

ALASKA LEGISLATURE SPECIAL COMMITTEE / SUBJECT FILES 8672

1081 SCOMM 28: JOINT GAS PIPELINE COMMITTEE. 1981-82 / 1081

1 BY: MR. HANZLIK
2 No, no.
3 BY: MR. PARR
4 Well, what is the point that you're making when you say you
5 didn't do it?
6 BY: MR. HANZLIK
7 I'm saying it was prepared by an independent group and Ron
8 can explain who these people were.
9 BY: MR. PARR
10 Yes, sir. I understand that. You know, you didn't take
11 petroleum engineers and have them do the impact statement.
12 I understand that, sir. It was done by people who specialize
13 in this work. But you paid them for it. One presumes, it
14 has your name on the cover, that you accept it. Are you say-
15 ing that -- what you were saying awhile ago, you know, you all
16 didn't do it, so if you don't really want to be bound by what
17 is in it -- which way -- you can't have both ways, one or the
18 other?
19 BY: MR. HANZLIK
20 I can't argue with your point and we bear responsibility for
21 this.
22 BY: MR. PARR
23 Either one way or the other, I don't care which way.
24 BY: MR. PARKER
25 We accept it.

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789-0208

1 BY: MR. HANZLIK
2 We accept the responsibility.
3 BY: MR. PARKER
4 We accept it.
5 BY: MR. PARR
6 Now let's get back to my question then about the 579 jobs which
7 are shown there which disturbed us so much after we had been
8 told, you know, 2500, maybe 3,000 jobs, then the environmental
9 impact statement says 579, and, of course, a lot of us get
10 very unhappy. So maybe you could explain that now.
11 BY: MR. DAGON
12 Sir, I think we can explain that one simply, unless somebody
13 else help me and correct me, two charts, the 579 figure is
14 the permanent employment in Valdez for a phase 1 basic facil-
15 ity, whatever you want to call it.
16 BY: MR. PARR
17 A refinery.
18 BY: MR. PARKER
19 A petrochemical facility.
20 BY: MR. DAGON
21 Petrochemical facility.
22 BY: MR. PARR
23 A refinery, topping plant.
24 BY: MR. DAGON
25 It would be a pretty expensive topping plant.

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PARR

ll, now I've got a chemical complex, we hope.

PARKER

's a petrochemical facility.

DAGON

think it is, sir. But the 2500 number or the 2900 number refers to the construction peak of employment and I believe the time frame is 1982 on that slide.

MR. PARR

the 2900 figure you gave us over there was construction?

MR. DAGON

es, sir.

MR. PARR

Not operational.

MR. DAGON

That's correct, sir.

MR. PARR

(Indisc. simultaneous speech).

MR. DAGON

Showed it starting at zero in June of this year and going quickly to 2900.

MR. PARR

Okay, what are you anticipating now as plant employees, not talking about construction? What is your anticipated number?

MR. DAGON

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1 Approximately 575, about 575 to 579, plus an additional 200
2 that are in sort of turn around projects, this sort of thing,
3 plus 75 outside Valdez.

4 BY: MR. PARR

5 I guess we never did quite understand the tremendous differ-
6 ence there between that and the 2500 or so that we were being
7 given when ALPETCO was trying to sell this project. Now, we
8 understand you may have changed your direction somewhat and
9 you're going to sell a lot more gasoline and a lot less of
10 propylene, okay. Does that account for that much difference
11 in personnel?

12 BY: MR. DAGON

13 To some extent it accounts for it. In fact, I thought I was
14 incurring your wrath when I pointed out that making the change,
15 just the configuration change we discussed here today between
16 cat cracking and hydrocracking, you have an increase in
17 capital costs in the facility and an actual decrease in the
18 number of employees in the plant.

19 BY: MR. PARR

20 I don't remember you giving any numbers of people along with
21 that, you might have.

22 BY: MR. DAGON

23 Well, roughly 75, right in there.

24 BY: MR. PARR

25 How much?

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1 BY: MR. DAGON
2 Roughly 75.
3 BY: MR. PARR
4 Well, see we're talking about 2500 versus say 600, though.
5 You know, 75 isn't significant in that range.
6 BY: MR. DAGON
7 I think the only way I can answer that, sir, is every time you
8 add -- if you build this base facility, every time you add
9 another process, you add jobs. And it's that simple.
10 BY: MR. PARR
11 I'm sorry. I did exag -- I don't guess I did exaggerate. The
12 total permanent jobs given this thing, I guess, was 2175
13 minimum and 2825 maximum and refining was 450 to 550, so
14 when I called that thing a refinery instead of a petrochemical
15 plant awhile ago, at least as far as personnel was concerned,
16 I was just right. You extimated 450 to 550 just for refining,
17 now you're talking about 550, but you aren't going to call it
18 a refinery. You're going to call it a petrochemical plant.
19 It's a little -- something doesn't quite jive in there.
20 BY: MR. DAGON
21 If that was a refinery as you're contemplating it right now, you
22 wouldn't need 575 people to run it.
23 BY: MR. PARR
24 I'm just using the figures you got here, 450 to 550 for
25 refining.

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1 BY: MR. MILES

2 These are your figures. These are your figures here and it
3 says total permanent jobs, a low of 2175, like Mr. Parr says,
4 and a high of 2825. But yet, the environmental impact state-
5 ment you filed listed 579. To go over to your chart again,
6 you show 500 employees for a, basically a refinery, and 2200.
7 And I think, at least it was most of our intentions, that we
8 were going to get the 2200 person job package, not the 500.
9 If we're not, if we're only going to get, as the environmental
10 impact statement says, a 579 job package to start with, when
11 are we going to get up to the 2200, which we thought we were
12 going to get?

13 BY: MR. DAGON

14 Okay, that's a legitimate question and you can tell them.

15 BY: MR. PARKER

16 Does that mean you want me to answer the legitimate questions?

17 BY: MR. DAGON

18 Well, clearly, if you took the phase 2 numbers -- or the phase
19 2 scheme that you're looking at up there and start that job
20 based on process units, I can't answer how quickly you'd get
21 there and I don't think anybody else can. But I can give you
22 an example, if you found a partner ...

23 BY: MR. MILES

24 We do have a 15 year commitment for 70% of the product which
25 is going to be 80% fuels.

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1 BY: MR. DAGON

2 I think we set a straw man up there and I still don't under-
3 stand that question, unless you guys are smarter than I am.
4 I don't understand how that 70% somehow puts a limit on doing
5 something different inside the plant. But let me come back
6 to that. If, for an example, and it's one dear to the hearts
7 of some of the people sitting in this room, suppose you had
8 the gas liquids involved for an olefins plant built by some-
9 body else. That immediately doubles the size of this employ-
10 ment? It's the satellite facilities that make more jobs and
11 I'm not trying to go back in 2100 and 2500, but every time
12 you add a process unit, you add jobs. And complex process
13 units add more jobs than big simple things. And an olefins
14 plant, for example, would be a very complex operation. That's
15 about the only way I can answer that.

16 BY: MR. GARDINER

17 Sir, I think the problem is that you have to think about the
18 context in which the legislature was presented this proposal
19 was, as this proposal or something else, right? If you didn't
20 do this you could do something else. That's still the case.
21 If we don't do this, we can do something else, right? And
22 what was -- the argument was, look how much better this
23 project is than this other thing called the refinery which
24 gives you 550 jobs and now what you sold is -- now you call
25 it the same thing, but it looks like what the other guys

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1 were proposing that you said wasn't near as good, right? So
2 that's real hard for anybody to swallow. It's amazing how
3 close the numbers come out, right? Instead of 550, it's 579.
4 But I think just to explain what Bill's question is about this
5 70% product, you have made a deal with your own company or
6 the company that owns ALPETCO, a large share of ALPETCO, has
7 made a deal with ALPETCO to buy its products, right? And I
8 assume that's premised on the products slate that you put out
9 here. So why is that company ever going to want to change?
10 And since it owns a controlling interest, it may like it just
11 the way it is and may just continue the way it is and so
12 where's phase 2. And I think that's why Bill's referring to
13 that. If there was a -- if there was an intention to develop
14 a petrochemical facility, it seems like we would see some-
15 thing stronger than, you know, a little chart that says poten-
16 tial, right. We would see something that was more of a commit-
17 ment than that, than, you know, what is really offered to us
18 only as kind of a promise, maybe in five years in the future,
19 if it works out, we'll change the product output. I mean it's
20 really -- I mean, you show me what's a binding commitment to
21 phase 2. I mean I don't see it. Is there anything binding?

22 BY: MR. DAGON

23 If you take that in the order you went through it real fast,
24 I find it hard to believe that a facility that will by contract
25 have invested in it 1.5 billion dollars, and creates somewhere

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1 between 7 and 800 jobs in this state, isn't some sort of
2 commitment.
3 BY: MR. GARDINER
4 Well, no, I mean where's the -- that's a commitment to do
5 that.
6 BY: MR. DAGON
7 That's a helluva commitment.
8 BY: MR. GARDINER
9 I'm sure it is, but I'm saying, where is the binding commit-
10 ment to phase 2?
11 BY: MR. DAGON
12 I'd look silly if I asked that one.
13 BY: MR. GARDINER
14 That's okay. I mean is there a binding commitment to phase
15 2 or is it simply a promise five years down the line that may
16 be, you know?
17 BY: MR. PARKER
18 There -- I don't know how you define a binding commitment.
19 Before I answer that question I'd like to clarify one thing
20 in your mind. That is apparently you're hung up on why
21 Charter would take 70%, thereby eliminating any possibility
22 of going downstream or doing anything else with it. Okay?
23 Because you're in it with a 15 year contract. To ease your
24 mind, first of all, that there is a joint venture agreement
25 of where the partners have agreed the need for this product

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1 to make this project viable and financeable and continue on,
2 they give that product back. That's number 1. So get it out
3 of your mind that that's some deceit of not going on with the
4 project. The second reason why we did that, we've got exper-
5 tise in marketing product, 400,000 barrels a day, many of the
6 products that will be produced in this refinery. We market
7 petrochemicals on the West Coast as a matter of fact. The
8 second thing, if you come in now and start talking to people
9 about taking those products, they're going to be talking
10 you about favorable prices and a longer, from the standpoint,
11 balance sheet, other financing with equipment, export credits
12 and so forth is going to add to the economic value of this
13 project. Some of the debt can continue to be assumed by the
14 partners themselves. So the reasoning for doing that is not
15 to continue to build a complex up here that has the economic
16 market conditions dictating what ought to be built. And that's
17 exactly what the testimony testifies to and that's exactly the
18 requirement within the crude oil royalty contract. That's
19 what the people said. We'll put this together. It will change
20 as time goes on with partners and etc. and that is our inten-
21 tion. So, from the standpoint of looking at the take of that
22 product -- sooner or later we're going to have to pay back,
23 whether it's 1.5 or 2 billion dollars and the only way we're
24 going to pay that back, is that we've got to make enough money
25 out of that project to do that.

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1 BY: MR. GARDINER

2 Okay, is there a binding commitment to phase 2 though?

3 BY: MR. PARKER

4 I don't even recognize a phase 2, a phase 3 or a phase 4. The
5 contract says that what you will do is you will build a
6 petrochemical facility. The petrochemical facility has been
7 built. It is on the drawing board, it is being spec'd, it
8 is going to be entered into a construction contract and that
9 meets that contract. What you read is a scenario that they
10 gave you of what you could continue to do and go on down-
11 stream. And my gosh I hope you all create the atmosphere up
12 here for partners to join us downstream because that absolu-
13 tely was contemplated in that agreement and in the testimony
14 in the past.

15 BY: MR. GARDINER

16 Well, let me phrase the situation that brings the question to
17 mind.

18 BY: MR. PARKER

19 Okay.

20 BY: MR. GARDINER

21 Okay, you've got a proposal for "phase 1", right, which you
22 call a petrochemical facility now and probably will cost a
23 billion and a half dollars. You produce products, about 80%
24 of which are fuels, okay, you are doing fine doing that.
25 From the state's standpoint, you're using 150,000 barrels a

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1 day to do that, right? The whole point of the petrochemical
2 proposal and all the advantages that are laid out are because
3 of the added value to the state, right? But if you're making
4 money doing that, why switch, right? Maybe that's what it
5 says, so that's why I say, maybe there has to be a binding
6 commitment to go on with those other phases. Maybe these
7 other partners don't want to come up here for whatever reason.

8 BY: MR. PARKER

9 Can I ask you -- are you saying

10 BY: MR. GARDINER

11 So that's why I say, how do we know we're eventually going to
12 get there, other than ...

13 BY: MR. PARKER

14 What if it was a binding -- are you looking for a binding
15 commitment to continue to build this, this, this, this, of
16 which they are not profitable, you put them together in a
17 project and the company folds. Is that what you're saying was
18 the intention when you put it together? I mean ...

19 BY: MR. GARDINER

20 I was not the one that made the promises about so many jobs
21 and a petrochemical facility.

22 BY: MR. PARKER

23 We built a petrochemical facility. We have met that benchmark,
24 we qualify as a petrochemical facility. We have said in the
25 testimony that we will bring partners, we will continue to go

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1 on, we will add additional things. But there is not a binding
2 commitment in there that you continue to build things that
3 create to where it is not an economically viable project. And
4 I think that you can read in there the testimony that the
5 market conditions and partners would dictate what you built
6 after that and don't take -- again, Charter as being a partner
7 that has limited that by setting up a purchase contract for
8 15 years.

9 BY: MR. GARDINER

10 Okay, what if in 1985 I came in and said, hey, you're not
11 following through. Won't your answer to me be, hey, we built
12 a petrochemical facility, we don't have to do any more? I
13 mean you just got done saying that this meets the commitment,
14 right? So your ...

15 BY: MR. PARKER

16 I think I made a statement earlier that I have yet to see a
17 processing facility that was ever considered to be completed
18 and you've had testimony today of additional units being put
19 on there and the reason why they're being put in that refinery
20 is 'cause they've got an economic payout. And the value --
21 and the value of this refinery, long haul, of having a
22 guaranteed crude supply ought to establish a foundation to
23 where you can continue to add to it and market that product.

