SCOMM

28:30

upcoming salmon season.

Sam Rubinstein, Nefco's bankruptcy trustee, said Sealaska is the only group so far to make an acceptable offer to run the six processing plants.

Another company, Alaska Pacific Corporation, offered to purchase the plants but has not been able to provide "evidence of its ability to finance" the operations, Rubinstein said.

"They were asked for financial statements and bank referrals and they failed to provide anything," he said.

Alaska Pacific Corporation officials

Alaska Pacific has offered $22.3 million for the plants and Sealaska reportedly has bid $17 million.

"If the consortium can provide evidence of funding, it would obviously get it," he said.

Rubinstein said another firm, identified only as an Outside corporation, also is interested in buying the Nefco plants.

D. Gordon Willhite, a Seattle attorney representing Rubinstein, said the interim lease probably will be awarded by U.S. Federal Bankruptcy Judge Sidney Volinn

Alpetco talks under way

5/28/80 p.B

Anch. Daily News

The Associated Press

JUNEAU — Natural Resources Commissioner Robert LeResche and Alpetco officials were reported Tuesday to be holding talks aimed at a re-negotiated contract on the sale of the state's royalty crude oil.

Sen. Mike Colletta, co-chairman of the Joint Gas Pipeline Committee, which recently issued a report critical of the administration's enforcement of the long-term contract, said members of the committee met with Alpetco officials Tuesday morning and were assured that the consortium had the approval of its major partner, Charter Oil Company, to "sign off on a re-negotiated contract."

LeResche and Attorney General Avrum Gross, who also met with Alpetco general manager Dudley Parker, the consortium's lawyers, and other officials, could not be reached for comment.

But a legislative staffer said Alpetco and LeResche were actually negotiating alterations to the contract.

Colletta said he got a "good feeling" in the private meeting with Alpetco. "There's a sincerity of principle," he said.

The gas pipeline committee recently accused LeResche of "negligently" administering the contract, claiming that Alpetco had not fulfilled the terms required to allow it to start taking 150,000 barrels a day of state-owned crude oil.

The committee also said that Alpetco does not appear to plan

the world-scale petrochemical plant at Valdez that it understood was to be built when it approved the contract in 1978. Instead, committee members said the $1.5 billion plant to be on line in the mid-1980s appears to be more a refinery.

Some committee members had said they might file a lawsuit against LeResche to stop delivery of the crude oil, unless Alpetco met the contract terms to their satisfaction by July 18, or the contract is re-negotiated.

Colletta has suggested that the state consider buying out the contract by reimbursing Alpetco for the estimated $20 million it has spent toward the Valdez plant.

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THE RED DOG SALOON WAS STILL EMPTY ... esident Clem Tillion was in a Real Nasty during ative hours. He banged and banged his gavel as if itting flopping halibut! And at one rushed point, Senator called for a vote, then asked if anyone switch — but, oops, a slip. He blurted: "Does ish to change his or her *name*?" And yes, up n. George Hohman.

□

TER, WHEN THE RED DOG WAS FULL ... The ance legislators and groupies were going everso the Capitol. At 3 a.m.! Champagne popped and of cheers rolled through the Juneau night. So did beer bottles. Enough ruckus to trigger a hasty e patrolmen. They even made Terry Gardiner go and pick up broken glass. Meanies!

□

R BAY CAN BE HOT, TOO ... That WAS Senator Washington Post M.E. (and Homer News publish-d Simons verbally duking it out on the docks at y National Monument. And not over d-2, but about r's News blackout. Simons told Mike his policy of to The Daily News was all wet. The senator said bout the Post's stories on The Feud With Ted and use. So Howard invited the senator to lunch to Ear's question: who pays when the munching is

□

PEAKING OF BEING ALL WET ... Candidate uening went to a fund-raiser in Juneau last ight and raised a cool thousand, much of which ers who would pay to throw Clark in the pool. But of course: Clark CAN swim.

AkPIRG sues over Alpetco

By JULIE ANNE GOLD
Daily News reporter

Two Alaska legislators and a public interest group filed suit Tuesday to halt delivery of the state's royalty oil to the Alpetco oil refinery project.

Named in the suit were the state of Alaska, Commissioner of Natural Resources Robert LeResche, and the Alaska Royalty Oil and Gas Development Advisory Board as well as Alpetco.

The complaint, filed by state representatives Joe McKinnon and Bill Parker, both Anchorage democrats, and the Alaska Public Interest Research Group (AkPIRG) charged that LaResche improperly supported a renegotiated Alpetco contract — approved by the Alaska legislature via resolution hours before it ended its 11th session — despite the company's' failure to live up to its original contract terms.

The complex, 13-page suit lists four counts of contract irregularities between Alpetco and the state:

• LaResche approved the original February 1978 contract — calling for Alpetco to build a multibillion dollar refinery and petrochemical facility in Valdez in return for 150,000 barrels of royalty oil per day — without obtaining prior approval from the Royalty Board and legislature, and without making public his reasons for waiving competitive bidding on the contract;

• Last December, LaResche improperly found Alpetco in compliance with certain contract "benchmarks" despite the company's failure to invest $1.5 billion in a petrochemical facility and the company had "no intention or expectation of constructing a petrochemical facility in the state of Alaska;"

• LaResche's approval of the December benchmarks "constituted an amendment of the contract" which usurped the responsibilities of the Royalty Board and legislature, and

• La Resche, the board and state illegally approved a renegotiated contract with Alpetco last week — eliminating all benchmarks and financial commitments for 18 months — as an amended contract, when this action constituted a new sale and should have been put out to competitive bid.

"LaResche can't keep this fiction up forever," McKinnon said Tuesday. "At some point Alpetco will have to be in breech of contract."

McKinnon and the others are seeking a court order to stop the state from delivering the oil to Alpetco on July 18, as stipulated in the amended contract.

McKinnon said the state's willingness to renegotiate the contract "rewards" Alpetco for failing to deliver on its promises.

State officials will object to new Energy Department regulations

From Daily News staff
and wire reports

State officials will huddle in Juneau today to draft objections to new Department of Energy regulations that could end up reducing Alaska's royalty revenues from North Slope advantage now enjoyed by North Slope producers. The one favored by department officials would simply eliminate the subsidy that was granted to Alaska producers in 1977.

That entitlement subsidy was approved in an effort to deregulated anyway in mid-1981.

He said the state has not been able to determine exactly what impact the DOE action will have on wellhead prices and on the state's royalty share.

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Alpetco contract compliance challenged

By JOHN GREELY
Daily News reporter

5/17/80

JUNEAU — A contract awarding most of Alaska's state-owned crude oil to a proposed refinery in Valdez should be renegotiated, if not cancelled, leading legislators said Friday.

The recommendation sets the stage for a possible fight over the issue in the legislature or the courts, with groundbreaking by the Alpetco refinery group scheduled for July 4.

A report by the legislature's Joint Gas Pipeline Committee said "substantial doubt exists that Alpetco has complied adequately with its ... obligations" under a 1978 contract approved narrowly by the legislature.

That 27-year contract allows Alpetco to process 150,000 barrels a day of royalty oil into fuels and petrochemicals in its proposed $1.5 billion plant, scheduled for completion in 1983. Until then, the consortium, headed by the Charter Co. of Florida, plans to begin marketing the oil in July, after proving that it has spent $100 million on the project and paying the state full market prices.

The committee, co-chaired by Rep. Bill Miles, D-Anchorage, and Sen. Mike Colletta, R-Anchorage, said Alpetco had failed to

See Back Page, ALPETCO

Alpetco contract criticized

Continued from page A-1

meet various "benchmarks" in the contract for arranging financing. And, allowing Alpetco to market the oil in July threatens the state with losing money and "associated benefits," the report said.

Alpetco General Manager Dudley Parker made a quick review of the report Friday evening in Anchorage. "The company has a contract," he said. "The company is fully in compliance with the contract, has met all of the benchmarks, and intends to meet all of the benchmarks in the future."

He added the report did not "reflect the full testimony" of Alpetco officials last month in Juneau.

The report accused Commissioner of Natural Resources Robert LeResche of administering the contract in a "negligent and imprudent manner."

LeResche, repeating statements he has made in recent weeks to legislators, said Alpetco has met all contract terms and "there's no grounds for cancelling it right now."

LeResche also told The Daily News that Alpetco "clearly has no intention of renegotiating the contract."

To the committee's criticism of his handling of the contract, the commissioner replied, "That's bull..."

LeResche has the authority to cancel the contract on July 18, if he is not satisfied with Alpetco's proof that $100 million has been spent on the project. After meeting with consortium officials here Thursday, he said Alpetco is arranging "legitimate purchase contracts" for that amount.

"It doesn't appear to me to be a flim-flam at all," he said.

"My problem," he added, "is that I'm trying to administer a legal contract, which isn't unilaterally changeable like a statute ... It takes two to renegotiate a contract."

Thus, without Alpetco's consent, it appeared unlikely the state could change the contract, short of cancelling it. And, legislators said, it was unclear whether the legislature, which approved the contract after much controversy, could cancel it.

Colletta, the Senate's majority leader, said he favored altering the contract to give Alpetco only about 30,000 barrels of oil a day, the amount the consortium has estimated would be converted to petrochemicals.

That statement underscored concerns expressed in the legislature over Alpetco's repeated changes in estimates about what kind of plant it will build and how much employment and tax revenues it will generate.

Colletta and Miles, joined by House Speaker Terry Gardiner and others at a news conference, said the project had "changed markedly ... with Alaskans receiving substantially reduced material benefits."

Citing legislative criticism as one of its reasons, Alaska Interstate Co. pulled out of the Alpetco consortium last week, turning over its 17 percent interest to Charter and E.F. Hutton Co. of New York. Alaska Interstate officials said new federal regulations also had changed their outlook on the feasibility of the project.

That move left only 7 percent of the consortium in the hands of the same firms which had proposed it originally in 1978, winning rights to the royalty oil over competition by a half dozen groups.

Since then, other refiners in the state have asked for a share of the oil to fill their existing capacity or plans for expansion. Alpetco officials have said they were willing to sell some oil to those refiners but got no response.

The legislative committee said some of the oil might be better used in existing refineries, as well as in a small, new refinery planned in Fairbanks.

The report came as LeResche was studying proposals by various groups, including one headed by Dow Chemical Co., to establish a petrochemical industry fueled by royalty natural gas liquids.

The committee's report was intended to "focus attention" on the Alpetco project, Miles said. "The ball's in their court now."

...ica's Farthest North Daily Newspaper

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FERC judge orders oil line tariffs lowered

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In making his decision, Administrative Law Judge Max L. Kane ruled that the method used by the oil companies to set rates for transporting about 1.2 million barrels of oil a day from Prudhoe Bay to Valdez during 1978 and 1979 was "an artifact of a bygone era."

He found that the oil companies who built the pipeline should have charged $5.67 per barrel in 1978 and $4.93 per barrel in 1979 for transporting the oil.

Instead, they charged an an average price of $6.20 per barrel during that two-year period.

Kane also found that the rate of return requested by the oil companies was too high.

The oil company consortium—whose members include Standard Oil of Ohio, BP, Atlantic Richfield, Exxon, Mobil, Phillips Petroleum, Amerada Hess and Union Oil—asked for a rate of return on their investment ranging from 12.4 to 20 per cent.

Kane ruled that 11.5 per cent was a fair rate of return. Investment in the trans-Alaska pipeline, he said, was only "slightly riskier, if at all, than the investment in typical oil pipelines operating elsewhere in the United States."

As part of its rate investigation, FERC also is scrutinizing the cost of building the 800-mile-long pipeline.

The oil consortium spent $9 billion to construct the line. But it originally estimated that the pipeline would cost $1 billion.

A massive audit of pipeline construction companies' books is now under way to determine how much of the $8 billion was due to waste and mismanagement. The state and federal governments have charged that hundreds of millions of dollars was wasted on the pipeline and it should not be included in the rate base.

State could be big winner in refunds

WASHINGTON—An administrative law judge with the Federal Energy Regulatory Commission today ordered a consortium of pipeline companies to lower rates for transporting Alaskan crude oil through the trans Alaska oil pipeline

He also ordered the pipeline companies to refund $752 million to owners of the oil.

The judge's decision, which is subject to review by the commission, could have the effect of funneling roughly [illegible] million to the state in increased severance tax payments and royalty oil income, according to Alaska Natural Resources Commissioner Robert LeResche.

LeResche said if the decision is upheld by the commission and the courts it also could mean the North Pole Refinery and Alpetco would pay the pipeline companies less for the state royalty oil they are buying.

He described it as a "smashing victory" for the state, which has maintained all along that the amount charged for shipping oil through the pipeline should be lower.

But Chuck McConnell, general manager of the refinery, said there will not be any immediate effect on the refinery's prices. In any case, he said, the refinery has assumed that the tariffs would be lowered.

The refinery buys its oil on the North Slope and pays the transportation charge for getting it to Fairbanks. That cost is about 60 per cent of the amount being charged for shipping oil through the entire pipeline, he said, and it is set by the Alaska Pipeline Commission.

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Dow petro project would bypass Fairbanks

By News-Miner Staff
And Associated Press

Dow Chemical Co. is ready to lead a consortium to build a $2 billion petrochemical project in Alaska, according to company officials.

The project would include a gas conditioning plant at Prudhoe Bay, a separate gas liquids pipeline and an ethylene plant at a southcentral Alaskan port. The specific site of the plant has not been determined.

Dow plans to make a proposal to the Natural Resources Department by May 15, the deadline set by the state for offers to buy its share of Prudhoe Bay gas liquids. Gas liquids are the heavier components of natural gas and can be used as feedstock for petrochemical production.

Dow's proposal came as a setback to borough and business officials in Fairbanks who have been lobbying for construction of a petrochemical industry here.

"From our standpoint, of all the in-state use scenarios that have been considered, it's the least desirable," said Ben Harding, an aide to borough Mayor John Carlson.

Harding said the borough supports other alternatives that involve Fairbanks in some manner, such as building the multi-billion-dollar gas conditioning plant here, or constructing a separate gas liquids line from Fairbanks to tidewater.

But even though the Dow plan would appear to bypass Fairbanks, Harding said it is a positive development.

Dow is one of the two or three largest chemical companies in the United States. Its interest could reduce the industry's skepticism about Alaska and could lead to other proposals with development plans more favorable to Fairbanks, Harding said.

Commenting on reports of Dow's proposal, Harding said it appears the project could theoretically be independent from the proposed gas line project and could proceed even if the gas line remains stalled.

Meanwhile, several Alaskan Native corporations, including Doyon Ltd. of Fairbanks, have decided to look into a joint venture with Dow and Tesoro Alaskan for construction of the gas liquids project.

Representatives of Cook Inlet Region, Inc., Doyon and the Arctic Slope Regional Corp. met with Dow and Tesoro officials Wednesday.

Jim Hembree, vice president of Dow Chemical USA in Midland, Mich., said he is enthusiastic about the project. He said mutual interest has been expressed but no agreement has been made as yet.

Hembree said Dow became interested in the project in October after the company was contacted by Gov. Jay Hammond.

"We have offered to make a contribution, with an umbrella approach to the project," he said. "At the same time, other people have approached us with an interest in certain parts of the project. I wouldn't want to comment on anyone's role right now."

Hembree said the project would require more than the state's one-eighth share of the gas liquids. An 18-inch pipeline could accommodate the entire production of gas liquids from the field, he said.

"This is the hope Alaskans are looking for," said Sen. Mike Colletta, co-chairman of the Legislature's gas pipeline committee. "This is not speculation. This is Dow, not Alpetco."

Dow representatives met with state officials and legislators in Juneau Monday.

Don Wold, director of the state's Royalty Oil and Gas Development Advisory Board, visited Dow headquarters, and a group of Dow representatives traveled to Alaska in November to assess feasibility of the project.

Hembree said he believes the proposal has a "30 to 60 per cent chance of success," and a positive attitude by the state would help.

Dow recently abandoned plans for a petrochemical plant in Solano, Calif. because of regulatory obstacles.

Making a point

Sen. Arliss Sturgulewski, R-Anchorage, right, makes a point during a recent conversation with Fairbanks Republican Sen. Glenn Hackney in the Alaska Senate chambers.

Major New Issues to Keep Alpetco Controversy Alive Indefinitely

By Joe La Rocca

Juneau — Major developments on several broad fronts during the past two weeks have thrust the controversy-shrouded Alpetco contract into the limelight during the final days of the legislative session this week raising major new issues which are certain to keep the controversy alive indefinitely.

Under the contract negotiated by the Hammond administration and ratified by the legislature in 1978, Alpetco was given rights to purchase up to 150,000 barrels per day of the state's royalty oil.

In exchange Alpetco, now 84 per cent owned by the Charter Company of Jacksonville, Florida, promised to build a $1.5 billion petrochemical plant in the state, and agreed to meet a series of benchmarks at regular intervals designed to demonstrate measurable progress towards financing and construction of the facility.

Under the contract, Alpetco would be eligible to begin receiving 150,000 barrels per day of the state's royalty oil, starting July 18, as it fulfills its contract obligations and sell the oil in markets outside Alaska until its in-state processing facility was completed by 1985.

However, there has been growing criticism among legislators this session that Alpetco has failed to comply with its contract obligations. They say that the company failed to meet major contract commitments under the benchmark which fell due last Dec. 18 requiring proof that $1.5 billion in project financing has been arranged. They also contend that Alpetco has downgraded the project from the petrochemical plant it initially promised to build to a fuels refinery.

For example, during oversight hearings held recently by a legislative committee it was learned that the nearly 3,000 permanent jobs that Alpetco said in 1978 that the petrochemical plant would provide has dwindled to about 600 as the result of the switch to a refinery project.

Following the oversight hearings, the committee concluded that Alpetco has failed to comply with the contract and told Natural Resources Commissioner Bob LeResche, who negotiated the contract for the state in 1978, that "to allow Alpetco to take early delivery of the royalty crude is unacceptable."

The committee asked LeResche about two weeks ago to contact Alpetco officials immediately and open renegotiations aimed at re-defining the project and removing certain provisions for the early taking of the royalty oil.

The committee hinted that it might take Alpetco into court for non-compliance with the contract unless its recommendations were adopted.

As a direct result of the committee's findings and new instructions, selected legislators spearheaded by Rep. Bill Miles, co-chairman of the committee, met secretly with LeResche and Alpetco officials here in Juneau last week to renegotiate the contract.

After a few days of closed door discussions, they agreed on sweeping changes to the contract which, among other things, would reduce Alpetco's royalty entitlement from 150,000 barrels per day to 75,000 barrels per day until its proposed 100,000 barrels per day refinery is completed in 1986.

Under the proposed amendment, Alpetco must submit final design plans, execute financing documents, plant configuration and its product sale, by Dec. 31, 1981. At that time, the commissioner has 60 days in which to decide whether to terminate the contract or continue it and allow Alpetco to continue taking the royalty oil.

Under a "due diligence" provision, the Commissioner can terminate the contract at any time if he determines that Alpetco is not diligently performing.

Should he decide, on Dec. 31, 1981, to continue the contract, Alpetco can continue to take the royalty oil until March 1, 1986, when the refinery must be completed.

Again, at that time, the Commissioner can decide whether the refinery satisfied the state's expectations.

If he decides it does not, the contract can be terminated. But if he decides that the refinery is satisfactory, Alpetco's royalty oil entitlement would rise to 100,000 barrels per day for the remainder of the 25-year period.

The proposed contract amendment was made publicly available just last Saturday and a public hearing on it was held before the House Resources Committee, chaired by Rep. Miles, the following day.

Three witnesses testified at the hearing including LeResche, Alpetco general manager Dudley Parker, and Jamie Love, representing the Alaska Public Interest Research Group.

LeResche told the committee that the Hammond administration strongly supports the contract amendment. He said, among other things, that legislative criticism of Alpetco's performance under the original contract has made it impossible for Alpetco to obtain the necessary

—Continued on page 10

Perspective

All Alaska Weekly 6/6/80

Legislature Rams Through Spoils For Loser, Alpetco

By Joe La Rocca

Juneau — In the real world, when the terms of a contract are breached, the contract is cancelled. But in the Never-Never Land of the Hammond regime and the Eleventh Alaska Legislature, the offending party is rewarded instead.

That's the moral of the Alpetco story: to the loser go the spoils. Alpetco is the Florida-based consortium with which the Hammond administration, two years ago, negotiated a contract to sell most of the state's royalty share of oil from Prudhoe Bay, and future discoveries, for 25 years.

In exchange, Alpetco agreed to build a $1½ billion facility in the state designed to produce, from the royalty oil, mostly petrochemicals.

Never mind that more honest bidders candidly admitted in their proposals seeking to buy the state's precious royalty oil that neither they, nor anyone, could promise to build a petrochemical plant in Alaska, simply because the economics militated against it.

And never mind that Alpetco promised that it would, and could, build such a facility but — now that it has a spurious claim on the state's royalty oil — predictably admits that it cannot.

And never mind that Alpetco now wants to build a refinery instead, which is why the Hammond administration and the 10th Alaska Legislature — naively holding out for the impossible dream of a petrochemical facility — in 1978 rejected the other more honest bidders' proposals, in favor of Alpetco's spurious bid.

Despite this irrefutable evidence of bad faith and broken promises, the Hammond administration and certain misguided members of the legislature now propose pretense of public hearings — a complex and far-reaching contract agreement which demands weeks of the most rigorous kind of scrutiny.

Because this is an election year, and because legislators are unwilling to stay, or reconvene, in session long enough to examine this incredible handout, they will supinely commit, to an alien pretender, most of the state's royalty oil beyond the year 2,000, conservatively valued at more than $100 billion dollars.

Because that's the way things are done in the Never-Never Land of the Hammond administration and the Eleventh Alaska Legislature.

to absolve Alpetco of its transgressions.

Instead of exacting the conventional penalty for breach of contract, which is to cancel it, they have secretly negotiated a brand new one in the guise of a contract amendment which dissolves the obligations Alpetco failed to meet under the original contract.

And instead of throwing the competition open to all comers, they have rewarded the defaulting party with the exclusive privilege of bartering for a non-competitive contract which gives Alpetco more than half of the full loaf it has already forfeited.

The architect of this monumental fraud is the commissioner of natural resources, the obscure ex-wildlife biologist whom the political winds blew into an office for which he is singularly unqualified.

Withe the help of a handful of witless hacks in the legislature, the commissioner has covertly fashioned another wholesale giveaway of a public resource worth tens of billions of dollars. And they now propose to railroad through the legislature in three days — with the merest

The Pioneer 50¢
ALL-ALASKA WEEKLY
Vol. 10, No. 41 All-Alaska Weekly, Fairbanks, Alaska, April 18, 1980 Page 1

Not Just Exploratory

Legislative Probe of Alpetco Slated to Begin April 28

Expert Consultants To Be Employed by Legislature

Non-Compliance Could Cause Pact To Be Cancelled

By Joe La Rocca

Juneau — One of the state legislature's most widely respected members has been picked to spearhead the upcoming oversight hearings on the controversial Alpetco contract scheduled to begin here on April 28.

Rep. Hugh Malone (D-Kenai) will direct the hearing which were assigned by the House and Senate leadership to a joint committee specializing in oil and gas matters.

Co-chairmen of the committee are Senator Mike Colletta (R-Anchorage) and Rep. Bill Miles (D-Anchorage). House Speaker Terry Gardiner (D-Ketchikan) called for the hearings recently in a letter to Governor Jay Hammond.

Gardiner questioned whether Alpetco, the consortium headed by the Charter Co. of Jacksonville, Florida, has complied with the contract.

Under the contract, Alpetco was granted the right to purchase upwards of 150,000 barrels per day of the state's royalty share of oil produced at Prudhoe Bay or other fields not yet discovered for the next 25 years.

In exchange, Alpetco agreed to build a $1.5 billion petrochemical plant at Valdez by 1985.

Under the contract, Alpetco is required to meet certain "bench mark" conditions at regular intervals designed to demonstate measurable progress on the project. If the bench marks are not satisfied on the dates specified in the contract, it's subject to cancellation unless the governor or the legislature agree to extend the deadlines.

