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#46:1

Alaska State Legislature

House of Representatives

HOUSE SPECIAL COMMITTEE

ON OIL AND GAS

Pouch V
State Capitol
Juneau, Alaska 99811

MEMORANDUM

To: Rep. Ben Grussendorf,
Speaker of the House

From: Rep. Mike Davis, Chairman
House Special Committee on Oil and Gas

Date: January 18, 1985

Re: Committee expenses during session

The House Special Committee on Oil and Gas will be addressing several issues this session which are of major consequence to the State of Alaska. These issues include the clarification of state policy regarding the disposition of royalty oil, oil and gas tariff and taxation structures, the resolution of state and federal boundary conflicts along the Outer Continental Shelf, and the possibility of gaining an exemption from the Export Administration Act that would allow for the foreign export of Alaskan crude oil.

This committee also expects to conduct either meetings or hearings regarding litigation in which the state is presently involved, upcoming royalty oil contracts, and the export potential of Alaskan natural gas.

The attached budget outlines the funds required in order for this committee to adequately address these issues.

HOUSE SPECIAL COMMITTEE ON OIL AND GAS

14th Legislature, First Session Budget

Supply $ 7,000

Items included in this line item are telephone, telex, and copying costs, miscellaneous office supplies, a typewriter, and a personal computer with appropriate software.

Contractual $30,000

These funds are for consulting fees, to be used in hiring consultants to make recommendations concerning certain oil and gas issues.

Travel $20,000

Travel funds would allow the committee to hold hearings in major Alaskan communities, such as Anchorage and Fairbanks, provide for a trip to Washington DC, if necessary, and allow for export witnesses to be brought in to provide testimony before the committee.

Total budget request: $57,000

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DISPOSITION OF ALASKA ROYALTY OIL AND OTHER STATE PETROLEUM-POLICY ISSUES

By Robert L. Williams, Jr.

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DISPOSITION OF ALASKA STATE ROYALTY OIL

By Robert L. Williams Jr.

EDITOR'S NOTE: INTRODUCTION, SUMMARY AND CONCLUSIONS

By the time subscribers receive this issue of Insights, the State of Alaska will have conducted its second auction of North Slope royalty oil. The following article by Robert L. Williams reviews the background to this sale, and the considerations that led the state government to adopt the auction method for marketing about half of its one-eighth share of the crude-oil produced from the Prudhoe Bay and Kuparuk River fields. He also surveys the fiscal risks the State incurs in selling its oil independently, and the likely impact of the sale on the level and structure of West Coast crude-oil prices. *For additional background relevant to this issue, we recommend that the reader refer to Pacific Oil Insights No. 2, "ARCO and its Critics: The North Slope Crude-Oil Transfer-Price Controversy."*

Alaska's share of North Slope production is currently about 200 thousand barrels per day, equal to almost one-tenth of PAD District V (the West Coast) crude-oil demand. Together with severance tax revenues from North Slope oil, these royalties constitute the bulk of state and local revenues in Alaska, and support about half of Alaska's civilian economy. *The economic role of North Slope crude-oil production in Alaska is elaborated in a Supplement to the current issue of Insights, "Alaska's Petroleum-Based Economy," a chapter by Arlon R. Tussing in Alaska Resources Development: Issues of the 1980s, edited by Thomas A. Morehouse.)*

Alaska North Slope oil and gas lease contracts allow the State to choose between two methods of collecting its royalties, "in-value" and "in-kind". With an in-value taking, the State allows the producing companies to sell the royalty oil to their refining affiliates or other refiners as if it were their own, and to pay the State a cash royalty based on its "netback" value --- the refinery price of the crude oil less tanker and pipeline transportation costs. Alternatively, the State may take the oil in kind, in order to seek a higher price than the netback values declared for royalty purposes by the producers, or in order to promote local refining or petrochemicals production.

Since crude oil began to flow through the Trans-Alaska pipeline in mid-1977, the State's royalty-oil disposition policy has been an issue of political debate. The easiest and safest course would obviously have been to take all royalties in value. The State would still have had an interest in auditing the destination prices and transportation deductions claimed by the the producers in order to assure itself royalty and tax payments were based upon the full netback value, but the administrative tasks in-value taking imposes on state officials are minimal, and marketing risks nil.

The impulse to take at least some of the State's royalty in kind for "in-state" processing was nevertheless compelling. Almost every sectoral interest and political faction in Alaska supported the idea of using royalty-oil sales to promote construction of local refineries and and petrochemical plants. The promoters of such facilities claimed that an assured supply of feedstock was a precondition for financing and that royalty oil was the only credible source of such a long-term commitment. In the scarcity atmosphere of the 1970s and early 1980s, such claims were persuasive; and so long as the sales contracts for in-kind royalty oil to local processors provided a price equal to the price basis for in-value royalties, the state Treasury would be no worse off with an in-kind taking. Sale of royalty oil to the sponsors of new plants at the in-value price led inexorably to sales at that price to

support expansion of existing refineries; "fairness" then demanded that all Alaska refiners receive state royalty oil on similar terms. This process has now resulted in commitment of about half of the North Slope royalty oil to in-state processors.

By 1983, the preference for in-state processing had becoming controversial. Critics alleged that new sales to Alaska refiners would not induce any industrial development that would not otherwise occur, and that they had not in the past led to lower gasoline and fuel-oil prices for Alaska consumers. Such sales, it appeared, only sacrificed the premium above in-value prices the State might have collected by selling royalty oil to the highest bidder, local or otherwise. It was obvious, moreover, that there were indeed customers for North Slope oil at prices exceeding the in-value price. Major West Coast refiners, including Shell and Texaco, had already approached the State with offers to pay more and, for all one could tell, their offers were not the best available.

The Williams article explains why some West Coast refiners would be willing to bid more than the in-value price. That price, as received by the State, reflects a weighted average of North Slope netback values from all destinations. Top bidders at a royalty-oil auction, on the other hand, would tend to be West Coast refiners, who could offer more than the average netback price because they had to bear less than the average of transportation costs. This line of reasoning is valid as far as it goes. But the most vehement critics of existing state policy failed to recognize that their position dependend on the assumption a state auction of royalty oil would leave the in-value price (and the West Coast netback price that is one of its components) unchanged. Williams discusses two reasons an arms-length royalty-oil sale would cause the in-value price to fall, which he characterizes as the "displacement" effect and the "competitive" effect, respectively, of a state royalty-oil sale.

"Displacement". First, because the high bidders would be West Coast refiners, and any such sale of royalty oil would tend to push some producer sales of North Slope oil from the West Coast into the Gulf/East Coast markets. If such a displacement tendency were 100-percent effective, that is, if the producers (principally Sohio) simply made way for the additional sales of royalty oil on the West Coast by diverting exactly the same amount of their own oil, the State auction would have no effect on prices at West Coast refineries, or on the netback prices reported by the producers for shipments to the West Coast. The displacement of producer sales would nevertheless change the mix of destinations on which the in-value price depended. As a result, the State's revenue per barrel from any royalty still taken in value, from existing royalty-oil sale contracts tied to the in-value price, and from severance taxes based on netback prices in producer sales would all be reduced. In order to capture more revenue from a direct sale of royalty oil, therefore, that sale would have to be at a price substantially higher than the in-value price. The premium required to offset the maximum impact of displacement can be calculated with reasonable confidence: In the Appendix table to Williams' article, we have estimated the necessary premium above the in-value price to be about 50 cents per barrel.

"Competition". The competitive effect of a state royalty-oil sale is more conjectural, but possibly far more serious than displacement from the standpoint of State revenue. To the extent that Sohio and other producers (including California producers) do not voluntarily reduce their own crude-oil shipments into District V to make way for increased royalty-oil sales, intensified competition for this market will cause crude-oil prices there to fall relative to Gulf/East Coast prices. The higher netback price for West Coast sales is an anomaly, preserved largely by Sohio's restraint in not maximizing its own sales into the more lucrative market. In a fully competitive domestic oil market, there would be only one price for crude-oil at Prudhoe Bay, reflecting the netback from U.S. Gulf Coast markets. A State royalty-oil auction, by weakening both Sohio's market power in District V and Sohio's

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incentive to use that market power to support the West Coast price, undoubtedly adds to the forces pressing prices downward, in the direction of such a competitive equilibrium. The potential price reduction is several times the premium the State would have to obtain to offset the pure displacement effect.

The Alaska State officials who organized the royalty sales are clearly aware of both effects. They have established a minimum-bid price for the December auction that does not depend on the weighted-average in-value price, and which is high enough to offset the maximum impact of displacement as such. They have decided to gamble, however, that the State's appearance as an independent crude-oil marketer in District V will not collapse the existing two-tier price structure. In our judgment. this is probably a fair gamble, but for a reason that offers them little comfort: **Competition among Alaska and California crude-oil producers is bound to intensify dramatically over the next two or three years no matter what the State does with its royalty oil.**

With the development of new fields on the North Slope (Kuparuk, Milne Point, and Endicott), continuing gains in thermally enhanced recovery of California heavy oil, and a huge upward leap in California offshore production, the West Coast "surplus" will swell and Sohio's share of that surplus will fall from nearly one hundred percent to perhaps one-third. Under these circumstances it is hard to imagine how the existing two-tier pricing structure can long survive. The smaller the difference in North Slope prices between California and Gulf Coast netbacks, the less it matters how to Alaska's treasury how the State markets its oil.

The December sales will have terms of only six months to one year. Any bid above the base price will lock in prices that more than offset any loss of revenue that results from the impact of displacement on the in-value royalty price. It is still conceivable that the sale will accelerate the fall in West Coast oil prices relative to those at the Gulf, and that the net effect over a period of more than one year will be some net loss in state petroleum revenues. Even if this happens, however, no one will ever be able to prove, much less measure, the State's role in the collapse. If, on the other hand, the two-tier price system does not coilapse instantly, Alaska's short-term gain will be both material and demonstrable over the term of these particular sales. As we remarked above, the auction is a good gamble --- politically and financially --- but a gamble nonethless.***(. . . by A.R.T., December 10, 1984)***

The author, Robert L. Williams Jr. has served in several senior staff positions in the executive and legislative branches of the Alaska State Government.

Part 1

THE ALASKA ROYALTY OIL AUCTION

A. BACKGROUND

The State of Alaska's North Slope hydrocarbon leases grant the State two options for disposing of its 12½-percent royalty share in the produced oil and gas. The State may elect to have the producers maintain possession of the oil, market it as their own, and pay the State an "in-value" price for the royalty volumes sold. The formula for the in-value price uses the producers' own sales data, netted back to the wellhead.

Alternatively, the State may elect to take any portion of its royalty allotment "in kind" --- that is, it may notify

producers of its intention to accept physical delivery of crude oil. Since production began in 1977, Alaska has gradually increased its in-kind takings of North Slope royalty oil. **Table 1** lists the existing royalty contracts for which the State is taking hydrocarbons in kind.

The State intends to sell an additional 90 thousand barrels per day (mbpd) under 6-month and one-year contracts in an auction scheduled for December 11, 1984. If sales are consummated, Alaska will have committed through September 1985 all but about 26 mbpd of combined Prudhoe Bay and Kuparuk royalty volumes at the current average North Slope production rate of about 1.62 million barrels per day (mmbpd). And from October 1985 through March 1986, about 41 mbpd will remain uncommitted.*

The State is offering relatively short terms for the auction contracts partly to ensure that the oil can be made available for Alaska processing if and when growth in demand so warrants. In addition, the State has chosen to take in perpetuity a minimum volume of its royalties under the in-value terms of the leases. Absent in-value producer payments, the local refiners who purchase royalty oil under existing contracts (with price terms keyed to the State's in-value receipts) would have no basis upon which to determine the payments due. Moreover, the absence of in-value royalty data would make the assessment of severance taxes more difficult.

Instead of using an auction, the State has until now negotiated most of its sales for both Cook Inlet and North Slope royalty oil with companies who operate or proposed to operate refineries in Alaska.** The stated purpose of such sales was to induce economic growth. Negotiated sales were not consummated, however, under any circumstance where the prospective purchaser required a direct subsidy in the form of a price lower than the State's opportunity cost --- the revenue it would have received under the in-value royalty option.

By the late 1970s, State officials were beginning to suspect that Alaska refiners and other companies who marketed petroleum products within Alaska might be willing to pay a premium above the in-value price in exchange for the security implicit in a supply agreement of a year or more. These officials thus believed Alaska could have its cake and eat it too; the disposition of royalty oil would still foster local economic activity, but it might also bring in more revenues than producer in-value payments would otherwise contribute.

In December 1980 the State of Alaska conducted its first competitive sale of royalty oil. The sale was timed to take advantage of the tight market and the nervousness of refiners about reliable crude-oil supplies that existed after the Iranian oil crisis. Spot prices for ANS crude were then considerably higher than term contract prices, and companies bid premiums well above the in-value price for the 85 mbpd offered. The State established a base price for this auction that, in itself, was higher than the average in-value payment. Bidders then offered premiums in excess of $3 per barrel.

Shortly after the sale, however, the spot market for ANS oil collapsed. Successful bidders thus were stuck with an obligation to buy some uneconomically high-priced oil. Energy Cooperative Inc. defaulted on its payments and went bankrupt during the term of its contract. Alaska Petroleum Company refused to take its committed volumes. Worse yet, a major purchaser under a negotiated contract (Alpetco) refused to take its portion of royalty deliveries.

This turn of events forced the State into emergency negotiations with field operators ARCO and Sohio. Unlike the North Slope producers, the State has no facilities in Valdez to hold its inventories; it has no tankers; and it has no personnel in the oil trading business. And because

* The State will auction: 50 mbpd of Prudhoe Bay oil under one-year contracts; and 25 mbpd of Prudhoe Bay oil plus 15 mbpd of Kuparuk River oil under six-month contracts.

** See "An Overview of Alaska's Royalty Oil Sales", Geoffrey Haynes, Alaska Department of Natural Resources, 1982.

the leases prevent Alaska from instantaneously reverting to the in-value form of royalty disposition, the defaults left the State in a terrible pickle. Today, the State is still trying to collect about $60 million in alleged back payments from Charter Oil Company (parent of Alpetco), but the prospects for recovery are slim because Charter is now operating under the protection of bankruptcy laws.

B. THE ROYALTY-OIL DEBATE

The State will again undertake a competitive sale in December 1984. Eligibility is not restricted to companies who commit to processing the oil within Alaska. All three of the state's refiners have, instead, already entered into negotiated sales for royalty oil. (See Table 1.)

This is the first sale of North Slope royalty oil in which prices are not directly linked to the in-value price. To protect itself against default, the state undertook a "prequalification process." Fourteen companies passed this screening, which included "demonstration of financial ability and management ability" and the posting of 60-day letters of credit to cover the amount of the premium for thirty days.

Bidders also must agree to a "put-call" option in the auction contracts. Modelled after the federal Elk Hills contract, this term grants the government the right to boost deliveries immediately and without notice by up to 20 percent beyond contracted levels for up to thirty days. Beyond the initial thirty days, the State plans to cover a default by activating its "back-up" contracts, in which parties have agreed to accept royalty volumes upon thirty-day notice.

Table 1
State of Alaska
ANS In-Kind Royalty Oil Contracts
(in barrels per day)

Company	Quantity	Term	Price
Tesoro	39,765	1/83 to 1/95	In Value
	26,000	10/85 to 1/95	In Value - $0.35
Mapco	35,000	11/79 to 12/03	Exhibit B
Chevron	18,000	5/84 to 1/95	In Value - $0.30
GVEA	5,000	7/84 to 6/85	In Value - $0.30

Source: State of Alaska, Department of Natural Resources

The auction follows two years of heated debate between the Sheffield Administration and legislators over approval of royalty oil contracts with Tesoro-Alaska Petroleum, Inc. and Chevron USA. Both companies operate refineries on Alaska's Kenai Peninsula south of Anchorage.

The new Chevron contract negotiated by the Department of Natural Resources commits 18 mbpd for a term of 11 years (subject to pro-rata reductions if a decline in North Slope production restricts the available supply). The new Tesoro contract commits 26 mbpd, with a similar 11-year term.

Tesoro argued that its contract would serve as financial support for a $90 million expansion and upgrade of its Alaska plant. The company maintained that the new hardware was vital for accommodating a switch in feedstock from the light, sweet (40° API, 0%-S) crude oil of Cook Inlet, where production was fast dwindling, to the medium-gravity, sour (27°, 1%-S) crude produced on the North Slope. Tesoro had, in fact, been supplementing its Cook Inlet feedstocks with Indonesian crude of similar grade for a number of years.

In some respects, the controversy over the proposed sales came as a surprise. The contracts were conceived under the previous Hammond administration; Governor Sheffield introduced them for requisite legislative approval pretty much as clean-up legislation.

Then too, the previous policy encouraging Alaska processing of royalty hydrocarbons had enjoyed support from practically every political faction. It was embedded in statute and had been reaffirmed on numerous occasions by the Alaska Royalty Oil and Gas Development Advisory Board and by the cabinet members in charge of management of royalty oil and gas.

Tesoro already had one long-standing contract with the State for Cook Inlet oil, and the price terms in the existing contract were substantially less demanding than those proposed in the new sales agreement. Both Tesoro and Chevron, moreover, were considered "good corporate citizens."

What, then, caused the fuss? The contracts had been introduced in 1983, at a politically inopportune time. Governor Sheffield was being excoriated by political opponents over a Dallas fund-raising affair at which oil companies contributed about $150,000 to pay off his 1982 campaign debt. As it turned out, Tesoro was one of the contributors. And the ensuing debate revealed that Charter Oil Company (which the State has accused of $60 million in damages for royalty oil not taken in 1981) had acquired a significant interest in Tesoro.

Beneath the political controversy, however, was a substantive issue. Legislative opponents maintained that the price provisions of the contracts --- whether or not they gave the State a better deal than previous contracts --- still contained a hidden subsidy. They maintained that the in-value price term upon which the contracts were based was no longer a responsible approach for ensuring that the state received a fair return on its resources.

The in-value price specified in all of the State's North Slope leases represents a weighted average "netback" price (refinery prices less transportation costs) declared by the various producers. It is therefore also a weighted average of netbacks from West Coast refineries and those East of the Rockies (EOR). To the extent that lower netback values from the Gulf Coast and East Coast sales are averaged into the in-value price, the overall weighted average tends to be lower than the West Coast netback.

Representative John Cowdery, co-chairman of the House Oil and Gas Committee, led the attack. In a letter published in a September 1983 issue of the Anchorage Daily News, Cowdery said,

Geographically, Alaska is on the West Coast. Therefore, the price of oil sold in Alaska should be based on the West Coast market value and not on an average of the price of oil sold on the West Coast and Gulf coast.

Cowdery's argument was reinforced dramatically in January 1984, when Shell posted a price for ANS oil delivered to Pump Station No. 1 at the inlet of the Trans Alaska Pipeline (TAPS). Although Shell's posting cannot be compared directly with Alaska's long-term royalty contracts because of differences in term, volume, and the ancillary benefits of "in-state use", the $18.25 posted price was nevertheless about a dollar more than what the State could expect to get under the Tesoro and Chevron contracts.

Shell's posting was a historic first for ANS oil, and the timing of the announcement exacerbated the problems for the Sheffield administration in seeking legislative approval of the Tesoro and Chevron contracts. More importantly, however, it called into question the State's longstanding policies for pricing royalty oil sales --- policies that predated Sheffield's tenure in office.

The contracts were finally approved in May 1984. But in the meantime, they had been changed to include premiums above the in-value price. Tesoro agreed to pay a premium of 35 cents per barrel and Chevron agreed to pay 30 cents.

These premiums, nevertheless, still offered the State a lower price than it could get if it simply sold to Shell at the posted price. Price reopeners (after six years for Tesoro, and after 2 years for Chevron) were therefore included in the contract amendments.

An implicit quid pro quo in the legislature's approval of the royalty contracts was a commitment by the administration to auction the volumes of royalty oil that remained uncommitted. Shell's posting had proved that the State was not in fact getting top dollar for its resources. Alaska's final increment of its ANS royalties (at least over the short-term) would thus be dedicated to this end.

But the story does not end here. This auction will make Alaska the second

or third biggest arms-length seller of crude oil on the West Coast. The sale will thus materially realign the players and the placement of North Slope crude oil on the West and East Coasts. It is likely, as a result, to affect the State's oil-tax revenues and its receipts under other royalty agreements keyed to the in-value price. Finally, it is just one of several already substantial forces that threaten to erode the "two-tier price structure" which in itself makes West Coast sales unusually attractive for ANS producers.

C. NETBACK PRICING AND THE TWO-TIER PRICE STRUCTURE

In the Lower-48 states, refiners have typically "posted" the prices they are willing to pay for crude oil of a specified grade and quality produced from a particular field. Posted oil prices thus vary from field to field according to such considerations as distance to a refining center, sulfur content of the oil, and API gravity. Posted prices also change from time to time, according to world-wide aggregate supply and demand for feedstocks and finished petroleum products.

In competitive markets like the U.S. Gulf Coast, where demand is elastic and there are numerous buyers and sellers, postings have tended to rationalize themselves around the landed price of Saudi Arabian "marker" crude, with appropriate adjustments for location and quality. Postings within any particular field by different refiners, therefore, rarely have demonstrated a price spread, except for short periods of market adjustment.

Prior to Shell's January 1984 posting, values for ANS crude oil at the wellhead had never been established explicitly by "posting". Nevertheless, because calculation of producer obligations with respect to state and federal taxes and in-value royalties depended upon the measurement of ANS wellhead values, governmental agencies, the oil companies, and a host of lawyers had attempted to make an exacting science of such calculations.

Values for ANS crude oil have instead been based on a netback approach. Each North Slope producer determines a downstream value for its crude oil based on a transfer price, exchange agreement, or third-party sale. From this downstream value, they deduct tanker charges, the TAPS tariff, and a portion of the field costs. What is left constitutes the netback value or wellhead price of North Slope crude oil.

Except during an interval in 1979 and 1980, when federal price controls constrained netback values, the reported netback value of ANS crude sold on the West Coast has been consistently higher than prices reported for Gulf and East Coast sales of the same supply. Table 2 shows a difference in netback values ex-

Table 2
Delivered Prices of ANS Crude
(in $ per barrel)

	West Coast	Gulf or East Coast	West Coast Discount
7/83	$25.32	$27.50	$2.18
8/83	25.45	27.87	2.42
9/83	25.65	28.04	2.39
10/83	25.71	27.90	2.19
11/83	25.73	27.93	2.20
12/83	25.73	27.89	2.16
1/84	26.05	28.05	2.00
2/84	25.57	27.87	2.30
3/84	25.59	27.91	2.32
4/84	25.49	27.93	2.44
5/84	25.64	27.94	2.30
6/84	25.70	28.04	2.34
7/84	25.81	27.45	1.64
8/84	25.63	27.92	2.29

Source: State of Alaska, Department of Revenue, 12/84.

Table 3
Disposition of ANS crude oil by PADD
(in thousands of barrels per day)

	PADD V (West Coast)	PADD I-IV (Gulf and East)	US Territories Caribbean	Total
7/83	843	780	[illegible]	1,740
8/83	812	634	114	1,560
9/83	898	631	121	1,650
10/83	792	780	117	1,689
11/83	914	674	110	1,698
12/83	963	605	59	1,627
1/84	898	598	117	1,613
2/84	887	677	175	1,739
3/84	998	621	58	1,677
4/84	1,031	418	172	1,621

Source: Pacific West Oil Data, 14621 Nordhoff Ave, Suite 1-C, Panorama City, CA 91402, compiled from federal Sources

ceeding two dollars in recent months. This phenomenon has been dubbed the two-tier price structure.* It reflects a peculiarly segmented market for ANS oil whereby netback prices depend on sales

Table 3 shows the disposition of ANS oil in recent months. It is noteworthy that the surplus steadily dropped (from about 900 mbpd to about 600 mbpd) over the most recent 10-month period for which data is available. Placement of ANS on the West Coast has increased primarily because of increased refinery runs (which, in turn, reflect increased regional demand), but the surplus still remains substantial.

Under a competitive pricing model, a surplus of the magnitude shown in Table 3 would tend to drive ANS prices on the West Coast down. If there were a large number of oil producers on the West Coast and fully competitive markets, wide variances in ANS netback values would never have developed. Each producer would have found it profitable to market its crude where the netback was greatest.

If, for example, buyers on the Gulf Coast and West Coast were both willing to pay $27 for ANS crude delivered to their refineries, producers would prefer West Coast placements; the smaller transportation cost would result in a higher netback at the wellhead. The attractiveness of the West Coast price would not last for long, however, as sellers offered discounts to capture an increased share of this more lucrative market. Such discounting would continue until there was little difference between the netback values of West and Gulf Coast sales.

This is not, however, what happens. The fact that Sohio (which owns half of Prudhoe Bay oil production, less royalties) has a net production exceeding the District V crude oil "surplus" means that Sohio alone determines the level of crude-oil prices on the West coast, whether or not the company wants to exercise such market power, by deciding how to divide its own production between District V and Gulf Coast markets. Under these circumstances, it would have been surprising indeed if Sohio had chosen to compete so aggressively for West Coast sales that its own and everyone else's ANS netback price from the West Coast was driven down to the level it would reach in a perfectly competitive market, namely, equality with the Gulf Coast netback.

Although the market for ANS crude is far from perfectly competitive, competition has had an effect. Increased production on the West Coast, the prospect of recent finds, and ARCO's aggressive marketing effort to capture a larger share of the region's product market have undermined Sohio's ability to maintain the two-tier price structure. With a transportation differential of about $3 or $4 per barrel between Gulf and West Coast markets, a netback differential in the range of only $2 does suggest the workings of downward price pressures.

The State of Alaska's December 1984 royalty auction will surely strengthen the already powerful forces eroding the two-tier price structure, perhaps by introducing wholly new players who will vie for limited West Coast sales. As a 12½-percent owner of North Slope oil, the State has a lot to lose if the two-tier price structure collapses and the West Coast netback falls to the level of Gulf Coast returns. How big is the risk that the auction will trigger a structural collapse, and are there other financial losses that may accrue from such a sale?

D. THE VALUE OF ROYALTY OIL

Unless the State of Alaska notifies a producer of its intent to take physical delivery of all or a portion of its royalty volumes, that producer is responsible for marketing the State's share of oil. In turn, the producer must reimburse the State in accordance with the in-value price terms of the North Slope leases.

To determine the in-value price, each producer calculates a netback price based on the weighted average of sales values at the point(s) of destination, less transportation and field costs.

* The origin and dynamics of this two-tier system is explained in Pacific Oil Insights No. 1, "ARCO and its Critics".

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Such filings, to date, have demonstrated higher wellhead values for producers who report that most of their sales occur on the West Coast. ARCO's transfer pricing system, however, is the notable exception. Regardless of the actual locations of its ANS deliveries, ARCO imputes a destination value for ANS crude oil from the posted price of West Texas Sour delivered to Gulf Coast refineries, and this is the value it reports to the State. ARCO's adoption of this technique incited a furor which, in September 1983, led to an inquiry by Alaska's Senate Resources Committee on the matter of ANS sales and in-value royalty reports.**

Exxon told the committee that the company was then marketing about 350 mbpd of ANS crude oil, which included about 21 mbpd of royalty oil. Exxon delivered about 100 mbpd to its own West Coast refineries. The remaining 250 mbpd were shipped east: 200 mbpd went to the Gulf and the rest was delivered on the East Coast.

But even the eastern shipments of ANS crude were sold mostly to Exxon's refineries. Only ten percent of Exxon's entire ANS production was sold in arms-length transactions. In calculating netback values for the 90 percent of its production destined for intracorporate sale, Exxon therefore must impute a delivered value. The company assumes an ANS price equal to the prices of other crudes delivered to Exxon's various refineries through third-party sales and purchases. The imputed transfer price between Exxon's production unit and its refineries therefore varies according to location.

Of all the ANS producers, Sohio controls the biggest share. Sohio told the Senate committee that it was marketing about 600 mbpd of its own oil, plus about 41 mbd of Alaska's royalty share. The company delivered about 40 percent (240 mbpd) of the total to West Coast purchasers. The rest was going to the Gulf Coast and the Caribbean.

** See the Summer 1983 issue of Pacific Oil Insights, "ARCO and its Critics: The North Slope Crude-Oil Transfer-Price Controversy"

Sohio, however, was running less than two percent of its ANS oil through its own refineries located in Ohio and Pennsylvania. The company's reports to the State of Alaska thus included an ANS wellhead value that was based on its third-party sales, and which explicitly incorporated the two-tier price structure.

Unlike Exxon and Sohio, Arco's method for imputing (and reporting to the State) the wellhead value of its ANS production does not result in a two-tier price structure. The company maintains that there is only one value for ANS oil. ARCO's witnesses told the Senate Committee that the company begins its netback computations with the posted price of West Texas sour crude --- the most comparable grade for which substantial volumes are traded at arms-length in the Gulf Coast market. ARCO then adjusts the West Texas price postings to account for slight quality differences with ANS crude, and to account for the added delivery charges of moving it to the point of competition on the Gulf Coast. ARCO did not provide data on the disposition of ANS crude because actual delivery points are irrelevant to its netback calculation.

Table 4 shows the netback values reported to the State of Alaska by ARCO, Exxon, Sohio, and selected other North Slope producers. Not surprisingly, ARCO has reported the lowest netback values. The minor ANS producers reported the highest values because they are able to place most (if not all) of their production on the West Coast.

The monthly figures in Table 4 do

Table 4
1984 Netback (Wellhead) Prices of ANS Prudhoe Bay Unit
(in $ per barrel)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep
Arco	$16.44	$16.30	$16.22	$16.19	$16.17	$16.30	$16.30	$16.58	$16.62
Exxon	16.28	16.24	16.44	16.62	16.48	16.35	16.38	16.56	16.92
Sohio	17.29	17.40	17.41	17.31	17.62	17.67	17.55	17.69	17.99
Mobil	18.81	18.80	18.98	18.76	18.92	18.92	19.10	18.92	18.91
Texaco*	18.10	18.10	18.10	18.10	18.08	18.08	18.10	18.08	18.08
Chevron	17.25	17.10	17.30	17.54	17.47	18.35	17.66	17.93	17.84
Wtd Avg	16.84	16.88	16.93	16.91	17.02	17.03	17.00	17.18	17.41
Erb B	17.87	17.99	18.01	17.94	18.17	18.21	18.13	18.27	18.52
Shell Post	18.25	18.25	18.25	18.25	18.25	18.25	18.25	18.25	18.25

Source: State of Alaska, Department of Natural Resources and Shell

not reveal the range of sales data that each company uses to impute the ANS value. Nevertheless, it is clear that the State of Alaska's royalty (and severance tax) revenues are affected by the destination of ANS crude and by who is selling it.

Over the long run, these disparities will probably subside. The existence today of a two-tier price structure on the North Slope is fragile. Ultimately, a buyer's market on the West Coast will force ANS prices downward in that market. The spread between delivered West Coast and Gulf Coast prices for ANS will thus enlarge; but at the same time, the spread in wellhead values will diminish.

E. THE EXHIBIT B PRICING FORMULA

The calculation of in-value royalty payments turns out to be a lot more complicated than each company's computation of its weighted average netback price. The leases direct producers to pay the state an in-value price for royalties marketed based on the following:

> The field market price or value of royalty oil or gas shall not be less than the highest of (1) the price actually paid or agreed to be paid to lessee at the well by the purchaser thereof, if any; or (2) the posted price of lessee in the field fo such oil or gas at the well, if any; or (3) the prevailing priced received by other producers in the field at the well for oil of like grade and gravity or gas of like grade and quality at the time such oil or gas is removed. . .

In 1978, the State of Alaska detailed its interpretation of the lease-pricing provisions in an exhibit prepared for a royalty oil sale. Through Exhibit B the State wished to ensure that revenues would be no less than they would have been if the state had continued taking the oil in value. According to the Haynes report (op. cit.), the intent of the North Slope leases as interpreted in Exhibit B was "to protect the state from an inefficient producer which sells a large percentage of its oil in the least lucrative market." The producers, however, maintain that the Exhibit B formula imputes an in-value price that is higher than the leases themselves dictate.

Despite the issuance of Exhibit B, the producers continued to pay in-value state royalties according to their own interpretation of the leases. The State petitioned the Superior Court for a ruling. Despite some settlement, the case is still active under the title, "State of Alaska v. Amerada-Hess et al."

The outcome of the suit will have financial consequences in the hundreds of millions of dollars. In recent months, for example, the Exhibit B price has been about 50 or 60 cents higher than Sohio's in-value reports. The irony here is that while the revenues of all North Slope producers and the State of Alaska would plunge if the two-tier price structure collapsed, and while Sohio plays a pivotal role in maintaining that structure, Sohio could be liable for back royalty oil payments generated by its support of the very price structure that the State is attempting to exploit through Exhibit B.

F. THE AUCTION'S IMPACT ON STATE REVENUES

The successful bidders in the December auction will be those who are confident that they can place the oil on the West Coast --- where the higher netback price affords them an opportunity to offer the State a premium. Unless all of the awarded volumes go to bidders that already market ANS crude oil on the West Coast, some of the North Slope producers are going to find their West Coast market outlets diminished.

As a result, they will either have to send more of their oil to eastern markets (and suffer reduced overall netbacks) or they will have to offer price discounts to maintain their West Coast market share. In either case, the implications for changes in state royalty and tax revenues on the over 115 mbpd not sold in this auction are unfavorable.

The displacement of producer sales on the West Coast would result in a reduction in reported weighted average netbacks, and hence a reduction in in-value royalty payments. Severance taxes based upon the in-value reports would also decline, as would revenues flowing from prior royalty contracts keyed to in-value payments.

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State officials are not unaware of these ancillary financial implications of the auction. For this reason, they have chosen to establish a "base" price for bidding premiums which will compensate (or overcompensate) for the loss in revenues that the displacement will cause.

The base price for the December auction represents the first instance in which the State will engage in an in-kind royalty oil sale that is not explicitly related to the in-value price reported by producers. It will also be the first time in which contracts do not hedge against a state win in the Amerada-Hess case that might otherwise compel producers to make back-payments on in-value royalties.

The base price for the December auction is $17.92 per barrel for the 75,000 daily barrels of Prudhoe Bay crude and $16.92 for the 15,000 daily barrels of the lower-valued oil from the Kuparuk River field. The contracts also provide that these base prices will move up or down with changes in the posted price of West Texas sour crude.

We were not able to obtain from state officials a detailed explanation of the genesis of this base price, but it is founded on the weighted average netback price reported by producers in May 1984, plus field costs, plus a tariff adjustment. It is noteworthy that the base price for Prudhoe Bay oil is only two cents less than the imputed Exhibit B price for May 1984, and 32 cents higher than the Tesoro contract, for example.

The base-price concept was first tested in July 1984, when the State solicited "back-up" bids for the December 1984 auction. Back-up bids were necessary six months prior to the auction for several reasons. First, the state wanted to ensure that in the event of default, other entities would be contractually committed to take the excess royalty volumes upon thirty days notice. These back-up contracts contained such provisions.

Second, the State did not want to be in a position of nominating in-kind deliveries of royalty oil in accordance with the schedule set forth in the North Slope leases without being sure that somebody would take the oil at a reasonable price. And yet if the auction were held six months prior to deliveries, price uncertainty might diminish buyer interest. The security of back-up contracts thus allowed the State to nominate royalty oil volumes in September, for delivery in April, and to hold the auction itself in December.

The base prices for the back-up bids are the same as the base prices for the December auction. These base prices proved to be 89 cents and 16 cents higher than the weighted average in-value prices the State received in the month prior to the solicitation (June 1984) for Prudhoe Bay and Kuparuk oil respectively. And because the alternative to the sale is continued in-value taking of 85 mbpd of the remaining 90 mbpd of royalty oil, the base price (even absent any premiums) offered the State about $68,000 more in direct daily revenues, absent any major changes in relative price movements between in-value producer reports and the price of West Texas sour.

The base prices for the back-up bids nevertheless appeared to be well within the range of commercial feasibility. The Prudhoe Bay base price, for example, was 29 cents less than the June Exhibit B price. And it was a full dollar less than the in-value price reported by Mobil.

It is not surprising then, that several companies did respond to the State's solicitation with premium bids. (See Table 5.) Texaco offered the highest per-barrel premium: 38 cents. Mapco and Shell offered premiums of 35 and 25 cents respectively, but both conditioned their bids on changes in other contractual terms of sale. Only one bid (7 cents premium) was received for Kuparuk oil.

Even if the December auction fails to attract acceptable bids, these back-up bids (indeed, the base price alone) seems to ensure the State of revenues that more than offset the loss of severance taxes, in-value payments, and other royalty in-

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come. The Appendix examines these potential revenue losses.

VI. THE AUCTION'S IMPACT ON THE TWO-TIER PRICE STRUCTURE

It appears that the only real financial risk to the State of the December auction is rather speculative, that is, the risk that the auction will exacerbate the price discounting already taking place on the West Coast or that it may, in fact, cause or accelerate the collapse of the two-tier price structure.

Under the worst of conceivable scenarios, West Coast netbacks could plunge to Gulf Coast levels as a result of the auction. State revenue losses would more than offset the auction's direct gains. If, for example, all producers had reported netbacks equivalent to Gulf Coast prices in June 1984, the state would have received $318 thousand less in royalty and severance-tax revenues each day. This compares with a potential revenue gain from the auction itself of $71 thousand per day at a zero premium over the base price, and $156 thousand at a one-dollar premium, assuming the maximum displacement effect.

How big is the risk that this auction will trigger a structural price collapse? ANS oil constitutes the marginal supply on the West Coast. Although the 85 mbpd of oil up for grabs is only about five percent of total ANS production and only about 3½ percent of West Coast refinery demand, even that amount of oil can effect real competitive pressures if it is in the hands of aggressive "outside" marketers.

Table 5
Competitive Back-Up Bids for the 1984 State of Alaska Royalty Auction
(in thousand barrels per day)

Company	Field	Quantity	Premium	Total
Texaco	Prudhoe	50,000	$0.38	$18.30
	Kuparuk	10,000	0.07	16.99
US Oil & Ref.	Prudhoe	5,000	0.15	18.07
Chevron	Prudhoe	30,000	0.10	18.02
Union	Prudhoe	10,000	0.00	16.92
Mapco*	Prudhoe	5,000	0.35	18.27
Shell*	Prudhoe	20,000	0.25	18.17

Source: State of Alaska, Department of Natural Resources -- Base price per barrel for Prudhoe Bay is $17.92 and Kuparuk $16.92. The weighted average of the bids is $18.10 per barrel.
*Bids conditioned upon contract changes.

Taxecon Associates, for example, told the state of Alaska:

*The partial breakdown in the two-tier price system in 1981 was precisely the period in which Alaska Oil Company was taking 75,000 barrels per day in state royalty oil under its scheduled-to-expire contract, and four of the six winners in the state's only competitive sale of royalty oil were forced to take delivery of their unwanted oil.**

Who among the producers has the most vulnerable markets? It is not Exxon. Exxon already delivers most of its ANS to the Gulf Coast; and the 100 mbpd that is placed in the West has a secure destination in Exxon's own refinery in Benecia, California.

ARCO's 320 mbpd of West Coast refining capacity is nearly sufficient to handle all of its ANS crude allotment. Many of the smaller ANS producers (Mobil, Getty, Chevron) have some West Coast refining capacity, relative to which their North Slope production is minor.

Of all the ANS producers, Sohio is probably the most vulnerable to competitive forces unleashed by the auction. Sohio has no West Coast refineries; all of its placements in this preferred market thus depend on successful negotiations with nonaffiliated firms.

But is the auction likely to present a threat to existing market arrangements and pricing? Eighty-five thousand barrels of reallocated daily production seems insignificant compared to the projected increase in overall North Slope production of almost 200 mbpd by 1987. Expanded Kuparuk production, as well as the onset of production from the Lisburne, Endicott, and Milne Point fields will account for this increase.

Then too, there may be a considerable increase in California offshore production by the end of the decade. The

* Taxecon Associates, "Analysis of the Economic Effects of a Competitive Sale of In-kind Royalty Oil by the State of Alaska", June 28, 1984 (for the Alaska Department of Natural Resources.

October 15, 1984 issue of the Oil and Gas Journal, for example, projected production from California's offshore Point Arguello field alone topping 100 mbpd by 1987, increasing ultimately to a level in the vicinity of half a million barrels per day.

Increases in California production may be expected to back out ANS production directly. Economic efficiencies militate against anyone offloading tankered Alaska oil in California to the extent that it would force California oil to be loaded into tankers and shipped through the Panama Canal. If any of the contemplated transcontinental oil pipelines is built, however, and if local refiners resist taking expected deliveries of Exxon's heavy offshore crude, increases in California production may not extract a one-for-one cutback in ANS deliveries.

In either case, the aggregate West Coast surplus may expand from the current 600 to 800 thousand barrels per day to as high as perhaps 1.2 million barrels per day by the end of the decade. Alaska's 90 mbpd auction is nevertheless significant over the short-term. It may not cause a collapse, but if it stimulates price discounting which in turn depresses the West Coast netback by, say, 50 cents a barrel, bidders would have to offer the State a 55-cent premium over the base price to offset overall losses in royalty and tax revenues.

APPENDIX: THE DISPLACEMENT EFFECT:

State revenue gains or losses assuming maximum Displacement of producers' West Coast sales

[illegible] PRICES OF ANS CRUDE OIL

	West Coast Netback	Gulf/East Coast Netback
CIF price[a]	$26.50	$28.00
TAPS tariff	(6.50)	(6.00)
Tanker charge	(1.50)	(5.25)
Prudhoe Bay netback price	$19.00	$16.75

STATUS-QUO DISPOSITION AND IN-VALUE PRICE
(Thousands of barrels per day and dollars per barrel)

	West Coast	Gulf/East Coast	In-Kind Royalties	Total
Physical deliveries[b]	900	720		1,620
ARCO WC refinery runs[c]	(300)	300		
Royalty oil contracts	(98)		98	
Total deliveries @ price below	502	1,020	98	1,620
Prudhoe Bay netback price	$19.00	$16.75		
WEIGHTED AVERAGE (in-value) PRICE			$17.69	
Alaska Royalty Income				
Total deliveries @ price below	502	1,020	98	1,620
x Royalty rate	12.5%	12.5%	12.5%	
Gross royalty volume	63	128	12	203
In-kind adjustment[d]	(24)	(62)	86	
Net royalty volume	39	66	98	203
x Prudhoe Bay reference price	$19.00	$16.75	$17.69	
STATE ROYALTY INCOME ($1,000/day)	$735	$1,102	$1,716	$3,553
Severance-Tax Revenues				
Total deliveries @ price above	502	1,020	98	1,620
Exempt from severance tax	(14)	(79)	(98)	(203)
Subject to severance tax	488	950		1,418
x Prudhoe Bay reference price	$19.00	$16.75		
x Severance-tax rate	15.0%	15.0%	0.0%	
SEVERANCE TAX REVENUES ($1,000/day)	$1,333	$2,387		$3,719
TOTAL STATE REVENUES ($1,000/day)	$2,068	$3,489	$1,716	$7,271
STATE REVENUE PER BARREL (Total production)				$4.49

AFTER-SALE DISPOSITION AND IN-VALUE PRICE
(Thousands of barrels per day and dollars per barrel)

	West Coast	Gulf/East Coast	In-Kind Royalties	Total
Physical deliveries[b]	900	720		1,620
ARCO WC refinery runs[c]	(300)	300		
Old royalty-oil contracts	(98)		98	
New royalty-oil sale	(85)		85	
Total deliveries @ price below	417	1,020	183	1,620
x Prudhoe Bay netback price	$19.00	$16.75		
WEIGHTED AVERAGE (in-value) PRICE			$17.40	
(Difference from status quo)			(0.09)	
Alaska Royalty Income				
Total deliveries @ price above	417	1,020	183	1,620
x Royalty rate	12.5%	12.5%	12.5%	
Gross royalty volume	52	128	23	203
In-kind adjustment[d]	(45)	(115)	160	
Net royalty volume	7	13	183	203
x Prudhoe Bay reference price	$19.00	$16.75	$17.40	
STATE ROYALTY INCOME ($1,000/day)	$137	$206	$3,185	$3,528
(Difference from status quo)				($24)
Severance-Tax Revenues				
Total deliveries @ price above	417	1,020	183	1,620
Exempt from severance tax	(6)	(14)	(183)	(203)
Subject to severance tax	411	1,006		1,418
x Prudhoe Bay reference price	$19.00	$16.75	$17.40	
x Severance-tax rate	15.0%	15.0%	0.0%	
SEVERANCE TAX REVENUES ($1,000/day)	$1,172	$2,528		$3,700
(Difference from status quo)				($19)
TOTAL STATE REVENUES ($1,000/day)	$1,310	$2,734	$3,185	$7,228
(Difference from status quo)				($43)
STATE REVENUE PER BARREL (Total production)				$4.46
(Difference from status quo)				($.03)
REQUIRED PREMIUM ABOVE IN-VALUE PRICE[e]				$.51

Notes: a: Table 1.
b: Table 1.
c: Based on Arco's West Coast refinery capacity as reported in the Oil and Gas Journal Annual Refining Report, March 1981.
d: Reduction of in-value royalty volumes resulting from State's in-kind taking.
e: Margin by which the State's sale price must exceed the in-value price in order to offset the displacement effect.

Part 2
UNITIZATION ON THE NORTH SLOPE: CURRENT EVENTS

A. The Milne Point Unit

In October 1983, Conoco and co-lessees (Champlin, Cities Service, Union Oil Company, and Reading & Bates) asked the State for a reduction in the royalty rate attached to their oil and gas leases in the Milne Point Unit. (See the accompanying map.) This unusual request is no more unusual than the history of the Milne Point Unit itself. The companies' application, however, presents state leaders with a political dilemma.

The issue goes back to 1979, when Conoco (as field operator) filed a unitization plan just prior to the date set forth in the leases for termination of the leaseholders' exploration rights. Prompt approval of the unit plan, however, would have ensured extension of the leases beyond the initial 10-year term.

The Department of Natural Resources chose to condition unit approval on three points: (1) the lessees had to agree to an increase in the royalty from 12½ to 20 percent of production; (2) the costs of cleaning crude oil prior to shipment were not to be assessed on the royalty volumes; and (3) the unit had to be developed and production initiated within three years.

The companies thus had the unpleasant choice of either agreeing to the State's demands or losing the leases altogether. They chose the former.

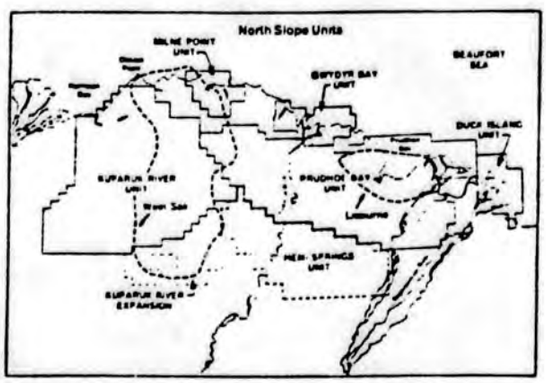
Now, five years later, the Conoco group is seeking a return to the initial royalty rate of 12½ percent. Conoco maintains that unless the 20-percent royalty rate is adjusted, the leaseholders stand to lose 4 cents a barrel on production beginning in 1986. This estimate is based on a projected wellhead value of $19.95 for ANS oil, development costs of $6.43 per barrel, and operating costs of $5.47. At a 12½-percent royalty rate, the companies can look forward to a per-barrel profit of $1.19.

Under Alaska law, the Commissioner of Natural Resources is authorized to grant a royalty reduction if she can show that "revenue produced from the field is insufficient to produce a reasonable rate of return with respect to a lessee's total investment." The statute, however, precludes the Commissioner from making such concessions until there has been two years of production from the field. (AS 38.05.180(j))

Oil production has not yet begun at Milne Point. But the Conoco group maintains that the Milne Point hydrocarbons represent an extension of the Kuparuk River field, which commenced production in 1981. Conoco argues that Kuparuk production experience is adequate to meet both the intent and the letter of the law.

The State disagrees. In an October 9 letter, the Department of Natural Resources denied Conoco's request for a royalty reduction. But the denial was not based on assessment of need. The De-

Petroleum Production Units on the North Slope



partment simply found that Conoco's reserves were "discrete from the Kuparuk Field", and that profitability could not therefore be determined by reviewing Kuparuk development costs. Moreover, the Department believes that having concluded the fields are distinct, it is statutorily prohibited from granting a royalty reduction until Milne Point itself has two years of production experience.

The technical legal issue is no doubt a sticky one. More important, however, are the implications for other North Slope lease tracts. Since 1979, the state has affixed a royalty in excess of 12½ percent to some new leases. Such lease provisions, for example, apply to the Beaufort Sea and the Prudhoe Bay uplands, for example. Perhaps the holders of these leases will also view field development as marginal under these royalty terms, and especially now that real oil prices are clearly trending downward.

As an alternative to lease modifications, the legislature could choose to amend the formula for determining severance taxes. The economic limit factor (ELF) in the present law was intended to ensure that a company's severance tax obligation did not in itself contribute to premature abandonment of producing wells. From an economic point of view, a severance tax is equivalent to an ad-valorem royalty. The state could, at least in principle, obtain the desired sensitivity to costs with an appropriate ELF formula, without the need to make ad-hoc adjustments in royalty rates.

B. Endicott Unitization

The Alaska Division of Oil and Gas is working out the details for adding the Endicott Field northeast of Prudhoe Bay to the existing Duck Island Unit. This is the first occasion which a group of state leases with diverse royalty and net-profits terms is to be unitized.

In 1981, we (Williams and Tussing) warned that agreement on unitization terms under these conditions could prove troublesome. Such a situation might also undermine the State's credibility as the final arbiter of differences between the working interest owners over allocation of shares in the reservoir. Worse yet, it could tempt the leaseholders to make side-deals or other collusive arrangements for the purpose of limiting their royalty or net profits liability to the State.

We are happy to report that negotiations between the state and the working interest owners are proceeding smoothly thus far. The parties have agreed, for example, to allocate production for purposes of royalty and net-profits calculations among the various tracts solely on the basis of geology. Then too, the unit provisions for under-and over-lifting will be administered in a way that leaves State revenues unaffected.

C. The Hemi Springs Unit

In January 1984, the Department of Natural Resources approved the Hemi Springs Unit Agreement, which had the effect of extending the term on 24 lease tracts. The situation was similar to the 1979 Milne Point unitization and the extension of those leases. This time, however, the State agreed to unitization and the associated lease extensions without extracting lessee concurrence in a royalty increase --- although it did extract other favorable terms including waiver of field costs for royalty volumes. In authorizing the unit, the State declared that lease expiration (absent unitization) or a forced royalty increase would hold up North Slope development.

Part 3
ALASKA'S LEASING PROGRAM

In August 1984, the U.S. Department of the Interior conducted a sale (No. 87) of oil and gas leases in the Beaufort Sea's Diapir Field. Under the agency's policy of area-wide leasing, this sale opened to petroleum exploration the Arctic outer continental shelf (OCS) from Point Barrow to the Canadian Border. In parallel, the State has enthusiastically pursued its own North Slope leasing program. Governor Sheffield told a June 1984 gathering in Juneau:

In terms of income to Alaska, there's simply nothing that can approach private industry finding and producing more oil and gas on State-owned land. In recognition of that, the State of Alaska is conducting a five year leasing program that will put about ten million acres out for bids between now and 1988. To put that into perspective, ten million acres, remember, equals one-tenth of our statehood entitlement.

At the same time, the State has been easing environmental protection measures that have hindered arctic exploration and development. The seasonal drilling stipulations that permitted exploratory drilling only during periods of winter fast ice (about five months per year) have been shortened. Now drilling is restricted only for about two months in the autumn, coinciding with whale migrations. The Department of Natural Resources recently proposed that the Governor "allow limited use" of explosives for offshore seismic exploration, a practice banned by the Hammond Administration in 1975.

It is inappropriate, however, to attribute these changes wholly or mainly to a change in state policy or approach. They are more a function of the accumulation of experience with Arctic operations, and of improved understanding and respect between industry and DNR personnel.

A. The Exploration Incentive Credit

The State's vigorous North Slope oil-development policy now also incorporates an "exploration incentive credit" in some lease sales. Companies may use this credit as an offset to royalty or severance tax obligations on any hydrocarbons production in Alaska. The credits are transferable: a company engaged in exploration within Alaska but without an existing production base may sell these credits to other companies that find them valuable. The credits are thus similar to sale and leasebacks of capital assets between taxpayers with different marginal tax rates.

Enabling legislation grants the Department of Natural Resources the discretion to select the terms of the exploration incentive credits and the lease sales to which they may apply. The Department, however, may not award a credit in excess of 50 percent of the actual costs of exploratory wells. DNR awards a percentage credit, capped by a dollar-per-foot cash limit.

Through 1984, the State had attached exploration incentive credits to the leases in three sales. The operators of four wells have thus far utilized this program to reduce their royalty and tax obligations to the State.

B. Net-Profits Bidding

The Alaska Legislature authorized the exploration credit in 1978 as part of its overhaul of State leasing practices. Those legislative changes also brought about the commencement of net-profits share leasing.

Under a net-profit share system, exploration and development costs attributable to a particular field are debited to an interest-bearing development account. Once production begins, oil and gas sales receipts are credited to that account. When the accumulated receipts finally offset the debited costs and accrued in-

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terest, the State begins to share production revenues with the company according to the profit-sharing formula specified in the lease.

The State found a net-profits bidding system to be an attractive alternative to the traditional cash-bonus bidding system for several reasons. By sharing the risks of oil exploration, the state could hope to achieve higher returns under a net-profits system. Then too, because the state was in a cash-surplus situation in 1978, the early collection of revenues through bonus bidding was not essential to state operations. At the same time, petroleum companies were likely to offer the State a bigger cut of future revenues than they were capable of bidding in cash prior to the onset of production.

The net-profits system adopted by the State did not, however, infuse State risk-sharing into all aspects of petroleum exploration. Alaska refused, for example, to structure the system in a way that relieved the lessees of the risk of dry holes. Only those costs directly associated with producing wells were eligible for inclusion in the cost-debit account. The State, nevertheless, offered net-profits lessees a partial offset to the risk of dry holes through its program of exploration incentive credits.

Although Alaska has used net-profits as a bid variable only once (in the December 1979 joint federal-state Beaufort Sea sale), net-profits leasing is nevertheless an integral part of its leasing strategy. The state has largely returned to a bonus-bid system, but the bidding is in addition to a fixed net-profit share and a fixed royalty.

C. Negative Bonus Payments

Onto this system of combined cash bonuses, royalties, and net-profit shares, the State has attached its exploration incentive credit. This arrangement has resulted in an overall leasing program that is a curious blend of risk-minimizing and risk-sharing elements. Moreover, it is responsible for the phenomenon of negative bonuses on nonproductive tracts.

Negative bonuses are only now beginning to appear, and in a form that is not wholly tangible. For example, Exxon and Sohio paid the State a $4.2 million bonus in 1983 for a lease tract in the Beaufort Sea. The next year, the operator applied and received a $12.4 million exploration credit for costs incurred in drilling in that tract. The net loss of $8.2 million could thus be characterized as a negative bonus bid.

PACIFIC OIL INSIGHTS: Issues in Print

No. 1	**ARCO and its Critics** The North Slope Crude-Oil Transfer-Price Controversy
No. 2	**Toward an Understanding of West Coast Residual-Oil Supply and Demand**
No. 3	**World Oil Markets: Part I** ARTA's 1984 World Oil Outlook
No. 4	**World Oil Markets: Part II** The Long-Run View
No. 5	**Disposition of Alaska State Royalty Oil**

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Rep Szymanski

Alaska State Legislature

Official Business

Pouch V
State Capitol
Juneau, Alaska 99811

HOUSE SPECIAL COMMITTEE ON OIL AND GAS

MEMORANDUM

To: House Special Committee on Oil and Gas

From: Rep. Mike Davis, Chairman

Date: January 25, 1985

Re: Materials packet for Jan. 25 meeting

Attached are the materials that will be referenced during this afternoon's meeting. The meeting will be held at 3:30 pm in House Finance.

STATE OF ALASKA
COMPETITIVE ROYALTY OIL SALE

DEC. 11, 1984

PURCHASER	LOT #	ESTIMATED BARRELS PER DAY	CONTRACT LENGTH (IN DAYS)	TOTAL EST. BARRELS PER CONTRACT	BASE PRICE	PREMIUM	TOTAL REALIZED (1)	DIFFERENCE REALIZED (1) (2)
CATEGORY A: KUPARUK								
CHEVRON *	1	5,000	182.5	912,500	$16.92	$0.82	$16,187,750.00	$884,177.13
UNION *	2	5,000	182.5	912,500	$16.92	$0.53	$15,923,125.00	$539,552.13
CHEVRON *	3	5,000	182.5	912,500	$16.92	$0.17	$15,594,625.00	$211,052.13
SUBTOTAL		15,000		2,737,500			$47,705,500.00	$1,554,781.38
	HIGHEST PREMIUM BID:		$0.82	AVERAGE PREMIUM BID:		$0.51		
CATEGORY B: PRUDHOE								
U.S. OIL	1	5,000	365	1,825,000	$17.92	$1.04	$34,682,000.00	$1,783,655.75
U.S. OIL	2	5,000	365	1,825,000	$17.92	$1.04	$34,682,000.00	$1,783,655.75
CHEVRON *	3	5,000	365	1,825,000	$17.92	$1.03	$34,583,750.00	$1,685,405.75
CHEVRON *	4	5,000	365	1,825,000	$17.92	$1.03	$34,583,750.00	$1,685,405.75
CHEVRON *	5	5,000	365	1,825,000	$17.92	$1.03	$34,583,750.00	$1,685,405.75
TEXACO *	6	5,000	365	1,825,000	$17.92	$0.64	$33,872,000.00	$973,655.75
TEXACO *	7	5,000	365	1,825,000	$17.92	$0.64	$33,872,000.00	$973,655.75
TEXACO *	8	5,000	365	1,825,000	$17.92	$0.64	$33,872,000.00	$973,655.75
TEXACO *	9	5,000	365	1,825,000	$17.92	$0.64	$33,872,000.00	$973,655.75
TEXACO *	10	5,000	365	1,825,000	$17.92	$0.64	$33,872,000.00	$973,655.75
SUBTOTAL		50,000		18,250,000			$342,315,250.00	$13,331,887.50
	HIGHEST PREMIUM BID:		$1.04	AVERAGE PREMIUM BID:		$0.84		
CATEGORY C: PRUDHOE								
CHEVRON *	1	5,000	182.5	912,500	$17.92	$1.03	$17,291,875.00	$842,782.88
TEXACO *	2	5,000	182.5	912,500	$17.92	$0.64	$16,936,000.00	$486,827.88
TEXACO *	3	5,000	182.5	912,500	$17.92	$0.64	$16,936,000.00	$486,827.88
TEXACO *	4	5,000	182.5	912,500	$17.92	$0.64	$16,936,000.00	$486,827.88
SOHIO	5	5,000	182.5	912,500	$17.92	$0.51	$16,817,375.00	$368,202.88
SUBTOTAL		25,000		4,562,500			$84,917,250.00	$2,671,389.38
	HIGHEST PREMIUM BID:		$1.03	AVERAGE PREMIUM BID:		$0.69		
TOTALS FOR ALL LOTS:	18	90,000		25,550,000			$474,938,000.00	$17,557,978.25

(1) THESE PROJECTIONS ASSUME THAT CURRENT MARKET CONDITIONS AND PRICES CONTINUE.

(2) THIS AMOUNT IS THE DIFFERENCE BETWEEN THE ESTIMATED ROYALTY-IN-VALUE RECEIPTS BASED ON THE VOLUME WEIGHTED AVERAGE OF PRODUCERS' REPORTED NETBACK PRICES (OCTOBER) AND THE ESTIMATED RECEIPTS OF THE COMPETITIVE SALE BASED ON THE BID PREMIUM PLUS THE BASE PRICE.

(*) PRIORITY BIDDERS

STATE OF ALASKA
COMPETITIVE ROYALTY OIL SALE

DEC. 11, 1984

NUMBER OF BIDS SUBMITTED:	49
NUMBER OF BIDDERS PARTICIPATING:	8
HIGHEST PREMIUM BID: SUBMITTED BY: U.S. OIL	1.04
ESTIMATED TOTAL REVENUES FROM SALE:	$474,938,000
COMPANY WITH MOST WINNING BIDS:	TEXACO WITH 8 LOTS
NUMBER OF LOTS WON BY PRIORITY BIDDERS:	15
NUMBER OF LOTS WON BY NON-PRIORITY BIDDERS:	3

JAN. 14, 1985

STATE OF ALASKA
DEPARTMENT OF NATURAL RESOURCES
DIVISION OF OIL AND GAS

ESTIMATED PRODUCTION FOR PRUDHOE BAY AND KUPARUK RIVER UNITS

	ESTIMATED TOTAL PRODUCTION (BARRELS PER DAY)			ESTIMATED ROYALTY (BARRELS PER DAY)			ESTIMATED SALES OF ROYALTY OIL (BARRELS PER DAY)							
YEAR	TOTAL PRUDHOE	(1) TOTAL KUPARU.	TOTAL	PRUDHOE ROYALTY	KUPARUK ROYALTY	TOTAL ROYALTY	NAPCO	(2) BVEA (OLD)	(3) BVEA (PROPOSED)	(4) TESORO (OLD)	(5) TESORO (NEW)	(6) CHEVRON	(7) COMPETITIVE SALE	ROYAL IN VAL
1984	1,580,000	120,000	1,620,000	187,500	15,000	202,500	35,000	5,000		39,765		18,000		104,7
1985	1,593,000	183,000	1,680,000	187,500	22,500	210,000	35,000		5,000	45,999	26,001	18,000	65,000	15,0
1986	1,588,000	100,000	1,680,000	187,500	22,500	210,000	35,000		5,000	45,999	26,001	18,000		80,0
1987	1,475,000	180,000	1,655,000	184,375	22,500	206,875	35,000		4,917	45,233	25,567	17,700		78,4
1988	1,325,000	200,000	1,525,000	165,625	25,000	190,625	35,000		4,417	40,633	22,967	15,500		71,7
1989	1,175,000	200,000	1,375,000	146,875	25,000	171,875	35,000		3,917	36,033	20,367	14,100		62,4
1990	1,050,000	200,000	1,250,000	131,250	25,000	156,250	35,000		3,500	32,200	18,200	12,600		56,7
1991	950,000	200,000	1,150,000	118,750	25,000	143,750	35,000		3,167	29,133	16,467	11,400		48,5
1992	850,000	200,000	1,050,000	106,250	25,000	131,250	35,000		2,833	26,066	14,734	10,200		42,4
1993	750,000	200,000	950,000	93,750	25,000	118,750	35,000		2,500	23,000	13,000	9,000		35,2
1994	650,000	170,000	820,000	81,250	21,250	102,500	35,000		2,167	19,933	11,267	7,800		26,3
1995	575,000	145,000	720,000	71,875	18,125	90,000	35,000							55,0
1996	510,000	120,000	630,000	63,750	15,000	78,750	35,000							43,7
1997	460,000	100,000	560,000	57,500	12,500	70,000	35,000							35,0
1998	420,000	80,000	500,000	52,500	10,000	62,500	35,000							27,5
1999	380,000	75,000	455,000	47,500	9,375	56,875	35,000							21,8
2000	340,000	65,000	405,000	42,500	8,125	50,625	35,000							15,6
2001	300,000	55,000	355,000	37,500	6,875	44,375	35,000							9,3
2002	270,000	50,000	320,000	33,750	6,250	40,000	35,000							5,0
2003	240,000	40,000	280,000	30,000	5,000	35,000	35,000							
2004	210,000	35,000	245,000	26,250	4,375	30,625								3
2005	180,000	25,000	205,000	22,500	3,125	25,625								2
2006	160,000	25,000	185,000	20,000	3,125	23,125								2
2007	140,000	20,000	160,000	17,500	2,500	20,000								1
2008	110,000	20,000	130,000	13,750	2,500	16,250								
2009	80,000	10,000	90,000	10,000	1,250	11,250								
2010	50,000	10,000	60,000	6,250	1,250	7,500								

NOTES:

(1) DNR ESTIMATE OF FIELD PERFORMANCE, OCTOBER 1984.

(2) BVEA'S CURRENT CONTRACT EXPIRES JUNE 30, 1985.

(3) BVEA'S PROPOSED TEN-YEAR CONTRACT WOULD COMMENCE FOUR MONTHS AFTER APPROVAL BY THE LEGISLATURE AND GOVERNOR. QUANTITY IS 2.667% OF DAILY PRUDHOE ROYALTY OIL.

(4) TESORO'S CURRENT CONTRACT CALLS FOR A MAXIMUM QUANTITY OF 24.533% OF DAILY PRUDHOE ROYALTY OIL LESS COOK INLET ROYALTY PRODUCTION. THE QUANTITY IS 21.208% IN 1984, AND WILL BE 21.326% STARTING JAN. 1, 1985. THIS CONTRACT WILL BE INCREASED TO ITS MAXIMUM QUANTITY ON OCTOBER 1, 1985 DUE TO CANCELLATION OF THE COOK INLET CONTRACT ON THAT DATE. THE CONTRACT EXPIRES JANUARY 1995.

(5) MOST OF THIS VOLUME (ABOUT 25,000 BPD), WHICH IS CURRENTLY BEING TAKEN "IN VALUE," WAS SOLD COMPETITIVELY FOR DELIVERY APRIL 1, 1985 THRU SEPT. 30, 1985. ON OCTOBER 1, 1985 IT IS ANTICIPATED THAT TESORO WILL COMMENCE DELIVERIES UNDER ITS 12/9/83 PRUDHOE CONTRACT, WHICH HAS A MAXIMUM QUANTITY OF 13.86% OF DAILY PRUDHOE ROYALTY OIL AND EXPIRES JAN. 1, 1995.

(6) CHEVRON'S CONTRACT CALLS FOR A MAXIMUM QUANTITY OF 9.6% OF DAILY PRUDHOE ROYALTY OIL. THE CONTRACT EXPIRES JANUARY 1, 1995.