24 BY: MR. GARDINER

25 That's all.

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1 BY: MR. MILES
2 Mr. Malone, did you have ...
3 BY: MR. MALONE
4 Well, Mr. Chairman, it's along the line of questioning that
5 Mr. Gardiner was pursuing. Mr. Parker said we were looking
6 at a scenario, one scenario where Mr. Miles showed this chart.
7 But that scenario was the scenario on which the judgment was
8 originally made in the contract and now it seems to me that
9 you're saying that petrochemicals are not a feasible --
10 economically feasible product for the short range market, so
11
12 BY: MR. PARKER
13 I didn't say that at all. I didn't say that at all.
14 BY: MR. MALONE
15 Well, we're talking about a refinery, basically it's going to
16 be this 80% fuels from the crude stocks.
17 BY: MR. PARKER
18 I didn't say that petrochemicals were not viable. I told you
19 from the standpoint that you've got to start with a feedstock.
20 We've got to produce that feedstock. That's what we are trying
21 to build, is something to come up with a building block to go
22 forward. That was contemplated based on market conditions and
23 partners and configurations, as such. And I think you will
24 find there were diagrams in there that show that, that the
25 branching out of that core to build. And that's exactly what

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1 has been done and you've even gone further. You've gone far
2 enough in the first building block that you have met the
3 requirements of a petrochemical facility. And to refer to it
4 as a topping plant is absolutely ridiculous. Sorry about
5 that, but that's true.

6 BY: MR. MALONE

7 (indisc. mumbling).

8 BY: MR. PARR

9 Mr. Hanzlik could best express himself, he commented back
10 at one time or another that a fuels refinery would employ
11 about 500 direct employees, but the ALPETCO facility "is
12 shown to be substantially greater in terms of assets invested,
13 therefore the tax base and also the number of employees was
14 substantially greater -- several times greater in fact". I
15 realize this is not a topping plant you're talking about, but
16 it's just about as close to being a topping plant as it is to
17 being a petrochemical facility from what we've been told so
18 far. You've got to take your choice, which end do you want
19 to exaggerate on.

20 BY: MR. PARKER

21 I won't argue that point because I don't agree with you.

22 BY: MR. PARR

23 Mr. Chairman, I have one minor question. It doesn't deal
24 with the benchmarks or anything. There is a thing in the
25 contract and I may be too early, I'd just like to get a simple

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1 answer on it, about training, local training ALPETCO's
2 going to be conducting. Is any of that started yet?

3 BY: MR. DAGON

4 Dick, why don't you -- can you answer that?

5 BY: MR. DICK BARNES

6 We've had discussions with Prince William Sound Community
7 College. We will have a couple of one night courses this
8 spring down in Valdez for local residents. We intend to call
9 upon Charter personnel, which is one of the Charter companies
10 out of Houston, which has specific training programs and they
11 have also done training down in the Bahamas to bring on the
12 local residents in o that refinery and to employ them as ...

13 BY: MILES

14 Cotten and I want to apply.

15 BY: MR. BARNES

16 ... Nearly the total employment of that plant. So we're headed
17 in that direction. It's early. Later on we're going to have
18 a massive training program that we'll really have to start
19 approximately nine months to a year, just prior to start-up,
20 because construction of the plant will take three years. It
21 will be a massive effort down there and realistically you
22 can't train somebody to do some of the jobs too far ahead of
23 time. It just wouldn't be feasible.

24 BY: MR. PARR

25 I did say, I realize it might be too early yet. Thank you.

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1 BY: MR. MILES

2 Mr. Chatterton.

3 BY: MR. CHATTERTON

4 Thank you, Mr. Chairman. As we all know, Arctic Slope crude
5 is a bargain basement commodity in this day and age because
6 of the price controls and because of the entitlements program.
7 And we further know, that probably in about 18 months, I think
8 in October, why it might not be just a bargain basement -- it
9 might be only of value because of its assured long-term supply.
10 Now you've told us about numbers that Thyssen and so forth
11 and so on are going to be up around December, and things
12 of that nature. They indicated the rose is going to be
13 completely wilted in 18 months. The blush is going to be
14 pretty well off of it in 9 months. Have I your assurance you
15 plan to build anything at Valdez?

16 BY: MR. HANZLIK

17 I don't understand the question?

18 BY: MR. CHATTERTON

19 Exactly that. Do you ever plan to build anything at Valdez?

20 BY: MR. HANZLIK

21 Absolutely.

22 BY: MR. CHATTERTON

23 You would not, along about December of 1980, decide that it's
24 an uneconomic situation. Thyssen comes back with numbers
25 that are just blowing your mind and you can't get there from

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1 here and you decide you just want to scrap it. There's not a
2 chance in the world of that happening, is there?

3 BY: MR. HANZLIK

4 There's not a chance in the world that those events wouldn't
5 happen or those events aren't contemplated?

6 BY: MR. CHATTERTON

7 I'm asking you, is there a chance of that happening? I mean
8 you've told me that there's not a chance in the world that
9 you won't lift oil on July the 18th, and I've accepted that.
10 Now I'm asking you -- there's no chance in the world that
11 you're going to back out of building something at Valdez, is
12 there?

13 BY: MR. HANZLIK

14 I find the question, or the way you've phrased it, to be one
15 which I think rather difficult to answer, to be very frank with
16 you, Mr. Chatterton. You know very well that there are events
17 that can transpire between now and tomorrow morning which
18 would result in something you plan to do not transpiring.
19 You've asked me a loaded question. If I said yes, there are
20 events that could transpire, you'll, I expect, turn around and
21 suggest that was what we contemplated. And I'll tell you that
22 is not what we contemplated.

23 BY: MR. PARKER

24 We have a royalty oil contract. We have a commitment to build.
25 We will abide by the rules and regulations in that contract.

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1 BY: MR. CHATTERTON

2 Thank you. That's all I want to hear. Thank you, Mr. Chairman.

3 BY: MR. MILES

4 Mr. McKinnon.

5 BY: MR. MCKINNON

6 We've had a lot of problems with false expectations on what
7 was promised. I'm not sure whether they're false expectations
8 or they were reasonable expectations to have. For one reason
9 or another, we have a (indisc.) of opinion over what (indisc.)
10 the project would be in. You perhaps intended to tell us
11 what it was going to be or ... There's perhaps false expecta-
12 tions on what commitments to lend or invest mean. So I want
13 to make it clear as to what the next -- what the next bench-
14 mark, what's going to happen to meet the next benchmark. My
15 concern came about because some of the comments you made when
16 we were talking about the Thyssen arrangement. It was my
17 understanding from your comments and let me talk about my
18 original understanding of what this benchmark was, but my
19 understanding of it now is that this benchmark will be met
20 by Thyssen placing purchase orders for certain materials or
21 equipment.

22 BY: MR. PARKER

23 Paying money.

24 BY: MR. HANZLIK

25

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1 BY: MR. McKINNON
2 They will be paying money.
3 BY: MR. HANZLIK
4 It will be met by our expending funds in the aggregate, in
5 excess of 100 million dollars.
6 BY: MR. McKINNON
7 It will be an actual expenditure of money ...
8 BY: MR. HANZLIK
9 Yes, sir.
10 BY: MR. McKINNON
11 ... to purchase equipment.
12 BY: MR. PARKER
13 That's what the contract says, expend it.
14 BY: MR. McKINNON
15 The contract says commit to expend or (indisc) to expend on
16 contractually bound third parties.
17 [simultaneous speech by various parties]
18 BY: MR. PARKER
19 It was amended.
20 BY: MR. HANZLIK
21 Read the amendment.
22 BY: MR. PARKER
23 The amendment says, it must be expended.
24 BY: MR. McKINNON
25 Okay.

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1 BY: MR. PARR

2 The amendment says literally, I think, Mr. Chairman, contrac-
3 tually binding agreements, contracts and purchase orders.

4 BY: MR. MCKINNON

5 So this benchmark will be met by your directly -- your writing
6 a check to Thyssen who will purchase materials. And what is
7 the nature of those materials?

8 BY: MR. HANZLIK

9 The engineers have been undertaking to obtain bids on a fixed
10 price basis for items which we have selected to be purchased
11 and they are going out for bid on that right now and we'll have
12 it back by the end of May.

13 BY: MR. MILES

14 Mr. Gardiner.

15 BY: MR. GARDINER

16 I was wondering. Do you think that now that you've been into
17 the project for awhile, since it was approved, that the bench-
18 marks that are in the contract are realistic? I mean it seems
19 to me from some of the testimony and some of the information
20 produced, that maybe they are like putting a lot of pressure
21 on the project. I mean like the gas line project is a really
22 good example of, you know, I don't know who it was a good
23 example of, the government at work or the private sector at
24 work, I can't tell. But, I mean that project has obviously
25 taken a lot longer than anybody predicted and if we'd had

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1 benchmarks in that, or whatever, right, they would have blown
2 it about 20 times. And so that's why I ask the question as
3 to, well, both parties, the state and ALPETCO, way back when
4 said, yeah, sure, we can meet that. That's realistic. I'm
5 wondering now, looking at the benchmarks, as to whether they
6 are. I'll bring up one good example. Well, right at this
7 time you do not have the final, you know, design, which gives
8 you the definitive cost which you can then go get the actual
9 financing commitments. It's got to come in some order like
10 that, right? I mean it's unrealistic, I think, for anybody
11 to say you should have the financing now when you know you
12 don't really have the final design and costs. You have pre-
13 liminary design and cost estimates, but not something that
14 the lenders would commit on until they know what it is. But
15 yet, for instance, if you're going to take the crude on July
16 18th, you've got to spend 100 million dollars. You're in the
17 position of where it seems okay to spend money on design work
18 but you're going to spend like 80 million dollars to buy
19 equipment when you haven't finalized the design and got a
20 price and that, if I was you, I'd think that that is kind of
21 like -- I don't know if it's an unnecessary burden, but it's
22 kind of putting the cart before the horse, so that if you
23 had your druthers about it, would you really be purchasing
24 that equipment before you got the design completed?

25 BY: MR. PARKER

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1 Let me say -- whether they're realistic or unrealistic,
2 they are real as far as this contract is concerned. They are
3 a benchmark. We have met the benchmarks to date. We intend
4 to continue to meet those benchmarks. So I think it's
5 irrelevant for us to talk about whether they're realistic or
6 unrealistic.

7 BY: MR. GARDINER

8 I don't think it's irrelevant. If you could change it, maybe
9 it would be -- if they were unrealistic, it would be to
10 the advantage of both ALPETCO and the state to change them.
11 I mean ...

12 BY: MR. PARKER

13 It might be more realistic if the state wanted to waive all
14 the benchmarks.

15 BY: MR. HANZLIK

16 I think in retrospect, the fact that these were done -- what
17 is this April? They were done over two years ago at a period
18 where not nearly as much was known about the project or the
19 economic environment we're operating in. I think it's sur-
20 prising that the state -- I don't mean this -- this isn't
21 going to sound right. I think it is surprising they are as
22 appropriate as they are. And I think that they're reasonable
23 and we find them -- while they're strenuous, we don't find
24 any objection to them.

25 BY: MR. PARKER

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1 We have a project to complete. These are just some milestones
2 along the way and even though they're major, they are not the
3 most major concerns that we have.

4 BY: MR. MILES

5 Mr. Malone.

6 BY: MR. MALONE

7 Thank you, Mr. Chairman. I just have two points I wanted to
8 go over so I can make sure of what the answers were on them.
9 Do you anticipate, Mr. Parker, at this point at least, that
10 ALPETCO will be in a position to start taking the oil and
11 lifting the oil on July 18th?

12 BY: MR. PARKER

13 Do I anticipate that we will be? We have an obligation to
14 do that.

15 BY: MR. MALONE

16 But you haven't made arrangements for the disposition of that
17 crude yet, is that right?

18 BY: MR. PARKER

19 We have not signed an agreement at this point in time. There
20 have been discussions with numerous companies. We are still
21 discussing. Each partner's taking his crude separately and
22 from the standpoint -- I'm sure Willard can explain the same
23 thing, that you're in the final stages of completing your
24 arrangements.

-- Tape Change

(OFF RECORD)

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(ON RECORD)

BY: MR. PARKER

... it came on board and I guess Dick is closer to it. I understand TAPS pipeline requires you to nominate the crude you're going to take on a weekly basis, six weeks in advance.

BY: MR. CHATTERTON

Well, you've nominated, have you not, sir?

BY: MR. PARKER

Tendered. Tendered through the pipeline, if you want to go that way.

BY: MR. CHATTERTON

Thank you, Mr. Chairman.

BY: MR. MILES

Mr. Malone?

BY: MR. MALONE

Mr. Chairman, my next question is related. If I were the Commissioner of Resources under those conditions, I might be interested in what was going on. Are you keeping the Commissioner apprised of the status or the proposed disposition of the crude, even though that may be confidential information?

BY: MR. PARKER

We have not discussed details as far as an agreement, as such. I have kept him informed that we would commit -- that we would take that crude. And if there was any indication that

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we wouldn't take that crude. I would inform him of that.

1 BY: MR. DAGON; There's no obligation (indisc.)
2 BY: MR. MALONE

3 I don't have any more questions on that subject, but on the
4 same set of benchmarks, what we're calling benchmarks, in the
5 contract under 10 - 3 - H, back to where it says complete
6 plant design optimization necessary to obtain definitive
7 project cost estimates where definitive means a cost estimate
8 containing no more than 15% variance in anticipated costs.
9 Now judging by the earlier testimony, if I understood it
10 correctly, that benchmark was complied with on time, Decem-
11 ber 18th, is that right?

12 BY: MR. PARKER

13 That's right.

14 BY: MR. MALONE

15 So at that time you had the necessary plant design and
16 optimization to come up with the projects costs within 15%
17 plus or minus, I would take it?