Rep. Malone said in an interview this week that the oversight hearings will not be "just exploratory" but will "review the whole sequence of events leading up to approval of the contract by the legislature, and what has happened since to determine whether the contract is in the best interests of the state."

Malone said the contract which was negotiated by the Hammond administration "is vague enough to be arguable on performance." He said expert consultants will be retained "who can place a credible interpretation of the contract to determine whether it is being complied with." If not, Malone said, "We will recommend that it be set aside."

He said that the committee's staff is currently negotiating for expert consulting services with a Seattle or New York firm, either or both of which may be retained.

While it may not be possible to set the contract aside, he said, the terms of the contract may be vague enough to compel Alpetco to agree to clarifying amendments which will make it possible to determine "what really constitutes performance," under the contract.

For example, Malone said, Alpetco does not appear to have met the contract's requirements for obtaining project financing agreements on schedule.

The hearings will also try to determine whether Alpetco plans to build the world scale petrochemical facility which the legislature had in mind when it approved the contract in 1978.

Said Malone: "We bargained for what a lot of people thought were all sorts of ancillary benefits to the state. If that is not what they are going to do," the Kenai legislator said, "at a minimum the people of the state and the legislature ought to know that."

If nothing else, he said, the knowledge could prevent similar deals in the future.

One of the questions oil experts will be asked to determine during the oversight hearings, Malone said, is "what is the most

–Continued on page 13

Impasse Broken on FOI Bill; Tillion Appoints Conferees

By Joe La Rocca

Juneau — An impasse of nearly a year was broken Wednesday when Senate President Clem Tillion, R-Halibut Cove, appointed three senate members to a free conference committee on a bill dealing with privacy and access to public information, sometimes referred to as the "Freedom of Information" bill.

Markedly different versions of the same measure, HB 75, passed both the house and senate last year, setting the stage for negotiations by a free conference committee consisting of three house and three senate members to try to resolve the differences between the two versions.

However, Tillion, a long-standing opponent of freedom of information legislation, didn't get around to appointing the three senate conferees until Wednesday, when he named Senators Bob Mulcahey, R-Kodiak, Ed Dankworth, R-Anchorage, and Pat Rodey, D-Anchorage, to the committee.

Mulcahey is also chairman of the Senate State Affairs Committee which reviewed and substantially amended the House-passed version of the bill before sending it to the floor of the senate for a vote last year.

The house conferees, appointed last year by House Speaker Terry Gardiner, D-Ketchikan, are himself, Rep. Charlie Parr, D-Fairbanks, prime sponsor of the bill, and Rep. Randy Phillips, R-Eagle River.

Senator Mulcahey, chairman of the senate conferees, said in an interview recently that he plans to use a version of the bill suggested by the Freedom of Information Task Force, a loosely-organized group of Alaskan journalists, as a working model in the free conference committee. It is closely allied to the Parr bill passed by the House last year.

The bill has six main sections: a preamble, exceptions, request procedures, court recourse penalties and definition.

The preamble states that the citizens of Alaska "do not give their public servants the right to decide what is best for the people to know and what is best for them not to know." It also says that the "people's right to privacy . . . shall not be infringed."

The second section provides that all records in the hands of state agencies are open to inspection "except as otherw'se provided by law," and sets up general procedures for making

–Continued on page 5

Major Battle Shaping Up Over Royalty Board Revamping

By Joe La Rocca

Juneau — A major battle is shaping up over an obscure house bill which its sponsors say is intended to take the fox out of the henhouse. The fox in this case is Natural Resources Commissioner Bob LeResche and the henhouse is the State Royalty Oil and Gas Board.

The board is charged with reviewing, and approving or rejecting, contracts for the disposal of the state's valuable royalty oil and gas.

The measure, House Bill 624, was introduced by Representatives Bill Miles, Democrat, and Chat Chatterton, a Republican, both of Anchorage.

Miles is also co-chairman of the House Resources Committee.

Under existing law, the Royalty Board is composed of five members appointed by the Governor. Three are required to be members of the general public while the other two are Commissioner of Natural Resources Bob LeResche who, by law, also serves as the royalty board's chairman; and Commissioner of Revenue Tom Williams.

The three public members are Dick Lyon, of Anchorage, Don Tripplehorn, of Fairbanks, and George Burns, of Juneau.

In its original form, the bill introduced by Chatterton and Miles would move the board from the Department of Natural Resources to the Department of Commerce, replace the Commissioner of Natural Resources with the Commissioner of Commerce, and authorize the five board members to elect the chairman.

The bill was drafted by former Fairbanks legislator and ex-commissioner of Administration Andy Warwick. Warwick who also served on the royalty board for three years until his term expired and he was replaced by the governor because of persistent policy differences with LeResch. The measure reflects Warwick's long-standing frustrations in attempting to work with LeResche as chairman of the royalty board during the three years Warwick served on the board.

When the bill was brought up for hearings before Miles' House Resources Committee on which Chatterton also sits, LeResche offered a series of amendments. They effectively gutted the board's power to review and approve contracts disposing of the state's royalty oil and gas, and gave all the contract negotiation authority to LeResch. The House committee adopted LeResche's amendments and the full house later approved the bill.

It was brought up for its first hearing Wednesday in the Senate Resources Committee, chaired by Senator Bill Sumner (R-Anchorage).

The committee rejected the House passed version, instead adopted the original House version drafted by Warwick with the royalty board's contract review and approval powers essentially intact and unanimously reported the bill out of committee with a favorable recommendation.

Since the House is expected to reject the Senate version, it's likely to go to a joint free conference committee consisting of three House and three Senate members.

Administration proponents of the House passed version have already privately appealed to Senate President Clem Tillion who appoints the members of the free conference committee. Because Tillion is a staunch supporter of the governor, they sought his help in getting the senate to accept the House passed version which they favor. That is because it gives the Commissioner of Natural Resources unilateral authority over the negotiation of contracts for the sale of the state's royalty oil and gas.

According to reports, Tillion has already privately decided to appoint Senator Mike Colletta (R-Anchorage) to the free conference committee, based on the condition that Colletta will vote in favor of the House passed version sought by the administration.

It has also been reported that a member of the Senate resources committee, who is opposed to the House passed version has asked Tillion to be appointed to the free conference committee. But Tillion said he would make the appointment only on the condition that the senator votes

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Legislative Probe . . .

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likely profit margin Alpetco can be expected to run up on each barrel of oil that they buy from the state and sell to someone else."

Conservative calculations show over the life of the contract the first wholesale price of the royalty oil could exceed $10 billion.

Malone pointed out that other instate refiners such as Tesoro, Chevron, Earth Resources and Tanana Valley Refining are desperately seeking long-term supplies of crude. "If Alpetco is not going to process the crude," Malone said, "Then the legislature should request the administration to pursue ways of limiting the amount of oil Alpetco takes to what they would actually refine instate."

The companies which unsuccessfully bid against Alpetco for the contract to purchase the royalty oil in 1978 will be invited to testify at the oversight hearings along with others. "We're hoping to get some indication of what companies would like to buy the royalty oil should Alpetco lose the rights to it due to failure to comply with the contract requirements, Malone said.

If nothing else, Malone said, "the oversight hearings may get people to realize that putting all of our eggs into one basket and giving up control of most or all of our current and future royalty oil may not be the wisest thing to do."

Malone said he hopes to cast the hearings in an adversarial mold, and "make both Alpetco and the Hammond administration prove that the company is in compliance with the contract."

If there is sufficient doubt, he said, it may be possible to "break loose" some of the royalty oil committed to Alpetco for other instate uses.

Malone was one of the House members who voted against the Alpetco contract when it came before the 1978 legislature for approval. Asked what he personally thinks of the contract, Malone said, "It's probably one of the worst deals the state has ever gotten into."

In his letter to the governor last month, House Speaker Gardiner said that legislative approval of the contract was "premised on the belief that the state's 150,000 bpd of royalty oil would be used as feedstocks for a petrochemical facility promising jobs, tax revenues, added values, and many other Alaskan benefits."

However, Gardiner told the governor, "It has now been announced that Alpetco only intends to put 28,000 pbd into petrochemical production."

"A wise man will make more opportunity than he finds."
Francis Bacon

Snow Tiger . . .

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certainly represented steps in the right direction, were put forth with great vigor. But all this healthy activity seems to have been swallowed up by this sickly maisma of the foggy anachronism on the shores of Gastineau Channel, where geographical isolation, the chasm of time zones and antiquated communications both insulate and shield our elected representatives from their constituents. In the headlong rush to appropriate pork barrel goodies, to log roll pet projects and to groom legislative leaders for state-wide political candidacies, the drive for desparately needed election reform seems to have become stalled. It has become a hostage to the whim of committee chairmen and election officials anxious to maintain the *status quo*.

Certainly, a governor who managed to be returned to power by 34 per cent of the votes cast, by virtue of the loopholes and distortions of Alaska's election machinery, is not terribly anxious to reform the system. And although Leiutenant Governor TERRY MILLER and Anchorage Republican State Senator TIM KELLY seemed indeed sincere and dedicated when they launched their campaign for election reform, they have been disappointingly silent of late. Instead, the voice of election director PATTY POLLEY, the "heroine" of the 1978 recount fiasco, is suddenly heard in the land, advocating delay, procrastination and obstructionism, in the best Juneau tradition.

Here again, only an outpouring of popular indignation can reverse the trend toward legislative slothfulness and cynicism. If this does not happen, the voters of Alaska will have the election system — and, hence, the kind of government — they deserve.

CHUCKLE OF THE WEEK. Conversation overheard in the Anchorage Airport:

A returning Alaskan (to friend meeting him at the gate): "Is JAY HAMMOND still in office or is he out of it?" Friend: "The answer is 'yes' to both."

(In case you wondered, the people who are circulating petitions for the recall of Governor JAY HAMMOND have collected more than 3000 signatures. However, the sponsors of the recall drive are aiming for 35,000 or more signatures — enough to match the total number of votes received by JAY HAMMOND to allow him to sneak back into office, despite his rejection by an overwhelming majority of the electorate. Recall petitions may be obtained from the following: JOHN MALONEY, Box 145, Anchor Point, Alaska 99556; AL METCALF, 4511 MacAlister Drive, Anchorage, Alaska 99502 (Phone 243-7949); DEAN FARRIS, 1456 Turner Street, Fairbanks, Alaska 99701 (456-3811); DICK WOLF, 3182 Prescot Cr., Anchorage, Alaska 99504 (337-3736); BEV ALECK (phone 344-7109) or BERTHA L. MIDYETT, 1011 West Twelfth Street, No. 1, Anchorage, Alaska 99501 (Phone 272-3707). Get yours today and become a sponsor for a better Alaska.)

QUOTATION OF THE WEEK: "Man defends himself as much as he can against truth, as a child does against medicine, as the man of the Platonic cave does against the light. He does not willingly follow his path, he has to be dragged along backward. This natural liking for the false has several causes: the inheritance of prejudices, which produces an unconscious habit, a slavery; the predominance of the imaginative over the reason, which affects the understanding; the predominance of the passions over the conscience, which depraves the heart; the predominance of the will over the intelligence, which vitiates the character. A lively, disinterested, persistent liking for truth is extraordinarily rare. Action and faith enslave tought, both of them in order not to be troubled or inconvenienced by reflection, criticism and doubt." (From the private journal of HENRI FREDERIC AMIEL (1821-1881), Swiss philosopher.)

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In Juneau, In Fairbanks . . .

Research Agency, Court Suit Challenge Alpetco Contract

Report Contradicts Hammond Administration's Dec. Announcement

Commitments Questioned Of Banks, German Firm

By Joe La Rocca

Juneau — The Research Agency for the State House of Representatives issued a critical report Thursday which concludes that the Alpetco Co. did not comply with a number of key requirements under its controversial contract to purchase most of the state's royalty share of oil for the next 25 years.

The report sharply contradicts the Hammond administration's announcement late in December that Alpetco had satisfied certain contract requirements in time to meet a Dec. 18 deadline.

Under the contract's provisions [illegible]

The contract gives Alpetco the right to purchase at least 150, 150,000 barrels per day of the state's royalty oil for the next 25 years, in exchange for a pledge to complete construction of a $1.5 billion oil refinery at Valdez by 1984.

Under the contract, Alpetco was required to meet a number of major conditions by last Dec. 18. These included requirements to obtain written commitments from third parties to lend or invest at least $1.5 billion to finance the project; negotiate sale terms with prospective purchasers of products from the proposed Valdez refinery; negotiate draft contracts for the sale of products; enter into contracts for the sale of at least 70 per cent of the product output; and obtain commitments for interim financing.

Meeting the 18-month bench mark provisions last Dec. 18 was a crucial step for Alpetco. Not only was that necessary to keep the contract alive, but it would also enable the firm to begin taking the state's royalty oil by next July 18, and market it for phenomenal profits until completion of the Valdez refinery.

In purporting to meet the requirement to enter into contracts for the sale of 70 per cent of the refinery's products, Alpetco simply drafted a contract selling 146,000 barrels per day of product to a newly formed subsidiary of one of its partners, the Charter Co. of Alaska, which owns 70 per cent interest in Alpetco.

The House Research Agency's report said that while the product sales contract "appears to satisfy the letter" of its contract

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Two Fairbanks, Two Kenai Refineries Request Uncommitted Royalty Oil

JUNEAU — The state is considering four "serious requests" to purchase the remainder of its royalty share of Prudhoe Bay oil production from existing or proposed refineries — two on the Kenai Peninsula and two near Fairbanks.

Last Friday was the deadline for proposal to purchase about 10,600 barrels per day of royalty oil not yet committed, as well as some 150,000 barrels per day which will be available for only 17 days next summer, before it's scheduled to be turned over to Alpetco. That's the consortium headquartered in Jacksonville, Florida which has contracted to buy most of the state's royalty oil for the next 25 years in exchange for a promise to build a $1.5 billion refinery at Valdez by 1984.

As of last Friday's deadline, the State Department of Natural Resources had received what it considers serious proposals from four bidders. They are the Tanana Valley Refining Co. of Fairbanks; Earth Resources Co. of Alaska, also of Fairbanks; Tesoro Alaska Petroleum Co. of San Antonio, Texas; and Chevron, U.S.A. of San Francisco.

Chevron said that unless it can obtain additional crude supplies for its Nikiski Refinery at Kenai, it will have to shut down operations there.

All but Tanana Valley Refining have existing refineries in Alaska whose refining capacity currently ranges from 25,000 barrels per day (Chevron) to 35,000 barrels per day (Tesoro) and ERCA's North Pole facility.

Tanana Valley Refining plans to build a 15,000 barrel per day refinery if it can obtain a long-range commitment for upward of 10,000 barrels per day of the state's royalty oil from Prudhoe Bay.

ERCA's and Tesoro's proposals are all-encompassing. Both have asked to purchase all of the state's uncommitted royalty oil from Prudhoe Bay which depending upon circumstances can range from 10,000 barrels per day for an indefinite period to as much as 150,000 barrels per day for 25 years.

Except for 5,000 barrels per day and 35,000 barrels per day committed respectively to Golden Valley Electric Association and ERCA's North Pole refinery most of the state's royalty share of oil produced at Prudhoe Bay for the next 25 years has been committed to Alpetco provided it meets certain contract requirements by next July 18.

Under a six-month notice requirement, the North Slope oil producers are required to make up to 150,000 barrels per day of the state's royalty oil available to the state for resale to Alpetco by July 1.

As a result, 150,000 barrels per day remain uncommitted between July 1 and July 18 assuming Alpetco satisfied its contract requirements. If it does not, the contract can be dis-

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Suit Challenges Royalty Oil From Future Leases

By Tom Snapp
Editor

A suit was filed in Superior Court in Fairbanks Thursday seeking to void certain portions of the contract of Alaska Petrochemical Company for the purchase of state royalty oil. The suit was filed by Fairbanks attorney Barry Donnellan "on his own behalf and on behalf of the people of the State of Alaska."

Alpetco has contracted with the State for the purchase of royalty oil from Prudhoe Bay. The contract was signed by Commissioner of Natural Resources Robert LeResche on behalf of the state on Feb. 22, 1978. It was approved as to form by Attorney General Avrum Gross. It was ratified by the legislature the following May.

The contract gives Alpetco certain rights to 90 per cent of "any royalty oil." It would appear that this right extends, not only to Prudhoe Bay, but also to future discoveries. It is not clear to the layman whether Alpetco's right is subject to a

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ROAR OF THE SNOW TIGER

EDGAR PAUL BOYKO

THE FBI "STING" STINKS. The "nine old men" of the pre-New Deal U.S. Supreme Court may have been aging fogies, as F.D.R. decried — but they did understand the meaning of honor and they did not believe, like some of their more liberal successors, that the end justifies the means. Thus, in a case decided in the 20's, the Court, speaking through arch-conservative Mr. Justice SUTHERLAND, declared that the government of the United States must not engage in "ignoble acts" — and if some of its more zealous agents did, justice demanded that it be deprived of the fruits of such ignominy. Without a doubt, the Sutherland Court would have condemned and rejected the most recent antics of the, presumably morally refurbished, post-J. Edgar Hoover, Federal Bureau of Investigation.

The recent series of so-called "stings" (itself an underworld slang-term for a confidence job or "scam") aided and abetted and perhaps conceived by one of the malodorous organized crime "strike forces" (a holdover from the Nixon days), reveal a dimension of perverted law enforcement with which few Americans are familiar. There is a handful of Alaskans, who had their eyes opened during the combined "strike force" — F.B.I. caper, which surfaced in the trial of former U.S. Attorney RICHARD McVEIGH and others, where it was shown that F.B.I. agents actively promoted illegal activities, such as prostitution and gambling, in the Valdez area, with taxpayers' monies, for the purpose of entrapping a handful of Alaskan politicians.

Like former President Richard Nixon, the secret agents posing as B-movie *mafflosi*, made the mistake of recording their activities on a large number of tapes, which then played to the Court, jury and courtroom audience, in the U.S. District Court at Anchorage, revealed that the F.B.I., rather than seeking to combat crime and apprehend criminals, was actively engaged in thinking up, sponsoring, financing, promoting and encouraging numerous criminal acts, in the hopes of enticing otherwise law-abiding citizens into participating therein.

While it appeared to many, at the time, that these comic opera posturings on the part of imitation *cosa nostra* mobsters, was a pitiful waste of law-enforcement personnel and taxpayers' money (considering, for instance, that the F.B.I. routinely declines, for reasons of economy, to become involved in numerous interstate child stealing cases, across the country, including Alaska), it would now appear that these silly goings-on were just a warmup for a vast array of similar but larger operations, in which F.B.I. agents posed as Arabian sheiks, and as bagmen and influence peddlers, renting phoney mansions and disbursing large amounts of cash to politicians, labor leaders and other sitting ducks, in order to generate compromising conduct, to be recorded on both video and audio tape. This, incidentally, was solemnly performed by the same national administration which winked at the financial machinations of a BURT LANCE and nods approvingly, as Secretary of the Treasury, WILLIAM MILLER, alibis away his alleged involvement in massive overseas briberies.

This is not to suggest that there are not now (as always) crooked politicians and venal officials. But it seems hardly appropriate for what once was the most respected law-enforcement agency in the land, to suggest ideas for new and different crimes to these sorry types. It smacks of the tactics of the secret police of authoritarian countries and, indeed, anticipates the imaginings of GEORGE ORWELL by a full four years. We believe that this country would be far better off, for letting a handful of grafters continue their operations, than to enthrone Big Brother, in the name of the administration of justice. There are those, moreover, who ask how many stalwart F.B.I. agents would be able to resist proffered cash bribes of between $25,000 and $50,000, when nothing more is asked in the return, than a vague commitment towards future favors?

TOO MUCH OF A GOOD THING. One of the least admirable qualities of American life is our unvarying tendency to make too much of a good thing. In the aftermath of the Viet Nam fiasco, we managed to distort thoughtful dissent and conscientious resistance to a dishonorable war, into the Yippie caricature of political action, the vulgarity of student riots and the still-prevalent idiocies of appeasement and unilateral disarmament. When the country was swept by a wave of righteous indignation over the disclosures of governmental corruption and perfidy arising out of the Watergate scandal, we seemed to be compelled to pervert careful reforms and a thoughtful advocacy of higher moral standards, into a bureaucratic nightmare of pious posturings and red tape, masquerading as election reforms, accompanied by a mania for everybody investigating everybody else, amidst great beatings of the breast and pointings of the finger.

One recent case in point involves the big flap over Senator BILL SUMNER (R-Anchorage) and his purported attempt to intimidate a "quasi-judicial" administrative tribunal. Perhaps it was indiscreet of the good senator to accept (if he did), as is alleged, a campaign contribution from his aggrieved constituent, almost simultaneously with the act of interceding on his behalf — although it is not clear how the *quid pro quo* would have been any less reprehensible, if the customary lag period had been observed. But it is ridiculous to suggest that there is something wrong for a legislator to go to bat for a constituent being stretched on the rack by a bureaucratic posse.

Certainly, if anyone in this State or in this Union needs a bit of intimidation, it is the motley assemblage of kangaroo courts euphemistically referred to as "quasi-judicial administrative tribunals." In one of the more flagrant judicial cop-outs of our time, the real courts have held that there are presumptions of regularity and benefits of finality which adhere to administrative adjudications — presumptions which fly into the face of reality, common knowledge and common sense. If there is anything more subversive of the Anglo-Saxon concept of the administration of justice, it is the spectacle — repeated hundreds of time each day — of pompous, self-righteous and self-dealing bureaucrats acting as judge, jury, prosecutor and executioner, while hapless citizens are entangled in an endless web of governmental regulations, rules of procedure, obscure institutional jargon, secret laws (presumptively communicated to them by "publication" in a monstrosity known as the Federal Register, which no one reads (except other bureaucrats) and which no English-speaking person would understand, in any event). The same applies, *mutatis mutandis*, to state and local governments.

Whatever the outcome of the heavily tauted probe of Senator Sumner, the mere fact that it occurred, and the wolf-pack assault on an influential legislator by numerous bureaucrats, (led as usual by the ubiquitous Attorney General's office), will inevitably have a chilling effect on other legislators, whose aid and assistance is often the only recourse of John Q. Public, hounded to death by the dogs of bureaucracy.

Another example of hypocritical self-righteousness, is involved in the recent hue and cry, unleashed with even more than customary shrillness, by the oh-so-precious editorialists and investigative reporters of the Anchorage Daily News, against Senator MIKE GRAVEL (D-Alaska). It seems that all of a sudden — just coincidentally, of course, with the fact that a young liberal of the stripe most similar to that sported by the News' editorial board, has decided to challenge the incumbent — the Daily News has discovered that years ago Senator Gravel and some of his friends in Washington and elsewhere (including, horrors, a lobbyist) pooled their resources to acquire a reputedly plush vacation home in the Aspen, Colorado, ski resort. There is, of course, nothing illegal or immoral about this,

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Alpetco . . .

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requirement "it does little to demonstrate the marketability of the products. The Charter Company," the report says, "will still need to identify viable markets for the products it has agreed to purchase from Alpetco."

Said the report: "It's questionable" whether the product sales contract fully satisfies the letter of the agreement and it falls far short of satisfying the spirit of the agreement.

As proof that it had obtained $1.5 billion in project financing commitments, Alpetco submitted evidence of three financing arrangements. These included the $350 million from the Alpetco partners, $600 million from the City of Valdez, and $750 million from a German engineering firm named Thyssen.

The Research Agency report says that while the project financing commitments have been partially met by the city of Valdez and the Alpetco partners, "Thyssen's commitment for the other $750 million in financing is not a true commitment to lend or invest . . . and we, therefore, question whether the (requirement) has been fully satisfied."

Likewise, the Research Agency report says commitments for interim financing do not appear to have been made. Letters from the Chemical Bank of New York and Manufacturers Hanover Trust Co. submitted as proof that interim financing has been secured, the report notes, "are subject to so many conditions that, in effect, they do not appear to provide a substantial guarantee of interim financing."

The House Research Agency was asked to analyze Alpetco's Dec. 18 submission under its contract with the state by key House members including Rep. Bill Miles (D-Anchorage), co-chairman of the House Resources Committee.