(7) DELIVERIES WILL COMMENCE APRIL 1, 1985 FOR 50,000 BPD OF PRUDHOE BAY UNIT ROYALTY OIL AND 15,000 BPD OF KUPARUK RIVER UNIT ROYALTY OIL, AND WILL CONTINUE FOR ONE-YEAR, AND SII-MONTH PERIODS, RESPECTIVELY, AS A RESULT OF THE DEC. 11, 1984 COMPETITIVE SALE. PRIOR TO THAT TIME THIS OIL REMAINS "IN VALUE."

dwj

STATE OF ALASKA
AOS IN-KIND ROYALTY OIL CONTRACTS
(in barrels per day)

NOMINATION PERCENTAGES EFFECTIVE APRIL 1, 1985

PRUDHOE BAY UNIT

COMPANY	% OF DAILY ROYALTY OIL	QUANTITY	TERM	PRICE	
MAPCO	0.186667	35,000.00	11/26/79 - 12/31/2003	EXHIBIT B	1/
TESORO	0.213260	39,986.25	01/01/83 - 01/01/95	IN-VALUE	2/
CHEVRON	0.096000	18,000.00	05/30/84 - 01/01/95	IN-VALUE + $.30	3/
GVEA 4/	0.026667	5,000.00	07/01/84 - 06/30/84	IN-VALUE + $.30	3/
CHEVRON (COMP SALE)	0.026667	5,000.00	04/01/85 - 09/30/85	18.95	6/
CHEVRON (COMP SALE)	0.080000	15,000.00	04/01/85 - 03/31/86	18.95	6/
TEXACO (COMP SALE)	0.080000	15,000.00	04/01/85 - 09/30/85	18.56	6/
TEXACO (COMP SALE)	0.133333	25,000.00	04/01/85 - 03/31/86	18.56	6/
SOHIO (COMP SALE)	0.026667	5,000.00	04/01/85 - 09/30/85	18.43	6/
U.S. OIL (COMP SALE)	0.053333	10,000.00	04/01/85 - 03/31/86	18.96	6/
TOTAL RIK	0.922594	172,986.38			
TOTAL RIV	0.077406	14,513.62		IN-VALUE	2/
TOTAL RIK & RIV	1.000000	187,500.00			

NOMINATION PERCENTAGES EFFECTIVE OCTOBER 1, 1985

PRUDHOE BAY UNIT

COMPANY	% OF DAILY ROYALTY OIL	QUANTITY	TERM	PRICE	
MAPCO	0.186667	35,000.00	11/26/79 - 12/31/2003	EXHIBIT B	1/
TESORO PB #1	0.245330	45,999.38	01/01/83 - 01/01/95	IN-VALUE	2/
TESORO PB #2	0.130670	26,000.63	10/01/85 - 01/01/95	IN-VALUE + $.35	5/
CHEVRON	0.096000	18,000.00	05/30/84 - 01/01/95	IN-VALUE + $.30	3/
CHEVRON (COMP SALE)	0.080000	15,000.00	04/01/85 - 03/31/86	18.95	6/
TEXACO (COMP SALE)	0.133333	25,000.00	04/01/85 - 03/31/86	18.56	6/
U.S. OIL (COMP SALE)	0.053333	10,000.00	04/01/85 - 03/31/86	18.96	6/
TOTAL RIK	0.933334	175,000.06			
TOTAL RIV	0.066666	12,499.94		IN-VALUE	2/
TOTAL RIK & RIV	1.000000	187,500.00			

1/ Current EXHIBIT B price as of Oct 84 production month is $18.28773.

2/ In-value price (10/84) = Weighted average price less field cost of $.69 per barrel. Current in-value price as of Oct 84 is $17.3365.

3/ In-value price (10/84) + $.30 premium + $.69 field cost.

4/ This contract will terminate 06/30/85. A long- term contract to GVEA for 5,000 bpd will be submitted to the Legislature this Session and commence four months after approval by the Governor and the Legislature.

5/ In-value price (10/84) + $.35 premium + $.69 field cost.

6/ This price will fluctuate monthly based on posted prices of West Texas Sour crude.

STATE OF ALASKA
AOG IN-KIND ROYALTY OIL CONTRACTS
(in barrels per day)

NOMINATION PERCENTAGES EFFECTIVE APRIL 1, 1985

KUPARUK RIVER UNIT

COMPANY	% OF DAILY ROYALTY OIL	QUANTITY	TERM	PRICE	
CHEVRON (COMP SALE)	0.222222	5,000.00	04/01/85 - 09/30/85	17.09	1/
CHEVRON (COMP SALE)	0.222222	5,000.00	04/01/85 - 09/30/85	17.09	1/
UNION (COMP SALE)	0.222222	5,000.00	04/01/85 - 09/30/85	17.45	1/
TOTAL RIK	0.666667	15,000.00			
TOTAL RIV	0.333333	7,500.00		IN-VALUE	2/
TOTAL RIK & RIV	1.000000	22,500.00			

NOMINATION PERCENTAGES EFFECTIVE OCTOBER 1, 1985

KUPARUK RIVER UNIT

COMPANY	% OF DAILY ROYALTY OIL	QUANTITY	PRICE	
CHEVRON (COMP SALE)	0.000000	0.00		
CHEVRON (COMP SALE)	0.000000	0.00		
UNION (COMP SALE)	0.000000	0.00		
TOTAL RIK	0.000000	0.00		
TOTAL RIV	1.000000	22,500.00	IN-VALUE	2/
TOTAL RIK & RIV	1.000000	22,500.00		

1/ This price will fluctuate monthly based on posted prices of West Texas Sour crude.
2/ In-value price (10/84) = weighted average price less field cost.
of $.40 per barrel. Current in-value price as of Oct 84 is $16.4587,

STATE OF ALASKA
COOK INLET IN-KIND ROYALTY OIL CONTRACTS
(in barrels per day)

NOMINATION PERCENTAGES EFFECTIVE APRIL 1, 1985

COMPANY	% OF DAILY ROYALTY OIL	QUANTITY	TERM	PRICE	
TESORO	100.000000	6,718.75	01/01/84 - 09/30/85	IN-VALUE	1/
TOTAL RIK	100.000000	6,718.75			
TOTAL RIV	0.000000	0.00			
TOTAL RIK & RIV	100.000000	6,718.75			

NOMINATION PERCENTAGES EFFECTIVE OCTOBER 1, 1985

COMPANY	% OF DAILY ROYALTY OIL	QUANTITY	PRICE	
TESORO	0.000000	0.00		
TOTAL RIK	0.000000	0.00		
TOTAL RIV	100.000000	6,718.75	IN-VALUE	1/
TOTAL RIK & RIV	100.000000	6,718.75		

1/ In-value price (10/84) = weighted average price less transportation cost. Current in-value price as of Oct 84 is $24.854.

State of Alaska

Department of Natural Resources

Final Findings & Determination

to Sell Prudhoe Bay Royalty Oil to

Golden Valley Electric Association, Inc.

January 16, 1985

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I. Introduction.

The State of Alaska proposes to sell 2.667% of its daily royalty oil (approximately 5,000 barrels per day) from the Prudhoe Bay Unit to Golden Valley Electric Association, Inc. (GVEA) under a long-term, noncompetitive contract. In accordance with AS 38, the Department of Natural Resources must determine whether this disposal serves the state's best interest before the sale may take place. This final finding describes the proposed sale and analyzes its potential effects.

II. Background and Chronology.

GVEA is the public cooperative electric utility in Fairbanks. The state's previous long-term royalty oil contract with GVEA, executed in 1976, was the first royalty oil contract negotiated and executed after the 1976 establishment of the Alaska Royalty Oil and Gas Development Advisory Board. GVEA requested royalty oil so that crude oil might be used as turbine fuel for power generation in the event that the cost of turbine fuel from the North Pole Refinery became prohibitive.

GVEA's contract with the state was for the purchase of 5,000 bpd. GVEA did not exercise its option to purchase royalty oil until June 17, 1981. GVEA assigned its contract rights to North Pole Refinery, Inc., which is now owned by MAPCO Petroleum Inc. (MAPCO), in exchange for a price discount on the turbine fuel refined from the royalty oil. MAPCO refines the royalty oil into jet fuels, diesel, heating oil, and other refined products in addition to turbine fuel, and reinjects the remaining return oil into the Trans Alaska Pipeline System (TAPS).

In a November 1982 letter to the Department of Natural Resources, GVEA requested an extension of its contract for an additional ten years. No action was taken on that request pending the change of administrations. In March 1983, the new administration began negotiations with GVEA on a new ten-year contract to assist in satisfying the needs of GVEA's 50,000 in-state consumers. Notice of the proposed long-term sale to GVEA was published on November 8, 1983. A notice of that royalty board meeting, which included a review of the proposed GVEA disposal (among other things), was also published on November 16, 1983.

The Alaska Royalty Oil and Gas Development Advisory Board's December 7, 1983 review of the proposed GVEA disposal and the agreement, as negotiated to that date, revealed specific concerns by both the public and board members with respect to the state's option on return oil and the relationship between MAPCO and GVEA. In view of those reservations and the limited time for further negotiation, the long-term GVEA contract was not presented for legislative approval. Instead, an interim one-year contract not requiring legislative approval was put into effect. Subsequently, GVEA and the Department undertook sporadic negotiations during early 1984 with the goal of making long-term contract revisions responsive to the issues raised at the December 7, 1983 royalty board meeting. During this period, the assignment agreement between MAPCO and GVEA also remained in effect. On September 12, 1984, the Director of the Division of Oil & Gas briefed the royalty board on the Department's continuing negotiations with GVEA and MAPCO.

On November 29, 1984, GVEA, MAPCO and the Department reached tentative agreement on a new long-term contract to be presented to the royalty board and the legislature. The terms of the proposed contract, which were included in the Department's Preliminary Findings and Determination to Sell Prudhoe Bay Royalty Oil to Golden Valley Electric Association, Inc. of December 7, 1984, are again summarized below.

III. Summary of Proposed Contract Terms.

1. Price: The total price per barrel to be received by the state in the proposed contract is the sum of the following components:

   (a) The (monthly) volume weighted average of the Prudhoe Bay lessees' current reported netback prices, as adjusted for transportation and other costs by those lessees.

   (b) Additional amounts, primarily from GVEA's assignee (MAPCO), if the state obtains a favorable resolution of litigation disputing the validity of the Prudhoe Bay lessees' current reported netback prices (State of Alaska, et al vs. Amerada Hess, et al).

   (c) Those cleaning and dehydration field costs which the state must pay when either taking its royalty share in-value (receiving money from the Prudhoe Bay lessees equal to the volume weighted average of their current reported netback prices, as may be retroactively adjusted upon resolution of the Amerada Hess litigation) or taking title to its royalty share of oil for an "in-kind" disposal. In a 1980 partial settlement of the Amerada Hess litigation, the state acknowledged limited responsibility for certain field costs in either case. And,

   (d) A $.30 per barrel premium.

2. Term:

   (a) The date of first delivery will be four months after enactment of legislation by the State of Alaska (including approval by the Governor) approving the agreement unless the state, in its sole discretion, sets an earlier date.

   (b) The termination date of the contract is June 30, 1995.

   (c) The price specified above is subject to renegotiation in July 1987 and every two years thereafter for the duration of the contract.

3. Quantity: 2.667% (approximately 5,000 bpd) of daily royalty oil from the Prudhoe Bay Unit.

4. Point of Delivery: Custody transfer meters into the Trans Alaska Pipeline system at Prudhoe Bay.

5. In-State Use: When the Department executes the agreement, it will also execute an agreement with GVEA and MAPCO approving GVEA's assignment of its royalty oil to MAPCO. The state retains the right to terminate its approval of the MAPCO/GVEA relationship, in which MAPCO provides GVEA a specific discount on a specific quantity of turbine fuel. Should the assignment be terminated, GVEA's continued receipt of royalty oil would be conditioned upon GVEA arranging a new means of using royalty oil to provide GVEA consumers electricity at a cost lower than otherwise possible.

6. Security: GVEA will arrange to provide a letter of credit to the state in the amount of $5,316,000, which is equivalent to approximately sixty days' worth of oil. Upon default, this letter is redeemable upon signature of the Attorney General and the Commissioner.

7. Return Oil: Throughout the term of the contract, the state will have the option to purchase all return oil produced, refined, or exchanged under the contract. In consideration of MAPCO's consent to accept the majority of any liabilities stemming from the resolution of the Amerada Hess dispute, the state has agreed not to exercise its return oil option so long as MAPCO receives royalty oil under the GVEA royalty oil contract.

8. Standard Contract Terms: The contract will contain all appropriate standard state contract terms.

IV. Comments Received

Written comments addressing the Preliminary Finding and Decision were received from two parties prior to the close of the comment period. By a letter dated December 28, 1984, Tesoro Alaska Petroleum Company (Tesoro) expressed concern about the extent to which the proposed disposal may benefit MAPCO. Tesoro suggested that a more favorable contract for GVEA might have been secured during negotiations with MAPCO. The Department agrees that the benefits to GVEA of the proposed disposal are modest. While perhaps not sufficiently emphasized in the Preliminary Findings, the proposed disposal is based upon benefits to the state as well as to GVEA. Consequently, the price terms of the proposed disposal are similar to those of the state's recently executed royalty oil contracts with Tesoro and Chevron.

Since the state would be a major financial beneficiary of the proposed disposal, more advantageous contract terms for GVEA could not necessarily be borne by MAPCO. Although MAPCO must benefit to some degree as an indirect party to the agreement, the Department has sought to confine (to the extent possible in collective bargaining) the benefits of the proposed disposal to the state and GVEA. Upon receiving Tesoro's comments, the Department encouraged direct consultations between Tesoro and GVEA. As these discussions did not lead GVEA to conduct further negotiations with MAPCO, GVEA has presumably secured the best terms possible from MAPCO as well as the state.

By a letter dated January 8, 1985, James B. Gottstein, the Chair of the Royalty Oil and Gas Advisory Board (Royalty Board), also submitted comments related to the proposed disposal. Gottstein was concerned with a possible relationship between this disposal and the decision to shorten the contract terms of three 5,000 b/d lots of Kuparuk River royalty oil from one year to six months for the competitive royalty oil sale of December 11, 1984. However, the Kuparuk oil withdrawn from the sale was not committed to MAPCO or GVEA as Gottstein apparently believed was the case. That oil remains uncommitted.

Gottstein also said the Department did not properly inform the Royalty Board of that decision, as he believed was required. The Royalty Board review mandated by AS 38.06.050 extends only to royalty oil dispositions for which legislative approval is required. The December 11, 1984 competitive royalty oil sale was a short-term market conditions sale, for which legislative approval was not required (AS 38.06.055(b)(1)). At the September 12, 1984 Royalty Board meeting, the division did brief the Royalty Board about the competitive sale. In the Invitation to Bid discussed at the Royalty Board meeting, future revisions to sale terms at the direction of the commissioner were clearly contemplated. The rationale for the Department's revision was also publicly analyzed in-depth in the November 28, 1984 Supplemental Findings for the Competitive Royalty Oil Sale. Royalty Board input was not required for the decision to decrease the terms of the Kuparuk lots, and the division's consultation with regard to the sale in general exceeded statutory and regulatory requirements.

V. Contract Revisions

Since publication of the previous preliminary notice in November, 1983, the proposed GVEA contract has been altered by the Department and GVEA to address the concerns raised about the earlier proposed contract. Two key issues, both of which led to revisions in the contract form, were in-state use and return oil.

Currently, the consumer benefits of the GVEA contract depend on MAPCO's agreement with GVEA to provide turbine fuel at a price lower than what GVEA would otherwise pay. Under GVEA's present contract, the state is unable to enforce the degree of advantage afforded to GVEA since that agreement is between GVEA and MAPCO only. Consequently, Section 2.11 (In-State Use) of the proposed contract has been rewritten, and an agreement between the state, GVEA, and MAPCO has been added to assure that the agreed upon refining arrangement with MAPCO will be maintained, within certain bounds, over the life of the GVEA contract. The state will have the option to terminate its approval of the assignment should the relationship between GVEA and MAPCO change materially.

The state has insisted on the option to terminate the contract on these grounds since the proposed disposal is based in part on the specific benefits provided for GVEA members. Approximately one-third (625 barrels) of GVEA's daily turbine fuel requirements would be provided at a discounted price to GVEA through the proposed disposal. When compared to the refining charge which GVEA must pay for the remaining two-thirds of its turbine fuel needs, this discount translates into an annual savings to GVEA of about $550,000.

GVEA's total turbine fuel consumption now accounts for about 45% of its fuel use. The balance of GVEA's power generation comes from coal. Given the operations costs of GVEA's turbine fuel and coal-fired generation and the volume of discounted turbine fuel the proposed royalty oil contract would provide GVEA, MAPCO's discount to GVEA would reduce the GVEA consumer's average power generation cost by about 1.57%. Due to a mathematical oversight, the Preliminary Findings erroneously implied that an average power generation cost savings to GVEA of about 1% would result from the proposed disposal.

The state's ability to ensure that the GVEA contract would continue to provide these consumer benefits has been reinforced by the addition of Exhibit A, an agreement (attached to the proposed GVEA contract) between the State, GVEA, and MAPCO. Article II of Exhibit A calls for MAPCO and GVEA to keep the state apprised of any changes in their assignment agreement, and reiterates that changes to that agreement which materially affect the consumer benefits are grounds for termination of the assignment approval by the state. In addition, Article III of Exhibit A ensures that MAPCO will give nine (9) months written notice to GVEA before reducing the amount of royalty oil taken, since GVEA must also notify the state nine (9) months in advance of such a reduction.

Residual oil is a by-product of most refineries, including the North Pole Refinery. Residual oil represents that portion of a barrel of crude oil which a refinery is unable to process into product. Because MAPCO is situated to reinject residual oil into TAPS (where it re-emerges as whole oil at Valdez), this oil is also referred to as "return oil".

The assignment agreement between MAPCO and GVEA allows MAPCO to keep and dispose of the royalty return oil for export. Because MAPCO appeared to be a major beneficiary of the prior GVEA royalty oil contract, in part through its control over the return oil, the state has sought additional consideration from MAPCO for state approval of the assignment agreement. Consequently, Article IV of Exhibit A makes MAPCO primarily responsible for any GVEA liabilities resulting from retroactive price adjustments attending the resolution of the Amerada Hess dispute.

GVEA would be responsible only for one-eighth of the Amerada Hess liability accrued in a period not to exceed one year. The remaining seven-eighths of the liability accrued in that period, and all liabilities accrued in all other years during the term of the proposed GVEA contract, would be borne by MAPCO. This provision of Exhibit A insulates GVEA from the effects of a favorable outcome for the state in the Amerada Hess dispute and consequently, increases the benefits received by GVEA's consumers. MAPCO's agreement to bear the largest share of any future liability would increase the effective benefit to GVEA members of the proposed royalty oil contract by several fold. With this protection, GVEA largely avoids a potential liability which could accumulate for a period of up to ten years and consequently harm its financial position.

The return oil provision of the proposed contract gives the state the option to purchase all return oil produced, refined, or exchanged under the contract. However, in consideration of Article IV of Exhibit A, by which MAPCO accepts the potential Amerada Hess liabilities discussed above, the state agrees not to exercise its right to purchase return oil so long as MAPCO receives royalty oil under the GVEA royalty oil contract.

In addition to the revisions of the in-state use and return oil provisions, other changes have been made to the proposed 1983 contract to conform GVEA's proposed contract to the state's most recent contract forms where possible. These changes can be found in Section 7.1 (Default), Section 8.2 (Inability to Receive Oil) Article XIX (Amendment), and a number of minor areas.

For the state's protection, a new clause in Section 8.2 assigns to the state all transportation rights, including nominations, charter agreements, and any other transportation arrangements which GVEA has for state royalty oil, in the event of the purchaser's inability to receive royalty oil. This is now a standard provision for state royalty oil contracts and is found in both the backup and primary form contracts for the December 11, 1984 competitive sale.

An additional sentence in Article XIX (Amendment) states that, "Any material amendment to the contract which appreciably reduces the consideration received by the state requires prior approval of the Legislature of the State of Alaska". This contract language is required by AS 38.05.183(f).

In Section 7.1 (Default), the first of the six conditions of default listed has been added so that the state may, with evidence of impending failure to perform, declare a condition of default. This is an important protection for the state since there is often circumstantial evidence, such as inadequate transportation arrangements, which precede actual failure to perform.

Minor revisions can be found in two sections of Article V (Payments and Accounting). These revisions, which track the state's recent royalty oil contracts, make the terms of payment somewhat more stringent for the purchaser. Section 5.3 now calls for payment by wire transfer, and no longer provides for clerical mistakes as an acceptable basis for failing to pay the amount billed. Section 5.7 also eliminates several circumstances previously specified as acceptable grounds for failure to make full payment.

The remaining changes to the GVEA contract are technical in nature and concern numerical corrections, date corrections, definition clarifications, changes in the format, and minor revisions to Sections 3.2 (Good Standing and Due Authorization) and 16.1 (Preferential Hiring). Also, the word "Royalty" has been deleted throughout the contract wherever it precedes the word "Oil" and certain terms made unnecessary by the introduction of the term "Purchase Price" have been deleted.

The clauses particular to GVEA's situation, and to long-term negotiated contracts in general, have been left intact. Examples include Section 2.1 (Quantity), where GVEA may elect to change, within certain bounds, the quantity of royalty oil received, and Section 7.3 (Seller's Remedies), which allows the state to release GVEA from the in-state use requirement, at the state's sole discretion. Section 8.1 (Disposition of Oil Upon Default or Termination) also falls into this category, but GVEA's obligation to continue payment in event of default has a four-month, rather than the standard seven-month, duration. This is because the Prudhoe Bay Unit producers will, by contractual agreement, accept physical custody of small quantities of royalty oil with only a 90-day notice. The volume of royalty oil proposed for sale to GVEA falls within that quantity range.

VI. Findings and Determinations.

1. Competitive bidding is waived.

I have determined in accordance with AS 38.05.183(a) that the best interest of the state does not require competitive bidding for this disposal. The best interest of the state is served by making this award on factors other than the highest price received from a competitive sale. Those factors are detailed in the following section of this document.

In order to realize the objectives implied by the considerations listed in AS 38.05.182-183 and AS 38.06.070 and to obtain benefits for Alaska consumers, disposal by competitive bid with the award determined entirely upon the cash value offered is not in the best interest of the state in this instance. Rather, it is in the best interest of the state to dispose of this royalty oil to GVEA, which offers maximum benefits to state citizens and which will pay a $.30 premium over what the state would have received had the state taken the oil at the weighted average of the Prudhoe Bay lessees' current reported netback prices, as may be retroactively adjusted by resolution of the Amerada Hess litigation.

2. The sale is in the best interests of the State.

Under AS 38.05.183(e) a noncompetitive sale, exchange, or other disposal of royalty oil or gas taken in-kind by the state may be awarded by the commissioner to the prospective buyer whose proposal offers maximum benefits to the citizens of the state.

In accordance with AS 38.05.035(e), AS 38.05.183(c) and (e), and 11 AAC 03.010(d), I find and determine that the taking of royalty oil in-kind and the disposal of that oil to Golden Valley Electric Association, Inc. (GVEA) for use in-state is in the best interests of the state. The following has been considered in making this determination:

a. The state will receive no less from this sale than if it had continued to take its royalty oil in-value at the weighted average of the Prudhoe Bay lessees' current reported netback prices as retroactively adjusted by litigation. The premium of $.30 over that price will likely offset any adverse effects on that price (and state revenues) which could occur when the state meets the needs of a refinery (in this case MAPCO) that would otherwise be a crude oil customer on the West Coast. The Commissioner's Preliminary Findings and Determination to Negotiate Backup Royalty Oil Contract(s) and Conduct a Competitive Royalty Oil Sale of July 12, 1984 detail those potential effects. It is not possible to forecast the impact of customer displacement on West Coast prices, let alone its influence on the current reported in-value price. However, the amount of the premium is likely to cover a reasonable differential. Further, MAPCO presently receives similar amounts of crude oil daily under the existing GVEA short-term contract. AS 38.05.183(e)(1).

b. A disposal to GVEA will have a favorable effect on the economy of the state because it will ensure that the cooperative's members continue to benefit directly from lower electric rates than would otherwise be possible. Each consumer to whom GVEA provides electric service is a member of the cooperative. Profit margins are allocated back to the consumer owners, all of whom are Alaska residents. The cooperative's goal is to provide dependable electrical service to its member-owners at the most economical price.

GVEA is regulated by the Alaska Public Utilities Commission. Over the past year, GVEA has experienced increased consumer need represented by an addition of 2,700 new households. GVEA currently employs 174 people (25 more workers than last year) to bring electric service to more than 50,000 Alaskans. AS 38.05.183(e)(2).

c. An in-state refiner, MAPCO, will be favorably impacted by the proposed GVEA contract. MAPCO's assigned right to purchase 5,000 bpd of state royalty oil enables MAPCO to refine many products for Alaskans in addition to turbine fuel for GVEA. The 5,000 bpd of royalty oil also assists MAPCO in meeting the feedstock requirements of its soon-to-be-expanded refinery. MAPCO may also sell or exchange the resulting return oil (so long as the price discount on turbine fuel provided to GVEA remains materially unaltered) to acquire more oil from TAPS near its Fairbanks refinery.

Although MAPCO will benefit from the proposed GVEA contract, it will not receive a windfall. Because of the $.30 premium, MAPCO will likely pay more for the assigned oil than it does under its own state royalty oil contract. Further, MAPCO's Exhibit A agreement to pay most of any Amerada Hess liabilities arising under the proposed GVEA contract precludes it from passing on Amerada Hess adjustments to GVEA, as it would otherwise do. AS 38.05.183(e)(3).

d. GVEA is uniquely able to use its royalty oil purchases to allow it to supply electrical energy to more than 50,000 Alaskans who currently enjoy price benefits directly attributable to the cooperative's purchase of state royalty oil. AS 38.05.183(e)(4).

e. The state is now highly dependent on oil revenues and will continue to depend on oil revenues in the future. The price term of the proposed sale protects the state's interest by ensuring that revenues from this sale will exceed the in-value alternative. AS 38.06.070(a)(1).

f. The local and regional needs of the Fairbanks area for electrical supply are met by service provided by GVEA to its member owners. The assignment agreement with MAPCO also helps satisfy local and regional needs for petroleum products. AS 38.06.070(a)(2).

g. The continued operation of GVEA, with the attendant payroll and secondary benefits, will have a positive and desired effect on the citizens of the state. While this disposal will likely not result in new capital investment or development, it will enable the efficient use of existing investment and development and contribute to the requirements of a refinery planned for expansion. AS 38.06.070(a)(3).

h. The projected social impacts of a disposal to GVEA are anticipated to be favorable. The benefits presently received from the operation of the electrical cooperative will continue. AS 38.06.070(a)(4).

i. Any additional costs and responsibilities which could be imposed upon the state and affected political subdivisions are likely to be minimal. AS 38.06.070(a)(5).

j. Local and regional consumption of both fuel oil-fired electricity and refined petroleum products will be directly and favorably affected by the GVEA disposal. Local labor markets will continue to benefit through employment opportunities at both GVEA and MAPCO. AS 38.06.070(a)(6).

k. Environmental effects resulting from the proposal will be negligible, if any, since the facility is already in existence. AS 38.06.070(a)(7).

l. The proposed disposal will help existing commercial private enterprise and patterns of investments by assisting in the continued operation of the GVEA cooperative and providing, through assignment, royalty oil to the North Pole Refinery for processing into refined products. AS 38.06.070(a)(8).

In accordance with 11 AAC 03.060(b), the weight given to the applicable criteria in determining the maximum benefit to Alaska citizens must be addressed. In making this finding the Department first assured itself that the state would not lose money by making a disposal to GVEA. Once so assured, other benefits attendant to the disposal were examined. If the price offered did not assure the state at least what it would have received had it left the oil in-value then the sale would not, in the Department's view, serve the state's best interests. For this reason the greatest weight in this disposal was placed on AS 38.05.183(e)(1), the cash value offered. After the cash value offered, the greatest weight was given to the projected benefits of using the oil in the state to directly benefit Alaskan citizens through lower electric rates.

VII. Conclusion.

By the terms of the proposed contract, the state is guaranteed the litigation-adjusted in-value price for its oil as well as a premium on each barrel. The additional premium assures that the state is not initially receiving less for its oil than if it elected to take its royalty share in money at the weighted average of the Prudhoe Bay lessees' reported prices. Should the Amerada Hess litigation be resolved in the state's favor, the state will be entitled to reimbursements resulting from the retroactive price adjustments provided for in the contract, with MAPCO holding the major responsibility for that potential liability. The satisfactory price terms of the proposed contract, coupled with associated direct and secondary benefits for Alaska citizens, supports the decision to waive competitive bidding.

The foregoing facts and analysis support my final finding that this disposal is in the best interests of the state and that it maximizes benefits to Alaska citizens.

Kay Brown

January 16, 1985

Kay Brown, Director
for Esther C. Wunnicke
Commissioner

Date

AGREEMENT FOR THE SALE AND PURCHASE OF ROYALTY OIL

THIS AGREEMENT is entered into as of February 8, 1985 by and between THE STATE OF ALASKA ("Seller") and GOLDEN VALLEY ELECTRIC ASSOCIATION INC., an Alaskan Electric Cooperative Corporation, hereinafter referred to as "Purchaser".

ARTICLE I
DEFINITIONS

As used in this Agreement, the following terms shall have the following respective meanings:

1.1 "Commissioner" means the Commissioner of the Alaska Department of Natural Resources or her designee.

1.2 "Day" means a period of twenty-four (24) consecutive hours, beginning at 12:01 a.m., Alaska Standard Time.

1.3 "Effective Date" shall have the meaning set out in Article VI.

1.4 "Leases" means the Oil and Gas leases which are subject to the terms of the Unit Agreement.

1.5 "Lessee" means any person owning a working interest in any of the Leases.

1.6 "Month" means the period beginning at 12:01 a.m., Alaska Standard Time, on the first day of the calendar Month and ending at the same time on the first day of the next succeeding calendar Month.

1.7 "Oil" or "crude oil" shall have the same meaning as the word "Oil" under the Unit Agreement.

1.8 "Point of Delivery" shall have the meaning set out in Section 2.4.

1.9 "Royalty Oil" means the Oil which the Seller may take in-kind (amount) as its royalty under the Leases whether or not Seller has elected to take or is taking that royalty in-kind.

1.10 "Daily Royalty Oil" means the quantity of Royalty Oil produced by the Lessees each day.

1.11 "Unit Agreement" means the Prudhoe Bay Unit Agreement effective April 1, 1977, by and between Seller and the Lessees, as amended from time to time.

1.12 "TAPS" means the Trans Alaska Pipeline System.

ARTICLE II
SALE OF ROYALTY OIL

2.1 Quantity. Seller agrees to sell to Purchaser and Purchaser agrees to buy from Seller that amount of Oil equal to 2.667% of the Daily Royalty Oil (Maximum Quantity"). Upon at least nine (9) Months written notice to Seller, Purchaser may increase or decrease the amount of Oil to be tendered by Seller at the Point of Delivery, but the amount tendered by Seller under this Agreement shall not exceed the Maximum Quantity. Purchaser recognizes that Seller must normally give six (6) Months notice under the Unit Agreement (or ninety (90) days if the amount increased or decreased is less than ten (10) percent of the current nominations) to increase or decrease the amount of Daily Royalty Oil to be taken in-kind. It is understood and agreed that the volume of Daily Royalty Oil available to Seller will vary and may be interrupted from time to time, and depends upon a variety of factors, including the rate of production from the Leases. Seller disclaims and Purchaser waives any representation, covenant or warranty, expressed or implied, as to the specific quantity or the total or daily, Monthly, average, or aggregate volume of Royalty Oil to be sold or tendered under this Agreement. Seller warrants that it has good title to the Oil tendered under this Agreement. Seller shall hold Purchaser harmless from all liens, encumbrances and valid adverse claims that may affect the Royalty Oil at the time the Royalty Oil is tendered to Purchaser.

If Seller underlifts or stores Royalty Oil at Prudhoe Bay, or if Seller recovers underlifted or stored Royalty Oil, the quantity of Oil tendered under this Agreement shall be calculated as if no Royalty Oil was underlifted or stored or recovered.

2.2 Quality. The Oil sold shall be the same quality as the Royalty Oil delivered by the Lessees to the Seller at the Point of Delivery. It is understood and agreed that the quality of the Oil sold may vary from time to time. Seller disclaims, and Purchaser waives, any guarantee, representation, or warranty, either expressed or implied, of the merchantability, fitness for use, or suitability for any particular use or purpose, or otherwise, of any of the Oil delivered under this Agreement or as to any specific, average or overall quality or characteristic of Oil to be sold or tendered under this Agreement.

2.3 Price of the Royalty Oil. The price for the oil tendered under this Agreement shall be equal to the amount that Seller would have received from its Lessees for the Royalty Oil tendered if that royalty had been payable in money (taken in value) rather than taken in kind plus a premium of $0.30 per barrel plus the Field Cost Allowance incurred by that oil as determined under the Prudhoe Bay Royalty Settlement Agreement (dated April 1, 1980 for reference purposes only), which was entered as part of a final judgment dated August 13, 1980 in State of Alaska, et al v. Amerada Hess Corp., et al., (Superior Court for the State of Alaska, First Judicial District at Juneau) ("Amerada Hess") ("Settlement Agreement") ("Purchase Price"). The Purchase Price shall be determined by Seller based upon the reports submitted by the Lessees for royalty purposes or, when those reports are unavailable, incomplete, or inaccurate, upon information submitted by the Lessees for production tax or other tax purposes, as may be adjusted from time to time as provided in this Agreement. Buyer will only be entitled to review or request material or information which is not confidential under state law or regulation.

The method, basis and amount of royalty due Seller when it takes its royalty in value from the Leases is presently the subject of litigation in Amerada Hess. One of the issues involved is the proper method to be used by the Lessees in calculating the state's royalty when the royalty is payable in money (in value). Until there is a resolution of that dispute through judicial resolution or settlement, the Purchase Price will be based upon the calculation of an amount per barrel equal to the per barrel volume weighted average of the in-value prices reported by the Lessees to Seller for royalty purposes or, when the royalty reports are unavailable, incomplete, or inaccurate, upon information submitted by the Lessees for production tax or other tax purposes, plus $0.30 per barrel plus the Field Cost Allowance as determined under the Settlement Agreement. Upon final non-appealable resolution of each of the various issues that are or will be involved in Amerada Hess, adjustments will be made to previous payments in accordance with each resolution.

If additional amounts are owed by Purchaser to Seller, interest on those amounts will be paid at a variable interest rate which is the higher of: (1) the reference rate as may be announced from time to time by The Bank of America, San Francisco, California, plus three percent (3%); or (2) the rate of return as is realized from time to time in the investment of the State of Alaska's general fund. Amounts owed from Seller to Purchaser shall be repaid at the rate set out in Article 5.6. Buyer will not voluntarily intervene or otherwise participate in Amerada Hess unless Seller expressly consents to that participation in writing. A settlement of Amerada Hess will be binding upon Buyer whether or not Buyer agrees with or consents to the terms of that settlement.

If any applicable law of the United States of America or any rule or regulation promulgated by a federal agency will, in the judgment of Seller, operate to prohibit or prevent Seller from receiving the full amount due under the above provision, Purchaser's obligation to pay the amount of the Purchase Price in excess of the amount permitted will be suspended or adjusted to the minimum extent required for Seller to comply with that law, rule or regulation.

Either party shall have the right to reopen this Agreement, as to price only, during the Month of July, 1987 and every two years thereafter for the purpose of negotiating a new price for the Royalty Oil to be paid under this Section 2.3. The right to reopen may be exercised by either party by giving to the other party thirty (30) days prior written notice. Upon receipt of a notice to reopen, the parties will promptly commence good-faith negotiations in an attempt to establish a new price. In the event that a new price is not agreed to by the parties within ninety (90) days of the effective date of the notice to reopen, either party may terminate this Agreement upon nine (9) Months written notice to the other. The price for any Oil tendered during any such period pending termination shall be calculated as set out hereinabove or as agreed to in a previous reopener. If a new price is agreed to by both parties, such new price shall be effective for Oil tendered in the Month following agreement by the parties on the new price.

2.4 Point and Time of Delivery. Simultaneous with receipt of its Royalty Oil from its Lessees, Seller shall tender the Oil to Purchaser at the point at which Seller receives the Royalty Oil from its Lessees. That point as presently agreed to by Seller and its Lessees in Section 2.3 of the Settlement Agreement is the custody transfer meters into TAPS at Prudhoe Bay.

2.5 Passage of Title and Risk of Loss. Title and risk of loss to the Oil sold under this Agreement shall pass from Seller to Purchaser for all purposes when Seller tenders the Oil at the Point of Delivery.

2.6 Purchaser's Responsibility. Purchaser shall be responsible for the Oil after passage of title. Purchaser will indemnify and hold Seller harmless from and against any and all claims, costs, damages (including reasonably foreseeable consequential damages), expenses or causes of action arising from or in connection with any transaction or event which relates to the crude Oil after title has passed to Purchaser.

2.7 Transportation Arrangements. Purchaser shall make all necessary arrangements for transporting the Oil sold under this Agreement from the Point of Delivery, including satisfaction of line fill obligations and storage tank bottom requirements of TAPS, if any. If and as requested by the Seller, and

at the time or times requested by Seller, Purchaser shall submit specific information concerning the arrangement it has made for transportation of the Oil sold under this Agreement through and away from TAPS and for the resale or other disposal of the Oil. Such information may include the specific tenders of Oil made to TAPS and identification of tankers which will transport the Oil. In addition, Purchaser will provide Seller, if and as requested by Seller, with satisfactory evidence or reasonable assurance of the existence and continuing validity of adequate arrangements for the transportation or disposal of the Oil subject to this Agreement. Failure to provide information, evidence or assurances requested will, at Seller's election by notice to Purchaser, be a material default under this Agreement.

2.8 Absolute Obligations. The obligations of Purchaser to accept, pay for, and arrange for the transportation of the Oil tendered or sold under this Agreement are absolute and will not be excused or discharged by the operation of any disability of Purchaser, event of force majeure, impracticability of performance, change in conditions, or any other reason or cause.

2.9 Date of First Delivery. The date of First Delivery will be four (4) Months after the Effective Date unless Seller, in its sole discretion, sets an earlier date.

2.10 Performance Guaranty and Reservation Fee. If Purchaser does not take the Maximum Quantity on the Date of First Delivery, Purchaser shall pay to Seller, in addition to the Purchase Price, an amount equal to 1.25% of the Purchase Price per barrel per day on the difference between the Maximum Quantity and the actual quantity tendered to and accepted by Purchaser ("Actual Quantity") for each day Purchaser does not take the Maximum Quantity on and after the Date of First Delivery. The payment of this fee shall end on the day that Purchaser accepts delivery of the Maximum Quantity. When Purchaser accepts the Maximum Quantity, all of the amounts paid under this Article 2.10 will be allowed to be credited against future payments for Oil tendered under this Agreement except for an amount to be retained by Seller equal to .75% of the Purchase Price per barrel per day on the difference between the Maximum Quantity and the Actual Quantity for each day Purchaser did not take the Maximum Quantity on and after the Date of First Delivery. If

Purchaser should thereafter decrease the amount of Oil to be tendered under this Agreement, Purchaser shall pay to Seller, in addition to the Purchase Price, an amount equal to .75% of the Purchase Price per barrel per day after the date that the decrease in the amount of Oil to be tendered by Seller takes effect on the difference between the Maximum Quantity and the Actual Quantity.

2.11 In-State Processing. Purchaser agrees that all Oil purchased under the terms of this agreement shall be processed or burned in the State of Alaska. As used in this Agreement "processed or burned in the State of Alaska" means the following described uses or a use substantially similar to those uses, which provides an equivalent benefit to GVEA's consumers. Purchaser has assigned its Oil to MAPCO PETROLEUM Inc. for processing the crude oil into a fuel usable at Purchaser's generating station. Under this arrangement, Purchaser is assured of a dependable supply of fuel, which assists Purchaser in providing uninterrupted electrical service to its consumers. Purchaser also receives from MAPCO a lower refining charge or processing fee which Purchaser passes directly through to its consumers in the form of reduced electric rates. If Purchaser's arrangement with MAPCO ever fails to yield these benefits, Purchaser has a commitment from the Rural Electrification Administration for mortgage funds to be made available to pay for the prompt conversion of Purchaser's generating units so that the Oil could be burned as fuel by Purchaser without first being processed. Upon such conversion, Purchaser could again provide its consumers with a dependable supply of electricity at a cost lower than otherwise possible.

Purchaser's continued receipt of a dependable supply of fuel upon terms that allow Purchaser to provide its consumers with electricity at a cost significantly lower than otherwise possible is a material element of this agreement. Purchaser's failure to process or burn in the State of Alaska as defined in this Agreement the Oil tendered under this agreement will, at Seller's option, constitute a material default under this agreement. However, Seller may, at its option, waive the in-state processing or burning requirement in whole or in part, if Seller is satisfied that the waiver would not be contrary to the underlying intent of the other provisions of this Agreement.

ARTICLE III
REPRESENTATION AND OBLIGATIONS OF PURCHASER

Purchaser warrants, represents, and agrees:

3.1 Good Standing and Due Authorization. Purchaser is, and at all times during the operation of this Agreement shall remain, a corporation organized and existing under and by virtue of the laws of the United States or of any state, territory or the District of Columbia, and qualified to do business in, and in good standing with, the State of Alaska. Purchaser has all necessary corporate power to enter into this Agreement and to perform its covenants and obligations under this Agreement. All necessary corporate action has been taken to authorize Purchaser's entering into this Agreement and performing its covenants and obligations under this Agreement.

3.2 Financial Condition. The financial information submitted to Seller is complete and correct and fairly presents Purchaser's financial condition at the time the information was submitted to Seller. The financial information was prepared in accordance with generally accepted accounting principles consistently applied. Since the date the information was submitted, the condition, business and properties of Purchaser have not been materially adversely affected in any way. Purchaser agrees to inform Seller immediately if during the term of this Agreement there is any material adverse change in the condition, business, or properties of Purchaser which would have an appreciable adverse effect on Purchaser's ability to perform under this Agreement. Purchaser, in addition, will immediately inform Seller of any significant change in ownership of either Purchaser or any of its affiliates or parent company, and of any change in Purchaser's operations or agreements, which would appreciably affect Purchaser's performance under this Agreement.

3.3 Financial Statements. As soon as possible after the end of each fiscal year of Purchaser, and in any event within one hundred twenty (120) days thereafter, Purchaser will furnish to Seller, at Purchaser's sole cost and expense, a report or a complete copy of a report in a form to be prescribed from time to time by Seller which will include Purchaser's balance

sheet as of the close of the fiscal year and the income statement for that year, prepared in each case in accordance with generally accepted accounting principles consistently applied by certified public accountants of recognized standing. For purposes of complying with this Article, Purchaser may submit, and Seller will accept, the annual report of the Golden Valley Electric Association, Inc.

3.4 Option to Purchase Return Oil. If Purchaser assigns Oil purchased under this agreement for fuel usable in the present configuration of its generating station, there may remain a portion of Oil or Oil products which will not be processed for consumption in-state ("Return Oil"). This Return Oil may be shipped through TAPS. Return Oil shipped through TAPS becomes intermingled with unprocessed crude oil so that when the Return Oil is picked up in Valdez it is identical to the common stream crude oil shipped through TAPS. A shipper of Return Oil presently is, and may continue to be, liable for the payment of a quality bank adjustment differential based upon the resulting degradation of TAPS common-stream crude ("quality penalty").

Purchaser grants Seller an option to purchase all the Return Oil. For the purposes of determining the volume of Return Oil for which Seller may exercise its option to purchase under this Agreement, that volume shall be a proportion of the Oil tendered under this Agreement equivalent to the ninety (90) day rolling weighted average, determined monthly, of the ratio of total refined products produced to total refinery charge. Seller shall exercise this option by giving Purchaser nine (9) months' advance written notice. The notice shall specify the date delivery will commence and the point of delivery to Seller. Thereafter Seller may terminate the purchase of Return Oil by giving nine (9) months' advance written notice.

Seller shall have the option to take title to the Return Oil either at the tanker flange inlet in Valdez, Alaska, or at the MAPCO refinery outlet to the Golden Valley Pipeline at North Pole, Alaska. The per-barrel Return Oil purchase price shall be the full cost to Purchaser or Purchaser's assignee at the point of redelivery minus any "quality penalty" which had or would attach, which will be paid by Purchaser. Purchaser or Purchaser's assignee will assign all necessary shipment rights to guarantee delivery to Seller at

Seller's designated delivery point and to facilitate the reinjection into and transportation of the Return Oil through TAPS.

Purchaser or Purchaser's assignee shall furnish Seller or the Seller's designee, on or before the tenth day of the month following the month of delivery, a provisional invoice covering the Return Oil delivered to Seller or Seller's designee in the preceding month. The price of the Return Oil to Seller or Seller's designee shall be the price paid by Purchaser for Oil tendered under this Agreement for the month preceding delivery. The Seller or the Seller's designee shall make payment to Purchaser or Purchaser's assignee on or before the twentieth day of the month following the month of delivery. The initial billing may be adjusted in a subsequent month's invoice as more accurate or complete information concerning the quantity and Purchase Price of the Return Oil delivered each Month is available. Subsequent adjustments to the Return Oil initial billing shall also be made for Amerada Hess as specified in Section 2.3 and for other adjustments as specified in Section 5.5.

The amount of all sums which are not paid when due under this option or which are subsequently determined to be due under an adjustment, shall bear interest from the date accrued until paid in full at a variable rate per annum equal to the reference rate as announced from time to time by the Bank of America, San Francisco, California, plus one and one-quarter percent (1.25%) per annum, provided, however, that any interest due on an adjustment made as a result of the Amerada Hess litigation shall be at the same rate charged by Seller under Section 2.3.

The option to purchase Return Oil will remain in effect for the term of this Agreement. Failure to exercise this option for any period of time will not affect the Seller's right to exercise the option at a later time. This option, in whole or in part, and for any term, shall be freely assignable by Seller and such assignment shall release Seller from all obligations to receive or pay for the Return Oil sold under this option, provided, however, that Purchaser or Purchaser's assignee shall have the right to demand of an assignee of the Seller reasonable security for the Return Oil sold to that assignee. If authorized in an assignment by Seller, that assignee shall have the further right freely to assign that option, however, that assignment shall

not release the assignee (or any subsequent assignee) of any responsibilities or liabilities to Purchaser or Purchaser's assignee unless agreed to by Purchaser or Purchaser's designee. Seller shall provide Purchaser or Purchaser's designee with written notice of any such assignment.

ARTICLE IV
MEASUREMENTS AND TESTS

The quantity and quality of the crude Oil sold under this Agreement shall be determined at the Point of Delivery. Procedures and methods for measuring and metering the Oil sold under this Agreement shall be in accordance with the practices then in effect at Prudhoe Bay, Alaska.

ARTICLE V
PAYMENTS AND ACCOUNTING

5.1 Billing. Seller will send to Purchaser, on or before the 10th (tenth) business day of each Month after delivery of Oil, an invoice statement of account of all Royalty Oil estimated to have been measured at the custody transfer meter into TAPS and tendered to Purchaser under this Agreement during the immediately preceding Month according to the best information available to Seller, the estimated Purchase Prices applicable to those deliveries, and the total amount due ("initial billing"). The estimates will be made by Seller according to the best information reasonably available to Seller. Seller may render its initial billing to Purchaser based in part upon information reported by the Lessees to Seller and information published by the U.S. Government. Seller shall thereafter adjust its initial billing under this Article as soon as more accurate information concerning the quantity and Purchase Price of Oil delivered each Month is available. Seller, however, shall not be required to adjust the initial billing prior to the sending of the next Month's invoice statement of account.

5.2 Initial Adjustment. After the Monthly invoice under Section 5.1, the subsequent Monthly invoice will also state Seller's initial adjustments to be made, if any, to the invoice rendered in the immediately preceding Month, in accordance with any additional or more accurate information which may have become available to Seller. Whether or not initial adjustments are made, however, subsequent adjustments may be made under Section 5.5.

5.3 Payment. Purchaser will make payment of each amount billed under this Article within ten (10) days after receipt of the invoice statement of account. Payment shall be made without any deduction, set off, or withholding, by wire transfer of immediately available funds to Seller's account at the following address:

First Pennsylvania Bank Philadelphia
ABA No. 031000024
For Credit to State of Alaska
Account No. 07/089250/00
Attn: Catherine Hess

Payment may be made in such other manner or to such other address as Seller may specify in the invoice statement of account or by other written notice. All other payments to be made under this Agreement shall be paid in the same manner. If payment is due on a Saturday, Sunday, or legal holiday of the place where payment is to be received, payment shall be made on the next following business day. It is recognized that Seller may bill, and that Purchaser will pay, amounts that are based upon confidential information held or received by Seller. If confidential information is used as the basis for a billing, then upon request Seller will furnish Purchaser with the certified statement of the Commissioner that the amounts billed are correct based upon the best information available to Seller. If a dispute concerning a bill arises, Purchaser agrees to pay the full amount billed by Seller, pending final resolution of the dispute.

5.4 Payment to Lessee. Purchaser, at the request of Seller in the invoice statement of account or otherwise in writing, shall pay all or any portion designated by Seller of that payment required to be made to one or more of the Lessees at an address or addresses and in the manner designated by Seller. The payment will be made within the time limit specified in Section 5.3. Seller may authorize and designate a third party to make the request and

designate the amount, manner and place of payment under this provision. Unless otherwise specified, the balance of the payment due, if any, and payment for subsequent Months, shall be made in accordance with Section 5.3.

5.5 Subsequent Adjustments. Purchaser acknowledges that more accurate information concerning the quantity of or Purchase Price for Royalty Oil tendered may subsequently become available to Seller. In the event that any such information should subsequently become available to Seller, Seller shall promptly furnish a corrected invoice statement of account to Purchaser and the parties will adjust the amount billed and pay or refund the amount of those adjustments. In the event that Seller should render a corrected invoice to Purchaser, any amount to be refunded from Seller to Purchaser or paid from Purchaser to Seller will be paid within fifteen (15) days after the date of the corrected invoice. However, when the adjustment concerns an amount last invoiced more than sixty (60) days before the corrected invoice, the amount will be paid by Purchaser or refunded by Seller, as the case may be, in equal Monthly installments over the same period of time as that over which the adjustment accrued or six (6) Months, whichever is the shorter period. No adjustment will be made more than twelve (12) Months after the date of the last original invoice to which the adjustment relates, except for adjustments resulting from: (i) regulatory or court proceedings (including appeals) commenced or pending during that twelve (12) Month period, whether or not Seller or Purchaser is a party to the proceeding, or (ii) bona fide audits by Seller of any Lessee(s) commencing at any time during the period six (6) years after the date of the last invoice to which such adjustment relates, or any resolution of disputes arising out of those audits. Adjustments due to audits or regulatory proceedings or court proceedings may be made at any time. The provisions of this Section 5.5 will survive any termination of this Agreement.

5.6 Interest. Except for adjustments made upon resolution of Amerada Hess under Article 2.3, the amount of all sums which are not paid when due under this Agreement or which are subsequently determined to be due under an adjustment under Section 5.5, shall bear interest from the date accrued until paid in full at a variable rate per annum equal to the reference rate as announced from time to time by the Bank of America, San Francisco, California, plus one and one-quarter percent (1.25%) per annum.

5.7 Late Payment Penalty. If Purchaser fails to make full payment within one (1) day of the date that payment is due, then in addition to the amount due plus interest from the date that payment was due until the date of payment, Purchaser will pay an amount equal to one percent (1%) of the amount owed.

5.8 Payment to Third Parties. Seller may direct that Purchaser pay any amount due or which may become due directly to a third party in the manner and time as may be directed by Seller in written notice to Purchaser if, in the Seller's sole discretion, the payment to the third party will assist Seller in monitoring or enforcing this Agreement.

ARTICLE VI
TERM

This Agreement shall become effective upon execution by the parties and after enactment of legislation by the State of Alaska (including approval by the Governor) approving this Agreement. This Agreement shall be null and void if it is not so approved by September 30, 1985. Subject to the other provisions contained in this Agreement, Seller's obligation to sell and Purchaser's obligation to buy Royalty Oil shall begin as provided above, and shall end June 30, 1995. As used in this Article, "enactment of legislation" is as defined in AS 01.10.070(f)(4).

ARTICLE VII
DEFAULT OR TERMINATION

7.1 Default. If any one or more of the following events ("Events of Default") occur, then at Seller's option, Seller may terminate or suspend its obligation to tender and sell Royalty Oil and proceed to exercise any one or more of the rights and remedies provided in this Agreement:

(i) At any time, Purchaser (a) repudiates any of its covenants or obligations under this Agreement, or (b) fails, within five (5) Days after written request from Seller, to provide Seller with written affirmation of this Agreement and of Purchaser's intention to perform under this Agreement (together with evidence or assurances of transportation arrangements pursuant to Section 2.7 reasonably satisfactory to Seller); or

(ii) Purchaser does not pay in full any sum owed under this Agreement at the time when payment is due; or

(iii) Purchaser fails to observe or perform any of its other covenants and obligations under Article II; or

(iv) Purchaser does not perform any act required or contemplated under this Agreement and either: (a) the nonperformance continues for more than thirty (30) days after Seller has notified Purchaser of Purchaser's nonperformance; or (b) Purchaser had failed to perform the same or any other act required or contemplated under this Agreement during the immediately preceding twelve (12) Month period; or

(v) There is a material adverse change in Purchaser's condition, business or property which appreciably affects the ability of Purchaser to perform any of its obligations under this Agreement, and Purchaser is unable to give Seller adequate assurance of continued performance either within five (5) days of a request for such an assurance or within such other shorter time period as Seller may reasonably request under the circumstances; or

(vi) Any representation or warranty made by Purchaser in this Agreement proves to have been false or incorrect in any material respect at the time that the representation or warranty was made.

7.2 Failure to Pay Debts. If at any time Purchaser becomes unable to pay any of its debts when those debts are due, or should otherwise become insolvent (without regard to how that insolvency may be evidenced), Purchaser will immediately give notice of that fact to Seller. Whether or not that notice is given, if Purchaser becomes unable to pay any of its debts when those debts are due or should otherwise become insolvent, Seller's obligation to tender and sell Oil under this Agreement will automatically and immediately terminate without any requirement of notice or other action by Seller; however, Purchaser will nevertheless be and remain liable for payment and performance of all of its obligations and covenants under this Agreement with respect to Oil actually tendered by Seller to and after any such termination. Within thirty (30) days after receipt of Purchaser's notice or, if no notice is given, after Seller otherwise becomes aware (as determined in Seller's sole discretion) of Purchaser's insolvency, Seller will have the right, upon written notice to Purchaser, to reinstate all of Seller's and Purchaser's obligations under this Agreement retroactively to the date of termination.

7.3 Seller's Remedies. Upon the occurrence of any Event of Default or if Seller's obligation to tender and sell Oil under this Agreement is terminated or suspended under Sections 7.1 and 7.2, all obligations of Purchaser accrued but not otherwise due and payable under this Agreement will immediately be due and payable in full. In addition, Purchaser will indemnify and hold Seller harmless from and against all other liability, damages (including reasonably foreseeable consequential damages), costs, losses and expenses (including reasonable attorneys' fees and disbursements) incurred by Seller and arising out of the Event of Default, termination, or suspension. Seller shall have the right cumulatively to exercise any and all other rights and remedies and to obtain all other relief available under applicable law or at equity, including mandatory injunction and specific performance. Seller, upon occurrence of any Event of Default, in its sole discretion, may arrange for any disposition to third parties of Royalty Oil to be tendered and sold under this Agreement. Upon the occurrence of any Event of Default, Purchaser may, in Seller's discretion, be released from the obligations set forth in Article 2.11 (In-State Processing) until the Event of Default no longer exists or the obligation of Purchaser to take Oil under this Agreement expires. If upon occurrence of any Event of Default Seller makes arrangement f

disposition to third parties of Oil, or if Purchaser is released from Article 2.11, whether or not this Agreement is terminated, Purchaser will nevertheless be and remain liable to Seller for the full amount of the Purchase Price for that Oil in excess of the Purchase Price over any amount or amounts received by Seller on account of that disposition, net of the expenses of that disposition and for all other costs, expenses (including reasonable attorneys' fees and disbursements), and losses incurred by Seller and arising out of the Event of Default or disposition.

7.4 Purchaser's Exclusive Remedies. Upon any breach of, or default in, the due and timely observance or performance of any of Seller's convenants or obligations under this Agreement, Purchaser acknowledges and agrees that Purchaser's remedies will not include a temporary restraining order or preliminary injunction preventing Seller from taking any action with regard to the Royalty Oil which is the subject of this Agreement.

ARTICLE VIII
DISPOSITION OF OIL

8.1 Disposition of Oil Upon Default or Termination. Purchaser acknowledges and agrees that under the Unit Agreement and Leases, Seller's election to take Royalty Oil in-kind can be revoked or reversed only upon the satisfaction of various conditions, including the giving of six (6) Months notice to return all or more than ten percent (10%) of Seller's then current nominations. Purchaser acknowledges and agrees that Seller's election to invoke its rights to return to taking its Royalty Oil in value on less than six (6) Month's prior notice, or to attempt to secure a waiver of any condition or requirement, is at Seller's sole and complete discretion. Notwithstanding termination of this Agreement for default or for any other reason, including expiration or termination under any provision contained in this Agreement, Purchaser shall continue to take and purchase Seller's Royalty Oil in the amount and for the price set forth in this Agreement for up to four (4) Months following termination of this Agreement if Seller, in its discretion, so requires.

8.2 Inability to Receive Oil. If for any reason Purchaser is unable or refuses to accept or receive any Oil tendered under this Agreement, Purchaser shall nevertheless be and remain responsible for the disposal of that Oil and for paying Seller for the Oil as though it had been received and accepted by Purchaser unless Seller, in its sole discretion, elects to waive this requirement. In order to secure the obligations of Purchaser under this Section 8.1 and under Section 2.8, Purchaser shall, if and as Seller may request from time to time, assign to Seller all right, title and interest of Purchaser under any nominations, leases, agreements, contracts, charter parties and other arrangements for the transportation of the Oil sold under this Agreement through and away from the Trans Alaska Pipeline System; provided, that Seller shall not have any liability or obligations under any such nominations, leases, agreements, contracts, charter parties or other arrangements unless, and to the extent that, Seller shall actually exercise its rights to succeed to Purchaser's interest thereunder and shall obtain the benefits thereof.

8.3 No Right to Storage or Underlift. Purchaser waives and disclaims any interest or right that it may assert to storage of Royalty Oil, including by underlift or other means, to which Seller is or may come to be entitled under the Leases or any other agreement.

ARTICLE IX
WAIVER

The failure of either party to insist upon strict performance of any provision of this Agreement shall not constitute a waiver of, or estoppel against, asserting the right to require that performance in the future. A waiver or estoppel in any one instance shall not constitute a waiver or estoppel with respect to a later breach of a similar nature or otherwise. A course of performance established by a party shall also not estop the other party from complaining of a later breach similar in nature.

ARTICLE X
VALIDITY

If any provision or clause of this Agreement or application of this Agreement to any person or circumstance is held invalid, that invalidity shall not affect other provisions or applications of this Agreement which can be given effect without the invalid provision or application. If, however, an invalidity should operate to impair any material right or remedy of a party to this Agreement, that party may terminate this Agreement by notice to the other.

ARTICLE XI
FORCE MAJEURE AND CHANGE IN CONDITION

11.1 Effect of Force Majeure. Except for Purchaser's obligations to make payment of money for Oil tendered under this Agreement and except for Purchaser's obligations to accept and dispose of Royalty Oil, neither party shall be liable for any failure to perform the terms of this Agreement when the failure is due in whole or in substantial part to force majeure. The term "force majeure" as applied to this Agreement shall mean Acts of God, strikes, lockouts and industrial disputes or disturbances, civil disturbances, arrests and restraints from rulers or people, interruptions by government or court orders or by present or future orders of any regulatory body having or asserting jurisdiction, acts of the public enemy, wars, riots, blockades, insurrections, inability to secure materials by reasons of allocations promulgated by authorized governmental agencies, epidemics, landslides, lightning, earthquakes, fires, storms, floods, washouts, explosions, breakage or accident to machinery or lines of pipe, freezing of wells or pipelines, or any other event or condition, whether of the kind herein enumerated or otherwise, not within the reasonable control of the party claiming the benefit of this excuse. If, however, any material obligation of Purchaser is excused or suspended because of a claim of force majeure for a period of three hundred sixty-five (365) successive days or more, Seller will have the right to terminate this Agreement. Prior to Seller exercising its right to terminate this Agreement Seller and Purchaser shall enter into good faith negotiations to restore, to the fullest extent possible, Seller and Purchaser to the

benefits and obligations that existed under this Agreement before the occurrence of the force majeure condition.

11.2 Responsibility. Upon the occurrence and discovery of an event providing the basis for a claim of force majeure, the party making a claim shall notify the other party to this Agreement of its claim of force majeure. Upon the occurrence of an event constituting force majeure, that event shall, so far as possible, be remedied with all reasonable diligence and dispatch. Except for Purchaser's obligations to make payment of money for Oil tendered under this Agreement and except for Purchaser's obligation to dispose of Oil, the obligations of the disabled party to perform under this Agreement, insofar as they are affected by that force majeure, shall be suspended from the time that force majeure occurs and for so long as the disability caused should have continued had the party claiming the existence of the force majeure remedied the event providing the basis of the claim of force majeure with reasonable diligence and dispatch, and for no longer. The settlement of strikes or lockouts or industrial disputes or disturbances will be entirely within the discretion of the party having the difficulty, and the above requirement that any force majeure shall be remedied with diligence and dispatch shall not require the settlement of strikes, lockouts, or industrial disturbances by acceding to the demands of any opposing party therein when such course is inadvisable in the sole discretion of the disabled party.

ARTICLE XII
NOTICES

12.1 Method. All notices, requests, demands or statements shall be in writing, and may be delivered personally to the party to be notified or may be sent by registered or certified United States mail, postage prepaid, with a return receipt requested to such party. Notice deposited in the mail in this manner shall be effective upon the expiration of seven (7) days after it is so deposited. Notice given in any other manner shall be effective only if and when received by the addressee. For the purposes of notice, the addresses of the parties to this Agreement shall be as follows:

If to Seller: State of Alaska
Commissioner of Natural Resources
Pouch "M"
Juneau, Alaska 99811

and

Commissioner of Revenue
Pouch "S"
Juneau, Alaska 99811

and

Director, Division of Oil and Gas
Pouch 7-034
Anchorage, Alaska 99510

If to Purchaser:

GOLDEN VALLEY ELECTRIC ASSOCIATION, INC.
P.O. Box 1249
Fairbanks, Alaska 99707

and (as long as the right to Oil is assigned thereto)

Vice President-Supply
MAPCO PETROLEUM Inc.
P.O. Box 645
Tulsa, Oklahoma 74101-0645

12.2 Change of Address. Each party may change its address for notice by giving notice of the change.

ARTICLE XIII
RULES AND REGULATIONS

This Agreement is subject to all present and future valid laws, orders, rules and regulations of the United States, the State of Alaska, and any duly constituted agency thereof.

ARTICLE XIV
SOVEREIGN POWER OF THE STATE

This Agreement and its covenants shall not be interpreted as a limit on the exercise by the State of Alaska of any of its sovereign or regulatory powers, whether conferred on the State by constitution, statute or regulation, including but not limited to, its regulatory power over the Leases. The exercise by the State of Alaska of any sovereign or regulatory power will not operate or be deemed to enlarge any rights of Purchaser or to limit or impair any obligations or liability of Purchaser under this Agreement, except for state statutes enacted after the effective date of this Agreement which have a direct and significant adverse effect on the ability of Purchaser to perform an obligation under this Agreement other than the obligations to accept, dispose, and pay for Royalty Oil tendered under this Agreement.

ARTICLE XV
SECURITY

Thirty (30) days prior to the Date of First Delivery, Purchaser shall cause to be furnished to Seller evidence that an irrevocable stand-by letter of credit for the benefit of Seller effective by Date of Delivery, will be issued by a state or national banking institution of the United States which is a member of the Federal Deposit Insurance Corporation and has an aggregate capital and surplus of not less than One Hundred Million Dollars ($100,000,000), or other banking institution acceptable to Seller in its sole discretion. The principal face amount of the letter of credit shall initially be Five Million, Three Hundred Sixteen Thousand Dollars ($5,316,000). The letter of credit shall be substantially in a form satisfactory to the Commissioner, but in any event shall not require any documents to be submitted in support of drafts drawn against this letter of credit other than the certified statement of the Commissioner or her designee and the Attorney General of the State of Alaska or his designee that Purchaser is liable to Seller for a sum equal to the amount of such draft, and that that sum is due and payable in full and has not been timely paid. In the event that Seller should have reasonable grounds for asserting any claims against Purchaser

under this Agreement and does assert those claims in an aggregate amount in excess of the aggregate principal face amount of the letter of credit then in effect, Purchaser shall upon Seller's request (whether or not Purchaser may deny, reject or otherwise resist such claims) cause the principal face amount of the letter of credit to be increased by an amount equal to the excess. The principal face amount of the letter of credit shall also be automatically increased by Purchaser without request from Seller whenever the face amount is less than the expected Purchase Price of sixty (60) days of Oil tendered under this Agreement, to an amount equal to the expected Purchase Price of sixty (60) days of Oil tendered. The principal face amount of the letter of credit may be decreased by Purchaser upon approval of Seller (which approval will not be unreasonably withheld) if the face amount is more than the expected Purchase Price of sixty (60) days of Royalty Oil tendered under this Agreement, to an amount equal to the expected Purchase Price of sixty (60) days of Royalty Oil tendered. The Commissioner may accept such other or additional security as she, in her sole discretion, considers adequate to protect Seller.

ARTICLE XVI

PREFERENTIAL HIRING AND NON-DISCRIMINATION

Purchaser agrees to hire and employ Alaska residents and Alaska companies to the extent they are available, willing and qualified for all work performed in Alaska that is performed under or in connection with this agreement. As used in this agreement "Alaska resident" means an individual who has resided in the State for one year at the time of hiring or employment and "Alaska companies" means those companies who are incorporated in the State of Alaska or whose principal place of business is in Alaska.

If this provision is determined to be unconstitutional by a court of competent jurisdiction, then Purchaser agrees to hire and employ Alaska residents and Alaska companies to the extent such preferential hiring is determined to be constitutional.

ARTICLE XVII
APPLICABLE LAW

17.1 Alaska Law. This Agreement shall be governed by and construed in accordance with the laws of the State of Alaska, excluding any conflict-of-law rule or principle which might refer such construction to the laws of another state or country.

17.2 Submission to Jurisdiction. Any legal action or proceeding arising out of or relating to this Agreement or for the enforcement of the covenants or obligation of either party must be instituted in a State court of general jurisdiction sitting in the State of Alaska, and Purchaser hereby irrevocably submits to the jurisdiction of that court in any such action or proceeding.

ARTICLE XVIII
WARRANTIES

The purchase and sale of Royalty Oil under this Agreement is subject only to the warranties of Seller expressly set forth in this Agreement and Seller disclaims and Purchaser waives all other warranties, expressed or implied in law, whatsoever.

ARTICLE XIX
AMENDMENT

This Agreement may be supplemented, amended or modified at any time, but only by written instrument duly executed by the parties to this Agreement. Any material amendment to the contract which appreciably reduces the consideration received by the State requires prior approval of the Legislature of the State of Alaska.