18 BY: MR. PARKER

19 That's right.

20 BY: MR. MALONE

21 And if I took the meaning of the comments offered earlier
22 in the testimony, there are some sort of competitive reasons
23 for not revealing that cost estimate, is that right or is
24 that estimate public information?

25 BY: MR. PARKER

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1 Not public information.

2 BY: MR. MALONE

3 Okay. Has the Commissioner been apprised of what that estimate is?

4 BY: MR. HANZLIK: There's no reason to.

5 BY: MR. PARKER

6 Let me ask you a question. You read that, it says, complete
7 plant design and optimization necessary to obtain a definitive
8 cost estimate. Let me change that sentence around. What
9 would you think -- there would be a different meaning if it
10 says obtain complete plant design and optimization to -- or
11 let me redo that. Or say obtain a definitive project cost
12 estimate. What that says is you've got to give them a design
13 in sufficient detail -- you've got to tell them what you're
14 going to build. And to get a 15% estimate or a 20% estimate,
15 they can do this from a shelf deal. They can do it with
16 curves and they can do it on the basis of a Nelson Index of
17 taking this unit that's been built and they've built x number
18 of them. They built the last one in 1968 and they can take
19 the inflation factor and then come up with estimates. What
20 that benchmark says is, you come up with a configuration to
21 where you could give it to somebody to obtain. It didn't
22 say obtain. You aren't required to come up with an estimate.

23 BY: MR. MALONE

24 So that according to the way you read sub H there, it doesn't
25 require a definitive project cost estimate?

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1 BY: MR. PARKER

2 That's the way I read it.

3 BY: MR. MALONE

4 So because of that interpretation then, there was no need to
5 provide such an estimate to the Commissioner at the time of
6 December 18?

7 BY: MR. PARKER

8 That's right and that's why we hate to talk about the 1.5
9 billion dollars, because if we didn't come up with that, we're
10 out there trying to get people to give us an estimate. That's
11 what I explained earlier. There was no obligation to do that
12 at this point in time and then you tell them you've got to
13 spend 1.5. If you were a contractor who was going to give
14 an estimate, what would your estimate be?

15 BY: MR. MALONE

16 The only -- final question I've got then is, what do you
17 suppose, Mr. Parker, what do you suppose the purpose then
18 might have been in putting 10 - 3 - H into the contract?

19 BY: MR. PARKER

20 I think to where it would cause you to go out, spend you some
21 engineering money, make sure that you were planning to build
22 some facility. I think the question was asked, are you going
23 to tell me I ain't going to build anything. So I think what
24 they're saying is you had to have a configuration so defined
25 that an engineering firm could take that and come up with a

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1 definitive estimate, 15% plus or minus. And that requires
2 a certain amount of work. And that's the reason it was there.

3 BY: MR. MALONE

4 Okay, then, since that benchmark was met then I assume that
5 ALPETCO, at least, had this estimate plus or minus 15% or
6 has it? Or is that wrong?

7 BY: MR. PARKER

8 There have been some estimates prepared back in the past.
9 Those are not estimates of which I would go to the bank with
10 and I don't think that ALPETCO would like to say they have
11 an estimate in hand that would come anywhere near being --
12 meeting that -- that it would be within a 15% plus or minus.
13 I don't want to mislead you. Any time you look at a project,
14 you've got to look at the economics of that project. So on
15 that basis, you will come up with some type of estimates as
16 such. Whether that is sufficient to give you a plus or minus
17 of 15%, that may or may not be true. You run the sensitivity
18 studies. Okay, what happens if capital costs goes up this
19 amount or down this amount? What happens if product prices
20 vary and so forth? So you don't really have to be that
21 finite in the beginning of determining the economics of your
22 project. So I don't want to mislead you that we haven't
23 done some estimating work. But we do not have, to my knowledge,
24 an estimate that I would go with that would meet that 15%
25 plus or minus.

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1 BY: MR. MALONE

2 I didn't want to interrupt. So the -- that section of
3 benchmark 10 - 3, within 18 months after the effective date,
4 there's different items there, really doesn't then have a
5 whole lot to do with the way you read it with the billion
6 and a half under item D.

7 BY: MR. PARKER

8 That's right.

9 BY: MR. MALONE

10 Mr. Chairman, I admit that this is a complex document that
11 may be capable of different interpretations, but I think I,
12 you know, I'm not an attorney but my reading of sub 10 - 3
13 and the sub-paragraphs are that certain of those are related
14 and they are all aimed at the same thing. But I have to say
15 that, you know, I disagree with you, Mr. Parker, as to what
16 H means. I think it means you're supposed to come up with
17 an estimate within 15% and certainly you probably have access
18 to better legal counsel than I do on the question. But I
19 would say if it doesn't mean that, it doesn't mean anything
20 at all.

21 BY: MR. PARKER

22 Well, I don't agree with that because I think from the stand-
23 point, the determination of a configuration of a plan or what
24 you're going to build, does mean something. It has a
25 different meaning of coming up to a definitive estimate of

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1 15% plus or minus.
2 BY: MR. MALONE
3 Thank you, Mr. Chairman.
4 BY: MR. MILES
5 Mr. Parker, how does the crude entitlements program affect
6 distribution or disposition of the oil?
7 BY: MR. PARKER
8 Not ...
9 BY: MR. MILES
10 Does that have any effect at all -- the entitlements program?
11 BY: MR. PARKER
12 The entitlements program in the disposition ...
13 BY: MR. MILES
14 Disposition of the oil insofar as ALPETCO's concerned?
15 BY: MR. PARKER
16 Interim crude?
17 BY: MR. MILES
18 Yep.
19 BY: MR. PARKER
20 Well, I think the entitlements program as it now stands
21 makes the Alaskan crude, at least that controlled portion,
22 very valuable. I think from the standpoint, as you are
23 aware I'm sure, there has been rumblings from the standpoint
24 that maybe the entitlements program, as it now applies to
25 the Alaska North Slope, should be changed. I think the

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1 entitlements program pertaining to North Slope will have an
2 impact on whether you sell the crude or whether you process
3 the crude. So to answer your question, the entitlements
4 program has an effect on the disposition of Alaskan crude.
5 BY: MR. MILES
6 Mr. Cotten.
7 BY: MR. COTTEN
8 I have a couple of questions on the City of Valdez' bonding
9 and this is probably a little lighter questioning here to give
10 you a little break.
11 BY: MR. PARKER
12 Oh, they've all been light. That's no problem.
13 BY: MR. COTTEN
14 What's happened? Has the city council authorized the bonds
15 of the 600 million dollars, is that right? I'm not sure.
16 Maybe you could quickly tell me exactly what happened in
17 Valdez that allowed that to be part of the commitment.
18 BY: MR. PARKER
19 Let me ask you a question. We have the mayor, the city
20 manager, the city councilmen and they're much more familiar
21 with the bond situation in Valdez. Would you mind, if they
22 would agree, would they answer that question?
23 BY: MR. COTTEN
24 I think -- well, it's just -- I think you probably have the
25 answer to it. I don't care who answers it. But it's just --

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1 I've got a few other questions that don't have anything to do
2 with the City of Valdez.

3 BY: MR. HANZLIK

4 Procedurally what happens is the city adopts enabling resolu-
5 tions into their charter, which they have done in a proper
6 manner, which authorizes the city council to enter into a
7 loan agreement and the loan agreement is based on the sale of
8 the bonds themselves by the Underwriting Syndicate, which has
9 been formed for this purpose. And the city has an under-
10 writing commitment from E. F. Hutton and Company to underwrite
11 this and it's backed up by the syndication, among major U. S.
12 banking firms. I believe there are 55 or 60 investment bank-
13 ing firms in the syndicate. So the city council last, I think
14 it was, November took the appropriate steps and passed the
15 resolutions to put all this into motion.

16 BY: MR. COTTEN

17 And the first part of the expectation is that these bonds will
18 qualify under Section 103 of the IRS Code, you already went
19 over that and you even mentioned that in the event that they
20 didn't qualify or for some reason perhaps Congress were to
21 change the provisions of Section 103, or for some reason they
22 weren't able to access the tax free market that E. F. Hutton
23 -- that's part of the commitment in the agreement too, is it --
24 E. F. Hutton has committed to market these bonds, in any
25 event, even if they had to go to the taxable markets.

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1 BY: MR. HANZLIK

2 Yes, that's correct. The only difference between the instru-
3 ments is the interest rate and the fact that under one, the
4 less desirable from our standpoint, is that the bonds -- to the
5 purchaser of the bonds, would be a taxable -- it would be
6 taxable income. As issued, as we contemplate it, it would be
7 tax free to the owner of the bond.

8 BY: MR. COTTEN

9 Right.

10 BY: MR. HANZLIK

11 The City Manager of Valdez reminds me that this is parallel
12 to and identical procedurally with about a billion two of
13 the same issues that have been issued through the conduit of
14 the city for the construction of the marine terminal in Valdez.
15 There literally is no difference.

16 BY: MR. COTTEN

17 There's been a lot of reports about that and we've had, you
18 know -- there's been -- I think most of the members of the
19 legislature are aware of that and what happened in some of
20 their comments (indisc.) Is there any time table -- when
21 would these bonds be sold or does it matter?

22 BY: MR. HANZLIK

23 Well, it's difficult to sell them all in one piece and what
24 we are planning now is to serialize them in probably two to
25 three, what they call "trunches" that is series of take-downs,

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1 but they'll be sold all at once, but taken down over time with
2 then existing rates.

3 BY: MR. COTTEN

4 Another thing that I recall -- correct me if I misunderstood
5 you -- but you mentioned that if for some reason you weren't
6 able -- you weren't able to sell the bonds or you weren't able
7 to raise the money through that method of financing, that you'd
8 want to be held to that. In other words, you said well, if
9 this doesn't work, we can do something else to obtain the
10 financing. So at least you had in the back of your mind, at
11 least a possibility that that method wouldn't work, is that
12 right? At least that

13 BY: MR. HANZLIK

14 No, actually I feel very, very comfortable about -- I mentioned
15 to you that there's -- we're applying to the Treasury Depart-
16 ment for 600 million dollars worth of qualifications. We
17 feel, under advice of counsel experienced in this, that 450
18 is as near a sure thing as you can apply for.

19 BY: MR. COTTEN

20 For the tax free section?

21 BY: MR. HANZLIK

22 That's right. Now -- and we can't think of a more attractive
23 way to finance than that. For the balance of what's left
24 over, there are some, some innovative and creative instruments
25 which may fit this project and we will probably pursue them.

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1 Now whether they'll be straight corporate bond issues or they'll
2 be bonds that have some peculiarities to fit the project, I
3 don't know yet. But this is something that we're continuing
4 to work on.

5 BY: MR. COTTEN

6 Okay, I guess I did misunderstand you because I thought you'd
7 said that if you weren't able to raise the money by the sale
8 of the bonds, that you didn't want to be held to that. You
9 know, said that you're going to be able to raise 600 million
10 dollars by selling bonds -- if that didn't work, you might
11 try another way of raising money. I guess I did misunderstand
12 that. For instance, if you weren't -- suddenly if you were
13 able to determine you weren't able to raise the money by sell-
14 ing bonds, then that commitment would be gone and there would
15 be a gap there. Do you see what I'm getting at? You'd
16 suddenly be without that commitment for some reason?

17 BY: MR. HANZLIK

18 No, I don't think that's the case at all. The point I'm
19 trying to make is the fact that that is our present intention
20 should not preclude us from exploring and utilizing something
21 more attractive.

22 BY: MR. COTTEN

23 It's more than just your present intention. It's one of the
24 items you've used to meet the benchmark.

25 BY: MR. HANZLIK

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1 The company.

2 BY: MR. COTTEN

3 The company would.

4 BY: MR. PARKER

5 I think what Willard is saying is, you know, is there is a
6 financing commitment together. If you can improve on that
7 and still meet the December, 1980 benchmark, then we ought
8 to improve on that. That's basically what he's saying. Or
9 if you need less financing, is another point.

10 BY: MR. COTTEN

11 Thank you, Mr. Chairman.

12 BY: MR. MILES

13 Mr. McKinnon.

14 BY: MR. MCKINNON

15 You've indicated this was identical to the Alyeska Dock situa-
16 tion. Wasn't the situation there that the city actually
17 built the dock and leases it back or something like that. Is
18 that the case?

19 BY: MR. HANZLIK

20 Clarify that Sam.

21 BY:

22 We don't own the dock. Alyeska owns the dock. It's just a
23 lease back. The city acts as a -- merely as a financing
24 vehicle, so to speak.

25 BY: MR. MCKINNON

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1 Sure. Sure.

2 BY: MR. COTTEN

3 So if you suddenly didn't have that one, you would be in a

4 situation where you aren't in compliance with the benchmark.

5 BY: MR. HANZLIK

6 That's right. That's right. And the provision of the contract

7 calls for it being terminated.

8 BY: MR. PARKER

9 If you didn't have the total funds, not just the fact that

10 you didn't have 600 million dollars worth of bonds doesn't

11 terminate the contract.

12 BY: MR. HANZLIK

13 Okay, you're right.

14 BY: MR. COTTEN

15 Which is it now?

16 BY: MR. HANZLIK

17 Well, Mr. Parker's saying that the obligation we have is to

18 come up with the financing -- the long-term loan documents

19 in December. Now if those end up being a different mix than

20 what we think today is going to be, then that still qualifies

21 in our interpretation, that is the financing.

22 BY: MR. COTTEN

23 Thank you. Who would own the facilities that were purchased

24 with the proceeds of the bonds?

25 BY: MR. HANZLIK

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1 You were mentioning innovative and creative methods of
2 and financing and I think peculiarity is the word you used,
3 to fit the circumstances of this arrangement. Are you talking
4 about anything other than some sort of, you know, revenue
5 bond or something tied to the operations of the petrochemical
6 plant?