They wanted to determine independently whether Alpetco had complied with the contract requirements, as claimed by the Hammond administration.

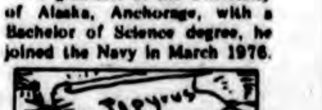
The Alpetco contract was negotiated by the administration and ratified by the legislature in 1978.

CHARLES R. GAY

Navy Ensign Charles R. Gay, son of Robert E. and Marilyn J. Gay of 1710 S. Salem Drive, Anchorage, was commissioned in his present rank upon completion of Aviation Officer Candidate School.

The 13-week course at the Naval Air Station, Pensacola, Fla., was designed to prepare candidates for their future duties and responsibilities as commissioned officers and to prepare them to enter primary flight training.

A 1973 graduate of East Anchorage High School, and a 1979 graduate of the University of Alaska, Anchorage, with a Bachelor of Science degree, he joined the Navy in March 1976.



The word *paper* comes from *papyrus*, the giant water reed from which Egyptians manufactured a writing material.

Roar of the Snow Tiger . . .

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but then the Daily News staff writers are masters of the innuendo, the raised eyebrow, the meaningful and pregnant emphasis, the dig and the jab.

Holding aloft the banner of St. McClatchy, Fanning's fearless fusiliers are "fanning out," to fan the flames of what they hope to be a political *auto da fe*. Not surprisingly, leading the tom-toms is that graduate of Chairman Jay's cultural revolution, the some-time champion of CHANCY CROFT's forlorn gubernatorial quest, one JOHN GREELY, Mrs. Fanning's own captive pet "angry young man."

Of course, the DAILY NEWS braintrust could care less about Mike's mountain retreat. Mr. GREELY, who took his namesake's advice and became one of the farthest west journalists (but not too far west, he seems to like it better in Juneau than in the real Alaska), may pretend to find invidious comparisons, and parallels in Mike Gravel's most recent swing through Alaska with the pious non-campaigning of President Jimmy Carter (incidentally, another Daily News hero he, although like JAY HAMMOND, he probably is Mr. GREELY's second choice (since "angry young men" would seem to be constitutionally predisposed to go for the likes of CROFT and TEDDY KENNEDY. But GREELY really couldn't care less about the campaign tactics of the Junior Senator. What really bothers the good folk at the NEWS, we think, is Senator Gravel's unremitting opposition to the power and land grabs of the Federal bureaucracy; his outspoken exposing of the phoney stances taken by the Interior Department's colonialists and by the lace-panty preservationists of the Sierra Club, Friends of the Earth, and other big-bucks organizations, created to preserve the *status quo* of Eastern establishment hegemony, in the name of protecting the ecology.

Being for developing Alaska's energy resources: oil, gas and hydroelectric power; being in favor of better transportation and communications, labor-intensive industries and an even break for Alaskan free enterprise; these are Mike Gravel's unpardonable sins in the eyes of the DAILY NEWS doctinaries — not the Aspen chalet or his official swing through Alaska, which incidentally may generate some votes (the only reason his challengers won't do that, is because there is no way they can arrange it — not because they think it is morally wrong). Of course, all of this propaganda is aimed at the rank newcomers to Alaska, in the hopes that they can be duped into dumping Alaska's strongest spokesman and most effective champion in the fight against D-2 duplicity, Interior Department intrigue and preservationist pressure tactics.

WE, TOO, GIVE AWARDS. And speaking of the Daily News, one of its most talented and astute writers, Miss SUZAN NIGHTINGALE, (sorry, no "Ms." spoken here), has been in the habit of making imaginary, tongue-in-cheek awards at the beginning of the year (this writer was a recent recipients of one of her witty and good-humored little journalistic baubles). Well, this column, too, has been known to give out an award once in a while. And the winner is — (the envelope please) — none other than SUZAN NIGHTINGALE herself, who is hereby given the *"Sycophant Award of the Year"* (No, Virginia, a sycophant is not a diseased pachyderm, go look it up in the dictionary).

Although the year has hardly begun, she has hopelessly outdistanced all other possible candidates for this coveted honor, by emerging from a month's seclusion (with pay), during which she produced her recent gushing, fawning and bowdlerized series on the past and present history and biography of the Alaska Supreme Court. This exercise in ingratiation, complete with pictures of the five Justices collectively saying "cheese," based on sanitized little interviews is made up to look like a copy of Woodward and company, but is as far remote from the irreverent persiflage contained in "The Brethren", as an official photograph of the Shah of Iran (golden sash, peacock throne and all) is from a portrait of a real person.

As this column has readily testified to in the past, the Alaska Supreme Court indeed can boast of many fine accomplishments. Its members are individually talented, articulate and dedicated to their task. But like all human beings, they do have warts and flaws; they have made mistakes; have been careless, callous, and sometimes downright intellectually dishonest. That does not detract from their many important and sometimes even monumental achievements, any more than the human foibles disclosed in "The Brethren" do permanent damage to the vital constitutional role played in the life of our nation by the United States Supreme Court.

Shameless flattery, uncritical praise, fawning adulation and gushing journalistic groupies seem to follow the wielders of power, as surely as hyenas and jackals flock around the lion after the kill. One difference is: I have never seen a pride of lions play "look at the birdie," with the laughing hyena holding a camera!

The purpose of Mlle. Nightingale's mini-history "*[illegible] uso delphini*", had for some time escaped this occasionally astute political observer and we are indebted to a perceptive Anchorage Times staffer, for the revealing disclosure that this cloying *tour-de-force* was published just in time to coincide with the pendency in the Alaska Supreme Court of the appeal from the Anchorage Daily News *versus* Anchorage Times bruhaha. No sooner had we made this discovery and dictated the foregoing para-

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Suit . . .

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ceiling of 150,000 barrels of oil per day. Even if such ceiling exists, the suit contends the state has no authority to grant any right in Alpetco to oil not yet discovered.

Donnellan alleges that the disposition of state royalty oil is governed by Alaska Statute 38.05.183 and that the statute contains no authority for "the disposition or encumbrance of state royalty oil from any lease other than ones already issued."

Alaska Statute 38.05.183 provides that state royalty oil be disposed of by competitive bid except that such bids are not required if, in the opinion of the Commissioner of Natural Resources, they are not in the best interest of the state or that no competition exists. Before making such determination, the commissioner must obtain the prior written approval of the Alaska Royalty Oil and Gas Development Advisory Board.

Donnellan also alleges that another provision of the contract is without authority inasmuch as it pertains to leases not yet issued. That provision obligates the State to provide Alpetco with "the most recent information . . . in its possession or obtainable from third parties of anticipated crude oil discovery and production in Alaska during the term of this Agreement." The contract is for a period of 25 years.

The suit alleges that those paragraphs of the contract pertaining to future discoveries are "indefinite." A layman's reading of paragraphs 2.3 and 2.4 of the contract would seem to support this allegation.

The suit further alleges that "irreparable injury" would result to the people of the State of Alaska should those portions of the contract pertaining to future discoveries on leases not yet issued be enforced. The suit asks the court to declare such provisions of the contract "null and void."

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News Analysis . . .

Alpetco Sidesteps State Royalty Oil Contract

Alpetco Sells Fuel Products to Itself

Fails to Get Firm Pledges to Finance Valdez Refinery

By Joe La Rocca

The out-of-state consortium which in 1978 won the coveted right to buy virtually all of the state's valuable royalty oil for the rest of the century, waltzed around one major condition of its contract with the state by arranging to sell the products it processes from the crude to itself.

Under its contract with the state, which gives Alpetco the right to purchase upwards of 150,000 barrels per day of state royalty oil for the next 25 years, the consortium is required to build a $1½ billion refinery at Valdes.

It was also required to meet a number of other major conditions by last Dec. 18. These included a requirement to negotiate sales contracts for at least 70% of the products – mostly fuels, with small volumes of petrochemical by-products – which the refinery will produce after it's completed and goes into operation in about four years.

To meet the requirement, Alpetco – which is 70% owned by the Charter Co. of Florida, simply negotiated a contract selling about 146,000 bpd of liquid products to Charter's newly-formed and wholly-owned subsidiary, the Charter Co. of Alaska, a paper corporation.

Charter reportedly plans to sell some, if not all, of the products to Japan. While there are federal restrictions against exporting domestic crude oil, there is none prohibiting the export of refined products.

In Alpetco's submission to the state, President Gordon Cain said: "We are not enclosing copies of draft contracts for the sale of products or material relating to negotiations of sale terms with prospective purchasers because we believe the executive contract (with Charter) evidences full compliance." Neither Natural Resources Commissioner Bob LeResche, who secretly negotiated the contract with Alpetco, nor Gov. Jay Hammond challenged the consortium's failure to comply with the spirit or the letter of the contract.

Despite the fact that this and other major requirements of Alpetco's contract with the state were similarly circumvented or ignored, Gov. Jay Hammond has announced that Alpetco has complied with the contract.

His announcement set in motion a series of events which will enable Alpetco to begin taking the state's royalty oil next July and sell it outside the state until Alpetco's proposed refinery is scheduled to go into operation in 1984.

However, an analysis of Alpetco's submission claiming to satisfy the contract requirements by the Dec. 18 deadline reveals that several other major conditions remain unfulfilled.

One of them was a requirement that Alpetco obtain written commitments from contractually-bound third parties to lend or invest $1¼ billion to finance construction of the refinery.

In its submission, Alpetco said it obtained a $750 million financial commitment from a German firm, the Thyssen Co. It said that the balance has been committed by the consortium's three partners – the Alaska Petrochemical Co., the Charter Co., and E.F. Hutton, Inc., a New York investment firm.

But their so-called commitments are nothing more than qualified statements saying that they will commit the funds to the project, subject to the condition that "definitive agreements for all financing shall be entered into by Dec. 18 of 1980." Thyssen also submitted a letter from a prestigious German bank, the Deutsche Bank, which is nothing more than a letter of reference and does not extend a line of credit.

In short, the contract requirements for financial commitments to cover project costs was not satisfied by the Dec. 18 deadline; rather, the deadline was merely extended for another year.

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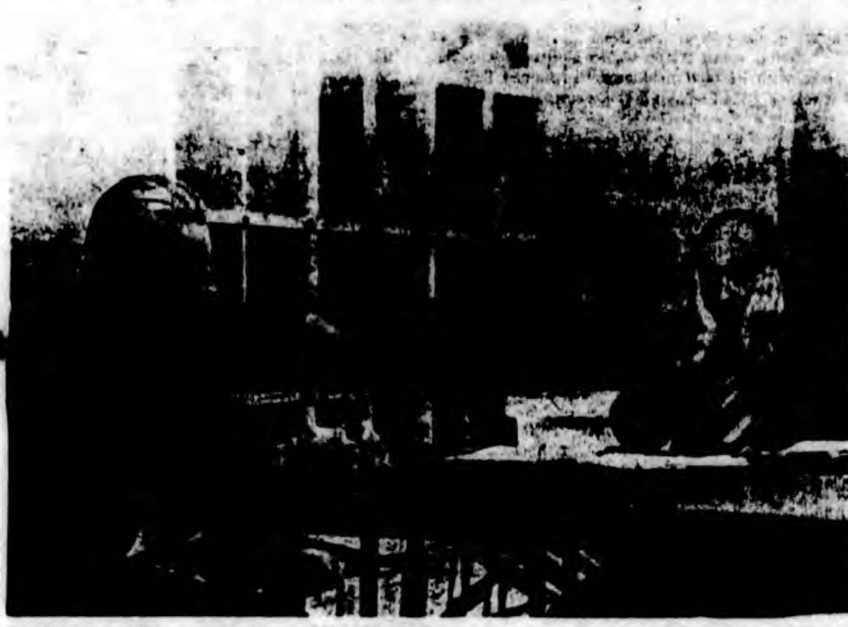

Joe Vogler testifies at State Dept. of Natural Resources hearing, while a state official listens. Officials listened to complaints for several hours straight. (See story inside.) –Linda Redman Photo

Miners Turn Out to Protest Proposed New Permit System

Fairbanks area miners, foresters and other concerned Alaskans, turned out in mass at a hearing Tuesday night to protest the state's proposed new land use regulations, in particular a proposed permit system. Objectors said the new regulations were extremely restrictive and could result in endless problems.

But state spokesman Chuck Albrecht said he felt sure changes would be made in the final version of the regulations and that another hearing might be held if these were substantial.

Below is the text of a letter regarding these regulations from Don May, Vice President of Alaska Miner's Association.

Jan. 15, 1980

State of Alaska
Dept. of Natural Resources
Public Hearing
c/o Mr. Ted Smith, Director
Fairbanks, Alaska

Dear Mr. Smith:

As vice chairman of the Alaska Miners' Association, I have been asked to be a spokesman pertaining to the new proposed regulations which confront us tonight.

First: It's strange indeed that you choose to push regulations upon us with such short notice, in the middle of the winter, with less than a month's notice to defend our life's work and investments which can and could be wiped out with such broad and sweeping powers, that you now as our civil servants possess. Are you fearful to appear directly to the Miners' Association to reason why such changes are necessary? Not one of us on the executive board was informed of such changes pertaining to the mining industry which confront us tonight. These hearings were listed and broadcast this past week locally, for this one night here in Fairbanks under "Forest Resources and Practices" when actually by accident we found out that they were covering proposed mining and mineral resource recovery and development regulations. They deal directly with land use permits which are so restrictive that they even monitor the placement of mechanical equipment, as well as the use of explosives which are under your jurisdiction and authority. Are we not free to choose what we should and need to use as we see fit without stopping the operation and coming to town?

In many cases this would involve traveling many hundreds of miles to obtain a restrictive permit. This is neither prudent nor progressive, but rather it could be labeled authoritarianism, socialism, or the opposite of free enterprise.

Without getting too involved in all these proposed draft regulations, I would like to consider page 2, Section 11 AAC 65.030. I ask you in all honesty, how can a miner not "cause disturbance or harm to the land or related natural resources?" Who is to say? What one director says can be ignored by a successor, or made more harsh by another. Mining must disturb the land to be effective. This is only common

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Alpetco Sidesteps State . . .

Continued from page 1

Another major contract condition which Alpetco claims to have met, but did not, is one which required the company to complete the plant design necessary to obtain a definitive project cost estimate by last Dec. 18.

The documents submitted to the state by Alpetco include a copy of a contract between itself and two other firms known as the "Fixed Price Contract." Its purpose is to obtain engineering design necessary to calculate the cost of completing the refinery's construction.

Under the terms of that contract, the two engineering firms have agreed to submit the engineering data upon which the fixed cost will be based, by September of 1980. Yet, under its contract with the state, Alpetco was required to obtain a definitive project cost estimate by last Dec. 18. In short, that deadline was not met; it was simply extended for 9½ months, until next fall.

Another major contract requirement which Alpetco claims to have satisfied, but did not, is one which requires commitments for interim financing of the refinery. Interim financing would provide the funds needed to meet day-to-day expenses during the construction phase. Alpetco says it may not need to obtain interim financing from other sources because its three partners may be able to pay those costs out of their own pockets.

But in the event interim financing is needed, Alpetco said in its submission to the state, its financial projections indicate that the maximum that will be required is $92½ million. According to Alpetco, the consortium has arranged for more interim financing than would actually be needed — a total of $150 million — from two banks. They are the Chemical Bank, and Manufacturers Hanover Trust, both of New York. Each would provide $75 million.

But a closer examination of their so-called commitments reveals that their pledges are conditioned, subject to a later determination that the project is economically viable; that Alpetco has enough equity to complete the project; that it would have sufficient collateral to repay the construction loans, if tendered; and that Alpetco will enter into a definitive credit agreement with the two banks by next December.

In other words, the requirement for a commitment for interim financing also was not met by the Dec. 18 deadline, but has been deferred for another year. Alpetco has attempted to minimize the need for interim financing by asserting that the three partners may be able to contribute the total equity needed for construction financing. But whether or not they can, Alpetco clearly has not satisfied the contractual commitment for interim financing.

Alpetco says in its submission that there is yet another avenue for interim financing, if needed. That stems from a resolution passed by the Valdez City Council last year authorizing the issuance of $600 million worth of tax exempt industrial development bonds, the proceeds from which will be used to help finance the project. The bonds would be purchased by one of the Alpetco partners, E.F. Hutton, Inc., and resold in the bond markets.

Alpetco has submitted two legal opinions by "independent" bond counsel asserting that it would be legally permissible for tax exempt revenue bonds issued by Valdez to be used to finance the project. That's true, but irrelevant.

What Alpetco's submission, and the legal opinions, ignore is the fact that the federal IRS Code does not presently provide a tax exemption for revenue bonds issued on behalf of the Alpetco project, and a change in federal law permitting the exemption is needed. Alpetco is seeking, but has not yet obtained such an exemption.

Ironically, a member of a law firm presently retained by the Charter Co. once wrote an exhaustive legal memorandum opposing a bid for the state's royalty oil by one of Alpetco's competitors which proposed the use of tax exempt industrial development bonds. The lawyer, Joe Chomski of Birch, Horton, Bittner and Monroe, concluded that federal income tax law does not permit such an exemption, and that Congress and the U.S. Treasury Dept. would vigorously oppose any attempt to obtain one.

In other words, Alpetco's claim that the Valdez bond issue could be used to provide project financing, if needed, also appears to be insupportable.

Alpetco's documents purporting to satisfy the Dec. 18 contract requirements consist of several volumes of printed material about five inches thick. Curiously, there is only one copy of the documents in existence, and that has been in LeResche's possession almost exclusively ever since it was officially submitted to him by Alpetco about three weeks ago.

Apparently no one outside the administration, its advisors, and this reporter has seen it or scrutinized it thoroughly. Yet, it is the instrument which authorizes the disposal of more than 150,000 barrels per day of the state's royalty oil for the next 25 years.

Notwithstanding both Alpetco's and the governor's claim that the consortium has met its obligations under the contract, several key requirements remain unfulfilled, and the contract terms have been substantially breached by Alpetco.

Since the governor and his aides appear to be incapable of objectively evaluating Alpetco's performance, or lack of it, under the terms of the contract, one hopes that the legislature will fill the leadership vacuum, and call for an accurate accounting.

At stake is an enormous chunk of the state's future wealth. It's worth more than $1 billion per year, for the next 25 years.

Sap does not rise and fall. It moves out towards the surface in the spring, in towards the center in the autumn.

The Pioneer 50¢
ALL-ALASKA WEEKLY
Vol. 10, No. 19 All-Alaska Weekly, Fairbanks, Alaska, Nov. 9, 1979 Page 1

Eccentric Millionaire Visits. . .

Charter Co. Chief Mason Wheels and Deals for Oil

He Entertains Royalty But Wall Street Remains Skeptical

Charter Co. owners Edward Carey, left, and Raymond Mason, discuss company affairs. They were among a group of Alpetco and Charter Co. officials who visited Fairbanks, Anchorage and Valdez this week to acquaint Alaskans with Charter Co.'s widely-diversified operations. —Reprinted from the Grand Bahama

Turned Defunct Refinery Into Million-Dollar-a-Day Bahama Money Machine

By Joe La Rocca

Who founded a company which grew from a few million to more than two billion dollars in annual earnings within a few years;

—lavishly entertains kings, shahs and presidents at his palatial riverside mansion in Florida;

—manipulates a myriad of national and international corporate interests from a renovated boathouse anchored in the St. John river;

—once tried to peddle $8 million worth of goodwill for Saudi Arabia's King Faisal [illegible]

—and will probably control most of the state of Alaska's enormously valuable royalty oil for the rest of his life?

The answer to this multi-billion dollar question is Raymond Mason, the 52-year-old wheeling and dealing, but highly personable, president of the Charter Co., the Jacksonville-based conglomerate which recently acquired a 70 per cent interest in the Alpetco Co.

That's the consortium which in 1978 bought the rights to upwards of 150,000 barrels per day of the state's royalty oil for 27 years, in exchange for a commitment to build a $1½ billion refinery in Valdez.

Mason was in Fairbanks, Anchorage and Valdez this week with other officials of Alpetco and his own firm to acquaint Alaskans with the Charter Co.'s multi-faceted operations, and to boast of its meteoric rise on the New York Stock Exchange since it acquired the world's fifth-largest — but bankrupt — refinery in the Bahamas just a year ago, turning it almost overnight into a money machine which now generates more than $1 million in earnings every single day of the year.

The Charter Co. was born in 1919 under the family name when Mason's father founded a lumberyard in Jacksonville. By the 1960s it had branched into a nearly-bankrupt land speculation, insurance and mortgage banking firm under the younger Mason's guidance.

Its first major expansion came in 1970, when Charter, almost by accident, acquired most of the assets of the floundering Signal Oil Co., a small California-based independent with exploration and production holdings in the Middle East and Venezuela, two small chains of retail gasoline stations, a 70,000 barrel per day refinery ideally located on the Houston, Texas Ship Channel, and another small refinery in California.

The 1973 Arab oil embargo, which quadrupled oil prices on the world market in less than a year, dramatically increased the value of Charter's oil operations. Said one observer: "Charter was awash in money for the first time in its history."

One result was its diversification into publishing and communications. Charter bought Redbook magazine; Downe Communications, which owned a controlling interest in The Ladies Home Journal; Norton-Simon's Dayton, Ohio printing operations, now claimed to be the largest printing establishment under one roof in the world and one of the largest printers of periodicals in the nation; and six radio stations.

But after 12 years of "spectacular growth," Charter encountered in 1975 a year of "severe problems." Its newly-acquired Signal properties were riddled with financial and organizational difficulties, its Venezuelan operations were nationalized, a shipping division piled up huge debts, and its Houston refinery needed $100 million in improvements to meet environmental requirements.

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A New Plateau

Financing, Conditioning Plant Run Together in Gasline Talks

By Jane Pender

Alaskan insistence on making use of its royalty gas within the state versus Alaska Northwest's insistence on running the entire show seems to have moved into a new arena with news this week that the administration is finally thinking about cooperating with the state on the construction of a natural gas pipeline.

Word came via a statement by Vice President Mondale, who told an Alaskan delegation headed by Governor Hammond in D.C. last week, that there is "a good strong basis for cooperation."

What seems to be operating here is that the administration is fully committed to getting the gas pipeline built, as a key element in presidential strategy to beat the energy crisis. But it is unwilling to finance the project and other financing for the line has been collapsing at a great rate. Now, with Alaska ending up one of the few possible financiers, according to Hammond, Mondale now recognizes that state participation in the financing is crucial if the line is to be constructed in timely fashion.

Thus for the first time in the loudly-debated, long drawn-out struggle, the state has a hand it can play, although ways and means are still far from being worked out.

Hammond reported after the meeting that the federal government is now willing to aid the state in its effort to secure gas liquids for processing via a petrochemical industry within the state.

There were some indications that the state administration itself is only just concluding that there is a real and vital interest within the state in obtaining these gas liquids, and that there is a connection between financing of the line and the petrochemical industry. Attorney General Avrum Gross said earlier this week that after a tour of gas transmission companies, petrochemical plants and consulting firms, he had decided there was statewide interest, a connection between line financing and a petrochemical industry in the Interior to justify expenditure of $400,000 to $3 million for a feasibility study.

Energy Secretary Charles Duncan told Hammond and Gross that the federal government is willing to take several steps to sweeten the financial deal. They include assisting the state in its desire to participate in the gas line; an offer to act as go-between between the state and Northwest Alaskan Gas Pipeline Co. and making an attempt to reverse the regulatory decision which prevents owners of the conditioning plant for the Alaskan segment from recovering conditioning cost.

Gross also said that Alaska Northwest was a little more polite this week, a change which follows an earlier statement by Northwest President John G. McMillian that his company would be glad to help establish a petrochemical industry in the Fairbanks area.

At that time, he was still opposed to an increase in the pipeline pressure which would permit the line to carry the gas liquids required for such a plant, and he also told a House Interior Subcommittee that Alaskans were dragging their feet on helping him to put together a gas line finance package.

It was Alaska's Don Young, at that hearing, who pointed out that "I can tell you where to get financing real quickly. Just put a conditioning plant at Fairbanks," he said. "If you put one at Prudhoe Bay, you're going to have a lot of problems."