ARTICLE XX
SUCCESSORS AND ASSIGNS

No assignment, pledge or encumbrance of this Agreement shall be made by either party without first obtaining the written consent of the other party. The Commissioner may grant such consent on behalf of the Seller. The Commissioner shall have sole and complete discretion in granting or denying a proposed assignment, pledge or encumbrance. Subject to the above requirements in this Article, this Agreement will be binding upon and inure to the benefit of each of the parties and its successors and permitted assignees. In addition, if Purchaser gains or acquires a controlling interest in an entity which has an agreement with Seller for the sale of Royalty Oil ("Other Agreement"), then Seller, at its option and on one year's notice, may require Purchaser to terminate either this Agreement or the Other Agreement. The choice of which Agreement to terminate will be Purchaser's. Purchaser may request that Seller waive this option in advance of Purchaser gaining a controlling interest in an entity which has an agreement with Seller for the sale of Royalty Oil. The Commissioner has sole and complete discretion in granting or denying the requested waiver.

ARTICLE XXI
HEADINGS

Headings used in this Agreement are for convenience only and shall not affect the construction of this Agreement.

ARTICLE XXII
RECORDS

22.1 Preservation of Records. Purchaser will preserve and maintain all books, accounts, and records relating to or arising out of the performance of this Agreement, including but not limited to the purchase or sale of Royalty Oil and its refined products, for a period of six (6) years. Purchaser will also maintain and preserve all similar books, accounts, and records of which

it has possession belonging to those third parties with whom it contracts for the performance of various parts of this Agreement. Neither Purchaser nor Seller shall be required to retain any records for more than six (6) years unless retention of such records is specifically required by applicable law or regulation. Purchaser shall either maintain its records within the State of Alaska or make such records available to Seller at Purchaser's principal office in the State of Alaska within thirty (30) days after written request by Seller.

22.2 Inspection of Records of Parties. Purchaser and Seller will accord to each other and to their authorized agents, attorneys, and auditors during reasonable business hours access to any and all property, records, books, documents, and indexes directly relating to Purchaser's or Seller's performance of this Agreement and which are under the control of the party from which access is desired so that the other party may inspect, photograph and make copies of that property, records, books, documents and indexes. In no event, however, shall Seller be required to disclose any information, data, or records which are required to be held confidential by state law or regulation. If the information obtained by Seller may be held confidential under state or federal law or regulation, Purchaser may request that that information be held confidential by Seller.

ARTICLE XXIII
INTERPRETATION OF TERMS AND CONDITIONS

In the event that there is a disagreement about the meaning or application of a word, term, or condition in this Agreement, Purchaser will present the arguments supporting its view in writing to the Commissioner for her consideration. The Commissioner will subsequently, within a reasonable time, issue a finding on the meaning or application of the disputed word, term, or condition, setting forth the basis for her conclusions. Purchaser agrees to accept findings by the Commissioner under this Article as long as there is substantial evidence supporting the Commissioner's findings. None of the above shall empower the Commissioner to set the price of the Oil should such price become subject to renegotiation pursuant to Section 2.3.

DATED this 8th day of February 1985.

SELLER: THE STATE OF ALASKA

_____
Commissioner,
Department of Natural Resources

PURCHASER: GOLDEN VALLEY ELECTRIC ASSOCIATION, INC.

By _____
Michael P. Kelly
General Manager

Alaska State Legislature

House of Representatives

Pouch V
State Capitol
Juneau, Alaska 99811

HOUSE SPECIAL COMMITTEE ON OIL AND GAS

January 18, 1985 Rep. Mike Davis, Chairman

AGENDA

Appoint committee vice chairman.

Finalize committee meeting time and place.

Determine topics to be discussed by the Division of Oil and Gas on Jan. 25.

Finalize committee budget request.

Determine session agenda for the committee.

Alaska State Legislature

HOUSE SPECIAL COMMITTEE

ON OIL AND GAS

Official Business

Pouch V
State Capitol
Juneau, Alaska 99811

The 14th Legislature has the opportunity to take an aggressive role in clarifying state policy regarding several oil and gas issues. Policy questions include the state's position regarding the disposition of royalty oil, the state's future revenue structure, federal and state offshore conflicts, and the establishment of a state oil-contingency fund.

The following outline presents topics of discussion to be considered by the House Special Committee on Oil and Gas.

Royalty Oil Legislation

1. Dept. of Natural Resources proposed legislation regarding AS 38.05.183, allowing for continuing short-term competitive sales without legislative approval.

2. Dept. of Natural Resources amendment regarding AS 38.05.035(e), removing this reference to the best interest finding.

3. Clarification of best interest regarding proposed MAPCO contract.

4. Policy position toward in-value versus in-kind use of royalty oil.

Alaska Crude Oil Export Ban

1. Possibility of gaining an exemption from the Export Administration Act, in light of national security and lowering the federal deficit.

Federal and State Conflicts

1. Disputed federal-state Beaufort Sea boundary, and the determination of ownership of lease revenues in state and federal escrow accounts.

2. Benefits to Alaska of maintaining royalty oil windfall profits tax exemption.

3. Effects of the Deficit Reduction Act upon revenue sharing from mineral revenues on federal lands.

4. Effects of attempts by the federal government to limit severance tax levies.

Litigation

1. Legislative direction regarding the TAPS settlement case.

2. Possible litigation regarding artificially low West Coast oil prices since 1977.

Taxation

1. Review of taxation of oil and gas revenues.

Natural Gas

1. Probability of gas line construction in light of deregulation and present market conditions.

2. Probability of constructing a small-diameter gas line from Prudhoe Bay to Fairbanks.

Contingency Fund

1. Desirability of establishing a contingency fund in the event of a break in service of oil flowing through the Trans-Alaska Pipeline.

SCOMM

#46:2

Legislative Information and Teleconference Networks

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Billy Vehnekamp Shell Western	601 W. 5th Ave, Anchorage	263-9642		✓
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Dan M Smith Exxon Co USA	Pouch 6601, Anchorage	564 3778		✓
Robert J Walker "	" "	564-3780		✓
AL HASTINGS	3201 C ST	564-7650		✓
JEANNE LEWIS Steve Lewis	Box 56239 North Pole	488-0730		
Mel Monson	BPAE 550 W 7th Ave. Suite 1840	338-7200		✓
CH Rosenthal	PO Box 100360 Anch 99510	2656133		✓
M L Lowman	PO Box 102380 Anch AK 99510	5615311		
Lee Pont Chevron	3001 C Street	786-6734		✓
MIKE HAUSER CHEVRON	3001 C ST	786-6722		✓
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Thomas K. Williams	Cook Inlet Region Inc.	274-8638		X
Pete Nelson	P.O. Box 102267 99510	276-9611		X
Dale C. Scott	Exxon Co. U.S.A.	564-3772		X
David Finkelstein	Sen. Josephson	276-4377		X

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HOUSE SPECIAL COMMITTEE ON OIL AND GAS

Packet Materials

Agenda.

Title 38 draft legislation.

Title 46 draft legislation.

North Slope lease sales - OGJ.

North Slope Unit Map.

8(g) article - OGJ.

Work commitments materials.

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HOUSE SPECIAL COMMITTEE ON OIL AND GAS

REVISED NOTICE OF MEETING

To: All Interested Persons

From: Rep. Mike Davis, Chairman

Date: September 11, 1985

Re: Meeting of the House Special Committee on Oil and Gas

The House Special Committee on Oil and Gas will be meeting in Anchorage on Monday, September 16. The meeting will be held in the teleconference room of the Anchorage Legislative Information Office at 1024 W. 6th Ave., and will also be teleconferenced to Juneau, Fairbanks, Homer, Kenai, Ketchikan, Kotzebue and Valdez. The agenda for the meeting is as follows:

9:00 am - 11:00 am	Discussion of proposed revisions to AS 38.05 and 38.06. Discussion of draft hazardous substance release and oil discharge response funds.
11:00 am - 12:00 pm	Commissioner Wunnicke will speak on royalty oil contract proposals.
12:00 pm - 1:00 pm	Lunch
1:00 pm - 2:00 pm	Assistant Attorney General Mark Worcester will discuss royalty gas valuation and 8(g) litigation.
2:00 pm - 3:00 pm	Division of Oil and Gas Petroleum Manager Bill Van Dyke will discuss North Slope oil development and production.
3:00 pm - 4:00 pm	Division of Oil and Gas Deputy Director Jim Eason and Bill Van Dyke will speak on work commitments on oil and gas leases and unitization proposals, respectively.

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HOUSE SPECIAL COMMITTEE ON OIL AND GAS

Revision of AS 38.05 and 38.06.

The legislature, industry, and state agencies have for several years expressed an extreme dissatisfaction with statutory requirements relating to the production and disposition of state-owned royalty oil and gas. The accompanying draft legislation, which is being presented here for full comment and review, addresses the following points:

Clarity. Sections and subsections within AS 38.05 and 38.06 have been rearranged, where necessary, in order to segregate and clarify requirements relating to mineral leasing, oil and gas leasing, royalty mineral disposition, royalty oil and gas disposition, function of the Alaska Royalty Oil and Gas Development Advisory Board, and criteria to be followed by the board.

Policy. Clear direction is given to the commissioner of the Department of Natural Resources regarding the disposition of royalty oil and gas. Central to this policy is the maximization of state revenues, the sale of royalty oil and gas to in-state refineries and utilities at market rates, and the expansion of foreign markets.

Annual Report. The commissioner must present a report to the legislature at the beginning of each regular session that delineates the status of all state-owned royalty oil and gas production and disposition.

Underlifting. The department is given greater flexibility in its ability to underlift the state's oil and gas in order to take advantage, or prevent the disruption, of market conditions.

Charitable Uses. The disposition of state land and resources at less than market value is restricted to state and federal agencies and political subdivisions, and royalty oil and gas are excluded from such dispositions.

Consumer Benefits. Language is strengthened regarding the degree of benefit that must accrue to consumers from the proposed sale of royalty oil or gas to in-state refiners or utilities.

Negotiated and Competitive Bid Dispositions. Competitively bid dispositions of royalty oil or gas with terms of two years or less may take place without legislative approval, and negotiated dispositions of royalty oil or gas with terms of one year or less may take place without legislative approval.

Alaska Royalty Oil and Gas Development Advisory Board. The board's activities are restricted to reviewing proposed dispositions of royalty oil or gas requiring legislative approval, and presenting its recommendations to the commissioner. The board is transferred from the Department of Commerce and Economic Development to the Department of Natural Resources.

DRAFT

September 1985 DRAFT

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Chapter 06.

Article 6. Leasing of Mineral Lands.

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Sec. 38.05.140. Limitations.
Sec. 38.05.145. Leasing procedure.
Sec. 38.05.150. Coal.
Sec. 38.05.155. Phosphates.
Sec. 38.05.160. Oil shale.
Sec. 38.05.165. Sodium.
Sec. 38.05.170. Sulphur.
Sec. 38.05.175. Potassium.
Sec. 38.05.177. Geothermal resources. (Formerly 38.05.181.)
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Sec. 38.05.184. Limitation on oil and gas leases in certain areas, and reacquisition of leases.

Chapter 00. Royalty on Natural Resources.

Sec. 38.00.010. Legislative findings relating to royalty oil and gas.
Sec. 38.00.015. Taking of royalty. (Formerly 38.05.182.)
Sec. 38.00.020. Sale of royalty. (Formerly 38.05.183.)
Sec. 38.00.025. Sale of royalty oil and gas. (Formerly 38.05.183.)
Sec. 38.00.030. Legislative approval. (Formerly 38.06.055.)
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Chapter 06. Alaska Royalty Oil and Gas Development Advisory Board.

Sec. 38.06.010. Purpose.
Sec. 38.06.020. Establishment.
Sec. 38.06.025. Membership.
Sec. 38.06.030. Compensation; per diem, travel expenses.
Sec. 38.06.035. Meetings, rules, quorum, votes required; conflict of interest.
Sec. 38.06.040. Powers and duties of the board.
Sec. 38.06.050. Board review and recommendation required.
Sec. 38.06.070. Criteria.
Sec. 38.06.080. Definitions.

DRAFT

September 1985 DRAFT

Chapter 05. Alaska Land Act.

Aticle 6. Leasing of mineral lands.

Sec. 38.05.135. Generally. (a) Except as otherwise provided, valuable mineral deposits in land belonging to the state shall be open to exploration, development, and the extraction of minerals. All land, together with tide, submerged, or shoreland, to which the state holds title or to which the state may become entitled, may be obtained by permit or lease for the purpose of exploration, development, and the extraction of minerals. Except as specifically limited by AS 38.05.135 - 38.05.18[1]0, land may be withheld from lease application on a first-come, first-served basis, and offered only on a competitive bid basis when determined by the commissioner to be in the best interests of the state. In unproven areas the commissioner may offer additional incentives [, including a reduction of royalty to a minimum of five percent in the case of oil and gas,] and other terms in granting a permit or lease for exploration and development whenever it appears to be in the best interests of the state to do so.

Sec. 38.05.137. Leasing agreements.

Sec. 38.05.140. Limitations.

Subsections (a) and (b) are transferred to the new subsections 38.05.150(f) and (g), respectively.

Subsection (c) is transferred to the new subsections 38.05.155(c), 38.05.165(d), and 38.05.180(aa).

Subsection (f) is transferred to the new subsection 38.05.18[0](h).

4

Sec. 38.05.145. Leasing Procedure.

Sec. 38.05.150. Coal.

Sec. 38.05.155. Phosphates.

(c) A person may not take or hold at one time phosphate leases on state land exceeding in the aggregate 10,240 acres.

Sec. 38.05.160. Oil Shale.

Sec. 38.05.165. Sodium.

(d) A person may not take or hold sodium leases or permits during the life of sodium leases on state land exceeding in the aggregate acreage 5,120 acres, except that the commissioner may, where it is necessary in order to secure the economic mining of sodium compounds, permit a person to take or hold sodium leases or permits for up to 15,360 acres.

Sec. 38.05.170. Sulphur.

Sec. 38.05.175. Potassium.

Sec. 38.05.177. Geothermal resources.

Sec. 38.05.180. Oil and gas leasing.

(l) Subject to the provisions of AS 31.05, the commissioner has discretion to enter into an agreement whereby, with the consent of the lessee, all or part of the state's royalty share of oil and gas production may be stored or retained in storage by the lessee, or the commissioner may enter into an agreement with one or more of the affected field lease holders to trade all or part of current royalty production from a field for a like amount, kind, and quality of future production, [on the condition] if the comissioner makes a written finding that the state receive back its stored or traded royalty share [during the first half of the estimated field life or no later than 15 years after start of production, whichever is sooner.] before 80 percent of the estimated field life is depleted, considering engineering constraints, whether reserves from other producing fields are pledged to protect the stored or traded royalty share, and other relevant factors.

(aa) A person may not take or hold at any one time oil or gas leases exceeding in the aggregate 500,000 acres granted on tide and submerged land and 500,000 acres on all land other than tide and submerged land, including leases held both as lessee and under option or operating agreement from others. Where more than a single person holds an interest in an oil or gas lease, each person shall be charged only with that percentage of the total beneficial interest in the lease.

Sec. 38.05.184. Limitation on oil and gas leases in certain areas, and reacquisition of leases.

Sec. 38.05.810. (a) The [lease, sale, or other disposal] disposition of state land or resources may be made to a state or federal agency or political subdivision [,or the lease, sale, or disposal of coal deposits suitable for mining may be made to a utility owned and operated by a government agency or nonprofit cooperative association organized to participate under the Federal Rural Electrification Act for the purpose of generating electric power and energy or other production of process steam, or both,] for less than the appraised value as determined by the director [and approved by] if the commissioner determines the [lease, sale, or other disposal] disposition to be fair and proper and in the best interests of the public[,] and makes public, in writing, the specific findings and reasons on which the determination is based. [with d] Due consideration shall be given to the nature of the public services or function rendered by the agency [,] or political subdivision [, or utility] making application, and of the terms of the grant under which the land was acquired by the state.

Sec. 38.05.965.

(6) "disposition" means the sale, exchange, waiver of a right or of a future right to take royalty production, or any other alienation of the state's interest in royalty production;;

MARKET VALUE? DEFINITION

DRAFT

September 1985 DRAFT

Chapter 00. Royalty on natural resources.

Sec. 38.00.010. Legislative findings relating to royalty oil and gas. (a) The legislature finds that it is in the best interest of the state and its citizens that royalties on oil and gas be taken and sold in a manner which will maximize state revenues. To the extent they are consistent with this primary objective, secondary goals are to

(1) supply existing in-state refineries and oil or gas based utilities at market prices;

(2) promote new in-state refineries and oil or gas based utilities which are economically feasible at market prices in the absence of a royalty contract;

(3) promote expansion of foreign markets for Alaskan resources.

(b) The commissioner shall annually prepare and submit to the legislature, between the first and the fifteenth day of each regular legislative session, a royalty oil and gas report that shall include

(1) the royalty status of all producing oil and gas leases;

(2) proposed royalty contracts, and findings relating to the criteria set forth in 38.00.025(b);

(3) an evaluation of consumer benefits resulting from in-state refiners and processors currently receiving royalty oil or gas; and

(4) the volume, percentage and estimated value of royalty oil and gas

(A) being taken in kind and in value;

(B) purchased by in-state refiners and processors;

(C) actually refined or processed in the state;

(D) sold on a competititve and non-competitive bid basis; and

(E) purchased by foreign nations.

Sec. 38.00.015. [Royalty on natural resources.] Taking of royalty. (a) Any royalty provided for in AS 38.05.135 - 38.05.18[0]1 [may] shall be taken in kind [rather than in money if] unless the commissioner determines that the taking in [kind] value would be in the best interest of the state. [However, royalties on oil and gas shall be taken in kind unless the commissioner determines that the taking in money would be in the best interest of the state.]

(b) The commissioner shall reserve the right to take the state's royalty share of resources in kind in all leases issued under AS 38.05.135 - 38.05.180.

Subsection (c) is repealed.

Sec. 38.00.020. Sale of royalty. (a) The [sale, exchange or other disposal] disposition of a [mineral] resource obtained by the state as a royalty under AS 38.0[5.182]0.015[, or the sale, exchange or other disposal in whole or in part of a right to receive future mineral production] under a state lease under this chapter,] shall be by competitive bid and the [sale, exchange or other disposal] disposition made to the highest responsible bidder[,except that]. However, competitive bidding is not required when the commissioner [after prior written notice to the Alaska Royalty Oil and Gas Development Advisory Board under AS 38.06.050,] determines that competitive bidding is not in the best interest of the state [does not require it] or that no competition exists.

(b) When competitive bids are required, the commissioner [after prior written notice to the Alaska Royalty Oil and Gas Development Advisory Board,] may reject all bids on a determination that because of the amount of the bids, the lack of responsibility on the part of the bidders, or for reasons consistent with the criteria set [out] forth in AS 38.0[6.070]0.025(b), the acceptance of the bids would not be in the best interest of the state.

(c) If the commissioner determines that a [sale, exchange or other disposal] disposition of a [mineral] resource obtained by the state as a royalty under AS 38.0[5.182]0.015, or of a right to receive future [mineral] resource production under a state lease under this chapter, shall be made otherwise than by competitive bid, [and the Alaska Royalty Oil and Gas Development Advisory Board has been notified in writing of that determination,] the commissioner shall make public in writing the specific findings and conclusions upon which that determination is based.

Sec. 38.00.025. Sale of royalty oil and gas. The sale of royalty oil and gas shall take place in accordance with AS 38.00.020 and the provisions that

(a) royalty [O]oil or gas taken in kind by the state [as its royalty share] may not be [sold or otherwise] disposed of for export from the state until the commissioner determines that [the royalty-in-kind oil or gas is surplus to the present and projected intrastate domestic and industrial needs] the disposal is in the best interest of the state and makes public, in writing, the specific findings and reasons on which the determination is based [and shall, within 10 days of the convening of a regular session of the legislature, submit a report showing the immediate and long-range domestic and industrial needs of the state for oil and gas and an analysis of how these needs are to be met].

(b) [W]when a [sale, exchange or other disposal] disposition of royalty oil or gas taken in kind by the state [as its royalty share, or a sale, exchange or other disposal in whole or in part of a right to receive future royalty oil or gas] under a state lease under this chapter is made other than by competitive bid, the [sale, exchange or other disposal] disposition shall be awarded by the commissioner to the prospective [buyer] purchaser whose proposal offers the maximum benefits to citizens of the state. The commissioner shall consider

(1) the cash value offered which, notwithstanding AS 38.05.810(a), shall not be less than the market value of the resource;

(2) the projected effects of the [sale, exchange or other disposal] disposition on the [economy] revenue needs and projected fiscal condition of the state;

(3) the projected benefits to local and regional economies of refining or processing the oil or gas in the state;

(4) the projected additional costs and responsibilities which may be imposed upon the state and affected political subdivisions by development related to the disposition;

(5) the projected social impacts related to the disposition;

(6) the projected environmental impacts related to the disposition;

(7) the ability, intent and degree of certainty of the prospective [buyer] purchaser to provide refined products or by-products for distribution and sale in the state with significant price or supply benefits to the citizens of the state; and

(-) [the criteria listed in AS 38.06.070(a).]

(8) the local or regional desirability of the disposition.

(c) the commissioner shall notify the Alaska Royalty Oil and Gas Development Advisory Board in writing of a determination to dispose of oil or gas on a basis requiring legislative approval, in accordance with AS 38.00.030. and 38.06.050.

(d) [T]the commissioner may not enter into a contract for the sale of royalty oil or gas unless the contract provides that

(1) any material amendment to the contract that appreciably reduces the consideration received by the state requires prior approval of the legislature;

(2) an assignment of unrefined royalty oil purchased from the state may not occur unless the assignor or assignee demonstrates to the satisfaction of the department and the board that

(A) the assignment will result in a significant increase of direct monetary benefit to energy consumers; and

(B) the total direct monetary benefit to energy consumers from the assignment will outweigh the monetary benefit to the assignor and assignee.

Sec. 38.00.030. Legislative approval. (a) In addition to the recommendation by the board required under AS 38.06.050, the commissioner [of natural resources] may not enter into a [sale, exchange, or other] disposition of royalty oil or gas [or of the rights or waiver of the rights to receive future production of royalty oil or gas] under [AS 38.05.183] this chapter without the prior approval of the legislature. The legislature may approve a [sale, exchange, or other] disposition of oil or gas [or of the rights or of a waiver of the rights to receive future production of royalty oil or gas] only by enacting legislation.

(b) The provisions of (a) of this section do not apply to

(1) the [sale, exchange, or other] disposition of oil or gas for one year or less if the [sale, exchange, or other] disposition is entered into to relieve storage or market conditions;

(2) the disposition of oil or gas for two years or less if the disposition is bid competitively; or

(3) contracts for the sale of state-owned royalty gas or oil that specify the sale and delivery of not more than

(A) 400 barrels of crude oil per day;

(B) 460 barrels of natural gas liquids per day; and

(C) 2,400 Mcf of natural gas per day.

(c) A [sale, exchange, or other] disposition of oil or gas under (b)(1) or (b)(2) of this section may not be continued after the end of one year or renewed with the same party without the prior approval of the legislature under (a) of this section. This subsection does not apply to a sequential competitively bid sale of oil or gas made with the same party under (b)(1) of this section.

Sec. 38.00.035. Confidentiality. Notwithstanding AS 09.25.110 - 09.25.120, the department and the board may provide by regulation for the confidentiality of those documents and records in its possession or control which contain confidential business or marketing information the protection of which is essential to the person who has submitted them to the department or the board, or in the judgment of the department or the board is essential to the best interest of the state. Such confidentiality, however, shall not preclude the proper review by the legislature.

Sec. 38.00.040. Definitions. In this chapter

(1) "board" means the Alaska Royalty Oil and Gas Development Advisory Board; (and)

(2) "commissioner" means the commissioner of natural resources;

(3) "department" means the Department of Natural Resources;

(4) "disposition" means the sale, exchange, waiver of a right or of a future right to take royalty production, or any other alienation of the state's interest in royalty production ; and

(5) "state lease" means an oil and gas lease on state land.

DRAFT

September 1985 DRAFT

Chapter 06. Alaska Royalty Oil and Gas Development Advisory Board.

Sec. 38.06.010. Purpose. It is the purpose of this chapter to facilitate the wise development of Alaska's oil and gas royalty interests by providing means and procedures for [sales, exchanges or other] dispositions of those interests in ways calculated to promote economic growth consistent with applicable environmental standards, local or regional desirability, and public fiscal stability, and in accordance with AS 38.0[5.183]0.025.

Sec. 38.06.020. Establishment. There is established in the Department of (Commerce and Economic Development) Natural Resources the Alaska Royalty Oil and Gas Development Advisory Board.

Sec. 38.06.025. Membership.

Sec. 38.06.030. Compensation; per diem, travel expenses

Sec. 38.06.035. Meetings, rules, quorum, votes required; conflict of interest.

Sec. 38.06.040. Powers and duties of the board.

Subsections (a) and (b) are repealed and replaced with the following language:

(a) The board shall, in accordance with proposed dispositions of royalty oil or gas requiring legislative approval under AS 38.06.050

(1) hold public hearings to determine whether the proposals comply with AS 38.00.025(b);

(2) examine the proposals and recommend to the commissioner that the proposals be approved or disapproved by the department; and

(3) recommend to the commissioner the conditions relating to the sale, delivery, transportation, refining or processing of the royalty oil or gas.

(b) The board may adopt regulations under the Administrative Procedure Act (AS 44.62) that are necessary for the exercise of its powers and duties.

Sec. 38.06.050. Board review and recommendation required. (a) If legislative approval is required by AS 38.0[6.055]0.030, a [sale, exchange, encumbrance, or other disposition] of oil or gas [or of the rights or waiver of the rights to receive future production of royalty oil or gas] may not be made by the commissioner [of natural resources] under AS 38.0[5.183]0.025 without prior review of the proposed [sale, exchange, encumbrance or other] disposition by the board. A written recommendation of the board on the proposed [sale, exchange, encumbrance or other] disposition of oil or gas [or of the rights or waiver of the rights to receive future production of royalty oil or gas] shall be submitted to the legislature at the time a resolution approving the proposed [sale, exchange, encumbrance or other] disposition is introduced in the legislature.

(b) Bids or applications for the purchase of royalty oil or gas requiring legislative approval may be rejected by the commissioner [of natural resources] if prior written notice of the proposed disapproval is given to the board.

(c) Competitive bidding in a [sale, exchange or other] disposition described in (a) of this section may not be waived by the commissioner of natural resources under AS 38.0[5.183]0.025 unless prior written notice of proposed waiver is given to the board.

Sec. 38.06.070. Criteria. (a) In the exercise of its powers under AS 38.06.040(a) and 38.06.050 [the board shall consider] the board

(b) [W]when it is economically feasible and in the public interest, [the board] may recommend to the commissioner [of natural resources,] as a condition of the sale of state-owned royalty oil or gas [obtained by the state as royalty,] that

(1) the oil or gas be refined or processed in the state;

(2) the purchaser be a refiner who [supplies products to the Alaska market with price or supply benefits to state citizens] provides refined products or by-products for distribution and sale in the state with significant price or supply benefits to the citizens of the state; or

(3) the purchaser construct a processing or refining facility in the state.

(c) [The board] shall make a full report to the [legislature] department on each criterion specified in [(a)] AS 38.00.025(b) or (b) of this section for any disposition of royalty oil or gas which requires legislative approval. The board's report shall be submitted for legislative review at the time a resolution for legislative approval of a proposed disposition of royalty oil or gas is introduced in the legislature.

Sec. 38.06.080. Definitions. In this chapter

(1) "board" means the Alaska Royalty Oil and Gas Development Advisory Board; (and)

(2) "commissioner" means the commissioner of natural resources;

(3) "department" means the Department of Natural Resources;

(4) "disposition" means the sale, exchange, waiver of a right or of a future right to take royalty production, or any other alienation of the state's interest in royalty production; and

(5) "state lease" means an oil and gas lease on state land.

STATE OF ALASKA

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HOUSE SPECIAL COMMITTEE ON OIL AND GAS

Title 46: Oil Discharge Response Fund.
Hazardous Substance Control.
Hazardous Substance Release Response Fund.

The State of Alaska entirely lacks a statutorily defined means of overseeing the containment and cleanup of hazardous substances, and the reclamation of affected areas. Further, no funding mechanisms other than direct legislative appropriations exist for providing the Department of Environmental Conservation with the funds necessary to act in response to unpermitted releases of either oil or hazardous substances. As a consequence, the department is unable to adequately respond to such events.

State and federal agencies and industry recognize the importance of removing materials from the environment which threaten public health and safety. The Alaska Oil and Gas Association sponsored a conference earlier this month regarding hazardous wastes, and will be holding a conference in October regarding drilling muds and cuttings. The Department of Defense is spending approximately $35 million in Alaska to cleanup existing and abandoned military sites, and the Department of Environmental Conservation will soon be evaluating contracts for the identification of potential hazardous materials sites in the state.

Following are the salient points of the attached draft legislation:

Response Funds. Parallel response funds, one regarding the discharge of oil and the other regarding the release of hazardous substances, are established with the Department of Environmental Conservation. In addition to each fund being able to receive legislative appropriations, the governor is also given the authority to transfer to each fund up to $10 million during a fiscal year from the reserve for emergency operating expenses account.

Two parallel funds are established, rather than a single fund, in order to provide an appropriate vehicle for the hazardous substance release response fund to provide matching funds for participation in the federal Comprehensive Environmental Response, Compensation and Liability Act.

The response funds, similarly to other funds which may receive a transfer of money from the reserve for emergency operating expenses account, follow the intent of this account in that monies are to be used to meet emergency situations.

Hazardous Substance Control. A new chapter is established in Title 46 which is similar in aspect to AS 46.04; Oil Discharge Control. The hazardous substance control chapter provides the department with the statutory authority to seek reimbursement for expenses incurred in the identification, containment, and cleanup of unpermitted releases of hazardous substances, and the restoration of affected areas. Authority is also provided for the oversight of these activities, and the department is directed to adopt those regulations necessary to carry out the purposes of the chapter.

Related Changes. Definitions within Title 26 and 44 are expanded to include the release of hazardous substances, and references in AS 46.03 to Oil Discharge Control are expanded to include Hazardous Substance Control.

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August 1985 DRAFT

Chapter 0A. Oil Discharge Response Fund.

Sec. 46.0A.010. Statement of Purpose. The legislature finds and declares that the unpermitted discharge of oil into the environment presents a real and substantial threat to the public health and welfare, the environment, and the enhancement of the state's economy. The legislature therefore concludes that it is in the best interest of the state and its citizens to provide a readily available fund for the payment of expenses incurred by the department for the cleanup of discharges, and threatened discharges, of oil.

Sec. 46.0A.020. Oil Discharge Response Fund. (a) There is hereby created in the state treasury the oil discharge response fund, which shall be administered by the department.

(b) The legislature may appropriate from the following sources to the oil discharge response fund:

(1) Any moneys received from federal, state, or other governmental unit or from a private donor.

(2) Any moneys recovered or otherwise received from responsible parties for remedial action, removal, and cleanup at a specific site, but excluding funds from performance bonds and other forms of financial responsibility held in escrow pending satisfactory performance of a privately financed response action.

(3) Any fines, penalties, or damages recovered pursuant to this chapter or to any law establishing liability or other relief for damages or costs incurred by the state as a result of the discharge, or threat of discharge, of oil.

(c) The attorney general, at the request of the department, is empowered to recover moneys expended by the department under authority of this section when these funds were utilized to respond to an unpermitted spill or discharge or to control the threatened spill or discharge of oil.

(d) Amounts remaining in the fund at the end of any fiscal year shall remain available for expenditure in successive fiscal years.

Sec. 46.0A.030. Strict liability for the discharge of oil. To the extent not otherwise preempted by federal law, a person owning or having control over oil which enters in or upon the waters, surface or subsurface lands or waters of the state is strictly liable, without regard to fault, for the damages to persons or property, public or private, caused by the entry. In an action to recover damages, the person is relieved from strict liability, without regard to fault, if the person can prove

(1) that the oil to which the damages relate entered in or upon the waters, surface or subsurface lands or waters of the state solely as a result of

(A) an act of war,

(B) an intentional act or a negligent act of a third party, other than a party (or its employees) in privity of contract with, or employed by, the person,

(C) negligence on the part of the United States government or the State of Alaska,

(D) an act of God, or

(E) any combination of the foregoing paragraphs; and

(F) in relation to (1)(B),(C) or (D) of this section, that the person discovered the entry of the oil in or upon the waters, surface or subsurface lands or waters of the state and began operations to properly contain and clean up the oil within a reasonable period of time.

Sec. 46.0A.040. Disbursement of Fund. (a) Under authorization of the governor, the department may disburse moneys from the oil discharge response fund to:

(1) Remove, remedy, and cleanup releases, or threatened releases, of oil;

(2) Undertake all training, planning, inspecting, sampling, testing, investigating, surveying, analyzing, engineering, constructing, operating, and maintaining necessary or appropriate to prepare for, obtain, and perform removal actions, remedial actions, cleanup actions, and enforcement actions involving discharges, or threatened discharges of oil, and recover the costs thereof;

(3) Administer and enforce the authorities granted under this chapter and AS 46.04 granting the department authority to enforce or respond to discharges, or threatened discharges, of oil; and

(4) Provide funds for matching purposes for participation in federal oil discharge cleanup activities.

Sec. 46.0A.050. Records of Oil Discharge Response Fund. (a) The department shall maintain accounting records showing the income and expenses of the oil discharge response fund.

(b) Before July 1st of each year, the department shall determine the projected cost during the following fiscal year of monitoring, operation, and maintenance at all sites where response has been completed or is expected to be continued during the fiscal year.

(c) The department shall promulgate regulations to implement this section and shall consult with the Department of Revenue and the Office of the Governor with respect to all regulations governing fund accounting. The department shall develop procedures and adopt rules governing the expenditure of and accounting for moneys expended from the fund.

(1) The requirement to develop procedures and adopt rules shall in no way delay implementation of this chapter prior to the effective date of such procedures and rules.

(d) Upon authorization of the governor, disbursements from the oil discharge response fund shall be paid by the proper state officer on presentation of vouchers signed by the governor or the governor's authorized representative.

Sec. 46.0A.060. Report to the Legislature. (a) The department shall submit a report to the governor and the legislature no later than the 10th day of each regular session of the legislature. The report shall contain the following information:

(1) The actual funds expended during the preceding fiscal year for all disbursements made for activities under AS 46.0A.040 by the department;

(2) The amount of federal funds obtained or committed to the state in the preceding fiscal year for implementing the purpose of this chapter; and

(3) The amount of money actually received by the fund from the governor during the preceding fiscal year.

Sec. 46.0A.070. Definitions. In this chapter, unless the context requires otherwise,

(1) "act of God" means an act of nature which is unforeseeable in kind or degree.

(2) "commissioner" means the commissioner of environmental conservation.

(3) "department" means the Department of Environmental Conservation.

(4) "discharge" means the release, deposit, injection, dumping, spilling, leaking, pumping, pouring, or placing of any oil in or on any land or water such that such oil or any constituent thereof may enter the environment or be emitted into the air or discharged into any waters, including ground waters.

(5) "fund" means the oil discharge response fund.

(6) "oil" means oil of any kind and in any form, whether crude, refined, or a petroleum by-product, including but not limited to petroleum, fuel oil, gasoline, lubricating oils, oily sludge, oil refuse, oil mixed with other wastes, crude oils, liquified natural gas, propane, butane, or other liquid hydrocarbons regardless of specific gravity.

(7) "person" means an individual, public or private corporation, political subdivision, government agency, municipality, industry, partnership, association, firm, trust, estate, or any other entity;

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Chapter 0B. Hazardous Substance Control.

Sec. 46.0B.010. Reimbursement for cleanup expenses. The department shall promptly seek reimbursement, either under AS 46.03.760(e), AS 46.0C.020(c) or from an applicable federal fund, for the expenses it incurs in cleaning up or containing a discharge of hazardous substances. If the department obtains reimbursement for a portion of its expenses from a federal fund, the remainder of the expenses incurred may be recovered under AS 46.03.760(e) or AS 46.0C.020(c). Money received by the department under this section may be appropriated by the legislature to the hazardous substance release response fund.

Sec. 46.0B.020. Cleanup of released hazardous substances. A person causing or permitting the release of hazardous substances shall immediately contain and cleanup the hazardous substances. The department may waive this requirement if

(1) It determines, in consultation with the United States Environmental Protection Agency, as appropriate, that containment or cleanup is technically not feasible; or

(2) The cleanup or containment activities would result in greater environmental damage than the release itself.

(b) The containment and cleanup of hazardous substances must be carried out in a manner approved by the department. Wastes generated as a result of containment or cleanup activities shall be disposed of in a manner approved by the department.

(c) If the department determines that containment or cleanup activities are not adequate, it may direct the person engaged in the activities to cease and may undertake the activities itself through contract or its own resources, or both.

(d) The department shall provide for the immediate containment or cleanup of a hazardous substance release of unexplained origin unless:

(1) The department determines, in consultation with the United State Environmental Protection Agency, that containment or cleanup of the hazardous substance release is technically not feasible; or

(2) The containment or cleanup activities would result in greater environmental damage than the release itself.

(e) The department shall enter into negotiations for memoranda of understanding or cooperative agreements with the United States Environmental Protection Agency, and other persons in order to

(1) Facilitate coordinated and effective hazardous substance release response in the state;

(2) Provide for cooperative hazardous substance release notification procedures.

Sec. 46.0B.030. Scope of Regulations. The department shall adopt regulations which are necessary to carry out the purposes of this chapter and which do not conflict with and are not preempted by federal law or regulations.

Sec. 46.0B.040. Catastrophic hazardous substance releases. (a) The actual or imminent occurrence of a catastrophic releases of hazardous substances constitutes a disaster emergency under AS 26.23. The department shall consult and coordinate its duties under this section with the Alaska Division of Emergency Services.

(b) The department shall promptly, under AS 46.0B.010, seek reimbursement of cleanup or containment expenses incurred as a result of an actual or imminent catastrophic release of hazardous substances under AS 26.23.050.

Sec. 46.0B.050. Hazardous substance release cleanup personnel, equipment, expenses. (a) The department, when feasible, shall enter into contracts with persons or private organizations to provide the personnel, equipment, or other organizations to provide the personnel, equipment, or other services or supplies which may be required to carry out this chapter. When private contracting is not feasible, the department may establish and maintain at ports, harbors, or other locations in the state, the cleanup personnel, equipment, and supplies which, in its judgment, are necessary to carry out this chapter.

(b) Enforcement employees of the department designated by the commissioner are peace officers in the performance of their duties under this chapter and AS 46.03.

Sec. 46.0B.060. Compacts authorized. The governor may execute supplementary agreements, reciprocal arrangements, or compacts with any other state or country, subject to approval, if required by the United States Constitution, of the Congress of the United States, for the purpose of implementing this chapter.

Sec. 46.0B.070. Municipal powers limited. If a conflict occurs between a provision of this chapter, or a regulation, order, decision, or other determination of the department under this chapter, and a charter, ordinance, permit, regulation, franchise, decision, or other determination of a municipality, the provisions of this chapter or the regulation, order, decision, or other determination of the department prevail. However, nothing in this chapter precludes a municipality, by ordinance or regulation, from exercising its police powers in the areas regulated by this chapter.

Sec. 46.0B.080. Definitions. In this chapter, unless the context requires otherwise,

(1) "catastrophic release of hazardous substances" means any discharge which the governor determines presents a grave and substantial threat to the public health and safety, economy, or environment of the state;

(2) "commissioner" means the commissioner of environmental conservation;

(3) "containment and cleanup" includes all direct and indirect efforts associated with the prevention, abatement, containment or removal of a hazardous substance, the restoration of the environment to its former state, and all incidental administrative costs;

(4) "department" means the Department of Environmental Conservation;

(5) "hazardous substance" means all "hazardous wastes" as defined in AS 46.03, and shall include any other substance or waste, other than those identified therein, which is declared by the commissioner to present a threat to the public health and welfare or the environment if subject to uncontrolled release into the environment;

(6) "person" means an individual, public or private corporation, political subdivision, government agency, municipality, industry, partnership, association, firm, trust, estate, or any other entity;

(7) "release" means the discharge, deposit, injection, dumping, spilling, leaking, or placing of any hazardous substance in or on any land or water such that such hazardous substance or any constituent thereof may enter the environment or be emitted into the air or discharged into any waters, including ground waters.

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Chapter 0C. Hazardous Substance Release Response Fund.

Sec. 46.0C.01. Statement of Purpose. The legislature finds and declares that the unpermitted release of hazardous substances into the environment presents a real and substantial threat to the public health and welfare, the environment and the enhancement of the state's economy. The legislature therefore concludes that it is in the best interest of the state and its citizens to provide a readily available fund for the payment of expenses incurred by the department for the cleanup of releases, and threatened releases, of hazardous substances.

Sec. 46.0C.02. Hazardous Substance Release Response Fund. (a) There is hereby created in the state treasury the hazardous substance response fund, which shall be administered by the department.

(b) The legislature may appropriate from the following sources to the hazardous substance release response fund:

(1) Any moneys received from federal, state, or other governmental unit or from a private donor.

(2) Any moneys recovered or otherwise received from responsible parties for remedial action, removal, and cleanup at a specific site, but excluding funds from performance bonds and other forms of financial responsibility held in escrow pending satisfactory performance of a privately financed response action

(3) Any fines, penalties, or damages recovered pursuant to this chapter or to any law establishing liability or other relief for damages or costs incurred by the state as a result of the release, or threatened release, of a hazardous substance.

(c) The attorney general, at the request of the department, is empowered to recover moneys expended by the department under authority of this section when these funds were utilized to respond to an unpermitted spill or discharge or to control the release or threatened release of hazardous substances.

(d) Amounts remaining in the fund at the end of any fiscal year shall remain available for expenditure in successive fiscal years.

Sec. 46.0C.030. Strict liability for the discharge of hazardous substances. To the extent not otherwise preempted by federal law, a person owning or having control over a hazardous substance which enters in or upon the waters, surface or subsurface lands or waters of the state is strictly liable, without regard to fault, for the damages to persons or property, public or private, caused by the entry. In an action to recover damages, the person is relieved from strict liability, without regard to fault, if the person can prove

(1) that the hazardous substance to which the damages relate entered in or upon the waters, surface or subsurface lands or waters of the state solely as a result of

(A) an act of war,

(B) an intentional act or a negligent act of a third party, other than a party (or its employees) in privity of contract with, or employed by, the person,

(C) negligence on the part of the United States government or the State of Alaska,

(D) an act of God, or

(E) any combination of the foregoing paragraphs; and

(F) in relation to (1)(B), (C) or (D) of this section, that the person discovered the entry of the hazardous substance in or upon the waters, surface or subsurface lands or waters of the state and began operations to properly contain and clean up the hazardous substance within a reasonable period of time.

Sec. 46.0C.040. Disbursement of Fund. (a) Under authorization of the governor, the department may disburse moneys from the hazardous substance release response fund to:

(1) Remove, remedy, and cleanup releases, or threatened releases, of hazardous substances;

(2) Undertake all training, planning, inspecting, sampling, testing, investigating, surveying, analyzing, engineering, constructing, operating, and maintaining necessary or appropriate to prepare for, obtain, and perform removal actions, remedial actions, cleanup actions, and enforcement actions involving releases, or threatened releases, of hazardous substances, and recover the costs thereof;

(3) Administer and enforce the authorities granted under this chapter and AS 46.03 granting the department authority to enforce or respond to releases, or threatened releases, of hazardous substances; and

(4) Provide funds for matching purposes for participation in the federal Comprehensive Environmental Response, Compensation and Liability Act of 1980.

Sec. 46.0C.050. Records of Hazardous Substance Release Response Fund. (a) The department shall maintain accounting records showing the income and expenses of the hazardous substance response fund.

(b) Before July 1st of each year, the department shall determine the projected cost during the following fiscal year of monitoring, operation, and maintenance at all sites where response has been completed or is expected to be continued during the fiscal year.

(c) The department shall promulgate regulations to implement this section and shall consult with the Department of Revenue and the Office of the Governor with respect to all regulations governing fund accounting. The department shall develop procedures and adopt rules governing the expenditure of and accounting for moneys expended from the fund.

(1) The requirement to develop procedures and adopt rules shall in no way delay implementation of this chapter prior to the effective date of such procedures and rules.

(d) Upon authorization of the governor, disbursements from the hazardous substance release response fund shall be paid by the proper state officer on presentation of vouchers signed by the governor or the governor's authorized representative.

Sec. 46.0C.060. Report to the Legislature. (a) The department shall submit a report to the governor and the legislature no later than the 10th day of each regular session of the legislature. The report shall contain the following information:

(1) The actual funds expended during the preceding fiscal year for all disbursements made for activities under AS 46.0C.040 by the department;

(2) The amount of federal funds obtained or committed to the state in the preceding fiscal year for implementing the purpose of this chapter; and

(3) The amount of money actually received by the fund from the governor during the preceding fiscal year.

Sec. 46.0C.070. Definitions. In this chapter, unless the context requires otherwise,

(1) "act of God" means an act of nature which is unforeseeable in kind or degree.

(2) "commissioner" means the commissioner of environmental conservation.

(3) "containment and cleanup" includes all direct and indirect efforts associated with the prevention, abatement, containment or removal of a hazardous substance, the restoration of the environment to its former state, and all incidental administrative costs.

(4) "department" means the Department of Environmental Conservation.

(5) "fund" means the hazardous substance release response fund.

(6) "hazardous substance" means all "hazardous wastes" as defined in AS 46.03, and shall include any other substance or waste, other than those identified therein, which is declared by the commissioner to present a threat to the public health and welfare or the environment if subject to uncontrolled release into the environment.

(7) "person" means an individual, public or private corporation, political subdivision, government agency, municipality, industry, partnership, association, firm, trust, estate, or any other entity.

(8) "release" means the discharge, deposit, injection, dumping, spilling, leaking, or placing of any hazardous substance in or on any land or water such that such hazardous substance or any constituent thereof may enter the environment or be emitted into the air or discharged into any waters, including ground waters.

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Related Statutory Changes

Sec. 26.23.230 is amended to read:

Sec. 26.23.230. Definitions. As used in this chapter

(1) "disaster" means the occurrence or imminent threat of widespread or severe damage, injury, or loss of life or property resulting from any natural or nonmilitary man-made cause including, but not limited to, fire, flood, earthquake, landslide, mudslide, avalanche, wind-driven water, weather condition, tsunami, (oil spill or other water contamination requiring emergency action to avert danger or damage,) volcanic activity, epidemic, (air contamination,), blight, infestation, explosion, riot, equipment failure, shortage of food, water, fuel, or clothing(;), or the release of oil, hazardous substances, radioactive materials, or other contamination requiring emergency action to avert environmental danger or damage;

New sections to be added to Sec. 37.05.159 to read:

(g) Notwithstanding the provisions of (b) of this section and AS 37.07.080(e), the governor may transfer up to $10,000,000 during a fiscal year from the reserve for emergency operating expenses account to the hazardous substance release response fund.

(h) Notwithstanding the provisions of (b) of this section and AS 37.07.080(e), the governor may transfer up to $10,000,000 during a fiscal year from the reserve for emergency operating expenses account to the oil discharge response fund.

Sec. 44.19.050 is amended to read:

Sec. 44.19.050. Definition. In AS 44.19.048 and 44.19.049, "disaster" means the occurrence or imminent threat of widespread or severe damage, injury, or loss of life or property resulting from any natural or man-made cause including, but not limited to, fire, flood, earthquake, landslide, mudslide, avalanche, wind-driven water, weather condition, tsunami, (oil spill or other water contamination requiring emergency action to avert damage,) volcanic activity, epidemic, (air contamination,) blight, infestation, explosion, (or) riot, or the release of oil, hazardous substances, radioactive materials, or other contamination requiring emergency action to avert environmental danger or damage.

Chapter 46.03 is amended to read:

Sec. 46.03.290. Authority of department in cases of emergency. (a) When the department finds than an actual or imminent discharge of oil, hazardous substances, or low level radioactive materials to the air, water, land or subsurface land of the state poses an immediate threat to the public health or welfare, or the environment of the state, it may issue an order declaring an emergency and directing a person or persons to take action the department believes necessary to meet the emergency, and protect the public health, welfare, or environment.

Sec. 46.03.758(k) is repealed.

Sec. 46.03.760. Civil action for pollution; damages. (a) A person who violates or causes or permits to be violated a provision of this chapter other than AS 46.03.250 - 46.03.314, or a provision of AS 46.04 or AS 46.0B, or a regulation, a lawful order of the department, or a permit, approval, or acceptance, or term or condition of a permit, approval, or acceptance issued under this chapter or AS 46.04 or 46.0B is liable, in a civil action, to the state for a sum to be assessed by the court of not less than $500 nor more than $100,000 for the initial violation, nor more than $5,000 for each day after that on which the violation continues, and that shall reflect, when applicable.

Sec. 46.03.765. Injunctions. The superior court has jurisdiction to enjoin a violation of this chapter or AS 46.04 or 46.0B, or of a regulation, a lawful order of the department, or permit, approval, or acceptance, or term or condition of a permit, approval, or acceptance issued under this chapter or AS 46.04 or AS 46.0B. In actions brought under this section, temporary or preliminary relief may be obtained upon a showing of an imminent threat of continued violation, and probable success on the merits, without the necessity of demonstrating physical irreparable harm. The balance of equities in actions under this section may affect the timing of compliance, but not the necessity of compliance within a reasonable period of time.

Sec. 46.03.780. Liability for restoration. (a) A person who violates a provision of this chapter or AS 46.04 or AS 46.0B, or who fails to perform a duty imposed by this chapter or AS 46.04 or 46.0B, or violates or disregards an order, permit, or other determination of the department made under the provisions of this chapter or AS 46.04 or AS 46.0B, respectively, and thereby causes the death of fish, animals, or vegetation or otherwise injures or degrades the environment of the state is liable to the state for damages.

Sec. 46.03.790. Criminal penalties. (a) Except as provided in (d) - (f) of this section, a person who negligently violates a provision of this chapter or AS 46.04 or AS 46.0B, or of a regulation, lawful order of the department, or permit, approval, or acceptance, or term or condition of a permit, approval, or acceptance issued under this chapter or AS 46.04 or AS 46.0B is guilty of a class B misdemeanor.

(b) Except as provided in (d) - (f) of this section, a person who knowingly violates a provision of this chapter or AS 46.04 or AS 46.0B, or of a regulation, lawful order of the department, or permit, approval, or acceptance, or term or condition of a permit, approval, or acceptance issued under this chapter or AS 46.04 or AS 46.0B is guilty of a class A misdemeanor.

(d) Notwithstanding (a) or (b) of this section, a person who fails to provide or falsely states information required under AS 46.03.755(or), AS 46.04, or AS 46.0B is guilty of a misdemeanor and, upon conviction, is punishable by a fine of not more than $25,000, or by imprisonment for not more than one year, or by both. Each unlawful act constitutes a separate offense.

Sec. 46.04.010 is amended to read:

Sec. 46.04.010. Reimbursement for cleanup expenses. The department shall promptly seek reimbursement, either under AS 46.03.760(e), AS 46.0A.020(c), or from an applicable federal fund, for the expenses it incurs in cleaning up or containing a discharge of oil. If the department obtains reimbursement for a portion of its expenses from a federal fund, the remainder of the expenses incurred may be recovered under AS 46.03.760(e) or AS 46.0A.020(c). Money received by the department under this section (shall be deposited in the general fund) may be appropriated by the legislature to the oil discharge response fund.

Oil & Gas Journal 8/19/85

Alaska sets North Slope lease sales, eyes more

Alaska plans to offer more than 1.3 million acres of North Slope leases near North America's biggest oil fields in sales next month and early next year.

Alaska's Department of Natural Resources (DNR) issued notices of sale for its proposed Kuparuk Uplands Sale 47 and North Slope Sale 45A, both scheduled Sept. 24 in Anchorage. In addition, it gave notice of intent to make a final decision on Kuparuk Uplands Sale 48 and Mikkelsen area Sale 48A, both tentatively scheduled Feb. 25, 1986.

The state agency also called for comments on three 1987 sales covering highly prospective North Slope acreage.

September sales. Sale 47 will cover 113 tracts—about 611,840 acres—on the North Slope south of the Prudhoe Bay and Kuparuk River units.

Prudhoe Bay and Kuparuk River oil fields are North America's biggest and second biggest oil producers.

The sale area adjoins the Hemi Springs unit, where recent wildcat drilling turned up apparent oil shows. The trans-Alaska crude oil pipeline runs through the sale area.

Ten year leases, with a cash bonus floor of $5/acre, will carry a fixed royalty of 12.5%.

In Sale 45A, DNR will offer 50 tracts covering about 192,368 acres onshore and offshore on the North Slope, near some significant current wildcatting. Not included in the current 5 year lease schedule, the parcels are mostly reoffered acreage or land contiguous to existing leases.

The offshore portions are north of Prudhoe Bay, east of the Colville River Delta, in Foggy Island Bay and in Mikkelsen Bay. The onshore tracts lie between the Canning and Colville rivers.

Texaco U.S.A. is delineating a significant oil and gas discovery on the Colville River Delta, northwest of the sale area (OGJ, Aug. 5, p. 80).

Texaco, Shell Western Exploration & Production Inc., and Amerada Hess Corp. plan to drill wildcats in the nearby Simpson Lagoon area. The Mikkelsen Bay area has yielded some noncommercial oil and gas shows.

Ten year leases, offered for a minimum $5/acre, will carry a $16\frac{2}{3}\%$ fixed royalty.

February sales. DNR expects to make a final decision on Sales 48 and 48A by January 1986.

Sale 48 will offer 104 tracts covering about 506,880 acres of Kuparuk Uplands south of the Kuparuk River unit and immediately west of the Sale 47 area.

Tracts 103 and 104 are contiguous to Sale 45A acreage.

Sale 48A covers 11 parcels covering about 42,[illegible] acres onshore and offshore in Mikkelsen Bay, Foggy Island Bay, and the Beaufort Sea. The acreage previously had been leased in state Sales 14 and 23 and included in the West Mikkelsen unit.

The West Mikkelsen leases are due to expire Dec. [illegible], 1985.

1987 proposals. DNR's call for comments invites three 1987 sales of North Slope acreage covered in its 5 year schedule.

Tentatively planned for January 1987 is Prudhoe Bay Uplands Sale 51, on the North Slope between the Canning and Sagavanirktok rivers. Sale 51 acreage was deleted from or passed over in Sale 34.

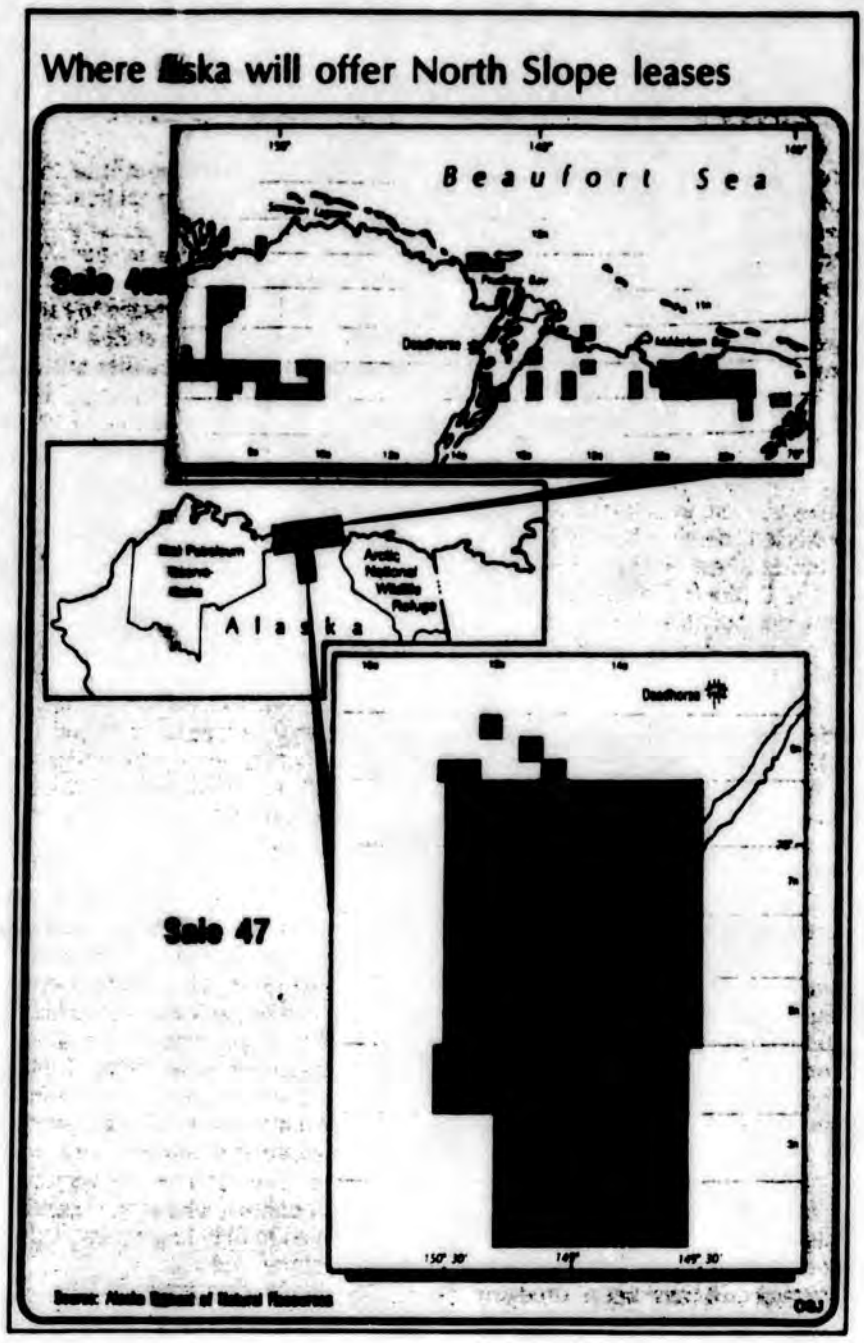
Nearby expiring leases may be added to the sale.

In May 1987 Alaska plans to offer submerged tidelands off the Arctic National Wildlife Refuge, west of a site at which Chevron U.S.A. Inc. has suspended a wildcat on North America's biggest untapped structure. Camden Bay Sale 50 will offer acreage extending 3 miles seaward between Flaxman Island and just west of the Hulahula River.

DNR proposes a third sale in 1987, an offering of state uplands between Icy Cape and Cape Beaufort west of the National Petroleum Reserve-Alaska.

Sale 53 is scheduled for September 1987. Although NPR-A prospects have dimmed sharply in recent months, with the reserve's first private industry wildcat an apparent dry hole and the latest lease sale disregarded entirely, the Icy Cape area may offer a look at prospects possibly on trend with Chukchi Sea prospects to be offered in later federal sales.

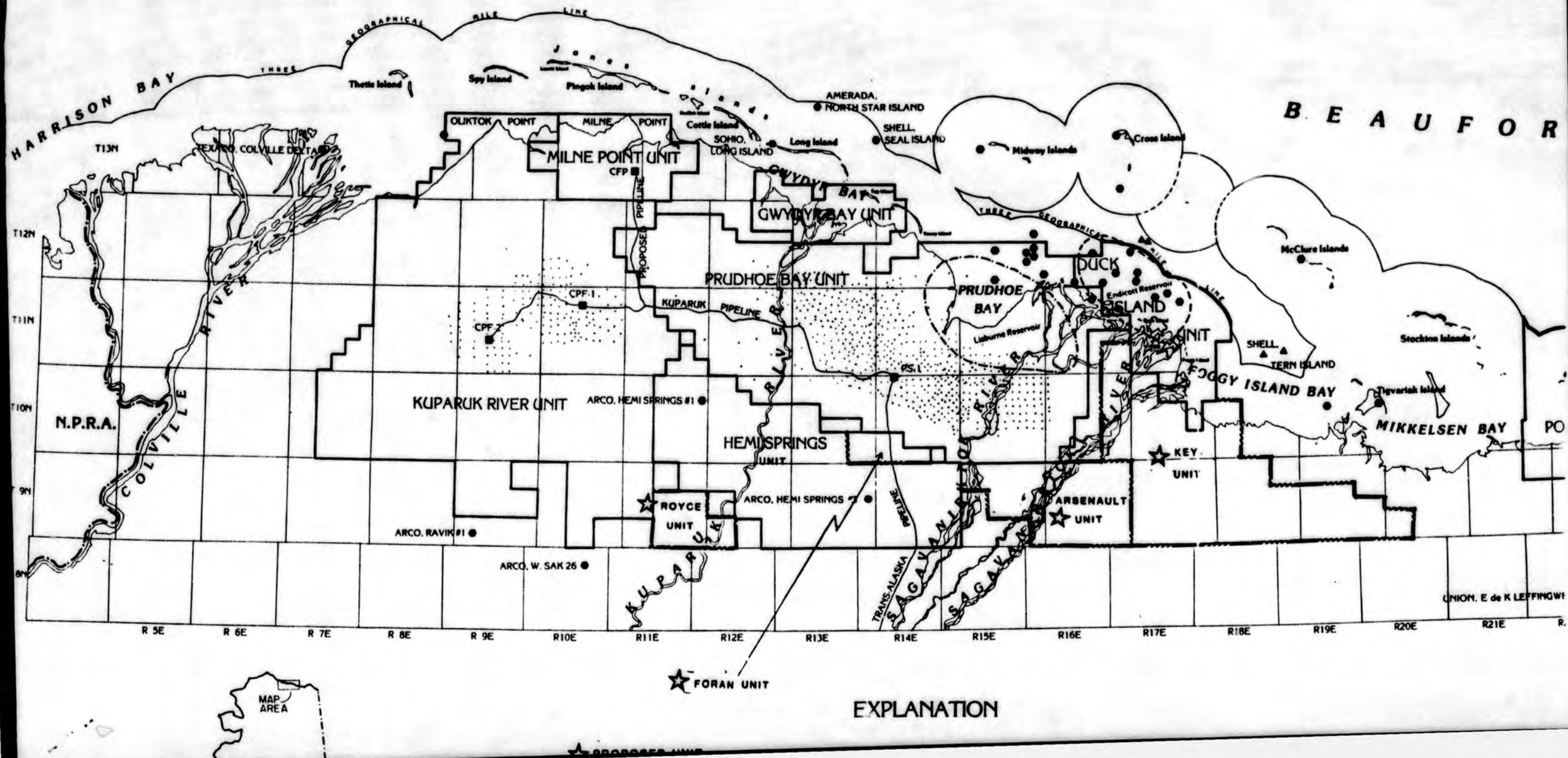
Deadline for comments on the three sale proposals for 1987 is Sept. 26, 1985.



NORTH SLOPE UNIT MAP

ALASKA DEPARTMENT OF NATURAL RESOURCES, DIVISION OF OIL AND GAS

KAY BROWN, DIRECTOR, DO&G COMPILED BY O.D. SMITH, CARTOGRAPHER



Coastal states seek drainage tract royalty share

Coastal states are urging Congress to give them part of the royalties, in addition to rents and bonuses, from federal-state drainage tracts off the U.S.

House and Senate budget conferees have agreed on a formula allocating the states 27% of revenues, except many royalties, from oil and gas tracts along the federal-state boundary on the Outer Continental Shelf (OCS), July 1, p. 29).

Section 8(g) of the 1978 OCS Lands Act Amendments required federal and state governments to negotiate an agreement on the boundary tracts, but they could not, and the House budget committee intervened in order to release $4 billion of $6 billion in escrow for federal spending.

The next step is for congressional committees to draft legislation enacting the 27% formula. But the House Interior committee, in a hearing last week, found the issue is far from settled.

Texas Gov. Mark White said that in two U.S. District Court cases judges have ruled that all revenues—including royalties, and not just those from actual drainage of state tracts—are subject to division.

"Interior has always dictated to the states a 'take it or leave it' attitude concerning identification of common structures, operation of the escrow accounts, the form of information sharing agreements, and all other aspects of the program," White said. "This violates the essential underlying theme of state-federal cooperation."

He said Texas is entitled to 37.5% of all royalties, as well as bonuses, rents, and interest.

Other governors complain. Louisiana Gov. Edwin Edwards sent the committee a statement complaining that Interior has not shared information with the states. He also pressed for inclusion of all royalties on the common tracts.

When the committee drafts a bill, Edwards said, "In order to assure that this matter doesn't drag on as it has in the past, the legislation should require that the secretary distribute these revenues within 60 days of the effective date of the amendments."

California Gov. George Deukmejian also wrote opposing the 27% formula.

"The House proposal notably lacks the inclusion of royalties," he said. "Royalties are potentially the largest source of OCS revenues and would provide funds over a number of years."

A letter from Alaska Gov. Bill Sheffield said 27% is "unacceptably low." "The fair and equitable share for Alaska should be at least 37.5%" of all income, including royalties.

Sheffield also complained Interior has failed to put the proper amount of money into escrow because it prorates bonus revenues for tracts on the federal-state line on a surface acreage basis, and because it includes only bonuses on tracts it determines are capable of containing crude oil and natural gas, although oil companies have bid because they believe potential is there.

Bill Bettenberg, director of the Minerals Management Service, urged Congress to provide for specific dollar settlements with states rather than just indicating percent distribution, in order to avoid further disagreement.

He said Interior should not share royalties with states on tracts unless an oil field overlaps the federal-state boundary. •

Chapter

AN ACT

Relating to minimum work commitments in oil and gas leases; and providing for an effective date.

* Section 1. AS 38.05.180(h) is amended to read:

38.05.180(h)

(h) The commissioner may include terms in any oil and gas lease imposing a minimum work commitment on the lessee. These terms shall be made public before the sale, and may include appropriate penalty provisions to take effect in the event the lessee does not fulfill the minimum work commitment. If [SHOULD] it is [BE] demonstrated that a lease has been proven unproductive by actions of adjacent lessees, the commissioner may set aside a work commitment. The commissioner may waive for a period not to exceed one two-year period any term of a minimum work commitment if the commissioner makes a written finding either that conditions preventing drilling or exploration were beyond the lessee's reasonable ability to forsee or control or that the lessee has demonstrated through good faith efforts an intervening ability to drill or develop the lease during the term of the waiver.

* Sec. 2. This Act takes effect immediately in accordance with AS 44.-10.070(c).

Eff. 6/3/85

BILL SHEFFIELD, GOVERNOR

DEPARTMENT OF NATURAL RESOURCES

DIVISION OF OIL AND GAS

POUCH 7-034
ANCHORAGE, ALASKA 99510

July 31, 1985

Dear Lessee:

I want to take this opportunity to notify you of work commitment regulation amendments recently adopted by the Department of Natural Resources to implement legislation passed in the 1985 legislative session.