7 BY: MR. HANZLIK

8 No. No. I don't want to mislead you either. There is --
9 investments in large energy projects are difficult to come
10 by in some investor circles and it's possible that there may
11 be some ways to offer to substantial investors, I'm talking
12 about institutional investors, participations in the debt
13 financing which, you know, will fit the needs of this facility.
14 I'm talking about major insurance companies and whatnot.
15 These are just fine tuning of financings.

16 BY: MR. MCKINNON

17 It's not going to be anything that's going to punch 150,000
18 barrels of oil a day is it?

19 BY: MR. HANZLIK

20 No, no.

21 BY: MR. MCKINNON

22 This bond issue is contingent on a number of -- or E. F.
23 Hutton's is basically contingent on another -- a number of
24 things. One of these bonds get an investment grade rating,
25 what is that?

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1 BY: MR. HANZLIK
2 Investment grade rating simply means that they qualify under
3 Standard and Poor Corporation's analysis of the appropriate-
4 ness of the underlying security of the bonds to the various
5 categories of buyers and it's a common parlance in this industry.
6 BY: MR. MCKINNON
7 Has there been any -- at what point are these issues rated?
8 BY: MR. HANZLIK
9 Generally it's in the 30 days or so prior to the take-down.
10 It's a -- you know, you read in the newspaper about Standard
11 and Poor Corporation changing its ratings on Chrysler Corpora-
12 tion over time. You see it up and down, both ways. Bond
13 ratings are -- happen over time. It's not static. So if they
14 gave a grade rating today, it wouldn't be binding on anybody
15 in the future. So it's a thing that has to happen fairly soon
16 or close to the time of an actual take-down. I'm guessing
17 it's 30 days, but it may be 60 days.
18 BY: MR. MCKINNON
19 Thirty days from now?
20 BY: MR. HANZLIK
21 No, no.
22 BY: MR. MCKINNON
23 Oh, 30 days before the sale?
24 BY: MR. HANZLIK
25 Yes, this is next fall, okay.

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1 BY: MR. MCKINNON
2 Next fall, right.
3 BY: MR. HANZLIK
4 October or November.
5 BY: MR. MCKINNON
6 Oh, I thought earlier you'd made some kind of a reference to
7 trying to sell part of it this summer. And it's going to be
8 the fall?
9 BY: MR. HANZLIK
10 There may be a small part of this tax exempt financing which
11 we would place as early as this summer. That will require
12 its own investment grade rating. The larger piece coming
13 later will also require an investment grade rating. In both
14 instances, these ratings come in a period of thirty to sixty
15 days before the take-down.
16 BY: MR. MCKINNON
17 Now E. F. Hutton is underwriting an issue. What does an under-
18 writer do?
19 BY: MR. HANZLIK
20 They have the obligation to purchase all the bonds from the
21 City of Valdez and resell them.
22 BY: MR. MCKINNON
23 Now they're contractually committed to purchase those bonds?
24 BY: MR. HANZLIK
25 Yes, sir.

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1 BY: MR. McKINNON
2 But the condition is that ...
3 BY: MR. HANZLIK
4 Excuse me, they don't take all the risk themselves. What they
5 do is form a syndicate, which they have done ...
6 BY: MR. McKINNON
7 Excuse me, 55 to 60 ...
8 BY: MR. HANZLIK
9 55 to 60 firms and each of these firms will enter into an
10 agreement or have entered an agreement -- I don't know which --
11 with Hutton to purchase from Hutton so that Hutton doesn't
12 bear the full risk on this.
13 BY: MR. McKINNON
14 Now the condition on this though, is that E. F. Hutton will
15 not purchase the bonds 'til it's sort of guaranteed itself
16 that there's somebody to buy them?
17 BY: MR. HANZLIK
18 That's right. That's absolutely garden variety, typical way
19 this is done.
20 BY: MR. McKINNON
21 Okay. It'll find purchasers to buy the bonds and sell them
22 to them.
23 BY: MR. HANZLIK
24 It's already in the marketplace as far as lining up those
25 purchasers right now. It's not the sort of an instrument

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1 that at the last minute you go around knocking on doors and
2 say, do you want to buy 50 million dollars of these things.
3 I mean, it's something that you line up -- in fact they've
4 started to have these discussions already.

5 BY: MR. MILES

6 Mr. Cotten.

7 BY: MR. COTTEN

8 I was just checking. The thing I was getting at a little
9 earlier on the bonds and the obligation to obtain or cause
10 contractually bound third parties to obtain written commit-
11 ments, that was a December of '79 benchmark, right?
12 That's what the commitment by the City of Valdez to come up
13 with the 600 million dollars. That was part of meeting the
14 December of '79 benchmark. That's why I asked if for some
15 reason that fell through, what would the situation be and
16 you answered, the contract -- you would be in default, right?

17 BY: MR. HANZLIK

18 No, I didn't ... If I said that, I didn't mean that.

19 BY: MR. COTTEN

20 Well you said that and then you got nudged and he said well ...

21 BY: MR. HANZLIK

22 Well, I obviously didn't understand the question.

23 BY: MR. COTTEN

24 So I'm still a little confused because I felt like that was
25 what it took to -- partially -- to meet the December of '79

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1 benchmark and if for some reason that commitment fell through,
2 well then you would not be in compliance any longer and
3 therefore you wouldn't have the billion and a half worth of
4 commitments.

5 BY: MR. HANZLIK

6 Let me yield to counsel on that one. Are you following what
7 Mr. Cotten is saying?

8 BY: MR. FRANCES

9 Yes.

10 BY: MR. HANZLIK

11 I don't ...

12 BY: MR. FRANCES

13 I think that once you meet the benchmark you've met it and
14 you've passed it. You don't need all that financing. You don't
15 have to have the commitment, if you want to change your
16 financing around ...

17 BY: MR. COTTEN

18 Oh, I see. So suddenly, if—Thyssen could just back out now
19 too then. Since you've met it in December, they could say well,
20 we've decided against it now. Is that what you're saying?
21 Since you met it at the time ...

22 BY: MR. FRANCES

23 No, they can't back out.

24 BY: MR. COTTEN

25 ... and then I'm talking -- I'm not trying to use any funny

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1 words by saying backing out or anything else like that. I'm
2 asking you that if for some reason these people decide not to
3 commit any longer, for one reason or another, what's the situa-
4 tion there?
5 BY: MR. FRANCES
6 They're still committed.
7 BY: MR. COTTEN
8 Pardon..
9 BY: MR. FRANCES
10 They're still committed. If we want to change the financing
11 though, we can change the financing. If Willard has a better
12 way of doing the financing, he can modify the commitment, get
13 a new commitment ...
14 BY: MR. COTTEN
15 For less money, hunh?
16 BY: MR. FRANCES
17 Sure. If we need less money to do the project in the way of
18 financing, we ought to do it that way.
19 BY: MR. COTTEN
20 Oh, go ahead.
21 BY: MR. GARDINER
22 I think that Sam's case though -- the way it originally started
23 out was with the bonds, right? Well, you say they're still
24 committed. What if they can't meet their commitment, does
25 that throw you out of compliance? I assume -- what one of

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1 the answers was, well, we could substitute some other form of
2 financing and we'd still be in compliance. That seems reason-
3 able.

4 BY: MR. FRANCES

5 If E. F. Hutton went into bankruptcy or something.

6 BY: MR. GARDINER

7 What if, you know, what if, for some reason, for instance,
8 we have heard that after the 1.2 billion for Alyeska, there
9 were people in IRS and other things, you know, in New York and
10 Washington, D. C. who said we're never going to let that
11 happen again. That was a raid on the Federal Treasury and
12 that wasn't what tax exempt bonds were intended for. You
13 know, I don't know what IRS is going to do. IRS has said
14 they're not going to let Susitna be built with tax exempt
15 bonds, some people say. So I don't know what IRS might say
16 either, right. We've had this -- the gas line people said
17 we want to use tax exempt bonds to build part of the
18 gas line. But then they told us we'd have to get an amend-
19 ment to Section 103 to do it. So there could be a situation
20 besides bankruptcy where they couldn't come through on their
21 commitment, right?

22 BY: MR. FRANCES

23 Because the condition was not satisfied.

24 BY: MR. GARDINER

25 Yeah, you know, whatever. So I think that gets to Sam's

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1 point about whether then, you know, is the benchmark then
2 un-met by that?
3 BY: MR. FRANCES
4 I don't believe so, no.
5 BY: MR. COTTEN
6 Oh, you don't believe so?
7 BY: MR. FRANCES
8 I do not believe that the benchmark is un-met.
9 BY: MR. COTTEN
10 Once it's been met, that's all you have to do. After that,
11 anything can happen?
12 BY: MR. FRANCES
13 That's right.
14 BY: MR. COTTEN
15 I don't understand that myself. I'll let it fly for the
16 time being. Then they could decide to build something
17 different at a much lower cost after that, is that the way
18 you understand that?
19 BY:
20 I think that's what he's saying. That's not my understanding.
21 BY: MR. COTTEN
22 No, they don't have to spend a billion and a half. They
23 might decide that they can build it for, you know, a hundred
24 dollars.
25 [conversation among legislators]
BY: MR. MILES: Yes, they do. They've got it in the contract. They've got
it in every benchmark that's coming along.

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1 BY: MR. FRANCES

2 We always have the other benchmarks. We have to spend a
3 billion and a half and we also have to build a petrochemical
4 facility. These benchmarks, I think, were put in there to
5 show that you are making progress -- the ALPETCO Company is
6 making progress.

7 BY: MR. COTTEN

8 I got distracted there. The point I was trying to make was,
9 if you suddenly lost one of those commitments at this point
10 today, would that put you out of compliance?

11 BY: MR. FRANCES

12 No.

13 BY: MR. COTTEN

14 You don't feel that it would, so that's the answer to my
15 question, I think. Thank you, Mr. Chairman.

16 BY: MR. MILES

17 Mr. Malone.

18 BY: MR. MALONE

19 Yeah, Mr. Chairman. This is just a point that was mentioned
20 earlier, I think, by Mr. Hanzlik and I wanted to make sure of
21 what I heard on it and that was, according to the information
22 that I see here about these Valdez bonds, that there was an
23 addition here that the condition that says that neither the
24 Congress nor the U. S. or the IRS or anybody else, shall --
25 proposed or enacted any legislation or proposed or adopted any

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1 regulation which would adversely affect the tax exempt status
2 of the interests on the bonds. That was a letter from E. F.
3 Hutton to Billy Walker of Valdez, dated November 19, '79,
4 signed by James Lott. And in your earlier statements you said
5 though that this commitment extended even though the bonds --
6 even though not all the 600 million may be tax exempt, is
7 that right?

8 BY: MR. HANZLIK

9 I did say that Hutton has given us a commitment to sell them
10 on a taxable basis as well as on a tax exempt basis, that's
11 correct. And that's a representation that Hutton can clarify
12 that matter if it's not clear by that.

13 BY: MR. MALONE

14 Okay, I wanted to verify that. Thank you, Mr. Chairman.

15 BY: MR. MILES

16 Mr. Chatterton.

17 BY: MR. CHATTERTON

18 Yeah, Mr. Chairman. Willard, what's the faith and credit
19 behind the bond issue for the 600 million?

20 BY: MR. HANZLIK

21 It is a collateral pool form for all lenders that is -- the
22 lenders will be Perry Passu (ph), that is the export credits
23 and the domestic credit and there will be a mortgage on the
24 facility; right, title and interest to the facility and the
25 pledge of the various sales contracts.

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1 BY: MR. CHATTERTON

2 Thanks. Thanks, Mr. Chairman.

3 BY: MR. MILES

4 On the Hutton commitment, is there -- we talked about the
5 Thyssen commitment several hours ago, or days ago, whatever,
6 a long time ago -- the terms and conditions. Are there any
7 conditions, any terms, that have been agreed to on the Hutton
8 commitment?

9 BY: MR. HANZLIK

10 You should have -- I'm not sure that I have here -- there
11 was a follow-up from Hutton in an effort to help on this
12 very point dated December 21, to Mayor Walker -- I have it
13 here -- which sets forth ...

14 BY: MR. MILES

15 Was there an interest rate? Is there an interest rate?

16 BY: MR. HANZLIK

17 There is not an interest rate. That's something that frankly,
18 if you are a corporation going to market next week you would
19 set on the night before going to market, so it would not be
20 customary or reasonable to have an interest rate. There is
21 a term sheet which lists the various -- description of the
22 revenue bonds, putting redemption provisions, maturities,
23 amounts of designations and whatnot which, if you don't have,
24 you should. We can make the copies.

25 BY: MR. MILES

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1 What if Hutton is, as an example, one of the state's consul-
2 tants cites, what if Hutton sets that rate at 30%?
3 BY: MR. HANZLIK
4 It would be very easy to sell the bonds and be very difficult
5 to pay them off.
6 BY: MR. MILES
7 Okay, so that would tube their participation, then?
8 BY: MR. HANZLIK
9 Well, interest rates aren't arbitrarily set by an underwriter.
10 They're set by the client and the underwriter together.
11 BY: MR. MILES
12 And they're going to turn around and loan that money to you
13 guys.
14 BY: MR. HANZLIK
15 No, they're not. No, sir.
16 BY: MR. MILES
17 Basically.
18 BY: MR. HANZLIK
19 Hutton is a financial conduit. They are among the most ex-
20 perienced underwriters of tax exempt securities in this
21 country and I can't cite you the numbers, but they probably
22 did 10 billion dollars worth of these last year alone.
23 BY: MR. MILES
24 I understand that Hutton is.
25 BY: MR. HANZLIK

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1 So, the procedure on this is not one in which it's, you
2 know, cavalier of setting a ridiculous interest rate. They'll
3 set a rate which is appropriate given an analysis of the risks
4 involved to attract investors in the bonds. And so long as
5 it's an interest rate which is acceptable to the project and
6 ...

