;
19 1.2 billion pounds a year -- that's what it said in ethylene,
20 .7 of a billion in propylene and a billion in benzene. And
21 so I'm not really quite sure, it looks like it's a fairly
22 firm understanding that you know, chemicals, you only
23 produce at the time the plant is completed. 'Cause I don't
24 expect you're -- you don't expect to have it completed much
25 before 1985. Now, and I realize -- I heard what the

J & R Associates

P.O. Box 29 • DOUGLAS, ALASKA 99824

JUDY JONES
586-6846

RITA STOINICH
789-0208

1 gentleman said awhile ago, but you never really get it
2 completed, you keep going. I understood that. But the
3 point is that we were given to understand that this was
4 a petrochemical plant and a refinery. That the reason --
5 the only reason they could make the case for making it in
6 Alaska, with higher Alaskan costs, was the fact that it was
7 a petrochemical plant, instead of a refinery because you
8 had this Alaskan cost disadvantage -- but there was more
9 money in petrochemicals because the value added was there.
10 And that the state would profit more by it because petro-
11 chemical plants use more people than did refineries. So
12 when Mr. Chairman was talking awhile ago, that was what we
13 understood. There was certainly a clear understanding
14 on the part of the legislators -- I can't speak for the
15 administration -- that we were getting a petrochemical
16 facility and not a refinery.

17 BY: MR. PARKER

18 I'll go back again. You have a petrochemical facility.
19 You have additional processes of petrochemicals that will
20 be added as time goes on. That's not going to change it from
21 being a petrochemical facility.

22 BY: MR. PARR

23 Is that plants that are going to be producing about 4% of
24 the U. S. plus Pacific Basin requirements for those things
25 in 1985?

J & R Associates

P.O. Box 29 • DOUGLAS, ALASKA 99824

JUDY JONES
586-6846

RITA STONICH
789-0208

1 BY: MR. PARKER

2 I do not know. I think, as I read you, it depended on
3 partners and market conditions as to what you ended up with
4 and that represents basing -- on my reading of it ...

5 BY: MR. PARR

6 These -- I see these from 1978 and they're copies of slides
7 used by ALPETCO in 1978 ...

8 BY: MR. PARKER

9 And I apologize. I did not see those. I read the testimony
10 and in the testimony it indicates from the standpoint that
11 that was a scenario that was given just like the proposed
12 phase 2 could be another scenario. There could probably be
13 100 scenarios put up there as to what you finally end up of
14 continuing on to upgrade product that is coming out of that
15 refinery. But the significant thing in that first configura-
16 tion is, there isn't any fuel oil and you heard testimony
17 today to where you swap two barrels of crude for one. If
18 you'd calculated the numbers as well, take the cost of the
19 loss in the refining fuels out of there and the fuel oil
20 that's shipped out of the state, for every 100 barrels you
21 give them, you keep 22 barrels in the state. That is the
22 difference between when I say a fuels type refinery and what
23 you're having built here. A fuels refinery is nothing more
24 than a topping plant and makes very, very limited products
25 and I will assure you this is -- if not the -- one of the

J & R Associates

P.O. BOX 29 • DOUGLAS, ALASKA 99824

JUDY JONES
588-6848

RITA STONICH
789-0208

1 most complex facilities that have been built from scratch
2 at one time that has ever been undertaken in the U. S.

3 BY: MR. MILES

4 Okay, we're going to call a halt from the meeting right now,
5 we've got -- most of the members have other meetings begin-
6 ing at 7:00 o'clock. We'll reconvene here at 2:00 tomorrow.
7 I'll give you a chance for a last short in just a second, Mr. Parker, if there
8 are any questions prior to the wrapup statement or summary
9 that ALPETCO may like to give.....

10 BY: MR. MILLER

11 I'm just kind of curious. You said that this would be a
12 petrochemical facility. Would you call this a world class
13 petrochemical facility?

14 BY: MR. PARKER

15 To start one. When you say a world class ...

16 BY: MR. MILLER

17 That's the figure that you used -- the term that is used
18 frequently ...

19 BY: MR. PARKER

20 When you say world class, in most cases that's one unit in
21 there. In other words, that unit that produces x amount of
22 pound a year of one product. It doesn't take the entire
23 process. It takes from the standpoint that you've got an
24 ethylene plant or you've got some other plant and depending
25 on the size of that plant, is one unit is what it denotes,

J & R Associates

P.O. BOX 29 • DOUGLAS, ALASKA 98624

JUDY JONES
586-6846

RITA STONICH
789-0208

1 whether in the connotation of being a world size ethylene
2 plant or world size olefins plant. So those are the things
3 that you get into not looking at the scale of it. I'd like
4 to make one other point. Being associated with one of the
5 other in-state refiners here as a partner in the Bahamas,
6 we own jointly a 500,000 barrel a day refinery down there.
7 It's on an island and the total complement of people down
8 there is about 700 people. There's the difference from
9 the standpoint when you start looking at a simple fuels
10 refinery as to the magnitude of people.

11 BY: MR. GARDINER

12 What do you call this if that's a fuels refinery and this is
13 a ...

14 BY: MR. PARKER

15 This is a petrochemical facility.

16 BY: MR. GARDINER

17 But then there's like -- there's something at the end right
18 after -- let's say you've got after phase 2 is completed --
19 that's a petrochemical facility too.

20 BY: MR. PARKER

21 You can continue on. You can go on and on and on and on
22 down there.

23 BY: MR. GARDINER

24 In the industry terminology is there a distinction between
25 this -- the phase 1 and what you have at phase 2? They're

J & R Associates

P.O. Box 28 • DOUGLAS, ALASKA 99824

JUDY JONES
586-6846

RITA STOINICH
789-0208

1 the same thing?

2 BY: MR. PARKER

3 There is none. And you should look. You all do a good job
4 -- the Resource Board does and the legislators looking at
5 the ...

6 BY: MR. PARR

7 (indisc.)

8 BY: MR. PARKER

9 And you're talking to a country boy, full-fledged, from a
10 town of 4,000 people. Conroe, Texas, probably never heard
11 of it. But anyway, you've got other potential. You've got
12 coal here, you've got your gas liquids which can be combined
13 with some of the products that are produced in this facility
14 and you may end up needing some of your fuel to be mixed
15 with that as a coal slurry for export purposes. I'm saying
16 take this as another addition and an excellent addition to
17 the refining petrochemical capacity of the State of Alaska
18 and help us build it.

19 BY: MR. HANZLIK

20 Mr. Miles.

21 BY: MR. MILES

22 Mr. Hanzlik.

23 BY: MR. HANZLIK

24 We tried -- attempted on several occasions, to find the
25 scope of this meeting in order that we could be as helpful

J & R Associates

P.O. Box 29 • DOUGLAS, ALASKA 99824

JUDY JONES
586.6846

RITA STONICH
789.0208

1 as possible and as late as Friday, the best indication we
2 had was that the hearing would be conducted today and this
3 evening, at the latest. As a consequence -- I think all of
4 us have commitments to be literally out of state beginning
5 tomorrow and are planning to leave. Is there anything we
6 can do to provide you with additional material this evening
7 to facilitate your hearing?

8 BY: MR. MILES

9 Well, what time are you leaving?

10 BY: MR. HANZLIK

11 6:00 a.m.

12 BY: MR. MILES

13 You're leaving at 6:00 tomorrow morning?

14 BY: MR. HANZLIK

15 Yes, sir.

16 BY: MR. PARKER

17 I could stay beyond 6:00 in the morning, but not a helluva
18 lot longer.

19 BY: MR. MILES

20 Well, I think there's a number of questions that the committee
21 members have. We've raised a number of issues, but we
22 haven't asked any number of questions that absolutely demand
23 answering. [whispering among legislators] There's been
24 a suggestion that you might come back at a later date.
25 Mr. Chatterton.

J & R Associates

P.O. Box 29 • DOUGLAS, ALASKA 99524

JUDY JONES
586-6846

RITA STOINICH
789-0208

1 BY: MR. CHATTERTON
2 Just to give them an idea, I have 55 questions to ask you
3 on a subject we haven't even addressed yet.
4 BY: MR. PARKER
5 Could we have dinner and return?
6 BY: MR. CHATTERTON
7 I don't know whether you can have dinner or not.
8 BY: MR. PARKER
9 I'm talking about returning tonight.
10 BY: MR. MILES
11 As an alternative, then, I'll cancel Resources and we'll
12 take an hour break and we'll come back here at 7:30.
13 BY: MR. PARKER
14 Thank you.
15 BY: MR. MILES
16 Okay, 7:30.
17 (OFF RECORD)
18 (ON RECORD)
19 BY: MR. MILES
20 We'll call this meeting back to order. Mr. Parker, did you --
21 you or your colleagues, have additional comments to make
22 right off the bat?
23 BY: MR. PARKER
24 No, I think we're ready for your questions. We appreciate
25 your reconvening tonight, rather than postponing it.

J & R Associates

P.O. Box 29 • DOUGLAS, ALASKA 99824

JUDY JONES
586-6846

RYA STONICH
789-0208

1 BY: MR. MILES

2 Okay, that being the case then, you folks do have a few
3 questions I know. Do you want to start first?

4
5 Nobody ready to go. We'll adjourn then.