By this week, the message seems to have gotten through,

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In This Issue

Charter

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Plagued with cash shortages, Mason ordered a major consolidation program and restructured the company's debts by unloading unproductive assets ranging from real estate to the company's Gulfstream Jet airplane. Though still debt-ridden, Charter's profits began to improve by 1978.

That's when Charter announced that it planned to buy the New York-based Carey Energy Corp., the largest independent marketer of the fuel oil on the East Coast, which owned a defunct 500,000 barrel per day refinery at Freeport on Grand Bahama Island.

The Carey Corp. was 65 per cent owned by Edward Carey, older brother of New York Gov. Hugh Carey, and 35 per cent owned by the Standard Oil Co. of California (Socal). After amassing nearly half a billion dollars in debts, it was forced into liquidation proceedings by its principal creditors, which included the National Iranian Oil Co. and the National Oil Corp. of Libya, its two major sources of crude oil.

After months of intense, globe-girdling negotiations, Mason and his talented stable of mostly under-40 operatives, put together what Fortune magazine calls "one of the year's most intricate business deals" and "wound up with a money machine." As part of the deal. Socal converted its credits into a 50 per cent share in the renascent refinery.

Charter continues to draw about 200,000 bpd of crude from the Middle East for processing in its refineries, which are currently bringing the company [illegible] $1 million per day.

One key to Mason's success in the world of petroleum has been his rapport with oil-rich royalty. Says Jacksonville reporter Skip Livingston of the Florida Times-Union: "Mason has assiduously cultivated Middle-Eastern politicians."

At his palatial $3 million home on the St. John River, once part of the fabled DuPont estate, Mason has entertained, in the finest tradition of southern hospitality, such global notables as the Shah of Iran, King Faisal of Saudi Arabia, and Egyptian monarchs King Hussein and Anwar Sadat. Even President Jerry Ford slept there.

Mason was involved in a couple of eccentric, but undeniably imaginative schemes with his old friend King Faisal.

At the height of the 1973 Arab oil embargo, he dreamed up a plan which he believed woud guarantee an unlimited supply of oil to the U.S. He flew to Saudi Arabia and proposed to Faisal that he buy the Gulf Oil Co., hoping to earn a huge commission on the deal. Mason reasoned that the Saudis would hesitate to cut off a crude supply to their own U.S. outlet. King Faisal liked the deal, but Gulf didn't, and it fell through.

Charter's entry into the publishing world spawned another ill-fated brainstorm involving the Saudi monarch which was dubbed "Project Faisal." Mason proposed an $8 million public relations campaign designed to endear the Faisal monarchy to millions of reading Americans. The campaign reportedly involved planting scores of favorable articles about the royal family in magazines printed by Charter. The scheme was exposed by Washington, D.C. muckraker Jack Anderson, and also fizzled out.

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ROAR OF THE SNOW TIGER

EDGAR PAUL BOYKO

FAIR ENOUGH? Recent columns, highly critical of the economic policies of both the federal and state governments seem to have touched a few sensitive nerves. While there has been expressed a great deal of accord, a few have suggested that it is easy to be a critic; and that he who would decry bureaucratic stupidity and planless government planning, had better come up with a program of his own. Fair enough.

Here is our program for a new national and a new Alaskan economic policy. And if you're wondering why an obscure columnist in an obscure Alaskan weekly has any standing talking on such lofty subjects, well, some of you asked for it.

Those who will not learn the lessons of history are condemned to repeat the mistakes of their forebears. There is a Kafkaesque quality to the self-important pronouncements of bureaucratic officials on this, the 50th anniversary of the great crash of the New York Stock Exchange which ushered in the Great Depression.

Government bigwigs and academic pundits alike, addressing subjects such as inflation, recession, unemployment, the debasement of our currency and the decline of our productivity are sounding like replays of their predecessors during the 20's and 30's. What is needed is less theorising, less bureaucratic tinkering and more common sense and wisdom for the future, based on knowledge of the past.

Here is a basic blueprint of a program for national recovery:

1. Drastically reduce federal spending and balance the budget by the abolition of all those federal agencies and bureaus which do not perform essential, indispensible governmental services, such as defense, foreign service, coinage of money, maintenance of internal peace, the judiciary, and enforcement of federal criminal laws (to be greatly reduced in scope and number).

2. Drastically cut the burden of federal taxation by totally exempting all persons and families with incomes of less than $25,000 per annum from all federal income taxes; setting a ceiling on federal income taxes of 5%; abolishing taxes on capital gains, as well as any and all taxes upon income derived from creative activities, such as the sciences, the arts, inventions or discoveries.

3. Return all social and public welfare programs, legislation and regulation to the several states, subject only to basic minimum standards of uniformity.

4. Turn over transportation, the postal system and all communications to private enterprise and deregulate the same.

5. By means of tax and other incentives encourage free enterprise to address the problems of energy self-sufficiency for the United States, development of alternate energy sources, protection of the environment, controlled development and urban growth and planning, the latter being subject to regulation only at the local level and, where absolutely necessary, at the state level.

6. Discontinue all direct foreign aid, military or economic, except where it is required by the needs of American security and defense or by existing treaties.

7. Take immediate energetic steps to collect all outstanding loans and debts owed to the United States by foreign countries, including if necessary, the attachment of the assets of such countries within our borders, by means of judicial process.

8. Drastically reduce all non-essential imports, until the balance of payments is once again in our favor. If necessary, impose duties of 100% and more on such imports as foreign-made automobiles, textiles, electronic products and other major items in competition with U.S. industry, as well as certain foreign raw materials, such as petroleum and petroleum products. After recovery, the nation could return to free trade, provided there are safeguards against overreaching by foreign cartel (such as OPEC) and against dumping or unfair competition through cheap labor.

9. Provide tax and other economic incentives to private employers and labor unions to establish various social benefits such as health care, education, recreation, legal services, retirement, etc.

10. Restrict the government's power to print worthless paper money and to manipulate the currency.

11. With the exception of a few selected national parks and national forests, turn all federally owned public lands over to the states within which they are contained.

12. Cut drastically all contributions to the United Nations and to the world monetary fund, until our domestic budget is in balance, and the nation is well on the way to economic recovery.

13. Replace our sprawling, out-moded military establishment by highly mobile, high technology, highly trained, professional strike forces, backed up by a citizens army patterned on the experience of Switzerland, Norway and Israel.

14. Revise the social security program so as to make it actuarially sound and eliminate the prohibition against gainful employment on the part of social security recipients.

15. Call a constitutional convention to deal with such things as: Constitutionally mandating a balanced federal budget, except in times of war; limiting the total number of years any person may hold an office which exercises power over life, liberty or property; providing for a carefully delineated element of parliamentary responsibility on the part of the executive, in place of the present fixed term arrangement; providing for regional presidential primaries, to do away with the present circus atmosphere of nominating presidents; strengthening the Bill of Rights and particularly revitalizing the tenth amendment by restoring the original concept of limited federal powers.

Now that we have solved all the problems of the nation, let us turn to the issues confronting the 49th State:

1. Place a constitutional ceiling of 1% on state or local income taxes.

2. Immediately enact a liberal homestead and land acquisition program which will allow people to acquire land without having to pay enormous prices for it to the state.

3. Drastically reduce the state bureaucracy and get the state out of any and all programs which can be handled better by the private sector.

4. Move the capital, NOW.

5. Provide for greater popular input into the selection of the attorney general and of all judges.

6. Use the state's surplus to provide available capital to private lending institutions for making low cost loans for housing and small businesses.

7. Abolish most boards, commissions and other state regulatory agencies; and free business and labor from state over-regulation and restrictions.

8. Restore incentives to outside capital to invest business and industry in the state.

9. Aid tourism by giving incentives to private development of resorts and desirable facilities and scenically attractive areas, on the model of Switzerland.

10. Repeal the criminal laws which govern the morals and mores of people; and devote the freed resources of law enforcement to more vigorous enforcement of laws designed to protect citizens from acts of violence against their person and crimes against their property.

11. Create incentives to local communities to raise the standards of pay and qualification of teachers, police officers, firemen, paramedics, nurses and other essential services.

12. Eliminate all state activities in the areas of communications, public relations, propaganda and press agentry.

13. Require a run-off election whenever a candidate to elective office receives less than a majority of the total votes cast.

14. Encourage crash development of energy sources

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Nuggeteer...

—Continued from page 2

to not only be able to hear the sale proceedings in Houston, but to be able to communicate with representatives in Fairbanks.

Most of those making reservations now, Comstock said, appeared to be oil company representatives, but he said he expected that state and federal government officials would be following suit. And he said that for such a big event he would presume that news media representatives, perhaps even from the big TV News Networks, would be on hand.

Cook and Hagen are slated to come to Fairbanks on the 14th to make further arrangements for the sale.

Comstock said most of those making reservations now were doing so from one to three days.

Gasline. . .

—Continued from page 1

and now, according to Gross, "They (Alaskan Northwest) realized that if we want a gas line in the reasonable future, state participation is a necessity. With the potential for a petrochemical plant anchored, the state would have a multitude of options for financial participation."

He said these included issuance of tax-free bonds; an equity [illegible] one part of the line, such as a gas conditioning plant.

Review of these options will occur Nov. 21 when a joint legislative committee will determine what kind of commitment the state can make.

Meantime, back in Alaska, the state's gearing up for the gas pipeline. Plans are afoot to hire additional people by the first of the year to get studies and planning underway. Reason for the hurry is that the federal government is pushing hard for a right of way lease. Charles Behlke, state pipeline coordinator, says he expects the federal government to go ahead with a FERC application as soon as they get a right of way lease. That would come roughly the end of May or early June.

And as if all this were not enough, the borough is considering applying to FERC to build the conditioning plant here in Fairbanks. A proposal was submitted to the Assembly in late October, and was moved to committee headed by Dave Brennan and Phil Younker for further study of the feasibility. The financial plan, originated by Foster and Marshall, contains the following features:

The borough would ask Congress for permission to issue tax-exempt revenue bonds for the plant.

Then the borough would sell the bonds and give the proceeds to a consortium that would build the facility in return for a long term lease on it. Then, the borough would sub-lease the plant to the operators and pay off the bonds by charges assessed for conditioning the gas.

It is likely, according to Borough Mayor John Carlson, that voter approval would be required before the bonding plan could be put into operation.

Charter Co. Chief Wheels and Deals in Oil. . .

—Continued from page 3

The cliche that "behind every successful man there's a woman," didn't quite hold up in Mason's case. "Sitting behind Raymond at every step of the way," says Livingston, "is Ed Ball."

Edward Ball is the 92-year-old senior trustee of the $2 billion duPont estate in Florida and, according to the Wall Street Journal, "the most powerful man in the state." The Jacksonville reporter says that Ball is a "tough and powerful old man, a folk legend," who used to control the National Bank of Florida, once the largest in the state until the U.S. Congress passed special legislation forcing him to divest himself of certain interests.

According to Livingston, who has covered the Charter Co.'s activities for a number of years, Ball was the very first to recognize the Bahama refinery's potential for massive profits, hailing it as "a million-dollar-a-day money machine."

As trustee for the duPont empire, which he shaped "almost singlehandedly," Ball controls the St. Joe Paper Co., two railroads, a sugar company and more than a million acres of timberland in Florida and Georgia.

Ball, through duPont, also owns the largest single chunk—four million shares, or 23 per cent — of Charter Co.'s stock, while Mason owns three million shares. Charter Co., in turn, owns eight per cent of the St. Joe Paper Co.

Edward Carey, who accompanied the Alpetco group on its Alaska tour this week, retained three-fourths of the $20 million Charter paid him for the Bahama refinery in Charter stock. Today it's worth $95 million. Carey also serves as a $200,000 per year consultant to the Charter Co.

Together, Mason and Ball own the 11th Century Ballynahinch Castle in Ireland, where Mason has built a home and spends part of each summer. He also maintains apartments in New York and London, and a mansion in Pebble Beach, Calif.

Mason considers Ball — a controversial figure who has been "pulling strings" in Florida politics for more than half a century — as his mentor. The pair can frequently be found lunching together at Jacksonville's posh River Club, located on the top floor of a 37-story building overlooking the St. John River. Says Livingston: Ball has been "a great influence on Mason personally," as well as on the Charter Co.'s activities.

Livingston says Charter's recent plunge into Alaska oil "has been viewed very positively here. People who watch the petroleum industry," he says, "were very favorably impressed." The move, he adds, came as "a tremendous surprise here." It was the most closely kept — indeed the only — secret that the highly-visible firm has been able to sustain in recent years.

Despite its spectacular successes of late, Charter still inspires considerable skepticism on Wall Street and in other financial circles. "One reservation everyone has," said one Florida source, "is that there is a lot of very strange paper (securities) floating around."

Mason bought the Bahama refinery, valued at $500 million, for only $4 million in cash, some stock and paper transfers, and special stock issues.

Another Eastern seaboard source says the Wall Street establishment still doesn't have much confidence in Mason or the Charter Co., in part because its sensational current earnings rely heavily upon continued supplies of crude from Iran and Libya, "two of the most volatile nations in the Middle East."

And a Wall Street observer says that the "chairman is viewed by some people here as slightly crazy" because of past eccentricities, such as the Gulf Oil sale scheme, Project Faisal, and an abortive attempt to buy the assets of I.O.S., the Geneva-based financial empire which self-exiled financier Robert Vesco was accused of pirating.

Except for routine introductions at a series of get-acquainted appearances in Anchorage, Fairbanks and Valdez, the presence of Mason and Edward Carey went largely unnoticed, while the press and public showered their attentions upon more familiar Alpetco officials Gordon Cain and Charles Honig of Alaska Interstate Co., a prime organizer of the Alpetco consortium.

Alpetco. . .

-Continued from page 9

to the Fairbanks Chamber of Commerce, Alpetco official Charles Honig denied the assertion.

And in an article published Wednesday in the Fairbanks Daily News-Miner, a reporter said Alpetco's president Gordon Cain told him that "nowhere in the contract is the figure 90 per cent mentioned."

The All-Alaska Weekly stands by its story, which is based on the following excerpt from the "Agreement for the Sale and Purchase of State Royalty Oil" between Alpetco and the State of Alaska. It appears at Page Eight, Under Article 1, Section Three:

"2.3 *Certain Future Sales of Oil Taken in Kind by Seller (State).* From and after the Effective Date, *as to any royalty oil of Seller* (other than royalty oil out of the Leases) *taken in kind and proposed to be offered for sale,* other use or disposition to third parties by Seller at a price or value which, when the reasonable costs of transportation of such royalty oil to the site of the Petrochemical Facility are added thereto, is less, on the date so offered, than the price stipulated in Article 8.1 plus the reasonable costs of transportation from the Point of Delivery to the site of the Petrochemical Facility, equitably adjusted to reflect quality and gravity differences between the crude oil offered to be sold and the crude oil from the Leases, *Seller shall first offer to Buyer (Alpetco) the opportunity to purchase ninety percent (90%) of the royalty oil proposed to be offered.* Said oil shall be offered to Buyer at the same price, and on the same terms and conditions, as offered to third parties. The offer to Buyer shall remain open for sixty (60) days, after which time, if Buyer has not accepted the offer, Seller shall be free to sell the oil under the same terms and conditions to a third party. Seller may freely dispose of the ten percent (10%) portion of the royalty oil not sold to Buyer hereunder at such price and on such terms as Seller may desire."

The copy of the contract agreement from which this excerpt was taken was obtained from the office of Donald Wold, the executive director of the Alaska Royalty Oil and Gas Advisory Development Board, in Anchorage.

State, Alpetco agree on new contract

Fb. 5/30/80

By SUSAN FISHER
News-Miner Bureau

JUNEAU—Dudley Parker is ready to get on with building a petrochemical plant in Valdez, after reaching an apparent settlement on revisions to the Alpetco contract.

Parker, Charter Oil's general manager for the Alpetco project, has been in Juneau this week with other company officials and two attorneys, attempting to straighten out differences with state officials.

The agreement on the revamped contract between the state and the Alpetco consortium was near completion today, according to legislators who had pushed re-negotiations.

"We have a contract, we have met the benchmarks, we will perform under that contract," Parker said.

"We have tendered the crude starting last Friday," he said. That means pipeline owners have been given the required notice that Alpetco will begin taking it July 18.

The Valdez facility will be built, and the oil will be taken, he said.

The Associated Press reported today that legislative sources said the contract changes, subject to approval by the Royalty Oil and Gas Development Advisory Board, involve the following:

• Alpetco gets a one-year extension, to Dec. 31, 1981, to put together its financing package for the Valdez plant. Legislators had questioned whether the package as presented recently represented firm financial commitments. LeResche would then approve or reject the package.

• Alpetco would start to take 75,000 barrels a day of the state's royalty oil, instead of 150,000 barrels as currently provided for, starting July 31.

• The firm would be entitled to no more than 75,000 barrels a day until January 1986, at which time the Valdez facility is to be in operation.

• Once the plant is operating, and until 1990, Alpetco would be entitled to a maximum of 100,000 barrels a day, with the amount based on the refinery needs.

This year, some legislators began to question whether terms of the contract, which is to be met in stages, had been fulfilled and doubted that future terms could be met. They also claimed that Alpetco has scaled down what was originally to be a "world class" petrochemical facility with several thousand employees.

After a series of legislative "oversight" hearings, they asked the administration to re-negotiate the contract.

Last week, co-chairmen of the joint legislative Gas Pipeline Financing Committee wrote LeResche that if the contract was not renegotiated, stronger action would be taken, implying a lawsuit would be filed.

Parker said that the dispute and the differences were hindering Charter's ability to firm up financing, shipping and other arrangements.

Knowledge of the problems was not confined within Alaskan borders, and oil and financial circles were following the events closely.

Some $20 million is already tied up in the Valdez project, most of it for environmental impact studies and various federal and state permits.

Parker is not particularly eager to talk with reporters. He needs coaxing, especially on the Alpetco project. But on other topics, such as Charter Oil, a company he's worked with for more than 20 years, or the oil industry, he's a willing subject.

Not widely known in Alaska is the fact that Parker and other Charter personnel have only been getting into the Alpetco project since February. "We've made a lot of progress," he says.

Better known is that Charter is not the original Alaska Petroleum Company that won and negotiated the contract.

But Charter is prepared to go ahead with the Valdez facility, even if it won't be a world-scale petrochemical plant the original Alpetco promised.

Valdez city officials have been extremely supportive of the project.

In the world of oil, Charter is not a big company.

(See ALPETCO, page 7)

Hammond's

Gross blasts Legislature on royalty pact move

5/30 FB N-M P.1

Attorney General Avrum Gross said today the Legislature's decision to force the state to renegotiate the Alpetco royalty oil contract sets a "terrible, terrible precedent" that will decrease accountability in handling the state's oil and gas wealth.

Speaking at a meeting in the Polaris Hotel of the Interior Economic Development Conference, Gross said claims by some legislators that Alpetco did not meet its contract requirements are a "smokescreen" for their belief that the 1978 contract is a bad deal.

"I think it sets a terrible precedent to have the Legislature inject itself into a fairly negotiated contract," he said.

He said legislative objections to the contract made it impossible for Alpetco to arrange financing for the 150,000-barrel-a day refinery the company plans to build in Valdez.

"No responsible financial institution is going to loan you a lot of money when they're told that the Legislature where they're about to do business is going to sue you," Gross said.

As a result the state was forced into renegotiating the long-term contract with a legislative committee, a setup Gross said will shift responsibility from the governor to anonymous lawmakers.

"Right now you can fix responsibility for what goes on," Gross said.

But he said that if legislators get involved the public won't be able to identify who is responsible if there's a "sellout" or a poorly negotiated contract.

A new report has ca[illegible] tourist information cen[illegible] Fairbanks as one way to aid [illegible] economy. Page 3.

National energy pol[illegible]

ALPETCO . . .

(Continued from page 1)

"We're a small company. We always have been," Parker said. The Valdez facility would be the biggest project Charter has undertaken.

The company operates refineries in Houston and the Bahamas, and made a $300 million profit on a $4 million investment in Carey Energy Corp.

It also has an option to buy stock in Commonwealth Oil Refinery Co., which recently submitted a reorganization plan under a Chapter 11 bankruptcy filing. Approval is pending.

The Valdez facility will not be constructed quickly, another point that the public does not understand, Parker said.

Charter will spend probably $15 million for project cost estimates being prepared by Foster-Wheeler-Thyssen, a German firm. The figures won't be ready until September.

Parker claims the stacks of specificiations for constructing the facility "will fill a 12 by 12 room." Some of the equipment, to be ordered and purchased next month, will take up to two years to obtain.

In the meantime, Charter plans to go ahead and take the state's royalty crude, turn a profit on it, and pump the profit right back into the Valdez project.

He points out that while legislators were demanding exact answers on Charter's plans for disposing of the oil until the plant is on line, other companies taking state crude don't have to submit the same information.

Contracts to firms such as Chevron, Tesoro and North Pole Refining may be public information, "but you can't find out what they're doing with their crude," he said.

Parker had little comment about the recent withdrawal of Alaska Interstate, one of the original Alpetco partners. He did say that the partnership agreement entitled Alaska Interstate to recover only tangible asset costs of the project.

Alpetco in 1978 got a longterm contract for the purchase of the state's royalty oil for a $1.5 billion refinery and petrochemical plant to be constructed at Valdez.

Sen. Mike Colletta, R. Anchorage, said he was pleased with the revised agreement.

"It's great," he said. Colletta is one of the legislators who pushed for the talks. "What this means is the state will have 75,000 barrels (per day) more of oil to increase our operating tax base. And, now everyone will know where we stand. We won't be expecting a facility that will provide 2,500 jobs."

Several other changes, such as a reduction from 90 percent to 50 percent of the entitlement Alpetco has to any lower-priced crude oil delivered at Valdez, and a reduction of its option on newly discovered oil, are also part of the contract changes, legislative sources said.

Legislators said they expected to review the revisions and stamp some kind of approval on them. Colletta said an emergency meeting of the royalty board would be sought to consider the changes, and that the Legislature could probably address them before adjournment.

Natives get BLM land

ANCHORAGE (AP)—The Bureau of Land Management has conveyed 9,470 acres on the Kenai Peninsula to Cook Inlet Regional Corp. as part of its entitlement under the Alaska Native Claims Settlement Act.

The lands are in scattered tracts, with most of the acreage lying north of Kachemak Bay. The region's boundaries extend from McKinley Park to Kamishak Bay, including the Anchorage bowl and most of the Kenai Peninsula.

Gravel offers bill to aid hydro projects

WASHINGTON (AP)—Sen. Mike Gravel, D-Alaska, has introduced a bill which would allow the state to sell tax-exempt bonds to finance hydroelectric projects.

Gravel said Thursday financing has been a problem for many hydroelectric projects because the 1968 Tax Act limited tax-exempt bonding for such projects.

The Anchorage Times

still haunted
b... air crash

Rain Sunday; weather, page B-8

40 pages

SATURDAY EVENING, MAY 24, 1980

Lawyers: Alpetco hasn't complied

Take issue to cou... legislators are told

by Dave Carpenter
Times Juneau Bureau

Juneau — A New York law firm has told legislators that The Alpecto Co. has not lived up to terms of its royalty oil contract with the state and recommended that lawmakers challenge the issue in court.

In a memorandum released Friday by the Joint Gas Pipeline Committee, the attorneys recommended a court test of Natural Resources Commissioner Robert LeResche's determination that Alpetco is in compliance.

Alpetco, which is to build a $1.5 billion petrochemical refinery at Valdez, has purchase rights to 150,000 barrels of Prudhoe Bay crude oil a day beginning in eight weeks. But legislators, and now their attorneys, say the Florida-based consortium isn't holding up its end of the bargain.

The lawmakers have asked the commissioner to renegotiate the contract immediately. And committee co-chairman Bill Miles, D-Anchorage, said Friday the committee still is considering filing a lawsuit if ...

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Tax resist... released by court

Bill Kossen of The Times

ND FORGOTTEN SOLDIERS

Propeller Club and included representatives of the Marine Corps, the Coast Guard and the Navy. A wreath "in memory of souls lost at sea" was placed on the statue of Captain Cook.