The enclosed regulations are now undergoing a final review at the Department of Law, and I expect they will be filed soon with the Lieutenant Governor. The regulations will become effective 30 days after they are filed. Requests for waivers of work commitments can be filed at any time and will be considered under the criteria of these regulations.

The Department made several changes in the draft regulations in response to the comments submitted. The proposed $100,000 per lease performance bond has been made optional at the commissioner's discretion, and may be required in an amount less than $100,000.

A provision has been added to subsection (h) that will allow the return of all or a portion of a performance bond to the lessee if a lease is relinquished or determined by the commissioner to be unproductive or uneconomic under the terms of the work commitment before the end of the two-year waiver period.

Several other changes were made for clarity.

The final regulation reformulates the "force majeure" provision to bring it in accord with the statutory language as amended. Prior to these amendments, the regulations stated that events beyond the reasonable ability of a lessee to foresee or control were grounds for "alteration or abrogation" of a work commitment [11 AAC 83.700(b)(2)]. Senate Bill 232 provides instead that such force majeure events are grounds for the Commissioner to grant a "waiver" of the work commitment for a single period not exceeding two years. Accordingly, 11 AAC 83.700(b)(2) is being repealed, and a separate, new subsection, 11 AAC 83.700(d), is being promulgated in its stead. The net effect is that lessees will retain the opportunity to ask the Commissioner to use her discretion under the regulations to relax the work commitment on account of events beyond the lessees' reasonable ability to foresee or control. Lessees also retain the independent right to seek relief from performance directly under the force majeure provision of the leases.

The final regulation repeals the former 11 AAC 83.700(b)(3), which allowed for "alteration or abrogation" of a work commitment when a lease become subject to a unit agreement. This is a non-substantive change intended to remove an unnecessary provision. All extant work commitments are satisfied by inclusion of the lease within an approved unit agreement. This is because individual lease work commitment obligations, like the other individual lease exploration and development obligations, are replaced with the obligations imposed upon the unit as a whole. Since the work commitments are satisfied by unitization, it is unnecessary to provide by regulation that unitization provides a basis for discretionary alternation or abrogation of a work commitment.

If you have any questions on these regulations as adopted, please contact me at (907) 561-2020.

Sincerely,

Kay Brown
Director

Enclosure

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TITLE 11. NATURAL RESOURCES.

Chapter

- - -
83. Oil and Gas leasing (11 AAC 83.100 -- 11 AAC 83.910)
- - -

CHAPTER 83. OIL AND GAS LEASING.

Article

- - -
7. Work Commitment (11 AAC 83.700 -- 11 AAC 83.705)
- - -

ARTICLE 7. WORK COMMITMENT.

Section

700. Work commitment
705. Work commitment modification

11 AAC 83.700 is amended to read as follows:

11 AAC 83.700. WORK COMMITMENT. (a) If a work commitment is a condition of a lease, the terms of the work commitment will be specified in the notice of sale. The work commitment will state the minimum requirement for exploration and development on each lease. The lessee shall file reports with the commissioner substantiating adherence to the work commitment terms.

(b) The commissioner of the Department of Natural Resources will, in his or her discretion, alter or abrogate the terms of the work commitment if the lessee demonstrates to the satisfaction of the commissioner that the lease will be unproductive or uneconomic under the terms of the work commitment.

(c) The commissioner will abrogate a work commitment if the lessee relinquishes the lease.

(d) The commissioner will, in his or her discretion, grant a single waiver of any term of a work commitment imposed on a lease under (a) of this section for a period not to exceed two years if the commissioner makes a written finding that conditions preventing fulfillment of the work commitment were beyond the lessee's reasonable ability to foresee or control. The commissioner will consider the following factors when determining whether the conditions preventing fulfillment of the work commitment were beyond the lessee's reasonable ability to foresee or control:

(1) the lessee's statement of the conditions that prevented fulfillment of the work commitment;

(2) the lessee's explanation of how those conditions prevented fulfillment of the work commitment;

(3) the lessee's explanation of how and why the lessee could not foresee or failed to avoid the conditions that prevented fulfillment of the work commitment;

(4) the lessee's explanation of why the conditions that prevented fulfillment of the work commitment were beyond the lessee's reasonable control;

(5) the lessee's plans to remedy the conditions that prevented fulfillment of the work commitment during the initial term of the work commitment;

(6) the lessee's plans to fulfill the terms of the work commitment during the term of the waiver; and

(7) other relevant information.

(e) The commissioner will, in his or her discretion, grant a single waiver of any term of a work commitment imposed on a lease under (a) of this section for a period not to exceed two years if the commissioner makes a written finding that the lessee has demonstrated through good faith efforts the intent and ability to fulfill the terms of the work commitment during the term of the waiver. The commissioner will consider the following factors when determining whether a lessee has demonstrated the intent and ability to fulfill the terms of a work commitment during the term of any waiver that may be granted:

(1) whether the lessee has undertaken appropriate actions to fulfill the work commitment, including but not limited to having acquired permits, materials, and financing necessary to fulfill the work commitment,

(2) reasons why fulfillment of the work commitment during the term of any waiver that may be granted is more likely than it was during the initial term of the work commitment;

(3) the lessee's specific plans and actions to be taken to fulfill the work commitment during the term of the waiver; and

(4) other relevant information.

(f) The length of time for a waiver granted under (e) of this section will be based on the time determined by the commissioner to be needed for the lessee to take the specific actions planned by the lessee to fulfill the work commitment during the term of the waiver.

(g) If a lessee fails to meet any term of a work commitment by its due date, the lease will automatically terminate. In addition, any penalty provisions established by the commissioner in the work commitment stipulation or as a condition to any extension, alteration, or waiver will take effect immediately if the work commitment is not completed by its due date. For purposes of this section, the due date for a work commitment is its original due date under the work commitment stipulation to the lease, plus any additional time granted by extension, alteration, or waiver of the work commitment.

(h) As a condition of waiver of any term of a minimum work commitment under (e) of this section, the commissioner will, in his or her discretion, require the lessee to post a performance bond or other security acceptable to the commissioner. The amount of the performance bond or other security, if required, will be set by the commissioner in an amount not to exceed $100,000 for each lease. The bond or other security will be released to the lessee upon fulfillment of the work commitment. If, before the end of the waiver period granted under (e) of this section, the commissioner agrees to alter or abrogate the terms of the work commitment under (b) or (c) of this section, part of the bond or other acceptable security will forfeit automatically to the state in proportion to the portion of the waiver period that has elapsed, unless forfeiture is waived by the commissioner. If the work commitment is not fulfilled by the end of the waiver period, the performance bond or other security will forfeit automatically to the state. The commissioner will, in his or her discretion, establish additional terms or penalties as a condition of waiver of a work commitment. (Eff. 11/9/79, Register 72; am / / Register)

Authority: AS 38.05.020
AS 38.05.180

11 AAC 83.705 is amended to read as follows:

11 AAC.83.705. WORK COMMITMENT MODIFICATION. Application for modification of a work commitment under AS 38.05.180 (h) must comply with 11 AAC 88.105 and must

(1) state all the facts that may entitle the applicant to a modification of the work commitment;

(2) state the location and status of all past and present activities on the lease;

(3) contain a detailed report of all activity on the lease preceding the filing of the application and include an accounting for all expenses and costs of operating the lease;

(4) be filed not later than 30 days before the existing deadline for the fulfillment of the term of the work commitment the lessee wishes to be modified;

(5) address all pertinent factors listed in 11 AAC 83.700 (b), (c), (d) and (e), as appropriate; and

(6) in connection with applications for waivers under 11 AAC 83.700(e), affirm the lessee's readiness and ability to post a performance bond or to provide other security acceptable to the commissioner to assure fulfillment of the work commitment. (Eff. 11/9/79, Register 72; am / / Register)

Authority: AS 38.05.020
AS 38.05.180

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SB 232

CO-CHAIRMAN FAIKS DIRECTED THAT SB 232 (ACT APPROVING THE SALE OF PRUDHOE BAY ROYALTY OIL BY THE STATE OF ALASKA TO THE GOLDEN VALLEY ELECTRIC ASSOCIATION, EFD) BE BROUGHT ON FOR CONSIDERATION, AND SENATOR FERGUSON MOVED FOR ADOPTION OF CSSB 232(FINANCE) (ACT RELATING TO MINIMUM WORK COMMITMENTS IN OIL AND GAS LEASES, EFD). NO OBJECTION TO THE MOTION HAVING BEEN RAISED, CSSB 232 (FINANCE) WAS ADOPTED.

SENATOR PAUL FISCHER ADVISED THAT THE COMMITTEE WAS AWAITING INFORMATION FROM THE DEPT. OF LAW CONCERNING THE POSSIBILITY THAT LANGUAGE IN THE COMMITTEE SUBSTITUTE MIGHT GIVE RISE TO LITIGATION BROUGHT BY COMPETITORS WHO MAY FEEL THEY HAVE NOT BEEN GIVEN FAIR OR EQUAL TREATMENT UNDER STATE LEASES..

BOB MAYNARD, ASSISTANT ATTORNEY GENERAL, DEPT. OF LAW, SPOKE TO THE ISSUE, ADVISING THAT DOCTRINE STATING THAT ONE CANNOT CHANGE THE TERMS OF A CONTRACT AFTER IT HAS BEEN AWARDED APPLIES TO NORMAL COMPETITIVE BID STATUTES. AS A DOCTRINE OF LAW SHOULD AN ACT OF GOD OR A SOVEREIGN OCCUR WHICH MAKES IT IMPOSSIBLE OR EXTREMELY DIFFICULT FOR A BIDDER TO FULFILL HIS CONTRACTUAL DUTIES, THE DUTIES ARE SUSPENDED FOR THE DURATION OF THE OCCURRENCE. TO THE EXTENT THAT LANGUAGE IN THE BILL IS CONSTRUED ALONG THE LINE OF THE AFOREMENTIONED DOCTRINE OF LAW, THERE IS NO PROBLEM SINCE THE STANDARD WOULD BE APPLICABLE "ACROSS THE BOARD."

QUESTIONS MIGHT BE RAISED, HOWEVER, IN SITUATIONS WHERE, DUE TO VAGUENESS, IT IS UNCLEAR WHAT CONDITIONS ALLOW FOR EXTENSION OF AN OBLIGATION. THIS MIGHT RAISE CONSTITUTIONAL PROBLEMS. SINCE THE COMMISSIONER'S EXERCISE OF AUTHORITY UNDER THE PROPOSED BILL IS DISCRETIONARY, IN INSTANCES WHERE CONSTITUTIONAL PROBLEMS MIGHT BE CREATED, THE COMMISSIONER WOULD SIMPLY NOT APPLY THE STATUTE.

MR. MAYNARD REITERATED THAT SHOULD A PROBLEM ARISE UNDER THE BILL, IT WOULD BE A CONSTITUTIONAL PROBLEM, AND IN SITUATIONS WHERE CONSTITUTIONAL PROBLEMS MIGHT OCCUR, THE COMMISSIONER WOULD BE PREVENTED, BY CONSTITUTIONAL PROVISIONS, FROM FOLLOWING THE STATUTE. IN SITUATIONS WHERE NO CONSTITUTIONAL PROBLEM EXISTS, THE COMMISSIONER'S DISCRETION COULD BE EXERCISED. THE ISSUE RAISED BY THE LANGUAGE IS ONE OF FAIRNESS TO OTHER BIDDERS AND WHETHER PROBLEMS RELATE TO CONSTITUTIONAL OR STATUTORY QUESTIONS.

CO-CHAIRMAN SACKETT ASKED HOW PROBLEMS RAISED BY STATUTE WOULD BE RESOLVED. MR. MAYNARD RESPONDED THAT IF A PROBLEM ARISES INVOLVING ANOTHER STATUTE, THIS STATUTE WOULD SUPERSEDE--IT IS A STATUTE OF EQUAL DIGNITIES. THE ONLY REAL ISSUE IS WHETHER PROPOSED BILL LANGUAGE RAISES A CONSTITUTIONAL PROBLEM. IF IT DOES, NOTHING CAN BE DONE STATUTORILY TO SOLVE THE PROBLEM.

CO-CHAIRMAN SACKETT ASKED SENATOR FAHRENKAMP, THE AUTHOR OF THE PROPOSED LANGUAGE, TO ADVISE OF THE PURPOSE BEHIND IT. SENATOR FAHRENKAMP EXPLAINED THAT IT WAS INTENTED TO GIVE INDEPENDENT OPERATORS HOLDING STATE LEASES WHICH CONTAIN TIME AND WORK REQUIREMENTS NO LONGER INCLUDED IN LEASES TODAY AN OPPORTUNITY FOR A ONE-TIME, TWO-YEAR EXTENSION TO MEET UNFORESEEN PROBLEMS, I.E. LACK OF GRAVEL, LACK OF ABILITY TO UTILIZE ICE ROADS, ETC.

MR. MAYNARD EXPLAINED THAT IF DELAYS RESULT FROM WEATHER--AN ACT OF GOD--THERE MAY BE NO PROBLEM. POSSIBLE READINGS OF BILL LANGUAGE COULD RAISE PROBLEMS, GIVEN THE FACT THAT THE BILL ALLOWS THE COMMISSIONER DISCRETION AS TO WHETHER THE STATUTE SHOULD BE ENFORCED. HOWEVER, A CONSTITUTIONAL [illegible]

UNCONSTITUTIONAL APPLICATION OF THE LANGUAGE CAN BE AVOIDED AT THE COMMISSIONER'S DISCRETION. IN INSTANCES WHERE CONSTITUTIONAL PROBLEMS ARISE, THE COMMISSIONER WOULD BE PREVENTED FROM APPLYING THE STATUTE.

CO-CHAIRMAN FAIKS DIRECTED THAT FURTHER RESEARCH INTO THE ISSUE BE CONDUCTED BY THE DEPT. OF LAW.

SENATOR ELIASON ASKED IF INTENT LANGUAGE WHICH WOULD STRENGTHEN THE LEGISLATURE'S POSITION IN THE EVENT OF SUIT COULD BE DRAFTED TO ACCOMPANY THE BILL. MR. MAYNARD REITERATED THAT THERE MAY BE NO PROBLEM WITH THE LANGUAGE AS WRITTEN. HE ADVISED THAT HIS INITIAL REACTION IS THAT THERE IS NO PROBLEM. FURTHER, IF THERE IS A PROBLEM, MR. MAYNARD VOICED HIS OPINION THAT BECAUSE THE EXERCISE OF AUTHORITY IS DISCRETIONARY, THE COMMISSIONER WOULD BE PREVENTED FROM APPLYING THE STATUTE IN SITUATIONS WHERE CONSTITUTIONAL ISSUES MIGHT ARISE. THE LANGUAGE SOLVES THE PROBLEM ITSELF.

CO-CHAIRMAN SACKETT ASKED IF THE FORECOING ANSWERED SENATOR FISCHER'S EARLIER QUESTION CONCERNING POSSIBLE SUIT BROUGHT BY COMPETITORS. MR. MAYNARD RESPONDED, "NO IT DID NOT," SINCE THE FORECOING REPRESENTS A SITUATION IN WHICH A CONSTITUTIONAL PROBLEM MIGHT ARISE. AS AN EXAMPLE, MR. MAYNARD ADVISED OF A COMPETITOR WHO MIGHT CLAIM THAT OIL PRICES ARE FALLING AND, AS A RESULT, HE CANNOT FULFILL DRILLING REQUIREMENTS UNDER HIS LEASE. ANOTHER COMPETITOR MIGHT CLAIM THAT HE WOULD HAVE BID A LOWER PRICE AND GOTTEN THE LEASE HAD HE KNOWN THAT PRICES WERE FALLING. IF THE ABOVE RAISES CONSTITUTIONAL QUESTIONS, THE DEPT. OF LAW WOULD TELL THE COMMISSIONER THAT STATUTORY DISCRETION COULD NOT BE EXERCISED. MR. MAYNARD ADVISED THAT HE DID NOT KNOW THE ANSWER TO POTENTIAL PROBLEMS, BUT THEY COULD BE SOLVED LATER.

SENATOR PAUL FISCHER ADVISED THAT HIS CONCERN RELATES TO INSTANCES IN WHICH DISCRETIONARY ACTION HAS BEEN TAKEN, AND SOMEONE (AN UNSUCCESSFUL BIDDER) QUESTIONS THE ACTION "AFTER THE DAMAGE HAS BEEN DONE." MR. MAYNARD RESPONDED THAT WHEN THE CONTRACT WAS BID, EVERYONE HAD "AN EQUAL SHOT." THE PROPOSED LAW WAS NOT EVEN "ON THE BOOKS." IT IS NOT A CLEAR CUT ISSUE ONE WAY OR THE OTHER.

CO-CHAIRMAN SACKETT RESTATED SENATOR FERGUSON'S EARLIER MOTION FOR ADOPTION OF CSSB 232 (FINANCE). AGAIN, NO OBJECTION WAS RAISED.

SENATOR KERTTULA REQUESTED THAT IT BE MADE CLEAR THAT SHOULD THE COMMISSIONER BE ADVISED OF POSSIBLE CONSTITUTIONAL PROBLEMS RESULTING FROM EXERCISE OF AUTHORITY UNDER THE STATUTE, THAT HE OR SHE AVOID APPLICATION OF THE STATUTE IN THOSE INSTANCES. HE STRESSED THE IMPORTANCE OF RETAINING THE SPIRIT OF THE LAW, WHILE AVOIDING NUANCES WHICH COULD GIVE RISE TO CONSTITUTIONAL PROHIBITION. HE REQUESTED THAT LEGISLATIVE FINANCE STAFF REFLECT THE FORECOING INTENT AS BACKUP INFORMATION TO THE COMMITTEE DECISION CONCERNING THE SUBJECT BILL.

CO-CHAIRMAN SACKETT MOVED THAT CSSB 232 (FINANCE) PASS FROM COMMITTEE WITH INDIVIDUAL RECOMMENDATIONS, ACCOMPANIED BY A COPY OF SENATE FINANCE COMMITTEE MINUTES AS A LETTER OF INTENT REFLECTING THE ABOVE DISCUSSION IN ORDER TO CLARIFY LIMITATIONS PLACED ON DISCRETIONARY APPLICATION OF THE LAW BY THE COMMISSIONER. NO OBJECTION HAVING BEEN RAISED, CSSB 232 (FINANCE) WAS REPORTED OUT OF COMMITTEE, ACCOMPANIED BY THE COMMITTEE MINUTES OF THE AFTERNOON OF MAY 8, 1985, AS A LETTER OF INTENT. SENATORS ELIASON, FERGUSON, AND CO-CHAIRMAN SACKETT SIGNED THE COMMITTEE REPORT WITH A "DO PASS" RECOMMENDATION. SENATORS PAUL FISCHER, KERTTULA, AND CO-CHAIRMAN FAIKS SIGNED "NO RECOMMENDATION."

NUMBER 012 REP. CATO: I WOULD MOVE HJR 36 OUT OF COMMITTEE WITH INDIVIDUAL RECOMMENDATIONS.

NUMBER 015 REP. SHULTZ: ARE THERE ANY OBJECTIONS? HEARING NONE HJR 36 HAS PASSED RESOURCES COMMITTEE WITH INDIVIDUAL RECOMMENDATIONS. THE SECOND BILL WE ARE GOING TO BRING UP IS SB 232. AND HERE TO TESTIFY ON THAT IS SENATOR FAHRENKAMP.

NUMBER 019 SEN. FAHRENKAMP: THIS TAKES CARE OF A PROBLEM THAT WE HAD WITH SOME LEASES ON THE SLOPE AT THE TIME THE LEASE HAD WORK PERMITS ON THEM. IT GIVES THE AUTHORITY TO THE COMMISSIONER UNDER CERTAIN CIRCUMSTANCES TO EXTEND UP TO ONE 2 YEAR PERIOD. AND IT'S NEEDED UP THERE. I'LL ANSWER ANY QUESTIONS THAT YOU MIGHT HAVE.

NUMBER 025 ROBERT MAYNARD: I AM THE ASSISTANT ATTORNEY GENERAL TO THE DEPT. OF LAW. WHEN WE LOOK AT THAT BILL WE SEE NO CONSTITUTIONAL OR LEGAL PROBLEMS WITH IT.

NUMBER 030 REP. WALLIS: WOULD YOU EXPLAIN TO ME WHAT A WORK COMMITMENT IS?

NUMBER 031 SEN. FAHRENKAMP: DURING CERTAIN PERIODS OF TIME BACK AROUND SALE 31, THEY HAD CERTAIN WORK SCHEDULES THAT HAD TO BE DONE THAT WERE PUT IN THE CONTRACTS BY REGULATION. THEY DON'T DO THAT ANYMORE.

NUMBER 040 KAY BROWN: VIA TELECONFERENCE, FROM ANCHORAGE.

NUMBER 045 REP. HERRMANN: KAY I HAVE A QUESTION I JUST WANTED TO KNOW YOUR POSITION ON THE LEGISLATION ON SB 232.

NUMBER 044 KAY BROWN: YES, WE DON'T SEE A PROBLEM WITH THIS SINCE WE SPOKE ABOUT THIS BILL IN THE COMMITTEE IN THE SENATE I'VE HAD THE OPPORTUNITY TO LOOK AT THE SITUATION A LITTLE BIT MORE AND IT IS QUITE SIMILAR TO PROVISION THAT EXISTS NOW IN THE REGULATION. WE DON'T HAVE A PROBLEM, WE THINK IT IS A FINE APPROACH.

NUMBER 057 REP. CATO: MR. CHAIRMAN, I WOULD LIKE TO MOVE SB 232 OUT OF COMMITTEE WITH INDIVIDUAL RECOMMENDATIONS.

NUMBER 060 REP. SHULTZ: ARE THERE ANY OBJECTIONS TO THAT? HEARING NONE, SB 232 HAS MOVED FROM RESOURCES COMMITTEE WITH INDIVIDUAL RECOMMENDATIONS. THE NEXT BILL WE HAVE BEFORE US IS SB 35.

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Alaska Statutes

Title 31. Oil and Gas.

Chapter

05. Alaska Oil and Gas Conservation Act (§§ 31.05.027, 31.05.030, 31.05.035, 31.05.110, 31.05.150, 31.05.170)
15. Common Purchasers of Oil (§ 31.15.050)

Chapter 05. Alaska Oil and Gas Conservation Act.

Article

1. Administration (§§ 31.05.027, 31.05.030, 31.05.035)
2. Regulation of Operations (§ 31.05.110)
4. General Provisions (§§ 31.05.150, 31.05.170)

NOTES TO DECISIONS

Effect of local coastal management plan. — This chapter, which mandates the conservation of oil and gas and prohibits their waste, would not be contravened by a local coastal management plan which comports with the Alaska Coastal Management Program. May 12, 1980, Op. Att'y Gen.

Article 1. Administration.

Section

27. Application
30. Powers and duties of commission
35. Confidential reports

Sec. 31.05.027. Application. The authority of the commission applies to all land in the state lawfully subject to its police powers. It applies to land of the United States or to land subject to the jurisdiction of the United States only to the extent that control and supervision of conservation of oil and gas and prevention of waste by the United States on its land fails to carry out the intent and purposes of AS 31.05.005 — 31.05.170, and otherwise applies to federal land so far as an officer of the United States having jurisdiction, or his authorized representative, shall approve any of the provisions of AS 31.05.005 — 31.05.170 or orders of the commission which affect land. The authority of the commission further applies to all land included in a voluntary cooperative or unit plan of development or operation entered into in accordance with AS 38.05.180(p). (§ 1 ch 158 SLA 1978; am § 32 ch 94 SLA 1980)

Effect of amendments. — The 1980 amendment substituted "AS 38.05.180(p)" for "AS 38.05.180(m)" at the end of the section.

Sec. 31.05.030. Powers and duties of commission. (a) The commission has jurisdiction and authority over all persons and property, public and private, necessary to carry out the purposes and intent of this chapter.

(b) The commission shall investigate to determine whether or not waste exists or is imminent, or whether or not other facts exist which justify or require action by it.

(c) The commission shall adopt rules, regulations and orders and take other appropriate action to carry out the purposes of this chapter.

(d) The commission may require

(1) identification of ownership of wells, producing leases, tanks, plants and drilling structures;

(2) the making and filing of reports, well logs, drilling logs, electric logs, lithologic logs, directional surveys, and all other subsurface information on a well drilled for oil or gas, or for the discovery of oil or gas, or for geologic information, and the required reports and information shall be filed within 30 days after the completion, abandonment, or suspension of the well;

(3) the drilling, casing and plugging of wells in a manner which will prevent the escape of oil or gas out of one stratum into another, the intrusion of water into an oil or gas stratum, the pollution of fresh water supplies by oil, gas or salt water, and prevent blowouts, cavings, seepages and fires;

(4) the furnishing of a reasonable bond with sufficient surety conditions for the performance of the duty to plug each dry or abandoned well or the repair of wells causing waste;

(5) the operation of wells with efficient gas-oil and water-oil ratios, and may fix these ratios;

(6) the gauging or other measuring of oil and gas to determine the quality and quantity of oil and gas;

(7) every person who produces oil or gas in the state to keep and maintain for a period of five years in the state complete and accurate records of the quantities of oil and gas produced, which shall be available for examination by the Department of Natural Resources or its agents at all reasonable times;

(8) the measuring and monitoring of oil and gas pool pressures;

(9) the filing and approval of a plan of development and operation for a field or pool in order to prevent waste, insure a greater ultimate recovery of oil and gas, and protect the correlative rights of persons owning interests in the tracts of land affected.

(e) The commission may regulate, for conservation purposes

(1) the drilling, producing and plugging of wells;

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(3) the spacing of wells;

(4) the disposal of salt water, nonpotable water and oil field wastes;

(5) the contamination or waste of underground water;

(6) the quantity and rate of the production of oil and gas from a well or property; this authority shall also apply to a well or property in a voluntary cooperative or unit plan of development or operation entered into in accordance with AS 38.05.180(m).

(f) The commission may classify wells as oil or gas wells for purposes material to the interpretation or enforcement of this chapter.

(g) When the commission finds sufficient likelihood of an unexpected encounter of oil, gas, or other hazardous substance as a result of well drilling in an area of the state, the commission may, by regulation, designate the area and specify a depth in the area as one in which wells or any boring into the soil in excess of the specified depth but not otherwise subject to this chapter are subject to the regulations and requirements adopted under this section. No designation of an area or specification of a depth under this subsection constitutes a certification that no hazardous substance will be encountered in another area or at a lesser depth, and the state is not liable for any damages arising from such an unexpected encounter of a hazardous substance.

(h) The commission may take all actions necessary to allow the state to acquire primary enforcement responsibility under 42 U.S.C. 300h-4 (Safe Drinking Water Act of 1974, as amended, 42 U.S.C. 300f-300j), for the control of underground injection related to the recovery and production of oil and natural gas. (§ 4 ch 40 SLA 1955; am § 2 ch 75 SLA 1960; am § 1 ch 209 SLA 1970; am § 1 ch 87 SLA 1977; am § 5 ch 158 SLA 1978; am §§ 1, 2 ch 160 SLA 1978; am § 1 ch 91 SLA 1984)

Effect of amendments. — The 1984 amendment, effective June 7, 1984, added subsection (h).

Sec. 31.05.035. Confidential reports. (a) For all wells for which a permit to drill has been issued by the commission since January 3, 1959, the commission may require:

(1) the making and filing of reports, well logs, drilling logs, electric logs, lithologic logs, directional surveys, and all other subsurface information on a well drilled for oil or gas, or for the discovery of oil or gas, or for geologic information; and

(2) the filing of flow test information and all logs, except experimental logs and velocity surveys run on a well and not required by (1) of this subsection;

(3) the operator to make available for copying the digitized log information, if it is available, on any log required to be filed under (1) or (2) of this subsection.

(b) Reports and information required under (a)(1) and (2) of this section shall be filed within 30 days after the completion, aban-

ALASKA OIL AND GAS CONSERVATION COMMISSION

Chat Chatterton, Chairman

The Commission administers AS 31.05 and 20 AAC 25 by regulating the subsurface and metering operations of the oil and gas industry within the state to ensure operations are conducted in a manner which prevents waste of crude oil and natural gas and protects correlative rights.

Accomplishments under Governor Sheffield

- issued permits for the drilling of 435 oil and gas wells; monitored operations involving the production and measurement of 1,25 billion stock tank barrels of crude oil and 2.0 billion MCF of natural gas to ensure that waste did not occur
- history matched Prudhoe Bay Oil Pool simulation model with actual field performance. Conducted reservoir performance predictions under various scenarios to ensure that approved reservoir depletion program continues to be optimum to obtain maximum ultimate recovery
- issued Conservation Orders authorizing two injection projects as qualified tertiary recovery methods meeting the requirements of IRC §4993(c)(2) for purposes of the Crude Oil Windfall Profit Tax Act of 1980 and to increase ultimate oil recovery by 140 million stock tank barrels over conventional depletion methods
- issued a Conservation Order permitting a field experimental project directed toward developing a prudent method for exploiting the known 15-25 billion barrel West Sak crude oil accumulation
- promoted ultimate recovery from state lands by issuing Conservation Orders authorizing two water injection projects for enhancement of crude oil recovery by 1.17 billion stock tank barrels of crude oil
- issued Conservation Orders establishing rules for the development, management and depletion of two pools involving a total of 4 billion stock tank barrels of original oil in place
- introduced and achieved enactment of legislation allowing the State to acquire primary enforcement responsibility under the Safe Drinking Water Act of 1974 for control of underground injection related to the production of oil and natural gas to ensure effective compliance with the act in an efficient manner

- submitted to the Environmental Protection Agency a draft application seeking primacy for the regulation of Class II injection wells within Alaska

- in the capacity of jurisdiction agency for the Federal Energy Regulatory Commission, approved 275 applications as qualified for maximum lawful natural gas pricing under Sections 102 and 103 of the Natural Gas Policy Act of 1978.

Special Objectives: FY 1985

- obtain Environmental Protection Agency approval for primacy to regulate underground injection in Alaska for all Class II wells

- continue surveillance of oil and gas operations within Alaska to ensure that waste does not occur, correlative rights are protected and oil and gas operations are in compliance with AS 31.05 and 20 AAC 25.

Proposed Objectives: FY 1986

- continue surveillance of all oil and gas operations within Alaska to ensure compliance with regulations

- initiate study of Seal Island discovery to develop an optimum depletion program for the pool with an accumulation appearing to be in excess of 1 billion stock tank barrels of original oil in place underlying state and disputed state-federal lands

- issue permits to drill approximately 275 wells

- initial study of Lisburne Oil Pool to review applicable means for enhancing maximum recovery from the 3 billion stock tank barrel accumulation.

The Commission comprises 3 Commissioners and a staff of 22 located in Anchorage.

SCOMM

#46:4

Proposed Agenda

ALASKA ROYALTY OIL & GAS DEVELOPMENT ADVISORY BOARD
PUBLIC HEARING

February 20, 1985

10:30 a.m. - 4:30 p.m.

(Teleconference with Anchorage, Juneau and Fairbanks)

Legislative Information Office
1024 West 6th
Anchorage, Alaska

Legislative Information Office
315 Barnett Street, Suite 101
Fairbanks, Alaska

State Office Building
10th Floor Conference Room
Juneau, Alaska

(1) Opening remarks, roll call, approval of minutes of the previous Royalty Board meeting, adoption of agenda.

(2) Overview of proposed non-competitive sale of royalty oil to Golden Valley Electric Association.

(3) Public testimony on GVEA contract.

(4) Royalty Board vote on GVEA contract for recommendation to Legislature, which must approve the contract (AS 38.06.050-055).

(5) Report from Director, Division of Oil and Gas, on:

. Results of 2nd competitive Royalty Oil Sale;

. Proposed statute change; and

. Possible royalty oil solicitation.

(6) Report from Jim Gottstein on underlift proposal.

(7) Presentations by companies seeking to purchase royalty oil. *

(8) Other business or announcements from board members.

(9) Adjournment.

* Companies that wish to make a brief presentation to the board should call Roberta Staats at 265-4257 to schedule time on the agenda.

3207s

STATE OF ALASKA
DEPARTMENT OF NATURAL RESOURCES
DIVISION OF OIL AND GAS

BILL SHEFFIELD, GOVERNOR

POUCH 7-034
ANCHORAGE, ALASKA 99510

STATE OF ALASKA
Alaska Royalty Oil & Gas Development Advisory Board
Notice of Public Hearing

The Alaska Royalty Oil and Gas Development Advisory Board will hold a public hearing on a proposed sale of State royalty oil from the Prudhoe Bay Unit. The hearing will be held by teleconference on Wednesday, February 20, 1985, at 10:30 a.m. The teleconference system will be available at that time in Anchorage, Fairbanks, and Juneau. The public may appear at the following locations to present testimony:

Legislative Information Office
1024 West 6th
Anchorage, Alaska
278-9624

Legislative Information Office
315 Barnett Street, Suite 101
Fairbanks, Alaska
452-4448

State Office Building
10th Floor Conference Room
Juneau, Alaska
465-3836

The Department of Natural Resources has proposed a long-term, noncompetitive sale of State royalty oil from the Prudhoe Bay Unit to Golden Valley Electric Association (GVEA).

The proposed GVEA agreement is for the sale of 2.667% of the daily royalty oil available from the Prudhoe Bay Unit (approximately 5,000 bpd). The contract would commence four months after approval by the Governor and the Legislature, and would terminate June 30, 1995. The proposed contract includes a provision allowing either party to reopen price negotiations during the month of July, 1987 and every two years thereafter.

The Alaska Royalty Oil and Gas Development Advisory Board, under AS 38.06.040 (a)(2), is required to "hold public hearings on proposed sales, exchanges, or other disposals of royalty oil or gas to determine whether the proposals comply with AS 38.06.070."

AS 38.06.070 states the "criteria" the Board must consider in the exercise of its powers. These are:

(1) the revenue needs and projected fiscal condition of the state;

(2) the existence and extent of present and projected local and regional needs for oil and gas products and by-products, the effect of state and federal commodity allocation requirements which might be applicable to those products and by-products, and the priorities among competing needs;

(3) the desirability of localized capital investment, increased payroll, secondary development and other possible effects of the sale, exchange or other disposition of oil and gas or both;

(4) the projected social impacts of the transaction;

(5) the projected additional costs and responsibilities which could be imposed upon the state and affected political subdivisions by development related to the transaction;

(6) the existence of specific local or regional labor or consumption markets or both which should be met by the transaction;

(7) the projected positive and negative environmental effects related to the transaction; and

(8) the projected effects of the proposed transaction upon existing private commercial enterprise and patterns of investments.

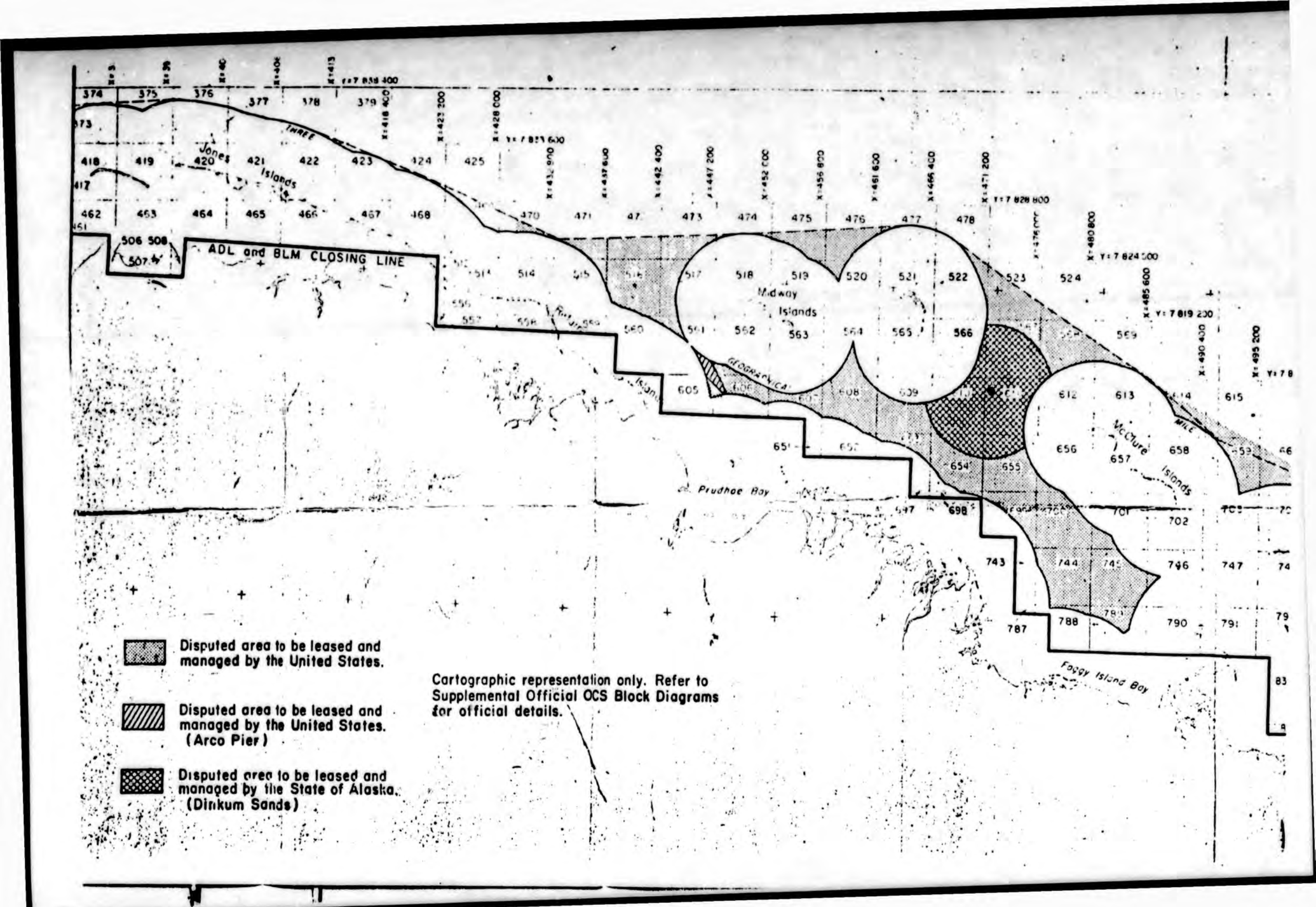
The evaluation of proposed sales in accordance with the criteria and the public hearing process is to enable the Board to more effectively carry out its purpose to "facilitate the wise development of Alaska's oil and gas royalty interests by providing means and procedures for sales, exchanges or other disposition of those interests in ways calculated to promote private economic growth consistent with applicable environmental standards and public fiscal stability...." AS 38.06.010. The Board is required to recommend to the State Legislature whether the proposed sale to GVEA should be approved or rejected. AS 38.06.050

The Board solicits comments from the public concerning this proposed sale. You are invited to present a statement, oral or written, at the hearing or send it directly to the Chairman, Alaska Royalty Oil and Gas Development Advisory Board, c/o Kay Brown, Director, Division of Oil and Gas, Department of Natural Resources, Pouch 7-034, Anchorage, Alaska 99510.

Copies of the proposed meeting agenda, applicable Alaska statutes, regulations, and other information relating to the proposed sale may be obtained by contacting Sandra Schwartzbauer at 265-4274.

James B. Gottstein
Chairman

Pub: January 17, 1985


ADL and BLM CLOSING LINE
Jones Islands
Midway Islands
Prudhoe Bay
Foggy Island Bay
Disputed area to be leased and managed by the United States.
Disputed area to be leased and managed by the United States. (Arco Pier)
Disputed area to be leased and managed by the State of Alaska. (Dinkum Sands)
Cartographic representation only. Refer to Supplemental Official OCS Block Diagrams for official details.

Issues of Concern to be Discussed in Washington D.C.

OCS Revenue Sharing - Alaska has been designated the lead state on this issue by the Western Governors' Conference. In the 98th Congress, House-Senate conferees agreed upon legislation to share a small portion of OCS oil and gas receipts with all coastal states. The legislation was then passed by the full House of Representatives, although Reagan Administration oppostion prevented Senate consideration of the conference report. It is anticipated that similar legislation will be introduced in the 99th Congress.

8(g) Revenue Sharing - The issue of how to share Section 8(g) revenues may be decided in court, although further discussions between Secretary Hodel and affected governors may occur. A bill introduced late in the 98th Congress by Congressman Breaux would require a 50-50 split of all 8(g) revenues, and it is possible that this bill will be receiving a hearing.

OCS Lease Sale Schedule - The five-year OCS Schedule is due to be updated and presented to Congress for review during the 99th Congress. The key lease sale that might result in Congressional action, including funding moratoriums, is the proposed North Aleutian Shelf Sale now scheduled for December, 1985.

Teshepuk/Utukok National Wildlife Refuge - It is expected that Congressman Dingell will reintroduce his bill to convert the NPR-A into a wildlife refuge. Prudent state policy would therefore be to assess the results of BLM management of the area to date and devise a position accordingly.

Federal Tax Proposals - The Department of the Treasury issued a report which reommends to the President various tax reform measures. Proposals of particular interest include bills dealing with severance tax limitations, oil excise taxes, oil import fees, unitary tax, and limitations on state property taxes on interstate natural gas pipelines.

Jones Act Modifications - Legislation to eliminate the Third Proviso of the Jones Act, which allows foreign carriers to transport U.S. goods to Alaska via Canada, passed the House in 1983 despite strong opposition by the state. The legislation is expected to be reoffered again this year, with similar results. As a result of the approval of the initiative repealing the Alaska Transportation Commission, the State must lobby Congress for repeal of the Jones Act.

90-10 Revenue Sharing Formula for Alaska Wildlife Refuges - In 1983, Congressman Breaux offered an amendment in committee to repeal the provision of the Statehood Act which grants the state 90% of wildlife refuge mineral lease revenues. He proposed to replace it with the standard nationwide provision, which grants 75% of such revenues to the federal government for wetlands protection and 25% to the local borough or county. Although Breaux later withdrew the amendment, he may offer it again.

Oil Export/Export Administration Act Reauthorization - In the 98th Congress, a major effort to modify the North Slope oil export restrictions of the EAA foundered in the face of maritime industry opposition. Because the necessary reauthorization of the EAA was not passed by Congress, the issue could arise next year. A study of the oil export question by federal agencies is mandated by this legislation, if it passes.

Transportation of Alaska North Slope Gas - Legislation may be sought by the sponsors of the TAGS LNG export proposal to clarify their ability to transport North Slope gas apart from the existing ANGTS project.

Deadline for the Secretary of the Interior's report to Congress - In 1986, Secretary of the Interior Hodel must make a report of fundings to Congress that identifies those areas within the coastal plain of the Arctic National Wildlife Refuge that have oil and gas production potential, and that evaluates the impact of exploiting oil and gas resources in the refuge area.

STATE OF ALASKA
DEPARTMENT OF NATURAL RESOURCES
DIVISION OF OIL AND GAS

BILL SHEFFIELD, GOVERNOR

POUCH 7-034
ANCHORAGE, ALASKA 99510

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Alaska Royalty Oil & Gas Development Advisory Board
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The Alaska Royalty Oil and Gas Development Advisory Board, under AS 38.06.040 (a)(2), is required to "hold public hearings on proposed sales, exchanges, or other disposals of royalty oil or gas to determine whether the proposals comply with AS 38.06.070."

AS 38.06.070 states the "criteria" the Board must consider in the exercise of its powers. These are:

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The Board solicits comments from the public concerning this proposed sale. You are invited to present a statement, oral or written, at the hearing or send it directly to the Chairman, Alaska Royalty Oil and Gas Development Advisory Board, c/o Kay Brown, Director, Division of Oil and Gas, Department of Natural Resources, Pouch 7-034, Anchorage, Alaska 99510.

Copies of the proposed meeting agenda, applicable Alaska statutes, regulations, and other information relating to the proposed sale may be obtained by contacting Sandra Schwartzbauer at 265-4274.

James B. Gottstein
Chairman

Pub: January 17, 1985

Proposed Agenda

ALASKA ROYALTY OIL & GAS DEVELOPMENT ADVISORY BOARD
PUBLIC HEARING

February 20, 1985

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(8) Other business or announcements from board members.

(9) Adjournment.

* Companies that wish to make a brief presentation to the board should call Roberta Staats at 265-4257 to schedule time on the agenda.

3207s

Introduced: 1/23/85
Referred: House Speical Committee on
Oil & Gas, Resources and Finance

IN THE HOUSE

BY THE RULES COMMITTEE BY REQUEST OF THE GOVERNOR

HOUSE BILL NO. 103

IN THE LEGISLATURE OF THE STATE OF ALASKA

FOURTEENTH LEGISLATURE - FIRST SESSION

A BILL

For an Act entitled: "An Act relating to royalty oil; and providing for an effective date."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

* Section 1. AS 38.05.183 is amended by adding a new subsection to read:

(g) AS 38.05.035(e) does not apply to a sale, exchange, or other disposal of oil or gas under this section.

* Sec. 2. AS 38.06.055(c) is amended to read:

(c) A sale, exchange, or other disposition of oil or gas, <u>other than by competitive bid,</u> made under (b)(1) of this section may not be continued after the end of one year or renewed with the same party to provide relief for market or storage conditions without the prior approval of the legislature under (a) of this section.

* Sec. 3. This Act takes effect immediately in accordance with AS 01.-10.070(c).

Introduced: 1/14/85
Referred: Community & Regional Affairs,
and Labor & Commerce

IN THE HOUSE BY DAVIS

HOUSE BILL NO. 12

IN THE LEGISLATURE OF THE STATE OF ALASKA

FOURTEENTH LEGISLATURE - FIRST SESSION

A BILL

For an Act entitled: "An Act relating to the exemption of municipally owned utilities from certain provisions of the Alaska Public Utilities Act."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

* Section 1. AS 42.05.711(b) is amended to read:

(b) Public utilities owned and operated by a political subdivision of the state and none of whose utilities is in competition with any other utility, are exempt <u>within the boundary of the municipality owning the utility</u> from the provisions of this chapter other than the provisions of AS 42.05.221 - 42.05.281, unless the owner and operator elects to be subject to all provisions of this chapter.

Introduced: 1/23/85
Referred: house Special Committee on
State Loans and Health,Education &
Social Services

IN THE HOUSE

BY DAVIS,HURLEY,KOPONEN,LARSON,
GRUENBERG AND SZYMANSKI

HOUSE BILL NO. 96

IN THE LEGISLATURE OF THE STATE OF ALASKA

FOURTEENTH LEGISLATURE - FIRST SESSION

A BILL

For an Act entitled: "An Act relating to the applicability of the scholarship loan program to students attending more than one postsecondary educational institution; and providing for an effective date."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

* Section 1. AS 14.43.160(2) is amended to read:

(2) "full-time student" means an undergraduate or career education student who is enrolled and is in regular attendance at classes for at least 12 semester hours of credit or the equivalent during the semester or a graduate student who is enrolled and is in regular attendance at classes for at least nine semester hours of credit or the equivalent; any combination of semester hours of credit, or the equivalent, aggregating to the requisite number of semester hours and undertaken during a semester at two or more public or private institutions of higher education [OPERATING UNDER A CONSORTIUM] constitutes full-time student status;

* Sec. 2. This Act takes effect immediately in accordance with AS 01.-10.070(c).

Introduced: 1/14/85
Referred: Judiciary and
Finance

IN THE HOUSE BY DAVIS

HOUSE JOINT RESOLUTION NO. 2

IN THE LEGISLATURE OF THE STATE OF ALASKA

FOURTEENTH LEGISLATURE - FIRST SESSION

Proposing amendments to the Constitution of the State of Alaska relating to appropriations of the legislature.

BE IT RESOLVED BY THE LEGISLATURE OF THE STATE OF ALASKA:

* Section 1. Article IX, sec. 16, Constitution of the State of Alaska is amended to read:

SECTION 16. APPROPRIATION LIMIT. Except for appropriations for Alaska permanent fund dividends, appropriations of revenue bond proceeds, appropriations required to pay the principal and interest on general obligation bonds, and appropriations of money received from a non-State source in trust for a specific purpose, including revenues of a public enterprise of public corporation of the state that issues revenue bonds, appropriations from the treasury made for a fiscal year shall not exceed $2,500,000,000 by more than the cumulative change, derived from federal indices as prescribed by law, in population and inflation since July 1, 1981. [WITHIN THIS LIMIT, AT LEAST ONE-THIRD SHALL BE RESERVED FOR CAPITAL PROJECTS AND LOAN APPROPRIATIONS]. The legislature may exceed this limit in bills for appropriations to the Alaska permanent fund and in bills for appropriations for capital projects, whether of bond proceeds or otherwise, if each bill is approved by the governor, or passed by affirmative vote of three-fourths of the membership of the legislature over a veto or item veto, or becomes law without signature, and is also approved by the voters as prescribed by law. Each bill for appropriations for capital projects in excess of the limit shall be confined to capital projects of

the same type, and the voters shall, as provided by law, be informed of the cost of operations and maintenance of the capital projects. No other appropriation in excess of this limit may be made except to meet a state of disaster declared by the governor as prescribed by law. The governor shall cause any unexpended and unappropriated balance to be invested so as to yield competitive market rates to the treasury.

* Sec. 2. The amendment proposed by this resolution shall be placed before the voters of the state at the next general election in conformity with art. XIII, sec. 1, Constitution of the State of Alaska, and the election laws of the state.

Introduced: 1/14/85
Referred: Community & Regional Affairs,
Resources and Finance

IN THE HOUSE BY DAVIS

HOUSE BILL NO. 11

IN THE LEGISLATURE OF THE STATE OF ALASKA

FOURTEENTH LEGISLATURE - FIRST SESSION

A BILL

For an Act entitled: "An Act relating to taxation of agricultural preference land by a municipality; and providing for an effective date."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

* Section 1. AS 29.53 is amended by adding a new section to read:

Sec. 29.53.036. AGRICULTURAL PREFERENCE LAND. (a) Agricultural land sold by the state under AS 38.05.069 shall be assessed on the basis of full and true value for agricultural purposes and may not be assessed as if subdivided or used for some other nonagricultural purpose.

(b) In this section "agricultural purpose" includes farming, ranching, grazing, and storage or control of agricultural crops or livestock.

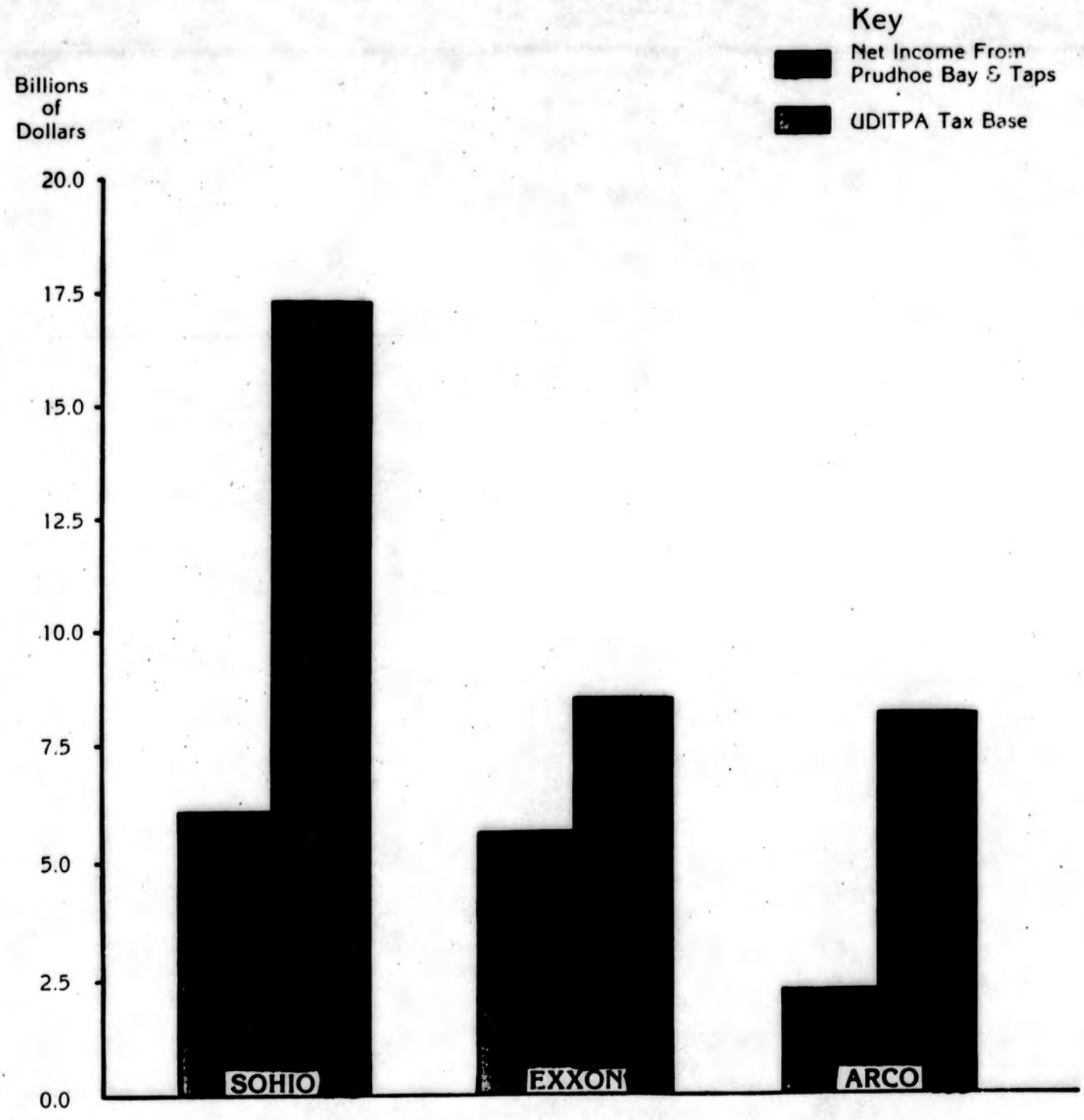
* Sec. 2. This Act is retroactive to January 1, 1985.

* Sec. 3. This Act takes effect immediately in accordance with AS 01.-10.070(c).

SCOMM

#46:5

Net Income From Prudhoe Bay and Taps
Compared With UDITPA Tax Base
(Life of Field)



Source: Arthur Anderson Study, Exhibit VIII(a)(R. 2899)

CHART 4

League of Women Voters of Alaska

April 18, 1985

Dear Representative:

You will soon have the opportunity to vote on House Joint Resolution 3. This adds Alaska to the growing list of states that have ratified the United States Constitutional amendment to grant voting representation in Congress to the residents of the District of Columbia. The League of Women Voters urges you to vote "yes."

The United States has the dubious honor of being one of only two nations in the world that denies residents of its national capital the right to voting representation. (Brazil is the other.) As Alaska before 1959, District residents have all the responsibilities of American citizenship (taxpaying, military service, etc.) without the ability to have a voice in national legislative decision-making.

Changing this sad situation has long been a priority for members of the League. Whereas now federal laws apply "to residents of the several states and the District of Columbia," we would like to see the right to elect those who make the federal laws also apply "to residents of the several states and the District of Columbia."

For us, it is simply a matter of fairness; we hope you will see it that way, too.

Thank you.

Sincerely,

Paula Ziegler

Paula Ziegler
President
127 N. Franklin Apt. 909
Juneau, Alaska 99811

IN THE SUPREME COURT FOR THE STATE OF ALASKA

ATLANTIC RICHFIELD COMPANY; ARCO PIPE LINE COMPANY; BP ALASKA, INC.; EXXON CORPORATION; EXXON PIPELINE COMPANY; SOHIO ALASKA PETROLEUM COMPANY; and SOHIO PIPE LINE COMPANY,	)	
Appellants,	)	
vs.	)	
STATE OF ALASKA; ALASKA DEPARTMENT OF REVENUE; ALASKA DEPARTMENT OF ADMINISTRATION; COMMISSIONER OF REVENUE ROBERT D. HEATH, and COMMISSIONER OF ADMINISTRATION LISA RUDD,	)	Supreme Court No. S-52
Appellees.	)	Superior Court Nos. 3AN-79-1903 Civil 3AN-80-1542 Civil

AFFIDAVIT OF ROBERT D. HEATH

STATE OF ALASKA)
) ss.
FIRST JUDICIAL DISTRICT)

I, ROBERT D. HEATH, being first duly sworn declare:

1. I am Commissioner of the Department of Revenue for the State of Alaska and have held that post since January 21, 1983.

2. I directed my staff to prepare the following estimates based on information from department collection records, tax returns, taxpayer financial reports and other sources.

3. The figures for AS 43.21 earnings and tax liability are based upon initial collections less refunds and credits plus audit assessments collected. Because AS 43.21 tax returns are still being audited, the figures below are not final

collections. Moreover, certain retroactive refunds and credits for AS 43.21 tax years are still being processed.

4. Estimates of AS 43.20 taxes under a modified approach are based upon best available information.

5. The figures below reflect the most current information on the earnings and taxes collected by the State of Alaska under AS 43.21 and my best judgment on what would have accrued had AS 43.20, as presently amended, been in effect during the same period. These figures pertain only to the appellants in the above-captioned action, and do not consider either the AS 43.21 or possible AS 43.20 liability of other taxpayers.

6. The figures below are expressed in millions of current dollars and have been rounded to the nearest $1 million.

7. Total net income subject to tax under AS 43.21 is:

YEAR	AS 43.21 EARNINGS TAXED
1978	$ 1,588,000,000
1979	4,125,000,000
1980	7,637,000,000
1981	7,617,000,000
TOTAL	$20,967,000,000

95%

623,000,000

Lost

43.20

1.4 bill

↓

426 mil

1.826

8. Total AS 43.21 net collections to date:

YEAR	AS 43.21 NET COLLECTIONS
1978	$ 148,000,000
1979	387,000,000
1980	648,000,000
1981	838,000,000
TOTAL	$2,021,000,000

9. Estimated alternate tax liability under the AS 43.20 modified formula apportionment approach would be:

YEAR	AS 43.20 ESTIMATED ALTERNATE TAX
1978	$ 66,000,000
1979	165,000,000
1980	216,000,000
1981	176,000,000
TOTAL	$ 623,000,000

10. The net tax difference between AS 43.21 tax liabilities and estimated AS 43.20 tax liabilities is:

YEAR	DIFFERENCE BETWEEN AS 43.21 AND AS 43.20 TAX LIABILITY
1978	$ 82,000,000
1979	222,000,000
1980	432,000,000
1981	662,000,000
TOTAL	$1,398,000,000

HYPOTHETICAL TAXPAYER

STATE A (Manufacturing)		STATE B (Sales)	
Cost of Production:	Transfer Value:	Distribution and Marketing Costs:	Retail Sales Price:
$4/unit	$5/unit	$4/unit	$10/unit

Separate Accounting Income:
(1000 units)

Gross income (transfer value X 1000)	= $5,000	Gross income (retail sales X 1000)	= $10,000
Cost of production (X 1000)	= $4,000	Cost of goods (transfer X 1000)	= $5,000
		Cost of sales (X 1000)	= $4,000
Net Income	= $1,000	Net Income	= $1,000

Total Corporate Net Income = $2,000

Three Factor Formula Income:
(Formula assumptions: all property State A; ½ payroll each state; all sales State B)

Formula Income:			Formula Income:		
Property	Payroll	Sales	Property	Payroll	Sales
1/1	1/2	0	0	1/2	1/1
Factor average: 1/2			Factor average: 1/2		
Net Income (1/2 X $2,000) = $1,000			Net Income (1/2 X $2,000) = $1,000		

CHRONOLOGY

Income attribution rules for oil and gas producers for corporate income tax purposes

TAX YEARS	METHOD	DESCRIPTION
Territorial days through 1977	Formula apportionment	Three factor formula - "UDITPA" (Uniform Division of Income for Tax Purposes Act) AS 43.19/43.20
1978 - 1981	Separate accounting	Subject of lawsuit; AS 43.21
1982 - present	Modified formula apportionment	Two factor formula - uses property and extraction factors AS 43.20.072

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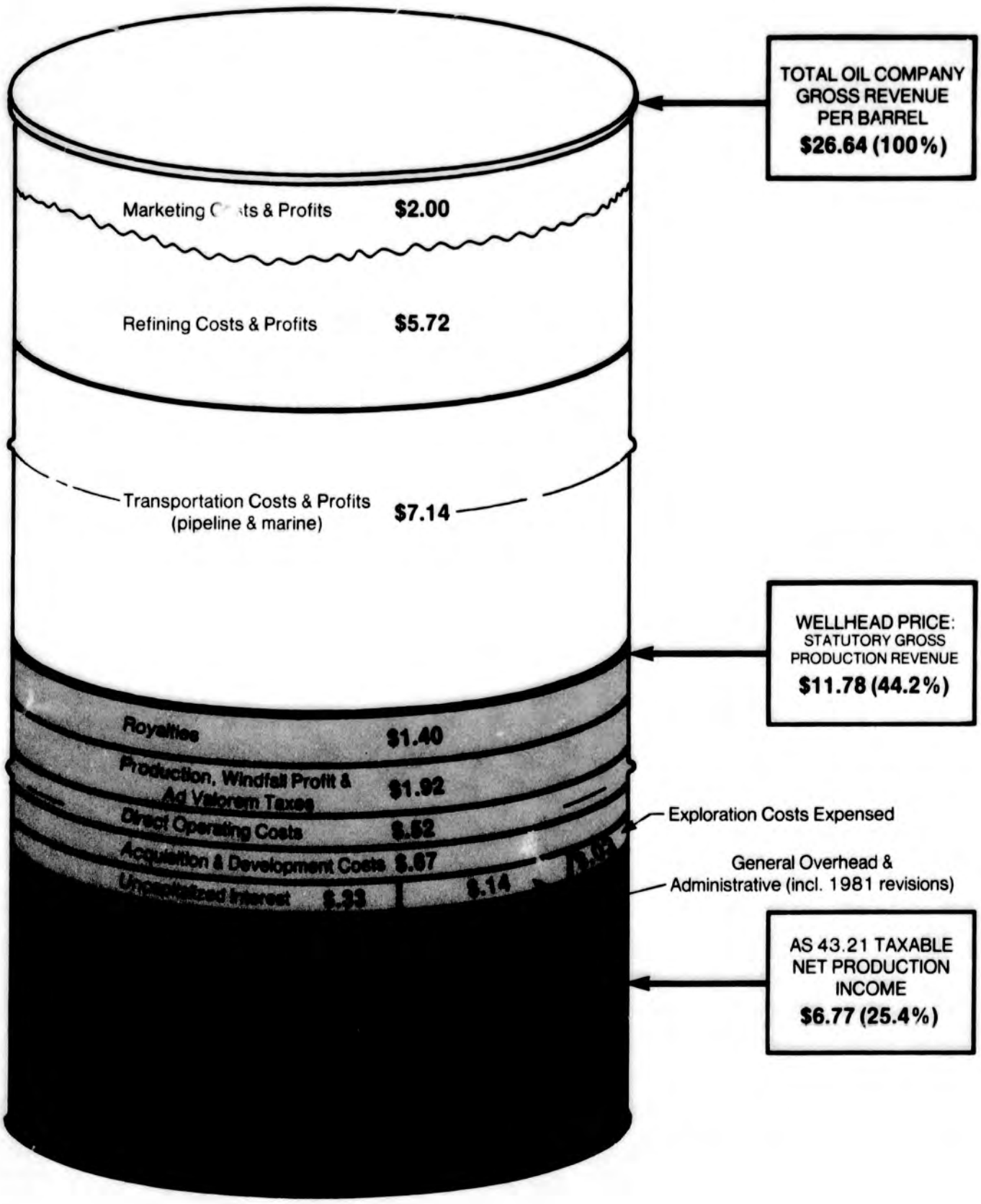
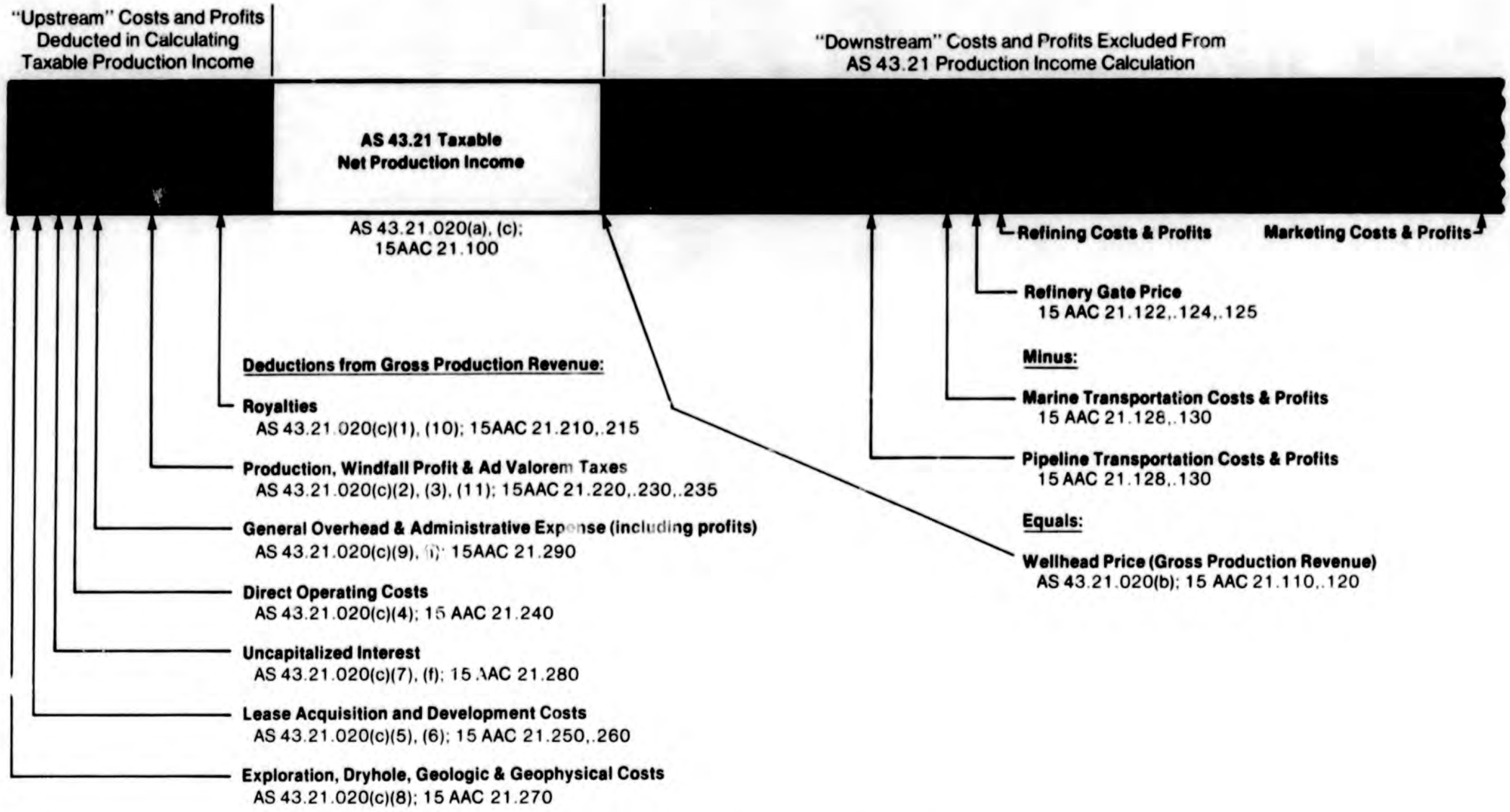
1982 - present	Modified formula apportionment	Two factor formula - uses property and extraction factors AS 43.20.072

ESTIMATED REVENUES AND COSTS
PER BARREL OF ALASKAN CRUDE OIL
1978 - 1980



SOURCE: Deakin 2d Supplemental Affidavit ¶ 15.