6
7 Mr. Gardiner.

8 BY: MR. GARDINER

9 One area that I think there's some concern about is that you
10 did mention briefly is, what happens to the crude oil once
11 you take it on July 18th and I think the information you
12 presented was that you'd make as much profit off it as you
13 could, which I think is very reasonable -- admirable, but
14 do you have any -- I mean there's been a lot of speculation
15 about it and you know, information that's appeared in
16 journals and I think that's probably speculative in nature
17 too, but I wondered if you could present us any more informa-
18 tion.

19 BY: MR. PARKER

20 Well what the statement said was that we would either process,
21 sell or refine that product to make the maximum profitability
22 under the existing DOE regulations. And they do have a
23 bearing on it. And when you get down to it, it'll be
24 probably a combination of all three of those. However,
25 we're talking to more than one company to do different

J & R Associates

P.O. Box 29 • DOUGLAS, ALASKA 99824

JUDY JONES
586-6846

RITA STONICH
789-0208

1 arrangements and deals with. So from the standpoint, I'd
2 rather not say, you know, we're going to do this or this or
3 that because it has not been, at this point in time, actual
4 finalization been achieved to the actual physical handling
5 and which other companies that we will make our arrangements
6 with. And we're dealing with more than one and it probably
7 will be split among more than one. So, I'm still vague and
8 I'm being vague on purpose. I guess from the standpoint
9 that we have not spent the time and effort to look at saying,
10 okay, what is and what should we be doing and is that the
11 number 1 priority. I think you can see, based on trying to
12 scope the project, trying to make sure that the financing
13 falls in place, has been a much more priority than trying to
14 arrange some short time deal with the crude oil per se. So .

15 BY: MR. GARDINER

16 It's going to be a little more than a short term. I mean
17 you've got several years until you have your facility
18 completed so you'd have to make arrangements, but I think
19 there's some concern that since you don't know what you're
20 going to do with it, you can't tell us, then that brings up
21 the question well maybe you won't have it arranged on July
22 18th either?

23 BY: MR. PARKER

24 We will have it arranged on July the 18th. It's just a
25 question that -- and I'll give you some examples. If you

J & R Associates

P.O. BOX 29 • DOUGLAS, ALASKA 99824

JUDY JONES
586-6846

RITA STONICH
789-0208

1 sold the crude, if Charter sells the crude or their share
2 of it, we're bound by reseller regulations and we've got a
3 margin that we can charge. I mean, it is fixed DOE regula-
4 tion and that probably is not the most profitable thing that
5 we could do with it. If we could go process some of it with
6 some of the refineries in the State of Alaska, each one of
7 them wants to look at what their economics are and what type
8 of arrangement they'll make with you. If you go into the
9 West Coast, you process in the West Coast, you become sub-
10 ject to a taxing arrangement in California that we're look-
11 ing at, do we really, at this point in time, want to jeopar-
12 dize all of the other operations of Charter to that Califor-
13 nia tax which is 9% and been proposed to go to 18%. So
14 these are the factors that are involved when you start
15 looking at where do I place that crude. Some statement
16 was made today that, you know, we offered to pay \$3.00 a
17 barrel premium and if somebody could pay \$3.00 a barrel
18 premium for the decontrolled crude, we'd probably like to
19 talk to them.

20 BY: MR. MILES

21 Willard, we started on some questions on financing commit-
22 ments and you probably finished your presentation. I'd
23 just like to get back to them because I don't feel that I
24 understand what a commitment is or, according to what you say,
25 ... It seems to me in reading what the state's consultants

J & R Associates

P.O. BOX 29 • DOUGLAS, ALASKA 99824

JUDY JONES
586-6846

RITA STONICH
789-0208

1 have had to say about a financial commitment that it has
2 got to have a number of things and we talked -- a number
3 of components -- and we talked about those components
4 earlier, a specified amount. I think we were talking about
5 insofar as the Thyssen commitment goes, 750 million dollars.
6 That's really about where it stops and Thyssen doesn't
7 commit to come up with that, it commits to arrange it for
8 750. Isn't that right?

9 BY: MR. HANZLIK

10 That's correct.

11 BY: MR. MILES

12 But the other basic elements of a commitment, at least,
13 again, this is according to one lawyer, the contingency
14 funds, the drawdown schedule, the commitment fee, terms,
15 none of those other things are present.

16 BY: MR. HANZLIK

17 Those are all present in the Valdez piece that Hutton has
18 prepared.

19 BY: MR. MILES

20 No, I'm talking -- we're just talking Thyssen right now.

21 BY: MR. HANZLIK

22 But they're not included in that.

23 BY: MR. MILES

24 In fact, are there binding contracts between the buyer and
25 the lenders -- investors?

J & R Associates

P.O. Box 29 • DOUGLAS, ALASKA 99824

JUDY JONES
586-6846

RITA STONICH
789-0208

1 BY: MR. HANZLIK
2 The what?
3 BY: MR. MILES
4 Are there binding contracts?
5 BY: MR. HANZLIK
6 Between who?
7 BY: MR. MILES
8 Between the buyer and the lenders, between you and lenders?
9 BY: MR. HANZLIK
10 Between us and Thyssen?
11 BY: MR. MILES
12 Yeah.
13 BY: MR. HANZLIK
14 Yes, absolutely, as confirmed by Dr. Gischwend's telex, which
15 is included in the materials that ...
16 BY: MR. MILES
17 But the extent of that commitment is to arrange financing,
18 some of it?
19 BY: MR. HANZLIK
20 We have a binding contract with Thyssen to perform certain
21 things, including arranging financing, including providing
22 a fixed price, etc.
23 BY: MR. MILES
24 Okay.
25 BY: MR. HANZLIK

J & R Associates

P.O. Box 29 • DOUGLAS, ALASKA 99624

JUDY JONES
586-6846

RITA STONICH
789-0208

1 Let me ...

2 BY: MR. MILES

3 But the actual, the terms of the 750 are not -- haven't been
4

5 BY: MR. HANZLIK

6 No, sir, they're not. Let me perhaps remark on one thing,
7 Bill. You mentioned the state's advisors. Perhaps you've
8 seen a letter dated March 20th from Lazard Freres, the
9 state's investment banker and financial advisor on the
10 project in which a Mr. Peter Lewis, who is the state's
11 financial representative to review all the materials sub-
12 mitted of a financial nature, wrote to the commissioner and
13 I'll quote two paragraphs from the letter. "One, it was our
14 opinion that at the time the letters referred to above taken
15 as a whole could be considered to be a reasonable financial
16 commitment under the special circumstances of this project."
17 The last paragraph says, and just the last sentence says,
18 "From a point of view of a member of the financial community,
19 however, we believed that these oral and written statements"
20 which he refers to in his letter, "were, in a practical
21 sense, as firm as could be realistically have been anticipated
22 at the time." And I think we stand on those statements.

23 BY: MR. MILES

24 In spite of the fact that there are no terms, there are no
25 conditions?

J & R Associates

P.O. Box 29 • DOUGLAS, ALASKA 99624

JUDY JONES
586-6848

RITA STONICH
789-0208

1 BY: MR. HANZLIK

2 That is correct.

3 BY: MR. MILES

4 I see, okay. Mr. Gardiner.

5 BY: MR. GARDINER

6 Is basically the problem like -- maybe our expectation of
7 what a lending commitment is is something different than
8 you have or what was possible. But is the basic problem,
9 nobody's really going to commit to lend until there would
10 be a fixed design and a fixed cost? Isn't that basically
11 the problem? And that's the same thing that's on the gas
12 line. Everybody has these letters. They showed us three
13 years ago on the gas line, it said, you know, Bank of
14 America is interested in lending but, as Mr. Chatterton told
15 us three years ago, until they had a design and a fixed cost,
16 nobody's going to give a commitment to lend. And it seems
17 to be the same situation you were in on December 18th and
18 probably still are at this point. Is that correct?

19 BY: MR. HANZLIK

20 I wouldn't agree with that.

21 BY: MR. GARDINER

22 I mean like nobody -- the financial people aren't committing
23 to lend. You have a commitment of an agent for you. Like
24 I could commit to arrange the financing, right, but nobody
25 would probably believe me. But, I mean, I'm not the bank,

J & R Associates

P.O. Box 29 • DOUGLAS, ALASKA 99624

JUDY JONES
586.6846

RITA STOINICH
789.0208

1 right? I'm not the insurance company, or I'm not the person
2 buying the bond.

3 BY: MR. HANZLIK

4 You're not -- excuse me, you're not a company that has had
5 substantial experience doing this as their line of business
6 with four billion dollars of net worth behind you.

7 BY: MR. GARDINER

8 That's why I said ...

9 BY: MR. HANZLIK

10 That's why Thyssen's commitment means something.

11 BY: MR. PARKER

12 You've got to remember, Thyssen is not necessarily the
13 constructing arm, construction arm for this. They are
14 probably recognized as one of the major buyers worldwide.
15 So for them to be in a position to give you that fixed price
16 contract and go out in various countries to buy equipment
17 that has to go into that project, is a strong portion of
18 why there are no terms at this point in time.