Take issue to court, legislators are told

by Dave Carpenter
Times Juneau Bureau

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The lawmakers have asked the commissioner to renegotiate the contract immediately. And committee co-chairman Bill Miles, D-Anchorage, said Friday the committee still is considering filing a lawsuit if all else fails in its efforts to keep Alpetco from getting the first delivery of crude July 18.

"I don't know what else we have to do," to persuade LeResche to reopen the contract, Miles said.

LeResche was unavailable for comment, but he has told lawmakers that he opposes renegotiating the contract. He was not taking phone calls Friday afternoon, according to his secretary, and flew to Fairbanks today to view the fire-ravaged Delta agricultural project.

Attempts to contact Alpetco officials also were unsuccessful.

The 45-page memo — by the legal firm of Wolf, Popper, Ross, Wolf and Jones — was requested by the pipeline committee.

It states that Alpetco did not meet all of the 18-month "benchmark" requirements by the Dec. 18, 1979, deadline, and has still not complied with them.

Attorney Eric Keisman said a strong court case could be built on the lack of compliance with two requirements in particular.

One required Alpetco to have obtained interim financing commitments for construction of the petrochemical facility.

The other benchmark required the consortium to get commitments for the lending or investment of $1.5 billion in total project costs.

Earlier this week, the committee's staff turned up a December 1979 memo to LeResche from his counsel, Fred Boness, saying Alpetco had not met the 18-month benchmark. The attorney told the commissioner that finding was "100 percent legally defensible."

The 18-month checkpoint was judged to be the crucial one in seeing that Alpetco lived up to the contract terms. In a March 1978 publication — three months before the contract was signed — Alpetco said if it were "unable to put together the project by the 18-month benchmark, the state may terminate the contract."

Tax resister released by court

A federal appeals court ordered Wasilla tax resister Charles Bumpus set free Friday just hours after he was jailed by U.S. District Judge James von der Heydt.

Bumpus was released by the Ninth Circuit Court of Appeals of San Francisco.

His stint at the Sixth Avenue jail began when von der Heydt held him in contempt for refusing to supply books and records for the 14 businesses and the tax-resister club he represents.

He was freed after his lawyer, Jean Schanen, made two telephone calls to the appellate court.

An attorney for the higher court suggested that she ask von der Heydt for a five-day stay to set Bumpus free until the circuit court could rule on von der Heydt's decision.

Schanen made the request and von der Heydt denied it.

Back she went to the telephone booth. She emerged with an order from Judge Otto Skopil staying until next Friday von der Heydt's order jailing Bumpus.

Bumpus, who testified before a congressional committee in Washington, D.C., earlier this week about alleged Internal Revenue Service abuses, must file his papers in San Francisco Tuesday. The U.S. attorney has until Thursday to answer them. An order on the case will be issued Friday, Schanen said.

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...he latest skirmish over the ...e dealt with the definition of the ...n "germane."

...egislative rules state that a bill ...stitute must be germane, or rele..., to the original subject. And ...y Berrier, director of the Division ...Legal Services, told senators ...rsday that such a question must ...decided by the legislative body ...raised it.

House members, with Colletta's ...port, gutted two Senate bills last ...k and wrote in the capital move ...guage, leaving only the titles of ...original legislation intact. Then the House last Tuesday passed the bills which would appropriate $250,000 to the Capital Site Planning Commission and direct the commission to draft new plans and cost estimates for a smaller city than was outlined by the panel and rejected by Alaska voters two years ago.

A popular end-of-session ploy

(See CAPITAL, Page A-3)

...oposal ...in gold

...rs, even as inflation continued to

Man hurt in steel plant fire

An explosion and two-alarm fire at the Stack Steel factory in Anchorage Friday sent one man to the hospital with second-degree burns and caused an estimated $50,000 damage to the $1.5 million operation.

Bill Morriseau, 41, a company employee, was listed in satisfactory condition this morning at Provide...

STATE OF ALASKA
OFFICE OF THE GOVERNOR
JUNEAU

JAY S. HAMMOND
GOVERNOR

NEWS RELEASE

FOR INFORMATION CONTACT:
[redacted]
Office of the Governor
Pouch A Juneau, Alaska 99811

OR PHONE: 907-465-3500
Gladys Reckley
Press Secretary

HAMMOND GIVES APPROVAL FOR ALPETCO PROJECT
DECEMBER 27, 1979
#276

FOR IMMEDIATE RELEASE

JUNEAU--Gov. Jay Hammond today said he is advised that the Alpetco Company has satisfied all terms of the initial part of its contract for state royalty oil.

Hammond's approval of Alpetco's critical 18-month benchmark clears the way for the company to proceed with construction of its $1.5 billion dollar petrochemical refinery complex in Valdez.

The governor said, "this 18-month benchmark was an important key to the contract. " During that period Alpetco secured commitments for its financing from the City of Valdez and from large corporations; it contracted to sell 70 percent of the facility's products; secured commitments for interim financing; filed a complete Environmental Impact Statement; filed all material state, local and federal permit applications; completed plant design and optimization necessary to obtain a definitive project cost estimate; delineated a product slate; and spent $10 million as required by the contract.

-more-

Hammond said, "the status of Alpetco's progress to date has reinforced my view that Alaska need not subsidize new industry, but can require that it be self-sustaining and environmentally sound.

"These policies will insure that healthy growth occurs in our state, and Alpetco has come a long way toward this objective," Hammond added. The governor noted also that the state contract was written to insure that the construction phase of the Alpetco project is carried out with diligence.

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FAIRBANKS
Daily News - Miner
"America's Farthest North Daily Newspaper"

FAIRBANKS, ALASKA, WEDNESDAY, OCTOBER 10, 1979 30¢ Per Copy in F

Studies give petro industry

By DERMOT COLE
Staff Writer

Alaska probably will never be known as the land of plastic bottles, garbage bags and vinyl floor tiles, but the raw materials to make those and other products could be among the state's exports to the West Coast and Asia, according to state consultants.

In two reports presented to the state's Royalty Oil and Gas Development Advisory Board this week, co[illegible]nts said recent increases in price[illegible]re making the economics "qu[illegible]e favorable" for a world-scale petrochemical industry in Alaska. And they said there is an export market for Alaskan petrochemicals in Asia and on the West Coast.

Representing Bonner and Moore, the Texas-based consulting firm that has done much of the state's natural gas research, Joe Moore said the economic outlook for petrochemical development in Alaska is improving.

He said the natural gas liquids at Prudhoe Bay are starting to become a bargain for use as a petrochemical feedstock in Alaska because of rising prices.

Moore was asked to judge the economic feasibility of building a separate pipeline from the North Slope to carry gas liquids such as propane and ethane to the Interior or to tidewater. The balance of the Prudhoe Bay gas would flow to Lower 48 markets in the Alaska Highway gas pipeline.

E.F. Hutton invests in Alpetco's proposed petrochemical facility in Valdez. Story page 2.

His preliminary cost estimates put a $2 billion cost on the facilities involved, including $275 million to extract the liquids, $600 million to build the pipeline to ship them south and $1.2 billion to build a plant that could process 1.5 billion pounds of petrochemical products a year.

In the U.S. more than 700 petrochemical plants produce an estimated 80 billion pounds of products a year, according to the American Petroleum Institute.

"We conclude now that there is quite a good likelihood that a project of this sort could be economically attractive over a fairly wide range of uncertainties," Moore said.

While he looked at the economic issues under a $55,000 contract, Chem-Systems of New York analyzed 13 products to see whether any hold potential as exports.

Glenn Mortimer, manager of commercial development for the company, said Tuesday it appears there is a market for products such as low-density and high-density polyethylene, vinyl chloride and ethylene glycol.

The polyethylene would leave the state in the form of pellets, while the vinyl chloride and ethylene glycol would be shipped out as a liquid in tank cars. Economic analysts agree it would be more economic to make the finished products at a factory in the Lower 48 or Japan than in Alaska.

Low-density polyethlyene would end up going into products such as garbage bags, while high-density polyethlyene could be made into plastic bottles. The vinyl chloride could be used to make the vinyl resin used in seat covers, floor tiles and other items. Ethylene glycol goes into anti-freeze.

Meanwhile, Joe Chomski, a Washington, D.C., lawyer, repeated warnings that facilities to process the gas in the state should be in place as soon as the Northwest gas pipeline starts up or the federal government might be able to order that the gas liquids should go to the Midwest or the East Coast instead of being removed in Alaska.

A separate liquids pipeline would be one way to circumvent that possibility, some officials argue, a proposal that will be looked at with more interest in light of Moore's report.

Royalty board member Andy Warwick of Fairbanks said he believes Dow Chemical, Du Pont and the other petrochemical companies being asked by the state to look over the situation should be enticed to get into the discussions.

"Now I think the next step is to try to generate some interest in the industry and if we can do it, put it out to bid," he said.

The Fairbanks Chamber of Commerce is trying to generate interest on a different aspect of the natural gas issue, before the Federal Energy Regulatory Commission.

With a $25,000 grant from the Fairbanks City Council, Bob Dempsey, chairman of the chamber's economic development committee, is preparing a report for delivery to FERC staff members Friday.

The chamber is lobbying against the draft environmental impact statement, which recommends that the $2 billion conditioning plant for the gas line be built at Prudhoe Bay.

Armed with information he says shows it is better to build the plant in the Interior than on the North Slope, Dempsey said he hopes to get the recommendation reversed.

The document concluded that a North Pole site wasn't sufficiently superior to Prudhoe Bay to warrant that the plant be built here.

LeResche Entrusts Both Analysis, Compl Evaluation of Alpetco Contract to Attorney

By Joe La Rocca

JUNEAU — In a classic exercise of bureaucratic incest, Natural Resources Commissioner Bob LeResche has entrusted both the analysis of a controversial contract to sell most of the state's royalty oil to Alpetco and the evaluation of the firm's contract compliance efforts, to the same lawyer who played a major role in negotiating the contract with Alpetco in the first place.

These inherently conflicting roles were given by LeResche to his former Deput Commissioner, Fred Boness, now in private law practice in Anchorage.

Boness was the commissioner's closest aide during '78 and '79 when LeResche and Alpetco officials secretly negotiated the contract agreement. Boness handled most of the legal aspects.

Then, shortly after Boness left the department last spring, LeResche quietly granted him a $40,000 non-competitive contract to handle many of the same matters with which Boness dealt while he was with the department.

These included two specific assignments. The first was to analyze certain key provisions of the Alpetco contract within the context of a provision requiring the company to comply with several major requirements by last Dec. 18.

Boness' second assignment was to evaluate Alpetco's Dec. 18 submission to ascertain whether the firm had satisfied those requirements. If Alpetco did not, the highly coveted contract to purchase most of the state's royalty oil for the next 25 years would be automatically canceled.

About 10 days after Alpetco submitted documents purporting to show that it had met the Dec. 18 deadline, LeResche was asked to provide an evaluation of Alpetco's voluminous Dec. 18 submission. Asked recently for a copy of Boness' evaluation report, LeResche said there was none because the lawyer's report had been presented to him orally.

Because there is not written report, it is impossible to determine what rationale Boness employed to arrive at his conclusion that Alpetco's submission had satisfied the contract requirements.

About two months before Boness was asked to evaluate Alpetco's Dec. 18 submission, LeResche also hired him to analyze in advance the terms of several key provisions spelling out the requirements which had to be satisfied by Dec. 18.

In his pre-submission analysis, Boness identified several key elements which he said were essential for Alpetco to achieve contract compliance. However, an independent analysis of the documents Alpetco submitted shows that in several key instances, the elements which Boness said were necessary to achieve contract complaince were absent from Alpetco's documentation.

Despite their omission, Boness submitted an affirmative oral report upon which the Governor based his formal finding that Alpetco had complied with the Dec. 18 deadline.

Hammond's announcement triggered a series of events which will enable Alpetco to begin taking 150,000 barrels per day of the state's royalty oil from Prudhoe Bay starting in July.

Unlike his post-submission evaluation, Boness' lengthy pre-submission analysis was presented in writing. One curious aspect of it is that while the state is paying for his services, it is difficult to determine whom Boness is advising — ments.

More pertinent, however, are those portions of his analysis in which Boness described key elements which he felt were essential to achieve compliance. Some of them are conspicuously missing from Alpetco's Dec. 18 submission.

For example, Boness says that one indicator the state can look to in determining whether Alpetco had complied with its requirement to obtain interim financing for the $1.5 billion refinery which it is contractually bound to build at Valdez, is "the size of the interim financing commitment."

He notes that the amount of interim financing arranged by Alpetco "must be sufficient for this purpose."

A useful guideline, Boness adds, is a letter included in Alpetco's Dec. 18 submission from the Chemical Bank of New York, one of two prospective interim financiers for the project. A high bank official estimated that the project would require $400 million in interim financing.

Yet, Alpetco's submission shows it has arranged only $150 million worth of interim financing, or less than one-half the amount which Chemical Bank said would be needed.

Other essentials delineated previously by Boness in connection with the interim financing commitment are also omitted from Alpetco's Dec. 18 submission.

Boness says that the contract document from the bank "likely will contain a draw-down schedule for the loan . . . which should match (Alpetco's) contract time table and also the benchmark obligations for expenditures contained in the agreement."

But Alpetco's submission contains no such schedule. Similarly, Boness says that Alpetco would "most likely be required to pay a loan commitment fee," some portion of which "should be payable . . . at the time the commitment is entered into."

Yet, while Alpetco claims to have obtained a commitment from Chemical Bank for interim financing, there is no indication

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Yet, while Alpetco claims to have obtained a commitment from Chemical Bank for interim financing, there is no indication that a commitment fee has bee paid.

Boness also said that "the commitment document should contain a detailed description of the facility and most likely will be supported by engineering design and cost estimates, economic analyses, an estimate of the project's economic viability, and an estimate of the product markets . . . in a financing of the size required." Boness added, "It's likely that each of these basic elements will be specified in detail." However, none of them is contained in Alpetco's Dec. 18 submission.

Overall, Boness' analysis hardly qualifies as an objective assessment of the Alpetco contract's technical legal requirements. It reads more like an advocacy statement prepared by a partisan on behalf of the project sponsors.

That is precisely the role that Boness has consistently played, first as Deputy Commissioner of the Department under LeResche and now as his hired gun.

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About 10 days after Alpetco submitted documents purporting to show that it had met the Dec. 18 deadline, Governor Jay Hammond announced in late December that his administration's review of Alpetco's submission confirmed that the contract requirements had been satisfied.

His conclusion was based largely on Boness' evaulation of Alpetco's voluminous Dec. 18 submission. Asked recently for a copy of Boness' evaluation report, LeResche said there was none because the lawyer's report had been presented to him orally.

Because there is not written report, it is impossible to determine what rationale Boness employed to arrive at his conclusion that Alpetco's submission had satisfied the contract requirements.

About two months before Boness was asked to evaluate Alpetco's Dec. 18 submission, LeResche also hired him to analyze in advance the terms of several key provisions spelling out the requirements which had to be satisfied by Dec. 18.

In his pre-submission analysis, Boness identified several key elements which he said were essential for Alpetco to achieve contract compliance. However, an independent analysis of the documents Alpetco submitted shows that in several key instances, the elements which Boness said were necessary to achieve contract complaince were absent from Alpetco's documentation.

Despite their omission, Boness submitted an affirmative oral report upon which the Governor based his formal finding that Alpetco had complied with the Dec. 18 deadline.

Hammond's announcement triggered a series of events which will enable Alpetco to begin taking 150,000 barrels per day of the state's royalty oil from Prudhoe Bay starting in July.

Unlike his post-submission evaluation, Boness' lengthy pre-submission analysis was presented in writing. One curious aspect of it is that while the state is paying for his services, it is difficult to determine whom Boness is advising — Alpetco or the state.

His legal analysis could be, and, one official said, was useful in alerting Alpetco as to what legal strategies and rationale the company could employ to meet — if not circumcent — the contract require-

Most [illegible] those portions of his analysis in which Boness described key elements which he felt were essential to achieve compliance. Some of them are conspicuously missing from Alpetco's Dec. 18 submission.

For example, Boness says that one indicator the state can look to in determining whether Alpetco had complied with its requirement to obtain interim financing for the $1.5 billion refinery which it is contractually bound to build at Valdez, is "the size of the interim financing commitment."

He notes that the amount of interim financing arranged by Alpetco "must be sufficient for this purpose."

A useful guideline, Boness adds, is a letter included in Alpetco's Dec. 18 submission from the Chemical Bank of New York, one of two prospective interim financiers for the project. A high bank official estimated that the project would require $400 million in interim financing.

[illegible] financing, or less than [illegible] amount which Chemical Bank said would be needed.

Other essentials delineated previously by Boness in connection with the interim financing commitment are also omitted from Alpetco's Dec. 18 submission.

Boness says that the contract document from the bank "likely will contain a draw-down schedule for the loan . . . which should match (Alpetco's) contract time table and also the benchmark obligations for expenditures contained in the agreement."

But Alpetco's submission contains no such schedule. Similarly, Boness says that Alpetco would "most likely be required to pay a loan commitment fee," some portion of which "should be payable . . . at the time the commitment is entered into."

Yet, while Alpetco claims to have obtained a commitment from Chemical Bank for interim financing, there is no indication

* *

Requirements Ignored In Boness Contract

By Joe La Rocca

JUNEAU — Shortly after he

contract for professional services valued at $20,000 or more by JOE La ROCCA

The out-of-state consortium which in 1978 won the coveted right to buy virtually all of the state's valuable royalty oil for the rest of the century, waltzed around one major condition of its contract with the state by arranging to sell the products it processes from the crude to itself.

Under its contract with the state, which gives Alpetco the right to purchase upwards of 150,000 barrels per day of state royalty oil for the next 25 years, the consortium is required to build a $1½ billion refinery at Valdez.

It was also required to meet a number of other major conditions by last Dec. 18. These included a requirement to negotiate sales contracts for at least 70 percent of the products - mostly fuels and small volumes of petrochemical by-products - which the refinery will produce after it's completed and goes into operation in about four years.

To meet that requirement, Alpetco - which is 70 percent owned by the Charter Co. of Florida, simply negotiated a contract selling about 146,000 bpd of liquid products to Charter's newly-formed and wholly-owned subsidiary, the Charter Co. of Alaska, a paper corporation.

Charter reportedly plans to sell some, if not all, of the products to Japan. While there are federal restrictions against exporting domestic crude oil, there is none prohibiting the export of refined products.

In Alpetco's submission to the state, President Gordon Cain said: "We are not enclosing copies of draft contracts for the sale of products or material relating to negotiations of sale terms with prospective purchasers because we believe the executive contract (with Charter) evidences full compliance." Neither Natural Resources Commissioner Bob LeResche, who secretly negotiated the contract with Alpetco, nor Gov. Jay Hammond, challenged the consortium's failure to comply with the spirit or

(more)

the letter of the contract.

Despite the fact that this and other major requirements of Alpetco's contract with the state were similarly circumvented or ignored, Gov. Jay Hammond has announced that Alpetco has complied with the contract.

His announcement set in motion a series of events which will enable Alpetco to begin taking the state's royalty oil next July and sell it outside the state until Alpetco's proposed refinery is scheduled to go into operation in 1984.

However, an analysis of Alpetco's submission claiming to satisfy the contract requirements by the Dec. 18 deadline reveals that several other major conditions remain unfulfilled.

One of them was a requirement that Alpetco obtain written commitments from contractually-bound third parties to lend or invest $1\frac{1}{2}$ billion to finance construction of the refinery.

In its submission, Alpetco said it obtained a $750 million financial commitment from a German firm, the Thyssen Co. It said that the balance has been committed by the consortium's three partners - the Alaska Petrochemical Co., the Charter Co., and E.F. Hutton, Inc., a New York investment firm.

But their so-called commitments are nothing more than qualified statements saying that they will commit the funds to the project, subject to the condition that "definitive agreements for all financing shall be entered into by Dec. 18 of 1980." Thyssen also submitted a letter from a prestigious German bank, the Deutsche Bank, which is nothing more than than a letter of reference and does not extend a line of credit.

In short, the contract requirement for financial commitments to cover project costs was not satisfied by the Dec. 18 deadline; rather, the deadline was extended for another year.

Another major contract condition which Alpetco claims to have met, but did not, is one which required the company to complete the plant design necessary to obtain a definitive project cost estimate, by last Dec. 18.

The documents submitted [redacted] to the state by Alpetco include a copy of a contract between itself and two other firms known as the "Fixed Price Contract." Its purpose is to obtain engineering design necessary to calculate the cost of completing the refinery's construction.

Under the terms of that contract, the two engineering firms have agreed to submit the engineering data upon which the [redacted] fixed cost will be based by September of 1980. Yet, under its contract with the state, Alpetco was required to obtain a definitive [redacted] project cost estimate by [redacted] last Dec. 18. In short, that deadline was not met; it was simply extended for 9½ months, until next fall.

Another major contract requirement which Alpetco claims to have satsified, but did not, is one which requires commitments for interim financing of the refinery. Interim financing would provide the funds needed to meet day-to-day expenses during the construction [redacted] phase. Alpetco says it may not need to obtain interim [redacted] financing from other sources because its three partners may be [redacted] able to pay those costs [redacted] out of their own pockets.

But in the event interim financing is needed, Alpetco said in its submission to the state, its financial projections indicate that the maximum that will be required is $92½ million. According to Alpetco, the consortium has arranged for more interim financing than would [redacted] actually be needed, a total of $150 million, from two banks. They are the Chemical Bank and Manufacturers Hanover Trust, both of New [redacted] York. Each would provide $75 million.

But a closer examination of their so-called [redacted] commitments reveals that their pledges are conditional, subject to a later determination that the project is economically [redacted] viable; that Alpetco has enough equity to complete the [redacted] project; that it would have sufficient collateral to repay the construction loans, if tendered; and that Alpetco will enter into a definitive credit agreement with the two banks by next December.

In other words, the requirement for a commitment for interim financing also was not met by the Dec. 18 deadline, but has been deferred for another year. Alpetco has attempted to minimize the need for interim financing by asserting that the three partners may be able to contribute the total equity needed for construction financing. But whether or not they can, Alpetco clearly has not satisfied the contractual commitment for interim financing.

Alpetco says in its submission that there is yet another avenue for interim financing, if needed. That stems from a resolution passed by the Valdez city council last year authorizing the issuance of $600 million worth of tax exempt industrial development bonds, the proceeds from which would be used to help finance the project. The bonds would be purchased by one of the Alpetco partners, E.F. Hutton, Inc., and resold in the bond markets.

Alpetco has submitted two legal opinions by "independent" bond counsel asserting that it would be legally permissible for tax exempt revenue bonds issued by Valdez to be used to finance the project. That's true, but irrelevant.

What Alpetco's submission, and the legal opinions, ignores is the fact that the federal IRS Code does not presently provide a tax exemption for revenue bonds issued on behalf of the Alpetco project, and a change in federal law permitting the exemption is needed. Alpetco is seeking, but has not yet obtained such an exemption.

Ironically, a member of a law firm presently retained by the Charter Co. once wrote an exhaustive legal memorandum opposing a bid for the state's royalty oil by one of Alpetco's competitors which proposed the use of tax exempt industrial development bonds. The lawyer, Joe Chomski of Birch, Horton, Bittner and Monroe, concluded that federal income tax law does not permit such an exemption, and that Congress and the U.S. Treasury Dept. would vigorously oppose any attempt to obtain one.

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In other words, Alpetco's claim that the Valdez bond issue could be used to provide project financing, if needed, also appears to be insupportable.

Alpetco's documents purporting to satisfy the Dec. 18 contract requirements consist of several volumes of material about five inches thick. Curiously, there is only one copy of the documents in existence, and that has been in LeResche's possession almost exclusively ever since it was officially submitted to him by Alpetco about three weeks ago.

Apparently no one outside the administration, its advisors, and this reporter has seen it or scrutinized it thoroughly. Yet, it is the instrument which authorizes the disposal of more than 150,000 barrels per day of the state's royalty oil for the next 25 years.