7 BY: MR. MILES

8 What if it's not, though. My question is what if it's not
9 acceptable to the project?

10 BY: MR. HANZLIK

11 Then we won't enter into the definitive long-term loan agree-
12 ments.

13 BY: MR. MILES

14 Then you don't have a commitment?

15 BY: MR. HANZLIK

16 No, that's not -- no, then we don't have a definitive long-
17 term loan agreement.

18 BY: MR. MILES

19 Okay, then you don't have the money?

20 BY: MR. HANZLIK

21 That's right.

22 BY: MR. MILES

23 Okay. Mr. Malone.

24 BY: MR. MALONE

25 Thank you. None of the benchmark or the contract requirements

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1 in 10 - 3 -- there's one that's been discussed already to
2 some extent and that's 10 - 3 - C, which is that ALPETCO is
3 to enter into contracts for sale of at least 70% of the pro-
4 duct output from the petrochemical facility and there's been
5 a contract executed with Charter Alaska for 70% of the output
6 of the petrochemical facility to comply with that benchmark
7 and one of the terms of that contract, Article 5, 501 Term,
8 provides that the agreement is subject to buyers' final
9 approval of definitive documents relative to long-term loan
10 of funds for the refinery, the terminal and related facili-
11 ties and to the execution by December 18th, 1980 of such
12 documents by ALPETCO and the lenders providing such funds.
13 How come in a sales contract we have that sort of condition?
14 Why is it in the sales contract?

15 BY: MR. HANZLIK

16 The reason it's in the sales contract -- one reason is and
17 Mr. Frances may have an amplification on that -- has to do
18 with the form of the sales contract and the fact that the
19 buyer is obligated to meet the operating costs of the facility
20 as part of this sales contract. Which means, they must meet
21 their percentage of the principal and interest payments on
22 the financing. If they did not have a say as to what those
23 terms of financing were, then the company could enter into
24 financings which made the sales contract virtually unacceptable.
25 And I think that's the principle reason.

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1 BY: MR. PARKER

2 Take or pay contract.

3 BY: MR. HANZLIK

4 The critical thing in a financing of this type project is
5 that there is sufficient positive cash flow to service the
6 debt and the duration of the amortization of the loan and
7 the interest rate are factors that we watch very carefully
8 to assure that there is satisfactory cash flow.

9 BY: MR. MILES

10 Other questions? Final statements? Any final statements?

11 BY: MR. PARKER

12 Well, I think that I would like to, first of all, say I
13 appreciate the opportunity to appear before this body and I
14 hope that we have established the fact of the commitment on
15 the behalf of the partners and the sincerity of building --
16 by building I mean completing -- of this petrochemical
17 facility. And we definitely need all the help we can get.
18 We call on you as the leaders of this state to help us and
19 put that atmosphere here to where that it can be complete
20 and maybe we have been wrong in that we haven't given you
21 a chance to meet us and to see the progress that has been
22 made, but without a doubt we are committed to this project
23 and believe it to be a good project for the State of Alaska.
24 And we want to tell you that we'll give it our best shot.
25 Thank you.

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1 BY: MR. MILES

2 Mr. Parker, we certainly appreciate you and your colleagues
3 coming with us. You, at least as far as I'm concerned, have
4 answered some of the questions. Others, I think as you can
5 tell by the line of question, haven't been answered to any-
6 body's satisfaction 100% but we do appreciate the effort and
7 we will -- we do stand ready to help, I think.

8 BY: MR. PARKER

9 We appreciate it.

10 BY: MR. MILES

11 Thank you. We stand adjourned.

12

13 END OF MEETING

14

15

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SCOMM

28:33

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AS A UNIT IN THE ORIGINAL DOCUMENT**

STATE OF ALASKA

THE LEGISLATURE

BUDGET AND AUDIT COMMITTEE

FINANCE DIVISION
POUCH WF-STATE CAPITOL
JUNEAU, ALASKA 99811
PHONE: (907) 465-3795

MEMORANDUM

DATE: May 8, 1980

TO: Honorable Bill Miles, Co-Chairman
House Resources Committee

FROM: Milt Barker, Fiscal Analyst
Legislative Finance Division

SUBJECT: Alpetco Refinery Cash Flow

Table 1 (attached) is a projection of the operating cash flow of the proposed Alpetco facility over the life of the 27-year contract with the state. It is a best guess, based on publicly available data including data released by Alpetco, yet subject to a great deal of uncertainty.

Three areas of greatest uncertainty are:

The spread between the market value of a barrel of product and the cost of a barrel of feedstock. This cash flow basically freezes this relationship as it existed in the spring of 1980 over the life of the project. Data published in "Petroleum Intelligence Weekly" seem to indicate that this spread has varied as much as \$2.00 in the past two years, using contract prices for crude and spot prices to value the products. It can be calculated from Table 1 that a narrowing of this spread by \$1.39 or more would eliminate entirely the pre-tax cash flow, given the assumptions used for debt service. Presumably, contract prices for products would show less variation in spread from feedstocks also costed at contract rates. However, long-term predictions about the crude and crude product markets seem very hazardous; thus, this projection expresses profound ignorance about future market relationships.

Construction costs. It uses the \$1,432.0 million figure contained in the Kutak Rock & Huie letter of December 11, 1979 (attached). Yet until the engineering cost estimate is obtained, this figure cannot be presumed to be very accurate. Moreover, cost overruns for large custom projects such as this are not unknown.

Assuming no tax-exempt financing is allowed does not do great damage to the projected cash flows; debt service increases only \$10 million. However, should debt financing requirements exceed \$1,779.3 million (total project costs of \$2,128.0),

pre-tax cash flow would fall to zero during the first 20 years. The possibility of foreign export financing mentioned at hearings would possibly decrease debt service costs.

Operating costs. Bonner and Moore estimated operating costs at \$5.00 per barrel for the original Alpetco petrochemical facility. However, since Alpetco's latest product slate (Table 2) denotes a fuels refinery, operating costs were reduced to \$2.00 per barrel. Bonner and Moore had estimated the operating costs for the 150,000 BPD Alaska Petroleum refinery at \$1.06 per barrel.

At \$2.00 per barrel of output, this would be total annual operating costs of \$105 million. The Alpetco draft EIS estimates annual wage payments for operations at \$18.6 million per year or 35¢ per barrel. Thus, \$2.00 may be high depending on costs for maintenance, catalysts, and other items. If operating costs exceeded \$3.39 per barrel, the \$73.1 million annual pre-tax cash flow would be wiped out.

Other cost elements not included in the pro-forma cash flow that could be considered part of the \$2.00 operating charge are property taxes and field costs.

If the population impact on Valdez amounts to 2,124 persons as stated in Alpetco's EIS and Valdez continues to tax at the per capita maximums permitted by law, property taxes on Alpetco would come to \$70.0 million or 12.7¢ per barrel.

If the Amerada-Hess case had been settled with Alpetco agreeing to pay the field costs, this would have been 47¢ per barrel of product or \$24.6 million per year. The expected value of continued litigation should be around 31¢ per barrel or \$16.4 million per year in field costs that Alpetco will be obligated to pay.

Tax Benefits and Rate of Return

Investment tax credits can only be carried forward seven years and may not exceed 50% of tax liability. Thus, they would be largely of no use to Alpetco given this pro-forma statement which has operating losses for the first five years. This may be one of the reasons why the project has been organized as a joint venture (a general partnership) so that the investment tax credits flow through to the partners who can use them, at least in the case of E.F. Hutton and Charter who by virtue of 100% ownership of their Alaska subsidiaries can consolidate the tax returns of partner and parent.

Thus, for computing the rate of return in one instance, the investment tax credit has been considered a reduction in the partners' capital investment.

May 8, 1980

As a partnership, the tax losses cannot be carried forward and applied to future joint-venture taxable income but must instead be flowed through to the partners in the year of the loss. Thus, depending on the partners' effective tax rate, there are additional tax benefits in the first years not reflected in the rate of return, if the partners have other income to shelter.

Finally, the rate of return does not consider any profits earned on the brokering or refining of royalty crude prior to refinery start-up.

While Alpetco will look to the rate of return on equity to evaluate its investment, potential bondholders will be looking to the operating income available to cover debt service and the amount of equity and value of assets as collateral in the event the project fails. The certainty of operating income for a facility that is to be project financed as this is becomes paramount since the parents' income and assets are not standing behind it. Without firm take or pay contracts from a credit-worthy party, the operating income remains uncertain.

MB:vsw

Attachments

TABLE 1
ALPETCO
PRO FORMA OPERATING CASH FLOW
(\$ millions)

	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	
Year	Operating Income	Debt Service on Bonds	Pre-Tax Cash Flow (a - b)	Depreciation	Payments to Principal	Taxable Income (c-d+e)	Income Tax (50% x f)	Alaska Endowment Trust (5% x g)	After-Tax Cash Flow (c - g - h)
1983	235.1	162.0	73.1	179.0	19.4	(86.5)			73.1
1984	235.1	162.0	73.1	157.0	21.6	(62.3)			73.1
1985	235.1	162.0	73.1	137.0	24.1	(39.8)			73.1
1986	235.1	162.0	73.1	120.0	26.7	(20.2)			73.1
1987	235.1	162.0	73.1	105.0	29.8	(2.1)			73.1
1988	235.1	162.0	73.1	92.0	33.2	14.3	7.1		66.0
1989	235.1	162.0	73.1	80.0	36.9	30.0	15.0		58.1
1990	235.1	162.0	73.1	70.0	41.2	44.3	22.1		51.0
1991	235.1	162.0	73.1	62.0	45.9	57.0	28.5		44.6
1992	235.1	162.0	73.1	54.0	51.1	70.2	35.1		38.0
1993	235.1	162.0	73.1	47.0	57.0	83.1	41.6	2.1	29.4
1994	235.1	162.0	73.1	41.0	63.5	95.6	47.8	2.4	22.9
1995	235.1	162.0	73.1	36.0	70.8	107.9	53.9	2.7	16.5
1996	235.1	162.0	73.1	32.0	79.0	120.1	60.0	3.0	10.1
1997	235.1	162.0	73.1	28.0	88.2	133.3	66.7	3.3	3.1
1998	235.1	162.0	73.1	24.0	98.3	147.4	73.7	3.7	(4.3)
1999	235.1	162.0	73.1		109.8	132.9	91.4	4.6	(22.9)
2000	235.1	162.0	73.1		122.5	195.6	97.8	4.9	(29.6)
2001	235.1	162.0	73.1		136.7	209.8	104.9	5.2	(37.0)
2002	235.1	162.0	73.1		152.7	225.8	112.9	5.6	(45.4)
2003	235.1		235.1			235.1	117.6	5.9	111.6
2004	235.1		235.1			235.1	117.6	5.9	111.6
2005	235.1		235.1			235.1	117.6	5.9	111.6
TOTAL	5407.3	3240.0	2167.3	1264.0	1308.4	2211.7	1211.3	55.2	900.8

Internal Rate of Return (1) based on \$348.7 million investment 15.4%

(2) based on \$205.5 million investment 32.2%

(net of 10% investment tax credit on \$1432.0 million construction cost)

PREPARED BY:

LEGISLATIVE FINANCE DIV.
May 7, 1980

FOOTNOTES TO TABLE 1

ALPETCO
PRO FORMA OPERATING CASH FLOW
(\$ millions)

- NOTES:
- (a) 143,952 BPD of products @ \$40.36 (from Table 2 of this memo) less \$2.00 per barrel operating costs less \$2.00 per barrel transport costs less 150,000 BPD of feedstock @ \$30.60 per barrel (from Table 2 of April 26, 1980 memo "Alpetco Profits prior to Refinery Start-up"). The Bonner & Moore "Evaluation of Proposals for Royalty Oil Utilization" estimated the original Alpetco petrochemical facility's operating costs at \$5.00 per barrel vs. \$1.06 for the Alaska Petroleum 150,000 BPD fuels refinery. Phillips Petroleum reports tanker costs for February 1980 of \$1.28 from Valdez to Los Angeles; the Alpetco sales contract with Charter Oil (Alaska) provides a further charge of 50¢ per barrel may be deducted from the sales price for unleaded gasoline and diesel.
 - (b) Assumes \$450.0 million in tax-exempt bonds at 9% for 20 years plus \$858.6 million in taxable bonds at 12% for 20 years, a total of \$1308.6 million indebtedness as shown on attached Alpetco pro-forma construction funds flow statement from December 11, 1979 Kutak Rock & Huie letter. Tax-exempt bonds are reduced to \$450 million based on Alpetco's oral testimony that this is the amount they are sure will qualify for tax-exempt status.
 - (d) Double declining balance method over 16 years as in the Bonner and Moore report for \$1,432.0 million in construction cost as estimated on the Alpetco pro-forma statement.

TABLE 2

ALPETCO

Value per Barrel of Output

<u>Product Slate</u>	<u>Output BPD</u>	<u>Price \$/B</u>
Unleaded Gasoline	45,056	42.00
Jet Fuel	40,018	37.00
Diesel	33,396	33.50
Benzene	2,545	72.45
Toluene	5,635	56.70
Xylene	6,172	56.28
Naphtha	<u>11,130</u>	42.00
Total	143,952	
Weighted Average Price per Barrel		40.36

NOTES:

1. April 9, 1980 revised product slate of Alpetco; uses average percent of total products where a range of output is given.
2. Recent prices for Benzene, Toluene and Xylene from "Chemical Marketing Reporter"; other prices from "Platt's Oilgram Price Report."