19 BY: MR. GARDINER

20 But at some point you will try to get a commitment from the
21 lenders themselves, not just Thyssen, I assume.

22 BY: MR. HANZLIK

23 We have a requirement in the contract and I think it's --
24 what works out to the December 18th, 1980, commitment, to
25 obtain definitive -- execute definitive long-term loan

J & R Associates

P.O. BOX 29 • DOUGLAS, ALASKA 99824

JUDY JONES
586-6846

RITA STONICH
789-0208

1 documents, is approximately the language. That's when the
2 definitive financing is put in place.

3 BY: MR. PARKER

4 By December ...

5 BY: MR. HANZLIK

6 ... of this year. And the fact that you don't have a
7 financial institution ready to take down funds as you would
8 the day before you close on your residence, if you're buy-
9 ing it, is completely ordinary -- this is no different than
10 any other major project. You don't have the kinds of text-
11 book mortgages and security packages as referred to by the
12 lawyer you referred to. You do in a small industrial
13 building or a residence, but you don't in a multi-million
14 dollar facility such as this. You've got to understand
15 this in the context of the project.

16 BY: MR. MILES

17 Mr. Cotten.

18 BY: MR. COTTEN

19 Yeah, I came in a couple of minutes late, so maybe you
20 already went over the definition of what it means to arrange
21 financing. Did you already go over that?

22 BY: MR. MILES

23 No, we went over the substance of a commitment, but not
24 that specific arrangement.

25 BY: MR. COTTEN

J & R Associates

P.O. Box 29 • DOUGLAS, ALASKA 99824

JUDY JONES
586-6846

RITA STOINICH
789-0208

1 (indisc.) Maybe you could explain exactly what it means to
2 commit to arrange financing and what would -- what would
3 happen if that commitment to arrange financing didn't come
4 about. What if Thyssen didn't "arrange to finance"?

5 BY: MR. HANZLIK

6 Let me read you in answer to your question -- if I can find
7 this -- these are two points in a telex dated 21 December
8 to Mr. Cain. But it was referred by telex to Dr. LeResche
9 from Dr. Gischwend, the Chairman of Thyssen. "The purpose of
10 this telex is to contribute further to the clarification
11 of our involvement in this important project. Please permit
12 the following comments: (1) ALPETCO has entered into a
13 binding contract with a joint venture consisting of Foster
14 Wheeler Energy Corporation and Thyssen, Rheinstahl, Technik
15 for the engineering, supply and construction of a turnkey,
16 fixed price basis of the refinery and petrochemical facility
17 at Valdez. This contract permits and obliges us to start
18 work on the project immediately. (2) In view of this
19 engineering and construction contract, there is a binding
20 commitment on our part to arrange financing for the project
21 to the extent considered to the conditions expressed in our
22 pertinent letter. In view of the fact that definitive long-
23 term documents are not to be executed until December 18,
24 1980, our present commitments to ALPETCO are substantially
25 stronger than would usually be expected at this stage of

J & R Associates

P.O. Box 29 • DOUGLAS, ALASKA 99824

JUDY JONES
586-6846

RITA STOINICH
789-0208

1 the project.

2 BY: MR. COTTEN

3 Sir, what does it mean that they've committed to arrange

4 financing? If they don't arrange financing, they probably

5 won't have a contract to complete those engineering projects

6 and so forth. I'm just not sure -- I'm still not sure what

7 it means when they say, they commit to arrange financing.

8 They're committing to you to arrange financing, I understand.

9 BY: MR. HANZLIK

10 That's right.

11 BY: MR. COTTEN

12 And if they don't come through with that commitment, that

13 just means you're not going to give them the contract. Is

14 that what that means?

15 BY: MR. HANZLIK

16 It means further, the contract we have with the State of

17 Alaska would be terminated because we will not be in ful-

18 fillment of the benchmark requirement in December of this

19 year.

20 BY: MR. MILES

21 The amendment requirement that was passed by the legislature

22 with the contract -- the actual expenditure of 100 million

23 dollars prior to taking, let's assume for a moment that

24 things bump along and you may say you want to take the oil

25 on July 18th. You've expended 16-1/2 million dollars in

J & R Associates

P.O. Box 29 • DOUGLAS, ALASKA 99624

JUDY JONES
586-6846

RIYA STONICH
789-0208

1 the project over the last two years. What's going to com-
2 prise the expenditure over the next 90 days that would allow
3 you to meet this -- meet the amendment?

4 BY: MR. HANZLIK

5 As you will recall, we had notified the commissioner that
6 based on his 18 December decision that we -- and he has
7 notified the state -- we have notified of our intent to take
8 the oil and have committed to spend 100 million dollars.
9 These are parent company guaranties, commitments. Now the
10 items for which expenditure will be made will be an assort-
11 ment of items purchased for the project through the contrac-
12 tor. Financing of this is in the final stages of being
13 arranged and it consists of items for which we want to
14 establish immediately the fixed price of, so that we don't
15 bear further escalation on -- and items for which there is
16 a long lead time and failure to buy now will result in poten-
17 tial delays in the project. These are items related to
18 power generation, to some of the marine terminal facilities,
19 some of the tankage -- specialized tankage facilities and
20 other items like that. There's a large amount of specialized
21 equipment which the engineer's-contractor, have gone out
22 for bid on and expect to have orders placed and these
23 purchases closed by mid-June.

24 BY: MR. MILES

25 Orders placed by mid-June ...

J & R Associates

P.O. BOX 29 • DOUGLAS, ALASKA 99824

JUDY JONES
586-8846

RYA STOINICH
789-0208

1 BY: MR. HANZLIK

2 No, ...

3 BY: MR. MILES

4 ... and you've gone out for that -- that's 85 million
5 dollars worth of bids?

6 BY: MR. HANZLIK

7 Yes, sir. 80 million.

8 BY: MR. PARKER

9 Let's clarify it. And this is an important point. The
10 money will be expended, but the money will be expended in
11 the same manner that this project will be handled and
12 completed. Thyssen is the one that has the buying power.
13 They have the responsibility to come back to us, to a lump
14 sum price and the lower that lump sum price, the more likeli-
15 hood the project of being viable. So we expect them when
16 they spend that money on our behalf, which we will pay to
17 them, that they don't just go out there and spend it. We
18 want to get the maximum benefit from those dollars spent is
19 what Willard is talking about. If we've got the time, which
20 they've been working on this for an extended period of time,
21 to have competitive bidding, whatever they can do. So that
22 when we buy an item, whatever that item is, that we get the
23 best price we can possibly get out of it. And that's the
24 way that the -- whatever the balance is -- the 80 million
25 dollars or to come up to that 100 million dollars, is going

J & R Associates

P.O. Box 29 • DOUGLAS, ALASKA 99624

JUDY JONES
586-6846

RITA STONICH
789-0208

1 to be expended.

2 BY: MR. MILES

3 So Thyssen will spend that then -- is that what you're
4 saying, Thyssen will spend that, or ALPETCO?

5 BY: MR. HANZLIK

6 Well we will pay for it.

7 BY: MR. PARKER

8 We will pay for it.

9 BY: MR. HANZLIK

10 But the orders will be place by the contractor, just as if
11 you were having a home built, you wouldn't go straight to
12 the plumber and buy the plumbing equipment, you'd have it
13 through your contract.

14 BY: MR. MILES

15 You'd pay for it by -- for these various power generation
16 things by July 18th?

17 BY: HANZLIK

18 June 30th.

19 BY: MR. PARKER

20 June 30th is the date.

21 BY: MR. MILES

22 Joe.

23 BY: MR. MCKINNON

24 You've indicated that Thyssen's been involved in two or
25 three similar projects recently. What were those projects?

J & R Associates

P.O. BOX 29 • DOUGLAS, ALASKA 99824

JUDY JONES
386-6846

RITA STONICH
789-0208

1 BY: MR. HANZLIK

2 They have built two that I know of. Mr. McKinnon, there's
3 one other that I can't identify for sure. There was an Iraqi
4 refinery built and I can't give you the name of the city, it
5 was a 200,000 barrel a day facility, which had -- it was a
6 relatively similar facility. It was an export refinery and
7 they also did one in Iran prior to -- it was completed in the
8 middle of last year. And I can get you specific names, but
9 I don't have them on the tip of my tongue. Those were joint
10 ventures between -- this is interesting. These were joint
11 ventures between Thyssen, as the managing contractor and
12 C. E. Loomis, which is a major U. S. contractor and Thyssen's
13 experience in the past has been that they rely on a U. S.
14 contractor for the engineering expertise and they provide the
15 procurement expertise, as Mr. Parker has indicated earlier,
16 in order to utilize their worldwide buying strengths to
17 procure equipment at attractive prices. Thyssen, in both of
18 these instances I've cited, bore the cost overrun risk by giving a
19 fixed price guaranteed project to the customer. And it was
20 through our knowledge of those projects that we initially came
21 into contact with Thyssen over 18 months ago.