Notwithstanding both Alpetco's and the governor's claim that the consortium has met its obligations under the contract, several key requirements remain unfulfilled, and the contract terms have been substantially breached by Alpetco.

Since the governor and his aides appear to be incapable of objectively evaluating Alpetco's performance, or lack of it, under the terms of the contract, one hopes that the legislature will fill the leadership vacuum, and call for an accurate accounting.

At stake is an enormous chunk of the state's future wealth. It's worth more than $1 billion per year, for the next 25 years.

NEWS

Alaska Interstate Company

P. O. Box 6554
Houston, Texas 77005
(713) 621-8710

FOR RELEASE: May 8, 1980

CONTACT: Willard M. Hanzlik or W. A. Anderson, Jr.

HOUSTON. Alaska Interstate Company announced today that Alaska Petrochemical Company, a 75% owned subsidiary, has withdrawn from The Alpetco Company, a joint venture partnership between subsidiaries of The Charter Company, The E F Hutton Group Inc. and Alaska Petrochemical Company which proposes to build a $1.5 billion refinery and petrochemical facility in Valdez, Alaska.

In making this announcement, O. Charles Honig, Chairman, said that recent criticism of the project by members of the Alaska Legislature and the uncertainty of proposed federal regulations affecting refiners' margins, coupled with high interest rates and a high rate of inflation, have changed Alaska Interstate's outlook toward the project.

Alaska Interstate also said that it has been advised that Seatrain Lines and six Alaska Regional Native Corporations which are shareholders in Alaska Petrochemical Company have agreed in principle with Charter Oil (Alaska) and E F Hutton (Alaska) on a plan whereby Seatrain and the six Alaska Regional Native Corporations continue to participate in the Alpetco project, along with Charter and E F Hutton.

* * * *

property in the rezoning would pre- ... ounded by Chugach State Park and a military reservation.

5/7/80 p.B-1

Lawmakers' report said critical of Alpetco project

A legislative committee is expected to issue a report early next week which will be critical of The Alpetco Co.'s performance under its contract to buy the state's Prudhoe Bay royalty oil and dubious about awarding the oil to Alpetco on July 18.

A comparison of what Alpetco promised to do in 1978, before it won the contract to buy up to 150,000 barrels a day of state royalty oil, and what Alpetco now says it's going to do shows substantial changes, according to a legislative staff report.

A second hearing on the Alpetco contract, and how well Alpetco is living up to the legislative intent as well as the actual contract terms, is set for Thursday at 2 p.m. in Juneau, said Rep. Bill Miles, D-Anchorage.

Miles is co-chairman of the Legislature's Gas Pipeline Committee which is studying the Alpetco contract.

Natural Resources Commissioner Robert LeResche has been asked to testify Thursday and Milt Barker, chief of legislative finance, will report on his study of the economic feasibility of the Alpetco project. Alpetco officials testified at an earlier hearing last week.

At the time the Alpetco contract was ratified in 1978, Alpetco was promising a petrochemical plant, not an oil refinery, with 2,500 jobs and $43 million in annual tax revenues.

Now, Alpetco's proposal is for a fuels refinery offering 579 jobs, Miles said, and only half the tax revenue. Instead of a $2.5 billion petrochemical facility, it will be a $1.5 billion fuel refinery.

"The key element is jobs," Miles said Tuesday. "That's what we need now and that's what we contracted for."

The staff report also questions whether Alpetco has secure markets or financing.

Documents from Thyssen, a German steel conglomerate, give commitments to arrange $750 million in project financing, not to commit that money itself.

LeResche, who negotiated the contract with Alpetco, said he is satisfied with Alpetco's financial commitments. Definitive cost estimates aren't in, he pointed out, and Alpetco has until Dec. 18 to execute financing documents.

Alpetco's proposed plant initially will produce less than 10 percent aromatics, according to the legislative staff report.

LeResche said the Legislature "doesn't seem to agree or understand that a petrochemical refinery is a continuing thing that evolves over many years."

DON CHANDLER
Fairbanksan named to post

Bank of North picks Chandler as president

Don Chandler was elected president of Alaska National Bank of the North at Tuesday's annual shareholders meeting.

Chandler is owner of Chandler Plumbing Supply in Fairbanks.

Chandler, who will also continue as chairman of the board, replaces Frank Murkowski. Murkowski resigned last month in order to campaign for the Republican nomination for the U.S. Senate.

Murkowski said the Fairbanks meeting was a routine annual shareholders meeting except for the election of Chandler.

the [illegible] agent—[illegible] Trading Co.—realized a gross profit of over $600,000, or 16 c/gal, according to the report.

Since diesel is unregulated, no DOE regulations apparently were violated, IG said. MIPTC bought the diesel at a long-term contract price and resold it at spot price levels, according to the report.

Barton House, ERA deputy administrator for operations, told IG investigators Amerada Hess received no assurances from DOE in return for the contract pricing arrangement and that Hess specifically told ERA it didn't want the product to go into inventory or be sold on the spot market.

But according to the report, House also told IG that ERA would look favorably on any future Hess request for an exception from future supply obligations in Montana, should allocation controls be reimposed.

CHEMICAL SUPERFUND BILL SET TO MOVE TO SENATE COMMITTEE

Washington 4/16—Senate Environment subcommittees are expected tomorrow to push to the full committee a staff draft of a chemicals superfund and liability bill that even key sponsoring Senators can't support.

Environmental Protection subcommittee chairman Muskie (D-MN) and other majority members have expressed reservations about the draft's broad definition of hazardous materials, vehemently opposed by industry (ON 7/5/79). Inadvertently, staff also wrote a large loophole into the strict liability of hazardous materials manufacturers for property damage and other third-party damages from spills and waste. The draft confers strict liability only when negligence is proven (ON 4/16).

However, the draft is expected to move to full committee, primarily for discussion purposes. Identical to the staff draft first proposed last July, it reflects little of the subsequent months of hearings and discussions at the subcommittee level and could undergo substantial modification, staff members say.

Modifications could include imposing fees on petroleum feedstocks for the superfund, but making the entire fee system adjustable according to experience, and conferring strict liability on manufacturers and handlers of hazardous materials, but outlining possible court defenses.

ALASKANS GET $405-MILLION WINDFALL

Anchorage 4/16—An estimated $405-million in state income from oil royalties, and corporate income and severance taxes will be distributed to Alaska's 400,000 residents this year under laws signed by Gov. Hammond.

One of the laws could end the state income tax for Alaskans who have lived in the state at least three years. The second law provides for distribution of earnings from the state's permanent fund to state residents at $50/yr of residency.

Hammond: Plan 'Isn't Socialistic'

Hammond, who has been working for some plan to share the state's oil wealth, denied charges that the plan is socialistic. He said that the scheme is "taking wealth that belongs to the people and making sure some of it goes directly into their pockets instead of to their elected representatives."

Oil companies are lobbying for a change in the state's corporate income tax that would allow them to deduct the amount they pay the U.S. government under [illegible] agreements [illegible] to the [illegible] effective [illegible] of the law.

—No decision [illegible] made on another 7 tankers.

—Owners of 10 tankers plan to request a "dedicated trade exemption."

The cost to retrofit a tanker to comply with the new law runs between $3-million and $4-million depending on the amount of work to be performed.

Some 15 new tankers are expected to be built to replace the 25 scrapped, but the report says there will be some net loss in tonnage.

Government Title XI mortgage guarantees are expected to be available to most companies planning retrofits. The Berger group now has nine tankers being retrofitted by National Steel shipyard at a total cost of $28.7-million on which Title XI guarantees have been granted. Some 21 tankers and barges are currently under construction in U.S. shipyards and Falcon World Shipping Corp. has applied for Title XI loan guarantees to build four diesel propelled 37,000 dwt tankers at a total cost of $108-million.

PRODUCERS, SPONSORS OF ALASKA GASLINE AGREE TO FINANCE ENGINEERING STUDIES

Anchorage 4/16—Alaska's Lt. Gov. Terry Miller said that North Slope producers and sponsors of the Alaska Highway gasline have reached agreement on financing of $500-million in engineering studies for the line.

Miller, who represented the state at a Washington, D.C. meeting of producers and sponsors, said those who attended the meeting hoped to complete the drafting of a joint operating agreement before a meeting with Energy Secretary Duncan on April 25. Names of the other representatives at the Washington meeting weren't available.

A board will be created to oversee construction and engineering of the pipeline and gas conditioning plant, Miller said. The state of Alaska will be represented on the board in a non-voting capacity.

The state administration is under pressure from mayors and business leaders to make sure that Prudhoe Bay gas liquids are made available for development of a state petrochemical industry. The present design of the gas conditioning plant doesn't include manufacturing of NGL for petrochemicals, but only for fuel to be used on the North Slope.

Platt 17 April 80

Notable Quote

"The 20% of our energy that comes from abroad as imports is larger than the total consumption of Britain, France, Italy and Germany put together. So you can easily see that when President Carter or his representatives say (to our allies): 'Well, maybe we'll try a little, if you'll try also,' it gets a rather sour reaction from the Europeans and the Japanese. It's because they know that we are the ones who are OPEC's best customers, and that whereas for them these oil imports are essential, we don't have to (import). We are the ones who are spoiling the game for everybody else."

—Dankwart Rustow, Professor of Political Science, Graduate Center, City University of New York, at an energy symposium in New York.

DOE UNCOVERS SIDE EFFECTS OF 1979 FUEL ALLOCATIONS

Washington 4/16—Efforts by the Dept. of Energy to assure diesel supplies for fuel-short regions last summer may have backfired by inadvertently allowing private firms to make higher than normal profits from product distribution, according to a report by the Energy Dept.'s inspector general.

IG investigators reviewed informal emergency arrangements made by the Economic Regulatory Administration with Amerada Hess to make 3.15-million gal of diesel fuel available to Montana consumers. Although ERA was under the impression that state officials would direct the distribution of the fuel, the purchasing agent—Montana International Petroleum Trading Co.—realized a gross profit of over $500,000, or 16 cts/gal, according to the report.

Since diesel is unregulated, no DOE regulations apparently were violated, IG said. MIPTC bought the diesel at a long-term contract price and resold it at spot price levels, according to the report.

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ALASKANS GET $405-MILLION WINDFALL

Anchorage 4/16—An estimated $405-million in state income from oil royalties, and corporate income and the windfall profits tax. No action has been taken by the legislature. Combined royalties, income taxes and a 12.5% severance tax are expected to bring the state $5-billion over the next year.

U.S. MAJORS RETROFITING 91 TANKERS TO COMPLY WITH SAFETY ACT

Washington 4/16—An unpublished survey by U.S. Commerce Dept.'s Maritime Administration shows that U.S. major oil companies plan to retrofit 91 tankers to comply with new safety and pollution requirements of the Port & Tanker Safety Act of 1978.

—Some 26 tankers, 20,000 dwt and larger, will be scrapped prior to the 1986 effective date of the law.

No decision has been made on another 77 tankers.

—Owners of 10 tankers plan to request a "dedicated trade exemption."

The cost to retrofit a tanker to comply with the new law runs between $3-million and $4-million depending on the amount of work to be performed.

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Notable Quote

than in September-March 1978-79 season.

The degree-day data obtained from Atmospheric Environmental Service, Toronto, based on 65 deg. F, are as follows:

	Sept.-March '79-'80	Sept.-March '78-'79	March 1980	March 1979	Normal
Edmonton	8,501	9,306	1,426	1,118	1,327
Halifax	6,410	6,670	1,171	1,005	1,113
Montreal	7,039	7,517	1,152	996	1,156
Regina	8,866	10,013	1,536	1,433	1,482
St. John's, Nfld.	6,692	6,722	1,140	989	1,152
Toronto	6,440	6,657	1,133	933	988
Vancouver	4,373	4,728	706	618	698
Winnipeg	9,171	10,271	1,581	1,574	1,469
Total	57,492	61,884	9,845	8,666	9,385

International Items

INDONESIA: Pertamina has awarded UOP (Signal) contracts to design all of the process units and offsite facilities for the Dumai refinery expansion project in Sumatra (ON 3/4). Project facilities will include a 92,600 b/d vacuum distillation unit. Pertamina has also signed a letter of intent with Fluor for a $500-million contract to engineer, procure and construct new facilities at the refinery near Cilacap (ON 3/19). The refinery's capacity will be doubled to 200,000 b/d.

Meanwhile, Asamera Oil of Calgary, Alta., said the U.S. District Court for the Southern District of New York confirmed an arbitration award reaffirming the firm's contractual rights to royalties from Mobil Oil (Indonesia) on all past and future output of gas, gas condensate and crude from Contract Area B in north Sumatra, Indonesia. The area includes the Arun field (ON 9/12/79) and the Lho Soekon discovery.

* * *

UK NORTH SEA: The 120,000 b/d Thistle oilfield in the UK sector of the North Sea has been shut down following discovery of a leak in the 7-mi. pipeline linking it to the Dunlin platform. Production from Thistle is piped via the Brent pipeline system to the Sullom Voe terminal in the Shetland Is.

A spokesman for operator British National Oil Corp. said the cause of the leak hasn't yet been determined, so it can't be ascertained how long it will take to repair. However, should it appear that repairs will take an appreciable time, production will be resumed using the tanker onloading facility installed on the field. BNOC said the oil slick that appeared as a result of the pipeline leak has been broken up by high seas.

* * *

NORWAY: The near-capsize of the semi-submersible accommodation rig Henrik Ibsen near Stavanger on April 6 was caused by six manholes in one leg being left open when ballasting of the leg started (ON 4/8). A merchant navy captain, serving as consultant to the Norwegian national trade union, says grave mistakes were made when the vessel was modified as an accommodation unit, reducing its stability to an unacceptable degree.

UNITED STATES

REFINERS, MARKETERS DECRY NORTH SLOPE ENTITLEMENTS

Washington 4/8—Industry representatives continue to push for formal consideration by the Economic Regulatory Administration of changes in the entitlements system for Alaska North Slope crude (ON 3/24).

At a hearing before Office of Hearings & Appeals Director Mel goldstein, several company officials, including representatives of Ashland Oil and Standard of Indiana, supported a petition by a group of Ohio marketers for changes in the program.

That group—Ohio Independents for Survival—said the present entitlements program allows Standard of Ohio to underprice competition by 23 cents/gal for gasoline and 15 cents/gal for fuel oil in Ohio. As a result, OIS members say their sales have dropped by as much as 52%.

According to OIS counsel William Bode, the present entitlements program amounts to a "massive, unintended, unplanned shift of revenues to a few major integrated oil companies," because North Slope crude is treated as uncontrolled for purposes of entitlements.

Claude Brinegar, senior vice president, Union Oil, also supported the OIS petition, saying the present system results in at least $15-million per day being transferred to North Slope producer-refiners. Brinegar provided comparative data for the Los Angeles area showing that the Chevron price to dealers is at lest 10 cents/gal below those of all other major refiner-marketers in the area for all gasoline grades.

GAS SUPPLIES COULD DISPLACE 550,000 B/D—ERA

Washington 4/8—Enough natural gas is available nationwide to displace 550,000 b/d of industrial and electric utility consumption of distillate and residual fuel oil during the first six months of 1980, according to a report prepared by the Economic Regulatory Administration's Office of Fuels Conversion.

Total surplus gas deliverable exceeds the current level of oil displacement by about 115,000 b/d.

ERA surveyed 120 intrastate pipelines and distributors to determine available supplies and whether residual fuel sulfur levels should be a determining factor in reviewing petitions for oil displacements under the Powerplant & Industrial Fuel Use Act. Specifically, ERA sought to determine whether enough gas was available to meet displacement demand by users of middle distillate and resid containing less than 0.5% sulfur.

The report found that if all exemptions were granted, without regard to sulfur content, an average of 301,372 b/d would be displaced in 1980.

The report also found that refinery operations in Dist. 2 could be "disrupted" if the amount of resid displaced in 1980 significantly exceeded the amount displaced in 1979.

DOE ADOPTS WOOD-BASED ALCOHOL POLICY

EXCESS PRUDHOE BAY ROYALTY CRUDE GOES TO TESORO, CHEVRON

Anchorage 3/17—The Alaska Royalty Oil & Gas Development Advisory Board has approved contracts to sell more than 2.5-million bbl of the state's royalty oil to Tesoro Alaskan Petroleum next July (ON 3/6).

The board also approved two other contracts negotiated by Natural Resources Commissioner LeResche for 9,000 b/d of uncommitted royalty oil from the North Slope. The contracts, good for six months beginning July 1, went to Tesoro and Chevron U.S.A., both of which operate refineries on the Kenai Peninsula.

Tesoro's larger contract covers the state's 1/8 royalty share of Prudhoe Bay production between the time the state starts taking its royalty oil in kind on July 1 and the time Alpetco can legally take delivery of the oil on July 18. Alpetco has a long-term contract to purchase up to 150,000 b/d of royalty oil if it meets certain conditions (ON 12/20/79).

Board May Lose Power

The contracts may be the last to require approval by the board if a bill already passed by the state house is approved by the senate. The bill would take away the board's power to disapprove a contract.

LeResche said the contracts with Tesoro and Chevron, each for 4,300 b/d, were limited to six months at the request of state senators representing the native community, which is trying to put together a new refinery to ensure fuel for rural Alaska.

Kenai Production Affected

According to Tesoro vice president Richard Downey, the oil will enable the company's Kenai Peninsula refinery to continue its present output and possibly to increase it. Tesoro now purchases the state's royalty oil from Cook Inlet but is running under capacity because of declining production from those fields (ON 11/26/79). The refinery also has suffered from a cutoff in its supply of oil from Exxon.

Tesoro plans to exchange the North Slope crude for a long-term supply of Cook Inlet oil, but expects to have to trade 2 bbl of North Slope crude for every 1 bbl of Cook Inlet oil because of the higher sulphur content in Prudhoe Bay oil.

PEMEX OFFICIAL HINTS MEXICO MAY HELP COMPENSATE FOR SPILL DAMAGES

Monterrey, Mexico 3/17—Petroleos Mexicanos president Jorge Diaz Serrano said here at weekend that Mexico could be expected to "assume its (legal) responsibility" for all spill damage to U.S. interests from the wild Ixtoc well in Campeche Bay. But any claims against Mexico for damages should be filed in Mexican courts, he emphasized (ON 3/13).

"We haven't received any claims of this nature in Mexico," he noted. Diaz Serrano met here with Texas Gov. Clements.

Diaz Serrano noted that the Ixtoc blowout is no longer spewing oil and the gas that is coming out isn't even enough to be flared. However, the wild well hasn't been capped or plugged yet. He invited the U.S. Coast Guard to fly over the well and inspect.

TEXAS CRUDE NOMINATIONS DROP

TEXACO REVAMPS WORLD OPERATIONS

White Plains, N.Y. 3/17—Texaco Inc. has reorganized its worldwide operations into five new geographic divisions, affecting integrated operations in the U.S., Europe, Latin America and West Africa.

"The formation of these new units will establish major integrated oil and gas business segments organized on a geographic basis, each headed by a single executive," Chairman Maurice Granville said. The reorganization takes effect April 1.

Based on a "program of decentralization . . . this new management structure provides for major profitability centers with coordinated energy strategy for both . . . upstream and downstream operations," Texaco said.

The reorganization won't affect worldwide marine transport, supply and distribution, crude and product trading, and aviation and marine sales.

Texaco's new divisions are:

—Texaco Europe, with interests in 12 countries. Robert C. McCay, vice president, petroleum products–Europe, will be president. The group includes Texaco Ltd. (UK), where William S. Barrack, Jr., vice president, personnel and corporate services, has been elected chairman. Texaco Ltd. has responsibility for the North Sea and other company operations in the United Kingdom.

—Texaco U.S.A., Annon M. Card, senior vice president, strategic planning and petroleum products–U.S.

—Texaco Latin America/West Africa, responsible for petroleum interests in 67 countries. Robert M. Bischoff will be president. He is currently vice president, producing department–Latin America.

—Texaco Chemical, responsible for worldwide chemical manufacturing and product sales. Ben C. Hayton, vice president, petrochemicals, will be president.

—Texaco International Exploration, responsible for exploration in areas not assigned to other divisions. Norman G. Kittrell will be president. He is presently general manager, producing–Eastern Hemisphere Operations.

USGS CLAIMS NEW FAULT NEAR PT. CONCEPTION LNG SITE

Los Angeles 3/17—U.S. Geological Survey scientists have identified a new fault system near the site of Western LNG Associates' proposed Pt. Conception, Calif., LNG terminal.

The 60-mi.-long offshore "seafloor feature" lies within five miles of the proposed site, and, "because of its length and young age, may produce future large earthquakes," according to USGS.

USGS scientists suggested that two major California earthquakes, including a 1927 tremor that measured 7.3 on the Richter scale, were centered along the newly identified system. In addition, USGS report notes that compressional forces from the offshore fault system are now uplifting the ground level at Pt. Conception at an average rate of 0.1 to 0.2 in./yr, one of the highest rates in the U.S.

A spokesman for Western LNG Associates said the new evidence "isn't anything that would require us to change the technical design or safety plans for the plant," which will be built to withstand a 7.5 ... occurring within one mile of the

Bethlehem names board chairman, other officials

Trautlein

Schubert

Bethlehem Steel Corp., Bethlehem, Pa., has elected Donald H. Trautlein chairman and chief executive officer, effective June 1.

Williams

Richard F. Schubert has been elected vice chairman.

Walter F. Williams has been elected president and chief operating officer.

Lewis W. Foy, present chairman and chief executive officer, will act as a director of the corporation effective June 1.

Atlantic Pacific Marine Corp., Houston, has constructed and started its own training facility, the Atlantic Pacific Marine Corp. Petroleum Technology Training Center, in Houma, La.

The design of the facility incorporates a fully-operational drilling rig as well as divided classroom space and support facilities, such as a galley, dining and recreational room and crew living quarters.

Stone & Webster Management Consultants Inc., a wholly-owned subsidiary of Stone & Webster Inc., New York City, has elected Frank L. Bradley Jr. chairman of the board.

Richard L. Forrester has been named president, chief executive officer and director.

Bulkfleet Marine Corp., Houston, has elected G.J. Mount vice president.

Mount will be responsible for Bulkfleet's operations in the northeast.

Alaska Interstate Co., Houston, has made several personnel changes.

C. H. McCall senior vice president, has been given the additional responsibility for all non-oil and gas subsidiary operations.

W. A. Anderson Jr. has been elected senior vice president and will be responsible for all financial and administrative activities.

Willard M. Hanzlik has been elected president of Alaska Petrochemical Co., a subsidiary.

John E. Robertson has been elected vice president-administration.

John F. Platt has been elected operations controller for all subsidiary operations.

Culver Drilling Co., Oklahoma City, has been formed and will offer drilling services to the Mid-Continent area in the depth ranges of 10,000' to 30,000', with six rotary rigs.

Sam C. Berry has been named president.

Glenn H. Holcombe has been named vice president, contracts.

D. Kent Baker has been appointed vice president, drilling operations.

The Elliott Co., division of Carrier Corp., Jeannette, Pa., has appointed Donald C. Hallock director of project management.

Hallock

The project management function has been reorganized to improve Elliott's ability to attain faster shipments of large engineered orders.

Also reporting to Hallock are the cost estimating and control department, and the associate plant services department.

UOP Inc., Des Plaines, Ill., has appointed Fred L. Jaggi vice president and general manager of Des Plaines operations of Procon.

Hans K. Schoedl has been named vice president and general manager of the Los Angeles operations of Procon Inc.

Jaggi and Schoedl will be responsible for directing all activities associated with their respective operations centers, which include integrated engineering, procurement and construction services.

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million b/d production level beyond the second quarter.

Duncan said both the U.S. and Saudi Arabia want to see "market stability and predictability" in both supply and price before making decisions. Both conservation by consuming nations and more supplies on the market will contribute to market stability and the unified price structure sought by both countries, he added.

SPR still An Open Question

A SPR purchase decision will be taken after further consultations with producing and consuming nations. On the agenda this week are discussions with West German Chancellor Schmidt and Venezuelan Energy Minister and OPEC president Calderon Berti, both paying official visits to Washington.