AS 43.21 TAXABLE NET PRODUCTION INCOME CALCULATION
EXCLUDES ALL COSTS AND PROFITS OF UPSTREAM AND DOWNSTREAM ACTIVITIES



NOTE: Segments of bar are proportioned by approximate values for these taxpayers for 1978 - 1980. SEE Deakin 2d Supplemental Affidavit ¶ 15.

OIL AND GAS CORPORATE INCOME TAX

Sec. 1, ch. 110, SLA 1978

* Section 1. LEGISLATIVE FINDINGS AND INTENT. The legislature finds and declares that the method of apportioning income for tax purposes under the "Uniform Division of Income for Tax Purposes" formula embodied in the Multistate Tax Compact (AS 43.19) and AS 43.20.065 does not fairly represent the extent of the business activities in this state of multistate corporations engaged in the production and pipeline transportation of crude oil and natural gas in Alaska. The legislature therefore intends that, in accordance with the provisions of art. IV, sec. 18 of the Multistate Tax Compact (AS 43.19), the income tax of all corporations engaged in the production or pipeline transportation of oil or natural gas in or directly associated with this state shall be assessed by the tax administrator under this Act. The legislature further intends that the assessment of income tax against a multistate corporation engaged in the production or pipeline transportation of oil or natural gas shall be commensurate with the tax that would be assessed against a corporation owning and operating only those assets of the multistate corporation which are in or directly associated with this state.

Chapter 21. Oil and Gas Corporate Income Tax.

Section
10. Application
20. Determination of taxable income from oil and gas production
30. Determination of income from oil and gas pipeline transportation
40. Determination of income from activities other than oil and gas production or pipeline transportation
50. Assessment of income and tax
60. Returns
70. Payment of tax
80. Transitional rules
90. Regulations
100. Penalties
110. Public reporting
120. Definitions

Chapter repealed effective January 1, 1982. — Section 19, ch. 116, SLA 1981, repealed this chapter effective January 1, 1982.

Editor's notes. — As to legislative findings and intent, see § 1, ch. 110, SLA 1978, in the 1978 Temporary and Special Acts and Resolves.

Section 4, ch. 110, SLA 1978, provides: "This Act applies to taxable income earned or received after December 31, 1977."

Sec. 43.21.010. Application [Repealed effective January 1, 1982]. AS 43.21.010 — 43.21.120 applies to every corporation doing business in the state which derives income from the production of oil or gas from a lease or property in the state or from the pipeline transportation of oil or gas in the state. The tax calculated under AS 43.21.010 — 43.21.120 is measured by the total taxable income of the corporation during the tax period as determined under AS 43.21.020 — 43.21.040 and is calculated at the rates established under AS 43.20.011(e). (§ 3 ch 110 SLA 1978; am § 28 ch 113 SLA 1980; am § 6 ch 116 SLA 1981)

Effect of amendments. — The 1980 amendment retroactive to January 1, 1978, deleted "or directly associated with" following "a lease or property in" near the middle of the first sentence.

The 1981 amendment, retroactive to January 1, 1978, added "during the tax period" following "income of the corporation," substituted "determined under" for "defined in" preceding "AS 43.21.020 — 43.21.040" and substituted "calculated" for "determined" preceding "at the rates" in the second sentence.

Editor's notes. — Section 50, ch. 113, SLA 1980 makes this section applicable to tax years beginning after December 31, 1977.

Section 20, ch. 116, SLA 1981 provides that the 1981 amendment apply to tax years beginning after December 31, 1977.

Sec. 43.21.020. Determination of taxable income from oil and gas production [Repealed effective January 1, 1982]. (a) The taxable income of a corporation from the production of oil and gas from a lease or property in the state shall be the corporation's net income as calculated by the department in accordance with this section.

(b) Gross income of a corporation from oil and gas production shall be the gross value at the point of production of oil or gas produced from a lease or property in the state. The department shall by regulation

determine a uniform method of establishing the gross value at the point of production. In making its determination the department may use the actual prices or values received for the oil or gas, the posted prices for the oil or gas in the same field, or the prevailing prices or values of oil or gas in the same field. In addition, in its determination of gross value at the point of production of oil or gas produced from a lease or property, the department shall determine the reasonable costs of transportation from the point of sale to the point of production of the oil or gas. Transportation costs set by a tariff properly on file with the Alaska Pipeline Commission or other regulatory agency shall be considered prima facie reasonable, but if a tariff properly on file with a regulatory agency is subsequently amended, changed, or overturned retroactively, the reasonable costs of transportation shall be recomputed for that period using the newly determined tariff.

(c) Net income from oil and gas production shall be determined by the department by deducting from gross income the following:

(1) royalties paid in kind or in value;

(2) taxes imposed under AS 43.55.011 — 43.55.150 and AS 43.57.010 which are actually paid or incurred by the corporation on the production from a lease or property in the state;

(3) taxes imposed under AS 43.56.010 — 43.56.210 and AS 29.53.010 — 29.53.460 which are actually paid or incurred by the corporation on property used directly in the production of oil or gas from a lease or property in the state, including property used in production, gathering, treatment, or preparation of the oil or gas for pipeline transportation, but only if those property tax payments were due and payable only after the date of commercial production from the lease or property with which the property was associated;

(4) the direct costs incurred by or for the corporation in operating the lease or property, including the direct costs of producing, gathering, treating, or preparing the oil or gas for pipeline transportation, but not of any payments received for those activities and not including any indirect cost or overhead expense;

(5) depreciation (using the unit of production method or such other reasonable methods as the department may by regulation establish) on property used directly in the production, gathering, treatment, or preparation of the oil or gas for pipeline transportation including amortization of capitalized interest for investments in this property at a rate not to exceed the average cost of borrowed capital to the taxpayer during the year in which it is capitalized;

(6) the amortization of lease acquisition payments and taxes paid or incurred under AS 43.56.010 — 43.56.210 and AS 29.53.010 — 29.53.460 (including capitalized interest on both) for or on producing properties before the commencement of commercial production from the lease or property for which the property is being used;

(7) interest expense of the corporation, not capitalized during construction, that was paid or incurred in connection with property in Alaska; however, unless (f) of this section applies, the interest expense may not exceed that portion of the total interest paid by the consolidated business of which the corporation is a part, determined by multiplying the total interest by a fraction, the numerator of which is the value of the corporation's real and tangible personal property used directly in the production of oil or gas from a lease or property in the state and the denominator of which is the value of all real and tangible personal property of the consolidated business; in this subsection, "total interest paid by the consolidated business" does not include interest expense arising from intercompany obligations within the consolidated business except to the extent that the interest expense reflects a pass-through of interest on a third-party borrowing by the parent or other member of the consolidated business with the purpose, expressed at the time of the third-party borrowing, of financing Alaska business activity of the taxpayer corporation;

(8) expenses incurred by the corporation after December 31, 1977, of unsuccessful exploration of oil or gas in the state including the acquisition costs of abandoned properties, dry hole costs, and the costs of geologic and geophysical exploration related to those abandoned properties;

(9) general overhead or administrative expense incurred by the corporation attributable to deriving income from the production of oil or gas from a lease or property in the state to the extent, except as provided in (f) of this section, that it does not exceed that portion of the total general overhead or administrative expense incurred by the consolidated business of which the corporation is a part, determined by multiplying the total general overhead or administrative expense by a fraction, the numerator of which is the value of the corporation's real and tangible personal property used directly in the production of oil or gas from a lease or property in the state and the denominator of which is the value of all real and tangible personal property of the consolidated business;

(10) the amount of income from the production of oil and gas from a lease or property that is divided among the regional native corporations under sec. 7(i) of the Alaska Native Claims Settlement Act (P.L. 92-203);

(11) the tax imposed by sec. 4986 of the Internal Revenue Code that is paid or incurred by the taxpayer for oil production from leases or properties in the state.

(d) Deductions from gross income under this section shall not include expenses previously deducted on a return filed under AS 43.20.011 — 43.20.350.

(e) Where a corporation subject to AS 43.21.010 — 43.21.120 shares the production or proceeds of the production from a lease or property

through a working interest, royalty interest, overriding royalty interest, production payment, net profit interest, joint venture or other agreement, the department shall allocate the deductions from gross income between the corporation and the persons with whom it has such an agreement in accordance with the terms of the agreement.

(f) If a corporation demonstrates to the satisfaction of the department that it paid or incurred actual expenses for interest or for general overhead or administration attributable to deriving income from the production of oil or gas from a lease or property in the state in an amount greater than the amount determined under (c)(7) or (c)(9) of this section, the department may allow the corporation to deduct the greater amount. (§ 3 ch 110 SLA 1978; am § 29 ch 113 SLA 1980; am §§ 7, 8 ch 116 SLA 1981)

Effect of amendments. — The 1980 amendment retroactive to January 1, 1980, in paragraph (7) of subsection (c), inserted "of the corporation" and substituted "during construction" for "of the corporation", both near the beginning of the paragraph.

The 1981 amendment, retroactive to January 1, 1978, in subsection (c), added "or incurred" following "actually paid" in paragraphs (2) and (3), added "or incurred" following "taxes paid" in paragraph (6), and in paragraph (7), substituted "that was paid or incurred in connection with property in Alaska; however, unless (f) of this section applies, the interest expense may" for "to the extent that it does," deleted "(reduced by intercompany transactions within the consolidated business)" following "the total interest" and added the language beginning "in this subsection" and ending with "business activity of the taxpayer corporation." Additionally, in subsection (c), the amendment added "deriving income from" preceding "the production of," added "except as provided in (f) of this section" following "to the extent," deleted "the lesser of:" following "does not exceed," deleted subparagraph designation (A) and repealed subparagraph (B) which read "the sum of $0.12 for each barrel of oil and $0.02 for each thousand cubic feet of gas produced from a lease or property in the state" in paragraph (a). The amendment also added paragraphs (10) and (11) in subsection (c) and subsection (f).

Editor's notes. — Section 52, ch. 113, SLA 1980 makes this section applicable to tax years beginning after December 31, 1979.

Section 20, ch. 116, SLA 1981 provides that the 1981 amendment apply to tax years beginning after December 31, 1977.

Section 24, ch. 116, SLA 1981 provides: "If the method of determining taxable income under either AS 43.21.020 or AS 43.21.030 is held invalid by a final judgment of a court from which an appeal is not taken, and if as a result of that judgment a corporation, whether or not a party named in that judgment, receives a refund of taxes or estimated taxes paid under AS 43.21, then the provisions of AS 43.20, as amended in sec. 5 of this Act, apply to that corporation for the entire period for which it receives the refund."

Section 25, ch. 116, SLA 1981 provides: "Section 24 of this Act is retroactive to January 1, 1978, and applies to tax years beginning after December 31, 1977."

Section 26, ch. 116, SLA 1981 provides: "If sec. 25 of this Act is held invalid by a final judgment of a court from which an appeal is not taken, then sec. 24 of this Act is retroactive to January 1, 1979, and applies to tax years beginning after December 31, 1978."

Section 27, ch. 116, SLA 1981 provides: "If secs. 25 and 26 of this Act are held invalid by a final judgment of a court from which an appeal is not taken, then sec. 24 of this Act is retroactive to January 1, 1980, and applies to tax years beginning after December 21, 1979."

Section 28, ch. 116, SLA 1981, provides: "If secs. 25, 26 and 27 of this Act are held invalid by a final judgment of a court from which an appeal is not taken, then sec. 24 of this Act is retroactive to January 1, 1981, and applies to tax years beginning after December 31, 1980."

Sec. 43.21.030. Determination of income from oil and gas pipeline transportation [Repealed effective January 1, 1982]. (a) Except as provided in (c) of this section, taxable income attributable to the transportation of oil in a pipeline engaged in interstate commerce in Alaska shall be determined by the department and shall be the amount reported or that would be required to be reported to the Federal Energy Regulatory Commission or its successors as net operating income, less those portions of interest and general administrative expense attributable to the pipeline transportation of oil in the state, except that taxable income shall also include taxes on or measured by income. The department shall establish regulations governing the determination of interest and general administrative expense attributable to pipeline transportation of oil in the state.

(b) Except as provided in (c) of this section, taxable income attributable to the transportation of natural gas in a pipeline engaged in interstate commerce in Alaska shall be determined by the department and shall be the amount reported or that would be required to be reported to the Federal Energy Regulatory Commission as net operating income less that portion of interest and general administrative expense attributable to pipeline transportation in the state, except that the taxable income shall also include taxes on or measured by income. The department shall establish regulations governing the determination of interest and general administrative expense attributable to pipeline transportation of natural gas in the state.

(c) Taxable income attributable to the transportation of oil or natural gas in Alaska of any corporation not under the Federal Energy Regulatory Commission jurisdiction, or of a corporation under the jurisdiction of the Federal Energy Regulatory Commission but not reporting the operation of pipelines in Alaska separately from the operation of pipelines elsewhere, shall be determined by the department and shall be based upon an amount equal to that which would have been reported to the Federal Energy Regulatory Commission under (a) of this section in the case of oil pipelines, or (b) of this section in the case of natural gas pipelines, had the corporation been, in fact, under Federal Energy Regulatory Commission jurisdiction for the taxable year and required to report on the operation of Alaska pipelines separately from the operation of pipelines elsewhere. (§ 3 ch 110 SLA 1978)

Editor's notes. — Section 24, ch. 116, SLA 1981 provides: "If the method of determining taxable income under either AS 43.21.020 or AS 43.21.030 is held invalid by a final judgment of a court from which an appeal is not taken, and if as a result of that judgment a corporation, whether or not a party named in that judgment, receives a refund of taxes or estimated taxes paid under AS 43.21, then the provisions of AS 43.20, as amended in sec. 5 of this Act, apply to that corporation for the entire period for which it receives the refund."

Section 25, ch. 116, SLA 1981 provides: "Section 24 of this Act is retroactive to January 1, 1978, and applies to tax years beginning after December 31, 1977."

Section 26, ch. 116, SLA 1981 provides: "If sec. 25 of this Act is held invalid by a

final judgment of a court from which an appeal is not taken, then sec. 24 of this Act is retroactive to January 1, 1979, and applies to tax years beginning after December 31, 1978."

Section 27, ch. 116, SLA 1981 provides: "If secs. 25 and 26 of this Act are held invalid by a final judgment of a court from which an appeal is not taken, then sec. 24 of this Act is retroactive to January 1, 1980, and applies to tax years beginning after December 21, 1979."

Section 28, ch. 116, SLA 1981, provides: "If secs. 25, 26 and 27 of this Act are held invalid by a final judgment of a court from which an appeal is not taken, then sec. 24 of this Act is retroactive to January 1, 1981, and applies to tax years beginning after December 31, 1980."

Sec. 43.21.040. Determination of income from activities other than oil and gas production or pipeline transportation [Repealed effective January 1, 1982]. (a) Taxable income of a corporation subject to AS 43.21.010 — 43.21.120 from activities in this state other than the production of oil or gas from a lease or property in the state or the pipeline transportation of oil or gas in the state shall be determined in accordance with the method established in art. IV of AS 43.19.010 and in AS 43.20.071, as modified by (b) — (f) of this section.

(b) The total taxable income of the consolidated business is its entire income less the portion of that entire income attributable to worldwide production and pipeline transportation of oil and gas. In this section,

(1) for a member of a consolidated business who is required to file under the Internal Revenue Code, "entire income" means taxable income under Subtitle F and chapter 1 of Subtitle A of the Internal Revenue Code of 1954, as amended, except that those provisions adopted after December 31, 1975, which change or modify exemptions from tax are not adopted by reference as a part of this section until the second January 1 following the effective date of the federal law;

(2) for a member of a consolidated business who is not required to file under the Internal Revenue Code, "entire income" means book income, except that a taxpayer may elect to report his income as the income would be determined under (1) of this subsection.

(c) The numerator and denominator of the property factor, of the payroll factor and of the sales factor shall be calculated without reference to that portion of property, payroll or sales directly related to the production of oil or gas from a lease of property in the state or the pipeline transportation of oil or gas in the state.

(d) Repealed by § 17 ch 116 SLA 1981.

(e) Repealed by § 17 ch 116 SLA 1981.

(f) The value attributed to vessels transporting Alaskan oil or gas of the consolidated business which are not owned or effectively owned by the consolidated business shall be excluded from the property factor. (§ 3 ch 110 SLA 1978; am §§ 30 — 32 ch 113 SLA 1980; am §§ 9, 17 ch 116 SLA 1981)

Effect of amendments. — The 1980 amendment, retroactive to January 1, 1978, in subsection (a), substituted "(f)" for "(e)" near the end of the subsection, in former subsection (b), substituted "earnings and profits of the consolidated

business gained directly from oil and gas production and pipeline transportation" for "taxable income of the corporation as determined under AS 43.21.020 and 43.21.030" at the end of the subsection, and added subsection (f).

The 1981 amendment, retroactive to January 1, 1978, rewrote subsection (b) and repealed subsection (d) which read "Compensation earned by the employees of the consolidated business who are employed in the United States but not in any state shall be included in the numerator of the payroll factor if the employees are directly supplied from the base of operation maintained in this state" and repealed subsection (e) which read "The value of oil or gas production facilities or other properties of the consolidated business which are located in the United States but not in any state shall be included in the numerator of the property factor if the property is serviced or supplied from a base of operations maintained in the state or if that property relies on onshore facilities in this state for storage of the oil or gas produced."

Editor's notes. — Section 50, ch. 113, SLA 1980 makes this section applicable to tax years beginning after December 31, 1977.

Chapter 1 of Subtitle A and Subtitle F of the Internal Revenue Code, referred to in subsection (b), are found in 26 U.S.C. § 1 et seq. and 26 U.S.C. § 6001 et seq.

Section 20, ch. 116, SLA 1981 provides that the 1981 amendment apply to tax years beginning after December 31, 1977.

Sec. 43.21.050. Assessment of income and tax [Repealed effective January 1, 1982]. (a) The department shall assess taxable income and the amount of tax payable on that taxable income.

(b) On or before August 15 of each year the department shall send to every corporation taxable under AS 43.21.010 – 43.21.120 a notice of assessment showing the amount of income taxable under AS 43.21.010 — 43.21.120 for the previous year and the amount of tax payable on that taxable income.

(c) For purposes of AS 43.21.010 — 43.21.120 the department may combine taxable incomes of corporations subject to tax under AS 43.21.010 — 43.21.120 who are part of the same consolidated business.

(d) If the methods of allocation and apportionment provided in AS 43.21.010 — 43.21.120 do not fairly represent the extent of a corporation's business activity in the state, the corporation may petition for or the department may require, in respect to all or any part of the corporation's business activity, if reasonable, the employment of any method authorized under art. IV, sec. 18, of the Multistate Tax Compact (AS 43.19.010) to effectuate an equitable allocation and apportionment of the corporation's income. The commissioner shall include in his annual report required in AS 43.21.110 a report on all relief granted under this subsection, including for each case a statement of the changes in tax liability resulting from the granting of relief, the tax years involved, and a description of the method of determining taxable income that was substituted for those provided in AS 43.21.010 — 43.21.120. (§ 3 ch 110 SLA 1978; am § 10 ch 116 SLA 1981)

Effect of amendments. — The 1981 amendment, retroactive to January 1, 1978, added subsection (d).

Editor's notes. — Section 20, ch. 116, SLA 1981 provides that the 1981 amendment apply to tax years beginning after December 31, 1977.

Sec. 43.21.060. Returns [Repealed effective January 1, 1982]. On or before April 15 of each year, a corporation subject to tax under AS 43.21.010 — 43.21.120 shall submit a return in a form prescribed by the department setting out information required by the department to determine taxable income. For purposes of AS 43.21.010 — 43.21.120, the department may require corporations subject to tax under AS 43.21.010 — 43.21.120 who are part of the same consolidated business to file a single return. (§ 3 ch 110 SLA 1978)

Sec. 43.21.070. Payment of tax [Repealed effective January 1, 1982]. The tax levied under AS 43.21.010 — 43.21.120 is payable to the department on or before September 30 of each year or in installments, including prepayments of estimated tax, at the times and under the conditions the department may by regulation require. This tax is payable on the due date set out in this section even though the assessment is under appeal or the validity, enforceability or application of AS 43.21.010 — 43.21.120 or any provision of AS 43.21.010 — 43.21.120 is challenged before the department or in the courts. (§ 3 ch 110 SLA 1978; am § 11 ch 116 SLA 1981)

Effect of amendments. — The 1981 amendment, retroactive to January 1, 1978, added "including prepayments of estimated tax" preceding "at the times and under the conditions" in the first sentence.

Editor's notes. — Section 20, ch. 116, SLA 1981 provides that the 1981 amendment apply to tax years beginning after December 31, 1977.

Sec. 43.21.080. Transitional rules [Repealed effective January 1, 1982]. The department shall provide by regulation transition rules for corporations subject to tax under AS 43.20.011 — 43.20.350 before July 9, 1978 to avoid double taxation of the same income or double deduction of the same expense of those corporations as a result of becoming subject to tax under AS 43.21.010 — 43.21.120. (§ 3 ch 110 SLA 1978)

Sec. 43.21.090. Regulations [Repealed effective January 1, 1982]. The department may adopt regulations in accordance with the Administrative Procedure Act (AS 44.62.010 — 44.62.650) as appropriate to administer and enforce AS 43.21.010 — 43.21.120. (§ 3 ch 110 SLA 1978)

Sec. 43.21.100. Penalties [Repealed effective January 1, 1982]. The penalties established in AS 43.20.011 — 43.20.350 apply to AS 43.21.010 — 43.21.120. (§ 3 ch 110 SLA 1978)

Sec. 43.21.110. Public reporting [Repealed effective January 1, 1982]. (a) The commissioner of revenue shall compile and transmit to the legislature an annual consolidated report of state revenues and taxation policies under AS 43.21.010 — 43.21.120. This report shall include total aggregate income tax paid by corporations covered under

AS 43.21.010 — 43.21.120 and aggregate income and deductions by category, so classified as to prevent the identification of particular returns or reports.

(b) The legislative auditor shall transmit to the legislature an annual report reviewing the actions of the department in administering AS 43.21.010 — 43.21.120. (§ 3 ch 110 SLA 1978)

Sec. 43.21.120. Definitions [Repealed effective January 1, 1982]. Unless the context requires otherwise the definitions contained in AS 43.55.140 are applicable to AS 43.21.010 — 43.21.120. In addition, in AS 43.21.010 — 43.21.120

(1) "base of operations" means the closest point on land to the offshore oil or gas production operations from which goods, services and supplies flow to those offshore oil or gas production operations;

(2) "consolidated business" means a corporation or group of corporations having more than 50 percent common ownership direct or indirect, or a group of corporations in which there is common control either direct or indirect as evidenced by any arrangement, contract or agreement. (§ 3 ch 110 SLA 1978; am § 33 ch 113 SLA 1980)

Effect of amendments. — The 1980 amendment, substituted "more than" for "at least" in paragraph (2).

Editor's notes. — Section 50, ch. 113, SLA 1980 makes this section applicable to tax years beginning after December 31, 1977.

Chapter 23. Permanent Fund Dividends.

Section		Section	
10.	Eligibility for permanent fund dividend	70.	Exemption of permanent fund dividends
20.	Proof of eligibility	80.	Eligibility for state public assistance payments
30.	Amount of dividend	90.	Tax exemption
40.	Penalties and enforcement	100.	Definitions
50.	Dividend fund established		
60.	Duties of the department		

Editor's notes. — Section 1, ch. 21, SLA 1980, retroactive to January 1, 1979, provides: "POLICY, PURPOSES AND FINDINGS. (a) It is the duty and policy of the state with respect to the natural resources belonging to it and the income derived from those natural resources to provide for their use, development, and conservation for the maximum benefit of the people of the state.

(b) The purposes of this Act are

(1) to provide a mechanism for equitable distribution to the people of Alaska of at least a portion of the state's energy wealth derived from the development and production of the natural resources belonging to them as Alaskans;

(2) to encourage persons to maintain their residence in Alaska and to reduce population turnover in the state; and

(3) to encourage increased awareness and involvement by the residents of the state in the management and expenditure of the Alaska permanent fund (art. IX, sec. 15, state constitution).

(c) The legislature finds that the accrual of permanent fund dividends provided in AS 43.23 [AS 43.23.010 — 43.23.100] enacted in sec. 2 of this Act, based on full years of residency since Jan-

Recent History of Alaska Corporation Net Income Tax
Prepared by Audit Division
March 13, 1985
Alaska Department of Revenue

I. 1975 through 1977 AS43.20.011(e)
All corporations paid tax on net income derived from sources in the state. Tax rate equaled 5.4 percent plus a 4 percent surtax on income over the Federal surtax exemption. Oil companies were required to use worldwide combination using the unitary concept. All multistate taxpayers were required to use the standard three factor formula of property, payroll and sales.

II. 1978 AS43.20.011(e)
Regular corporations tax rates remained the same. The surtax exemption was set at $50,000.

1978 AS43.21.010
Companies deriving income from the production or pipeline transportation of crude oil or natural gas are to calculate net income under AS43.21 using separate accounting. Their tax rate remained the same as for regular corporations. The standard three factor formula remained in effect.

III. 1981 AS43.20.011(e)
The tax rates applicable to all corporations were revised and the surtax exemption eliminated. Progressive rates from 2 percent on income over $10,000 to 11% on income over $4 million was set.

IV. 1982 AS43.20.011(e)
Regular corporation's tax rates were revised slightly with a top tax rate of 9.4% for income exceeding $90,000.

1982 AS43.20.072
The separate accounting law at AS43.21 was repealed effective 12/31/81. AS43.20.072, applicable to oil and gas producers and pipeline companies was enacted bringing the companies back under combination and apportionment under the unitary concept. Special apportionment factors specifically for these groups were devised.

I don't understand the question

Ask what are two issues to implement the term

Johns ready to answer

Recent History of Alaska Corporation Net Income Tax
Prepared by Audit Division
March 13, 1985
Alaska Department of Revenue

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I don't understand the question

Ask what are the issues to implement the test

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HYPOTHETICAL TAXPAYER

STATE A (Manufacturing)		STATE B (Sales)	
Cost of Production:	Transfer Value:	Distribution and Marketing Costs:	Retail Sales Price:
$4/unit	$5/unit	$4/unit	$10/unit

Separate Accounting Income: (1000 units)

Gross income (transfer value X 1000)	= $5,000	Gross income (retail sales X 1000)	= $10,000
Cost of production (X 1000)	= $4,000	Cost of goods (transfer X 1000)	= $5,000
		Cost of sales (X 1000)	= $4,000
Net Income	= $1,000	Net Income	= $1,000

Total Corporate Net Income = $2,000

Three Factor Formula Income:

(Formula assumptions: all property State A; ½ payroll each state; all sales State B)

Formula Income:

Property	Payroll	Sales
1/1	1/2	0

Factor average: 1/2

Net Income (1/2 X $2,000) = $1,000

Formula Income:

Property	Payroll	Sales
0	1/2	1/1

Factor average: 1/2

Net Income (1/2 X $2,000) = $1,000

SCOMM

#46:6

STATE OF ALASKA

POUCH V
JUNEAU, ALASKA 99811
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HOUSE SPECIAL COMMITTEE ON OIL AND GAS

April 24, 1985

Hazardous Substances Public Hearing

The role of the House Special Committee on Oil and Gas is to examine issues of concern to the state within the full context of oil and gas activities. An issue of particular concern is the disposal of hazardous materials related to the oil and gas industry; specifically, used drilling muds and fluids and wastewater discharge.

Today's public hearing is intended to provide an overview regarding these materials, and an understanding as to what extent existing problems are not being adequately met. This hearing will focus primarily on the following topics:

1. Expected DEC actions following the completion of a report by Tetra Tech, Inc. in December, 1984 that evaluated potential hazardous waste sites in Alaska.

2. A status update on Union Oil Company's request to bury 126,000 barrels of used drilling muds and fluids in existing reserve pits in the Kenai and Cannery Loop gas fields.

3. Status of drilling mud disposal guidelines being drafted by DEC.

4. The question as to which agency, DEC or the AOGCC (Alaska Oil and Gas Conservation Commission) is ultimately responsible for the clean-up of abandoned drilling sites.

5. Effects upon Alaska's environment resulting from both state and federal exemptions of used drilling muds and fluids from hazardous waste regulations.

6. Status of hazardous waste disposal on the North Slope.

7. Status of wastewater discharge from oil tankers in Prince William Sound.

This hearing will be teleconferenced to Anchorage, Kenai, and Fairbanks. Expected participants are as follows:

Commissioner Bill Ross, DEC
Steve Torok, EPA
Julie Athens, ARCO
David Wigglesworth, Alaska Health Project
Larry Weiss, Alaska Health Project
Jeff Mach, DEC
David Sears, AOGA
Mary Core, Alaska Center for the Environment
Bill Bobrick, Laborers Union
Sue Flemming, Anchorage Hazardous Waste Task Force
Bob Sizemore, Kenai resident
Ursula Barell
Exxon representative

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ALASKA STATE LEGISLATURE
HOUSE OF REPRESENTATIVES
RESEARCH AGENCY

Pouch Y, State Capitol
Juneau, Alaska 99811
(907) 465-3991

April 24, 1985

MEMORANDUM

TO: Representative Mike Davis

ATTN: ~~Jonathan Sperber~~

FROM: Eric Laschever, Legislative Analyst

RE: Regulation of Toxic and Hazardous Wastes in Alaska
Research Request 85-294

At your request, I have prepared the following information regarding the disposal of hazardous and toxic wastes:

- an overview of the types, quantities, location and disposal of hazardous wastes in Alaska;
- a summary of the laws and regulations which apply to these wastes; and
- a brief discussion of the disposal of petroleum drilling muds in other states and provinces.

HAZARDOUS WASTES IN ALASKA

The distinction between hazardous and toxic wastes is a legal one which is discussed later in this memorandum. Aside from this legal distinction, there is little difference between the two. In this memorandum, the term "hazardous waste" is generally used to refer to both hazardous and toxic wastes generated by Alaska businesses, government and individuals.

Information on the types, quantities and location of wastes is limited. In addition, sources often use different terms and measurements in presenting their findings. The following data are neither comprehensive nor complete, but they do provide a sense of the status of hazardous wastes in Alaska.

Types of Hazardous Wastes

In 1980, the Environmental Protection Agency (EPA) surveyed 322 industrial, commercial, and institutional facilities in Alaska to determine what types of hazardous wastes they were generating. The responses identified 75 different waste types.[1]

The most common way of grouping these wastes is by the following characteristics: ignitability, corrosivity, chemical instability (reactivity), and toxicity. Certain wastes are considered to be acutely hazardous. These include pesticides, halogenated hydrocarbons, carcinogens, and inorganics such as cyanide, arsenic, mercury and other heavy metals.[2]

In 1982, the EPA funded an assessment of hazardous wastes in Alaska. This assessment grouped hazardous wastes into the following four categories:

Solvents--chemicals or petroleum distillates used for degreasing metal parts, cutting and finishing fluids, varnish, laquer and paint thinner. Solvents are generally ignitable.

Petroleum sludge--contaminated petroleum wastes that are either a by product of a recovery or refining process or have accumulated in storage tanks. Petroleum sludge often contains toxic heavy metal contaminants.

Acids and corrosives--liquid wastes from pickling liquors, electroplating baths, battery manufacturing, and boiler descaling processes.

Other sludges and solids--electroplating sludges, spent containers, waste pesticides and herbicides, and outdated chemicals.[3]

A final category of hazardous wastes is poisons. Attachment A contains two lists which provide specific hazardous wastes. Attachments B, C and D, which present information on the quantities and location of hazardous waste, also illustrate types of hazardous wastes.

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[1] Evaluation of Collection, Treatment, and Disposal Alternatives for Hazardous Wastes for the State of Alaska, JRB Associates, September 1982, p. 2.

[2] Ibid., p. 3.

[3] Ibid., p. 14, 18.

Quantities of Hazardous Wastes

The EPA study estimated that 350 to 400 tons of hazardous wastes were generated annually in Alaska. It estimated that there were 25 to 40 industrial and commercial facilities which generate more than 2,200 pounds per month. The study estimated that 58 percent of these wastes were solvents, 18 percent were petroleum sludges, 18 percent were acids and corrosives, and 6 percent were other sludges and solids. According to the study, the military accounts for 65 percent of these wastes.[4]

A report recently prepared for the city of Anchorage estimates that the amount of hazardous wastes disposed of statewide each year is 154 tons.[5] Corrosives and petroleum wastes accounted for approximately 54 percent and 46 percent of the total, respectively. Solvents accounted for less than one percent of the total.

Another indication of the quantities of hazardous wastes generated each year is provided by the results of the spring cleanup sponsored by the Department of Environmental Conservation (DEC). Under this program, the State pays to ship wastes which are generated by households and businesses out of the state. During the 1983 cleanup, 1,059 pounds of corrosives, 2,852 pounds of flammables and 3,352 pounds of poisons were collected in Anchorage alone.[6] According to Marilyn Heiman, of the Alaska Center for the Environment, 61,000 pounds of wastes were collected statewide during the 1984 clean up.

Attachment B contains information on the quantities of different types of hazardous wastes generated in Alaska.

Location

According to the EPA study, the majority of Alaska's hazardous wastes are generated in the Matanuska and Tanana Valleys. Sources which generate more than 220 pounds per month are all in the vicinity of Anchorage, Kenai, Fairbanks or Prudhoe Bay. Elmendorf and Eielson Air Force Bases and Fort Richardson and Fort Wainright account for 60 percent of

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[4]Ibid., p. 48.

[5]Hazardous Waste Management Plan Elements 1, 2, & 3, CH2M Hill, March 1984, p. 2-18.

[6]Ibid., p. 2-7.

the statewide production.[7] The first table presented in Attachment B also lists the location of hazardous waste generators throughout the state. Attachment C contains a figure which further illustrates the distribution of hazardous waste generators in Alaska.

Current Disposal Practices

Until recently, the disposal of hazardous wastes was regulated only for generators who produced more than 2,200 pounds of wastes per month. The EPA study concluded that while this regulated waste was shipped to Arlington, Oregon, the majority of hazardous wastes generated in Alaska were stored or disposed of on-site, or disposed of in local landfills, sewers or incinerators. The study notes that reliable figures were unavailable, but estimated that only 20 percent of the 178 tons of nonsolvent wastes were shipped out, while most of the solvents were disposed of in Alaska.[8] Attachment D illustrates the major disposal method for several types of waste.

The DEC recently completed an assessment of 45 potential hazardous waste disposal sites. This assessment provides further examples of disposal practices in recent years. Attachment E contains a summary of the study's findings and the detailed reports from the three sites which the study identified as having the greatest need for further action.

LAWS AND REGULATIONS

Currently, three federal laws influence the management of hazardous wastes in Alaska. The State passed legislation in 1984 which outlines the State's role in hazardous waste management. Regulations to implement these laws must be adopted by July 1, 1986. Federal and State laws are examined below.

Federal Laws and Regulations

The Resource Conservation and Recovery Act (RCRA). The RCRA has been the primary vehicle for managing hazardous wastes in Alaska since 1980. In November 1984, the RCRA was reauthorized and amended. These changes will alter the management of hazardous wastes in Alaska. The following discussion first examines the current program and then reviews some of the recent changes.

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[7]Evaluation of Collection, Treatment, and Disposal Alternatives for Hazardous Wastes for the State of Alaska, p. 12.

[8]Ibid., p. 17.

The RCRA contains three main elements. It defines hazardous wastes, specifies the quantity of wastes which will be regulated and establishes a management system for hazardous wastes. Hazardous wastes are defined in two ways. First, a waste is hazardous if it is ignitable, corrosive, reactive, or leaches toxic substances such as heavy metals. Second, a number of specific wastes are listed. These listed wastes are by definition hazardous. It is important to note that drilling muds are specifically exempted from the definition of hazardous waste in the RCRA. Provisions of the RCRA apply only to generators who produce more than 2,200 pounds per month of most hazardous wastes or 2.2 pounds of acute wastes. Some of the components of the management system are discussed below.

The management system for hazardous waste is designed to track these wastes from their generation to their disposal. Under the RCRA, all businesses must know what their wastes are and whether or not they are hazardous under the law. Those businesses which are generating hazardous wastes must notify the EPA, which assigns them an identification number.

The EPA uses this identification number for tracking the waste through the system. The regulations specify procedures for labeling and dating the drums in which the wastes are stored and limits on-site storage in most cases to 90 days. A manifest which specifies the types and quantities of waste must be filled out. This manifest accompanies the waste through each stage of transportation, treatment and disposal. This record system ensures that there is documentation that the waste is properly disposed of.

The RCRA outlines specific procedures for the storage, treatment and disposal of hazardous wastes. Storage, treatment and disposal must be performed at licensed facilities which are designed for this purpose. There are no licensed disposal facilities in Alaska. According to all of the sources I interviewed, the absence of disposal facilities and licensed collecting stations greatly increases the costs of hazardous waste disposal.

Under the RCRA, the EPA is responsible for implementing the program. Implementation includes inspecting known and suspected generators, reviewing permit applications for storage, treatment and disposal facilities, and educating producers of hazardous wastes about the requirements of the law. A state may be authorized to perform this function if it develops a program which satisfies the law. Alaska is currently developing such a program. A cooperative agreement between the EPA and DEC assigns DEC certain responsibilities in the interim. This approach increases the EPA's resources for administering the program and provides training to the DEC staff so that they will be ready when the program is turned over to the State.

During FY 84, the DEC conducted 19 RCRA inspections of EPA-regulated facilities. In FY 85, 40 inspections are planned. The EPA will continue to review permit applications until the State is authorized to take over the program.

The recent amendments to the RCRA greatly increase the number of waste generators subject to the law. As noted earlier, the current regulations apply only to sources which generate over 2,200 pounds of waste per month. The amended law requires the EPA to develop regulations for generators of over 220 pounds per month by March 31, 1986. By July 1985, waste generated in quantities of greater than 220 pounds must be accompanied by an EPA manifest if shipped off-site. This new requirement is likely to promote the demand for licensed collection or disposal facilities in Alaska because shipping wastes out-of-state is extremely expensive for small generators.

Other amendments of the RCRA broaden the restrictions on land disposal. By specified dates, the EPA must decide whether it is safe to continue land disposal of such hazardous wastes as solvents and dioxin. If no determination is made by these dates, then land disposal of the substances is automatically prohibited. This regulation may effect the on-site disposal practices of some Alaska generators.

The Toxic Substances Control Act (TSCA). All hazardous wastes in Alaska are regulated by the RCRA with the exception of polychlorinated biphenyls (PCBs). PCBs were already regulated under the TSCA and were therefore excluded from regulation under the RCRA. For legal purposes, PCBs are classified as toxic wastes rather than hazardous wastes. According to Steve Torok of the EPA, PCBs are the only toxic wastes.

PCBs are part of the family of organic chemicals known as chlorinated hydrocarbons. Most PCBs were sold for use as insulating liquids in electrical transformers and capacitors. PCBs have been shown to cause toxic effects such as reproductive defects, gastric disorders, skin lesions and cancerous tumors.[9] The TSCA prohibits the manufacture, processing and distribution of PCBs and provides a time table for phasing out PCBs which are already in use.

In Alaska, the EPA regulates PCBs which are in use by requiring the user to keep records on the equipment which contains the PCB and by inspecting these facilities on a regular basis. According to Steve Torok, the EPA has performed 10 to 20 inspections annually in recent years. The regulations for disposing of PCB-contaminated fluids vary according to the concentration of PCB. If the fluid has under 50 parts

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[9] EPA Toxics Information Series, Polychlorinated Biphenlys, July 1983, p. 1 and 2.

per million (ppm), it may be disposed of in a local landfill. A fluid containing more than this amount must be disposed of in either a licensed incinerator or licensed landfill. Because there are no licensed facilities in Alaska, most contaminated equipment is shipped to Oregon for disposal.

According to Mr. Torok, there are no summaries which list the location or quantities of PCBs which are present in Alaska. He notes that PCBs are likely to be present anywhere that there is electrical generating equipment. Examples of users of PCB-contaminated equipment are rural utilities, the University of Alaska and the military. He adds that rural utilities are of particular concern at this time, because recent inspections detected several severe violations. Mr. Torok estimates that the military shipped over one million pounds of contaminated equipment and soil to Oregon last year. He said that the amount of nonmilitary waste which was shipped was significantly less.

Comprehensive Environmental Response Compensation and Liability Act (CERCLA). The CERCLA provides funds to assist states inventory hazardous waste sites and (if they qualify) clean them up. The preliminary assessment of 45 sites in Alaska (which was mentioned earlier in this memorandum) was funded through this program.

State Laws

In 1981, the legislature passed SB 29, which instructed the DEC to seek EPA authorization to administer and enforce a hazardous waste program. Regulations were drafted to implement the law, but in 1983 it became clear that the statute would have to be amended to meet EPA specifications. In 1984, the legislature passed SB 503, which combined the amendments proposed by the governor in SB 498 with those proposed by the Senate Resources Committee, Senator Vic Fischer and Senator Josephson in SB 503, SB 450, and SB 486, respectively. The major provisions of SB 503 are summarized below. (Attachment F contains a copy of the version of SB 503 which was adopted.)

Section 1 of the bill authorizes the Department of Environmental Conservation to develop regulations for managing hazardous wastes. These regulations, when approved by the EPA, will enable the State to assume the responsibility for hazardous waste management under the RCRA by July 1, 1987. Regulations would apply to amounts of 220 pounds per month or greater, and acute wastes of 2.2 pounds per month. Mining wastes and those generated by oil and gas operations would initially be excluded.[10]

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[10]The sectional analysis is taken from a memo by Edward Hein to Senator Fahrenkamp dated April 18, 1984.

Section 2 requires transporters of hazardous waste to first send a copy of the manifest for those wastes to the DEC. The DEC must send copies to all state and local public safety agencies in the areas through which the waste is transported.

Sections 3 and 4 require the DEC to set up temporary collection stations for hazardous wastes and to evaluate and select potential sites for permanent disposal sites in Alaska.

Sections 5 through 7 establish civil penalties of $500-$100,000 for violations, with additional fines of up to $10,000 per day if the violations continue. Section 8 establishes criminal penalties of up to $10,000 per day and up to one year imprisonment.

DISPOSAL OF OIL AND GAS DRILLING MUDS IN OTHER STATES

I obtained brief descriptions of disposal procedures used by California, Texas and Louisiana. The Department of Environmental Conservation recently completed a survey of disposal practices used by other states and their findings supplement the following descriptions. In addition, Dan Wilkerson of the DEC will be sending a selection from the materials he received from these and other states which I will forward to you upon receipt.

California

In California, the type of disposal required for drilling muds is based on the level of toxicity of the waste. According to Stanford Lau of the California Department of Health, drilling muds are covered by California's hazardous waste laws and are tested for toxicity, corrosivity and ignitability to determine whether a given set of waste is hazardous. He notes that the tests and criteria are similar to those used by the EPA under the RCRA; however, the restrictions for heavy metals are more stringent than the EPA's restrictions.

Drilling muds which are determined to be hazardous by the above standards must be disposed of in Class 1 disposal sites. These sites are double lined to prevent leaching and must be located in areas with stable geology. There are less than five Class 1 sites in the state. A manifest system similar to the one described for the RCRA is used to track these wastes from their source to their disposal site.[11] Non-hazardous drilling muds are disposed of in the following ways: on-site

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[11] Survey of Drilling Mud Use and Disposal, Alaska Department of Environmental Conservation, September 1984, p. 28.

dumps, sanitary land fills (Class 3 disposal sites), and other double-lined containment pits (Class 2 disposal sites).

Texas

The Texas Railroad Commission regulates the disposal of drilling muds. Rule 8 prescribes the procedures for such disposal and covers such topics as authorized disposal methods, authorized pits, prohibited disposal methods and permits. Attachment G contains a copy of Rule 8. Texas also uses a manifest system to document the handling and disposal of its drilling Muds.[12]

Louisiana

According to Steve Colpepper, of the Office of Conservation, drilling muds are not classified as hazardous wastes in Louisiana. He indicated that much of the drilling waste has been stockpiled with little supervision or safeguards, but that incineration is becoming more common. Landfarming is also used as a disposal method. A survey completed by the DEC notes the following procedures used in Louisiana: the use of pits lined with three to five feet of materials with low permeability, monitoring of pits to detect seepage, and a manifest system for tracking the disposal of drilling muds.[13]

Please contact us if we can be of further assistance.

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Attachments

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[12]Ibid.

[13]Ibid., p. 27 - 29.

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ardous waste which is subject to this chapter and which the department, on a case-by-case basis, determines is achievable for the hazardous waste by application of production processes and available methods, systems and techniques, taking into account energy, environmental, and economic impacts and other costs; and

(2) the waste is disposed of in a manner that will ensure the protection of human health, livestock, wildlife, property, and the environment.

(b) The department shall adopt regulations in accordance with the Administrative Procedure Act (AS 44.62) for the treatment, storage, and disposal of hazardous wastes to ensure the protection of human health, livestock, wildlife, property, and the environment. (§ 10 ch 93 SLA 1981)

Sec. 46.03.299. Control of hazardous wastes. (a) The department shall, by regulations adopted under the Administrative Procedure Act (AS 44.62), establish a state hazardous waste program.

(b) The state hazardous waste program shall, consistent with and substantially equivalent to the Federal Resource Conservation and Recovery Act of 1976 (P.L. 94-580, 42 U.S.C. 6901 — 6987),

(1) establish criteria to identify the characteristics of hazardous wastes;

(2) enumerate specific hazardous wastes (within the meaning of AS 46.03.900(32)) subject to the provisions of AS 46.03.302 and 46.03.305; however, the department may not list as hazardous a waste that has not been listed as a hazardous waste by the United States Environmental Protection Agency under 42 U.S.C. 6921, unless the commissioner first determines that the waste is hazardous as defined in this chapter;

(3) identify the sources of hazardous wastes enumerated under (2) of this subsection;

(4) qualify the department to receive authorization from the administrator of the Environmental Protection Agency to administer and enforce a hazardous waste program in accordance with the Federal Resource Conservation and Recovery Act;

(5) determine the amount of a hazardous waste that is so small as to not present a hazard to public health, livestock, fish, wildlife, and the environment of the state when disposed of;

(6) exempt a person who generates, treats, transports, stores, or disposes of a hazardous waste from the provisions of this chapter if the quantity of the hazardous waste is less than the amount identified in (5) of this subsection; and

(7) establish

(A) criteria for identifying appropriate hazardous waste disposal site locations;

(B) procedures by which the public shall have opportunity to

(i) participate in hazardous waste disposal site locations; and

(ii) review and comment on issuance of hazardous waste disposal permits by the department. (§ 10 ch 93 SLA 1981)

Revisor's notes. — In subsection (b), the word "Resource" was added preceding "Conservation and Recovery Act" and in paragraph (2) of that subsection, a reference to AS 46.03.900(32) was substituted for a reference to AS 46.03.900(31) by the revisor of statutes under AS 01.05.031.

Sec. 46.03.300. Exceptions.

Repealed by § 12 ch 172 SLA 1978.

Revisor's notes. — Section 6, ch. 172, SLA 1978 would have added a new subsection (b) to AS 46.03.300 (repealed by Sec. 12 of that same Act), but as the language of the new subsection (b) refers solely to AS 46.03.270, also repealed in Sec. 12 of ch. 172, the amendment purportedly made by § 6 has been considered to be of no effect, and consequently dropped.

Editor's notes. — The repealed section derived from § 3, ch. 120, SLA 1971.

Section 10, ch. 172, SLA 1978, provides: "Regulations adopted under authority of statutes repealed or amended by this Act shall remain in effect until repealed by the Department of Environmental Conservation in consultation with the Department of Health and Social Services."

Sec. 46.03.302. Hazardous waste permit. (a) A person may not treat, transport, store, or dispose of a hazardous waste as defined by the department by regulation unless that person first secures a permit from the department and submits to the department any reports or manifests that the department may require for handling the hazardous wastes.

(b) A person who generates hazardous waste is not required to obtain a permit under (a) of this section unless the person also treats, transports, stores, or disposes of the hazardous waste. (§ 10 ch 93 SLA 1981)

Sec. 46.03.305. Hazardous waste reports and manifests. A person who generates hazardous wastes shall submit to the department reports or manifests that the department may require for handling the hazardous wastes. (§ 10 ch 93 SLA 1981)

Sec. 46.03.308. Transportation of hazardous wastes. Hazardous wastes may not be transported to a hazardous waste disposal site unless the wastes are accompanied by a report or manifest that the department may require for handling hazardous wastes. (§ 10 ch 93 SLA 1981)

Sec. 46.03.310. Conflicting laws.

Repealed by § 12 ch 172 SLA 1978.

Editor's notes. — The repealed section derived from § 3, ch. 120, SLA 1971.

Section 10, ch. 172, SLA 1978, provides: "Regulations adopted under authority of statutes repealed or amended by this Act shall remain in effect until repealed by the

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Sec. 46.03.311. Public records. (a) Permits, permit applications, records, reports, and information and documentation obtained under AS 46.03.302 — 46.03.308 are available to the public for inspection and copying. However, upon a showing satisfactory to the commissioner that a record, report, permit, application, or information would, if made public, divulge methods or processes entitled to protection as trade secrets, the commissioner shall treat the record, report, permit, application, or information as confidential.

(b) Information that is confidential may be transmitted under a continuing restriction of confidentiality to other officers, employees, or authorized representatives of the state or of the United States if

(1) the person responsible for furnishing the record, report, permit, application, or information to which such information pertains is informed at least two weeks before the transmittal; and

(2) the information has been acquired by the department under the provisions of AS 46.03.296 — 46.03.311.

(c) The provisions of this section do not limit the department's authority to release confidential information during emergency situations. (§ 10 ch 93 SLA 1981)

Article 6. Pesticide Control.

Section

320. Authority
330. Public pesticide programs

Collateral references. — 61A Am. Jur. 2d, Pollution Control, §§ 293-295, 299, 300, 305-406.

39A C.J.S., Health and Environment, § 47.

Constitutionality of statutes for protection of vegetation against disease or infection. 70 ALR2d 852.

Liability for injury caused by spraying or dusting of crops. 37 ALR3d 833.

Sec. 46.03.320. Authority. (a) The department is authorized to

(1) regulate the transportation, testing, inspection, packaging, labeling, handling and advertising of pesticides and broadcast chemicals offered for sale, or placed in commerce for use in the state;

(2) regulate and supervise the distribution, application or use of pesticides and broadcast chemicals in any state project or program, or by a public agency under the jurisdiction of the state;

(3) regulate or prohibit the use of pesticides and broadcast chemicals.

(b) The department may provide by regulation for the licensing of private applicators of restricted-use pesticides and for persons engaged

(23) "restricted-use pesticides" means pesticides that are classified for restricted use under section 3(d)(1)(C) of the Federal Insecticide, Fungicide, and Rodenticide Act, as amended (7 U.S.C. 136a (d)(1)(C));

(24) "facility" means any offshore or onshore structure, improvement, vessel, vehicle, land, enterprise, or endeavor;

(25) Repealed by § 116 ch 59 SLA 1982.

(26) "resource recovery" means the recovery of materials or energy from solid wastes for industrial use, agriculture, heat production, power production, or other processes or purposes and includes the reuse of materials or products to conserve natural resources;

(27) "solid waste" means all unwanted, abandoned, or discarded solid or semi-solid material whether or not subject to decomposition, originating from any source;

(28) "solid waste disposal facility" means a facility for the discharge, deposit, injection, consolidation, or placement of solid waste into or onto the land and includes transfer stations and sanitary landfills;

(29) "solid waste processing facility" means a facility for the extraction of materials from solid waste, volume reduction, conversion to energy, or other separation and preparation of solid waste for reuse or disposal and includes incinerators, shredders, balers, and transfer stations;

(30) "low level radioactive materials" means a radioactive waste other than

(A) used nuclear reactor fuel;

(B) waste produced during the reprocessing of used nuclear reactor fuel; and

(C) elements having an atomic number greater than 92 and containing 10 or more nanocuries per gram;

(31) "dispose" has the same meaning as the term "disposal" is defined in 42 U.S.C. 6903(3);

(32) "hazardous waste" means a waste or combination of wastes that because of quantity, concentration, or physical, chemical, or infectious characteristics may

(A) cause, or significantly contribute to, an increase in mortality or an increase in serious irreversible or incapacitating reversible illness; or

(B) pose a substantial present or potential hazard to human health or the environment when improperly managed, treated, stored, transported, or disposed of;

(33) "manifest" means the form used for identifying the quantity, composition, origin, routing, and destination of a hazardous waste when the hazardous waste is transported;

(34) "storage" means the containment of hazardous waste, either on a temporary basis or for a period of years, in a manner that does not constitute disposal of the hazardous waste;

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TC-3924

PRELIMINARY ASSESSMENT OF 45 POTENTIAL HAZARDOUS WASTE SITES IN THE STATE OF ALASKA

by

Tetra Tech, Inc.

for

Alaska Department of Environmental Conservation
Juneau, Alaska 99811

December, 1984

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ACKNOWLEDGEMENTS

This report, "Preliminary Assessment of 45 Potential Hazardous Waste Sites in the State of Alaska," was produced for the Alaska Department of Environmental Conservation (ADEC), Juneau, Alaska, under a cooperative agreement with the Environmental Protection Agency (EPA). Tetra Tech wishes to thank the following individuals who supplied information and comments for this study and subsequent report:

David DiTraglia	ADEC (Juneau)
Debbie Flood	U.S. EPA (Seattle)
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Joan McNamee	U.S. EPA (Seattle)
Jeff Mach	ADEC (Fairbanks)
Simon Mawson	ADEC (Nome)
Glenn Miller	ADEC (Juneau)
Steve Torok	U.S. EPA (Juneau)
Steve Zrake	ADEC (Anchorage)

For Tetra Tech, the gathering of information, site visits and assessments, and preparation of this report were conducted by Scott Ferris and Warren Hansen. Project management and assistance was provided by Lary Marx, Warren Hansen, and Tom Johnson.

INTRODUCTION

This report is a preliminary assessment of 45 potential uncontrolled hazardous waste sites in the state of Alaska. It was prepared by Tetra Tech, Inc. for the Alaska Department of Environmental Conservation (ADEC) and represents Alaska's response to Section 3012 of the Resource Conservation and Recovery Act (RCRA). Project activities included gathering background information, conducting site visits, and acquiring supplemental data from federal, state, and local sources. All data for each site were then reviewed and summarized on EPA Form 2070-12, "Potential Hazardous Waste Site Preliminary Assessment." These assessments are presented in Appendix A, and constitute the majority of this report.

HISTORICAL OVERVIEW

With geophysical and industrial characteristics unlike all other states, Alaska is a unique location for hazardous waste evaluations. In most regions, Alaska is still a vast, undeveloped frontier, and human activities have been limited primarily to commercial resource exploration and military outposts.

The development of the North Slope-Prudhoe Bay oil fields and construction of the Alyeska oil pipeline in the 1970s presaged industrial expansion and an increase in oil production capacity. Mining and ore refining have also been conducted on a large scale. These and other industries have produced significant volumes of waste, including smelting and mining residues, drilling muds, and waste oils. The latter two are exempt from regulation as hazardous wastes, per se, but can contain metals, halogenated hydrocarbons, or polychlorinated biphenyls (PCBs), and must therefore be closely monitored.

The physical conditions throughout the state have a direct impact on hazardous waste management and containment. In the permafrost zones of the north, groundwater migration from land disposal sites is limited.

The stratigraphy of glacial deposits is unknown in many areas, and makes it difficult to predict groundwater location or flow. Surface water flow is limited to periods of thaw and is often difficult to trace in the tundra. Low temperatures influence the hazardous chemicals directly by reducing vapor pressure, changing viscosity, and affecting other characteristics.

The logistics of conducting commercial activities has also had a direct bearing on the management and types of wastes in Alaska. The stockpiling of fuels, drilling mud additives, solvents, explosives, and other materials is a regular practice at remote locations. This has resulted in the accumulation of large numbers of drums that may then be reused to store wastes. When a remote site is abandoned, these products are often left behind. Major oil companies operating on the North Slope have conducted regular cleanups of such inventories, and have deposited waste materials in nearby landfills. These sites do not always meet RCRA standards for hazardous waste disposal, and must be closely monitored.

Sites in and around the metropolitan centers are more typical of those found in other states. These include battery operations, tanneries, metal plating shops, municipal landfills, and other sites. Wastes generated at these sites include waste oil, dilute acids, miscellaneous solvents, wastewater, and general refuse. Drinking water contamination is the most prevalent hazard posed by these sites.

In October, 1982, Congress appropriated 10 million dollars from the trust fund established under the Comprehensive Environmental Response Compensation and Liability Act (CERCLA) of 1980 to implement Section 3012 of the Resource Conservation and Recovery Act. In the conference report for the appropriation, the committee indicated that it was:

> aware that in many areas delays have been experienced in the discovery, inspection and evaluation of hazardous waste sites. This $10,000,000 is a one-time, non-recurring appropriation to assist States in completing the site survey and inspection process. Since this will not be a continuing program, the conferees expect the Agency to allocate these funds to the States as expeditiously

as possible, without establishing unduly complex administrative mechanisms or requirements. [CERCLA/RCRA 3012 Guidance Document, March 8, 1983]

On February 7, 1983, the Environmental Protection Agency (EPA) published a notice in the Federal Register which finalized the guidelines implementing Section 3012 of the RCRA program. This notice provided a mechanism for allocating funds to states, waived state cost-sharing responsibilities, identified and defined allowable uses of the funds, discussed the priority of the allowable activities, and established general procedures for obtaining the funds.

The RCRA 3012 program was designed to integrate with existing CERCLA implementation efforts. The CERCLA remedial response program begins with site discovery and, depending on the results of each subsequent phase, progresses through preliminary assessment, site inspection, National Priority List nomination, remedial investigation, feasibility study, and design and implementation of the selected remedial action.

RCRA SECTION 3012 OBJECTIVES

ADEC and EPA have jointly compiled an inventory of potential hazardous waste sites in the state of Alaska. This list, in addition to the RCRA Interim Status Inspections, provides the basis for the list of potential hazardous waste sites in Alaska, which, in turn, makes up the federal Emergency and Remedial Response Information System (ERRIS). Presently, there are approximately 100 reported uncontrolled hazardous waste sites in Alaska. The number of sites listed may be reduced as new data confirm the absence of threats to human health or the environment.

The Hazard Ranking System (HRS) is designed to assist in quantifying potential hazards at waste disposal sites. If a site's HRS score is high, the site may be included on the CERCLA National Priorities List (NPL). EPA defined five activities for states to undertake under RCRA Section 3012. In order of priority, these activities are:

- Preliminary assessments
- Site inspections
- Responsible party searches
- Discovery
- Site inspection follow-up.

Preliminary assessments and site inspections reduce the number of sites for further investigation, and allow more efficient use of available resources. Responsible party searches provide support for enforcement action. Discovery of additional sites ranks lower than assessment and inspection because of the pressing need to learn more about identified sites and because it is thought that earlier efforts located the majority of potentially hazardous sites. Follow-up site inspection is costly and requires highly trained staff.

PRELIMINARY SITE ASSESSMENTS

Tetra Tech's role under the EPA-State of Alaska cooperative agreement was to perform preliminary assessments of 45 potential hazardous waste sites on the ERRIS list and to recommend priorities for future actions that would better characterize each site.

EPA defines a preliminary assessment as the process of collecting and reviewing readily available information about a known, suspected, or potentially hazardous waste site; and using this information to determine the degree of the hazard to public health and the environment, the source and nature of a release or potential release, and the identity of the responsible party. Potential hazardous waste sites are then ranked or grouped into one of the following four priority action groups:

- "None" - no further action recommended
- "Low" - inspection recommended on a time-available basis
- "Medium" - inspection recommended on a scheduled basis
- "High" - inspection recommended promptly.

Sites rated "Low", "Medium", or "High", should then be inspected in order to fully characterize the hazards. Sites with a "None" priority assessment may be removed from the ERRIS list because it has been determined that no problem exists at the site, or that a problem exists and steps have been taken to resolve it. Sites must be placed in one of the following backlog reduction categories in order to be removed from the ERRIS list:

- No problem, no further action required.

  1. No hazardous substances exist at the site.

  2. Hazardous substances exist but are fully controlled.

  3. Hazardous substances exist, but in quantities and concentrations which do not pose a threat to health or the environment. This determination is difficult to make, and requires a "risk/safety" decision. Risk is an objective measure of the probability of an undesirable event occurring. Safety is a judgment of what level of risk is acceptable. Risk/safety decisions are based on one of the following, in order of priority:
     - Approved standards: WQS, NAAQS, PDWS, etc.
     - Formally published criteria: WQS, SNARLS, etc.
     - Other standards and guidelines: OSHA, NIOSH, etc.
     - General literature.
     - Expert opinion.

4. Site is a duplicate of another site.

5. Site does not exist.

- Problem, further action required.

1. Site included on National Priorities List.

2. CERCLA enforcement site, non-NPL.

3. Site regulated by another federal agency (e.g., military base, BLM, USFS).

4. Site regulated by another EPA program (e.g., NPDES).

5. Site regulated by state government.

6. Site regulated by local government.

7. Problems exist but no appropriate regulatory/response tool available.

8. Problems too minor for EPA or other agency attention.

RESULTS

PRIORITY ACTION RANKINGS

To use the decision flowchart, start in the upper lefthand corner at the Potential HW Site arrow. Follow the arrows to the landfill site decision/description box. Continue following the flowchart until the site is adequately described and subsequently assessed. Some sites may fit into more than one site decision/description box. For these sites, follow the decision flowchart for each site decision/description box. The site will be ranked according to the worst case priority assessment. Table 1 depicts the priority action rankings for each of the 45 sites.

SUMMARY MATRIX

The following matrix lists the 45 sites with their Priority Action Rankings. The sites are further described in terms of status (active or abandoned, landfill or dump); contents (presence of PCBs, waste oil, or drilling mud); size; and other characteristics.