22 BY: MR. MCKINNON

23 Those were fixed cost projects?

24 BY: MR. HANZLIK

25 Those were fixed -- just like this one. They were performance

J & R Associates

P.O. Box 28 • DOUGLAS, ALASKA 98624

JUDY JONES
586-6846

RITA STONICH
789-0208

1 guaranteed completion with a fixed price.

2 BY: MR. MCKINNON

3 After earlier testimony, I'm not sure I understand the differ-
4 ence anymore, but were these refineries or petrochemical plants?

5 BY: MR. HANZLIK

6 They were petrochemical plants.

7 BY: MR. COTTEN

8 He called it an export refinery a second ago. I was con-
9 fused on it too.

10 BY: MR. HANZLIK

11 Well, there is not a captive demand in Iraq for the products
12 from this facility. It's for export to the European market.
13 It doesn't really matter what the configuration of that
14 refinery was.

15 BY: MR. DAGON

16 They were in excess of 2 billion dollars.

17 BY: MR. HANZLIK

18 Ron says they were -- he says they were two billion dollar
19 projects. That's probably a reasonable number.

20 BY: MR. MCKINNON

21 Who were these projects constructed for?

22 BY: MR. HANZLIK

23 I can't tell you the client. But, as I said, one was in Iran
24 and one was in Iraq. They were probably government oil
25 companies since that's the way you do business in those two

J & R Associates

P.O. Box 29 • DOUGLAS, ALASKA 99824

JUDY JONES
586-6846

RITA STONICH
789-0208

1 countries.
2 BY: MR. McKINNON
3 It was unlikely that they arranged them with the financing.
4 BY: MR. HANZLIK
5 Yes, they did.
6 BY: MR. McKINNON
7 They did?
8 BY: MR. HANZLIK
9 Yes, they did.
10 BY: MR. McKINNON
11 Where the government's involved?
12 BY: MR. HANZLIK
13 The governments I'm sure were involved, but I do not know the
14 specifics of how those projects were financed.
15 BY: DAGON
16 The significant thing is the cost guarantee.
17 BY: MR. McKINNON
18 Now you selected -- I was under the assumption from your
19 testimony that you selected Thyssen because of their experience
20 in arranging financing on this type of a project.
21 BY: MR. HANZLIK
22 We did. We did.
23 BY: MR. McKINNON
24 But you're not sure how these projects were financed?
25 BY: MR. HANZLIK

J & R Associates

P.O. Box 29 • DOUGLAS, ALASKA 99824

JUDY JONES
586-6846

RITA STONICH
789-0208

1 I see what you're saying. I don't think my statement is at
2 all in conflict. Thyssen, in their communication to the
3 commissioner, has cited examples of projects they have arranged
4 financing for. They are in this -- this is the business they
5 are in. They are major facilities -- contractors -- and
6 their business is to arrange financing. Whether or not they
7 arrange the final pieces of financing for one facility or
8 another is extraneous as far as we're concerned. The fact is,
9 they put their commitment behind this project and we think
10 that speaks well for the State of Alaska that they're willing
11 to come into this new territory.

12 BY: MR. MCKINNON

13 You're not sure what the source of the funding was?

14 BY: MR. HANZLIK

15 No, sir, I'm not.

16 BY: MR. MILES

17 Mr. Malone.

18 BY: MR. MALONE

19 Thank you, Mr. Chairman. There might -- along with Mr.
20 McKinnon's point here -- there might have been, of course,
21 other communications to the commissioner. This one we have dated
22 21 December, '79, to Commissioner LeResche signed by
23 Schwartz and Schray (ph), I guess is how you say it, lists
24 something in Poland. It says a workshop, 300 million dollars.
25 Another item in Poland, a polyester foils plant, 120 million

J & R Associates

P.O. BOX 29 • DOUGLAS, ALASKA 99624

JUDY JONES
586-6846

RITA STONICH
789-0208

1 dollars and something in Argentina. I don't know if it's two
2 million or two thousand million dollars, which are shipyards.
3 I don't know what a polyester foils plant is, as a matter of
4 fact, but I don't see these other projects that are being
5 talked about in this communication.

6 BY: MR. HANZLIK

7 Then none of it was telexed obviously.

8 BY: MR. MILES

9 Mr. Malone.

10 BY: MR. MALONE

11 Mr. Chairman, if the commitment that's set out in arranging
12 the financing for -- by Thyssen is 750 million dollars, if
13 that financing isn't arranged, what recourse does ALPETCO
14 have against Thyssen?

15 BY: MR. JIM FRANCES

16 I'll answer that question. In my opinion, the responsibility
17 would be the same as if they committed to actually lend the
18 money.

19 BY: MR. MILES

20 Would you state your name for the record?

21 BY: MR. FRANCES

22 Jim Frances.

23 BY: MR. MILES

24 Thank you, Jim.

25 BY: MR. MALONE

J & R Associates

P.O. Box 29 • DOUGLAS, ALASKA 99824

JUDY JONES
586-6846

RITA STONICH
789-0208

1 So what would the recourse be then? Specific performance?

2 BY: MR. FRANCES

3 I don't believe you'd get specific performance. Neither
4 could you if they committed to lend the money either.

5 BY: MR. MALONE

6 So what's the answer to the question then?

7 BY: MR. FRANCES

8 The answer to the question is the responsibility is identical
9 to the responsibility had they committed to lend the money.

10 BY: MR. MALONE

11 Well, Mr. Chairman, I'll have to cogitate on that a bit. I
12 presume that some recourse would be available but -- in a
13 case like that, but the point I'm trying to get at is, you
14 know, how is that element of the financing scheme or plan,
15 rather, as presented December 18th, comport with the contract
16 requirement that -- a commitment is required to lend or
17 invest by contractually bound third parties and what is the
18 binding contract and what is the recourse against the contract
19 is what I was going to ask? But I'll rephrase the question
20 and ask it again in a moment, thank you.

21 BY: MR. MILES

22 Mr. Gardiner.

23 BY: MR. GARDINER

24 Yeah, on the same subject of financing. When did you start
25 trying to make arrangements for financing?

J & R Associates

P.O. Box 29 • DOUGLAS, ALASKA 99624

JUDY JONES
586-6846

RITA STONICH
789-0208

1 BY: MR. HANZLIK

2 19th of June, 1978.

3 BY: MR. GARDINER

4 Were you in communications or negotiations with other people
5 besides?

6 BY: MR. HANZLIK

7 Absolutely.

8 BY: MR. GARDINER

9 What kind of proposals? I guess what I'm wondering is --
10 there's some consideration of -- I think you've given some
11 reasons for why you selected Thyssen, but there was some
12 talk about contracts with Japanese and other major petro-
13 chemical firms and that. I think, at least, there was some
14 talk about that; testimony that these were the kinds of
15 people you would go to and try to get involved in the project
16 and hence those kind of companies would probably -- because
17 they're involved in the project, contribute to the financing.
18 Did you have proposals from these kinds of companies?

19 BY: MR. HANZLIK

20 Yes.

21 BY: MR. GARDINER

22 They weren't as good or ...

23 BY: MR. HANZLIK

24 No, they were not. I'm sorry. I'm not prepared to discuss
25 the details of the negotiations which led up to our selection

J & R Associates

P.O. BOX 29 • DOUGLAS, ALASKA 99624

JUDY JONES
586-6846

RITA STONICH
789-0208

1 of Thyssen or any other party with whom we are doing business.
2 And I don't mean to be belligerent about it, but it simply
3 isn't proper to operate this or any other business in a fish
4 bowl.

5 BY: MR. GARDINER

6 I wasn't asking the names of the companies. I just wondered
7 if there was other companies that you were involved with?

8 BY: MR. HANZLIK

9 Most certainly.

10 BY: MR. GARDINER

11 And these were like petrochemical companies?

12 BY: MR. HANZLIK

13 Sure.

14 BY: MR. GARDINER

15 Companies of this nature? But they weren't willing to give
16 commitments to financing?

17 BY: MR. HANZLIK

18 Mr. Gardiner, when you're in a commercial enterprise, after
19 long tears and negotiations, you choose what makes the best
20 sense under all the circumstances and in one instance you may
21 have a -- you may have things that are attractive with one
22 offer or one line of negotiations which make -- things aren't
23 necessarily parallel at all. The fact that the culmination
24 of a year and a half of effort resulted in Thyssen, simply
25 speaks to the -- I think -- to the strength of their proposal.

J & R Associates

P.O. Box 29 • DOUGLAS, ALASKA 99824

JUDY JONES
588-6846

RITA STOINICH
789-0208

1 There were several that we pursued which didn't materialize,
2 that weren't either interested in investing in Alaska or the
3 terms of which we weren't interested in having as investors.
4 There's a long list of those.

5 BY: MR. MILES

6 Well how do you know Thyssen is better when you don't know the
7 terms, when there are no terms in their commitment to arrange?