Duncan stressed that the Saudis were "impressed" with U.S. conservation achievements, but that they felt the recent U.S. government sale of Elk Hills oil at $41/bbl was "negative and sent wrong signals" to a marketplace both nations are seeking to cool.

U.S. officials have been unsuccessful to date in encouraging other International Energy Agency member nations to intensify conservation and make a concerted effort to hold down national reserve fills.

Duncan didn't acknowledge these difficulties and hinted twice that an SPR purchase decision faces other problems. The use of domestic oil for the SPR will add to market demand, and budget cuts might leave DOE short of funds for resumption of SPR purchases in FY 1981.

Duncan also said he "saw nothing to raise concern" about the stability of the Saudi royal family.

Saudi officials told Duncan King Khaled is doing "very well" and said they "hoped he will be out of the hospital soon."

ALASKA OFFICIAL: STATE'S UNCOMMITTED CRUDE SHOULD GO TO TESORO AND CHEVRON

Juneau 3/5—Alaska Natural Resources Commissioner Robert LeResche has told the Alaska Royalty Oil & Gas Development Advisory Board that 150,000 b/d of uncommitted North Slope royalty crude should be sold to Tesoro Alaskan Petroleum.

LeResche also proposed Tesoro and Chevron U.S.A. divide 9,300 b/d of the uncommitted crude (ON 2/4). The board has postponed until March 10 its decision on allocation of the oil.

FERC CALLS MEETING TO EXPLORE GAS MARKET OUTLOOK

Washington 3/5—The Federal Energy Regulatory Commission will hold an informal conference April 2 to investigate natural gas supply and price over the next several years.

FERC Chairman Curtis said he wants assessments from experts of the impact of the Natural Gas Policy Act on supply, demand and price and the likely conditions in various energy markets where gas competes with other fuels.

Following the conference, the commission will decide whether to extend a fuel oil displacement program slated to expire on June 1. A FERC decision turns largely on the current and anticipated condition of domestic gas markets.

Interested individuals should submit presentation summaries to FERC by March 31.

from the North Slope; yet the mechanics of the entitlements program permit the benefits—which Ashland estimates at more than $180-million/month—to accrue to the "hands" of companies that control North Slope oil.

Ashland, for example, would have received additional entitlements totaling almost $30-million for July–November 1979. "Our average crude costs would have been reduced by 50–60 cts/bbl, bringing our costs that much closer to the national average."

—DOE should quickly amend (no hearings would be required) the calculation for North Slope crude, making it retroactive to the time when the oil's prices reached ceilings. "North Slope producers have gotten an adequate break from added profit on their production. . . . They neither need nor deserve added compensation," which results in under-compensating others.

—"The unusual circumstances surrounding many very small refiners due to bias, heavy California crude, etc., tends to cloud data on all refiners. But the spread of (after-entitlement) costs among the top 22 going from $2.80/bbl to $9.60 in one year (October 1978 to October 1979) graphically demonstrates the depth of the problem.

"It's an intolerable situation which can't be allowed to continue unless the industry is to be changed drastically."

EXXON SETS CONDITIONS FOR TALKS ON ALASKA GASLINE

Washington 3/5—Exxon has told Energy Secretary Duncan that engineering and design studies must be performed on the proposed Alaskan natural gas pipeline "before anyone can put together a plan to finance the project."

In a letter to Duncan, Exxon:

—Called for assessment of the project's cost through completion of the line's design and engineering phase.

—Said it is ready to help finance design and engineering studies.

--Said project sponsors are responsible for developing the project's overall financing plan.

—Said it has already made two proposals for producer participation, but cannot consider a role placing it and other producers in the position of assuring the project's total financing needs.

PETROLEUM WORKERS SETTLE WITH UNION OIL; OCAW STILL CONSIDERS TERM 'UNACCEPTABLE'

Los Angeles 3/5—Union Oil of California has signed a two-year labor contract with the International Union of Petroleum & Industrial Workers (ON 2/24).

Terms of the agreement, which covers about 500 oil and gasfield workers in California, are essentially the same as those offered by Union and other major oil companies to striking Oil, Chemical & Atomic Workers: [illegible]% wage increase, $100/mo company contribution to medical plans, and $14/mo to dental plans.

Moose Creighton, an official of OCAW Local 1-28 in Los Angeles, said the terms of the IUPIW settlement with Union are "totally unacceptable" to OCAW. Atlantic Richfield offered similar terms to OCAW March 4, Creighton said, and the offer was rejected.

ALPETCO REFINERY CONTRACTS: Initial engineering contracts valued in excess of $5.5-million have been awarded by Alpetco for its 150,000 b/d refinery and petrochemical complex at Valdez. Alpetco said five companies will complete the final design and detailed specifications for plant process units and support facilities by July 31, 1980.

C. F. Braun will provide the technical design for several units and design offsite systems and environmental protection systems. UOP will design five major process units and enter into licensing agreements for use of proprietary processes. Exxon, Union of California and Ralph M. Parsons Co. will each provide design technology and process licensing for specific units.

* * *

TEXAS AMERICAN ACQUIRES: Texas American Oil said it has acquired a 50% interest in about 210,000 acres of leasehold located in the Montana Overthrust Belt. The interest is in new leases applied for with the U.S. Bureau of Land Management. Upon issuance, the leases will have a primary term of 10 years.

Washington Roundup

ALLOCATION FREEZE SOUGHT: The Small Business Administration has petitioned the Dept. of Energy's Economic Regulatory Administration for a moratorium on granting gasoline allocations for new service stations. SBA said the viability of small independent retailers is threatened by DOE rules favoring refiner-owned operations.

PUBLICATIONS OF INTEREST

OPEC Oil: A historical account of OPEC member-nations' struggle with oil companies for control of their hydrocarbon resources and pricing strategy.

Written by Loring Allen, who teaches energy

INDEX

Platt's OILGRAM NEWS is indexed by the Central Abstracting & Indexing Service of the American Petroleum Institute. Each monthly issue of API's "Petroleum/Energy Business News Index" contains about 14,000 entries concerning 3,000 items from six source publications, including ON.

The index is also available as a current computer file, updated weekly, that can be queried with remote terminal coupled to a telephone set. Computer search capability is furnished by SDC Development Corp. of Santa Monica, Calif. Contact with the file can be made by direct phone call or via communications networks. The file is accessible Monday through Friday, 8:00 a.m. to 8:00 p.m. New York time.

For further information contact: API Central Abstracting & Indexing Service, 156 William Street, New York, N.Y. 10038. Tel. (212) 587-9660.

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UNITED STATES

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However, the study admits that more than economic concerns are involved in the Administration's policy of not selling Alaskan oil to other nations. Any cost-to-benefit analysis would have to be balanced against energy security issues, since contracts with Japan or other nations would increase gross imports of foreign oil and increase the nation's susceptibility to supply interruption, the study says.

The present policy of sending surplus oil to Gulf Coast refineries through the Panama Canal—about 33% of the 1.5-million b/d of Alaskan oil can't be refined on the West Coast—is "one of the most inefficient possible ways of dealing with the surplus," said U.S. economist Yvonne Levy.

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The study, titled "Alaskan North Slope Oil In National Perspective," is available free from the public information section of the Federal Reserve Bank of San Francisco, P.O. Box 7702, San Francisco, CA, 94120.

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Mobil and Texaco officials both refuted Schneider's claim, saying their refineries are specially designed to handle high-sulfur crudes from both Alaska and California. "Sure the high-sulfur crudes are corrosive," one Texaco official said "but you design for that."

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EPA is seeking comment on future adjustments of its unleaded production requirement—"whether we should link ratio of sales to refinery output," for example, or require a lowering of unleaded/leaded price differentials—the agency staffer says. Public hearings won't be held unless requested.

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Los Angeles 2/22—Occidental Petroleum will sell its domestic marketing subsidiary, Permian, to Charter for $500-million in cash and preferred stock, subject to board approvals. As part of the agreement, Occidental will provide Charter with a five-year, 100,000 b/d supply of crude.

"It fits the scenario," said one oil analyst who also said Occidental may use the cash to buy a U.S.-based specialty chemicals firm to aid to domestic earnings. Occidental has $129-million in domestic tax credits that will begin to expire in 1982, and must increase U.S. earnings to take advantage of the credits. The company also reported a "substantial" decline in Permian's 1978 earnings compared with 1977 results, and 1979 earnings were "nominal," according to the analyst, Andrew Gray of Pershing & Co.

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$1,79). The regulated price to US utilities buying the gas is now $3.43 at the point where it enters the pipeline system. Volumes amount to 1 billion cf/d. El Paso said the new price is subject to approval by the Algerian government.

A contract valued at $1.7 billion was awarded to Thyssen AG and Foster Wheeler to design and build a 150 000 b/d refinery and associated petrochemical plant at Valdez, Alaska. Sponsor of the venture is Alpetco, 70% o ned by Charter, 23.4% by Alaska Petrochemical and 6.6% by E F Hutton.

Amoco and Peoples Gas signed a contract whereby the oil company will provide the utility with 1.5 trillion cu ft of natural gas over 15 years. Supply will come from Wyoming's Overthrust Belt, piped eastward through the proposed 800-mile Trailblazer pipeline system.

LATIN AMERICA

Argentina

A group led by Occidental has been awarded a 25-year contract to develop oil fields at Malargue, in Neuquen Basin. The other members of the group include Union Texas (Allied Chemical), Bridas, and Cia Quimica. The group is to spend $13m initially.

YPF said a total of 900 wells will be drilled in Argentina this year, up from over 700 in 1979. Of the 1980 total, 330 will be drilled in contract areas let out to the private sector. Encouragement to drill is being provided by Banco de la Nacion, which is extending credits under special terms.

YPF has opened eight risk contract areas and six production areas for bidding by private companies. Calls for tenders started in November and will extend through next November, with closing dates for sumbmission of bids running from March 1980 through next February.

Brazil

In its continuing effort to attract foreign investment to the oil search, the government is to significantly liberalise the terms under which private companies operate. Virtually all sedimentary areas are to be thrown open to exploration (except for areas already occupied by Petrobrás). In a sharp policy reversal, companies will be able to participate in the development and production of oil discovered. The aim is to increase production to 500 000 b/d by 1985, about half of current domestic consumption.

Petrobrás awarded 17 risk exploration areas in the Parana Basin to a group formed by the Sao Paulo Energy Authority and the Institute for Technological Research.

The state company reported a second natural gas discovery in the Jurua area of the Amazon jungle. The well, 1-SOJ-1-AM, flowed at a rate of 540 000 cu m/d in an interval between 2688 and 2719 metres. Last year the first wildcat, 1-JR-1-AM flowed at 570 000 cu m/d, but a second well yielded only 82 000 cu m/d.

Chile

The first well in the Spiteful offshore field in the Strait of Magellan was brought on stream at an initial production rate of some 5 000 b/d. It adjoins the Ostion field, which has produced similar volumes since startup a year ago. A second Spiteful well is due to begin production this spring.

Colombia

Oil production this year is officially forecast to average 126 000 b/d, up from 122 550 in 1979.

Mexico

Exports of natural gas to the USA began on 15th January at an initial rate of 50-100 million cf/d. The throughput will build up to the contractual level of 300 million cf/d at a first-quarter price of $3.625 per million Btu. As the price is tied to a composite of world crudes, the gas price is certain to rise sharply on 1st April (see *Petroleum Economist* January 1980, page 19).

Jorge Diaz Serrano, director general of Pemex, said a new oil field, called Iris-Giraldis, had been discovered in the Reforma-Cactus area. Ultimate reserves were estimated at 1.5 billion barrels.

The export price for Isthmus crude was increased to $32 per barrel fob, effective 1st January from $24.60 in the fourth-quarter of 1979. Maya crude, the 22°-23° API crude from the Campeche fields, was increased to $28 from $21.50. Pemex reportedly is requiring buyers of crude to take 20% of their overall volumes in the heavier crude.

Venezuela

Petroven plans to spend about $300m on exploration this year to drill 242 exploration wells, including 192 in the Orinoco heavy oil belt.

The state oil company estimated the Orinoco reserves at between 700 billion and 3000 billion barrels, with 500 billion put as a "realistic" planning figure for recoverable reserves, up from 70 billion previously. The per-barrel cost of extracting the heavy oil is estimated at $2-8 and upgrading at $3-5, making an overall production cost of $5-13.

Offshore and Overseas Funds

Alexander Fund
37, rue Notre-Dame, Luxembourg.

Alexander Fund	$US10.75		

Net asset value Jan 21.

Allen Harvey & Ross Inv. Mgt. (C.I.)
1, Charing Cross, St Helier, Jsy, C.I. 0534-73741

AHR Gilt Edg. Fd	£11.97	12.04	13.36

Arbuthnot Securities (C.I.) Limited
P.O. Box 284, St Helier, Jersey. 0534-76077

Gov't Secs. Tst.	87.8	91.3	13.96
East & Intl. Tst. (C.I.)	107.2	114.2	3.26

Bank of America International S.A.
35 Boulevard Royal, Luxembourg G.D.

Worldinvest Inc Fd.	$US106.32	106.86	6.66

Prices at Jan 24. Next sub day Jan 30.

Barclays Unicorn Int. (Ch.Is.) Ltd.
1, Charing Cross, St Helier, Jsy. 0534-73741

Overseas Income	41.6	43.8	13.50
Unidollar Trust	$US12.65	13.30	2.00
Unibond Trust	$US96.01	96.96	9.75

Bridge Management Ltd
G.P.O. Box 590, Hong Kong

Nihonbashi Fund	Y17,040		— —
The Nippon Fund	$US15.37	16.05	1.55

Britannia Tst. Mngmt., (C.I.) Ltd.
30, Bath St., St. Helier, Jersey 0534-73114

	Bid	Offer	Yield
U.S. Dollar Denominated Fds.			
Univsl. $ Tst.	$US8.70	9.25	— —
Int. High Int. Tst.	$US0.96	1.01	8.90
Sterling Denominated Fds.			
Growth Invest	37.6	40.5	4.40
Intnl. Fd.	99.4	107.5	1.00
Jersey Energy Tst.	217.9	235.6	1.50
Univsl. $ Tst. Stg	£3.16	3.40	1.00
High Int. Stg. Tst.	0.87	0.90	13.30
Capital Dep. Tst.	£10.44	10.45	0.25

Brown Shipley Tst. Co. (Jersey) Ltd.
P.O. Box 583, St. Helier, Jersey. 0534-74777

Sterling Bond Fd.	£9.63	9.67	13.71

Butterfield Management Co. Ltd.
P.O. Box 195, Hamilton, Bermuda

Buttress Equity	$US3.40	3.51	1.85
Buttress Income	$US2.11	2.18	8.90

Prices at Jan 7. Next sub day Feb 4.

Fidelity Mgmt. & Res. (Bda.) Ltd.
P.O. Box 670, Hamilton, Bermuda.

Fidelity Am. Ass.	$US35.12		— —
Fidelity Int. Fund	$US34.20		— —
Fidelity Pac. Fd.	$US65.56		— —
Fidelity Wrld. Fd.	$US20.33		— —

Gartmore Invest. Ltd. Ldn. Agts.
2, St Mary Axe, London EC3 01 283 3531 Tx 886606

Gartmore Fund Managers (C.I.) Ltd.			
Gilt Fund (Jersey)	97.0	101.0	13.25
Gartmore Fund Managers (Far East) Ltd.			
HK & Pac.U. Tst	HK$4.14	4.455	2.60
Japan Fd	14.410	15.405	1.0
N. American Tst.	US$15.645	16.775	1.8
Intl. Bond Fund	US$11.535	12.115	8.0

King & Shaxson Mgrs.
1, Charing Cross, St Helier, Jersey. 0534-73741

Gilt Fund (Jersey)	£8.47	8.53	13.00
F.I.R.S.T.	$240.93	241.83	— —

M & G Group
Three Quays, Tower Hill EC3R 6BQ. 01-626 4588

Atlantic Ex Fd. Jan 29	$US5.60	5.98	— —
Aust. & Gen. Ex. Jan 23	$US5.56	5.86	— —
Gold Ex. Acc. Jan 23	$US42.74	46.46	— —
M & G Island Fd. Jan 29	139.1p	148.0	3.65
(Accum. Units)	206.9p	220.2	3.65

Midland Bank Tst. Corp. (Jersey) Ltd.
28-34 Hill St., St. Helier, Jersey 0534 36281

Midland Drayton Gilt	98.8	99.4	11.89

Murray Johnstone
163 Hope St., Glasgow, C2 041-221 5521

Hope St. Fd. (Japan)	$US33.40		— —
Murray Fund (USA)	$US15.37		— —

NAV Jan 15.

Pacific Basin Fund
10a Boulevard Royal, Luxembourg

NAV Jan 28	$US13.91		— —

Phoenix International
P.O. Box 77, St. Peter Port, Guernsey

Inter-Dollar Fund	$US2.65	2.86	— —
Far East Fund	$US1.88	2.03	— —
Intl. Currency Fund	$US1.50	1.63	— —
Dollar Fxd. Int. Fund	$US1.76	1.91	— —
Ster. Exempt Gilt Fd.	£1.32	1.43	— —

Rothschild Asset Management (C.I.)
P.O. Box 58, St. Julians Ct., Guernsey. 0481-26331

O.C. America Fd.†	$US1.72	1.82	0.96
OCSm Co (Ex Cap)††	88.4	94.0	3.10
O.C. Commodity*	197.3	209.8	5.41
O.C. Dir. Commdty.†	$US50.89	54.13	0.59
O.C. Sterling Fd.**	£11.226		— —

*Prices on Jan 14. Next dealing Jan 31
†Prices on Jan 21. Next dealing Feb 7.
††Dealing days 15th and 29th Feb
**Daily Dealings

S.G. Warburg & Co Ltd.
30, Gresham Street, EC2. 01-600 4555

Energy Intl. Jan 28	$US35.15		0.57

latest worldwide forecast, the subcommittee also recommended:

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

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

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

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

ASHLAND ASKS DOE FOR INCREASE IN CRUDE PRICE RELIEF

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

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

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

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

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

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

STUDY SAYS WEATHER ALLOWS PT. CONCEPTION DELIVERIES; OPPONENTS ARGUE

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

A two-year wind and wave study commissioned by Western LNG after the California Public Utilities was based on a high volume of data collected during the relatively quiet 1979, and inadequate samplings during the severe winter of 1978.

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

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

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

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

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

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

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

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

CONGRESS TAXATION PANEL WOULD MERGE OLD AND NEW TAX RATES

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

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

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

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

Petroleum Economist Dec. 1979 p. 539

of a mile apart were discoveries: Selatan-4, which flowed 4979 b/d, and Selatan-12, 957 b/d. Natomas, with a 53% interest in the area, said the wells confirmed sufficient reserves for a third production platform, Selatan C, which should be producing by third-quarter 1980.

Amoco signed a joint-venture production-sharing agreement with Pertamina for the 4250 sq mile Panai block in north-east Sumatra, while Marathon farmed into Cities Service's 4315 sq mile Siri block off south-east Kalimantan. Marathon, Gulf, Amoseas, Mobil and Esso were awarded contracts in Agip's former Natuna Sea acreage.

Japan

Crude oil imports for the July-September quarter were 4698000 b/d — a rise of 9.5% over the year-earlier level. Government-level or direct deals with producing countries were boosted by 75% to 1544000 b/d, and crude imports developed by Japanese firms overseas came to 479000 b/d (up 17%). Imports via the majors were 9% down at 2573000 b/d, and supplies from independents fell 36% to 102000 b/d. According to MITI spot imports were 5.7% of the total, but the proportion is expected to rise to 11% in October-December.

Teikoku found natural gas at 190000 cu m/d at Koshigi, in north-west Japan, while China and Japan were due to discuss joint exploration around the disputed Senkaku Islands at a meeting in Peking in November.

Malaysia

The Deputy Prime Minister stated that current crude output had reached 317000 b/d — up 100000 b/d from the average for 1978.

New Zealand

The government is proceeding with a plan to build a synthetic petrol plant using Maui gas as feedstock. The 530000-t/yr capacity plant will use a Mobil process said to be able to produce a barrel of synthetic petrol for NZ $23.00 and will be onstream in 1985. Approval was also given for a Maui gas-based LPG unit at Oaonui, with an ultimate throughput of 130000 t/yr, to start production in 1981.

Taiwan

State company CPC found 2000 b/d of crude and 70000 cu m/d of gas at its CBK-4 wildcat. The discovery — the fourth successive find in the area off the Hsinchu coast — brought to 3300 b/d and 450000 cu m/d the combined flow from the new zone. CPC also reported a 140000 cu m/d gas find in Chingchao Lake.

Thailand

Negotiations with the government over a price structure for the offshore gas recently discovered by Union/Mitsui on Block 10 in the Gulf of Thailand were reported to have been successful. The Petroleum Authority of Thailand is to buy all the 100 million cf/d estimated production. Mitsui had planned to export its 40% share.

Vietnam

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

NORTH AMERICA

Canada

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

Esso is spending $470m on an enhanced recovery project at the Judy Creek field in Northwest Alberta. The company said the project, using carbon dioxide as the flooding agent, will result in additional recovery of 210 million bl of crude from the field, which has been in production since 1959. It has yielded 28% of oil in place, but the CO_2 flooding is expected to bring the percentage up to 75-78%.

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

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

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

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

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

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

United States

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

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

The New York Mercantile Exchange's board of governors approved the establishment of two futures markets for motor gasoline, one for leaded regular and the other for unleaded regular, based on contracts for 42000 US gallons for delivery in New York Harbour. The contracts are subject to approval by the Commodity Futures Trading Commission. The NYME already operates futures markets for residual fuel oil and light heating oil. Trading in the latter set a monthly record in October when 5895 contracts changed hands.

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

Tesoro is studying upgrading projects at its Kenai, Alaska, refinery involving expenditures of $200m. The work would include increasing distillation capacity from 48500 to 70000 b/d and installation of a desulphurising unit. The company has already approved $45m for a heavy gasoil hydrocracker and expansion of an existing naphtha reformer.

Santa Fe Engineering Services was awarded a contract to provide engineering and management support to the National Science Foundation for the planning of a 10-year, $560m offshore scientific drilling programme. The *Glomar Explorer* will be converted into what Santa Fe said would be the largest drillship ever built, capable of drilling in water depths of 13000 ft and to sub-

Chronological Summary of AlpetCo Venture R. Nafziger
2-19-80

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

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

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

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

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

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

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

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

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

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

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

1. Alaska Petrofining
2. Alaska Petroleum
3. (a tie) Alpetco and Alaska Oil and Chemical

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

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

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

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

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

~~On 5-3-78(Oil Dailey) Seatrain purchased Barbou Oi~~

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Another amendemnt reduces the volume of oil Alpetoo can purchase should it build a smaller facility.
"If for some reason we decided to build a 50,000 b/d plant rather than 150,000 b/d then our crude supply would be reduced accordingly. But that really doesn't affect us since we plan nothing less than 150,000 b/d.

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

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

(Oil + Gas Journal)

(Oil + Gas Journal)

4-27-79: Dusseldorf Steel Firm, Thyssen expressed an interest in becoming a financier of the project. Japsn8 export-import bank also expressed interested. (Platts)

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

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

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

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

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

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

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

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

President Cordon Cain said Alpetco intends to build the project with fixed price contracts. Bids will be sought in two or three months, so they will be in hand by the time final permits have been issued, expected to be no later next than june or July. (Platts) e other refineries are Tesoro: 20000 bld and 5th Resources 22600 bld)

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

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

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

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

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The executive summary, which comprises the first volume, will be of particular value because of the judgements made on all aspects of diversification.