Figure 2. Decision Criteria Flowchart

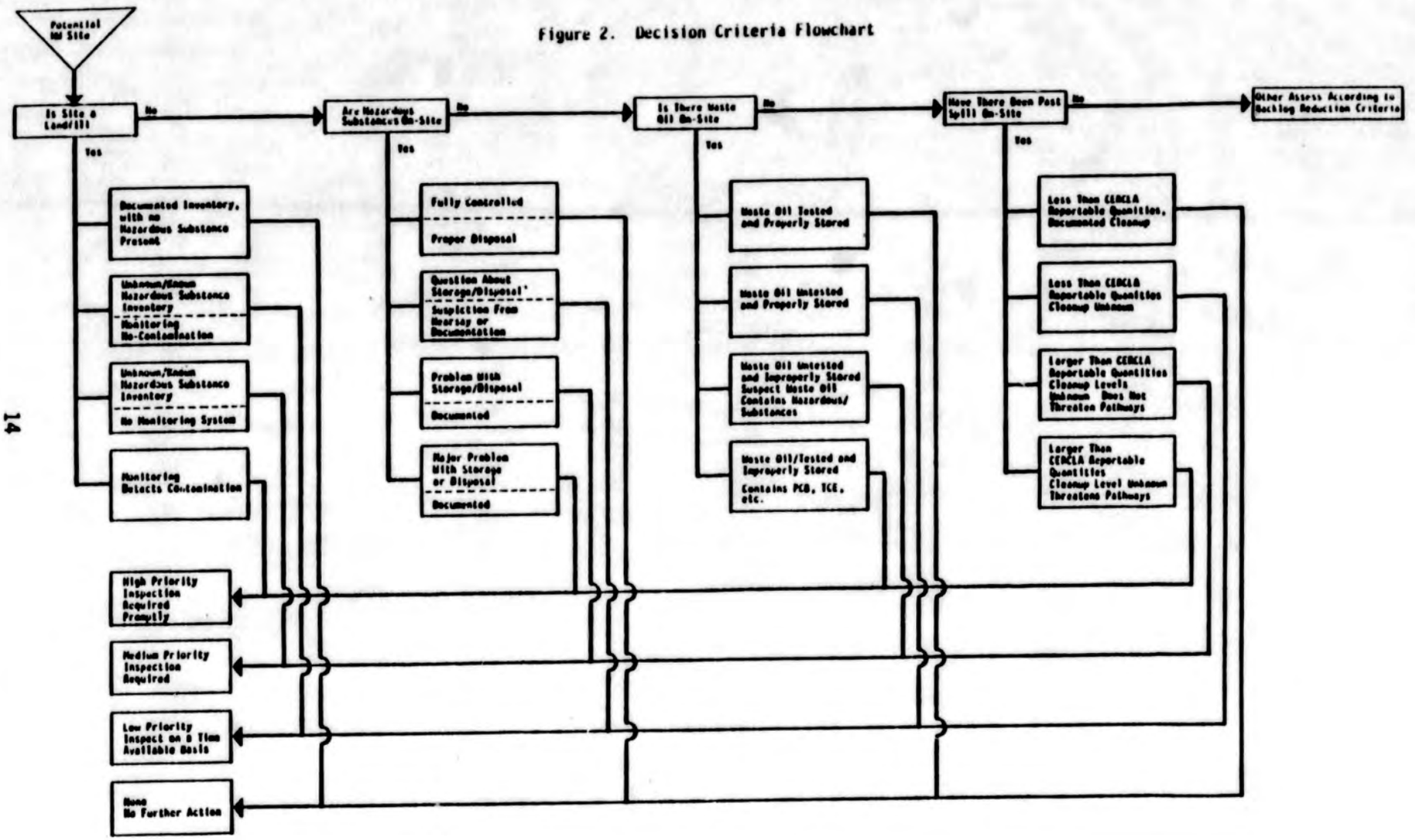
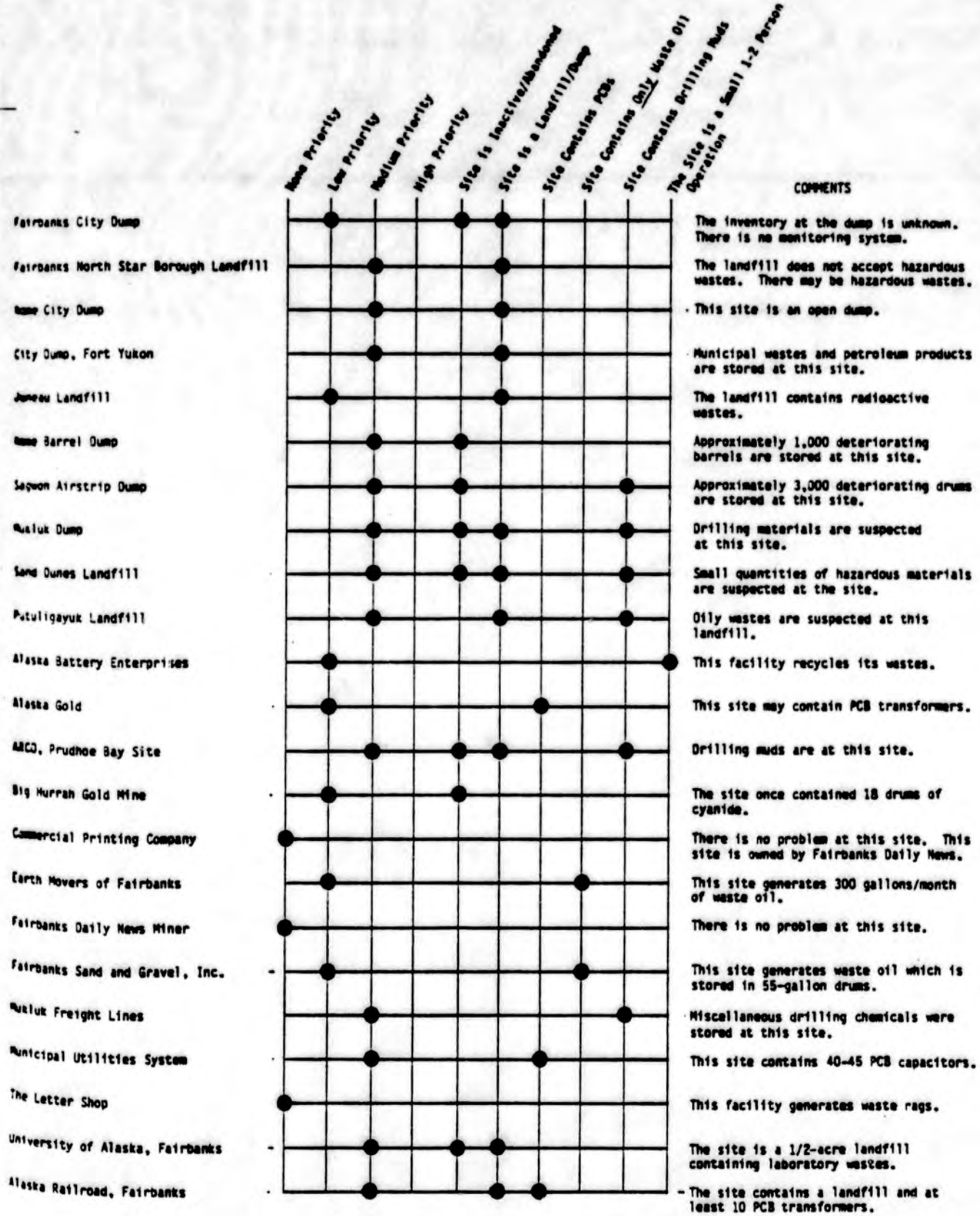


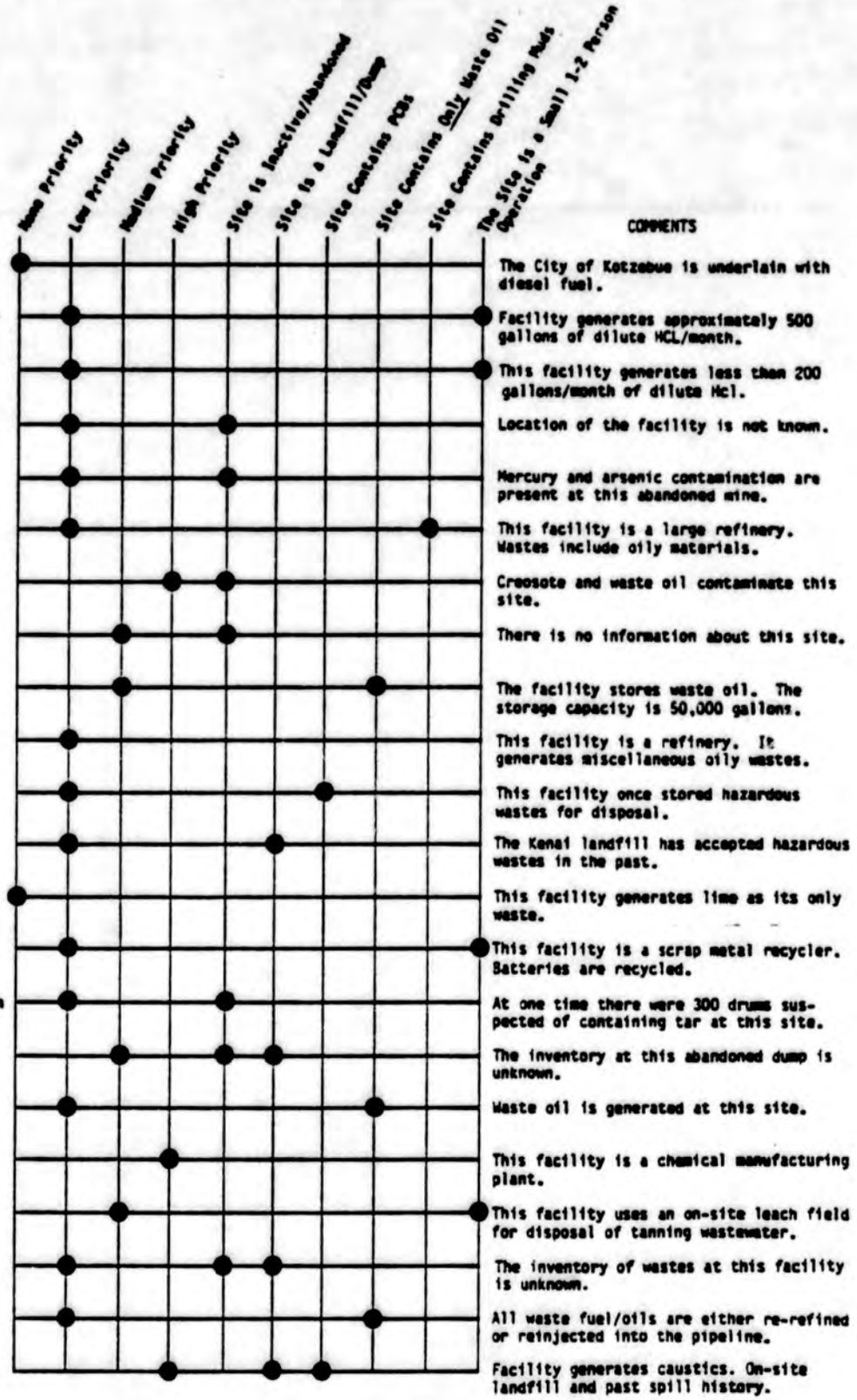
TABLE 1. PRIORITY ACTION RANKINGS

None: No further action required	Low: Inspect on a time-available basis	Medium: Inspection required	High: Inspection required immediately
• Commercial Printing Company	• Fairbanks City Dump, 2nd Ave.	• Fairbanks North Star Borough Landfill	• Old Creosote Plant
• Fairbanks Daily News-Miner	• Juneau Landfill	• Nome City Dump	• Union Oil of California
• The Letter Shop	• Alaska Battery Enterprises	• City Dump, Fort Yukon	• Alaska Railroad, Anchorage
• Diesel Fuel Dump, Kotzebue	• Alaska Gold	• Nome Barrel Dump	
• Liquid Air, Inc.	• Big Hurrah Gold Mine	• Sagwon Airstrip Dump	
	• Earth Movers of Fairbanks	• Mukluk Dump	
	• Fairbanks Sand & Gravel, Inc.	• Sand Dune Landfill	
	• Alaska Electroplating & Bumper Repair, Anchorage	• Putuligayuk Landfill	
	• Alaska Husky Battery, Inc.	• ARCO - Prudhoe Bay Site	
	• Pacific Airmotive Corp.	• Mukluk Freightlines	
	• Red Devil Mine Waste Ponds	• Municipal Utilities System	
	• Tesoro Alaska Petroleum	• University of Alaska, Fairbanks	
	• Chevron USA Alaska	• Alaska Railroad, Fairbanks	
	• Crowley Environmental Services	• White Pass/Yukon Railroad	
	• Kenai Landfill	• Alaska Pollution Control	
	• M & M Enterprises	• Old Kenai Dump	
	• Russian Creek/Bell Flats	• Frontier Tanning	
	• Rogers & Babler, Inc.		
	• International Airport Landfill		
	• North Pole Refinery		
5	20	17; 2 Anchorage	3; 1 Anchorage

SUMMARY MATRIX



SUMMARY MATRIX



RECOMMENDATIONS

As a result of this study, it is recommended that the five sites ranked "None" priority be removed from the ERRIS list. A site inspection should be performed, on a time-available basis, on the 20 sites ranked "Low" priority. The 17 sites in the "Medium" priority group should receive prompt site inspection.

There were three sites ranked in the "High" priority group: Old Creosote Plant, Whittier; Union Oil of California, North Kenai; and the Alaska Railroad, Anchorage. Creosote and waste oil tank bottoms are present in the soil and in a pond at the Old Creosote Plant in Whittier. The Union Oil of California chemical manufacturing facility in North Kenai has had large chemical spills and has disposed of hazardous wastes on-site. The Alaska Railroad in Anchorage has discharged hazardous materials on-site and houses an abandoned on-site landfill. It is recommended that these three sites receive the highest priority for inspection.

MEMORANDUM State of Alaska

TO: Bob Martin
Special Assistant
Anchorage

RECEIVED
JAN 18 1985

DATE: January 17, 1985

FILE NO:

TELEPHONE NO: 465-2606

FROM: Judy C. Ansley
Public Information Office

DEPARTMENT OF ENVIRONMENTAL CONSERVATION

SUBJECT: 3012 Study

DEC has just completed a preliminary assessment of 45 hazardous waste sites in Alaska. The study, funded by EPA under RCRA 3012, is the first step toward locating and cleaning up uncontrolled hazardous waste in Alaska. Work on the study was done under contract by Tetra Tech, Inc. in the summer of 1984, at nonfederal locations named in the federal ERRIS list.

DEC is distributing the report now to owners of the 45 sites and to other people who express interest in it. You can expect phone calls about it. Here is a list of questions that might arise, and potential answers:

I. Q - Is there hazardous waste at these sites?

A - Yes, we assume so, at some locations, based on past activities at the sites. The 3012 study is just an inventory of where hazardous waste sites might be located in Alaska. We don't know at present whether or not disposal or spills occurred which might have contaminated soil or water.

II. Q - Where did the list of sites come from?

A - The list was compiled by the EPA over the last eight years from a variety of sources. Anyone who suspects past or present hazardous waste activity at a site in Alaska is urged to contact the EPA or the Deapartment of Environmental Conservation.

III. Q - What is DEC going to do next?

A - We're applying for a large grant from EPA to take samples to determine whether or not contamination from spills or disposal activities occurred at the sites. The present study was basically an inventory of sites, with minimal sampling at only a few sites.

IV. Q - If DEC finds hazardous waste, what are you going to do about it?

A - Federal regulations put the responsibility for cleanup on the owner of the land.

V. Q - What if the owner doesn't clean up?

A - EPA has the responsibility to enforce cleanup. If we find the business refuses to clean it up, we will turn the matter over to the EPA for enforcement. The state and federal governments can also litigate, and criminal and civil penalties can be assessed against the owner.

VI. Q - What if it is too expensive for the owner to clean up?

A - That has happened in the lower 48, and some businesses have gone bankrupt. Let's hope it doesn't happen here.

VII. Q - Are we going to shut the sites in the study down?

A - No, not based on the present report, which is basically an inventory. If, during the next phase of our study, we uncover a situation which has the potential to endanger public health or the environment, we will take steps to minimize exposure to the public based on the extent and type of contamination.

VIII. Q - When will the next phase of the study start?

A - DEC is applying for an EPA grant now. Specific site investigating could begin as early as this summer.

IX. Q - Can DEC shut down sites in the meantime?

A - No, unless the Commissioner finds immediate danger to health or irreversible damage to natural resources or the environment.

X. Q - Do you know what happened at these sites?

A - Not necessarily. Someone reported the sites because they suspected wastes were spilled or disposed of inappropriately. Whether any contamination occurred is what we are looking at in the next phase.

JCA/ne

cc: Stan Hungerford
David DiTraglia
Glenn Miller
Doug Lowery
Deena Henkins
Bill Lamoreaux
Jeff Mach
Bill MacClarence
Neve
Noah

Anchorage Daily News

ANCHORAGE, ALASKA, SATURDAY, JANUARY 19, 1985 ★ PRICE 25 CENTS

Study warns of possible health risks

Probe of 3 Southcentral hazardous waste sites recommended

By CRAIG MEDRED
Daily News reporter

Hazardous wastes could pose a threat to public health at three sites in Southcentral Alaska — including one in Anchorage, according to a study prepared for the state.

The environmental consulting firm of Tetra Tech Inc. has recommended an immediate investigation into the risks posed by chemical wastes at the Alaska Railroad yard in downtown Anchorage, an old creosote plant in Whittier and the Union Oil of California chemical plant in North Kenai.

The Bellingham, Wash., firm's "Preliminary Assessment of 45 Potential Hazardous Waste Sites in the State of Alaska" also says 17 other sites — including two more in Anchorage — should be checked for dangerous chemicals as soon as possible.

"Drinking water contamination is the most prevalent hazard posed by these sites," the report said.

Tetra Tech last summer began checking hazardous waste sites around the state. The firm summarized its findings in a report prepared for the Alaska Department of Environmental Conservation and the Environmental Protection Agency in December.

Five waste sites were judged clean by Tetra Tech, but 40 others were said to warrant further investigation. Twenty of those, the report said, could be inspected "on a time available basis."

But the other 20 — many of which are associated with early mining or oil exploration activities — need attention immediately or as soon as possible, Tetra Tech said.

State and municipal officials this week said they have already begun organizing an investigation of the most worrisome sites in Anchorage.

Jim Sweeney, hazardous waste coordinator for the municipality, said monitoring wells are being installed near three waste sites — the railroad yard, and two others called suspect in the report, Frontier Tanning and Alaska Pollution Control, both in South An-

See Back Page, HAZARDOUS

Hazardous wastes could pose serious health risks at 3 Southcentral sites

Continued from Page A-1

chorage.

The wells will tell whether any hazardous chemicals have seeped into the groundwater near those businesses, Sweeney said.

"It's hard to deal with speculation, which is all we have now," he said. "It's much better to deal with fact."

State officials began working months ago to help clean up the Union chemical plant in Kenai, and they will shortly start to work investigating other hazardous waste sites, said Bill Lamoureaux, regional supervisor for environmental conservation.

"I haven't got all the details on the report myself, yet," he said. "But there is some information that is, in my opinion, adequate for us to initiate some more investigations."

Many of the hazardous wastes sites identified by Tetra Tech trace their origins backs to the 1960s or 1970s — before anyone recognized the dangers of the wastes being dumped.

Up until 1975, for instance, the Alaska Railroad pumped its waste oil and chemical solvents into Ship Creek, and dumped various chemicals into a landfill on its property.

Tetra-Tech said the state needs to determine what is in that landfill and check oil-laden soils in the rail yard.

"There's nothing happening out there that you can physically note," Lamoureaux said. "But there's a lot of contaminated soil. The question is: contaminated with what? We're most concerned from the standpoint of what might be coming out of there into Ship Creek."

Tetra Tech indicated the soil might contain heavy metals or chemicals.

The Union Oil chemical plant in North Kenai should be checked because of old landfill operations and a history of environmental violations, Tetra Tech said.

The 80-acre chemical plant manufactures urea and ammonia fertilizer. It had an on-site landfill from 1967 to 1975.

"There have been large chemcial spills at this facility," said Tetra Tech. "There is a high potential for these spills to recur. The facility needs better prevention methods."

A chemical containing arsenic spilled at the plant in June of last year, the report said.

The report said the old creosote plant near the Whittier marina also needs to be checked for heavy metals and chemical seepage into a local stream.

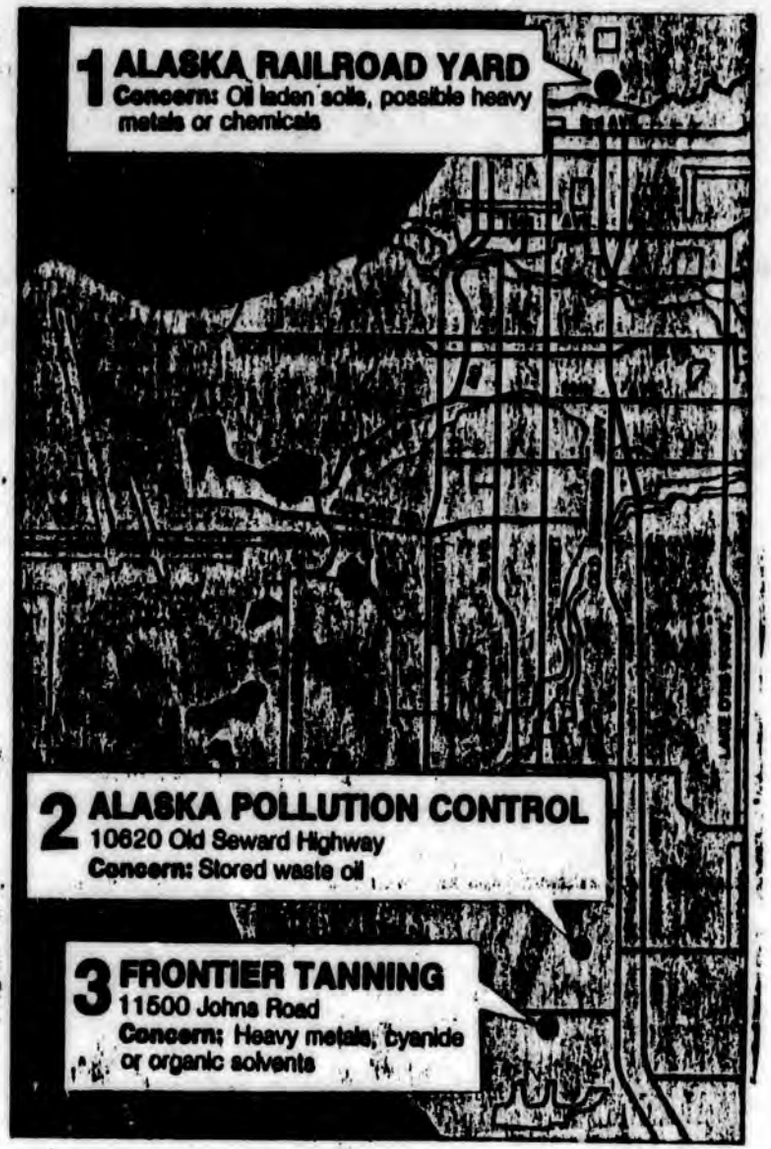
Sweeney said the two other suspected hazarodous waste sites under investigation in Anchorage — Alaska Pollution Control and Frontier Tanning — handle a variety of chemicals.

Alaska Pollution Control stores waste oil for oiling roads. There have been charges the firm has in the past handled oil contaminated with hazardous chemicals.

Frontier Tanning treats hides and as a result discharges water that may contain heavy metals, cyanide or organic solvents. The wastes are pumped into the firm's backyard.

"There is evidence that Frontier Tanning is disposing of uncontrolled hazardous wastes into the environment and that over a period of 25 years of operation, this chronic discharge may be resulting in significant subsurface contamination," Tetra Tech said.

Other sites around the state in need of inspection, according to Tetra Tech, are the Fairbanks North Star Borough Landfill, the Nome City Dump, the Fort Yukon City Dump, the Nome Barrel Dump, the Sagwon Airstrip Dump near Prudhoe Bay, the Mukluk Dump near Prudhoe Bay, the Sand Dunes Landfill on the North Slope, the Putuligayak Landfill on the North Slope, the Atlantic Richfield (ARCO) dump at Prudhoe Bay, Mukluk Freightlines at Deadhorse, the Municipal Utilities System in Fairbanks, the University of Alaska-Fairbanks, the Alaska Railroad in Fairbanks, and the White Pass and Yukon Railroad in Skagway.



Anchorage Daily News/Peter Dunlap-Shohl

Wednesday Jan. 23, 1985

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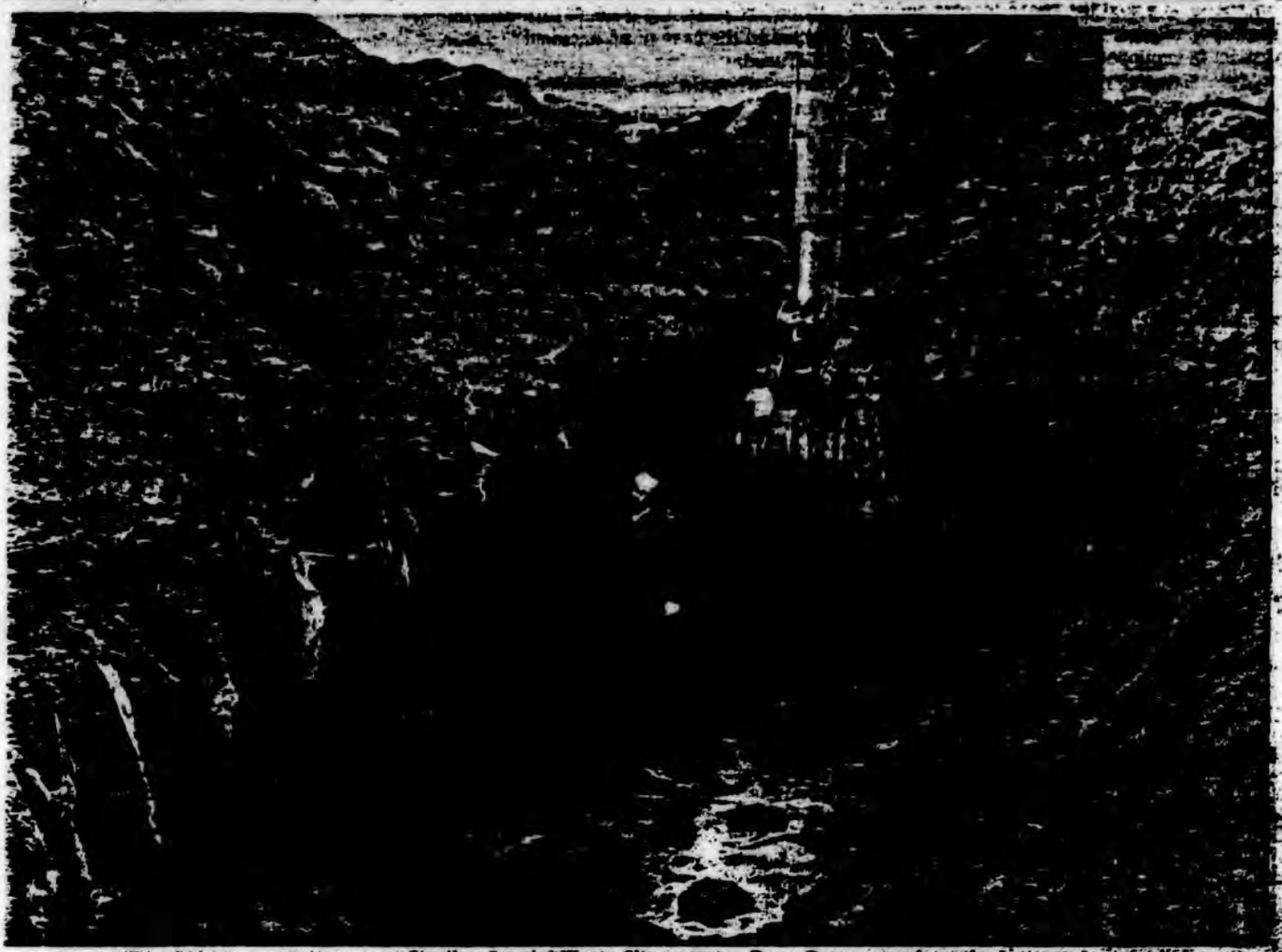

Sterling Special Waste Site operator Dave Brown stands at the bottom of a trench dug at an abandoned Union Oil well site Tuesday. He's pointing to [illegible] drilling mud, which he says was illegally left at the site. (Photo by John Quinley)

Drilling mud unearthed

Waste site operator excavates Beaver Loop site

By JAN MIRELES, Staff Writer

A local waste site operator who claims Union Oil Company illegally disposed of drilling mud on the Kenai Peninsula has uncovered the mud at one of the firm's abandoned sites.

Dave Brown, operator of the Sterling Special Waste Site, hired a backhoe to dig up a portion of Union's Cannery Loop Unit Two located off Beaver Loop in Kenai. The backhoe, digging a hole measuring approximately 30-feet long and 13-feet deep, uncovered drilling mud throughout.

Union spokesman Mark Eversole discounted the find, however, and said the company has a permit from the Alaska Corps of Engineers allowing disposal of drilling mud solids at the site.

"We've never denied that there was drilling mud there," Eversole said. "That was spelled out in the application. We stated there would be a pit, that we would pump off the pumpable liquids and bury the solids."

Pat Richardson, assistant public information officer for the corps, denied any knowledge of a Union permit. According to Richardson, the corps grants permits only for clean fill material.

"We don't regulate drilling mud," she said. "Drilling mud would have things in it that we wouldn't allow under our permit."

Although the state Department of Environmental Conservation is considering a Union permit application to dispose of drilling mud at seven sites, Cannery Loop Unit Two is not part of the proposal. The Alaska Oil and Gas Conservation Commission approved abandonment of the site in 1962.

C.V. Chatterton, chairman of the commission, said a site is approved for abandonment when the surface is clear and free of all trash and debris. Chatterton said the AOGCC is not responsible for what might be buried underneath abandoned drill sites.

"I don't know who would be," he said. "That's a good question. As far as this agen-

See AREA, back page

Peninsula Clarion, Wednesday Jan 23, 1985

...Area site

Continued from Page 1

cy is concerned the site was cleaned up. We don't worry about waste disposal. That's the turf of another state agency."

Local DEC officer Bob Cannone said he was not certain which agency bears responsibility for making sure the site was cleaned. He said he would be interested in seeing proof that drilling mud was found at the site.

"Whoever issues the permit is responsible," he said. "It would be their (AOGCC) responsibility to police the area."

In most instances the oil and gas commission issues drilling permits to oil companies and then notifies the DEC, Chatterton said. The DEC is notified, he said, so they will be aware firms may be seeking additional permits for related drilling activities.

The DEC is developing guidelines for drilling mud disposal and officials have said they expect to unveil a policy by April. Brown has argued that Union has violated solid waste disposal laws and should be forced to remove the drilling mud immediately. Brown operates the only licensed disposal site for drilling mud on the peninsula.

Brown originally estimated that 35,000 barrels of drilling mud had been buried illegally at the Cannery Loop Unit Two site. The original dimensions of the pit were 400-feet long by 80-feet wide by 15-feet deep. When a backhoe operator started digging the hole Tuesday he reached the water table at approximately 13-feet, Brown said.

Also found in the pit were plastic sheeting and bits of discarded lumber. The drilling mud, said Brown, already may have contaminated the surrounding water table.

Landowner Michael Peich of Oregon gave Brown written permission to dig up the pit. Peich has told the Clarion that he does not want drilling mud disposed of on his property.

Representatives from the Environmental Protection Agency and the Alaska Corps of Engineers were expected to visit the site this morning, Brown said.

A D E C N E W S

PRESS RELEASE FROM THE PUBLIC INFORMATION OFFICE
ALASKA DEPARTMENT OF ENVIRONMENTAL CONSERVATION
POUCH O, JUNEAU, ALASKA 99811 (907) 465-2606

Bill Sheffield, Governor Bill Ross, Commissioner
Joe Ferguson, Information Officer

FOR IMMEDIATE RELEASE April 17, 1985

Recent tests conducted by the U.S. Environmental Protection Agency (EPA) at the Sterling Special Waste Site reveal that metals found in pits at the site are also found at low levels in the monitoring wells. The Department of Environmental Conservation (DEC) agrees with EPA that at this time the situation does not constitute an immediate threat to public health. However, both DEC and EPA also agree that the potential may exist in the future and further study is warranted to determine if this is the case.

Both DEC and EPA agree that further study is needed to more accurately determine the direction of groundwater flow and the types and amounts of naturally occurring background components in the groundwater in the vicinity of the site.

DEC and EPA have announced that they will embark this summer on a new series of tests to monitor groundwater on and off the site. At the same time that EPA installs six new monitoring wells around the perimeter of the site, DEC will begin a program to routinely test certain residential wells.

(MORE)

ADD 1-1-1

DEC Commissioner Ross said, "Testing the well water at homes located near the site is a precautionary measure which may help to alleviate undue alarm about water quality."

Ross continued, "Beginning now and through the summer, DEC will become increasingly visible and busy on the Kenai Peninsula. Data from DEC's water well testing, along with review of data from EPA's new monitoring wells, should help us answer some very basic questions about the existence of or potential for health or environmental risks."

Of particular concern to DEC are results from water samples taken from Monitoring Well #6 which lies in what is believed to be the general path of the groundwater flow from the site. Over the years, samples from this well have contained traces of hydrocarbons and metals. At this time, it is not known to what degree some of these metals occur naturally in the groundwater. Routine tests of Kenai Peninsula public drinking water systems show that arsenic, barium and lead (all metals) occur naturally in varying degrees in these systems.

These elements are also found in samples from Monitoring Well #6. Concentrations of these components, both in monitoring well samples and in the public drinking water supplies, are within health standards for drinking water with the exception of the level of lead in a singular monitoring well sample.

(MORE)

Ross stated, "The site has been in operation for a number of years under several operators and has been used for the disposal of several types of waste. Since the current permit was issued in 1982, engineering methods for industrial waste disposal pits have been refined. We now know more about safe methods to contain drill muds and sludges. Unlined pits are increasingly recognized to be inadequate. And we now know that some components of drill muds and sludges may be harmful."

Ross continued, "Since we now recognize that at this site percolation of waste liquids is not desirable, DEC will modify the permit to minimize this occurrence. While DEC takes action to bring the Sterling site into compliance with existing permit conditions, the department will make changes to correct deficiencies in the permit itself."

Ross also emphasized, "DEC has been working to develop review procedures for use in reviewing applications for solid waste disposal permits for muds and sludges. These review procedures will assure that DEC decisions on all such permit applications will result in consistent requirements."

(MORE)

Ross also stressed the need to comprehensively address the problem of drill mud disposal on the Kenai Peninsula. "The oil and gas industry is an important element of the Kenai's economy, and is an important economic resource for all Alaskans. This important industry has a by-product -- drill muds and sludges. Industry, concerned citizens, local, state and federal government all need to work together to ensure that drill muds are disposed of in a way that is both safe and economical. We all want to keep the Kenai a special place to live, work and visit for generations to come."

# # #

Sterling Special Waste Site

The Sterling Special Waste Site is an 11.9 acre disposal facility about 1 1/2 miles northwest of Sterling. This facility has an ADEC Waste Disposal Permit for the processing and disposal of drilling muds, water containing less than four percent oil, water-oil emulsions and non-toxic water conditioning sludges. The permit prohibits the disposal of hazardous wastes at this facility. This site has been the subject of continued public concern that hazardous wastes may have been disposed of on-site and that, in any case, the wastes present may pose a threat to the groundwater.

Since approximately 1980 there have been eight groundwater monitoring wells constructed around the perimeter of the facility. Four of these are still in use. Although a few samples were taken during the early operation of the site, regular quarterly sampling was not required by the permit until March 1982. Sampling of the four monitoring wells since that time has shown intermittent traces of various metals and organic compounds. Limited sampling of three nearby private drinking water wells have shown metal concentrations to be within Safe Drinking Water Act limits. One of these wells showed a trace of one organic priority pollutant at a concentration approximately 1000 times less than the level considered safe. EPA conducted additional on-site sampling in October 1984 to try to establish what was present in the ponds. A total of 44 samples were taken of liquids and sediments from the ponds and groundwater from the monitoring wells.

The samples from the ponds showed low to moderate concentrations of various metals and organic compounds. Groundwater from the monitoring wells and one private well showed no significant levels of any metals and no organic priority pollutants. In short, off-site sampling to date has been inconclusive and has not revealed any contamination that would be a threat to public health.

At this time ADEC and EPA feel that additional sampling is necessary to determine if any significant migration of contaminants from the site is occuring. EPA will return in June to construct additional monitoring wells to better sample groundwater beneath the site and determine its flow direction. In addition ADEC will begin conducting regular monitoring of nearby drinking water wells to insure that there is no public health threat while the site investigation continues.

Finally, even though the concentrations found to date have been quite low, EPA is currently evaluating this site for possible inclusion on the National Priority List to make sure there isn't a problem. If the site were to score high enough to make the list it would be eligible for federal Superfund money to conduct any additional investigations and cleanup if necessary.

In the coming months we will keep you informed of future activities and information as it is available. If you have any questions please feel free to contact:

Steve Torok EPA, Juneau
(907) 586-7619

John Meyer EPA, Seattle
(206) 442-1271

Jack DiSmAPE — Superfund person

State mulls toxic disposal permit

Associated Press

Kenai — The state Department of Environmental Conservation is considering a Union Oil Co. of California permit request that would allow burial of 126,500 barrels of toxic drilling muds in pits dug in the Kenai and Cannery Loop gas fields.

Two years ago, the state threatened to sue Union Oil for disposing of drilling muds in unlicensed pits in that area. The company responded that it was not disposing of the materials, which contain caustic chemicals, but instead was storing them in reserve pits.

Today, the reserve pits remain in the same places, filled with the same drilling muds. The difference is that Union Oil now is seeking permission to bury the material.

Approval of the permit would turn seven unlicensed reserve pits into legal disposal sites. Some of the pits are located in residential areas with high water tables or in wetlands that serve as nesting and resting areas for migratory birds, environmentalists say.

The permit application is opposed by the Alaska Center for the Environment, the Kenai Peninsula Audubon Society and Dave Brown, the operator of the only licensed special waste facility on the Kenai Peninsula.

All say they are concerned that the corrosive chemicals, salts and dangerous amounts of arsenic, lead, mercury and other substances will get into the water table.

Peter Neitlich of the Alaska Center for the Environment claims approval of the permit will endanger the city of Kenai's water supply.

"High levels of toxic metals have been reported in wetlands and water surrounding the present impoundments. Many of these levels exceed the levels set for safe drinking water," he said in a letter to the state agency.

He said those metals could get into Kenai's water.

Union Oil's application indicates only a few inches of earth and clay separate the drilling muds in some of the pits from the water table, but company officials say the clay is impermeable and will protect the ground water from contamination.

"We don't want to do any damage to the water supply, because we're using the water," said Jim Callender, a Union Oil spokesman. "We don't think we're damaging it."

A state study indicates small amounts of drilling fluid associated with the muds in three pits are being found in the environment, but testing of nearby wells has "never really shown" that the fluids are leaching through pit walls, said Bob Flint, state regional program coordinator.

Environmentalists have asked for an extension of the time allowed for public comment on the oil company's request, and have asked for a public hearing.

State may allow burial of toxic muds

Associated Press A Nch. Times 9-25-88

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Toxic drilling muds

Continued from page A-1

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Environmentalists have asked for an extension of the time allowed for public comment on the oil company's request, and they also have asked for a public hearing.

Waste dump poses problem

by Tom Grenier
Special to The Times

4/18/85

Kenai — The Environmental Protection Agency and the Alaska Department of Environmental Conservation told a group of Sterling residents Wednesday that an industrial waste dump near the town could be leaking heavy metals into the surrounding ground waters, creating a potential health danger.

The EPA called the meeting in an elementary school less than two miles from the dump and said that both departments would be testing this summer to see if the site presented a hazard.

Field tests made by the EPA last fall show that traces of metals found in the pits of the dump are present in monitoring wells surrounding the site. Officials said that further study is needed to determine the direction of ground water flow and the amounts of metals in natural water that could be confused with those found in the dump.

DEC test records show that traces in the low parts per billion of volatile organic compounds have occasionally been found in the monitoring wells. While the traces were far too small to present a threat to human health, one EPA spokesman said that it could be the beginning of a problem.

"These wells have occasionally shown parts per billion of metal solvents," said John Meyer of the EPA. "These are low, but they probably shouldn't be there. It's very hard to say if these metals are natural or the very beginning of a

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Kenai waste dump

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problem. The site is only a few years old and sometimes migration can take decades."

Meyer said that the EPA would be drilling additional wells around the dump in June to determine the contents of the ground water and the direction of the flow. The DEC will be monitoring residential wells in the area for any potential contamination. Four of the eight monitoring wells on site have been unuseable for testing, Meyer said.

Samples from the four functioning wells have shown traces of organic compounds and heavy metals used in industry. The Sterling Special Waste Site is used as a disposal site for drilling mud from oil wells operated on the Kenai Peninsula.

One private well showed minute concentrations of an organic industrial solvent found in the dump. The trace of 1-1-1 trichloroethane was far below levels considered dangerous.

Meyer said that the EPA was concerned because current monitoring wells were not built to similar standards. A well can provide false indications in metals tests if not constructed properly.

Meyer said the dump could be placed on a national priority list for cleanup if testing revealed a potential health hazard. The EPA's list currently has more than 700 sites designated nationwide.

Bill Lamoreaux, regional supervisor for DEC, told the more than 60 people at the meeting that the DEC would sample any private wells in the area if asked, but that all metals are found naturally in the ground water. Residents should not be alarmed if testing shows minute traces of arsenic or other metals in the samples.

Lamoreaux also said that the permit that allows the site to operate would be modified by DEC.

State rejects proposed Kenai disposal sites for drilling mud

By RONNIE CHAPPELL
Daily News reporter 11-29-84

State officials have told the Union Oil Co. that they do not plan to allow the burial of used drilling mud in sensitive wetlands near the city of Kenai.

According to Bob Martin of the Alaska Department of Environmental Conservation, the state also has informed the company that four of seven proposed burial sites are not suitable for drilling mud disposal.

Union wants to dispose of 126,000 barrels of mud in existing reserve pits in the Kenai and Cannery Loop gas fields. Some of the pits are in wetlands areas and some are near residential subdivisions.

"We don't think permanent disposal at the sites out there that are really close to the water table would be appropriate," said Martin. "We've essentially ruled out four sites as of this time."

Two of the sites are in the Kenai Gas Field and two are in the City of Kenai.

"I'd like to emphasize that these are preliminary findings," Martin added. "We have not, at this date, made a final decision on the application. We have arrived at some conclusions."

DEC may allow disposal at three other pits in the Kenai Gas Field, Martin said, but a decision will not be made until after the adoption of new state guidelines governing the disposal of drilling mud.

According to Martin, those guidelines should be complete by April 15.

In the meantime, Martin said, DEC will issue a compliance order establishing a deadline for proper disposal of drilling muds contained in the four pits already "ruled out" by the agency.

The deadline has not been set, Martin said. "They will have the decision on this application before they have to move the muds. We don't want to make them move the muds to somewhere that's impractical for them if they're ultimately going to get a permit to do something on their own in the gas field."

Union spokesman Mark Eversole pointed out that the decision was a preliminary one.

"Based on that fact, it doesn't seem much has changed," he said. Eversole declined further comment.

Dave Brown, owner of Alaska Environmental Industries, said the preliminary decision was just "more delay on the part of DEC."

Brown has been leading a high pressure lobbying effort aimed at forcing Union to

See Page C-3, DISPOSAL

Disposal sites

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dispose its spent muds at the Sterling Special Waste Site. Brown operates the site.

Environmentalists hailed the DEC announcement.

"It's a good first step," said Peter Neitlich of the Alaska Center for the Environment. "We're very excited about the preliminary findings and the fact that disposal won't be allowed at four of the pits."

"We're also very pleased that they've decided to go ahead with development of criteria (for drill mud disposal)" before taking final action on the permit application, he said.

Neitlich believes that the fight over the new guidelines "will be as big an issue" as Union's application, which drew strong opposition from Peninsula homeowners, the City of Kenai and a number of environmental groups.

"It's certainly good news," said Jeff Sauer of the Kenai Peninsula Chapter of the National Audubon Society of the DEC announcement. It is "what we asked for, and we think that it's real reasonable."

The state has asked Union to provide more information on the construction and permeability of the three remaining pits, additional chemical testing on the contents of the pits, and additional soils information on some of the sites.

The company has also been asked to produce proof that it has the right to dispose of drilling mud at the sites in question.

Union's reserve pits are located on land leased from private owners. If those landowners have not agreed to let Union bury drilling wastes on their property, the state will not issue a permit, Martin said.

Several landowners have already voiced opposition to the Union plan.

Finally, Martin said, DEC has asked for information on a reserve pit in a wetlands off Beaver Loop within sight of municipal wellhouse.

There have been allegations that Union illegally disposed of 35,000 barrels of used mud and drill cuttings at that site. Company officials acknowledge burying mud and drill cuttings at Cannery Loop 2, but say the materials were disposed of in compliance with state and federal permits.

"What happened with Cannery Loop 2 is something we're going into with Union right now. We don't have all the answers," Martin said.

"When we get to the point of making a final determination on this application, we also want to be fully knowledgeable on the history of Cannery Loop 2."



State may allow drilling mud disposal

By RONNIE CHAPPELL
Daily News reporter

KENAI — Two years after threatening court action against Union Oil for disposing of drilling muds in unlicensed pits, the Alaska Department of Environmental Conservation may be on the verge of approving those same reserve pits for drilling mud disposal.

In a 500-page permit application filed with the state, the California oil company says it wants to bury 126,500 barrels of drilling mud in the Kenai and Cannery Loop gas fields.

Drilling muds contain caustic chemicals and known carcinogens. They are used to lubricate the drill stem and to prevent well blowouts.

Approval of the permit may set a precedent for future, on-shore disposal of drilling muds in Alaska, according to DEC officials.

It would turn seven unlicensed reserve pits into legal disposal sites.

Many of the pits are located in residential areas with high water tables or in wetlands that serve as nesting and resting areas for migratory birds.

The permit application has drawn opposition from the Alaska Center for the Environment, the Kenai Peninsula Audubon Society and the operator of the only licensed special waste site on the Kenai Peninsula.

All are concerned that corrosive chemicals, salts and dangerous amounts of arsenic, lead, mercury and other heavy metals will leach out of the pits and into the water table.

In a letter of objection to the DEC, Peter Neitlich of the Alaska Center for the Environment warns that approval of Union's permit will place the City of Kenai's drinking water supply in jeopardy.

"High levels of toxic metals have been reported in wetlands and waters surrounding the present impoundments. Many of these

See Back Page STATE

State considers Union Oil application for use of drilling mud disposal sites near Kenai

Continued from Page A-1

levels exceed the levels set for safe drinking water.

"Because of the hydrogeology, there is extensive communication between these waters and the aquifers which supply drinking water to the sizeable population of Kenai," Neitlich wrote.

According to Union's permit application, only a few inches of earth and clay separate the drilling muds contained in some pits from the water table.

Company officials say the clay, a component of drilling mud known as bentonite, is impermeable and will protect ground water from contamination. Opponents claim that erosion, cracks and construction defects almost guarantee that leaks will occur.

"We don't want to do any damage to the water supply, because we're using the water," said Union spokesman Jim Callender. "We don't think we're damaging it."

A state study indicates that small amounts of drilling fluid associated with the muds in three pits are being found in the environment, said Bob Flint, Regional Program Coordinator for DEC. But testing of nearby wells has "never really shown" that fluids are leaching through pit walls.

Instead, Flint and others at DEC believe that contamination occurred when the contents of the pits overflowed the walls and spilled into surrounding wetlands. Union plans to cap the pits.

Environmental groups have requested an extension of the comment period on Union's permit application, which ends this week. They have also asked the DEC to schedule a public hearing on the permit request.

Flint said earlier this month that a public hearing could be held if one were requested.

DEC is still "four weeks" away from a decision on the application. No preliminary recommendations have been drafted by the agency, Flint said.

The Alaska Center for the Environment contends that granting the permit "would amount to sanctioning illegal disposal of hundreds of thousands of barrels of waste."

Dave Brown, operator of the Sterling Special Waste site — the only licensed existing site, agrees.

"I don't think that Union Oil Company has any right to ask for an after-the-fact permit to violate the law, and make legitimate what was never legitimate in the first place," he wrote in a letter of objection to the DEC.

Two and a half years ago, Assistant Attorney General Loni Levy threatened the company with a lawsuit after her office was notified by DEC "that Union Oil has been disposing of drilling fluids and other wastes associated with production in the Kenai oilfield in violation of AS 46.03.100, which requires a waste disposal permit."

Company officials said they had broken no laws because they had not disposed of any drilling mud. Instead, they said, all of the drilling mud was being held in reserve pits for future use.

Today, the reserve pits remain in the same places, filled with the same drilling mud. The difference is that Union has applied for the permits required to bury the mud in place.

In recent months, Flint said, DEC has been looking into whether Union was "doing things properly, other than having a permit."

On that "point of law," he said, "they were in violation."

Flint acknowledges that there are serious drawbacks associated with the granting of after-the-fact permits. It encourages companies to do as they please. Executives begin to believe that if the state has a problem with their methods of operation, the state can "come and get me," he said.

Under the plan proposed by Union, five of the existing pits will be abandoned completely. Two will be rehabilitated for future use.

In every case, however, the drilling muds they now contain will be buried. Union will remove all pumpable fluids and shape the remaining solids into a mound before covering them with bentonite, a piece of cloth and a foot or so of gravel.

In theory, the waste muds should then be enclosed in a fluid-tight capsule.

According to Flint, if Union can develop a disposal system that works, similar pits will be used during the development of the Cannery Loop gas field within the City of Kenai.

State won't allow Union Oil to dump used drilling mud

Associated Press

State officials say they have no intention of allowing Union Oil to dispose of used drilling mud at four of seven proposed locations on the Kenai Peninsula.

Union wants to dispose of 126,000 barrels of mud in existing pits in the Kenai and Cannery Loop oilfields.

But some of the sites are near rural subdivisions or are in wetlands.

"We don't think permanent disposal at the sites out there that are really close to the water table would be appropriate," said Bob Martin of the Alaska Department of Environmental Conservation. "We've essentially ruled out four sites as of this time."

Barrels of drilling wastes already are stored at several of the sites on a temporary basis.

Martin said the DEC still is studying the other three sites, but won't make a final decision on them until the state adopts new guidelines for dealing the problem. They should be complete by April 15, he said.

In the meantime, Martin said, the DEC will issue a compliance order setting a deadline for proper disposal of the muds already contained in the four pits "ruled out" by the agency.

"They will have the decision on this (disposal) application before they have to move the muds," he said. "We don't to make them move the muds to somewhere that's impractical for them if they're ultimately going to get a permit to do something on their own gas field."

Union spokesman Mark Eversole pointed out, and Martin agreed, that the decision was a preliminary one.

"Based on that fact, it doesn't seem much has changed," he said. Eversole refused further comment.

State rejects proposed Kenai disposal sites for drilling mud

By RONNIE CHAPPELL
Daily News reporter NOV 29 1984

State officials have told the Union Oil Co. that they do not plan to allow the burial of used drilling mud in sensitive wetlands near the city of Kenai.

According to Bob Martin of the Alaska Department of Environmental Conservation, the state also has informed the company that four of seven proposed burial sites are not suitable for drilling mud disposal.

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Disposal sites

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"When we get to the point of making a final determination on this application, we also want to be fully knowledgeable on the history of Cannery Loop 2."

Union Oil Dumps on Kenai

by Peter Neitlich

If your car has ever enjoyed a fine meal of hydrocarbons at Union Oil, you might find a visit to the company's gas fields in Kenai extremely enlightening. Interest in the fields has picked up considerably over the last two month--so much so, that a few Union officials might be heard to gripe about their new unexpected position as company tour guide. During the standard tour, one makes one's way across the wetlands toward a drill rig the monstrous size of which boggles the rational mind. The company is proud to describe how the rig is able to drill as deep as three miles into an accurately located gas reserve predicted through seismic analysis and geological modeling.

As one proceeds to the well sites, it is hardly possible not to notice a number of vast, crudely construc ed pits bulldozed into the wet nds. A few of them are fully the size of several football fields. The company becomes much more reticent here. It is these "drilling mud reserve pits" and the toxic materials in them, however, that has drawn visits from a multitude of concerned parties. Thus far, the guest list has included the Alaska Department of Environmental Conservation, the Alaska Department of Fish and Game, Kenai Audubon, the Alaska Center for the Environment, Kenai Borough Mayor Stan Thompson, several groups of Kenai City Councilpersons and concerned residents, and an investigator from the Sterling Special Waste Site.

For the past six years, Union Oil has illegally disposed of what could be as many as 500,000 barrels of drilling muds in wetland pits in and around the city of Kenai, citizen groups and Department of Environmental Conservation (DEC) memos report. The company uses the tremendous volume of muds to remove cuttings from the hole, cool and lubricate the drill string, seal the sides of the drill hole and control subsurface pressures. One early memo by DEC field officer Howard Keiser (10/27/81) reports that "for some time Union Oil has been

disposing of drilling muds in somewhat of an indiscriminate manner; i.e., via burial, applying it to road surfaces or filling a pit and letting it seep away and evaporate." Union has now applied for a permit with the state to bury several of the unlicensed pits and legalize future dumping in a few others. If issued, this permit would be the first ever to legalize unpermitted on-site disposal of the controversial muds after-the-fact.

An increasingly unified coalition of environmental groups and concerned citizens have joined in opposition to the permit, raising concerns about the high potential for leaching of toxic substances into the environment, into groundwater used by the city, canneries and private residents, and the extensively fished Kenai River. Among the toxic materials found in the mud pits are lead, mercury, chromium and a number of chlorinated organic chemicals. Some of the materials are suspected carcinogens. Many of the substances are bioaccumulative, increasing in concentration on their way up the food chain. Most are confirmed in their ability to produce chronic damage.

The dangers of toxic pollution are increased by the fact that many of the pits lie in the water table or within inches of it, opponents say. DEC memos and letters to Union warn of just such dangers. One letter to Union (12/7/81) cautions that illegal disposal "could possibly cause contamination of groundwater." Another (11/15/83) explains that "the soils of the region are very porous and do not contain an impervious layer between the pit bottom and the 'shallow' aquifer." It adds, "We are also concerned with the high levels of contaminants indicated in your lab reports of pit muds and water samples." Environmentalists point to several recent studies which indicate that some leaching of toxic materials has already occurred in Kenai as well as in impoundments in other oil producing states.

Kenai and Anchorage opponents of the permit are also angered by the state's lax enforcement of environmental laws. The state has been aware of the illegal dumping for several years, they say, but has taken no action to halt the practice. In 1981, the DEC warned the company that their on-site disposal was illegal and stated that the issuance of a permit would be unlikely due to the high water table in the area. In 1982, the state threatened to file a suit against the company, but the case was dropped for reasons that are still unclear.

Union claims that they have never disposed of the muds illegally. Rather, they have asserted for the past three years that the muds were being "stored." Union's Environmental Technician Larry Cutting admitted that the muds were not going to be used again and that the company had no plans to move them, but argued that these issues had no bearing on their essential claim of "storage." Arguments over semantics accounted for a large portion of at least one afternoon tour, reported Kenai resident Bob Sizemore.

In a move that has been attacked as an attempt to legalize what has been acknowledged as illegal for at least three years, the DEC announced an agreement with the industry this summer that storage in an abandoned site would be considered as disposal, but only after July, 1984. Union cites this agreement as the basis for the disposal application they submitted in August of this year. The fact that data in the report was gathered as early as a year ago seems to indicate that the illegality of the pits was understood by both parties for quite some time, opponents say.

Asked whether Union's record of unpermitted disposal would influence the Department's consideration of the permit, DEC's regional permit coordinator Bob Flint said, "No. The company and the Department have finally reached an agreement on the need for a permit. We've worked with them in trying to arrive at a basic industry prototype, and as far as we're concerned, their permit application gives them a clean slate." The Alaska Center for the Environment expressed displeasure with this position as well as with the Department's intention not to pursue legal action. Other parties, including Dave Brown, the operator of the only licensed repository for drilling muds, have threatened independent lawsuits.

Public hearings on the Union permit are scheduled for October 29 and 30. The DEC will decide on the permit shortly after that. But there is a major issue yet unaddressed here, concerned

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Union Oil

parties have said. That is, namely: How can the DEC decide on this permit in the absence of any relevant regulations. And if the permit is granted, wouldn't this essentially base the state's new industry-wide prototype and regulatory disposal criteria upon what has been an oil company's own illegal and hasty field practice? Is it proper to make such important decisions without a major inquest into the subject? Although many other states regulate drilling muds--some of them even regulate it as a hazardous waste--there are no specific regulations addressing the question of what to do with the millions of barrels of drilling muds produced each year in Alaska.

Many opponents of the permit favor a delay in the Department's consideration of the permit until a bi-partisan commission with representatives from industry, government and environment can hash out some workable compromise criteria. The commission could study the effectiveness of other states' programs in controlling pollution, construction criteria, siting, hydrology, methods to decrease mud toxicity, et. al., say the proponents of this plan. At a time when so little is known about the subject and so many questions remain as to the dangers of pollution, to grant a permit after-the-fact to an unlicensed dumper is to allow the companies to do whatever they please with their waste, environmentalists say. "What this really amounts to is letting the fox guard the henhouse," says Kenai investigator John Parker. "We'd be letting an illegal disposer write its own regulations."

The idea that drilling mud would be treated more like ordinary solid waste than the toxic material it is brought dismay but little surprise to an informal group of hazardous waste activists. The group, known as the Hazardous Waste Advisory Group, says that drilling muds were given a special exemption in the state's new hazardous waste law last legislative session. It was intense lobbying and deft committee work by the Alaska Oil and Gas Association (AOGA) which secured this provision, they say. In a recent meeting the group held with Richard Neve, Commissioner of the DEC, the Department declined to delay their consideration of the permit, and stated that no promises could be made that the drilling muds criteria the Department would eventually develop would be as stringent as progressive legislation in other states.

Union states categorically that their drilling muds pits, lined with 2-3 inches of Bentonite clay, will not leak in spite of their siting in wetlands. Other scientists and concerned citizens are not so sure. Some point to the 3-5 *feet* of clay required in some Wyoming mud pits, and the synthetic liners, groundwater monitoring requirements and leachate collection requirements mandated in other states. Scientists openly mention other concerns such as pit overflows, migration of toxins through pit fissures caused by poor construction or frost heaves, and the dangers of damaging an acidic ecosystem with caustic muds. Concerned citizens mention problems of access at the site to illegal hazardous waste dumpers, the lack of a precedent in the DEC for any on-site disposal permits and the havoc this initial precedent would wreak with any type of comprehensive, enforceable waste control program. It is conceivable--indeed, forseeable--that every company could demand an on-site and after-the-fact permit for waste pits after these precedents have been set, they say.

The Alaska Center for the Environment, which has been following this case closely, has publicly expressed their view that the permit review should be delayed until rational criteria can be developed. "If we're going to have any kind of waste disposal program which transcends a mere granting of permission after-the-fact to those who would do as they please, we need criteria first. Planned, scientifically-based criteria should form the firm basis for policy, not indiscriminate field practice," said one staff member. He comments that Union can seal the walls of their well to keep precious oil from escaping, but they won't even seal their Roman pits to contain their toxic pollution. Kenai resident Bob Sizemore adds, "During our tour of the pits, we were told by Union that we 'needed to be reasonable.' Is our right to a safe and healthy community unreasonable? Do we or do we not have the right to participate in decisions that affect our lives and those of our unwitting grandchildren? That's the real question."

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Oil firm, state at odds

ADN
5/31/82

By RONNIE CHAPPELL
Daily News correspondent

KENAI — Union Oil of California has ignored state regulations governing the disposal of drilling muds, fluids and other wastes associated with its operation of the Kenai Gas Field, records obtained from the Alaska Department of Environmental Conservation (DEC) say.

"For some time Union Oil has been disposing of drilling mud in somewhat of an indiscriminate manner; i.e., via burial, applying it to road surfaces or filling a pit and letting it seep away or evaporate," wrote Environmental Field Officer Howard Keiser in an Oct. 27, 1981 memorandum to his supervisor.

"In some cases," he said, "drilling mud has been buried in areas of extremely high water tables, in the water table itself and in wetlands."

Union denies that it has improperly disposed of any drilling mud and contends that the reserve pits cited by the DEC in the Kenai Gas Field are merely being used for the storage of reusable drilling muds.

"We've got a difference of opinion between us and ADEC over the way we interpret their regulations," Union spokesman Bob Anderson said last week. "The Kenai Gas Field is a field that is still under development and those pits are used continuously. Those pits are a permanent part of each one of those (drilling) pads."

According to the DEC, Union may have illegally disposed of more than 250,000 barrels of drilling mud at sites within the gas field and

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Oil company, state environmentalists disagree on drilling mud used in Kenai area

Continued from Page A-1

at exploratory wells inside the city of Kenai.

The state has threatened to file suit against the oil company if it refuses to haul those wastes to a licensed special waste site.

There is only one such facility on the Kenai Peninsula. It is located off Swanson River Road near Sterling. While water-based drilling muds are not classified as toxic or hazardous wastes, they can contain condensate (a petroleum byproduct of most drilling operations), dyes, and diesel oil which is sometimes used to lubricate the drill stem during drilling operations. They also can contain traces of heavy metals such as lead and mercury.

"It's not something you want in the water table," said DEC District Supervisor Bill Lamoreaux.

Union's position that it is legally storing the drilling muds versus illegally disposing of the mud appears to have been recently adopted.

In his Oct. 27 memorandum to his supervisor, Keiser said that Union Oil officials informed him "that drilling mud is nothing and that there is no reason why it cannot be buried on site of the drilling rigs as they are doing now." Keiser said he told Union officials they would need a disposal permit to bury it, and they said they would apply for one.

"The mud may or may not be safe to bury," the memo said, "but in the cases I have mentioned it is in the water table. The odor alone is sufficient to cause a water supply to be unfit for human consumption. The area is residential with shallow wells. In my opinion, we may have a problem."

According to field officer Mike Lucky, he and Keiser discovered Union personnel, earlier this year, covering up a reserve pit that was filled with drilling fluids and drilling muds. Lucky said the operation was halted when gas field supervisors were called to the scene.

"They told us it was a mistake," Lucky said.

In an April 7 memo to DEC sanitarian Tim Rumfelt, Keiser wrote, "although this may appear to be an environmentally sound method of handling drilling muds and fluids, observations and experience has demonstrated otherwise."

Keiser wrote that Union has one pit "that in reality is a seepage pit for disposal of drilling fluids. Over a two-week period, approximately 75,000 to 85,000 gallons of fluids leached into the water table. Three private residences are within 1,200 feet from this seepage pit. The ground water's flow is most likely towards these residences."

Keiser discussed the problem with Vicky Lytle of Union's Anchorage office at a meeting in Kenai Feb. 24. Two days later, Keiser reported on that session in another memo to Lamoreaux.

Keiser wrote that Lytle "did admit that maybe Union Oil was in the wrong in the methods of mud and fluid disposal. When I mentioned that we would like to sample the three private wells located on the bluff, she didn't like the idea and suggested that since Union Oil had wells we could just sample them.

"I understand her concern here, as if we go to these three homes to collect samples even if the samples are negative, the people will become concerned. I don't know what we can do about this, but I feel that we should include these three wells in any sampling that we do."

According to Anderson, samples taken from company wells indicate that the presence of the reserve pits has not adversely affected water quality in the area. DEC is still waiting for test results on the water samples it took from the three homes located on the bluff.

Anderson, the Union Oil spokesman, said the company would have a difficult time making the claim that the firm is just storing mud and not disposing it if the Kenai Gas Field was not in production and under development.

Yet, that's exactly the situation that exists inside the city of Kenai at Union Oil's exploratory wells in the Cannery Loop operating unit.

In July 1979, Union shut in Cannery Loop No. 1 because of market conditions. Today there is still a reserve pit there with drilling mud in it.

The pit is inside a fenced compound within 700 feet of the nearest residence.

A similar situation exists at Cannery Loop No. 3. It too was closed, and there is a fenced reserve pit with drilling mud in it.

Although oil and gas drilling permits issued by the city normally require that drilling muds, fluids and other wastes be stored in a steel slush tanks, Union Oil asked and received from the Kenai City Council an exemption from this requirement.

The council gave Union permission to use earthen reserve pits. The change was the subject of hearings before the City Council and the Kenai Advisory Planning and Zoning Commission.

At meetings on Nov. 29, 1978 and Oct. 8, 1980, commission chairman Phil Bryson questioned Union officials about operation of the reserve pits. On both occasions, the minutes of those meetings indicate, he was assured that the company would be sealing the pits to prevent seepage. At the Oct. 8 meeting, Union landman Richard Boyle told the commission the contents of the pit at Cannery Loop No. 3 would be trucked to a dump site.

According to Anderson, the drilling muds at Cannery Loop 1 and 3 are being stored in anticipation of future drilling operations at each of those sites. Anderson hinted that another exploratory well might be drilled from the pad at Cannery Loop 1 this summer.

Union does hold active city drilling permits for both of those sites even though both wells have been shut in.

It does not hold an active permit for Cannery Loop No. 2 which is located in a wetlands area just off Beaver Loop in the vicinity of Ames Road. The exploratory well drilled there was a dry hole and the well was abandoned.

There is no open reserve pit at Cannery Loop No. 2. The mud used in the drilling of that well have been disposed of. According to Lucky, 15,000 barrels were hauled to the Sterling Special Waste Site while another 35,000 barrels were buried, in violation of state regulations, at the drill site.

Anderson disagrees with DEC's contention that the muds were improperly disposed of. At that site, Anderson said, Union "pumped off the liquids" which were disposed of at the Sterling Special Waste Site. "The (drill) cuttings and residue were buried pursuant to our Corps (of Engineers) and state permits."

Anderson said DEC and other state agencies signed off on the wetlands permit issued to the company by the Corps. According to Mayor Vince O'Reilly, "Our primary concern is whether the pits pose any hazard at all to the water table." Two of the three wells are located in the vicinity of residential subdivisions and one, Cannery Loop 2, is located in a wetlands area less than half a mile from one of the wells used to supply the city water system.

In the meantime, DEC's is hampered by a lack of manpower and a shortage of lab facilities. Keiser, the man who spearheaded the agency's initial investigation retired in mid-May and a successor has yet to be employed.

Union continues to insist that it has done nothing wrong, that the reserve pits and their contents pose no hazard to the environment.

The company is giving consideration to altering its method of operation as a result of pressure from DEC. In a Feb. 23 letter to Keiser, Union Drilling Superintendent Jim Callender said, "to resolve the problem of future mud disposal and storage, we are working with the mud supply companies to determine the toxicity of the drilling fluids and their potential harm. We are also considering monitoring the water around the gas field to establish that there is no effect on the ground water."

Peninsula Clarion

MONDAY, Oct. 22, 1984 — Vol. 15, Issue 3, Central Peninsula Edition

Drilling mud agreement hard to find

Informational meeting Tuesday at KCHS

By JAN MIRELES, *Staff Writer*

Editor's note: This is part of a series of articles addressing the questions surrounding the issue of drilling mud disposal on the peninsula.

There is no one answer to questions of safety when it comes to drilling mud.

Union Oil claims its proposal for drilling mud disposal is environmentally safe. Environmentalists and some engineers are skeptical. And the Alaska Department of Environmental Conservation says it just doesn't know.

Though composed mostly of a non-toxic oil called bentonite, there are many types of drilling muds. Each drilling mud contains chemical additives which may or may not be toxic. While the state requires special disposal methods at licensed sites, it is considering a Union application for on-site disposal. Union wants to dispose of the solid drilling mud in reserve pits coated and sealed with bentonite. The oil firm maintains that bentonite is impermeable and will prevent any drilling mud waste from escaping the pit and entering the environment.

Some local residents and state environmentalists, however, claim drilling mud already has leached out into the wetlands adjacent to Union's Kenai Gas Field, endangering the water table and area wildlife. Peter Neitlich of the Alaska Center for the Environment said he hopes to present his findings tomorrow evening at a meeting in the Kenai Central High School cafeteria at 7 p.m. Neitlich said the center has a hydrologist examining water samples from the wetlands and is making arrangements for a chemist to study drilling mud samples.

Don Rice, a partner in the engineering firm Dowling-Rice Associates, has been following Union's drilling mud application with some concern. A civil engineer with geotechnical experience, Rice once ran a monitoring program on the Sterling Special Solid Waste Site where oil firms are re-

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Winter has arrived

Joseph Zerbe gets ready for the season's first snowball fight Sunday outside of Grace Brethern Church in Kenai. (Photo by Ralph Thomas)

...State considers Union Oil permit

Continued from Page 1

quired to dispose of drilling mud.

"In large part you're dependent upon the honor system of people using the site," Rice said. "Honor systems, when it comes to solid wastes, are notorious."

Rice questioned Union's claim that bentonite is impermeable and the proposed sites' proximity to wetlands.

"It's a question of calls as to whether you say bentonite is impervious," he said. Rice compared bentonite to insulation saying that the more insulation you use the less likely heat is to escape. Bentonite serves as insulation between drilling mud and the outside environment, Rice said, but is not a guarantee of protection.

"I don't th[illegible] it is accurate to say that bentonite clay is impervious," Rice said. "It's a very fine-grained mineral-type soil. Water will work through the clay."

Depending upon the thickness of the clay, he said, water may eventually erode the seal. Union oil has proposed a 3-inch thick wall. Rice said that given the proposed disposal sites, it may not be enough. He acknowledged bentonite's use elsewhere in the country but said that area soils may rule out its use.

"If we put a bentonite pit down there and there's some movement to the water table ...then sooner or later that water is going to migrate into that site and out the other and mix with the water table," Rice said.

Industry officials say the only toxic portion of the drilling mud is the liquid portion. The liquid drilling mud typically is pumped off and disposed of in injection wells (which the state licenses) or hauled to the Sterling Special Solid Waste Site. Rice said that as the reserve pits are allowed to sit while drilling continues, some of the additives drift to the bottom of the pit and are trapped between the rock cuttings. Even if all the liquid is siphoned off, the drilling mud proves thick enough to prevent removal of all the additives, he said.

Rice said it would require extensive testing to determine several sites' safety. He suggested the state would find it easier to monitor one site instead.