8 BY: MR. HANZLIK

9 I know that they are better for our requirements because of
10 what they were able to bring to this project?

11 BY: MR. MILES

12 Yeah, but from a financing standpoint, there are no financing
13 terms insofar as your arrangement with Thyssen.

14 BY: MR. HANZLIK

15 That's right.

16 BY: MR. MILES

17 So I guess, how can you say -- I don't understand how you can
18 say that it's a better deal for you.

19 BY: MR. HANZLIK

20 Well, I guess that's our risk.

21 BY: MR. MILES

22 Well, it may be our risk if we're plunking down 150,000
23 barrels of oil.

24 BY: MR. MILES

25 Mr. Gardiner.

J & R Associates

P.O. Box 29 • DOUGLAS, ALASKA 99824

JUDY JONES
586-6846

RITA STONICH
789-0208

1 BY: MR. GARDINER

2 Just to explain, I mean, the point of the line of questioning
3 is this. It's pretty obvious why you'd try to get tax exempt
4 bonds. That's a good deal for financing, right. I mean any-
5 body can figure that out, right, because you know that you're
6 going to be at substantially below market rates of interest
7 that you might get from any commercial lender or whoever.
8 Okay, so there has -- you know, there is a question about the
9 viability of the project. Okay, well economists and business
10 people always tell us that well, you know, that's one reason
11 you keep government out of these -- financing of projects and
12 stuff is so that there's a market test. So that's why we
13 asked the question because Thyssen has said, give me a commit-
14 ment to arrange financing which, in my book, isn't nearly as
15 strong as somebody committing to lend, even though they make
16 it contingent. Normally, as it's been explained to me, the
17 lender would say, fine, we'll commit to finance upon these
18 conditions, right, and then when all those conditions are met,
19 everybody sits around the table and signs the line, right.
20 Well, you're a step back from that. You have somebody that's
21 going to go to those lenders at some future point, right.
22 And so we don't know those terms so therefore there isn't
23 that, you know, the same kind of market test at this point
24 and that's the reason for the line of questioning.

25 BY: MR. PARKER

J & R Associates

P.O. BOX 29 • DOUGLAS, ALASKA 99624

JUDY JONES
586-6846

RITA STONICH
789-0208

1 Let me -- Willard let me answer this question. Willard is the
2 finance expert and I'm not. But Thyssen does bring to the
3 table a fixed price contract, included in that fixed price
4 contract has got to be the construction interest and the
5 carrying costs and etc. that's involved in it. So, when you
6 say, okay, what is their rate or what are those terms -- maybe
7 you don't know that at this point in time, but I will guarantee
8 you in a period of time where you've got inflation that we
9 have, if you're able to tie something down on a fixed bid
10 contract, it's got to have a value to it. And the real
11 question comes, they arrange the financing, they come in with a
12 fixed price contract and at that point in time, there is where
13 the evaluation as to whether our risk in going with them
14 was good or bad. And I agree with Willard in that we may have
15 talked to numerous other financing agencies, countries, etc.,
16 some of which Thyssen may go back and talk to. And we're
17 not going to sit here today and cover the details of our
18 discussions with them.

19 BY: MR. HANZLIK

20 I think I can be of some help to you. You've asked the
21 question and I think I answered it accurately. What were the
22 terms of Thyssen's commitment to arrange. And the answer is,
23 they are not included in that commitment. But let me tell
24 you where we are as far as the terms of the export credit
25 financing and that may help you ...

J & R Associates

P.O. Box 28 • DOUGLAS, ALASKA 99824

JUDY JONES
586-6846

RITA STONICH
789-0208

1 BY: MR. MILES

2 The what?

3 BY: MR. HANZLIK

4 The export credit financing, which is what Thyssen is arrang-
5 ing. So that you can appreciate the financial environment
6 that this is being done under, as far as term of the contract,
7 export credits are generally five to seven years after comple-
8 tion of the facility. It's our understanding that that will
9 be the appropriate term for negotiating for as long a term as
10 possible. The rate will be the then market rate for export
11 credits.

12 BY: MR. MILES

13 Is this a -- I don't understand exactly this part. Is this
14 the 750 million we're talking about?

15 BY: MR. HANZLIK

16 Yes, sir.

17 BY: MR. MILES

18 This is all the 750?

19 BY: MR. HANZLIK

20 That's right.

21 BY: MR. MILES

22 Okay.

23 BY: MR. HANZLIK

24 Export credits are -- the terms and conditions of them are estab-
25 lished jointly by agencies of governments, the U. S. participates

J & R Associates

P.O. Box 29 • DOUGLAS, ALASKA 99824

JUDY JONES
586-6846

RITA STONICH
789-0208

1 in this. But obviously this would not be an export credit for
2 U. S. source, but the rates are going to be comparable whether
3 the money is sourced out of France, Germany, Italy, Japan,
4 Belgium or wherever. These export agencies confer among them-
5 selves and arrive jointly at rates and terms and they all comply
6 with this, once they've set a mutually agreeable set of condi-
7 tions.

8 BY: MR. GARDINER

9 Is this like an EEC deal or something?

10 BY: MR. HANZLIK

11 Exactly. So we're talking about the going market rate and
12 today if that were done, it would probably be 9-3/4% fully
13 loaded. Now we hope it will be less than that. It may be
14 more than that. We're planning for the worst. We're planning
15 that it may be well above that. I mentioned the term, 5 to
16 7 years, and the drawdown of these instruments typically are
17 in progress payments as required to supply the equipment. So
18 beyond that, we can't be more specific because Thyssen doesn't
19 know whether it's going to be buying specific items of equip-
20 ment in France or in Japan or Germany or wherever. Once it
21 determines these things, then the respective export agencies
22 will come forward and those pieces will be put into the puzzle.

23 BY: MR. GARDINER

24 Is there some connection between the utilization of this
25 export credit financing and purchasing products -- material

J & R Associates

P.O. Box 29 • DOUGLAS, ALASKA 99624

JUDY JONES
586-6846

RITA STONICH
789-0208

1 from the foreign countries?

2 BY: MR. HANZLIK

3 Products from the refinery or products as in equipment from

4 the countries?

5 BY: MR. GARDINER

6 That's part of the deal ...

7 BY: MR. HANZLIK

8 Oh, it's directly related. Absolutely hand in glove.

9 BY: MR. GARDINER

10 They're happy to give you financing as long as you're buying

11 products from them.

12 BY: MR. HANZLIK

13 Absolutely, just as the United States does that.

14 BY: MR. BARNES

15 You're promoting their exports.

16 BY: MR. GARDINER

17 Right, so does this more or less presume that if 750 million

18 dollars of financing was arranged that some amounts in that

19 magnitude would be used -- I mean, is there some kind of

20 ratio or does that mean you have to purchase 750 million

21 worth of equipment from European sources?

22 BY: MR. HANZLIK

23 Not necessarily. It's different in each instance. But

24 generally, for purposes of what we're talking about right

25 now, financing follows the securing of equipment. They are

J & R Associates

P.O. BOX 29 • DOUGLAS, ALASKA 99824

JUDY JONES
586-6646

RITA STONICH
789-0208

1 directly related.

2 BY: MR. PARKER

3 And has a direct bearing on the quote which Foster Wheeler --
4 or Thyssen can give you as far as the cost of that project.

5
6 BY: MR. HANZLIK

7 Yeah, one other point on these export credits that's obviously
8 critical, is that they're government sponsored. And the reason
9 the rates and terms are attractive, is that individual govern-
10 ments and this is much more the instance outside the U. S.
11 than in this country, foreign governments are promoting exports
12 of their industry and they, therefore, in essence subsidize
13 the financing by making -- by giving government guarantees
14 and other assurances to commercial institutions, financial
15 institutions which in turn actually make the loans.

16 BY: MR. GARDINER

17 They guarantee that?

18 BY: MR. HANZLIK

19 The government will guarantee so that a commercial bank with-
20 in one of these nations will actually make the disbursement
21 of funds. Now, at one point in time, ALPETCO was working,
22 I would say, 90% of this financing -- this export financing,
23 from Japan. And for a number of reasons, principally that
24 there has developed some very attractive financing sources
25 in Europe, we are now at a point of probably getting 50-50.

J & R Associates

P.O. Box 29 • DOUGLAS, ALASKA 98624

JUDY JONES
586-6846

RITA STONICH
789-0208

1 And this is a good example of responding to changes in the
2 marketplace.
3 BY: MR. MILES
4 I don't understand export financing.
5 BY: MR. GARDINER
6 I'll explain it to you sometime.
7 BY: MR. MILES
8 Would you like to do it right now?
9 BY: MR. GARDINER
10 I've really got it.
11 BY: MR. MILES
12 Okay, on the 750 million dollar commitment from Thyssen, it's
13 going to be somehow tied in with this export financing which
14 is a government subsidy and you're hoping to get this money
15 at 9-3/4 short-term, 5 to 7 years. Which government is going
16 to subsidize?
17 BY: MR. HANZLIK
18 It's not true a government subsidy, Mr. Miles, it's a matter --
19 foreign governments and the U. S. government have established
20 procedures whereby for a fee paid by the borrower, an agency
21 of these respective governments will give loan insurance
22 to their respective lending commercial banks and generally
23 it's a quarter point. Sometimes it's a half point. But it's
24 a matter that they in turn assure the bank that's in their
25 respective countries, that if there's anything about a project

J & R Associates

P.O. BOX 29 • DOUGLAS, ALASKA 99824

JUDY JONES
586-6846

RITA STOINICH
789-0208

1 or a loan which jeopardizes the repayment, then the government
2 of that respective country steps in and makes good on the
3 loan.