PREPARED BY:

LEGISLATIVE FINANCE DIV.
May 7, 1980

THE ALPETCO COMPANY

Pro Forma Funds Flow Statement
(Millions)

December 12, 1979

Sources	1977 to 1st Qtr, 1979				1979				1980				1981				1982			
	1st	2nd	3rd	4th	1st	2nd	3rd	4th	1st	2nd	3rd	4th	1st	2nd	3rd	4th	1st	2nd	3rd	4th
Equity:																				
Charter Oil (Alaska), Inc.	-0-	5.0	-0-	7.0	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Alaska Petrochemical Company	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-
E.V. Hutton (Alaska), Inc.	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Total Equity	7.0	5.0	-0-	-0-	6.0	82.0	19.3	-0-	17.3	19.1	20.9	10.6	20.7	10.8	9.2	104.8				
Debt:																				
Supplier Credit-Takedown (1)	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Tax Exempt Bonds-Issue (1)	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Interim Financing-Takedown	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Interim Financing-Payback	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Total Debt	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Total Sources	7.0	5.0	6.0	6.0	6.0	82.0	19.3	43.5	163.6	180.6	185.4	106.0	205.3	196.3	186.0	191.3				
Uses:																				
Development Cost	7.6	5.0	6.0	7.0	6.0	7.0	18.3	39.1	154.4	168.2	171.1	166.1	177.8	163.8	149.1	149.1	-0-	-0-	-0-	-0-
Interest Expense	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Taxes & Insurance	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Training & Misc.	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Total Uses	7.6	5.0	6.0	7.0	6.0	7.0	18.3	39.1	154.4	168.2	171.1	166.1	177.8	163.8	149.1	149.1	-0-	-0-	-0-	-0-
Cumulative Totals	7.0	12.0	18.0	100.0	119.3	162.3	326.4	507.0	692.4	870.4	1083.7	1280.0	1466.0	1657.3						

- (1) Takedown of supplier credits occurs on the first day of each quarter according to the amounts expended during the preceding quarter.
- (2) Tax-exempt bonds are syndicated prior to December 18, 1980 and sold and drawn down in three equal amounts of \$191.0 million each beginning January 1, 1981.
- (3) Interim construction financing is used to bridge the takedown of supplier credits.

Total 1657.3
1108.6
735.7
572.9
244.2
23.0
81.5
23.0
348.7

**PLEASE NOTE: THE PRECEDING PAGES WERE TREATED
AS A UNIT IN THE ORIGINAL DOCUMENT.**

OPEC reaches major crossroads in Vienna

By STEVEN RATTNER
The New York Times

VIENNA — A meeting of OPEC oil ministers here Friday is enveloped in a pervasive uncertainty about whether the group can find a way to prevent the worldwide abundance of oil from forcing a general reduction in prices.

Such a price cut would be the first by the Organization of Petroleum Exporting Countries, and thus many consider the hastily called meeting to be one of the group's most critical.

"OPEC has never witnessed such a crisis since it was created over 20 years ago," said Sheikh Mani Said Otaiba, the oil minister of the United Arab Emirates and president of OPEC. "This is the real test for OPEC, and the challenge for OPEC to prove its solidarity and to prove to everyone in the outside world that OPEC is a useful organization."

That concern, and the apparent lack of a prearranged strategy, was reflected in the attitudes of the arriving ministers and in the reclusiveness of several who have often been among the most volu-

ble. Few expressed substantial optimism that the group would be able to reach an agreement on oil production cuts sufficiently tough and specific to remove enough oil from the market to bolster the softening prices.

"I don't believe we can make a formal decision about production levels," said Humberto Calderon Berti, the Venezuelan minister of energy. Earlier this week, Sheikh Ahmed Zaki Yamani, the Saudi Arabian oil minister, reportedly told a confidant, "This will be the most difficult meeting I've attended."

One subject that did not appear to be on the agenda was the level of official OPEC prices, which are based on the \$34-a-barrel rate set in December for Saudi Arabia's Arab Light crude. The OPEC delegates appeared determined to refrain from a general price reduction as long as possible.

The meeting called here is a consultative one, and thus need not lead to formal price or production decisions. However, by unanimous vote, the talks could be given decision-making status.

"We have to stick to it at present," said Otaiba, referring to the \$34 price. Regarding the possibility of a price cut, he said, "I don't think this is the ideal way to solve the market problem at present."

The opposition to a price reduction stems not just from a reluctance by OPEC members to lose revenues, but from a widespread belief that a price reduction would have no substantial effect on the oversupply.

Despite the uncertainty, unusual even by OPEC standards, the most likely outcome appeared to be a restatement of a commitment to holding production by the 13 countries to the 18.5-million-barrel-a-day level agreed on by key members in Doha, Qatar, 10 days ago.

That an OPEC meeting, even a consultative one, has been called specifically to discuss production represents a change for the group, which has never been able to make production a formal part of its agenda. But experts wondered whether the conference would be able to reach agreement on specif-

ic country limits, and if it did, whether the limit would be sufficiently low and could be enforced.

In part, the OPEC members appear to believe, or at least hope, that production of 18.5 million barrels a day is sufficiently low to reverse the price slide.

That belief is conditioned largely on a view by some analysts that consumers are drawing several million barrels a day from oil inventories, and that an economic recovery will raise demand. Other experts believe that any current drawing on inventories is so small and any impending economic recovery so modest that OPEC will have to cut production by substantially more to balance the market.

Confusion over the numbers was even evident among the ministers: Calderon Berti argued that 18.5 million barrels would be enough, while Otaiba said further cuts would be necessary.

As usual, the key will almost certainly be Saudi Arabia, whose production has fallen to an estimated 7.5 million barrels a day this month.

3/19/82 D. News

MEMORANDUM

State of Alaska

TO: Members of the Alaska
State Legislature

DATE: September 14, 1981

FILE NO:

TELEPHONE NO:

FROM: *JWK*
John W. Katz, Commissioner
Dept. of Natural Resources

SUBJECT: Response of Royalty
Oil Proposals

The Department of Natural Resources' recent amended solicitation for royalty oil proposals brought 27 responses. Enclosed is a summary of the responses. Copies of the 27 proposals are also available from my office upon request.

Also attached is a description of the process which the Department intends to follow for the negotiated royalty oil sale. If you have any questions, please call me or Deputy Commissioner Jeff Haynes.

Enclosures

Negotiated Royalty Oil Sale Procedures

The Department of Natural Resources process that will be followed for the proposals received as a result of the original and amended solicitations is detailed below. The process involves the use of an interagency review and outside expertise as well as extensive use of various DNR personnel.

The Department will also work with the Alaska Royalty Oil and Gas Development Advisory Board throughout the process. The Commissioner will meet with the Board several times during the process, providing them with status reports as appropriate.

The royalty oil available is 85% of the State's royalty share from Prudhoe Bay production, approximately 159,000 barrels per day at this time. The proposed date of delivery to any prospective buyers would be July 1, 1982.

Proposed Procedures and Timeline

September

Provide Royalty Board and others with information on proposals received. DNR/Law meetings to initiate review of proposals and solidify work timeline. Notify proposal respondents of receipt of proposals and set up first meeting with each.

Development of standard language for appropriate sections of contract.

October

Initial meeting with each respondent during first week of October.

Written notice given to respondents, if any, rejected in first round of review.

Royalty Board notified, pursuant to statutes, of proposals not accepted to date, if any.

Status report, if appropriate, provided to Royalty Board and others.

Written notice provided to remaining respondents and schedules arranged for subsequent negotiating sessions.

Further negotiating sessions with remaining respondents, if timely.

November

Further negotiating sessions with remaining respondents.

Written notice given to respondents, if any, rejected in second round of review.

Royalty Board notified, pursuant to statutes, of proposals not accepted to date, if any.

Status report, if appropriate, provided to Royalty Board and others.

December

Further negotiating sessions with remaining respondents, if necessary.

Finalization of proposed contracts.

Draft written findings of best interest determination, in-kind taking, non-competitive sale, if appropriate.

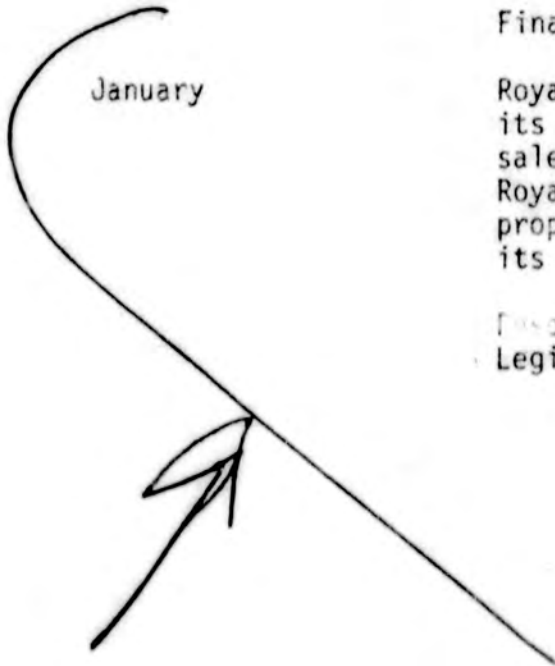
Royalty Board holds statutorily required public hearings on proposed sales. DNR submits proposed written findings and contracts to Board.

Finalization of written findings.

January

Royalty Board meets and could make decision on its recommendations regarding the proposed sales contracts. State statute requires the Royalty Board to give its recommendations on proposed royalty sales to the Legislature for its review.

Resolution and contracts introduced into Legislature.



SUMMARY OF RESPONSES TO ROYALTY OIL SOLICITATION
September 1, 1981

<u>Company</u>	<u>B/d; Term; Price</u>	<u>Description</u>
A Ruddy Petina Oil Company	159,000 b/d; term and price not stated	Propose new in-state refinery at undetermined location; 4 sites to be studied. Arranging for engineering study.
Alaska Interior Resources Company	10,000 b/d; term and price not stated	Propose new Interior facility for thermihol (heavy ends plus methanol) production. Would use coal, return oil and methanol for export product, and use desulfinated return oil, methanol and stabilizing agent for "blended hydrocarbon fuels" product. Propose interim taking of crude, beginning mid-to-late 1982, to secure market position or longterm feedstock arrangements from existing or proposed Alaskan refineries. Feasibility study underway.
Alaska Oil Company	100,000 b/d; term and price not stated	Propose new Valdez refinery to produce gasoline and middle distillate fuels (jet fuel, arctic diesel, diesel #2) for Alaska and West Coast markets. Completed configuration and preliminary engineering; have obtained all major environmental permits; and have 99 year ground lease for refinery site. Initial site preparation work done.
Alaska Pacific Oil and Refining Co.	Barrels/day, term and price not stated	Propose new repetitive refining procedure, using topping units to produce middle distillates for instate markets. Feasibility studies not complete. Propose turning refinery(s) over to State following amortization of capital investment, with company managing refining and product sales program for a fee. Do not seek oil prior to capital commitments and commencement of operations.
Amerada Hess	Minimum 25,000 b/d; minimum price of invalue; term not determined	Offer to buy minimum 25,000 b/d for export at minimum price equal to invalue price, with taking of crude to begin July, 1982 or earlier.

Responses - 2

<u>Company</u>	<u>B/d; Term; Price</u>	<u>Description</u>
American Mexican Petroleum Corp.	40,000 b/d; term not stated; price equal to reasonable market value	Offer to buy 40,000 b/d at reasonable market price for export, subject to American Mexican's commitment to opening and operating major coal mining and export project in Matanuska Valley. Royalty crude to be used to insure financial structure of coal export project.
American Mining & Manufacturing Corp.	45,000 b/d, with additional bid on another 39,000 b/d, if available; take from July 1982 to 1986; price no less than invalue, with possible bonus	Propose new instate refinery at undetermined site for production of middle distillates. Price term of no less than invalue, with bonus of either 1/16 of production or as a joint venture 1/2 of all profits accrued. Propose interim taking of crude, 45,000 b/d commencing July 1982 through 1986, and an additional 39,000 b/d starting July 1983.
Amoco Supply and Trading Company	10,000 to 20,000 b/d; indeterminate term but not less than 3 years; pricing formula (see description)	Offer to buy 10,000 barrels/day for export, commencing July, 1982 and escalating to 20,000 b/d by 1985. Suggest price be tied by formula to official FOB price for Arabian Light; value of royalty crude would be the equal of Arabian Light value minus \$4.30/b. Would consider deferred payment plan with payment of interest, if attractive to State.
Arco Petroleum Products Company	B/d, term and price not stated	Offer to buy undetermined amount for export, commencing July 1982, with quantity and price to be negotiated.
Ashland Petroleum Company	B/d and term not stated; pricing formula (see description)	Offer to buy undetermined amount for export, commencing July 1982. Propose price in excess of invalue, with actual price based on posted prices for Eastern U.S. crudes, with adjustment for quality and West Coast delivery.

Responses - 3

<u>Company</u>	<u>B/d; Term; Price</u>	<u>Description</u>
Chevron U.S.A.	45,000 b/d; 15 year term; invalue price	Propose expansion of existing Nikiski refinery to 100% North Slope crude, using 30,000 b/d for production of heating fuel, diesel and jet fuel. Construction of expanded facilities to begin summer 1982, with facilities to be in operation by July 1983. Balance of 15,000 b/d to be run in Chevron's California refineries to produce refined products to import or exchange for products to be imported into Alaska. Propose interim taking of all 45,000 b/d prior to expanded operation of Nikiski refinery in 1983.
Dow Chemical Company	Up to 30,000 b/d; term not stated; price equal to fair market value	Offer to buy up to 30,000 b/d on a longterm contract, with sale contingent upon Dow investing in petrochemical facility in Alaska. Sale to commence July, 1982 or earlier with purchase to be discontinued if Dow does not investment in petrochemical plants in Alaska.
Doyon Limited	58,000 b/d; term long enough to amortize capital investment; invalue price	Propose new facility for instate use of royalty oil; details not given.
Exxon Company	B/d not stated; term not stated; price equal to Exxon's reported Prudhoe Bay price	Offer to buy undetermined amount for export on a longterm basis. Price equal to the price reported on Exxon's report to the State during the applicable month for royalty taken invalue by the State.
Koniag, Inc.	25,000 b/d; term not stated; price equal to invalue plus premium	Offer to buy 25,000 b/d for export on a longterm basis. Price equal to invalue price plus a premium of certain lands owned by Koniag, Inc., suitable for park and recreation purposes.