"It's poor form to create landfills helter skelter all over the countryside," he said. "If we haven't done the tests then I don't think it's safe to assure that there won't be an adverse impact on the environment."

In the past, Rice said, the state has kept close watch of the Sterling site yet has allowed oil firms greater leeway. "Basically on a drilling site the sump is a garbage pit," he said. "The operators of that site, (the Sterling Special Solid Waste Site) have been sat on pretty rigorously. The ADEC is not making the same requirements of oil firms."

State officials admit that is difficult to monitor oil firms. Much of the state's information on disposal methods come from the industry.

"We have had in the past to rely on the integrity of the persons conducting the analyses," said Mike Lucky, an ADEC field officer in Soldotna.

Lucky said the state will use the firm's information and that gathered by employees or submitted by the public to evaluate Union's permit application. A public hearing on Oct. 29, has been set aside to explain the permit application and hear public opinions, he said. "If the public has some information that we don't have," he said, "well, that's what we're after."

Still, questions remain. Did Union deliberately break state law and dispose of the drilling mud? Union officials say 'no, the mud was only being stored.'

If Union violated the law why hasn't the state taken it to court? The state says it has not filed suit, "because we've gotten what we wanted out of Union without going to court," said Bob Martin, special assistant to the ADEC commissioner. Martin said it has taken the state two years to get Union to sign a compliance order agreeing to clean up the pits if their disposal permit is denied. But at least one Union official said the firm may take the matter to court if the permit request is rejected.

Is there danger posed by drilling muds? The state agrees that drilling muds contain some toxic chemicals but say they are still in the process of setting criteria for drilling mud disposal. In the meantime, Union's permit is under consideration.

"I just don't have all the answers," Martin said. "I will say that the kinds of things that they are proposing are typical of what's going on in other state."

Martin said the state has conducted its own tests but discounted a 1983 department study that suggested two Union pits were leaking into wetlands area. "So far there is no problem with the Kenai gas wells," he said. "There is no evidence of drill muds with leaching."

Martin said the state may do more testing and is talking to wildlife officials about environmental concerns. "We are concentrating our review (of the Union appliication) on particular sites in wetlands," he said. "Those are the areas we want to be particularly careful on. There are still questions that exist. There may be some more higher level reason for concern."

Next:One man's attempts to draw attention to drilling mud disposal practices.

Woman seriously hurt in crash

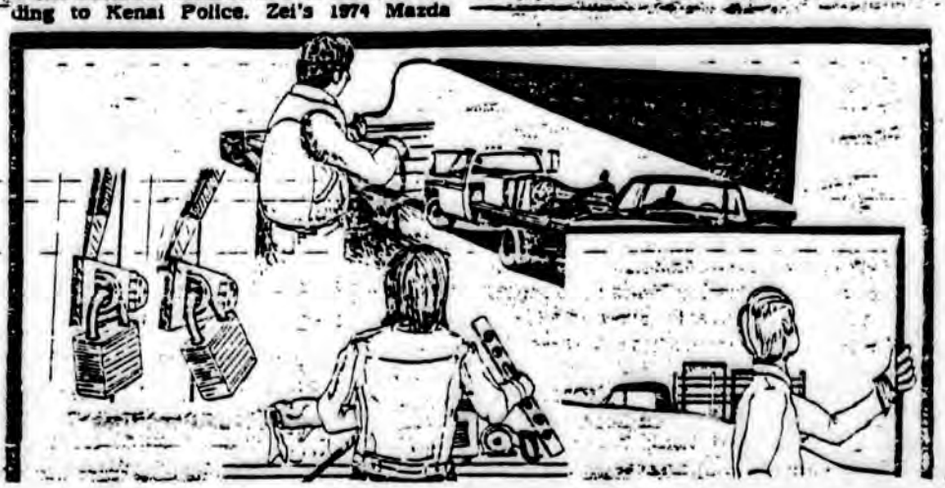
A young Kenai woman was seriously injured early Saturday morning when the pickup truck she was driving collided with another pickup on the Kenai Spur Highway near Larry's Club.

Lisa Zei, 21, suffered head and back injuries, according to Kenai Fire Department personnel, who transported her to Central Peninsula General Hospital. They said she was later flown to an Anchorage hospital.

The accident occured at 1:16 a.m., according to Kenai Police. Zei's 1974 Mazda pickup collided with a 1970 Chevrolet pickup driven by Robin E. Holt, 21, Kenai. Both trucks were totaled.

No information was available Saturday afternoon about the events leading to the accident. Holt was cited on suspicion of driving while intoxicated. He suffered bumps and bruises, according to the fire department.

The police said neither Zei nor Holt had any passengers.



Peninsula Clarion

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Drill mud issues coming to public attention

Editors note: This is the first of a series of articles addressing the questions surrounding the issue of drilling mud disposal.

By JAN MIRELES, *Staff Writer*

In 10 days the Alaska Department of Environmental Conservation will ask Kenai Peninsula residents what they think of a Union Oil plan to dispose of drilling mud.

The question will be posed at a public hearing Oct. 29 in the borough building in Soldotna. The hearing begins at 7 p.m.

Earlier this year, public comments were successfully targeted when the state required Tesoro Alaska to use the most stringent air pollution control devices at its Nikiski refinery.

Since its arrival on the peninsula in 1958, the oil industry has ridden the roller coaster of public opinion. The industry is praised for creating jobs and criticized for threatening the environment. More recently Union Oil has been riding the roller coaster careening to the latter view.

At issue this time: the alleged illegal dumping of drilling mud.

"When the oil field started nobody cared about drilling mud," said Bob Delaney, U.S. Fish and Wildlife's manager of the Kenai National Wildlife Refuge. Those were the boom days; when drilling mud didn't contain "fancy chemicals," Delaney said, and there were few regulations restricting oil companies.

But that has changed. The Alaska Department of Environmental Conservation was formed in part in the early 1970s to address environmental concerns raised by oil industry operations. Citizen groups also have joined state and federal agencies in their attempts to monitor the ever-evolving oil industry.

Currently, Union Oil of California has fallen under the gun. The company has filed a permit application with the ADEC requesting permission for on-site disposal of thousands of barrels of drilling mud. State regulations, however, require disposal be handled by a licensed waste site.

To date, the only licensed solid waste site on the Kenai Peninsula is the Sterling Special Waste Site operated by Dave Brown. Brown has said Union is not using the waste site and has charged Union with illegally

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$3.5 million city center tops wish list

By JOHN QUINLEY, *Managing Editor*

A $3.5 million community center will top the list of capital projects for which the city of Kenai hopes to receive state funding.

The Kenai City Council Wednesday approved a list of 30 items, primarily road im-

State considers Union request

Continued from Page 1

disposing of the drilling mud. Union officials deny the charge.

In a permit application several inches thick, Union officials admit to the existence of seven drilling mud reserve sumps, but maintain that the sumps merely represent storage pits until a disposal method can be developed, according to Union spokesman Bob Anderson.

An ADEC ruling earlier this year defined drilling mud disposal as occuring when a drill rig leaves a site. Letters from department officers dating back to early 1979, warned Union officials about possible civil and criminal penalties for any illegal dumping. Union has acknowleged no wrongdoing and said there is no basis for any prosecution.

"It all turns around the definition of disposal," said Anderson. "We assured the ADEC that it was only storage."

The state is reviewing the Union application. Union has signed a department compliance order to clean up the pits if the disposal permit is denied, but Anderson indicated the matter could go to court.

"We'll just have to wait and see," Anderson said. "Both sides are going to reserve to themselves the options open to any citizen of the United States."

The department has extended the public comment period in conjunction with its review. Local citizens also are holding an informational meeting at 7 p.m. Tuesday, Oct. 23, in the Kenai Central High School cafeteria to discuss the possible effects of drilling mud on the environment. Peter Neitlich of the Alaska Center for the Environment is the guest speaker.

There seems to be little agreement between industry and public officials as to what drilling mud would do to the environment. In the early days, drilling mud consisted primarily of bentonite, a natural fine-grained soil, and water. The mud facilitates the drilling process. When the drill digs deeper into the earth, the mud is used to suspend soil and rock clippings so that the drill can plunge still deeper in search of oil.

As oil technology improved, scientists learned that by adding different chemicals the drilling mud would be more effective. Drilling mud now contains numerous chemicals some of which may be toxic in certain amounts. Each company uses a number of different drilling muds and carefully guards its recipes.

In making its disposal permit application Union revealed the mud compounds it uses, but not the proportions. Other firms also have refused to release similar information to the public on the grounds that it would endanger their ability to compete.

Though drill sites vary, handling of drilling mud waste is fairly uniform throughout the industry. Next to each drilling pad is a reserve pit. The pit dimensions for Union's Cannery Loop 1 are 556 feet long by 107 feet wide by 13.4 feet deep. The permit said bentonite was applied to the bottom and sides of the pit prior to use. Union officials say the bentonite is impermeable and prevents any drilling mud from seeping out of the pit and into surrounding soils.

The pit holds drilling mud while the gas well is being used. Once site work is completed, the ADEC requires that the mud must be disposed of according to ADEC regulations. The liquid portion of the mud may be pumped into tankers and injected into the ground in disposal wells (companies need permits to operate the wells) or stored in barrels and transported to the Sterling Special Waste Site.

The solids that remain consist of soil and rock formation cuttings. Union said the cuttings are not toxic. The cuttings, according to ADEC regulations, are drilling mud and are supposed to be part of the package sent to the special waste site.

"Drilling muds are not a hazardous waste," said ADEC field officer Mike Lucky. "But we consider them to be a solid waste that requires special disposal."

What Union proposes is to seal the reserve pits with a cap of bentonite to prevent seepage. Anderson said there is no danger of the cuttings contaminating the environment.

"There is nothing to be concerned about," he said. "There is residual mud, but it's not toxic."

Monday: Are Union's proposed disposal methods safe? Do drilling mud reserve pits pose a threat to peninsula wildlife and residents?

Soldotna council opens hunt
[illegible]person to fill seat

Witness at hearing suggests oil payoffs

By RONNIE CHAPPELL
Daily News reporter 10-3084

KENAI — At a public hearing in Kenai Monday a witness suggested that payoffs from the oil industry had influenced the handling of drilling mud disposal permits by the Alaska Department of Environmental Conservation.

Valdez attorney Bill Bixby played a taped interview at the hearing in which Carl Harmon, a department employee, said he'd been told by two anonymous callers that the industry had obtained favorable permit decisions by paying "great amounts of money" to people within the department.

Two years ago, the state agency was threatening to take Union Oil of California to court for illegally disposing of drilling muds in open reserve pits in and around the city of Kenai. The department is now considering a permit application that would make those same pits retroactively legal.

At the time he received the calls, Harmon said he was handling drilling mud disposal permits on the Kenai Peninsula. "They asked why they couldn't come to some kind of agreement with me," Harmon said during the taped interview.

Harmon wrote a memo describing the calls for his files and delivered a copy to his immediate supervisor. Later that day, Harmon said, Regional Supervisor Bob Martin "directed me not to deal with oil companies or drilling muds ever again."

Late Monday, Harmon told the Daily News that private investigator John Parker had obtained the interview under false pretenses.

"Parker said he was repre-

See Back Page, DRILLING

Drilling mud plan debated

Continued from Page A-1

senting the A.G.'s (attorney general's) office. He was not. He misrepresented himself," Harmon said.

Harmon said he could not authenticate the tape played by Bixby at the hearing until he had had a chance to listen to it.

Harmon told the News he received the calls, that he reported them to his supervisors and that he was taken off drilling mud permits the same day.

"I hope these are the musings of a disgruntled employee," Bixby said. "But given the inaction of the agency, we feel they should be investigated by an independent body."

"We are aware of the allegations," said Deputy Commissioner Christopher Noah. "The state attorney general is looking into the matter and trying to figure out what actions to take."

Martin termed the tape the "prattling of a disgruntled employee.

"The anonymous calls were followed up on," Martin said, and no evidence of wrongdoing was ever uncovered. Harmon, he said, had no idea who called him.

Speaking to Bixby, Martin said, "you've slurred a lot of people's names with that recording. I'll not slur any others by speculating" on who made the calls.

In the past, Martin has said he is comfortable with the agency's decision to negotiate with, rather than prosecute the oil company.

A lawsuit would still be tied up in the courts, he has said, and the drilling mud would still be in the ground. It could remain there for years if the case is appealed.

By negotiating, Martin said, the agency was able to prod Union into action. The company is now submitting proposals for disposal of the mud.

The agency will not approve a proposal unless it is environmentally acceptable, Martin said.

More than 100 people turned out for the hearing.

Union Oil wants to bury the drilling muds in existing reserve pits in the Kenai and Cannery Loop gas fields.

Environmental groups, like the Kenai Peninsula Chapter of the National Audobon Society, opposed issuance of the necessary permit. They warned that caustic chemicals, salts and dangerous amounts of lead, mercury and other heavy metals contained in the muds would leach out of the pits and into the water table.

During the hearing Bob Anderson of Union Oil said the method proposed by the company — burial in an envelope of waterproof bentonite clay — would protect the environment.

Others, however, weren't so sure.

Carol Boudreaux complained about a "lack of definite assurances that the chemicals won't leach out into the environment."

Denial of permit to bury drilling mud urged

Daily News 11/11/87

From our Peninsula Bureau

KENAI — Kenai Mayor Tom Wagoner has asked the state to deny a permit application that would allow Union Oil to bury 126,000 barrels of used drilling mud in and around his city.

Union wants to dispose of the mud in seven existing reserve pits in the Kenai and Cannery Loop gas fields. Some of the pits are located in wetlands areas and some are located near residential subdivisions.

In a letter to Gov. Bill Sheffield, Wagoner opposed use of existing pits for drilling mud disposal. He requested, instead, that the company be required to "dispose of all drilling muds at one site within the Kenai gas field."

This would "ensure that a new pit is constructed to exact specifications" determined by the Alaska Department of Environmental Conservation.

Finally, Wagoner asked the state to force the company to clean up and remove all drilling muds remaining in the Cannery Loop field, which is located entirely within the city.

Wagoner's letter could signal a change in attitude on the part of local officials towards the oil industry. Two years ago, at Union's request, the city council modified the city drilling ordinance.

The first change allowed Union to substitute earthen reserve pits for steel tanks. A second made it retroactively legal for Union to bury used muds in the city.

DEC will not decide on Union's permit application until later this year. The agency will accept written comment on the request until Nov. 13.

Memo about payoffs at agency not released

By RONNIE CHAPPELL
Daily News reporter

A Valdez attorney who publicized allegations of payoffs within the Alaska Department of Environmental Conservation (ADEC) has failed to release a two-year-old ADEC memo on "threats and bribe offers" that cast his own client in a bad light.

Bill Bixby, an attorney for Alaska Environmental Industries, defended the decision not to release the memo, saying it was obvious that department officials knew of it and had an opportunity to bring it up at the meeting.

"We were just calling for an investigation," Bixby said. "We're not saying the allegations are true or false. We're saying 'please investigate.' We don't have the means or the authority to find out what's been going on."

Two weeks ago in Kenai, Bixby played a taped interview in which Carl Harmon, a department employee, said he was told "not to deal with oil companies or drilling muds again" after he told his superiors about threats and bribe offers he had received.

Bixby, citing "the inaction of the agency" on a pending mud disposal permit, added that "we feel they should be investigated by an independent body."

See Page C-3, ATTORNEY

Attorney refuses to release memo about bribes, threats

Continued from Page C-1

Union Oil Co. is asking to be able to bury toxic drilling muds at their temporary sites instead of at approved locations.

In a June 10, 1982, memo which Bixby also had, Harmon describes a conversation held one month earlier with Bixby's client, Dave Brown, the owner of Alaska Environmental Industries and the operator of Sterling Special Waste site. Harmon quotes Brown as saying "he did things for his friends" at the department, such as taking them on free hunting and fishing trips.

Brown acknowledges meeting with Harmon but denies that he ever gave free trips to department employees. Brown has questioned the authenticity of the memo and has suggested that it is a recent forgery.

Ten days after talking with Brown, Harmon wrote in the memo, he received two phone calls from two anonymous men trying to influence a state decision on drilling mud disposal.

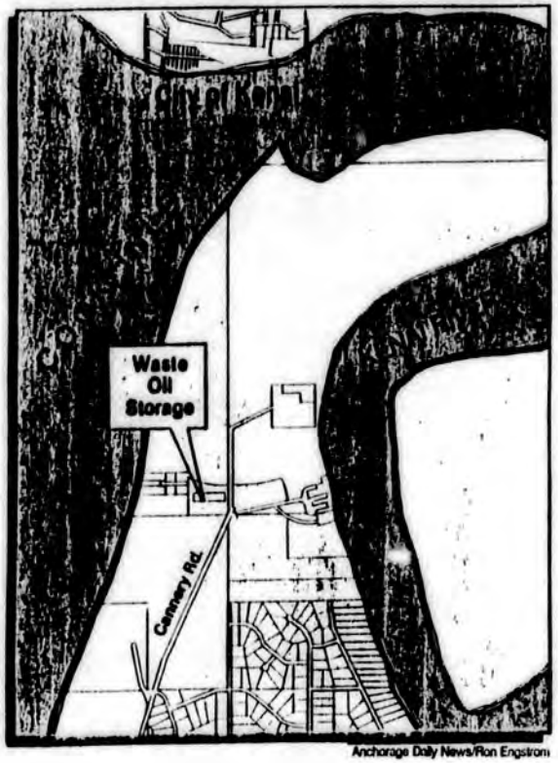
Harmon said one of the callers threatened to break both of his legs. The other, he said, told him "it could be worth as much as $100,000 to get this situation cleaned up."

"I felt as if I had been intimidated," Harmon's memo concludes. "I do not know whom to believe. I felt Mr. Brown was trying to use me to put pressure on the oil companies, to get them to haul drill water and muds to his site. I do not believe the calls made to me on May 29 were from the oil companies. At this time I am not sure from whom they came."

As operator of a waste site, Brown could profit if the oil companies are not permitted to bury the muds at their present sites.

Sunday Business J
Anchorage Daily News Sunday, December 9, 1984

Drilling muds mire Kenai in controversy



Anchorage Daily News/Ron Engstrom

Residents want safe mix of oil and water

By RONNIE CHAPPELL
Daily News reporter

KENAI — A few people in this community that once proclaimed itself the "Oil Capital of Alaska" are having second thoughts about oil and gas development literally in their backyards.

The subject of their concerns is an increasingly controversial goopy mixture of water, clay and naturally occurring minerals known as drilling mud.

Drilling mud is present wherever oil and gas are sucked from the earth. The mud is used to lubricate the drill stem, flush cuttings to the surface and prevent blow outs.

By itself, the "mud" generally is thought to be harmless.

But barite and bentonite — the naturally occurring minerals — can be contaminated with trace amounts of arsenic, chromium, lead, mercury and other heavy metals, and that can be extremely dangerous.

Drilling muds also can contain hundreds of chemical additives that serve as sealants, thinners, weighting agents, foaming agents, defoamers, lubricants, corrosion inhibitors, bactericides and more.

In the past, few Alaskans worried about the handling and disposal of millions of barrels of used drilling mud and other oil field wastes.

But that is changing on the Kenai Peninsula, where the distance between people and oil development is growing shorter and shorter all the time.

Residents are concerned they could be poisoned by toxic chemicals leaking from unlicensed disposal pits into the water they drink.

No where is this concern greater than along Cannery Road, south of downtown Kenai across the Kenai River.

When Union Oil of California spudded a gas well at the end of Cannery Road in 1979, few people lived nearby.

But in the last five years the road has been paved and more than 100 homes have been built in the area.

City officials expect residential development to spread toward the drill pad. Next to the drill pad is a pit containing about 13,000 barrels of used drilling mud.

Union wants to bury another 70,000 to 80,000 barrels of drilling mud and other waste in the pit.

Two major canneries are located within shouting distance of the pit, which sits next to a wetlands that extends to the mouth of the Kenai River.

The nearest house is about 200 yards from the pit. A new subdivision lies perhaps a third of a mile away. Area residents depend on private wells for drinkable water.

According to Union, the water table is just inches below the bottom of the pit.

All told, Union wants to bury 126,000 barrels of drilling mud and associated waste as it develops the Cannery Loop and adjacent Kenai Gas fields in the next few years.

Union wants to rehabilitate one reserve pit and bury five others in the area.

Despite company assurances that the disposal plan poses no threat to the environment or human health, many Kenai area residents remain unconvinced.

More than 100 people turned out for a hearing in Kenai to oppose the issuance of a drilling mud disposal permit to Union.

At the hearing, opponents passed out hundreds of reprints of a recent Wall Street Journal story about the possible link between high cancer rates and waste disposal practices in the oil regions of Louisiana.

"The arrogance of the oil companies really bothers me," said Kenai attorney Kevin McCoy, who lives a half mile from the Cannery Road reserve pit.

"The sites that are close to homes or in wetlands are just totally inappropriate. I'm just not satisfied that the stuff won't leak into the water."

Kenai City Hall generally has been accommodating to the

See Page J-6, ENVIRONMENTAL

Kenai ordinance may stifle Union Oil disposal plans

By JAN MIRELES, Staff Writer

A little-known Kenai city ordinance may prevent Union Oil Company from disposing of drilling mud at two of seven proposed disposal sites that are up for approval with the state.

The two sites, Union's Cannery Loop Unit 1 and 3, are part of permit application on file with the state Department of Environmental Conservation. The permit seeks permission to dispose of drilling mud at seven company drilling sites.

The city ordinance addresses the issue of solid waste and its management. In it, all authority and power to manage, maintain, operate or construct a solid waste site is transfered to the Kenai Peninsula Borough.

Since the state currently classifies drilling mud as solid waste, City Manager Bill Brighton interpreted the ordinance as prohibiting Union from disposing of drilling

See PENINSULA, back page

mud within the city limits. Both Cannery Loop Unit 1 and 3 are inside city boundary.

Brighton said if Union could contract with the borough to operate the locations as disposal sites they would not violate the ordinance.

"I wouldn't say that's beyond the realm of possibility, but that's the only way they could," dispose of drilling mud inside the city, Brighton said.

Borough Mayor Stan Thompson declined to comment on the matter until he could consult with attorneys about the borough's position.

"Off-hand, I would say I don't know what we'd do," Thompson said.

Meanwhile, state officials say they still are reviewing Union's permit application. Bob Martin, special assistant to the DEC commissioner, said the state is interested in cooperating with the city's wishes.

Martin said he was not aware of any city ordinance against drilling mud disposal but added, "If that is the city's position then we'd want to honor that."

Kenai Mayor Tom Wagoner said he already has asked the state to deny Union permission to dispose of drilling mud at Cannery Loop Unit 1 and 3.

In an October letter sent to the governor's office and the DEC, Wagoner asked that Union be required to remove all drilling mud currently at the sites.

"I feel that they should be removed," Wagoner said.

In addition to Wagoner's efforts to address the issue of drilling mud disposal, Councilman John Wise will introduce a related ordinance at tonight's City Council meeting. Wise hopes it will keep drilling operations from troubling the city again.

The ordinance would amend an existing ordinance and further restrict drilling site operations. Oil companies would be required to remove drilling mud reserve pits and their contents "within 60 days after completion of a well or drilling activity," according to the proposed ordinance.

The proposed ordinance also asks that all storage pits and reserve pits be constructed of steel. Earthen reserve pits would be allowed only if permitted by the city manager after receiving approval from the state DEC.

Wise is introducing the ordinance because, "I don't want reserve pits in the city of Kenai that are just sitting there idle and possibly contaminating the soil and water supply."

Wise said the Cannery Loop wells have been finished for years and that Union's "story about holding the drilling mud in reserve is simply not true."

If the first reading of Wise's proposed ordinance is approved a second reading will be set for the council's Dec. 5, meeting. If that reading is approved, the ordinance will go into effect Jan. 5, 1985.

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with Union to allow permanent disposal of drilling mud.

"I am very unhappy with Union Oil," she said. "I would never, never grant permission."

Equally vocal is Cook Inlet Region Inc. CIRI Vice President Frank Klett is irritated that Union has not contacted his group about the permit proposal. Klett said it is unlikely permission will be granted.

"We're not in the business of disposing of drilling mud," Klett said. "And we don't intend to be."

While the borough has not been contacted for permission to dispose of drilling mud on its land, Borough Mayor Stan Thompson said there is no ordinance prohibiting the borough from allowing disposal. Thompson did say Union would have to meet all DEC requirements and that the borough would consider public opposition to the proposal before making a decision.

Union's application has met with widespread opposition from the public as well.

Residents living near the gas fields fear the drilling mud may contaminate drinking wells. Environmentalists and conservationists say the proposed disposal sites are within the Kenai wetlands and pose a danger to wildlife.

Dave Brown, operator of the Sterling Special Solid Waste Site, claims the application is illegal because his is the only site licensed to handle drilling mud disposal. Union's refusal to use the Sterling facility has placed Brown's business in peril, said Brown. Brown has filed for partial bankruptcy -- asking the court for time to reorganize his business.

Also in question are Union's proposed disposal sites Cannery Loop Units 1 and 3. The units are located inside Kenai city limit and are subject to a city ordinance addressing management and construction of solid waste sites.

The Clarion reported last week that the ordinance may prohibit Union from disposing of drilling mud at those sites. The ordinance grants the borough complete authority in contracting for solid waste sites. Kenai City Manager Bill Brighton said the only way Union could dispose of drilling mud inside the city would be to get approval from the borough.

While Thompson said the borough might agree to such an arrangement, he said it would depend upon the city's preferences.

"If the city opposed them then I'm sure the borough would, too," he said.

In October, Kenai Mayor Tom Wagoner sent a letter to the DEC and the governor requesting the state deny Union permission to dispose of drilling mud at either site.

Despite the strong opposition, Union's Alaska representative, Bob Anderson, said the firm still hopes to have its permit approved.

Anderson denied trying to side-step regulations calling for landowners permission to dispose of drilling mud. "I don't think that's the case at all. Obviously not," he said.

He said the people putting together the application must have believed the information was not yet needed by the state.

"I think we're going to have to wait and see," he said. "And if additional steps are needed, obviously we'll do it. Union is hopeful that they'll approve the permit and we can get back to business."

PENINSULA CLARION 11/27/84

Kenai, Alaska 25 cents

Landowner opposition hits Union

Drilling mud disposal unlikely without consent

By JAN [illegible], Staff Writer

A hammer may be chipping away at Union Oil Company's bid to dispose of drilling mud in the Kenai wetlands.

Early this fall, Union filed a two-inch thick permit application with the state Department of Environmental Conservation proposing to dispose of drilling mud at seven sites. Five of the sites are located in the Kenai Gas Fields off Kalifornsky Beach Road. The other two are Cannery Loop Units 1 and 3. Both are inside the Kenai city limit.

While Union holds the mineral lease on the gas field sites, it does not own the land. According to state regulations, Union's permit cannot be granted until the firm produces written statements from each landowner granting permission for the drilling mud disposal.

Union has produced no such letters, say state officials. Without the letters Union will have to forego the proposed disposal sites, said Bob Cannone, district manager for the DEC.

"There's no question that if the landowners don't grant permission then that's that. They've got the final hammer," he said.

The hammer is held by the Salamatof Native Association, Leonard A. Keener, Doris M. Lashley, Cook Inlet Region Inc. and the Kenai Peninsula Borough. All own proposed disposal sites in the Kenai Gas Fields. Keener shares ownership of one of the sites with the borough.

All have questioned Union's application, saying the oil firm has yet to approach them for permission to dispose of drilling mud on their land. Only the borough has said it would consider giving approval.

Six gas wells have been drilled at site 14-6 in the Kenai Gas Fields. The land is owned by the Salamatof Native Association. Andy Johnson, the group's president, said the association would deny any request from Union to use the land as a disposal site.

Johnson said the agreement with Union requires the firm to return the land to its original condition when drilling operations are completed. Drilling mud disposal is not part of the bargain, he said. He also said telegrams were sent to the DEC and to the governor's office protesting the proposed site.

Keener owns a portion of site 34-31. The borough owns the rest. He fears the drilling mud may contaminate local groundwater.

"They haven't approached me and I wouldn't sign it (a letter of permission) if they did. I'd feel bad if they polluted the water," he said.

Lashley is adamant about her opposition to drilling mud disposal on her land. Three gas wells have been drilled at site 33-30, but Lashley said she has made no agreement

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Kenai Natives join drill mud protesters

The public comment period for Union Oil Co.'s drilling mud disposal application ended quietly Tuesday. But public concern over Union's request to dispose of drilling mud in the Kenai wetlands has not abated, said a state official.

"There are a lot of people on the Kenai concerned about this," said Bob Flint, regional director for the state Department of Environmental Conservation.

That's not always true of other areas," he added.

Tuesday the Kenai Native Association joined the list of groups opposing the disposal request. The association sent telegrams to the governor's office and to the DEC asking that the permit be denied, according to an association worker.

Originally the public comment period was to have ended in October. The deadline was extended, however, following requests from concerned residents. The state also held a hearing in Kenai on Oct. 29 and another in Anchorage on Oct. 30. During the hearing state and Union officials explained both the permit application and the review process.

Flint estimated more than 25 people addressed the department during the hearing. A crowd of about 125 people attended the 3½-hour meeting. Added to other letters received before or after the hearing, Flint said, more than 50 people have voiced concern about the safety of drilling mud disposal.

Bob Martin, special assistant to the state DEC commissioner, said he is aware of only two or three letters received since the hearing. He would not say when the state might reach a decision concerning Union's permit application.

"We are still reviewing the permit information," Martin said.

The state also is working on developing a set of guidelines for drilling mud disposal, he said. Despite urgings from environmentalists to postpone any permit decisions until a set of guidelines is in place, Martin said there has been "no decision to act one way or the other."

"It's probable in fact that we will get back to Union Oil with a request for more information," Martin said. "And it's also possible that we'll delay a decision until we do develop a more comprehensive policy on the disposal of drill muds."

Martin said the state will keep the public informed on its progress concerning the department's review findings.

"It's obvious that people are concerned and interested," he said. "We're not just going to sneak a decision by."

SALAMATOF NATIVES JOINED PROTEST ALSO

Denial of permit to bury drilling mud urged

From our Peninsula Bureau

KENAI — Kenai Mayor Tom Wagoner has asked the state to deny a permit application that would allow Union Oil to bury 126,000 barrels of used drilling mud in and around his city.

Union wants to dispose of the mud in seven existing reserve pits in the Kenai and Cannery Loop gas fields. Some of the pits are located in wetlands areas and some are located near residential subdivisions.

In a letter to Gov. Bill Sheffield, Wagoner opposed use of existing pits for drilling mud disposal. He requested, instead, that the company be required to "dispose of all drilling muds at one site within the Kenai gas field."

This would "ensure that a new pit is constructed to exact specifications" determined by the Alaska Department of Environmental Conservation.

Finally, Wagoner asked the state to force the company to clean up and remove all drilling muds remaining in the Cannery Loop field, which is located entirely within the city.

Wagoner's letter could signal a change in attitude on the part of local officials towards the oil industry. Two years ago, at Union's request, the city council modified the city drilling ordinance.

The first change allowed Union to substitute earthen reserve pits for steel tanks. A second made it retroactively legal for Union to bury used muds in the city.

DEC will not decide on Union's permit application until later this year. The agency will accept written comment on the request until Nov. 13.

Sterling dump suspected as metals pollutant source

by Tom Gressler
Special to The Times

4/18/

Kenai — The Environmental Protection Agency and the Alaska Department of Environmental Conservation told a group of Sterling residents Wednesday that an industrial waste dump near the town could be leaking heavy metals into the surrounding ground waters, creating a potential health danger.

The EPA called the meeting in an elementary school less than two miles from the dump and said that both departments would be testing this summer to see if the site presented a hazard.

Field tests made by the EPA last fall show that traces of metals found in the pits of the dump are present in monitoring wells surrounding the site. Officials said that further study is needed to determine the direction of ground water flow and the amounts of metals in natural water that could be confused with those found in the dump.

DEC test records show that traces in the low parts per billion of volatile organic compounds have occasionally been found in the monitoring wells. While the traces were far too small to present a threat to human health, one EPA spokesman said that it could be the beginning of a problem.

"These wells have occasionally shown parts per billion of metal solvents," said John Meyer of the EPA. "These are low, but they probably shouldn't be there. It's very hard to say if these metals are natural or the very beginning of a problem. The site is only a few years old and sometimes migration can take decades."

Meyer said that the EPA would be drilling additional wells around the dump in June to determine the contents of the ground water and the direction of the flow. The DEC will be monitoring residential wells in the area for any potential contamination. Four of the eight monitoring wells on site have been unuseable for testing, Meyer said.

Samples from the four functioning wells have shown traces of organic compounds and heavy metals used in industry. The Sterling Special Waste Site is used as a disposal site for drilling mud from oil wells operated on the Kenai Peninsula.

One private well showed minute concentrations of an organic industrial solvent found in the dump. The trace of 1-1-1 trichloroethane was far below levels considered dangerous.

Meyer said that the EPA was concerned because current monitoring wells were not built to similar standards. A well can provide false indications in metals tests if not constructed properly.

Meyer said the dump could be placed on a national priority list for cleanup if testing revealed a potential health hazard. The EPA's list currently has more than 700 sites nationwide.

Special waste site could become health threat

By RONNIE CHAPPELL
Daily News reporter

STERLING — State and federal officials Wednesday told residents that a licensed special waste site in this rural community east of Soldotna could one day be a threat to public health.

"Additional sampling is necessary to determine if any significant migration of contaminants from the site is occurring," said the U.S. Environmental Protection Agency in statement distributed at a crowded public hearing in the Sterling School.

The federal agency will return in June to construct six additional monitoring wells at the special waste site. They will be used to sample ground water beneath the site and to determine its flow direction.

According to EPA spokesman John Meyer, limited sampling of three nearby wells has been inconclusive and has not revealed any contamination that would be a threat to public health.

Samples from four existing monitoring wells over the past three years have shown traces of heavy metals and organic compounds commonly associated with oil production.

Another sample taken from a private well contained .4 parts per billion of 1-1-1 trichloroethane, an organic solvent that was also found in a waste site disposal pit. Trichloroethane is not believed to be hazardous to human health at that concentration.

"It's difficult to make a correlation between what we found in the well and what is at the site," Meyer said. "Those sorts of things concern us and we want to look further."

The Sterling Special Waste Site is owned by the Kenai Peninsula Borough, but is leased and operated by Alaska Environmental Industries. It is primarily used for the disposal of used drilling mud, waste water/oil emulsions and other "non- hazardous" wastes.

In addition to monitoring private wells, said DEC Regional Supervisor Bill Lamoreaux, the state also intends to modify the permit under which the site is operated.

ANC Daily News 4/18/85

ARCO fined $75,000 for waste fluids

By RONNIE CHAPPELL
Daily News reporter

KENAI — ARCO Alaska Inc. has been fined $75,000 for disposing of waste drilling fluids before obtaining the necessary state permit.

Superior Court Judge Charles Cranston levied the fine Thursday after ARCO pleaded no contest to charges stemming from the violation.

Cranston suspended $25,000 of the fine on the condition the company have no similar violations on the Kenai Peninsula for two years.

"I believe it is the biggest criminal fine ever assessed in a criminal case on the Peninsula," said District Attorney Tom Wardell. "It's a fine that I felt was appropriate."

Cranston could have assessed ARCO $100,000.

In the past, courts in Kenai have gently treated oil companies accused of violating state environmental laws. The ARCO fine "is indicative of a change in community thinking," Wardell said.

"I guess its time to give a message to these firms that the state is taking (enforcement of its environmental laws) seriously and that in appropriate situations, large fines will be sought and secured."

ARCO applied for the permit state permit necessary to dispose of waste drilling fluids generated during the drilling of an unsuccessful exploratory well nine miles north of Sterling.

But disposal of the waste liquids began before the permit was issue.

"We goofed," said ARCO spokeswoman Susan Andrews when the violation was discovered. The company ceased injection of waste fluids and hauled those left at the Wolf Lake 2 drill pad to the Sterling Special Waste site.

Last year, ARCO drilled a similar well from the same pad and received permisssion from the state to inject waste drilling fluids down the well annulus.

Deep well injection of waste fluids is standard operating procedure in the oil industry and state officials say the procedure is environmentally sound.

Andrews declined comment on the size of the fine, which was part of a plea/sentence bargain negotiated with the state before Thursday's hearing.

DEC Regional Supervisor Bill Lamoreaux said the fine was appropriate given the serious nature of the procedural violation that occurred.

By disposing of the fluids before issuance of the permit "they circumvented our ability to do our job," Lamoreaux said. "We weren't able to do a complete environmental assessment of what they proposed to do."

4/14/85

Peninsula Clarion, Kenai January 23, 1985

Boro enacts toxic waste disposal law

Oil and chemical companies and others planning to dispose of hazardous waste materials on the Kenai Peninsula now have one more governmental body to deal with.

Tuesday night, the Borough Assembly passed an ordinance which prohibits burying, dumping or incinerating of hazardous wastes without Assembly approval.

The ordinance calls for public hearings and recommendations from both the borough's planning and waste disposal commissions before the Assembly vote.

Kenai Assemblyman Phil Nash sponsored the ordinance. He said that it "may not be perfect," but was better than the borough's present regulations, which don't deal with hazardous wastes

There is an exemption in the ordinance for materials which are intended solely for household or hospital use. The ordinance passed by a vote of 12-3, with John Crawford,

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...Boro hazardous waste law

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Dave Carey and Gary Fandel voting no. Assemblyman Jim Skogstad of Hope was absent.

Mayor Stan Thompson spoke against the ordinance, saying the borough lacks the expertise to deal with hazardous wastes and lacks power to enforce the ordinance.

Nash disagreed, saying that the borough has recourse through the court system. "The borough can go to court and ask for injunctive relief," Nash said. "That is often more effective than having fines" to ensure compliance, he said.

Only one person testified during a public hearing on the ordinance. Brad Bradney of Soldotna spoke in favor of tighter controls on industrial waste disposal. Citing a series of newspaper articles revealing industrial pollution in Alaska, Bradney urged the Assembly to consider daily fines for violators.

Bradney told Assembly members he would "interpret a vote against this ordinance as a vote for pollution."

No one from the borough's Resource Development Commission testified Tuesday night. Earlier the commission sent a letter to the Assembly, asking that the ordinance be defeated.

Arco seeks permit for hazardous wastes

by Jeff Berliner
Times Writer

The first hazardous waste disposal site in Alaska is being planned by Arco-Alaska Inc. at Prudhoe Bay, according to the U.S. Environmental Protection Agency.

Alaska EPA hazardous waste coordinator Steve Torok confirmed that Arco has applied for a permit to inject hazardous wastes down well holes drilled at the North Slope oilfield.

Although there now are 11 hazardous waste storage areas in Alaska, EPA permits no dumping of hazardous wastes now.

In addition to the requesat for waste disposal, Arco is seeking federal permission to use its site for hazardous waste storage.

Arco recently sought an EPA permit, Torok said, but the application was returned because the company had not obtained approval from the State of Alaska, which owns the land and leases it to Arco.

The state Department of Environmental Conservation has not made a formal recommendation on Arco's request.

However, department environmental field officer Jeff Mach said, "I don't see any hang-ups on the part of the state."

As the landowner, the state would appear to be ultimately responsible, Torok said. But he added that he expects the company and the state to come to an agreement over responsibility and liability for the site before Arco submits its completed application to EPA.

Disposal of toxic wastes is governed by federal law. The state has been debating putting its own regulations into effect under a 1981 state law, but the Sheffield administration delayed imposing hazardous waste rules following objections from the oil industry last fall.

The closest federally licensed hazardous waste site is in Arlington, Ore., and Arco says it is too expensive to ship waste from the North Slope to the Lower 48.

Although most oilfield waste products are excluded from regulation, an EPA inspection last summer found wastes considered hazardous, said Arco environmental conservation manager Thomas R. Fink.

DEC estimates that about 5 percent of all liquid oily wastes generated by Arco could be considered "hazardous" under EPA regulations, but Fink would not confirm that figure.

DEC has permitted Arco to inject all wastes down two injection wells which, Fink said, are about 1,500 feet deep. The 1,200 foot permafrost layer above the wastes acts as a natural seal, he said.

Although the wastes may contaminate ground water, Mach said, "no one uses the ground water for drinking and everything in between is frozen."

Mach noted that although DEC has permitted Arco's use of the injection wells for its oily wastes, the state may not regulate the disposal of hazardous wastes. That is EPA's job, he said.

Fink said the company has been injecting these wastes into the earth for years, and is merely seeking official EPA approval now.

The wastes deemed hazardous by EPA are considered highly flammable, but Fink said Arco and EPA are not in total agreement about which wastes should be regulated.

"It's a question of what we think are hazardous wastes and what Arco thinks are hazardous wastes," Torok said.

Fink said other North Slope firms have approached Arco about disposing of their wastes.

Arco, Fink said, has taken other companies' wastes without knowing whether they are hazardous. That is a matter between EPA and the waste generator, he said, adding, "We're doing this to take care of our problem, not everyone else's."

Ironically, The North Slope hazardous waste issue came to a head when Arco agreed to dispose of about 1,000 drums of another company's waste.

The firm charged with disposing of the drums, North Slope Salvage Co., mismanaged the job, Torok said, causing a spill and additional waste disposal problems. At the time, the drums were thought to be empty, but many were not, Torok said.

Arco and Sohio Alaska Petroleum agreed to dispose of the drums, Fink said, which included 700 barrels of flammable hydrocarbons.

When Arco sought permission to dump the wastes down a reinjection well, EPA entered the picture, Torok said. Meanwhile, Arco had found a buyer that converted the waste into boiler fuel.

Fink said Arco first sought EPA permission to dump its wastes in late 1980.

State aide sees need for hazardous waste compromise

By TOM KIZZIA
Daily News reporter

A last-minute compromise on the state's new hazardous waste regulations may be necessary to get the controversial rules past the state legislature, Sheffield administration chief of staff John Shively told environmentalists Wednesday.

The state's 1981 hazardous waste law is taking an unexpected detour through the legislature for minor revisions required by federal law. Administration officials expressed fear Wednesday that some legislators may use the chance to try and overturn regulations that have been proposed for enforcing the law.

The oil industry and other business groups have opposed the regulations as tougher than necessary. State officials have said in the past that Alaska needs a strong program now to prevent toxic waste pollution problems that other states have faced.

But now the administration is weighing a compromise, Shively said, because the legislature may try to scrap the administration's rules and adopt less strict federal standards. He said it would be several weeks before the administration reaches a decision.

Several environmentalists at the Anchorage meeting, which was called to discuss Sheffield's environmental record, said administration officials discussed a compromise that would exempt the oil and mining industries from the new state laws.

"That would reduce the whole thing to a political bargain. Why these two industries?" said Jeff Eustis of Trustees for Alaska.

Shively said the administration had no specific compromise in mind, and said he suggested none. But he said the opportunities for compromise were limited.

Disposal of toxic chemicals and other hazardous wastes in Alaska is currently governed by federal law only. In 1981, the state legislature passed its own law, and the Department of Environmental Conservation began drawing up regulations to put the law into effect. In some ways, these rules were stricter than the federal ones.

"The federal program was written to address all 50 states with a broad-brush approach," said Steve Torok, hazardous waste coordinator for the federal Environmental Protection Agency in Juneau. "Alaska is not a very industrialized state, and the state program is designed to be more preventive than curative."

In September, the state decided not to adopt an interim program for hazardous waste management. The state denied that it was backing off because of industry pressure, however, and pushed ahead with its original plan.

Three months later, the EPA said criminal penalties in the 1981 state law were too low to satisfy federal requirements. Unless Alaska's law is approved by the federal government, the state cannot take over management of hazardous wastes.

The increase in penalties, along with other revisions that the EPA calls minor, will require the legislature to amend the 1981 law. At that point legislators could raise questions about the regulations as well.

"The hazardous waste regulations are reaching a crisis right now," said Mary Core of the Alaska Center for the Environment.

Federal rules provide a list of toxic wastes requiring special handling. Rules proposed by the Department of Environmental Conservation would require industry to decide which wastes require special treatment, and to test any questionable waste for toxicity.

Shively said Wednesday he had some concern about the cost of enforcing such a program, which has been criticized by businesses.

The state regulations provide only a two-year exemption for toxic muds and fluids used in drilling oil wells, while studies are made of

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Hazardous waste compromise seen by aide

Continued from Page B-1

possible damages. These wastes are fully exempted under federal rules.

Shively joined Commissioner of Environmental Conservation Richard Neve in the meeting with representatives of environmental groups in Anchorage. It was held in response to a letter from the groups that criticized Neve's efforts to protect Alaska's clean air and water.

At the Wednesday meeting, environmentalists said Neve acknowledged several private ex-parte meetings with industry officials early in his term of office. On Tuesday, in response to allegations of such meetings, Neve had said, "Anything with reference to ex-parte meetings I deny categorically."

"He conceded that early in the administration he didn't understand all the administrative requirements concerning the adjudicatory process, and he blundered into a couple of things early on," said Bob Martin, deputy director of DEC operations, who acted as Neve's spokesman after the meeting. "But the subject of those meetings wasn't substantive, and he corrected the problem."

Both sides said the meeting was frank and helpful, but environmentalists said no new policy changes were discussed.

Municipality prepares to enforce toxic waste rules

By TOM KIZZIA
Daily News reporter

Small businesses in Anchorage may generate 400 tons or more of toxic wastes every year, and much of it is flushed through the sewers into Cook Inlet, according to a new municipal survey.

Municipal officials say the toxic wastes are not a problem at present. They are so diluted that they cannot even be measured by the time they reach salt water.

But the officials say the presence of the toxic materials points up the need for a program designed to handle hazardous by-products of homes and small businesses.

The municipality is finally preparing to enforce a 1981 ordinance that bars businesses from flushing certain materials into the city sewer system, said Jim Sweeney, municipal manager of environmental services.

Hazardous waste disposal will be the subject of a workshop in Anchorage from 1 p.m. to 5 p.m. Saturday. Sen. Joe Josephson, D-Anchorage, will be keynote speaker at the conference, which will be held in room 215 of the University of Alaska, Anchorage library.

In addition to the toxic wastes dumped directly into the city sewers, small traces of toxic wastes have been detected leaching out of the municipal landfill, where hazardous materials are not supposed to be dumped, Sweeney said.

The leachate from the landfill is channeled into the sewers, and the small quantities do not pose a hazard, Sweeney said. The toxic materials include dry cleaning solvents and such heavy metals as copper, lead, and arsenic.

"It points to the need to find a safe and approved place for people to take these wastes," he said.

A recent survey of nearly 1,000 small businesses in Anchorage found that they generate between 36,000 and 69,000 gallons of toxic waste a year, or 200 to 400 tons. Sweeney said questionnaires had been mailed to 2,100 businesses, so the total waste generated in Anchorage may be higher.

"These are the small generators who would not be covered by the proposed state regulations," he said.

According to the municipal survey, automotive waste oil is the waste generated in the biggest volume in Anchorage. Much of that goes to waste oil dealers, who use it for oiling dirt roads, Sweeney said.

Sweeney cited Environmental Protection Agency studies saying that 70 percent of the oil used on dirt roads winds up in surface or underground water. "Whether that kind of practice can continue in Anchorage is something we will have to look at," he said.

The new survey will help the municipality inform businesses about how to dispose of their wastes properly, Sweeney said. "At this point we're not trying to find somebody to nail to the wall," he said.

The hazardous waste regulation program put together by the state is currently being debated by the state legislature. Some legislators have proposed cutting back the regulations so that they are no stronger than federal regulations, while others say Alaska should have a stricter system aimed at local problems — particularly the so-called small generator.

Saturday's meeting is being staged jointly by the municipality and the Alaska Center for the Environment. Details of the waste survey will be released at the workshop.

Speakers will discuss household and small business wastes, health effects, and disposal and treatment options.

Joe Clauduhos of the state Department of Environmental Conservation will discuss the state's proposed program.

A city-wide cleanup of hazardous materials is scheduled for May 5-12.

Hazardous waste program postponed for 3 years

By ANN CONY
Daily News reporter

Industry, government and environmental representatives have agreed to compromise legislation that would postpone for three years a state-developed program controlling hazardous waste disposal.

Under the compromise, the state Department of Environmental Conservation in the next two years would reevaluate hazardous waste regulations it proposed last year. DEC also would be required to start looking for places in Alaska where a hazardous waste dump could be built.

Disposal sites in Alaska would reduce transportation costs by eliminating the necessity of shipping wastes to federally approved dumps in the Lower 48.

The proposal advanced through state House and Senate committees Thursday.

Although a task force appointed to study the issue agreed to the compromise, nobody is completely satisfied with the bill and several provisions are likely to cause controversy for at least two more years, sources said.

State officials have said in the past that Alaska needs a strong control program as soon as possible to prevent toxic waste problems that have come to haunt other states. The legislature in 1981 directed the Department of Environmental Conservation to develop hazardous waste disposal regulations tailored to Alaska.

The oil industry and other business interests opposed disposal regulations DEC proposed last year, saying they would be too costly and that less stringent federal regulations are adequate.

The compromise legislation calls for the state to postpone its own regulatory program and continue operating under federal rules — with some modifications — for the next three years.

Controversial issues that remain unsettled include the method for determining what wastes are considered hazardous and a provision that would exempt mining wastes and drilling muds from regulation.

The compromise bill made it through the House and Senate resources committees Thursday, and was sent to the House judiciary and Senate finance committees.

In testimony before the Senate Resources Committee Thursday morning, a spokesman for the Alaska Environmental Lobby said environmentalists consider it essential that the state adopt regulations to test chemicals, rate their "degree of hazard" and control disposal accordingly.

"Without it, the hazardous waste program is incredibly weak," said Jay Nelson, executive director of the environmental lobby.

Federal regulations apply to chemicals the Environmental Protection Agency has listed as hazardous. But the list has not been updated in four years, in which time thousands of new chemicals have come into use.

The list does not, for example, include dioxin, designated one of the most dangerous chemical wastes.

Nelson was the only person to testify in a hastily called public teleconference hearing before the Senate Resources Committee in Juneau.

The compromise bill would exempt mining wastes and drilling muds from regulation at least until the EPA completes studies on whether those wastes are hazardous.

Other provisions of the legislation call for:

- The state to gain experience managing a hazardous waste program by getting involved with EPA in enforcing the federal regulations for the next three years.
- The state to inform local public safety agencies when hazardous wastes are transported through their area, though the bill does not specify that notification must be received before the shipment occurs.
- Regulation under the federal program to apply to any entity that generates more than 220 pounds of hazardous wastes, or 2.2 pounds of acutely hazardous waste, a month.

opinion 2/24/84

Anchorage Daily News

Winner, 1976 Pulitzer Prize Gold Medal for Public Service

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Hazardous wastes: a chance to learn

There is progress to report in the municipality's efforts to deal with hazardous wastes in Anchorage. But don't take our word for it; take theirs — at a workshop on hazardous waste issues Saturday at the University of Alaska, Anchorage. The public is urged to attend.

Speakers from the state and municipality will describe what is known already, and what is being done to learn more, about hazardous waste problems in Anchorage and around the state. The Alaska Department of Environmental Conservation has been working for years on statewide hazardous waste regulations that are now before the legislature. The Anchorage Public Utilities department, meanwhile, is in the midst of a two-phase study of the dimensions of the problem in our community and what should be done to manage it.

All of that and more will be on the agenda for Saturday's workshop. State Sen. Joe Josephson, D-Anchorage, will give the keynote address. Panel discussions will explore health, household waste, impacts on business and waste disposal issues. Public input will be sought by those developing waste management plans for Anchorage. And information will be available about how a household or small business — known in the trade as a "small generator," and responsible for most of Anchorage's toxic wastes — can dispose of hazardous substances safely.

Anchorage's major formative experience in confronting hazardous wastes, unfortunately, was a painful flap last summer over a proposal to burn PCBs in a specially modified municipal incinerator. That experience was not pleasant, but considerable work has been done since then to address the much wider issue of all hazardous substances comprehensibly and responsibly. Saturday's workshop, which takes place from 1 p.m. to 5 p.m. in room 215 of the UAA library building, is another step in the right direction.

Knowles ponders city's waste problem

2/24/84

By DON HUNTER
Daily News reporter

Mayor Tony Knowles is convinced Anchorage shouldn't try to foist off its problems on somebody else, but that doesn't mean he's in favor of siting a hazardous waste dump within municipal boundaries, top city officials said Saturday.

The remark was delivered at an afternoon workshop focused on budding state and municipal plans for identifying and disposing of hazardous wastes, a term that encompasses materials ranging from motor oil to polychlorinated biphenyls (PCBs).

The meeting was jointly sponsored by the municipality, the Alaska Center for the Environment and the League of Women Voters.

Mayor

Anchorage Daily News SAT. OCT. 15, 1983

Poll finds toxic waste site favored

By CRAIG MEDRED
Daily News reporter

Most Anchorage residents favor development of a hazardous waste disposal site in Alaska, but they don't want it in their community, according to a poll released Friday.

Pollster Marc Hellenthal found over 55 percent of the city's residents favor a disposal site, but almost 66 percent of them opposed creation of such a site in Anchorage.

The poll was commissioned by the Alaska Center for the Environment. Hellenthal said the poll has a margin of error of plus or minus 5 percent.

Interest in how hazardous wastes are handled in Alaska has been sparked by a proposal to burn oil laced with toxic PCBs in the municipal incinerator at Point Woronzof.

More than half the respondents to the poll — 58.7 percent — said they oppose that idea. Only 21.7 percent supported the plan, and the rest were undecided.

Municipal plans now call for a test burn in the incinerator to see if the PCB oil can be safely disposed. But even if a test-burn of PCBs at Point Woronzof indicates the toxic chemical can be eliminated without pollution, 53.8 percent said they would oppose the program.

An even greater number — 62.2 percent — said they want a say in what happens.

Less than 5 percent favored leaving a decision on PCB burning to Mayor Tony Knowles. About 30 percent said they would accept the mayor's decision if approved by the assembly, but the majority wanted a say in the decision via a referendum in the 1984 municipal election.

The poll "shows the people don't just want to sit back and watch this happen," said David Wigglesworth of the Alaska Health Project. "They want to be included in part of the process."

The health project contends hazardous waste plans are needed for both the state and the city.

Wigglesworth said the most significant findings he noted in the poll were:

> **'Alaska is unique among a lot of other states in that it has a chance to do something before it has problems.'**
>
> **— David Wigglesworth, Alaska Health Project**

- Overwhelming support for state funds to investigate hazardous waste disposal in Alaska. Over 82 percent of the respondents supported that idea.
- Strong support for a municipal hazardous waste management program. That idea drew favorable responses from 74.4 percent of the people polled.
- Nearly unanimous support for a hazardous-waste right-to-know law in Alaska. Of those polled, 92.5 supported such a law; 4.1 percent objected to it.
- Strong public backing for a state fund, financed through fees on industries that use hazardous wastes, to cover the cost of hazardous waste cleanups and compensate victims of such spills. Such a fund had the support of 85 percent of those polled.

The poll, Wigglesworth said, indicates "people really are in favor of developing an overall system." Wigglesworth said the health project expects to push for action on a hazardous waste fund and a right-to-know law in the 1984 Alaska Legislature.

Sen. Joe Josephson, D-Anchorage, has already said he plans to introduce the right-to-know law. Josephson sponsored a workers' right-to-know law last year requiring employers to notify employees of toxic or hazardous substances that might be at use in their workplace.

Josephson now wants to expand that law to ensure that all citizens are notified of any hazardous or toxic substances they might be exposed to in their community.

"It is unfortunately apparent that we also need some form of law to protect the average citizen from accidental exposure to toxic and hazardous substances in the community," Josephson said in a prepared statement released Friday.

He cited cancer-causing asbestos in local schools and potential toxicants from a PCB burn as the types of hazardous or toxic wastes citizens could be exposed to without their knowledge.

The Alaska Center for the Environment, in a prepared statement, concluded the survey shows Alaskans want strict controls on wastes.

"This interest should encourage the state and municipality to move ahead with their hazardous waste management plans and to look to the community for support," said Mary Core of the center.

"Hopefully, something can be done," said Wigglesworth. "Alaska is unique among a lot of other states in that it has a chance to do something before it has problems."

Usually, he said, hazardous waste programs are not discussed until people are sick or dying from toxic chemicals.

That might have happened in Alaska, too, had it not been for revelation of the plan to burn PCBs in Anchorage. Plans for toxic and hazardous waste disposal in the 49th state had been dragging along for several years until the PCB burn erupted into a public controversy.

Since then, Wigglesworth said, there has been a renewed public interest in doing something about the chemicals.

"For that we can be thankful," he said.

Groups fight rule change for hazardous wastes

2/21/84

By CHUCK KLEESCHULTE
Daily News business reporter

Alaska environmentalists have started a campaign to counter an attempt to ease regulation of hazardous waste disposal.

Responding to criticism of pending waste disposal requirements, the Alaska Center for the Environment collected several hundred signatures on petitions during Fur Rendezvous celebrations over the weekend in support of draft regulations unveiled last year by the state Department of Environmental Conservation.

Industry groups, led by the Resource Development Council, earlier this month criticized the regulations. Business groups called them needlessly strict, difficult and expensive to meet and broader than permitted by state law.

Environmental and health groups, however, say the proposed state regulations are necessary to prevent Alaska from having the chemical waste problems experienced by other states.

"Alaskans don't want to have a Times Beach develop here. These regulations are geared to the type of problems Alaska might realistically face," said Sara Juday, co-director of the environmental center in Anchorage. She was referring to the dioxin contamination of a Missouri community that forced the abandonment of the town last year.

"With these regulations we have a chance to prevent the state from having future serious problems," she said.

Environmental groups specifically are concerned with a bill introduced in the Alaska Senate by Sen. Bettye Fahrenkamp, D-Fairbanks. In part the bill would modify the state's 1981 law that gives DEC the right to

See Page B-7, CHANGE

Change in rules is opposed

Continued from Page B-6

draft regulations to control the dumping of hazardous wastes.

Under the modification the state could set standards no more strict than federal law.

Under federal law no firm that produces less than 2,200 pounds of waste a month can be regulated, while the state's proposed regulations would cover firms that produce more than 400 pounds monthly.

While the federal law lists substances and gives a maximum amount that can be disposed without oversight, state law requires firms, beside disposing of the listed hazardous substances, to have all wastes suspected of being hazardous tested to see if they are toxic, long-lasting in the environment or likely to cause cancer.

Environmental groups call the current state regulations the best hope of preventing pollution problems.

Mary Core, co-director of the Alaska Center for the Environment, said state law is much better because it prevents the long delays found in Environmental Protection Agency regulations in adding hazardous substances to the federal list.

Waste cleanup bills' defeat 'victory for toxic polluters'

By WILLIAM KRONHOLM
The Associated Press

WASHINGTON — Sponsors of bills to expand the "superfund" hazardous waste cleanup program Wednesday called a Senate vote against them "a victory for toxic polluters" and blamed Reagan administration lobbying for killing the measures this year.

Rep. James Florio and Sen. Bill Bradley, both New Jersey Democrats, said a vote by the Senate late Tuesday night against considering a superfund expansion bill left too little time in the congressional session, which is scheduled to end Friday.

Florio, sponsor of a House-passed bill expanding the superfund to $10.2 billion, said the 59-38 Senate vote was "a victory for toxic polluters and a loss for the American people and the environment."

Bradley, who earlier supported a $7.5 billion expansion bill and Tuesday night proposed a trimmed down $6 billion program as a compromise, said sponsors "feel outrage and a sense of betrayal. But those who are truly disappointed, outraged and betrayed are those who live next to toxic waste sites."

He added: "I can't imagine that those who voted against it realize how serious a threat toxic waste poses for the health of families across this country."

Both men, together with Sen. Frank Lautenberg, D-N.J., a co-sponsor, told a news conference that Reagan administration lobbying was the reason for the defeat, noting that Senate Republicans voted almost on a party line against a procedural motion to consider the bill.

The administration has opposed congressional action on the superfund this year, saying studies to determine what changes are needed are still under way. The administration says it will support an expanded program next year.

Republican leaders who urged defeat of the program Tuesday night said they were not opposed to superfund itself, but they complained Bradley's bill was premature and being rushed through.

"It isn't as though this has to be done tonight," said Sen. Steven Symms, R-Idaho. "It doesn't make much difference whether we do this now or early next year."

Sen. Bob Dole, R-Kan., chairman of the Senate Finance Committee, called it "a very irresponsible way to proceed," since his panel had not debated the revenue provisions in the $6 billion bill.

The superfund was established in 1980 as a five-year, $1.6 billion program to clean up abandoned chemical waste dumps.

Anchorage Daily News
Winner, 1978 Pulitzer Prize Gold Medal for Public Service
Gerald E. Gray, Publisher
Howard Weaver, Managing Editor

Hazardous wastes demand attention

Hazardous wastes not only are dangerous — they are very confusing. What are hazardous wastes? What makes them dangerous? Are some chemicals hazardous only as wastes or are they also a threat before they are used? Is it better to dispose of hazardous wastes locally or send them to stateside facilities?

Scientists and the professionals who deal with hazardous waste issues spend careers pondering these questions; and they often cannot reach agreement. What should the citizen who wants to develop a reasonable understanding of hazardous wastes do?

It is important to understand that Alaska does not have a tremendous quantity of hazardous wastes compared to other states. Our people also are scattered. This does not diminish the significance of hazardous wastes here, but it changes the nature of the problem. Instead of a Love Canal presenting an immediate overpowering threat to the public, we have a variety of chemical users — most small, many unregulated — creating hazardous wastes in the course of what usually are conventional activities.

Many hazardous wastes sites derive from sloppiness and a lack of environmental concern years ago. The Air Force, for example, walked away from a number of White Alice radar stations in the 1970s, leaving behind transformers and fuel tanks filled with hazardous materials. These now have to be cleaned up. Similarly, there are caches of barrels on the North Slope containing potentially hazardous wastes that date back to the 1960s. These barrels once were intended for use in oil exploration — but they were forgotten.

It also is important to remember that the amount of hazardous wastes in Alaska could increase if Congress reduces the threshhold for declaring a particular material hazardous. In 1982, a state consultant estimated that Alaska produces 400 tons of hazardous waste a year. That figure obviously will become larger if the threshhold is lowered to declare smaller amounts of a particular material hazardous.

The threat of hazardous wastes may be confusing. But there are some commonsense measures that the public can take. Businesses should review their products and review the processes that create wastes. Perhaps they can find new processes that will eliminate the hazardous wastes they have been producing. Businesses also should be clear about hazardous waste regulations.

The state and municipalities should encourage clean-up programs to pick up small amounts of hazardous wastes. These programs have been very effective in the past because they have presented people with an outlet for their wastes.

Individuals should be as informed as possible before buying hazardous materials, and they should never speculate in them. Alaska has too many examples of small backyard hazardous waste sites created by people who intended to sell their bargain barrels of chemicals and gasoline to a future buyer who never materialized.

Public discussion of hazardous wastes has three major themes: what are they, what will it cost to remove them and whose backyard will become their permanent home. Every Alaskan can master the fundamentals of these themes whatever the complexity of the debate over hazardous wastes.

Industrial disaster

Could it happen here?



United Press International
Gas victim in Bhopal, India

By PATTI EPLER
Daily News business reporter

Techno death. Eco doom. Catch words in a world that depends on chemicals and industrialization for its quality of life.

Headlines tell how thousands of people are killed or injured when poisonous gases leak from a chemical plant in India. A fuel storage facility explodes in Mexico killing hundreds. A truck carrying live torpedoes overturns on a Denver freeway, blocking traffic for hours while emergency crews gingerly clear the road. A truck carrying liquified petroleum gas explodes on a road in Spain, killing 200 and severly burning 100 more.

So how safe are Alaskans?

More than 90 million gallons of gasoline, fuel and other flammable liquids are stored in tanks at the Port of Anchorage, just below the homes on Government Hill.

Oil refineries operate near Kenai and Fairbanks.

Alaska's lone chemical plant produces fertilizer in an industrial complex a few miles north of Kenai, near a growing residential area.

In Anchorage, local stores in local neighborhoods hold thousands of gallons of paint, solvents and cleaning fluids on their shelves.

Tons of toxic chemicals and hazardous materials often travel through town on railroad cars or on trucks, bound for all parts of the state.

Alaskans are lucky in the sense that — with the exception of the Union Chemical fertilizer plant on the Kenai Peninsula, a handful of tank farms and a couple refineries — there are no industrial plants of the kind that have caused major problems in the Lower 48 or other countries.

Still, state, federal and local officials are keeping a close eye on the few facilities in Alaska.

And there is increasing concern over the transportation of hazardous materials and waste.

No one really knows when, where or how much hazardous material passes through Anchorage each day.

To resolve that dilemma, officials want a "community right-to-know" law, an established transportation route and a system that would require carriers of hazardous material to clearly mark their cargos. They also want buildings where such materials are stored to be labeled.

"There are hundreds of tons of hazardous materials here," says Van Quinn, a senior fire department captain who heads Anchorage's hazardous materials team.

"Just because there's not a situation where they'd level half the town doesn't mean we don't have a problem. We will have a problem with them," he said.

Jim Sweeney, hazardous waste coordinator for the city, agrees that future problems could arise if steps aren't taken now to prevent them. "There has been no serious problem from hazardous waste or hazardous material, but the potential is there," he said.

What is considered a hazardous material?

The list is long. And some items are as simple as the small bottle of white liquid that secretaries use to correct typing mistakes.

But even seemingly harmless items, when stored in large quantities, can pose a danger if a fire or other accident occurs, officials say.

Other items frequently found in or around Anchorage that have made the hazardous list include all types of fuel and petroleum products, urethane foams that give off dangerous vapors when heated, acids like hydrochloric acid or sulfuric acid, ammonia that is used to refrigerate large facilities like canneries or grocery warehouses, insecticides, and bottles of compressed gas like those used by welding or repair shops.

Twelve tons of chlorine cylinders regularly travel through Anchorage on their way to a treatment plant in Seward.

Paints, solvents, lighter fluid, household cleaners that are stored under many a kitchen sink or in a home utility closet also present potential hazards.

Take the Port of Anchorage, for instance. On an average day, more than 90 million gallons of flammable liquids — a variety of fuels, gasoline and petroleum products — are stored in giant tanks or move through pipeline networks.

Perched on the bluff behind the port are homes in one of the oldest neighborhoods in town — Government Hill.

See Page D-4, TASK FORCE



Daily News file photo
Environmental protection agents last summer test barrels of oil near the waterfront suspected of holding toxic PCBs.

Task force works to identify harzardous cargo in Alaska

Continued from Page D-1

But the port and its tank farms are relatively safe, officials say, due mainly to sophisticated safety systems installed by companies that wouldn't risk the multimillion dollar loss caused by an accdiental fire or explosion. Computerized systems warn of too high pressure, too much flow, ruptures in undergound lines and other hazardous situations.