4 BY: MR. MILES

5 Which government are we talking about. I guess, are we talking
6 about ...

7 BY: MR. HANZLIK

8 France, Germany, Britain, Japan ...

9 BY: MR. MILES

10 Well, no, insofar as the Thyssen and the 750 million.

11

12 BY: MR. DAGON

13 Same list.

14 BY: MR. MILES

15 We're talking about ...

16 BY: MR. HANZLIK

17 All those countries.

18 BY: MR. DAGON

19 Same list.

20 BY: MR. MILES

21 All the countries are going ...

22 BY: MR. PARKER

23 Possibly.

24 BY: MR. MILES

25 ... give that -- make that assurance or set up the guaranty?

J & R Associates

P.O. Box 29 • DOUGLAS, ALASKA 99824

JUDY JONES
586-6646

RITA STONICH
789-0208

1 BY: MR. PARKER
2 It depends on, you know, they'll go out with bids to see
3 what that can buy and what's the best deal they can make,
4 both including purchase and the financing of it.
5 BY: MR. HANZLIK
6 That's right.
7 BY: MR. MILES
8 I see, so from whatever -- whoever buys ...
9 BY: MR. PARKER
10 Whatever country.
11 BY: MR. MILES
12 ... the 100 million of the 750, that particular government
13 will guarantee for an insurance premium of a half a percent
14 or whatever percent.
15 BY: MR. PARKER
16 Well, what it does, it creates employment work in that given
17 country, doesn't it? I mean that's the theory behind it.
18 BY: MR. DAGON
19 This isn't exotic is what you're trying to say.
20 BY: MR. PARKER
21 No. It's done all the time.
22 BY: MR. DAGON
23 This isn't some exotic plan. It's a common method of
24 financing very large project -- very small projects, as far
25 as that's concerned.

J & R Associates

P.O. Box 29 • DOUGLAS, ALASKA 99624

JUDY JONES
586-6846

RITA STOINICH
789-0208

1 BY: MR. PARKER
2 And the U. S. Government will do that, won't it?
3 BY: MR. HANZLIK
4 Sure.
5 BY: MR. PARKER
6 For construction projects of other countries. They won't
7 do it for a domestic project.
8 BY: MR. MILES
9 Mr. McKinnon.
10 BY: MR. MCKINNON
11 If last December 18th you had gone to Commissioner LeResche
12 and said the financing we've arranged is 600 million in
13 bonds from the City of Valdez and we've got 350 million in
14 equity and we intend to go out during the next year and
15 arrange an additional 750 million dollars worth of loans,
16 would that have met the benchmark?
17 BY: MR. HANZLIK
18 No.
19 BY: MR. MCKINNON
20 And you're contending that's like contractually obligating
21 somebody to do what wouldn't have met the benchmark if you
22 yourself had done it, you've met the benchmark.
23 BY: MR. HANZLIK
24 Exactly. Sure.
25 BY: MR. MCKINNON

J & R Associates

P.O. Box 29 • DOUGLAS, ALASKA 98624

JUDY JONES
586-6846

RITA STONICH
789-0208

1 I don't see the logic there.

2 BY: MR. HANZLIK

3 You don't see the logic in ...

4 BY: MR. McKINNON

5 I can't understand how ...

6 BY: MR. HANZLIK

7 Because I can't demonstrate to you and I'm having some diffi-
8 culty, I guess, even explaining it, but I can't demonstrate
9 to you that we have the expertise and experience and history
10 of arranging major financing for projects like this or like
11 any other project, because that's not the business we're in.
12 That is the business that Thyssen is in.

13 BY: MR. PARKER

14 But I think there's one point. Rather than answer hypothetical
15 questions, I think really somebody needs to look at the
16 December benchmark 1979 and the December benchmark 1980,
17 because 1980 says you will have signed documents, as such.
18 And you can't back up the signed documents, terms and condi-
19 tions and everything else back to 1979. That's what that
20 year was contemplated for. I mean, if that's the case, why
21 did you need a December 1980 benchmark?

22 BY: MR. McKINNON

23 My understanding was that the '79 benchmark was to get firm
24 commitments to lend and to have executed the loans by Decem-
25 ber of '80.

J & R Associates

P.O. Box 29 • DOUGLAS, ALASKA 99824

JUDY JONES
586-6846

RITA STOINICH
789-0208

1 BY: MR. PARKER

2 And they got firm commitments. The question is, you will work
3 out the terms, conditions and etc. and get your signed docu-
4 ments by 1980. That's really what was intended.

5 BY: MR. MCKINNON

6 I don't see a commitment to lend anywhere in there.

7 BY: MR. HANZLIK

8 Well, again, I'll just say one more time, my point and my
9 statement on this whole issue on the state's investment
10 banker, who has given his opinion, that under the circumstances,
11 taking the whole situation in context, he believes there's
12 been a commitment rendered. And we've acted in good faith
13 based on these issues.

14 BY: MR. PARKER

15 And we believe a commitment has been made.

16 BY: MR. HANZLIK

17 Absolutely.

18 BY: MR. MILES

19 Mr. Malone.

20 BY: MR. MALONE

21 Thank you, Mr. Chairman. I'm not accusing anybody of not
22 acting in good faith, but it seems to me that in the so-
23 called 18 month benchmark, or within 18 months after the
24 effective date, we do have an item sub -- (d) that says,
25 obtain or cause contractually bound third parties to obtain

J & R Associates

P.O. BOX 29 • DOUGLAS, ALASKA 98624

JUDY JONES
566-6846

RITA STONICH
789-0208

written commitments to lend or invest a billion and a half dollars for total project costs. Now, it's my belief that the reason that was in there at the 18 month benchmark is that the financability of the project would be demonstrated prior to the date when the royalty oil is to be turned over to ALPETCO and that's the reason that I've been asking these questions, is because I want to make a determination in my mind whether or not that financability has been demonstrated. And I think that's the only reason for having that in the contract. Now maybe that's a matter of interpretation. But -- so ... It's not a question of accusing anybody of bad faith. It's just a matter of getting information.

MR. PARKER

We believe that and we think Thyssen believes that and that's the reason why they issued their commitment in our opinion.

MR. MILES

I think it should be noted that the letter that Mr. Hanzlik referred to in the first sentence of that last paragraph allows as how Lazare Freres (ph) offers no opinion as to whether or not the statements of Thyssen, the sponsors and E.F.Hutton constitute a binding legal commitment. Other questions?

Mr. Chatterton.

MR. CHATTERTON

Yeah, I'm going to shift gears, if I may, a little bit. I promised you 55, but I won't hold with that because actually you know

J & R Associates

P.O. Box 29 • DOUGLAS, ALASKA 99624

JUDY JONES
586-6846

RITA STONICH
789-0208

1 Ron sort of mentioned here -- he pleaded with us when he
2 started putting up his signs here that he didn't want us to
3 nail them down. Of course, for over two years now I found
4 out from a practical standpoint, I can't nail you down, you're
5 too fast a moving target. So, don't worry, I won't try and
6 nail you down. But really, to get to practical aspects,
7 could you tell me -- you're about 75 days away from lifting
8 150,000 barrels a day of oil from Valdez or Valdez terminal,
9 could you tell me how you're going to do it, where's it
10 going, who's going to buy it and so forth and so on. Seventy-
11 five days is a short while and I know you've made tanker
12 arrangements and things.

13 BY: MR. PARKER

14 We have not made tanker arrangements, to be honest with you.

15 BY: MR. CHATTERTON

16 You have not?

17 BY: MR. PARKER

18 We have not.

19 BY: MR. CHATTERTON

20 You have to be kidding.

21 BY: MR. PARKER

22 Well, let me just ask you something. First of all, to move
23 that oil out of there, where it's split between the
24 two porters, do you know the rules and regulations of TAPS
25 from the standpoint that you're looking at moving product

J & R Associates

P.O. Box 29 • DOUGLAS, ALASKA 99624

JUDY JONES
586-6846

RITA STONICH
769-0208

1 out of there. You've got 5-1/2 days storage, okay? You can
2 size the ship based on 5-1/2 days and that's not the way we
3 ought to move it. We ought to be exchanging it in some form
4 or fashion with people who currently have tonnage. So,
5 again, these are the kinds -- the practical matters of us
6 being able to handle that type of oil. There are penalties,
7 severe penalties if you don't move it within that time frame,
8 providing that the level of product, crude, in TAPS exceeds
9 -- I don't remember -- it was 75% of the operating capacity,
10 they can charge you \$.20 a barrel per day. And we really
11 at this point in time don't want to sign up with enough
12 ships to take it out of there on every 5-1/2 days at that
13 size ship. And you can look at Alaska Interstate, where
14 they've got 45,000 barrels a day. Now we can tell you this,
15 our problem is we're trying to negotiate a deal that is
16 viable and you're talking about producers and people that
17 testify that may not want us to have that crude oil. Dammit,
18 we are bootstrappin it up as best we can to make this project
19 go. So we don't and have not signed up. We have talked to
20 Sea Train and so forth as within the next week, as to sit
21 down and talk to them about shipping. We may have to fall
22 back to that. But the most logical thing is to come in with
23 some type of exchange that allows us to operate in the same
24 manner that the majors do in taking their crude oil out of
25 the terminal at Valdez. We have been down to their meetings

J & R Associates

P.O. Box 29 • DOUGLAS, ALASKA 99824

JUDY JONES
586-6846

RITA STOINICH
789-0208

1 where they set up the shipping and so forth. We believe in
2 this being a viable project and are doing everything we can.
3 But again, we don't like to run our business in a fish bowl
4 of saying who we're talking to and let them realize what type
5 of binds we're in, to try to move it. And we will move it.
6 If we got to move it, if we've got to sell it back to one of
7 them and make a penny a barrel, we'll have to do that. But
8 we will move that crude oil.