Responses - 4

<u>Company</u>	<u>B/d; Term; Price</u>	<u>Description</u>
Mapco Alaska	Withdrew earlier proposal	Although Mapco Alaska withdrew its proposal, it suggests the State set aside a total of 70,000 b/d to meet Mapco-North Pole's possible future crude requirements prior to entering into longterm commitments with other parties.
Northwest Holdings	B/d not stated; term of not less than 20 years; price not stated	Propose to buy existing instate refinery and convert it to process North Slope crude for middle distillates and gasolines. Also propose construction of a new refinery for middle distillates and gasolines.
Nikiski Offshore, Inc.	35,000 b/d; term not stated; price not stated	Propose crude oil-slurry system utilizing coal from Beluga, Healy and Lower Cook Inlet fields.
Provident/Kodiak Industries Corp.	50,000 b/d; term not stated; price equal to invalue price plus sum based on refinery's profitability	Offer to buy 50,000 b/d for export to new Arizona refinery owned jointly by Provident Refining and Kodiak Industries, a subsidiary of Koniag. Feasibility studies made. Delivery commencing at refinery startup, scheduled for 1984, and continuing on longterm basis; would take crude on interim basis if State desires. Price would be equal to the invalue price plus an annual premium calculated on the refinery's yearly profitability.
Sealaska Corp.	20,000 b/d; 23 year term; Exhibit B price as a base	Propose to construct a new refinery in Southeast Alaska for production of residual and distillate fuel products (jet fuel, diesel, space heating oil and residual fuel). Would undertake two-phase market and detailed feasibility study, with refinery construction to start in 1982 and startup taking place in 1985. Propose interim taking for processing by another refinery with products returned to Southeast.

Responses - 5

<u>Company</u>	<u>B/d; Term; Price</u>	<u>Description</u>
Shell Chemical Company	B/d, term and price not stated	Offer to buy royalty crude on a longterm basis for use in Shell refineries in Lower 48. Suggest possibility of Shell providing Alaska with product needs. Suggest State use royalty oil to encourage petrochemical development.
Sohio Alaska Petroleum Co.	B/d and term not stated; price equal to Sohio's average Prudhoe Bay pump station no. 1 netback price	Offer to buy all or part of royalty crude on a longterm basis at Sohio's average Pump Station No. 1 netback amount. Also offer to negotiate provisions under which Sohio would provide North Slope crude to instate refiners capable of processing it; the amount and term of such sales would be governed by the refiner's crude needs, and the volume and term of the royalty oil sold to Sohio.
Suneel Alaska, Inc.	15,000 b/d; ten year term; price not stated	Offer to buy 15,000 b/d of royalty crude commencing July, 1982, to use as an exchange for petroleum coke needed to blend with Alaskan coal before coal export. Suneel has entered contractual arrangements with Usibelli Coal Mine and the Alaska Railroad, with coal shipment scheduled to begin in summer, 1982. Fuel-grade petroleum coke is needed to blend with the Alaskan coal for the coal to be utilized in Korean and other markets.
Tanana Valley Refining Company	14,000 b/d; ten year minimum term; price equal to inkind well head value	Propose to construct new Interior alcohol-petroleum refinery at \$27.2 million cost. Using crude and barley as feedstock, facility would produce gasohol, kerosene, diesel, return oil, and anhydrous ethyl alcohol. Construction and startup dates for facility not stated.
Tesoro Petroleum Company	Two contracts, each 35,000 b/d, long term basis at invalue price	Propose to buy 70,000 b/d under two separate contracts for 35,000 b/d each. First contract would call for crude commencing July, 1982, to be used as exchange for crude to be processed in Kenai refinery. Second contract would call for crude upon completion of further expansion of refinery.

Responses - 6

<u>Company</u>	<u>B/d; Term; Price</u>	<u>Description</u>
Tosco Corporation	B/d and term not stated; reasonable price	Offer to buy royalty crude for export to Tosco's California refinery on a longterm basis.
Union Oil Company	15,000 b/d or more; one year or longer term; price equal to Exhibit B plus a bonus equal to 2.5% of the Exhibit B price	Offer to buy royalty crude for export for one year or longer. Union will pay the Exhibit B price plus a bonus equal to 2.5% of the Exhibit B price. Also Union will sell gasoline, No. 2 fuel oil, diesel fuel, aviation gasoline and asphalt to Alaskan customers in volumes at least equal to 1980 volumes.

CS The question being: "Shall CS SSHB 830 (Finance) pass
SSHB the House?" The roll was taken with the following result:
830
(Fin)

Yeas: 32 Akers, Anderson, Bearne, Bennett,
Bradley, Brown, Buchholdt, Carpenter,
Chatterton, Cotten, Cowper, Duncan,
Freeman, Gardiner, Gruening, Guy,
Haugen, Lovseth, McKinnon, Malone,
Meekins, Miles, Miller, Nakak,
Osterback, Parr, Phillips, Rhode, Rudd,
Smith, Snider, Urion.

Nays: 6 Dankworth, Eliason, Hayes, Kelly,
Lethin, Swanson.

Excused: 2 Ose, Schaeffer.

And so, CS SSHB 830 (Finance) passed the House.

Mr. Miller moved and asked unanimous consent that the roll call on the passage of CS SSHB 830 (Finance) be considered the roll call on the effective date clause. There being no objection, it was so ordered.

CS SSHB 830 (Finance) was referred to the Chief Clerk for engrossment.

CSHB Mr. Kelly asked to take up the reconsideration of the vote
807 on COMMITTEE SUBSTITUTE FOR HOUSE BILL NO. 807 (special appropriation, Department of Fish and Game, division of sport fish; effective date) at this time.

Mr. Miller moved and asked unanimous consent that CSHB 807 be placed at the end of today's calendar. There being no objection, it was so ordered.

CITATIONS

Legislative Citation Saluting Alaska Participants, 1978 Arctic Winter Games, by Senators Colletta and Bradley and all other members of the Senate, was read.

Mr. Miller moved and asked unanimous consent that the Citation be approved. The House approved the Citation unanimously and it was referred to the Chief Clerk for return to the Senate.

SECOND READING OF HOUSE RESOLUTIONS

HCR HOUSE CONCURRENT RESOLUTION NO. 112 (approving the sale
112 of royalty oil to Alaska Petrochemical Company) which had been held over until today's calendar on reconsideration of the vote (p. 1039, 1978 journal) was read the second time.

Amendment No. 1 by Gardiner:

HCR
112

Page 1, line 5: Insert "Conditionally" before
"Approving."

Page 2, between lines 10 and 11:

Insert the following language:

WHEREAS the legislature finds that the provisions of the Agreement which allow Alaska Petrochemical Company to export crude oil from the state are not in the best interests of the State of Alaska and its citizens; and

Page 2, line 11:

After "to be" insert "otherwise"

Page 2, line 18:

After "approved" insert the following language:

"provided that the Agreement is amended so that the total amount of crude oil deliverable under the Agreement may not exceed the amount Alaska Petrochemical Company uses or causes to be used within the State of Alaska as petrochemical or refining feedstock."

TO THE AGREEMENT FOR THE SALE AND PURCHASE OF STATE ROYALTY OIL BETWEEN THE STATE OF ALASKA AND THE ALASKA PETROCHEMICAL COMPANY, dated February 22, 1978.

In Article 2.1 of the Agreement, at page 5, line 1, after "in kind" add the following language:

"Seller shall not be required under any provision of this Agreement to deliver to Buyer any amount of crude oil in excess of the amount Buyer uses or causes to be used within the State of Alaska as petrochemical or refining feedstock."

Mr. Gardiner moved that amendment No. 1 be adopted.

Mr. Dankworth objected.

The question being: "Shall amendment No. 1 be adopted?"
The roll was taken with the following result:

Yeas: 20 Bradley, Brown, Buchholdt, Chatterton,
Cotten, Cowper, Eliason, Gardiner,
Gruening, McKinnon, Malone, Meekins,
Miles, Miller, Nakak, Parr, Rudd,
Schaeffer, Smith, Snider.

HCR 112 Nays: 19 Akers, Anderson, Beirne, Bennett, Carpenter, Dankworth, Duncan, Freeman, Guy, Haugen, Hayes, Kelly, Lethin, Lovseth, Osterback, Phillips, Rhode, Swanson, Urion.

Excused: 1 Ose.

Mr. Chatterton changed his vote from nay to yea.

HCR 112 am And so, amendment No. 1 was adopted.

Mr. Urion announced a Republican caucus upon recess.

Mr. Miles announced a Democratic caucus upon recess.

Mr. Miller requested a call of the House.

Mr. Miller moved and asked unanimous consent that the House stand in recess to a call of the Chair for the purpose of party caucuses. There being no objection, the House recessed at 1:02 p.m.

AFTER RECESS

The House was called to order at 2:20 p.m.

The Speaker stated the call of the House had been satisfied.

Mr. Urion moved that the House rescind its previous action taken in adopting amendment No. 1.

Mr. Gardiner objected.

The question being: "Shall the House rescind its previous action taken in adopting amendment No. 1?" The roll was taken with the following result:

Yeas: 19 Akers, Anderson, Beirne, Bennett, Carpenter, Dankworth, Duncan, Freeman, Guy, Haugen, Hayes, Kelly, Lethin, Lovseth, Osterback, Phillips, Rhode, Swanson, Urion.

Nays: 20 Bradley, Brown, Buchholdt, Chatterton, Cotten, Cowper, Eliason, Gardiner, Gruening, McKinnon, Malone, Meekins, Miles, Miller, Nakak, Parr, Rudd, Schaeffer, Smith, Snider.

Excused: 1 Ose.

And so, the motion failed.

The question to be reconsidered is: "Shall HCR 112 am pass the House?" The roll was taken with the following result:

HCR 112 am

Yeas: 32 Akers, Anderson, Beirne, Bennett, Bradley, Brown, Buchholdt, Carpenter, Cotten, Cowper, Dankworth, Duncan, Freeman, Gruening, Guy, Haugen, Hayes, Kelly, Lethin, Lovseth, McKinnon, Malone, Miles, Miller, Osterback, Parr, Phillips, Rhode, Schaeffer, Snider, Swanson, Urion.

Nays: 7 Chatterton, Eliason, Gardiner, Meekins, Nakak, Rudd, Smith.

Excused: 1 Ose.

And so, HCR 112 am passed the House on reconsideration of the vote and was referred to the Chief Clerk for engrossment.

THIRD READING OF HOUSE BILLS

COMMITTEE SUBSTITUTE FOR HOUSE BILL NO. 807 (special appropriation, Department of Fish and Game, division of sport fish; effective date) which had been placed at the end of today's calendar in third reading (page 1108, 1978 journal) was automatically in third reading at this time and was read the third time.

CSHB 807

The question to be reconsidered is: "Shall CSHB 807 pass the House?" The roll was taken with the following result:

Yeas: 38 Akers, Anderson, Beirne, Bennett, Bradley, Brown, Buchholdt, Carpenter, Chatterton, Cotten, Cowper, Dankworth, Duncan, Eliason, Freeman, Gardiner, Gruening, Guy, Haugen, Hayes, Kelly, Lethin, Lovseth, McKinnon, Malone, Meekins, Miles, Miller, Nakak, Osterback, Parr, Phillips, Rhode, Rudd, Schaeffer, Smith, Swanson, Urion.

Nays: 1 Snider.

Excused: 1 Ose.

And so, CSHB 807 passed the House on reconsideration of the vote.

Mr. Miller moved and asked unanimous consent that the roll call on the passage of CSHB 807 be considered the roll call on the effective date clause. There being no objection, it was so ordered and CSHB 807 was referred to the Chief Clerk for engrossment.

CSHB 25 (Fin) Yeas: 23 Akers, Anderson, Beirne, Bradley, Brown, Buchholdt, Cowper, Dankworth, Duncan, Eliason, Freeman, Gardiner, Guy, McKinnon, Malone, Meekins, Miller, Nakak, Osterback, Parr, Schaeffer, Smith, Snider, Urion.

Nays: 14 Buchholdt, Carpenter, Chatterton, Cotten, Haugen, Hayes, Kelly, Lethin, Lovseth, Miles, Ose, Phillips, Rhode, Rudd.

Excused: 3 Bennett, Gruening, Swanson.

Mr. Dankworth changed his vote from nay to yea.

FCCS And so, the House adopted the report, thus adopting SCS FREE CONFERENCE COMMITTEE SUBSTITUTE FOR SENATE CSHB COMMITTEE SUBSTITUTE FOR COMMITTEE SUBSTITUTE FOR HOUSE BILL NO. 25 (An Act relating to state officers, state employees, and teachers; and providing for an effective date.)

Mr. Miller moved adoption of the effective date clause on FCCS SCS CSHB 25.

The question being: "Shall the effective date clause be adopted on FCCS SCS CSHB 25?" The roll was taken with the following result:

Yeas: 36 Akers, Anderson, Beirne, Bradley, Brown, Buchholdt, Carpenter, Chatterton, Cotten, Cowper, Dankworth, Duncan, Eliason, Freeman, Gardiner, Guy, Haugen, Hayes, Kelly, Lovseth, McKinnon, Malone, Meekins, Miles, Miller, Nakak, Ose, Osterback, Parr, Phillips, Rhode, Rudd, Schaeffer, Smith, Snider, Urion.

Nays: 1 Lethin.

Excused: 3 Bennett, Gruening, Swanson.

And so, the effective date clause was adopted.

The Chief Clerk was instructed to so notify the Senate.

FCCS SCS CSHB 25 was referred to the Chief Clerk for engrossment and enrollment.

HCR 112 am (conditionally approving the sale of royalty oil to Alaska Petrochemical Company) and the Senate amendment, namely, SCS HCR 112 (Approving the sale of royalty oil to Alaska Petrochemical Company) (page 1702, 1978 journal) were before the House.

Mr. Urion moved that the House concur in the Senate amendment to HCR 112 am.

Mr. Urion stated a majority vote of members present was needed to concur, and asked for a ruling of the Chair.

Mr. Miller moved and asked unanimous consent that the House stand in recess until 4:15 p.m. There being no objection, the House recessed at 4:00 p.m.

AFTER RECESS

The House was called to order at 5:00 p.m.