Variation of General Electric matrix useful in deciding diversification moves

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

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

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

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

Regular 'benchmarks' monitor Alpetco's performance

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

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

Crude oil sales will help offset higher construction costs in Alaska

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

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

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

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

West Coast markets will be main target for petrochemicals from Valdez

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

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

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

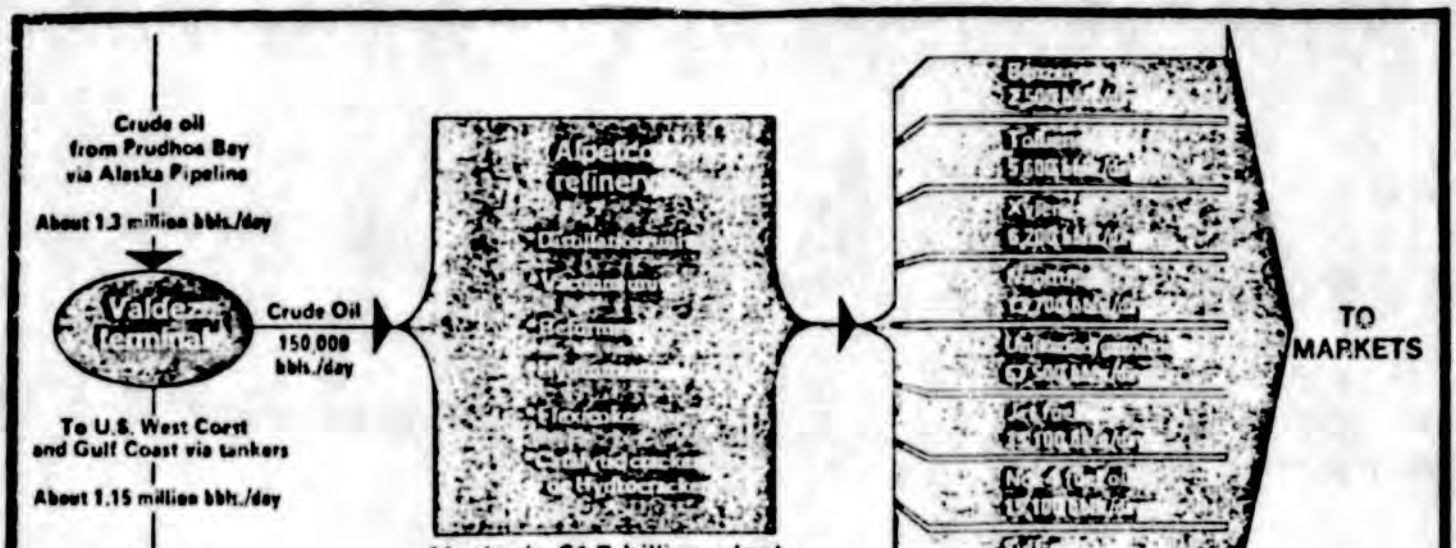
The chemical contracting industry has had to adapt itself to many changes in the past five years, and will need to continue doing so in the 1980s. The workload has tended to shift from the traditional, industrialised nations to developing countries. At the same time, the accent has switched from the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

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

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

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

Chemical Week 1/16/80



Alpetco's $1.7-billion plant will process North Slope 'crude' into fuels and petrochemicals

Petrochemicals coming—from way up north!

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

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

Most of those products are to be marketed on the U.S. West Coast and throughout the Pacific Basin by The Charter Company's Oil Group subsidiaries, which now operate one refinery on the Houston Ship Channel and another in the Bahamas, and which have been marketing petrochemicals, solvents, gasoline and other refined petroleum products for more than 20 years. Charter has a 70% equity interest in Alpetco, whose other owners are Alaska Petrochemical Co. (Houston), 23.4%, and the E.F. Hutton Group (New York), 6.6%. In turn, Alaska Petrochemical is owned by Alaska Interstate Co. (Houston) ...; by SeaTrain Lines, Inc. (Ne... 22%; and by six regional co... ...ns that are owned by native Alaskans, 3%.

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

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

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

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

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

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

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

UNITED STATES

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

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

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

Alpetco vice president Willard Hanzlik has refused to discuss the Thyssen agreement, saying that LeResche would official disclose financing on Dec. 18—the state of Alaska's deadline for a financing package. Hanzlik also refused comment on whether Alpetco will meet that deadline for other state requirements, including environmental studies and potential markets. The benchmarks were set in the contract to sell Alpetco 150,000 b/d of royalty oil.

USSR...

ALPETCO MEETS FINANCING DEADLINE FOR $1.7-BILLION VALDEZ REFINERY

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

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

West Germany's Thyssen Rheinstahl Technik agreed to provide $750-million in construction financing (ON 12/18). $600-million will be ensured through industrial revenue bonds approved by the city of Valdez. Alpetco partners will provide $350-million, not $300-million as reported in OILGRAM NEWS Dec. 18.

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

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

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

Platts

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

Anchorage 11/21--Tesoro Petroleum vice president Jim Smith said at the Alaska Royalty Oil & Gas Development Advisory Board meeting here yesterday that the firm's Kenai refinery is now operating about 8,500 b/d short of its 48,500 b/d capacity.

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

He suggested the state sell Tesoro 10,000 b/d of uncommitted royalty oil from Prudhoe Bay or sell Tesoro 15,000 b/d from next July 1, when the state expects to start taking its royalty oil in kind, through July 18, 1980, when Alaska Petrochemical can take delivery of the royalty oil if it meets conditions in its contract with the state (ON 11/7).

State Seeks Producers' Assurance

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

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

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

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

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OILGRAM NEWS
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Vol. 57 No. 225 Tuesday, November 20, 1979 Page 1

TESORO STEPPING UP EFFORTS TO GET ALPETCO'S ROYALTY OIL

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

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

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

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

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

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

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

PLATT'S
OILGRAM NEWS

AN INTERNATIONAL DAILY OIL/GAS REPORT—FAST, ACCURATE, AUTHORITATIVE—Established 1934

Vol. 57 No. 216 Wednesday, November 7, 1979 Page 1

INSIDE OILGRAM TODAY

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

U. S./CANADA

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

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

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

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

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

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

ALPETCO SAYS IT WILL MEET ALASKA STIPULATIONS FOR ROYALTY CRUDE

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

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

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

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

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

Tesoro a Spoiler?

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

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

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

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

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

... ON TANKER

... TARGETS GRAND BANKS WORK

PLATT'S

OILGRAM NEWS

AN INTERNATIONAL DAILY OIL/GAS REPORT—FAST, ACCURATE, AUTHORITATIVE—Established 1934

Vol. 57 No. 210 Tuesday, October 30, 1979

ALPETCO REFINERY CONSTRUCTION TO START AT VALDEZ IN JUNE 1980

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

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

EXPLORATION

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

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

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

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

DRILLING-PRODUCTION

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

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

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

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

ALTERNATE FUELS

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

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

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

► Mapco Inc. will receive a $29.1-million government-guaranteed loan from the Bank of America to develop geothermal resources in southern California's Imperial Valley. Nineteen wells will be drilled in an effort to develop enough power to justify construction of a 45,000-kw power plant.

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

PROCESSING

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

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

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

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

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

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

► Monsanto Chemical Intermediates Co. plans a multimillion-dollar energy conservation and environmental control project for its maleic anhydride unit at its J. F. Queeny plant in St. Louis. The company figures the project will save 850 billion BTU/year. Completion is scheduled in 1981. All maleic anhydride production will be converted to butane feedstock from benzene using conversion technology developed by Monsanto.

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

COMPANIES

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

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

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

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

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

Wall Street Journal 10-23-1979

FOREIGN BONDS

Volume, $88,000

Am. Stock Exchange Bonds

Total Volume $1,330,000

SALES SINCE JANUARY 1

1979	1978	1977
$172,388,000	$223,408,000	$229,798,000

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

By a WALL STREET JOURNAL Staff Reporter

HOUSTON – Alaska Interstate Co., Charter Co., and E.F. Hutton Group Inc. announced an agreement to form a joint venture to develop a 150,000-barrel-a-day oil refinery in Alaska.

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

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

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

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

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

Seatrain Lines Inc., a New York-based [illegible] owns [illegible] of Alaska [illegible] Shipping Inc., which will be the "[illegible] arm" for the Alaskan refinery venture. A group of six Alaskan regional native companies owns 51% of Alaska Consolidated Shipping. Seatrain also said it owns 22% of Alaska Petro-Chemical Co.

Hutton Acquires 22 Pct. Interest In Alaska Plant

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

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

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

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

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

A 11

Alpetco Project Would Be Biggest Since Garyville

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

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

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

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

Will Be Alaska's Biggest

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

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

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

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

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

INTERPROVINCIAL MAY HAVE TO REPLACE FAULTY PL SECTION—CANADA BOARD

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

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

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

U.S. 'GAS,' DISTILLATE STOCKS UP

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

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

(r) Revised; *Including Jet Fuel

BRITISH COLUMBIA GAS PRODUCERS FEAR ALASKA PL WILL USURP EXPORTS

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

Richard Galloway, president, Quintana Exploration of Calgary, outlined the concern in a submission to the National Energy Board gas export hearings now underway in Calgary (ON 7/25).

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

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

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

TRANSCANADA EYES SABLE IS. PL

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

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

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

ALASKA OFFICIAL TALKS TO FRENCH ABOUT INVESTING IN ALPETCO PLANT

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

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

ELSEWHERE IN THE INDUSTRY

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

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

INTERNATIONAL

JAPANESE INSTITUTE PAINTS TIGHT, BUT HOPEFUL, NATIONAL SUPPLY PICTURE

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

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

ALASKA RESOURCES COMMISSIONER DICKERING TO SELL STATE OIL

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

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

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

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

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

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

FALL TRIAL URGED IN MOBIL PRICE SUIT

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

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

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

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

ENDANGERED SPECIES PANEL TO REVIEW PITTSTON CASE

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

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

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

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

GULF DECIDES AGAINST PURSUIT OF DOE PRICE 'TRANSACTION' SUIT

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

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

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

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

CORCO ORDERS UNION OUT OF REFINERY

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

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

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

DOE WINS CONVICTION

AGAINST [illegible]

PLATT'S
OILGRAM NEWS
AN INTERNATIONAL DAILY OIL/GAS REPORT—FAST ACCURATE AUTHORITATIVE established 1934
Vol. 57 No. 82 Friday, April 27, 1979 Page 1

GERMAN FIRM INTERESTED
IN FINANCING ALASKA REFINERY

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

Alpetco has been searching for financing of up to 1.5-billion. The Dusseldorf steel firm, Thyssen, has expressed interest in becoming a major financier after it checks out the project with its bankers and the city of Valdez.

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

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

Thyssen's decision is expected by mid-summer.

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

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

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

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

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

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

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

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

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

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

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

So far, the government has chartered 22 tankers, including four large VLCCs, for periods up to six months. It hopes to fix longer term charters.

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

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

New Publications

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

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

In New Posts

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

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

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

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

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

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

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

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

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

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

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

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

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

Teapot Dome development finds new pay zones

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

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

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

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

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

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

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

Another Tensleep producer in the same section years ago had [illegible] oil on a Muddy drill stem test [illegible] to 3,800 ft. The Navy recently reentered that hole and completed it to flow 300 b/d from the Muddy.

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

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

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

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

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

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

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

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

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

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

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

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

Nearing completion is a 60-mile crude-gathering system which ranges from 2⅜-in. flow lines to 8⅝-in. trunk lines. The $3.5-million system includes eight tank batteries, 10,000 bbl of storage, pumps, and treaters.

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

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

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

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

Seatrain Buying into Alaska Petchem

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

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

THE OIL DAILY, TUESDAY, JUNE [illegible], [illegible]78

Alaska Interstate Contract Approved

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

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

The contract required legislative approval before becoming effective.

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

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

Seatrain Lines Inc. which said it has arranged to purchase from the privately-held Barbour Oil Co. its 20 percent ownership in Alaska Petrochemical Co.—increasing Seatrain's interest to 20 percent—said the newly-acquired interest would be offered to Alaska Consolidated Shipping under the same joint venture arrangement.

Alaska Consolidated Shipping already owns 20 percent of Alaska Petrochemicals.

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Established 1934

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CONSULTANT REVERSES STAND ON ALPETCO

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

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

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

Principal of McGraw-Hill, Inc.: 1221

Corporate Officers: Harold W. McGraw, Jr., President

U.S. GASOLINE OUTPUT CONTINUES UP

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

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

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

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

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

(r) Revised

ALPETCO AND ALASKA AMEND STATE ROYALTY CRUDE CONTRACT

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

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

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

CORCO HAS $187-MILLION NEGATIVE NET WORKING CAPITAL POSITION

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

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

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

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

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

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

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

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

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

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

SHELL INCREASING WILLISTON WORK

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Vol. 56 No. 94 Tuesday, May 16, 1978 Page 1

ALPETCO OFFICIALS TESTIFY BEFORE THREE ALASKA COMMITTEES

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

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

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

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

CAPITAL SPENDING PLANS OF THE PETROLEUM INDUSTRY

(Millions of Dollars)

Function	1976 Actual	1976-77 % Change	1977 Actual	1977-78 % Change	1978 Planned	1978-79 % Change	1979 Planned	1979-80 % Change	1980 Planned	1980-81 % Change	1981 Planned
Production	$13,059	+13%	$14,757	+19%	$17,561	- 4%	$16,859	+ 3%	$17,365	+ 7%	$18,581
Transportation (1)	7,216	-35	4,690	-17	3,893	-41	2,297	-10	2,067	+58	3,266
Refining	2,502	-20	2,002	+69	3,383	+21	4,093	- 4	3,929	-19	3,182
Petrochemicals	1,278	+11	1,419	+12	1,589	+35	2,145	+41	3,024	+19	3,599
Marketing	632	+25	790	+47	1,161	+ 3	1,196	+ 6	1,268	- 5	1,205
Other (2)	3,058	+47	4,495	+12	5,034	+ 9	5,487	+21	6,639	+30	8,631
Total	$27,745	+ 1%	$28,153	+16%	$32,621	- 2%	$32,077	+ 7%	$34,292	+12%	$38,464

(1) Includes only oil pipelines; does not include gas pipelines.
(2) Includes coal mining.
Source: McGraw-Hill Economics Dept.

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

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

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

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

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

CANADA ASKS DOME TO REASSESS LEAK

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

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

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

ALASKA HOUSE LIMITS CRUDE SALE

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

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

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

API RAPS STATES' OVER-REGULATION

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

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

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

HOLLY SUGAR SEEKS GASOHOL LOAN

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

ELSEWHERE IN THE INDUSTRY

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

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

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

The Coastal Plains Center for Marine Development Ser-

Seatrain Purchases Barbour Oil

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

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

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

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

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

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

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

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

CHEMICALS

Alaska's ambitious oil complex

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

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

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

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

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

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

The cost factor. One reason the petrochemicals may be difficult to market is that the economic criteria set down by the board create some of the most difficult conditions under which such a complex has ever been built. The purchaser is required to pay the same high price for the oil that the state is now getting from oil companies, and ALPETCO will be laboring under capital costs estimated to be 30% to 40% higher than they would be if the same plant were built in the lower 48. ALPETCO is also likely to have to ship the oil from the Alaska pipeline terminal at Valdez to the state's preferred location on Cook Inlet, site of most of Alaska's heavy industry. The short but expensive tanker haul would cost about 37¢ a bbl.

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

WORLD TRADE

A European scheme to defend the dollar

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

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

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

Some European money experts ...

Interior on track for Mar. 28 embayment sale

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

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

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

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

Similar fears by Massachusetts environmentalists led to a court fight in Boston and rulings that prompted Secretary Andrus to postpone the Georges Bank sale scheduled last Jan. 31.

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

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

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

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

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

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

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

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

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

Alpetco gets nod to process Alaska royalty oil

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

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

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

Between the end of the 18-month period and plant start-up, Alpetco would have the option to remarket the royalty crude in the Lower 48. An Alpetco official says the crude probably would be sold on a long-term contract rather than on a spot basis. Alpetco would pay the in-value price for the royalty crude. That price, although currently subject to litigation, is estimated at about $12/bbl.

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

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

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

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

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

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

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

Oil & Gas Journal Mar. 6, 78

THE OIL DAILY

RIDAY, FEBRUARY 24, 1978 THE DAILY NEWSPAPER OF THE ENERGY INDUSTRIES NUMBE

Alaska Petchem Will Buy State's Royalty Crude Oil

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

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

(Continued on back page)

Alaska Petchem

(Continued from page 1)

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

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

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INSIDE OILGRAM NEWS

U. S./CANADA

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Boosting capacity through more compressor stations to

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INSIDE OILGRAM NEWS

U. S./CANADA

GASOHOL TAX BREAK LAW PASSED BY COLORADO REPRESENTATIVES

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

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

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

REFINERY PROPOSALS GET NOD IN ALASKA ROYALTY OIL STUDY

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

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

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

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

ALTA. SALE NETS $22.7-MILLION

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

NEB GRANTS TRANS MOUNTAIN AVERAGE 11% HIKE IN TOLLS

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

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

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

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

TAPS REPAIR PROGRESSES

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

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

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

IN THE INDUSTRY

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

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

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

Moves made to save Indonesian LNG project

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

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

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

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

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

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

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

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

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

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

The most optimistic guess on start of work for the terminal is a year from now.

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

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

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

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

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

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

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

Four projects competing to process Alaskan royalty oil

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

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

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

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

Alaska Petroleum is a subsidiary of Coastal States Gas Corp.

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

Alaska Petrochemical Co. would build a 150 000-b/d petrochemical plant for manufacturing ethylene and small quantities of propylene and benzene. Supporting the venture are Alaska Consolidated Shipping, Alaska Interstate Co., and Barbour Oil Co., Houston. Brown & Root Inc. is project manager.

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

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

The consulting firm, under another contract with the State Revenue Department, also is studying potential uses of Alaskan royalty gas. The long-term study will consider major transportation and processing alternatives for royalty gas and gas liquids. The gas would become available upon completion of a pipeline in the 1980's.

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

MID-1978 START ON ALASKAN ROYALTY OIL PLANT IS URGED

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

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

The proposals still in contention are:

- Alaska Petrofining, sponsored by Henry J. Kaiser of Oakland, Calif., and several engineering firms, which proposes a 250,000 b/d fuels and petrochemical refinery to process not only Prudhoe Bay crude but "all potential" oil sources in the state.
- Alaska Petrochemical, a joint venture of Alaska Interstate, Barbour Oil and Alaska Consolidated Shipping, proposing a $1.5-billion facility using 150,000 b/d for 25 years.
- Alaskan Oil & Chemical, backed by Guam Oil & Refining of Dallas and Alaska International Industries, proposing to build a $950-million petrochemical plant and spend another $1-billion on derivative plants.
- Alaska Petroleum (Coastal States Gas), which wants to purchase 150,000 b/d for 20 years and build a $400-million refinery to manufacture gasoline, jet fuel, fuel oil, burner fuel and sulfur.

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

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

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

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

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

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

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

WASHINGTON

NCPR SAYS MARYLAND DIVESTITURE LEGISLATION SHOULD BE UPHELD

Washington 12/22—National Congress of Petroleum Retailers has asked the Supreme Court to reaffirm the constitutionality of certain sections [illegible]

EPA ASKS REFINERS TO INVENTORY THEIR OUTPUT BY NEXT MAY 1

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

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

STATE DEPT. APPLAUDS CONTINUED OPEC FREEZE

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

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

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

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

CONFEREES KILL LATEST COMPROMISE, ABANDON EFFORTS FOR THE YEAR

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

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

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

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

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

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

Attacks on the plan came from both strong supporters of deregulation and members who have fought to keep gas under controls. Sens. Metzenbaum (D-OH) and Durkin (D-NH) and Abourezk (D-SD) called the plan a disaster, while [illegible] Committee chairman Jackson (D-WA), ab- [illegible] and provincial industry departments. An expanded future market for calcium carbide in the Canadian steel industry was also identified by the federal Dept. of Industry, Trade & Commerce.

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

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

OILGRAM NEWS HEARS That the state of California is taking an initial hard line on Ohio Standard's proposed Long Beach marine terminal in order to win concessions from the U.S. government before ultimately approving the Long Beach project (ONS 6/20).

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

NEW COMPANY FORMED TO BID FOR ROYALTY OIL IN ALASKA

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

IN THE INDUSTRY

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

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ALASKA ROYALTY BIDDERS NAME SITES FOR PETROCHEM PLANTS

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

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

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

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

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

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

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

THE OIL DAILY
DAILY NEWSPAPER OF THE ENERGY INDUSTRIES
NUMBER 6,450 MONDAY, AUGUST 1, 1977

Petrochem Plant for Alaska?

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

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

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

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

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

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

(Continued on page 7)

Petrochemical Plant Proposed

(Continued from page 1)

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

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

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INSIDE OILGRAM NEWS

U. S./CANADA

BEAUFORT SEEN MAJOR PRODUCER

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

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

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

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

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

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

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

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

GROUP PROPOSES TO BUY ALASKAN ROYALTY OIL, BUILD BIG REFINERY

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

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

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

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

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

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

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

EXXON TO ABANDON RETAIL OIL HEAT BUSINESS IN NORTHEAST

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

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

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

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

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

Los Angeles, 6/17-- The South Coast Air Quality Management District has set down a series of environ- [illegible] Ohio Standard's operatio

OIL DAILY, Monday, June 20, 1977

Alaskan Refinery Proposed

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

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

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

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

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

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

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

Anchorage 6/29—U.S. International Energy Co. of Salt Lake City will make a bid for Alaska's royalty share of Prudhoe Bay oil. Its aim eventually is to build a refinery costing between \$750-million and \$1-billion near the Valdez terminal of the trans-Alaska pipeline.

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

The proposal will be made by company subsidiary [illegible] Energy Resources and several other partners who haven't been named publicly.

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

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

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

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

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

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

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

ALASKA PETROLEUM SWEETENS BID FOR BUYING ALASKA ROYALTY OIL

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

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

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

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

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

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

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

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

SEC SUES NEW MEXICO FIRM TO BLOCK INVESTMENT OFFERINGS

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

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

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

GAS WATCH

TEXAS EASTERN BUYS HOUSTON GAS

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

* * *

EQUITABLE GETS CHUNK OF CANADIAN GAS

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

IN THE INDUSTRY

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

* * *

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

INTERNATIONAL

SHELL HAS JOINED MOBIL IN OFFICIAL COMPLAINT AGAINST FRENCH ALLOCATIONS

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

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

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

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

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

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

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

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

By WALLACE TURNER
Special to The New York Times

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

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

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

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

The commission's authority to set rates covers only oil moving to refineries within Alaska. The Interstate Commerce Commission will set tariffs for most of the oil. But the Alaska commission hopes, said Mr. Breeze, an Anchorage lawyer, to issue findings that will influence the I.C.C. rate-making process.

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

The initial maximum flow level projected will be 1.2 million barrels a day, which is 438 million barrels a year. Alaska's share would be 54.75 million barrels. A difference of just a cent a barrel in the tariff would mean $547,500 a year to the state.

Access to Data Is Sought

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

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

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

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

He listed the companies and the percentages owned as Sohio Pipe Line, 33.34 percent; BP Pipelines, 15.84; Arco Pipe Line 21; Exxon Pipeline, 20; Mobil Alaska, 5; Union Alaska, 1.66; Phillips Petroleum, 1.66, and Amerada Hess, 1.5.

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

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

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

Genesco Studies Hinerfield, Yunich

Continued From Page D1

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

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

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

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

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

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

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

Anchorage 6/29—U.S. International Energy Co. of Salt Lake City will make a bid for Alaska's royalty share of Prudhoe Bay oil. Its aim eventually is to build a refinery costing between $750-million and $1-billion near the Valdez terminal of the trans-Alaska pipeline.

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

The proposal will be made by company subsidiary [illegible] Energy Resources and several other partners who haven't been named publicly.

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

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

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

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

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

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

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

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

FLORIDA PLANNING TO LEASE BIG CYPRESS PRESERVE LAND

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

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

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

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

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

ALASKA OIL GETS NEW BIDDER

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

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

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

U.S. DEGREE DAYS UP

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

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

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

Degree days are on 65 deg. F basis.
(a) Readings at city offices. Readings in other cities taken at airport offices.
*Calculations include weighting of regional averages according to relative importance of individual regions' consumption of heating oils.

CALIF. GETS NEW SITE PLAN

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

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

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

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ALASKA SEEKS BETTER OFFER ON PURCHASE OF PRUDHOE ROYALTY OIL

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

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

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

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

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

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state's Royalty Oil & Gas Development Advisory Board.

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

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

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

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

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

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

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

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

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

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

--Susan Andrews