9 BY: MR. CHATTERTON

10 Make a penny a barrel, what if you lost a penny a barrel?

11 BY: MR. PARKER

12 If we lost a penny a barrel, we'll lose a penny a barrel.

13 BY: MR. CHATTERTON

14 What risk, if you say you will, like you've said many things,
15 what if you don't though? What's the risk to the state if you
16 don't lift it, if you physically can't, if you can't get a
17 contract bottom anyplace, an American flag contract bottom?

18 BY: MR. PARKER

19 Well, I think your biggest risk would be to decide which one
20 of the ones knocking on your door you'd peddle it to. Because
21 I guarantee you that I think, and you'll have to ask LeResche,
22 but I believe from the standpoint that anybody currently
23 taking that crude, would immediately take that crude off his
24 hands.

25 BY: MR. CHATTERTON

J & R Associates

P.O. BOX 29 • DOUGLAS, ALASKA 99624

JUDY JONES
586-6846

RITA STONICH
789-0208

1 What if they -- Mr. Chairman. I can't help but worry, to be
2 very honest with you -- now here I am as -- I have titles to
3 some oil coming down the pipeline and I have my tankers all
4 scheduled, good, American flag, Jones Act tankers.

5 BY: MR. PARKER

6 Okay.

7 BY: MR. CHATTERTON

8 And I'm moving it. And here, suddenly, the State of Alaska
9 tells me, well, you're going to get 1/8 less from now on.
10 Well, I'm going to start talking to my tanker people and say
11 well we're going to be lifting a little bit less and I'm
12 going to change my schedule.

13 BY: MR. PARKER

14 Okay.

15 BY: MR. CHATTERTON

16 All right, because Joe Dokes is going to start lifting that.
17 And then what happens if Joe Dokes doesn't lift it? I can't
18 change my tanker schedule in that fashion.

19 BY: MR. PARKER

20 Well, I think that what you'll find, as a practical matter,
21 in the oil business, is that you've got -- all of these
22 companies have got the same problem, maybe a ship slips some-
23 time. They exchange with each other, pick up, loan, lend,
24 so forth. There again is developing a relationship and I
25 guess it's second nature to us. We run a refinery in Houston,

J & R Associates

P.O. Box 29 • DOUGLAS, ALASKA 99624

JUDY JONES
586-6846

RITA STOINICH
789-0208

1 we run a refinery in the Bahamas. We have been shipping crude
2 oil from West Texas by pipeline for -- since, I guess, 25
3 years that I'm aware of and we have never run out of crude
4 oil in that refinery yet. We have had to borrow. We've had
5 to loan. We've been in cases to where somebody ends up with
6 their crude unit going down with a fire. We've offered from
7 the standpoint to assist them to take their crude. We've had
8 the same offers from them. You know, you don't stand out
9 there as an island. You're part of the oil industry.

10 BY: MR. CHATTERTON

11 Thank you. Mr. Chairman. I guess then what you're telling
12 me is that I have nothing to fear. You are going to lift
13 your 150 plus thousand barrels a day starting July the 18th,
14 1980 and I have nothing to worry about. You're going to get
15 the job done.

16 BY: MR. PARKER

17 We will get the job done. We may not start July the 18th,
18 because I think there's a line fill involved on it, but when
19 it comes time for us to lift it, we will, in some form or
20 fashion, make arrangements to move it.

21 BY: MR. CHATTERTON

22 Thank you.

23 BY: MR. PARKER

24 I appreciate you worrying. But I also from the standpoint,
25 if we don't move it, they may replace me see.

J & R Associates

P.O. Box 29 • DOUGLAS, ALASKA 99824

JUDY JONES
586-6846

RITA STONICH
789-0208

1 BY:
2 You've got some worrying to do.
3 BY: MR. PARKER
4 So I also worry about that.
5 BY: MR. FERGUSON
6 Mr. Chairman.
7 BY: MR. MILES
8 Senator Ferguson.
9 BY: MR. FERGUSON
10 I'd like for someone to answer me -- I'm sorry I wasn't here
11 earlier, Mr. Chairman. The corporate structure that you have
12 set up now, what companies do you have, who owns what?
13 BY: MR. HANZLIK
14 Mr. Dagon can help you ...
15 BY: MR. PARKER
16 Let's just give him a page that was shown as a slide and then
17 we can answer any questions.
18 BY: MR. FERGUSON
19 Mr. Chairman.
20 BY: MR. MILES
21 Senator Ferguson.
22 BY: MR. FERGUSON
23 Charter Oil of Alaska, Inc., it's an Alaska corporation,
24 right?
25 BY: MR. PARKER
It is.

J & R Associates

P.O. BOX 29 • DOUGLAS, ALASKA 99624

JUDY JONES
586-6846

RITA STONICH
789-0208

1 BY: MR. FRANCES
2 It's a Florida corporation, excuse me.
3 BY: MR. FERGUSON
4 What was that?
5 BY: MR. FRANCES
6 It's a Florida corporation.
7 BY: MR. PARKER
8 Legally. Legally, from the standpoint it was incorporated
9 in the State of Florida.
10 BY: MR. FRANCES
11 It's qualified to do business in the state ..
12 BY: MR. PARKER
13 It's qualified to do business in the State of Alaska.
14 BY: MR. FERGUSON
15 It's a paper corporation here in Alaska.
16 BY: MR. PARKER
17 It's a subsidiary of the Charter Company.
18 BY: MR. FERGUSON
19 In this paper transaction, does this lessen your tax obliga-
20 tion in the State of Alaska?
21 BY: MR. HANZLIK
22 Let me answer this. You've used the term paper corporation.
23 Charter Oil of Alaska is a partner in a joint venture that
24 has assets in excess of 16 million dollars. And I don't
25 consider that to be a paper corporation. And it's backed by

J & R Associates

P.O. Box 29 • DOUGLAS, ALASKA 99824

JUDY JONES
586-6846

RITA STONICH
789-0208

the -- a guarantee that the person who has the assets of -- has net worth of over 650 million dollars.

MR. FERGUSON

My question was ...

MR. HANZLIK

These ventures have no income in the State of Alaska, the State of Florida or the State of Texas. The 16 million dollars that we have spent is all a loss and therefore there are no taxes paid either to the Federal Government or any state government at this time.

MR. FERGUSON

Is there a tax burden to your employer at any time?

: MR. HANZLIK

I think the question that you're headed to -- if I can jump ahead of you, is will these companies pay taxes in the State of Alaska and the answer is yes, they will.

Y: MR. FERGUSON

On what portion of the product?

BY: MR. HANZLIK

The same way that -- my understanding, I'm not a tax expert, but the same way Chevron, for instance, just to use an example Exxon or anybody else pays taxes in the State of Alaska. They are not incorporated here, but they operate here, they do business here and they pay taxes here.

J & R Associates

P.O. Box 29 • DOUGLAS, ALASKA 99824

JUDY JONES
586-5846

RITA STONICH
789-0208

1 BY: MR. FERGUSON

2 It seems to me you're selling from one company to another,
3 one based in Florida and one based in Alaska and yet it's
4 the same company, yet they own different assets so-called,
5 is that true?

6 BY: MR. HANZLIK

7 Not exactly. There will be no gain or loss in a transaction
8 between the partnership, the ALPETCO Company, and the sale
9 of crude oil to the Charter Company, Charter Oil Alaska. But
10 the transaction in which Charter Oil of Alaska makes, will
11 be -- it will be operating within the jurisdiction of the
12 State of Alaska.

13 BY: MR. FERGUSON

14 Mr. Chairman. I don't mean to be rude here, but I think this
15 question needs to go to someone that can give us a direct
16 answer. Is the makeup of Charter Oil of Alaska, Inc. and
17 the owner in Florida, is there a loss to the State of Alaska
18 with the Alaska tax structure and the Florida tax structure
19 and with this corporation set up the way it is. I'd like to
20 find out?

21 BY: MR. FRANCES

22 I don't think anyone here knows the answer to your question.
23 I know Charter Oil of Alaska is not incorporated in Florida
24 to avoid paying taxes. But, in answer to your question ...