Mr. Urion renewed his request for a ruling by the Chair.

The Speaker ruled that a majority vote of the House was needed (21 votes) and cited AS 38.06.055(a).

The question being: "Shall the House concur in the Senate amendment to HCR 112 am?" The roll was taken with the following result:

Yeas: 18 Akers, Anderson, Beirne, Carpenter, Cowper, Dankworth, Duncan, Kelly, Lethin, Lovseth, Osterback, Phillips, Rhode, Snider, Urion.

Nays: 18 Bradley, Brown, Chatterton, Cotten, Eliason, Freeman, Gardiner, McKinnon, Malone, Meekins, Miles, Miller, Nakak, Ose, Parr, Rudd, Schaeffer, Smith.

Excused: 4 Bennett, Buchholdt, Gruening, Swanson.

Mr. Ose changed his vote from yea to nay.

And so, the House failed to concur.

The Chief Clerk was instructed to so notify the Senate and respectfully request it to recede from its amendment.

In the event the House fails to recede from its amendment the Speaker has appointed the following members to a Conference Committee with powers of Free Conference to meet with a like committee from the Senate to consider the above bills:

Representative Miles, Chairman
Representative Chatterton
Representative Urion

The Chief Clerk was instructed to so notify the Senate.

Mr. Miller placed a call on the House on every motion made.

The Speaker stated that while the call is being satisfied the House will proceed with other business.

HB The Free Conference Committee report on HB 953 and SCS
953 HB 953 (p. 1757 of the journal) was before the House.

Mr. Miller moved that the Free Conference Committee report on the above bills be adopted.

The question being: "Shall the Free Conference Committee report on the above bills be adopted?" The roll was taken with the following result:

Yeas: 36 Akers, Anderson, Beirne, Bradley,
Brown, Buchholdt, Carpenter, Chatterton,
Cotten, Cowper, Dankworth, Duncan,
Eliason, Freeman, Gardiner, Guy,
Haugen, Hayes, Kelly, Lethin, Lovseth,
McKinnon, Malone, Meekins, Miles,
Miller, Nakak, Osterback, Parr,
Phillips, Rhode, Rudd, Schaeffer,
Smith, Snider, Urion.

Nays: 0

Excused: 4 Bennett, Gruening, Ose, Swanson.

FOCS And so, the House adopted the report, thus adopting
SCS FREE CONFERENCE COMMITTEE SUBSTITUTE FOR SENATE COMMITTEE
HB SUBSTITUTE FOR HOUSE BILL NO. 953 (authorizing the Dept.
953 of Administration to make advances to the U of A; effective
date).

The Chief Clerk was instructed to so notify the Senate.

HCS The Free Conference Committee report on CSSB 388 and HCS
CSSB 388 (p. 1757 of the journal) was before the House.
388

Mr. Miller moved that the Free Conference Committee report on the above bills be adopted.

The question being: "Shall the Free Conference Committee report on the above bills be adopted?" The roll was taken with the following result:

Yeas: 24 Akers, Anderson, Bradley, Brown,
Chatterton, Cotten, Cowper, Duncan,
Freeman, Gardiner, Guy, McKinnon,
Malone, Meekins, Miles, Miller,
Nakak, Osterback, Parr, Phillips,
Rhode, Rudd, Smith, Snider

Nays: 12 Beirne, Buchholdt, Carpenter,
Dankworth, Eliason, Haugen, Hayes,
Kelly, Lethin, Lovseth, Schaeffer,
Urion.

Excused: 4 Bennett, Gruening, Ose, Swanson.

Mr. Schaeffer changed his vote from yea to nay.

And so, the House adopted the report, thus adopting
FREE CONFERENCE COMMITTEE SUBSTITUTE FOR HOUSE COMMITTEE
SUBSTITUTE FOR COMMITTEE SUBSTITUTE FOR SENATE BILL NO.
388 (state's coastal management program; eff. date).

The Chief Clerk was instructed to so notify the Senate.

The Free Conference Committee report on CSSB 81 and HCS CS
SB 81 (p. 1748 of the journal) was before the House.

Mr. Miller moved that the Free Conference Committee report on the above bills be adopted.

The question being: "Shall the Free Conference Committee report on the above bills be adopted?" The roll was taken with the following result:

Yeas: 33 Akers, Anderson, Beirne, Bradley,
Buchholdt, Carpenter, Chatterton,
Cotten, Cowper, Dankworth, Duncan,
Eliason, Freeman, Gardiner, Guy,
Haugen, Hayes, Kelly, Lethin, Lovseth,
McKinnon, Malone, Meekins, Miles,
Miller, Osterback, Parr, Phillips,
Rhode, Rudd, Schaeffer, Smith, Urion.

Nays: 3 Brown, Nakak, Snider.

Excused: 4 Bennett, Gruening, Ose, Swanson.

Mr. Snider changed his vote from yea to nay.

Mr. Brown changed his vote from yea to nay.

And so, the House adopted the report, thus adopting
FREE CONFERENCE COMMITTEE SUBSTITUTE FOR HOUSE COMMITTEE
SUBSTITUTE FOR COMMITTEE SUBSTITUTE FOR SENATE BILL NO.
81 (special appropriations to the New Capital Site Planning
Commission; effective date).

The Chief Clerk was instructed to so notify the Senate.

Mr. Miller moved and asked unanimous consent that the House revert to Messages from the Senate. There being no objection, it was so ordered.

Message dated June 17, 1978 was read stating that the Senate has adopted the Free Conference Committee Report on CSSB 98 am and HCS CSSB 98 (Commerce) am H, thus adopting:

98
(Com) FREE CONFERENCE CS FOR HOUSE CS FOR CS FOR
am H SENATE BILL NO. 98
(banks and other financial institutions)

HCR Message dated June 17, 1978 was read stating the Senate
112 has failed to recede from its amendment to HCR 112 am
am (conditionally approving the sale of royalty oil to Alaska Petrochemical Company, namely, SCS HCR 112 (approving the sale of royalty oil to Alaska Petrochemical Company)).

The President has appointed the following members to a Free Conference Committee to meet with the like committee from the House to consider the above bills:

Senator Colletta, Chairman
Senator Sumner
Senator Poland

FCCS
SCS
CSHB Message dated June 17, 1978 was read stating the Senate
10 has adopted the Free Conference Committee report on CSHB 10 and SCS CSHB 10 (Finance), thus adopting:

FREE CONFERENCE CS FOR SENATE CS FOR CS FOR
HOUSE BILL NO. 10
(public employees' retirement system and the teachers' retirement system; eff. date)

CSHB Message dated June 17, 1978 was read stating the Senate
442 has passed COMMITTEE SUBSTITUTE FOR HOUSE BILL NO. 442
(2d Finance) (Alaska Power Authority; eff. date) with
(Fin) the following amendment:

SENATE COMMITTEE SUBSTITUTE FOR COMMITTEE
SUBSTITUTE FOR HOUSE BILL NO. 442 (same title)

and transmitting same for consideration.

CSHB Message dated June 17, 1978 was read stating the President
720 has appointed the following members to a Free Conference
(Fin) Committee to meet with the like committee from the House to consider CSHB 720 (Finance) (state land), and SCS HB 720 (same title):

Senator Poland, Chairman
Senator Tillion
Senator Sumner

HB Message dated June 17, 1978 was read stating the Senate
933 has passed HOUSE BILL NO. 933 am (compensation for state
am employees not covered by a collective bargaining agreement)

eff. date) with the following amendment:

SENATE COMMITTEE SUBSTITUTE FOR HOUSE BILL
NO. 933 (Rules) (compensation for certain
state officers and employees; eff. date)

and transmitting same for consideration.

Message dated June 17, 1978 was read stating the Senate has adopted the Free Conference Committee report on SCS CSHB 953 and HB 953, thus adopting:

FREE CONFERENCE CS FOR SENATE CS FOR
HOUSE BILL NO. 953
(authorizing the Dept. of Administration to make advances to the University of Alaska; eff. date)

Message dated June 17, 1978 was read stating the Senate has passed COMMITTEE SUBSTITUTE FOR HOUSE BILL NO. 960 (Finance) amended (fish and game management) with the following amendment:

SENATE COMMITTEE SUBSTITUTE FOR COMMITTEE SUBSTITUTE
FOR HOUSE BILL NO. 960 amended Senate (same title)

and transmitting same for consideration.

Message dated June 19, 1978 was read stating the Senate has passed HOUSE BILL NO. 986 (collective bargaining by the University of Alaska; eff. date) with the following amendment:

Page 2, line 11: Add new Sections 2,3 and 4:

Sec. 2. AS 1412 is amended by adding a new section to read:

Sec. 14.12.115. INDEMNIFICATION. A school board shall insure or indemnify and protect the board, any member of the board, or any agent, employee, teacher, student teacher, officer or member of the supervisory or administrative staff of the school district against financial loss and expense, including reasonable legal fees and costs arising out of any claim, demand, suit or judgment by reason of alleged negligence, alleged violation of civil rights or alleged wrongful act resulting in death or bodily injury to any person or accidental damage to or destruction of property, inside or outside the school premises, if the board member, agent, employee, teacher, student teacher, officer or member of the supervisory or administrative staff, at the time of the occurrence was acting under the direction of the school board within the course of scope of his duties.

June 14, 1978

HOUSE JOURNAL

1817

Mr. Anderson changed his vote from yea to nay.

And so, the House receded from its amendment, thus adopting CSSB 471 (Finance) amended.

The Chief Clerk was instructed to so notify the Senate.

HCR 112 am (conditionally approving the sale of royalty bill to Alaska Petrochemical Company) and the Senate amendment, namely, SCS HCR 112 (approving the sale of royalty bill to Alaska Petrochemical Company) were before the House.

Mr. Urion moved that the House concur in the Senate amendment HCR 112 am.

The question being: "Shall the House concur in the Senate amendment to HCR 112 am?" The roll was taken with the following result:

Yeas: 23 AKERS, Anderson, Beirne, Bennett, Bradley, Buchholdt, Caspner, Cotten, Cowper, Denkworth, Duncan, Guy, Haugen, Hayes, Kelly, Lettin, Lovseth, Osterback, Phillips, Rhode, Snider, Swenson, Urion.

Nays: 15 Brown, Chatterton, Eliason, Gardiner, McKinnon, Malone, Meekins, Miles, Miller, Nakah, Ose, Parr, Rudd, Schaeffer, Smith.

Excused: 2 Freeman, Gruening.

HB
954
(FCC)

FCCS
CSSB
159

Mr. Bradley changed his vote from nay to yea.

And so, the House concurred in the Senate amendment to HCR 112 am, thus adopting SCS HCR 112.

The Chief Clerk was instructed to so notify the Senate.

The resolution was signed by the Speaker and Chief Clerk and referred to the Chief Clerk for enrollment.

The Speaker stated that without objection, the House would revert to Messages from the Senate.

SCS
HCR
112

MESSAGES FROM THE SENATE

Message dated June 18, 1978 was read stating the Senate has failed to adopt the Free Conference Committee report on HOUSE BILL NO. 855 am (public corporations or other municipal instrumentalities) and HOUSE BILL NO. 855 amended Senate (same title) thus failing to adopt.

HB
855

FREE CONFERENCE COMMITTEE SUBSTITUTE FOR
HOUSE BILL NO. 855
(planning for & development of the New Alaska Capital, including incorporation of a new capital city; effective date)

FCCS
HCS
S3
156

The President discharged the 1st Free Conference Committee members considering the above bills and has appointed a 2d Free Conference Committee consisting of the following members:

May 2, 1978

The House was called to order at 11:16 a.m.

CONSIDERATION OF THE DAILY CALENDAR

SECOND READING OF HOUSE RESOLUTIONS

HCR 112 HOUSE CONCURRENT RESOLUTION NO. 112 (Approving the sale of royalty oil to Alaska Petrochemical Company) was read the second time with the Special Committee on Oil and Gas report (page 990 of the journal).

Mr. Anderson stated that he had a conflict of interest on this resolution and asked that he be permitted to abstain from voting. Objection was noted. The Speaker stated unanimous consent of the membership was required to abstain and therefore Mr. Anderson would be required to vote.

The question being: "Shall HCR 112 pass the House?" The roll was taken with the following result:

Yeas: 21 Akers, Anderson, Beirne, Bennett, Bradley, Carpenter, Cotten, Cowper, Dankworth, Duncan, Freeman, Guy, Haugen, Hayes, Kelly, Lethin, Lovseth, Osterback, Phillips, Schaeffer, Urion.

Nays: 17 Brown, Buchholdt, Chatterton, Eliason, Gardiner, Gruening, McKinnon, Malone, Meekins, Miles, Miller, Nakak, Ose, Parr, Rudd, Smith, Snider.

Excused: 2 Rhode, Swanson.

Mr. Schaeffer changed his vote from nay to yeas.

And so, HCR 112 passed the House.

Mr. Bradley gave notice of reconsideration of his vote on HCR 112 on the next legislative day.

UNFINISHED BUSINESS

Mr. Miller moved and asked unanimous consent that Mr. Meekins be excused from a call of the House on May 5, 1978. There being no objection, it was so ordered.

Mr. Urion moved and asked unanimous consent that Mr. Carpenter be excused from a call of the House on May 5 through May 8, 1978. There being no objection, it was so ordered.

May 2, 1978

ENG

Reconsideration of the up on this legislative the Speaker and Chief for consideration:

CSHB 885

The following was eng Chief Clerk, President the engrossed and eng Office of the Govern

CSHB 642
(Finance)

Resources
HB 960,674

Finance
HB 815, SSHB 830,
HB 854; and other
land disposal
matters

HESS
HB 950,945,934,
714, HCR 128

Judiciary
HB 921,664,837

Meeting Cancelled

Southcentral Caucus
Capital Move Issue
All interested
legislators in-
vited

Commerce
HB 670,827,937,
CSSB 326(Fin)

CARA
HCR 125

Basketball Game
Legislators v.
Lobbyists