25 BY: MR. FERGUSON

J & R Associates

P.O. Box 29 • DOUGLAS, ALASKA 99824

JUDY JONES
586-6846

RITA STONICH
789-0208

1 I'm not saying avoid, I'm saying do you have to pay taxes in
2 Florida? Is there a difference between their tax structure
3 and our tax structure?
4 BY: MR. FRANCES
5 I don't know the answer to that question.
6 BY: MR. PARKER
7 It would still be based on the where the business that was
8 transacted.
9 BY: MR. FRANCES
10 That's correct.
11 BY: MR. PARKER
12 Let's clarify one thing. Charter, being the size company it
13 is, there are numerous subsidiaries, wholly owned subsidiaries;
14 the one in Houston, Charter International, it owns the Houston
15 refinery, is a subsidiary. It's a separate corporation. Our
16 marketing arm, the service stations, which is housed in
17 Hammond, Louisiana, is a separate corporation. Our crude oil
18 company is a separate corporation. None of that is designed
19 from the standpoint to affect a tax structure.
20 BY: MR. FERGUSON
21 Mr. Chairman. The question that I asked earlier was Charter
22 Oil of Alaska, Inc., is it an Alaska corporation? The answer
23 that I received, and correct me if I'm wrong, yes, it is an
24 Alaska corporation. Yet, it's also a Florida company.
25 BY: MR. FRANCES

J & R Associates

P.O. Box 29 • DOUGLAS, ALASKA 99824

JUDY JONES
586-6846

RITA STONICH
789-0208

1 No, no. The answer to your question is, it is a Florida
2 corporation, it is not an Alaska corporation.
3 BY: MR. HANZLIK
4 But it's licensed to do business in Alaska.
5 BY: MR. FERGUSON
6 Licensed to do business.
7 BY: MR. HANZLIK
8 Right. In other words, it's registered with -- what is it --
9 the Department of Commerce, I think is the agency.
10 BY: MR. MILES
11 Senator?
12 BY: MR. FERGUSON
13 I'm finished now but I'd still like to get an answer between
14 the tax structure in Florida and the tax structure here and I think we
15 could find someone that knows the answer.
16 BY: MR. MILES
17 If worse comes to worse and the worst possible thing happens,
18 ALPETCO goes belly up, what happens?
19 BY: MR. DAGON
20 Without being funny, does he mean individually or collectively?
21 BY: MR. PARKER
22 Well, you know, that's ...
23 BY: MR. MILES
24 Well, I guess I'm mainly concerned about the state's resource,
25 the 150,000 barrels a day, what happens to that?

J & R Associates

P.O. BOX 28 • DOUGLAS, ALASKA 99824

JUDY JONES
588-6846

RITA STOINICH
788-0208

1 BY: MR. HANZLIK

2 Let me try a crack at it. The contract has very specific
3 security requirements that must be in place prior to the
4 taking of any of the state's oil. At all times the state is
5 protected either by letter of credit or other approved
6 alternate security. I can't cite you to the contract but
7 there's about 8 or 10 pages about the form of security that
8 must be provided to the state. And at all times the state is
9 100% protected.

10 BY: MR. MILES

11 Are you saying then that if ALPETCO goes bankrupt or Chapter
12 11 or something along those lines, that it has no claim
13 whatsoever to the oil? That's what you're saying?

14 BY: MR. PARKER

15 You posed a different question. You said if you went ...

16 BY: MR. FRANCES

17 What Willard said is that you are secured and that you
18 would get paid for the oil.

19 BY: MR. MILES

20 Well, what I'm saying -- if there is no more plans, if
21 ALPETCO is a corporation, let me rephrase it then. If
22 ALPETCO as a corporation goes bankrupt, neither Charter, nor
23 ALPETCO, nor the ownership in the claimed oil reverts
24 to the state.

25 BY: MR. DAGON

J & R Associates

P.O. Box 29 • DOUGLAS, ALASKA 99824

JUDY JONES
586-6846

RITA STONICH
789-0208

1 I'm sorry. You're talking about your plant is up, operating
2 and now ...

3 BY: MR. MILES

4 Well maybe it's not. Maybe a year from now before it's done
5 it goes belly up.

6 BY: MR. FRANCES

7 It provides on page 41 of the Royalty Oil Contract ...

8 BY: MR. MILES

9 Well, could you just tell me 'cause I

10 BY: MR. FRANCES

11 It's a default. If the buyer goes into bankruptcy, it is a
12 default entitling the state to terminate the supply of crude
13 oil.

14 BY: MR. MILES

15 Okay, you're saying then if ALPETCO does go bankrupt, the
16 state gets the oil back?

17 BY: MR. FRANCES

18 That's what the contract provides.

19 BY: MR. MILES

20 Yes or no. Can you give me a yes or no?

21 BY: MR. FRANCES

22 The contract provides that when the buyer become insolvent or
23 commits an act of bankruptcy, the seller can terminate the
24 supply of crude oil.

25 BY: MR. MILES

J & R Associates

P.O. Box 29 • DOUGLAS, ALASKA 99824

JUDY JONES
588-6846

RITA STONICH
789-0208

1 Okay, well I interpret that to mean that if ALPETCO goes
2 bankrupt, the state gets the oil back. Is that right?
3 BY: MR. FRANCES
4 I think that's right. That's what the contract provides.
5 BY: MR. MILES
6 Okay. That's what we all mean. Nobody's disputing that,
7 that that's what we mean.
8 BY: MR. FRANCES
9 The person that you want to fight with about it, is going to
10 be the trustee in bankruptcy.
11 BY: MR. MILES
12 Well, you're disputing that. Are you disputing that?
13 BY: MR. FRANCES
14 I don't know the answer to the question. I know the contract
15 provides that you get the oil back. And if that provision
16 of the contract is enforceable, you get the oil back. But
17 I'm not going to -- I don't know what the bankruptcy law is.
18 BY: MR. PARKER
19 That's what he's in. He doesn't know the bankruptcy laws and
20 I am no attorney, but I would say this. If it went into
21 bankruptcy, you can forget about the Charter Oil of Alaska
22 having that crude oil. It's going to be between you and the
23 bankruptcy court. So if you're looking from the standpoint
24 of that a means of going bankruptcy and continuing to take
25 the oil on Charter's part or ALPETCO's project, that ...

J & R Associates

P.O. BOX 29 • DOUGLAS, ALASKA 99824

JUDY JONES
586-6846

RITA STOINICH
789-0208

1 BY: MR. MILES

2 It's a resource that belongs to all the people of Alaska and
3 I think it's a legitimate question, one that we don't seem to
4 be getting a real definitive answer to, although I think you're
5 saying, that yeah, if ALPETCO goes bankrupt, the state gets
6 the oil back. I guess that's what you're saying.

7 BY: MR. PARKER

8 Well, but what you're asking there though, is a contract that
9 was negotiated and I'm sure reviewed by the legal counsel in
10 some form or fashion of the State of Alaska and they're the
11 ones that you ought to tell you that in their opinion that's
12 what would take place.

13 BY: MR. MILES

14 Well, contracts are all just lawyers' ways of laying out what
15 the intent means and I was just trying to get your intent,
16 'cause you guys are the signees [sic].

17 BY: MR. PARKER

18 Right, and you're the signors [sic].

19 BY: MR. MILES

20 Not me. The state had more than one attorney. Mr. Parr.

21 BY: MR. PARR

22 Mr. Chairman. I'd like to come back to a simple question, get
23 away from the high finance here. When we were getting a
24 briefing over on the slides, we were given some figures on
25 employment going up to about 2900 and I guess I had a little

J & R Associates

P.O. Box 29 • DOUGLAS, ALASKA 99824

JUDY JONES
586-6846

RITA STOINICH
789-0208

1 trouble there because we had gotten a figure of five hundred
2 and something out of the environmental impact statement, which
3 is fairly recent, and I guess the obvious question is, which
4 is right, you know, is your environmental impact statement
5 or your slide? So you go up to 2900 and something on your
6 slide and 579 on the impact statement.

7 BY: MR. HANZLIK

8 Let's have Ron answer the question. I learned something --
9 I've been involved in the financing and I did not have any-
10 thing to do with the writing of the environmental impact state-
11 ment. And I learned something that I found -- that I didn't
12 know, I learned today, and that is we didn't prepare the
13 environmental impact statement and Ron can tell you who did.
14 But statements that are made of -- they said the taxes were
15 this or whatever, is based on the consultants hired by who --
16 the EPA and the state? They were not in conjunction -- we
17 did not have the ability to review, approve, edit, change,
18 whatnot, these documents. Okay this is a third party objective
19 environmental ...

20 BY: MR. PARR

21 It does say Alaska Petrochemical Company on the cover ...

22 BY: MR. HANZLIK

23 Yes, sir. We did not write that.

24 BY: MR. PARR

25 Are you disclaiming then any -- are you disclaiming that?

J & R Associates

P.O. BOX 29 • DOUGLAS, ALASKA 99824

JUDY JONES
586-6846

RITA STONICH
786-0208