Tank farms also are regulated by numerous state, local and federal laws and are regularly inspected by government agencies as well as the owners themselves.

"There isn't much of a potential for a tank farm to blow up," Quinn said.

As head of the hazardous materials team, Quinn is stationed at the Government Hill fire house, about a minute away from the port and Ship Creek industrial area.

In fact, he said recently, about the only way a fuel storage facility would explode would be if an airplane crashed into a tank farm. Even then, the resulting fire ball would have to take a sharp turn to reach the homes on the bluff, he said.

Of greater concern to the veteran fireman is a fire at the port which, he said, could burn for days.

In a worst-case scenario, the fire would be caused by an earthquake that might also knock out the overpass connecting Government Hill to town. If roads were blocked, emergency crews couldn't get in and residents couldn't get out, except through the adjacent Elmendorf Air Force Base.

To that end, Quinn said, military and local officials are coordinating evacuation routes just in case such a disaster happens.

Anchorage has been lucky, Quinn said, noting that a recent pipeline rupture in Bootlegger Cove that shot fuel 200 feet into the air could have been touched off by a spark.

Because of concern over the potential for dangerous situations, the Anchorage Fire Department formed a hazardous materials team. It has grown to an eight-man volunteer squad over the past three years.

They are trained in handling hazardous substances, Quinn said, with on-going training slated for the future.

Also, the fire department maintains special equipment like encapsulated "acid" suits and a "crash truck" with a large tank of foam that could be used to douse a fuel fire. The department is awaiting delivery of a foam tanker that will enhance their ability to snuff flammable liquid fires.

And a new computer system will provide a data base for firefighters and emergency workers who must deal with hazardous substances. The computer will contain information on buildings in Anchorage that contain dangerous materials, Quinn said. When an emergency call comes, officials will know before they arrive at the scene what is in the building and where it is.

The worker's right-to-know legislation, requiring employers to label hazardous materials in the workplace, has paid off for local officials as well. Quinn said his department has combined routine inspections with information coming from the new legislation to add to their knowledge of what's contained in various buildings around town.

Some people would like to see the right-to-know legislation taken a step further. The city's Sweeney, who works with the mayor's hazardous waste task force, said the group has drafted an ordinance they hope to propose this year that would provide for a "community right-to-know" law.

The intent, he said, is to get a grasp of just what hazardous materials are traveling through the city.

No one really knows although one group, The Alaska Health Project, has been researching the spill issue and trying to document what type of spills and how many have occurred in Alaska over a year period.

David Wigglesworth of the group said he hopes to have some preliminary findings next month.

Sweeney said the task force also will propose that a transportation route for hazardous materials be set, and that vehicles carrying hazardous cargo be clearly marked with a placard identifying their cargo.

Sweeney said his group hopes to have a program in place by spring.



Daily News file photo

This is the tank farm at the Port of Anchorage, as seen from the backyard of a home on Government Hill.

Alaska at a crossroads on hazardous waste issues

By DAVID WIGGLESWORTH

compass — points of view from our community

These incidents are only a few of the incidents involving hazardous materials that have occurred throughout Alaska within the last two years.

• The Alaska Army Corps of Engineers currently is investigating some 600 sites throughout Alaska potentially containing hazardous wastes.

• Last spring (1984), Anchorage residents and small businesses disposed of 60,000 gallons of hazardous wastes at the Hazardous Waste Spring Clean-up.

• Recently, 300 drums of hazardous wastes in the form of heavy metals and solvents were found "disposed" at the International Airport firefighter burn pit.

• A 1984 study conducted in Anchorage revealed that Anchorage could be generating as much as 4,000 tons of hazardous wastes per year. Currently, an EPA report reveals that large generators of hazardous wastes (those producing 2,200 pounds or more per month) generate approximately 307 million pounds of hazardous wastes annually.

It is apparent that Alaska has reached a turning point in the area of hazardous wastes. No longer can we say with assurance that Alaska is a vast, uncontaminated, pristine frontier. Future Alaskans will face the future consequences of our current actions. The prosperity we've enjoyed in the last two decades does not make our situation any easier. In this time period our state population has doubled and projections indicate significant growth through the end of this decade. This growth, among other issues, carries with it the increased generation of hazardous wastes.

Today in Alaska, our handling of hazardous waste and materials presents us with the same choices others have faced years ago: 1) Do little or nothing to prevent toxic exposures to the environment, residents and workers; or 2) Develop preventive health measures to protect our communities. Which option will Alaska choose?

It is exciting to see that many towns and cities in Alaska are choosing the latter approach. In the spirit of a preventive approach to maintain public health towns such as Valdez, Anchorage, Homer and Fairbanks have established hazardous waste committees to address hazardous waste problems specific to their communities. These groups have brought together in a constructive fashion the differing points of view needed to fully consider the control of hazardous wastes.

Many of these wastes for legal reasons escape regulatory safeguards at both the federal and state level. Wastes of this nature have the uncanny ability to find their way into landfills and sewer systems not designed to contain these substances. This poses management nightmares for local governments.

However, as these communities surge ahead with creative ways to control hazardous wastes, the present state administration is lagging behind in its responsibility to manage these dangerous materials. In fact, in the area of hazardous waste disposal, there exists the very real potential for local communities to shoulder a burden which rightly belongs to the state.

Currently, state efforts to address the disposal question are at a standstill. This is further reinforced by the legislature's failure to adequately fund the Department of Environmental Conservation's Hazardous Waste Spring Clean-up. In co-operation with local towns, this highly successful program may well serve as a national model for controlling "small generator" hazardous wastes. It should be continued.

The state's inaction is raising concern among local communities considering management options for disposal of these dangerous materials. As a result of state inaction and the lack of clear-cut guidelines for disposal in Alaska, local governments face the devasting possibility of becoming managers for wastes requiring state management. This could have a negative effect on some locales who might slow down their efforts and wait for the state to catch up.

On the other side of the coin, it might result in quick action on the part of local governments, perhaps resulting in a hodgepodge of local hazardous waste policies which may not mesh with future state hazardous waste policies. Alaska needs leadership in the area of hazardous wastes, and the state must provide it.

What is needed is for the state to launch a concerted Alaska-wide effort to address the issue of hazardous materials management and in particular the disposal question. Failure to act on this issue threatens public health in Alaska. The 1984 Alaska Legislature attempted to provide solutions for this looming crisis by adopting Senate Bill 503, yet the legislation does not go far enough and its time frame is too loose.

For example, SB 503 allows the DEC until 1989 to make recommendations to the governor and the legislature regarding the types and the locations of hazardous waste facilities proposed for Alaska. In the meantime, where and by what methods will our hazardous waste be disposed? The disposal of hazardous wastes at the nearest approved site in Oregon costs several hundred dollars for one 55-gallon drum. As a result, the prospects are great that much of our waste will remain in Alaska and be disposed of in unsafe, unsound ways.

The state of Alaska cannot wait until 1989 to recommend disposal guidelines. It must act now to avoid the future consequences of its present inaction in this area. In an effort to spur this discussion, the following is a list of ideas addressing some of the programs needed to create a comprehensive hazardous waste disposal system in Alaska:

• Hazardous Materials/Waste Inventory: Current data bases on the types and quantities of hazardous materials/wastes in Alaska are inadequate at best. In cooperation with local towns, Native corporations, businesses and others, the state should orchestrate a statewide inventory. This inventory will allow the state to develop appropriate wastes programs specific to the needs of Alaska.

• Hazardous Waste Disposal Siting Board: The governor should mandate the immediate creation of a board representing all of Alaska to develop state disposal policies and guidelines for facility siting.

• Alternative to Land Disposal: Landfills provide minimal protection against hazardous wastes. The siting board's policies should promote alternative forms of disposal and establish incentives for businesses to reduce the amount of hazardous wastes generated in Alaska.

• Indemnity Fund: Such a fund would be used to clean up many of Alaska's hazardous waste sites not supported by the federal Superfund and in situations where there is no culpable party. The indemnity fund could be used to offset the cost associated with managing these sites.

☐ David Wigglesworth is an occupational health specialist with the Alaska Health Project.



High PCBs found in waste oil

Times Staff ANC TIMES 4/3/85

An official with Chevron USA Inc. Tuesday said that testing of samples from roads and in a waste oil dump in the Kenai National Wildlife Refuge showed a heavier concentration of toxin PCBs than earlier federal agency tests had indicated.

The PCBs (polychlorinated biphenals) were first discovered in early March after the U.S. Fish and Wildlife Service took samples from the Swanson River Oil Field. Tests then showed 35 parts per million (ppm) on the roads and 10 ppm in the waste dump.

Chevron spokesman George Day said Tuesday that company testing last month revealed 166 ppm of PCBs in one Swanson River Oil Field sample taken from an employee parking lot, and another sample from the dump showed 82 ppm of the toxic chemical.

Concentrations of 50 ppm of PCBs are considered hazardous under federal statutes.

PCBs are believed to cause skin and reproductive disorders and may also cause cancer, research has shown. The chemicals are classified as hazardous by the federal government and their disposal must be handled under strict government guidelines.

Day said the company is awaiting orders from federal and state officials on how to dispose of the chemicals.

But independent federal test results have not been forwarded to Anchorage, said EPA official Jack Gusmano. They are expected any day, he said.

Neither Day nor officials of the federal Environmental Protection Agency have determined the origin of the PCBs, a man-made chemical used as electrical insulation.

Officials have speculated that the contaminating material came from a transformer that either was dumped or drained in the area, but Day said Chevron was unsure of the PCB's origin.

The company in 1983 was given a permit to dump crude oil at the site and to spread oil on the roads to control dust, Day said. Alask Department of Environmental Conservation official Bob Martin said last month the permit gave the company permission to apply small amounts of crude oil on the roads.

Testing of crude oil, since it is not a waste product, is not required by federal and state agencies, Martin said.

Meanwhile, Chevron has sent a toxicologist and an industrial hygienist to the area to collect air and dust samples to determine the extent of the contamination, Day said.

Federal wildlife agents have expressed concern about seepage of toxic chemicals into the nearby Swanson River, a popular salmon stream within 100 yards of the dumping area.

Any plan to remove the PCBs from the area will target, besides the contamination clean-up, prevention of the PCBs from entrance in the food chain of animals in the wildlife refuge.

Chevron sampling also did not show the presence of DDT.

Tests show higher PCB concentrations in Kenai Wildlife Refuge

By RONNIE CHAPPELL
Daily News reporter

Analysis of a second set of soil samples taken from roads in the Kenai National Wildlife Refuge has confirmed the presence of toxic chemicals there, George Day of Chevron USA said Tuesday.

Tests conducted for the oil company by an independent laboratory showed higher concentrations of polychlorinated biphenyls than reported last month by the U.S. Fish and Wildlife Service. Results of a third test are expected soon.

The Fish and Wildlife service found PCB concentrations of 10 and 35 parts per million in two samples taken from refuge roads last summer.

But the analysis of one Chevron soil sample, taken from an employee parking lot near a compressor building in the Swanson River oil field, revealed a PCB concentration of 166 parts per million.

According to Day, a pile of oil-contaminated sand and gravel used for dust control and road repair tested at 62 parts per million, while other samples taken from refuge roads contained PCB concentrations of less that 50 parts per million.

Drinking water from a well in the area was free of contamination.

The manufacture of PCBs, which accumulate over time in living organisms and in the environment, has been banned by the federal government. The toxic chemical is a suspected carcinogen and federal law requires concentrations of 50 parts per million or more to be disposed of in licensed hazardous waste sites.

The USFW samples also indicated that the road had been contaminated with DDT. Tests performed for the oil company did not reveal the presence of the deadly insecticide, Day said.

Chevron collected soil samples last month with the U.S. Environmental Protection Agency. Each sample was split so that the oil company and the regulatory agency could conduct their own tests.

"We are expecting our results by the end of the week," said EPA spokesman Steve Torok.

If the high concentrations are confirmed by the EPA, the agency could require Chevron to undertake an expensive process to remove and properly dispose of the contaminated soils.

Access to the compressor building parking lot — where PCB concentrations reached 166 parts per million — has already been restricted, Day said.

In addition, the company has started collecting dust and air samples to determine the level of exposure to which oil field workers have been subjected.

Finally, additional samples will be taken in the field, Day said, as the company begins — under EPA direction — to determine the extent of contamination.

The PCB-contaminated sand and gravel was used primarily for dust control on heavily traveled roads near the compressor building and in the oil field's administrative compound, Day said.

Sheffield orders DEC to study drill mud danger

Immediate action promised

2/11/85

By RONNIE CHAPPELL
Daily News reporter

Gov. Bill Sheffield has ordered the Alaska Department of Environmental Conservation to immediately determine whether drilling mud pits in and around the city of Kenai pose a danger to the environment or human health.

Sheffield also announced that a DEC staff member would be assigned to monitor the Kenai petroleum and chemical industries on a full-time basis.

"If any unsafe conditions exist, we'll begin cleanup efforts promptly and find out who is responsible," Sheffield said in a Sunday speech to the Alaska Environmental Assembly. "We'll also take whatever enforcement action is necessary. If we have to issue citations and levy fines, we'll do it."

Union Oil of California has applied for permission to bury 126,000 barrels of used drilling muds in existing reserve pits in the Kenai and Cannery Loop gas fields. Some of the pits are located in wetlands areas and some are near residential subdivisions.

Residents fear that heavy metals, caustic and hazardous chemicals trapped in the mud will contaminate local drinking water.

Two-and-a-half years ago, the state threatened to take Union Oil to court for illegally disposing of used drilling mud in unlicensed reserve pits. The case was never prosecuted. Instead, DEC negotiated a settlement under which the company agreed to apply for a state disposal permit.

Union's efforts to win retroactive approval of the reserve pits has so far been unsuccessful.

Last November, DEC informed the company that four of seven proposed burial sites were not suitable for drilling mud disposal. Action on the other sites has been delayed, pending adoption of new state regulations governing the disposal of drilling muds.

"There's a lot of uncertainty and fear, actually, about what's going on there," said Sheffield aide Molly McCammon. "The governor realizes that it's important to find out as soon as possible if there is any hazard from these drilling muds, what it is exactly, and get it taken care of.

"He is making this a priority," McCammon said.

Sheffield also announced that he had ordered newly

See Page C-3, SHEFFIELD

Sheffield orders decision on mud safety

Continued from Page C-1

appointed DEC Commissioner Bill Ross to "look at his budget, reallocate some money and assign a DEC staffer full time to monitor the Kenai petroleum and chemical industries."

"In the past," Sheffield said, "the DEC staff in that office has been unable to completely address the impacts of those major, long-standing industries. Instead, their time has been consumed" in checking water supplies, sanitary sewage systems and other public health concerns.

"With this order, that situation will change," Sheffield said.

Sheffield spoke to about 125 delegates representing organizatitons like the Alaska Center for the Environment, Trustees for Alaska, the Sierra Club and the Northern Alaska Environmental Center.

The governor highlighted his own environmental record, reminding listeners that his administration had:

- Worked for a 10-year moritorium on mineral entry in Bristol Bay;
- Sued the U.S. Army Corps of Engineers over relaxed enforcement of the federal Clean Water Act;
- Opposed the Chuck River timber sale near Petersburg because of possible adverse impacts on local fisheries;
- Worked for establishment of the Kenai River Special Management Area and critical moose habitat area in the Matanuska Valley.

Sheffield said his administration was committed to resource development in Alaska.

"But where it occurs, we will protect the environment," he said.

Port of Valdez called 'waste dump'

Shipper levels charges at Alyeska Pipeline company in letter to EPA

4/5/85

By PATTI EPLER
Daily News business reporter

A Virginia oil shipper who has threatened to file suit against operators of the trans-Alaska oil pipeline said Thursday Port Valdez has become a dumping ground for hazardous substances shipped from the West Coast to Alaska.

Charles Hamel alleges in a letter filed with the federal Environmental Protection Agency that Alyeska Pipeline Service Co. allowed tankers coming to Valdez from the Lower 48 to bring up loads of contaminated water that should have been emptied in federally approved facilities Outside.

In a strongly worded response, Alyeska president George M. Nelson denied Hamel's new allegations, saying the company has always met or bettered environmental permit requirements.

"Typically, Mr. Hamel's allegations are not specific but rather are deliberately vague and unspecific to prevent any immediate effective response," Nelson said.

On at least four occasions, Hamel said, oil tankers leaving shipyards on the West Coast received loads of water contaminated with petroleum products such as diesel fuel and leaded gasoline.

The tankers brought the contaminated water to the Alyeska terminal in Valdez, where it was run through the ballast water treatment facility and deposited in the bay, he said.

Nelson said he could not comment on those four alleged instances without more specific information.

Hamel said Alyeska's ballast water treatment plant was not designed to handle those kinds of products.

"The potential for environmental damage to Prince William Sound from the introduction into the system of hazardous substances shipped from West Coast ports is very real," Hamel said in a letter to EPA administrator Lee Thomas.

He said the Valdez facility has become the "liquid waste dump" of the West Coast.

Nelson took exception with all of Hamel's statements. The ballast-water treatment facility is designed to handle any oil, not just North Slope crude, he said.

The Alyeska facility is "known in the industry as one of the finest of its kind anywhere," Nelson said.

Last week, Hamel notified EPA he would file suit in 60 days to force Alyeska to stop discharging toxic wastewater in Valdez bay. He must wait 60 days to fulfill federal rules covering citizens with no other standing in the case.

Hamel said Alyeska has consistently violated state and federal environmental permits since the pipeline began operating in mid-1977.

Alyeska consistently has denied Hamel's allegations, saying the company has the records to prove it is not violating its permit.

Government officials are investigating Hamel's charges.

On Thursday, a team of state and federal officials began inspecting Alyeska's terminal in Valdez.

Bob Martin, special assistant to the commissioner of the Department of Environmental Conservation, said DEC and EPA officials are going through the ballast water treatment facility basically "to see what's there and how it's working."

He said they would be examining records and testing procedures.

Scientists seek to explain decline of clams in Valdez mudflats

By PATTI EPLER
Daily News business reporter

Clams picked as aquatic guinea pigs for the study of oil pollution in Valdez Bay have been steadily disappearing since the opening of the trans-Alaska pipeline and marine terminal at Valdez.

But scientists say they won't know for a couple of months whether years of dumping treated wastewater into the bay has anything to do with the steady decline of clams in the Valdez mudflats.

What they do know is that the population of macoma clams — a tiny clam no bigger than a thumbnail — has dropped as much as 85 percent since 1978, about a year after pipeline operations began.

Most studies conducted in the early years of the pipeline's operation have not turned up any significant evidence of damage to the marine environment, scientists say.

But many people who have worked on the study projects believe more work needs to be done before any conclusions can be reached.

"The main problem, as I see it, is that with the information currently available, we can't say a hazardous condition exists, but we also can't say everything is fine," said George Perkins, a biologist and teacher who has been involved in the clam study for several years.

State and federal environmental agencies are investigating allegations by oil shipper Charles Hamel that Alyeska Pipeline Service Co. has for years been violating environmental permits by improperly discharging toxic wastewater into the port.

Alyeska has strongly denied those allegations. Company officials say they have the records to prove no violations have occurred.

At issue is the discharge of treated ballast water into the port. Ballast water carried by tankers coming to Alaska mixes with residual oil in the tankers and must be cleaned before it can be put into the bay.

Alyeska runs the oily water through a treatment plant and removes the oil before the water is discharged into the bay. Hamel alleges toxic sludges from the bottom of storage tanks also are going through the treatment facility and into the bay, but without being properly treated.

In the early 1970s, before the pipeline was built, scientists from a variety of agencies began collecting informa-

See Back Page, CLAM

Clam decline at Valdez studied by scientists

Continued from Page A-1

tion about the port area to get a picture of what the marine environment was like before the Alyeska terminal began operating.

At the time, scientists expressed concern about the effect of ballast water discharge on the bay. A 1973 report by the National Marine Fisheries Service noted that a major oil spill from a tanker, while obviously catastrophic, was less of a concern than continual discharge from the terminal.

Through the years, the state Department of Environmental Conservation, the federal Environmental Protection Agency, the University of Alaska and Alyeska itself have conducted monitoring studies about the effects of oil on the bay. Except for the clam study, other work was wrapped up about three years ago.

Alyeska paid for many of the studies, including most of the ones conducted by the university, as a requirement of its federal permits.

In 1983, a workshop for researchers was held to discuss their findings. Basically, scientists found that six kinds of environmental alterations have occurred since the pipeline operation began, ranging from hydrocarbons in the sediment to the decline of clams to changes in barnacles and mussels.

"The workshop participants agreed that the available scientific data do not indicate that the current levels and duration of petroleum discharge into Port Valdez have led to major or widespread environmental alterations," Dr. David Shaw, of the University of Alaska-Fairbanks Institute of Marine Science, wrote on behalf of the researchers.

"The participants felt that there is not an adequate basis for predicting how additional pollution sources might affect the port. Neither can we predict whether or not chronic low-level alterations which may now be occurring will in the future become significant."

DEC and EPA officials have said staff cuts and lack of funding in recent years have prevented them from monitoring Alyeska's activities as closely as they would like.

Perkins' clam study is the only one that has continued. It is a program that was started about 14 years ago by the National Marine Fisheries Service and is now funded by an EPA grant.

Macoma clams were picked for the study because biologists believed the clams would be sensitive to oil and would thus be a good indicator of the effect of oil pollution on the ecosystem, Perkins said.

From 1971 to 1977, the number of clams in the mudflats of the bay stayed about the same — about 1,000 large clams per square meter and 1,800 small clams per square meter.

But in 1978, the year after Alyeska began operations, the number of clams began to decline. In November 1984, when the most recent count was taken, 150 large clams and 1,000 small clams remained.

The study "has shown a definite decline in that population," Perkins said. "Coincidentally or otherwise, it began about that time. But that doesn't establish a cause-and-effect relationship."

This year, the clam study was expanded. Instead of simply counting clams, Perkins has sent clams to Battelle Laboratories in Richland, Wash., for testing that will determine whether hydrocarbons from the ballast water discharge are present in the clams. Results are expected in about two months.

"The purpose of it is to help determine whether or not there is a relationship between the decline of the population and the terminal operations," Perkins said.

Alyeska has simplified its ballast water treatment process in recent years, Perkins said, and most of the chemical analyses of the bay waters were done before the changes to the treatment process were implemented.

And environmental changes caused by oil pollution could occur quite slowly and not be apparent for many years, he said.

"The best I can describe it is that because of changes in conditions and the scarcity of data we've obtained, there are a lot of open questions that we don't have answers to," Perkins said.

Dr. D.K. Button of the Insitute of Marine Science, under contract to Alyeska, conducted microbiological studies of the bay water until about 1979.

Button pointed out that certain components of the oil — toluene, benzene and ethyl benzene that can be toxic in high concentrations — dissolve in the tanker's ballast water during the long voyage from the Lower 48 to Valdez.

Because those components dissolve, they are unaffected by the ballast water treatment process and are discharged into the bay at the rate of about one ton per week, Button said.

A portion of the oil, including the toluene-benzene components, undergoes a process similar to fermentation — bacteria turns the oil into products like creosote that are then discharged into the bay, adding a dfferent type of material to the discharge than what is commonly expected, he said.

"So basically, we found that these things really escape the ballast water treatment process, float up and spread in the bay," Button said.

They are eventually flushed out into Prince William Sound by tidal action, he said.

What Button still doesn't know is what the effect of the aromatic hydrocarbons and their oxidation products might be on the marine environment.

"We're not completely sure exactly what they are," he said. "From a scientific standpoint, that's not very comforting."

Ron Morris, field office supervisor for the NMFS in Anchorage, said if oil from the ballast water treatment facility is polluting the bay, researchers will be able to tell.

"Each oil has its own fingerprint," he said. "We can tell from the hydrocarbons in the ground where it came from."

So far, Morris said, "there's certainly no evidence that we've found that the bay has gone foul."

"Our studies don't indicate anything drastic," he said.

Cancer rate rises in areas with petroleum industries

By GARY LANGER
The Associated Press

NEW YORK — An "alarming" increase in cancer deaths has shown up in rural counties where employment in petroleum and chemical industries has risen in the past 25 years, a research group said Sunday.

The finding suggests a stronger link between toxic waste and cancer than previously shown, the Council on Economic Priorities, a private research center on public policy, said in a preliminary report on a five-year study.

Cancer deaths increased 265 percent from 1950 to 1975 in 59 rural counties with large concentrations of chemical and petroleum industries, the council said. The increase was 148 percent in 71 industrialized urban counties.

Further, cancer deaths in both the urban and rural industrialized counties evened to about 1,134 per 100,000 people from 1970 to 1975, the council said. From 1950 to 1955, there were more cancer deaths in the urban areas — 456 per 100,000 people, compared with about 304 per 100,000 in the rural counties, it said.

The council said it produced the figures by comparing cancer statistics compiled by the National Cancer Institute with figures on increasing chemical and petroleum industry employment in rural areas.

An institute study on the subject 10 years ago may have missed the rise in rural cancer rates because the disease takes so long to show up, and many of the rural chemical and petroleum plants are relatively new, the council said.

There was no answer Sunday at the Washington offices of the Chemical Manufacturers' Association and the American Petroleum Institute, major trade groups called for a response.

In the past, said council director Alice Tepper Marlin, "the norm has been that major industrialized urban areas have had the highest rates" of cancer, presumably because of industrialization and stress, shown in high rates of smoking and drinking.

But she said her group's study found that in rural areas, "the increase in the incidence (of cancer) has gone up after industrial facilities that generate a lot of toxic waste have been sited there."

Under that finding, Marlin said, "The hypothesis is that there well might be a stronger link betwen toxic waste and the incidence of cancer."

Oil drilling muds can kill sea life, researchers say

Associated Press

Corvallis, Ore. — "Muds" used in offshore oil drilling operations are toxic to certain marine organisms, including shrimp, clams and lobsters, government researchers say.

The thick muds, composed mainly of clay but also including many toxic substances, not only can poison marine organisms directly, but also can hurt organisms by burying them or changing ocean floor conditions, said Rod Parrish and T.W. Duke, researchers at the U.S. Environmental Protection Agency's Sabine Island facility in Florida.

Parrish and Duck spoke Thursday at an international symposium in Corvallis on the disposal of wastes in the oceans.

"The basic mud is all right because it is natural clay, and even rivers put huge quantities of clay into the ocean," Parrish said.

"But problems arise when man introduces certain fluids," which he described as "being extremely critical to the drilling operations" and "economically crucial" for the drilling companies.

From research conducted on the Outer Continental Shelf, Parrish and Duck found that exposure to various drilling fluids prevented some lobsters from finding nearby food, altered normal growth and respiration rates of other lobsters and killed up to 50 percent of local lobster populations.

Anchorage Times Sept 15

Drilling 'muds' are found to be toxic, scientists say

The Associated Press

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ADN Sept 15

Air, water aren't free

Alaska's clean air and water are gifts of God, but it takes vigilance — and money — to keep them clean. The agency we need to watchdog that effort is the Department of Environmental Conservation, and DEC deserves adequate funding to do the job.

Recent allegations that Alyeska Pipeline Service Co. dumped hazardous substances into the bay at Valdez from its ballast water treatment facility — which Alyeska vigorously denies — highlight DEC's importance, whatever the veracity of those charges.

DEC is responsible for monitoring Alyeska facilities for removing ballast water from tankers carrying North Slope crude oil to market. But the agency has only two staff members in Valdez to handle the pipeline terminal, plus an area extending from north of Glennallen to Prince William Sound. Those two people also monitor everything from restaurant inspections to subdivision sewers in their region. In the present dispute about Alyeska discharges, they cannot verify either the allegations or Alyeska's denials — much less guard against subtle but cumulative, and often inadvertent, environmental damage.

DEC officials say they do the best they can with the resources they have, but clearly the agency doesn't have the resources it needs in Valdez. Statewide, DEC's operating budget last year was less than half what the legislature spent on its own operations, and only a few million dollars more than what the legislature appropriated to the Department of Military Affairs, the smallest state agency.

DEC should get the money to do its job, unless the legislature is willing to abandon to chance and goodwill the job of protecting Alaska's air, water and environment. At minimum, that means preserving the DEC budget at last year's level.

ANC Daily News 4/18/85

Oil's Legacy

In Louisiana, Big Oil Is Cozy With Officials And Benefit Is Mutual

But as the Reserves Dwindle, Price of Giving Industry Free Rein Grows Evident

A Governor and His Friends

By Thomas Petzinger Jr.
And George Getschow
Staff Reporters of The Wall Street Journal

BATON ROUGE, La.—Huey Long built his populist political career battling the oil barons, but in 1934 he secretly threw in his lot with them. He and several friends formed a company, called Win or Lose Corp., that bought state mineral leases and resold them for large profits to out-of-state oil companies.

The biggest block ended up in the hands of the fledgling Texas Co., which sent its dredges and drilling rigs into a million acres of coastal swamps. Mr. Long's heirs began reaping millions in royalties, which are still rolling in. The driller would grow into a giant called Texaco. And the poor agrarian state was on its way to becoming the nation's leading supplier of natural gas.

Oil companies and officialdom have got along well in Louisiana ever since.

For 50 years, Louisiana has been one of the oil and gas industry's happiest hunting grounds. Producers have sucked out of its marshes and uplands more than 12 billion barrels of oil and 113 trillion cubic feet of natural gas—enough to keep New York City in electricity for five centuries.



First of a series of articles on Louisiana and the oil and gas industry

In the process, oil and related industries have become the largest employers, largest landowners and largest taxpayers in the state. Their largess, always shared liberally with politicians, has won them a broad measure of both public and official support, and the industry has gone about its business little deterred by state regulation. "Oil definitely is the golden goose, and you don't want to kill it," says Joan Houghton, a lobbyist here for the League of Women Voters.

But now, with Louisiana virtually a dominion of oil, signs abound that these legendary fields are starting to run dry. As the heady and headlong oil rush begins to wind down, it is becoming evident how much of Louisiana's natural wealth has flowed to out-of-state investors and consumers.

Losing ground

A shrinking tax base has put the seemingly resource-rich state in a fiscal bind. Local manufacturers are growing short of natural-gas feedstocks, even as they watch oil companies shipping more offshore gas through pipelines that cross the state without stopping. And Louisiana's Cajuns, thousands of whom gave up fishing and trapping in the swamps for the big money in the oil fields, increasingly find themselves unemployed and unable to return to their ancestral way of life.

For other states heavily dependent on energy development, Louisiana's troubles offer a warning of what can happen when the mine begins to play out. Louisiana's case is unusually severe, though, because it is a state that welcomed resource developers unreservedly and, relying on the bonanza they brought, took few steps to diversify its economy. Today, Louisiana "does not control its own future," says a consultant's report to the legislature. "It is extremely sensitive to the instability of world energy markets, the vagaries of federal energy policy and the investment decisions of a relatively few international energy and chemical companies."

The natural resources Louisiana depended on before hydrocarbons—the fish and furs of its coastal marshlands—haven't weathered the oil era well. In the bayous and bays, beyond public view, part of oil's legacy is a giant underwater junkyard of rusted pipelines, platforms and other well outcroppings that make commercial fishing treacherous.

Great volumes of brine and chemical sludge from drilling have contaminated some farm land and much water. In many marshland areas of the heaviest waste dumping and ground-water pollution, alarming levels of illness are showing up.

Into the Sea

Some of the marshes aren't littered or polluted, however—some are simply gone. Coastal wetlands are among the most delicate property in the world, surviving by a complex ecosystem that can break down with even slight changes in the volume of the tide or the chemistry of the water or soil. But thousands of miles of oil-field canals now crisscross the swamps, letting in ocean salt water that kills the grasses and washes away soil. Levees for flood control and navigation prevent Mississippi River silt deposits from rebuilding the wetlands.

The vast and rich marshlands, which some Louisianians regard as the state's most valuable long-term resource, are vanishing at a rate of 50 square miles a year. "A great natural catastrophe is occurring," says Sherwood Gagliano, a land-management consultant and former Louisiana State University geologist who has studied the marshes extensively.

Oliver Houck, an associate professor at Tulane Law School and former counsel of the American Wildlife Federation, has little doubt where the fault lies. "If the state of Texas came over and ripped off 50 square miles a year, there'd be a war," he says. "But there's no war in Louisiana because

everybody is getting paid by the oil industry."

The industry insists its activities are no more than a minor factor in the marshland loss, and Gov. Edwin Edwards agrees. But in any case, the governor suggests, any damage is a fair tradeoff for the rich economic benefits of oil. "Colorado plows up the woods on its mountainside ski slopes. Wyoming rips up the mountainside to get coal," he says. "We punch holes in ground."

Gov. Edwards knows the benefits of oil more than most Louisianians. He draws a total of at least $100,000 a year in oil and gas royalties from Superior Oil Co., Exxon Corp. and several others. From 1980 to early 1984, while he sat out of office to qualify for a third term, Mr. Edwards drew legal fees from a variety of oil interests. And when the time came to run for the statehouse again, Louisiana's liberal fund-raising laws enabled the oil industry to help Mr. Edwards finance a $15 million campaign, the most expensive gubernatorial victory in U.S. history.

The governor says it is only natural that he would have strong ties to the oil industry. "Practically everyone who is a mover or doer in Louisiana has been associated with me at one time or another," he explains. "A governor naturally knows the movers and doers and shakers, the lawyers and businessmen."

Take Texas International Co., an oil producer based in Oklahoma City. In 1980, at the start of his four years out of office, Mr. Edwards received a $50,000 one-year legal retainer from the Big Board company and served briefly as a director. A short time later, William Huls, who had been Mr. Edwards's secretary of natural resources, acquired a royalty interest in a state mineral lease held by Texas International.

A company owned by Mr. Huls and some other investors also acquired an ownership interest in the state lease. In addition, Mr. Huls represented Texas International as a free-lance land agent in Louisiana.

This year, shortly after Gov. Edwards and Secretary Huls returned to office, a Texas International unit bid for drilling rights on 19,000 acres of state-owned marshland. Although similar wildcat acreage fetches at least $150 an acre, the state awarded the lease for just $17 an acre, plus the usual royalties. The difference figures out to a saving of over $2.5 million for the company—and that much less for the financially strapped state government.

Mr. Huls says the state's transaction was entirely proper; the company, he notes, had promised to start exploration quickly and thus would put more people to work on the rigs. He adds that he resents any implication of a conflict of interest. The president of Texas International, James Kishpaugh, calls the low-price sale a "smart move" by the state because it will generate additional drilling. For his part, Gov. Edwards says he broke all ties with Texas International when his friend there, a former chairman, resigned.

Texaco Case

No sooner had Mr. Edwards's Texas International retainer expired (in 1981) than he was engaged by Texaco Inc., the state's largest producer, to represent it in gas-contract negotiations and other matters. But he abruptly dropped Texaco as a client after about a year and a half to handle a title suit *against* Texaco.

The suit was brought by Louie Roussel, an owner of oil land and a close friend and major campaign contributor to Mr. Edwards. Texaco paid Mr. Roussel's company $3 million to settle the suit. The governor confirms he got a "substantial" legal fee—even though, according to lawyers familiar with the case, he didn't write any briefs, make any court appearances or help negotiate the settlement.

Shortly after Mr. Edwards returned to the statehouse and Mr. Huls again became natural-resources secretary, Mr. Huls dismissed an accounting firm that was doing a state audit of Texaco's royalty payments to Louisiana. The firm, Ernst & Whinney, reported after its dismissal that it had estimated that Texaco owed the state at least $100 million.

A Texaco official, who calls the $100 million figure "outlandish," says there wasn't any connection between the settlement payment to Edwards's client and the firing of the accounting firm. The governor says he wasn't involved in the firing. Mr. Huls says he dismissed the outside accounting firm solely because the state's own accountants could do the job just as well.

The matter, however, has aroused the interest of a federal grand jury in Baton Rouge. Late last month it issued a subpoena for information on two matters: the Ernst & Whinney audit and the settlement of the suit by Mr. Edwards's client.

Colonial Past

Like Texaco and Texas International, most of the companies pumping Louisiana's oil and gas are based out of state. Harvesting of Louisiana's natural resources for use elsewhere has been a pattern ever since the region was colonized by France, England and Spain.

In the heyday of sugar cane and cotton, moneyed Northerners and Europeans bought up small Cajun farms to build plantations. After World War I, timber companies from the East and Midwest denuded entire swamps for the cypress, shipping the pump and lumber eastward to be turned into paper and furniture. The Spanish moss went too, for upholstery stuffing.

The pattern is repeated today in Louisiana's petrochemical industry, which uses the state's natural gas to produce low-value bulk chemicals that other states turn into finished items like textiles and toothbrushes. "The final production and packaging—and the accumulation of wealth—occur elsewhere," says Will Whitmore, a banker in Houma. T-shirts sometimes seen in Louisiana describe the state as a "banana republic."

To Louisiana's early swamp people, the black ooze in rice fields and the gas bubbling in water wells were just nuisances. But the Heywood brothers from Ohio, veterans of the Klondike gold rush and the Spindletop oil field of Texas, knew better. In 1901, after promising farmer Jules Clement $10 if they killed any of his rice or cattle, they drilled the state's first gusher.

Soon Louisiana was teeming with fortune hunters. Gulf quietly amassed huge tracts. Texaco, in staking out claims, touched off blowouts that blazed for days. John D. Rockefeller added a province to his growing oil empire.

Using It Up

But in less than a lifetime, oil and gas companies have drained the bulk of the state's known reserves. A state report estimates that within 16 years Louisiana is likely to be 97% depleted of oil and 90% depleted of gas. The industry points out that such predictions are inherently unreliable. But many operators nevertheless are pulling up stakes in Louisiana and moving to federal territory deep in the Gulf of Mexico.

With state production tailing off, the petroleum city of Houma has closed its own gas well and begun importing electricity generated with Wyoming coal. Texaco recently closed its sprawling office complex in Houma and donated it to the city.

Houma Mayor Edward Lyons is a bit sentimental about Texaco, where he first went to work after finishing college. "I'd have hated to think 20 years ago that's all there would be," he says. "The cruel, hard fact is that when the mine plays out, they're gone."

Sputtering production also threatens to leave the state's petrochemical manufacturers short of natural gas. Within a few years, they will be 25% to 50% short of gas, according to various company estimates. The growing gas production far offshore doesn't help much because federal policy commits that gas to the interstate market. As for newly discovered gas on land or within three miles offshore, federal rules enable operators to sell this production for more out of state than local pipelines can pay.

"It's a desperate situation" for industrial users of natural gas in Louisiana, says Ernest Edwards, a New Orleans lawyer who represents chemical companies. Some manufacturers already have cut back operations and jobs because of the in-state gas squeeze.

Public Relations

The oil and gas industry, however, continues to take every opportunity to convince Louisianians of how much it does for the state. Early this month, Shell Oil Co. used the occasion of its 35th year in offshore production here to put out a news release saying it has paid the state $600 million in lease bonuses and royalty payments so far.

Still, the state's take is quite high enough, industry lobbyists make clear. Last year, with Louisiana's government facing a budget gap due in part to falling oil-related tax revenue, three professors suggested a rise in the "severance" tax levied on all gas pumped from the ground. The industry quickly commissioned a study that concluded that oil and gas already pay half the cost of state government. It broadcast the findings widely.

Soon the legislature passed a sweeping series of consumer and business tax increases totaling nearly $1 billion—but, at Gov. Edwards's urging, didn't touch the severance tax. Fred Loy, head of a trade group representing the state's petrochemical companies, says, "It's no accident that this severance tax wasn't in the legislature; we've been talking to every civic group that will have us."

Although Louisiana's oil severance tax is relatively high, the tax on natural gas—a much more important resource in the state—remains at only about half the level of neighboring Texas. Meanwhile, drivers in this seemingly energy-rich state face one of the country's highest state gasoline taxes, 16 cents a gallon.

Loren Scott of LSU, who did the study the oil and gas industry used to campaign against higher severance taxes, won't say what the companies paid him for it. "If I had known it was going to do them this much good it would have cost them more," he says.

Benefits to the State

The industry has a succinct defense of such efforts to win favorable treatment. Lobbyist William Bailey of Mid-Continent Oil & Gas Association, a trade group, says, "In Louisiana, if you hurt the oil and gas industry, you're doing something that will cost people jobs. It's that simple."

But oil's blessings fall unevenly in Louisiana. In 1970, though the country's top natural-gas producer and No. 2 oil producer, Louisiana still ranked as the fifth-poorest state in per capita income. After a decade of surging energy prices, there were many millionaires, but the state still was 16th lowest in per capita income. The industry once boasted that its severance taxes educated 35 of every 100 Louisiana children, but the state has the nation's highest illiteracy rate.

Some communities miss out almost completely. In Plaquemines Parish (county), the all-black town of Ironton, although surrounded by some of the world's most prolific oil and gas fields and busiest pipelines, still doesn't have a natural-gas hookup. In the meantime, the truck from Gaspard's fuel service rumbles over the unpaved roads, filling tanks behind house trailers and shacks with expensive bottled gas.

"Any parish that pulls this kind of oil out of the ground shouldn't be in this condition," says Ernest Broussard, an unemployed heavy-equipment operator in Ironton. A local utility explains that Ironton doesn't have natural gas because it lies between the service areas of two utilities and wouldn't be economical to serve.

The Perez Case

In the view of Plaquemines Parish's president, Luke Petrovich, a lot of the money that might have paved Ironton's roads ended up in the pockets of the Perez family, which ruled the local government for 50 years. Judge Leander Perez in the 1930s acquired royalty interests in local public land drilled by major oil companies. In just the past 11 years, Mr. Petrovich estimates, heirs of the judge (he died in 1969) collected $21 million in royalties from Gulf alone. In 1975, Gulf said in a report to the Securities and Exchange Commission that one of its representatives had given Judge Perez an additional $50,000 in cash annually for years.

"The oil companies had to deal with certain people or they wouldn't produce anything, and these people got their cut," says Mr. Petrovich, who once was an aide to Judge Perez. Now, as parish president, he is pressing a suit by the parish to recover royalty money from the Perez family. The heirs are seeking dismissal of the suit. One of their lawyers argues that the judge's royalty interests have been known for years and that the parish waited so long to press a claim that it, in effect, "acquiesced in the alleged wrongful conduct."

Some oil-company payments to local officials have continued to recent times, such as the $60,000 (in $2,000 monthly installments) that Tenneco Inc. mailed to a sheriff who would have jurisdiction over any labor strife at a major Tenneco refinery. At a federal trial in 1978, Tenneco argued that the payments were for legal services; however, the company was convicted of mail fraud.

Most of the coziness between public officials and oil-patch operators takes a different form. Many politicians and regulators, or their friends or relatives, maintain businesses that serve the oil and gas industry. For example, a son-in-law of oil-field regulator Maurice Schmitt used to pass out business cards to oil-field customers listing the regulator as a "consultant" to his chemical sales business. Mr. Schmitt was ordered several months ago to have the business cards recalled, but he says that "there are many, many similar cases that come up every year."

In a state where oil is so dominant, it is hardly surprising that some politicians have served in the legislature while employed by the oil industry. Jesse Knowles spent 20 years as a state representative while working as a land manager for Standard Oil Co. (Indiana). "I had no problem with a conflict of interest because anything I voted on was for the whole industry," he says.

Amway Detergent

Until recently, the powerful Louisiana Mineral Board, which administers state leases, included several owners of oil-service concerns. When the Louisiana Ethics Commission investigated in the mid-1970s, a representative of Exxon testified that it was the practice at his company and several others to steer purchases toward oil-service companies owned by Mineral Board members so long as they offered equal prices and service. Exxon, Shell Oil and Texaco agreed in 1979 to quit giving business to Mineral Board members, several of whom resigned during the investigation.

Some regulators exploit contacts made in the field. Frank Gibbs, a pipeline-safety inspector, and his wife, Ollie, a secretary to Gov. Edwards's son Stephen, recruited employees of one big pipeline operator, Gulf States Utilities Co., as salesmen within his Amway household-products sales group. Although he quit the practice after the Ethics Commission looked into Amway sales to industry by other regulators, he declares that "I can't be bought for a quart of detergent."

The inspector's former boss, Henry Talley, built an even larger Amway sales group. One of Mr. Talley's distributors, C.J. Auer, says that he sold $40,000 worth of Amway products to Texaco drilling contractors and other oil-field operators in 1982 and that Mr. Talley got commissions on some of the sales; until July of that year, Mr. Talley was the state's chief of pipeline safety.

Mr. Talley says he isn't aware of any Amway sales to the oil or pipeline industries. But Mr. Gibbs and some other Amway distributors say that a few years ago, Mr. Talley helped organize a seminar in Lafayette to promote sales of Amway solvents and other products for oil-field uses ranging from washing drilling rigs to stimulating added production from aging wells.

Amway says it doesn't endorse such uses of its products, and some state inspectors are opposed. Inspector Henry Finnerty says the chemicals can break up the clay bottoms of oil-field disposal pits and lead to faster leaching of the wastes.

Other Arrangements

From time to time, oil-field regulators have been suspected of putting the arm on oil companies to personal advantage. According to Stanley Lanise, a pump operator for several companies, one state oil-field inspector, Walter Doherty, closed down a salt-water collection tank on an oil well Mr. Lanise manages until Mr. Lanise agreed to have the brine hauled to a disposal operation operated by the regulator's nephew, Louis Doherty Jr.

"I didn't have much choice," Mr. Lanise says. "If I couldn't dispose of the water, I would have had to shut down the well." Several waste haulers have filed affidavits with the conservation commissioner making similar charges against the Dohertys. The commissioner declines to discuss the case. Louis Doherty didn't return phone calls from this newspaper, and his uncle, the inspector, refused to discuss the matter.

More commonly, however, the mutual interests of the oil indstry and state officials are served without arm-twisting. State Rep.

Walter McKeithen, who is a member of the Louisiana House's natural-resources committee, owns a business that supplies cement for oil-well casings. When one of his main customers, an oil producer called SSM Partnership, wanted a variance from regulations protecting aquifers, Rep. McKeithen placed a call to the state commissioner of conservation.

An SSM executive says the partnership merely wanted the legislator to tell regulators "that we were reasonable and prudent operators." SSM recently withdrew its variance request, but Rep. McKeithen says he sees no conflict of interest in coming to his customer's aid. "I don't want to give anybody any special treatment," he says, "but if there's something they can take advantage of, I want them to have it."

Helping Hand

Gov. Edwards also seems to have adopted that rule for his friends and associates. His son Stephen, who owns 50% of a pipe company that supplies a Texaco unit and other majors, says, "My father has used his name more times in getting people on bid lists and approved lists and opportunities to compete than he has done anything else I've known him to do." Stephen Edwards adds, however, that political connections "won't sell you a damn thing if you're not competitive."

Today, many of the governor's friends are involved in an industry that continues to expand even as the oil and gas reservoirs play out: hauling away the brine and other wastes that the aging fields produce in abundance. When Edwin Edwards was a congressman running for governor in 1971, the biggest of these so-called vacuum haulers was a company called Gulf Coast Pre-Mix Trucking Inc. It was owned by Francis "Benny" Benezech, a brother of the candidate's campaign pilot at the time. After Mr. Edwards won, he named a former salesman for the waste hauler, Raymond Sutton, as state conservation commissioner.

Clyde Vidrine, who had been an Edwards aide, asserts in a book that the appointment was secured through a $125,000 campaign contribution from Mr. Benezech, given in the form of a shoebox full of cash. Mr. Benezech says the contribution was much smaller and wasn't linked to the appointment of Mr. Sutton, who is deceased. Gov. Edwards says that "it wasn't nearly that amount of money. Vidrine's story is purely a figment of his imagination."

Nowadays, vacuum-hauling is a close-knit industry that isn't easy to break into. But connections help, as Cecil Brown's case shows.

A 'Very Good Friend'

Mr. Brown, a former rodeo rider and race-track owner who is one of Gov. Edwards's hunting friends and fund-raisers, got a waste-hauling permit in 1981 after his race track failed. But a group of competitors sued to revoke it, arguing that Mr. Brown had illegally undercut regulated rates and had dumped waste in an unpermitted pit. The state's highest court eventually ordered his permit cancelled.

That didn't stop Mr. Brown. He continued hauling waste, using an illegal permit-leasing arrangement with Patrick Benezech, the former Edwards campaign pilot, who had gotten into the vacuum-truck business himself.

Last December, Mr. Brown applied for a new permit. By this time, Edwin Edwards had been elected governor again, his son Stephen had become Mr. Brown's lawyer, and Stephen Edwards's insurance agency had agreed to obtain coverage for Mr. Brown. In addition, the governor-elect had by this time promised a Mineral Board appointment to the lawyer for Mr. Brown's competitors, Janet Boles Chambers, she says. Five months later the state's Public Service Commission, on the same day it fined Mr. Brown for having operated without a permit, granted him a new one.

The competitors then filed a new legal challenge. But they dropped it when Mrs. Chambers warned the head of the haulers' group (by her recollection) that "Cecil is a very good friend of Edwin Edwards" and the suit "could possibly cause him some problems." Mrs. Chambers now represents Mr. Brown himself in some of his dealings.

Gov. Edwards says it couldn't have been his friendship that got Mr. Brown his new permit, because "if I had any influence it wouldn't have taken three years." As for Mr. Brown, he reports that "business is real good." And he allows that "it's better being a close friend to the governor than not knowing him at all."

Oil's Legacy

In Louisiana, Pollution And Cancer Are Rife In the Petroleum Area

Region Is Littered With Pits Of the Chemicals Poured In Wells During Drilling

A Small-Town Doctor's Tale

By Thomas Petzinger Jr.
And George Getschow
Staff Reporters of The Wall Street Journal

BATON ROUGE, La.—At the lake next to the governor's mansion here, "no fishing" signs have sprung up. The Department of Environmental Quality posted them. The governor's lake contains PCBs.

It isn't unusual to find contaminated water here in the state's industrial, oil-refining and petrochemical corridor. Tons of waste containing potentially toxic heavy metals and organic chemicals are generated daily, and have been for decades.

But Louisiana's water problems aren't confined to the industrial zones. In one town in the coastal marshes of South Louisiana, a test of 84 water wells found that 81 contained heavy metals. The water in another community is so briny that drinking fountains are stained white. In some swamps, groves of cypress stand dead.

These are areas of heavy oil and gas production, where thousands of open waste pits brim with brine from far underground and with the soup of chemicals poured into wells during drilling. Other waste sludge is sunk in old wells for disposal, spread over adjoining land or, if the drilling site is offshore, simply dumped into the water.



Some energy and petrochemical companies in Louisiana have begun to take more care in disposing of wastes. A few are spending millions to clean up their worst dumps. But much waste continues to be disposed of haphazardly, and cleanup efforts can do little if a decades-old waste pit has leached down to an aquifer below.

Meanwhile, unusual levels of illness are showing up in much of South Louisiana. No one can demonstrate whether any of the illness is linked to oil and gas activity or to the area's extensive water pollution. But concern is mounting, and some of the cases are striking.

The Vincent Case

The area around Kaplan, La., where Jerome Vincent lives, is a site of many old and new oil and gas wells. Superior Oil Co. sank another one, a very deep dry hole, in the rice field behind his home four years ago. It left behind some leaky barrels and three open waste pits.

In May 1983, a private laboratory tested Mr. Vincent's well water and found it contained chromium, a metal that is sometimes dumped in oil wells during drilling and that toxicology manuals link with cancer. His well's chromium level was slightly higher than the federal limit for public drinking water systems.

Tests by the state health department found chromium-rich sludge in Mr. Vincent's water-well pipe. The private lab tested sludge from one of the waste pits and found its chromium level to be more than 2,700 times the concentration in Mr. Vincent's water.

In June 1983, Mr. Vincent's 40-year-old wife died of leukemia. Two months later, his 62-year-old father, who lived next door, died of pancreatic cancer. Then this year his 21-year-old son died of cardiopulmonary arrest associated with fatty infiltration of the liver.

Superior, now a Mobil Corp. unit, eventually hired contractors to clean up its pits. It says in a written response to an inquiry that its records "do not reveal any evidence of deaths or illness" from oil-field contamination in Louisiana.

Another Cluster

In adjoining Cameron Parish (county), Annette Baccigalopi worries about an oil-waste disposal well a few hundred yards from her home, a well the state temporarily closed this year because of possible leaks. Her anxiety seems understandable; in the past several years, cancer has taken the lives of her father, her father-in-law, her brother-in-law and her daughter's father-in-law, all from the same area. Her mother-in-law has cancer now, and her mother and a cousin have had cancer operations.

Down the road, Debbie Theriot says that recently, within three weeks, her mother died of pancreatic cancer and her father of leukemia.

Statewide, cancer deaths are 9.1% higher than the U.S. average, using the figure for white males. The problem is more severe in the major oil producing and refining region of South Louisiana. Ten counties there rank in the top 5% nationwide for cancer deaths per capita among white males. A 1980 study published in the Journal of Occupational Medicine showed that pumpers, oil-field laborers and certain refinery workers were more than twice as likely to get lung cancer as other South Louisianians. (Smoking rates appeared to be similar.)

Yet the state hasn't made any systematic effort to determine whether South Louisiana's health problems are linked to the concentrations of oilfield waste. And what is known isn't always passed along to residents. For instance, state tests last year found the ground water in the town of Port Barre to be of questionable quality, but residents weren't told about the tests.

It is hardly surprising that Louisiana should have a water problem, given the volume of harsh chemicals spread about during oil and gas activity. Consider what happens whenever a new well goes in.

Chemical Cornucopia

There is much more to drilling an oil or gas well than digging a hole and lowering a pipe. Throughout the process, operators inject into the hole tons of viscous material called drilling mud, a blend of clays and weighting agents that flushes cuttings to the surface and keeps the hole from collapsing. The "mud" may contain any of 500 different chemicals that act variously as foaming agents, defoamers, flocculants, thinners, viscosifiers or emulsifiers.

The chemical cornucopia often includes such materials as asbestos, formaldehyde, carbolic acid and caustic soda (the active ingredients in Drano). Among the potentially toxic metals that drilling mud may contain are barium, chromium, arsenic, aluminum, titanium, and zinc. To prevent high-pressure formations from blowing out, lead or iron may be added to increase the weight. To reduce pipe and drill-bit friction, such lubricants as asphalt laced with phenols may be added.

If the well is a producer, for years afterward the operators administer regular doses of corrosion inhibitors, such as ammonium bisulfite and zinc chromate, and anti-bacteria agents, such as acid compounds and formaldehyde.

Nowhere is the use of these chemicals more extensive than in the deep-pocket formations of Louisiana, with their high temperatures, intense pressures and unusual strata. "There's more money in this business (here) than anywhere else in the world," says Tom Parker, a manager for a unit of NL Industries Inc., a leading maker of drilling mud.

The state's oil and gas industry spends about $1 billion a year on drilling compounds, more than the total for the rest of the country. In South Louisiana, where wells tend to be especially deep, drilling a typical one of 10,000 feet might require a million pounds of "mud." In all, oil men drill about 4,000 new oil and gas wells in the state every year.

As much as one-third of the drilling mud poured in remains underground. The rest returns to the surface for recycling or disposal. What comes up may be even harsher than what went down, as it can pick up naturally occurring substances like mercury, antimony, cobalt, cadmium, thallium, selenium and radioactive isotopes of potassium.

If a well is a dry hole, any used drilling mud that can't be recycled is commonly dumped into it. But if the well is a producer, hauling away all the waste material could easily cost $100,000. As a result, over the years much of it has simply been abandoned in earthen pits of an acre or so. In addition, oil and gas companies often use smaller pits to hold waste oil and other fluids during the life of the well. An estimated 13,000 oil-field pits litter the Louisiana landscape today, an unknown number of them leaching down to underground water supplies.

Often an oil company spreads the used drilling mud over the nearby land. "A lot of times they're spreading stuff that shouldn't be spread at all," says Jerry Fontenot of Lafayette, an agronomist who has examined hundreds of sites for farmers and oil companies alike. "They move off, and the farmer is left with infertile soil for years." Industry studies show that plants can take up heavy metals from drilling mud spread on the land.

No Federal Oversight

The federal Environmental Protection Agency once proposed to regulate drilling wastes. But lobbyists for the oil industry contended such regulation would cost it $45 billion in the first year, and Congress in 1980 exempted oil and gas waste from regulation. It instead ordered the EPA to study whether such waste posed a public health hazard, but the EPA has never done the study. The agency "doesn't consider it as high a priority as other projects," such as studies of utility or mining waste, explains John Heffelfinger, an EPA official.

Louisiana doesn't classify drilling waste as hazardous, and the industry says this only makes sense. William Bailey, an official of Mid-Continent Oil & Gas Association, a trade group, says that while he wouldn't want to "pick it up and make a sandwich" of the stuff, "I'm not aware of anything in drilling mud that's hazardous."

But another major oil-producing state, California, takes a far different view. It requires that all drilling compounds with certain levels of metals and other toxic materials be disposed of as carefully as wastes classed as hazardous. David Storm, a California state toxicologist, estimates that as much as 25% of what is in drilling mud may be hazardous. Drilling compounds, he says, "pose a very complex problem in terms of the number of chemicals used, the types of chemicals and the number of drilling sites they're generated at. The potential hazard of oil-field waste has been understudied because of the complexity of the problem."

What research the industry has done isn't especially reassuring. A study sponsored by the American Petroleum Institute sampled ground water at some drilling-waste sites around the country and found arsenic, barium, chloride, zinc, cadmium, sodium, lead and mercury in the water at every site.

At a Shell Oil Co. drilling-mud waste pit in South Louisiana, the researchers found arsenic in the ground water at roughly twice the federal limit for public drinking water, as well as lead and mercury at roughly three times the limit. The "mud" used in drilling the well contained 1,600 pounds of asbestos.

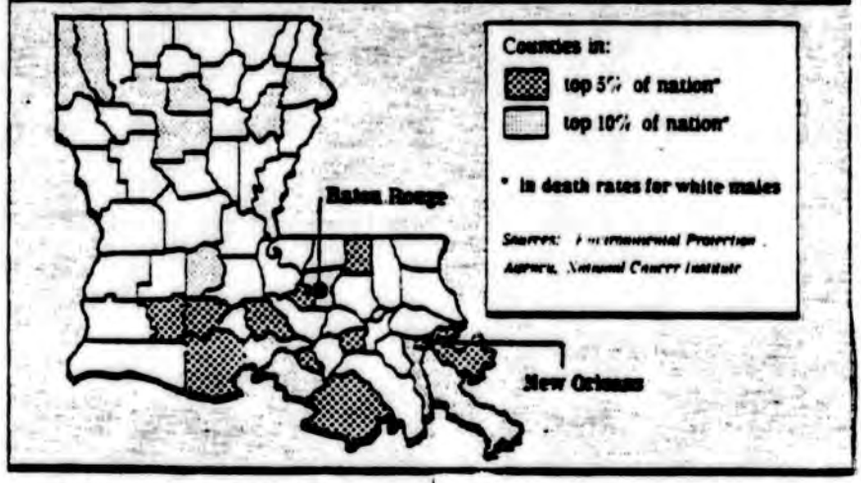
Nevertheless, the study concluded the drilling-mud pits don't present a hazard to human health or the environment. Some of the ground-water contamination occurs very slowly, and the rest usually declines to safe levels within "several hundred feet" of the pit, the study said. It also speculated that some of the heavy metals might have come from pesticides or fertilizers spread on nearby farms.

Louisiana's streams and forests are also

It also contains naturally occurring but toxic substances such as arsenic, as well as some of the organic chemicals found in crude oil; the latter chemicals "create the most significant toxicity problems," according to a report conducted for the Gas Research Institute, a trade group.

Some of this brine is dumped (illegally) into streams, marshes and roadside ditches. But most of it now is injected into disposal wells, of which the state has about 4,500. Louisiana didn't begin monitoring disposal wells until 1982 (19 years after Texas began doing so); when it did start, it found 11% of those checked to be unsound, unpermitted or in violation of the new rules. One inspection report said a certain household's drinking water was tainted by a nearby disposal well that was only a pipe in the ground, without any casing to protect ground water.

Cancer Hot Spots in Louisiana



common dumping places. In 1980, a hauler of oil-field waste was caught dumping a load into Five Mile Creek near Ruston, La. When he tried to cover up by setting fire to the waste, the blaze raced down the creek and destroyed a bridge. In another case, last year a waste-hauling firm operated by Sandra Thompson, a former head of Louisiana's Tourism Board, Trails Council and Beautification Commission, was fined for dumping drilling mud into a wooded area that drains into the West Pearl River. She says she wasn't aware of the illegal dumping.

Off the coast, drillers dump much of their used drilling mud and rock cuttings into the sea, a practice they maintain is harmless to aquatic life. But an executive of Hughes Drilling Fluids, a major supplier, writes in a recently published paper that small quantities of one common drilling lubricant, diesel fuel, can cling to cuttings even after they are washed and kill the Mysid shrimp, "a basic link in the complex food chain of marine life." Hughes and other suppliers offer special fluids for "environmentally sensitive" areas, but they cost more and make up only a small part of sales.

Louisiana's aging oil fields also produce large volumes of salt water—an average of eight times as much as oil or gas. This water from deep underground is saltier than the ocean, sometimes seven times as salty.

Cleaning Up Pits

Another brine-disposal method, the large open pit, has been regulated for 15 years in Texas but still isn't in Louisiana. Fritz Spencer, a career regulator who is holding hearings this week on a proposal to regulate the pits, says that about three-fourths of major oil companies have stopped using pits for brine except in emergencies. And some have programs under way to clean up waste pits.

Exxon Corp. says it has about 300 oil-field pits, some decades old, but when it leaves a production site it clears the pits. It says it doesn't have any abandoned pits. Standard Oil Co. (Indiana) says it has about 100 "temporarily abandoned" pits at any time but cleans them all up within a year or two. Gulf Oil Corp. says that for the past eight or 10 years it has been lining its brine pits with vinyl to prevent leaching; it says it doesn't know how many abandoned pits it has but is currently trying to find out.

Among cleanup efforts, Mobil Corp. says it has spent $450,000 to reclaim 12 old pits so far and has budgeted money to close all of its pits at production sites. Texaco Inc. said it will spend $11 million through 1985 to clean up more than 200 pits in Louisiana, all of which "could pose a potential environmental problem."

Still, Mr. Spencer, the regulator, considers the industry's efforts only a small start. "There is an extreme need of remedial action on many, many pits," he says.

Not all state officials share this level of concern. Gov. Edwin Edwards, echoing the view of many in the industry, says that "you could live a long, happy life" next to a pit of oil-field waste.

Farmers' Complaints

But W.T. Langley, a big grain and soybean farmer in South Louisiana, claims that drilling mud spread by Standard Oil Co. of California left 10 acres of his farm land useless. He has sued, asking that Socal replace the tainted dirt with new topsoil. Socal maintains in a court filing that the damage wasn't out of the ordinary.

Martin Dupre's problem was salt water. The ex-farmer from Franklin, La., says rusty pipelines that Indiana Standard uses to link oil wells with disposal wells leaked on his sugar-cane land for years, damaging more each year. Two years ago, he says, with 250 acres poisoned, he gave up and quit farming. Indiana Standard doesn't deny that saltwater damage occurred but won't comment further.

Mr. Dupre says such contamination "is all through South Louisiana where I see oil production. What kind of price did Louisiana have to pay to keep the rest of the nation warm?"

Neighbors of oil-field waste pits often tell of being left to deal with such problems after an oil company moves out. "We complain and complain about these smelly pits, but no one will take responsibility for them," says Marion Sellers of Abbeville, La. He built a two-foot-high levee around his house in an effort to keep back water runoff from an abandoned dump.

This particular site was for two years a commercial dump for waste from Exxon, Gulf, Union Oil Co. of California and more than a dozen others. Neighbors also tell of illegal "midnight dumping." Some of the neighbors have sued known users of the pit, charging them with contaminating their water wells; the companies are contesting the suit.

The EPA has found 37 toxic substances in and around the 17-acre site. Lead has been found in water from Mr. Sellers' well. Although no link has been shown, Mr. Sellers' wife suffers from memory loss, one of his children has kidney failure and his other two children have learning disabilities. Some other neighborhood residents complain of chronic diarrhea or nausea and of pets and livestock dying mysteriously.

Dr. Buller's Story

Small-town doctors often are left to grapple with such problems on their own. In Opelousas, La., surgeon Daniel Buller figures he treats enough cases of colon cancer to keep 10 surgeons busy.

Dr. Buller also says he diagnoses or treats an average of one case of pancreatic cancer a week. In fact, the densest cluster of pancreatic-cancer deaths in the U.S. is found in South Louisiana. To use the figure for white residents, the death rate from this cause rose 57% in the area between the early 1960s and the late 1970s.

Dr. Buller worries about contamination of aquifers, which supply 85% of the state's public water systems. "It's a very frightening situation," he says. "You can envision generations being exposed to carcinogens that can never be removed." But instead of warning the public, he contends, authorities often try to cover a problem up.

If so, they have precedent. Twenty-five years ago there was an underground oil-well explosion near Gueydan, La., and a local health-department employee told his bosses in Baton Rouge that ground water might be tainted for miles around. Their reply instructed him "not to make any public statement on this situation."

Port Barre's Water

A more recent case concerns the town of Port Barre, La., which lies next to a petroleum wasteland of stinking disposal pits, injection wells and rusting separation tanks. The state health department found the town's water supply to contain more salt than the EPA's recommended limits and 14 times as much as the level the EPA considers optimum. The water tests also showed nearly twice the level of dissolved solids that federal standards permit. The state health department didn't announce the results, however; officials note that they aren't required to do so.

Nor did Porte Barre officials tell residents what the tests had found. "The decision was made to keep people in the dark," says Ray Thibodeaux, a former town councilman who attended an unannounced council meeting in November 1983 when the test results were discussed. The explanation offered by Port Barre's mayor, Roy Council, is that everyone knew the water was bad anyway.

In Kaplan, the cancer-ridden area where Jerome Vincent lives, the state health department took a very different course. Tests by Wilma Subra, who runs a local water lab, found zinc or barium or both in 81 or 84 water wells. But most residents of the heavy oil-and-gas-producing area continue to drink the water anyway. One reason is that the state health department sent form letters to many of them stating that "your water is of satisfactory chemical quality for domestic use."

The department says it based the letter on its own water tests showing contaminants to be within acceptable levels. In a few cases where the tests found barium above the safety level, later tests showed lower results, the agency says.

Limited Budget

South Louisiana's health problems have put the health department somewhat on the defense, but officials say they do all they can within the budget the legislature gives them. In addition, says Sue Ellen Lewis, the head of the agency's public-affairs office, "you have to understand who calls the tune." Asked specifically about agency handling of water-contamination problems, she says, "You'll have to pose that question to someone else. The guys' name is Edwin Edwards."

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For his part, Gov. Edwards attributes South Louisiana's high cancer rate to its Cajun residents' liking for fatty foods and cigarettes. The state's chemical industry, which sponsored a study of Cajuns' life styles, blames their smoking, drinking and low dietary fiber for the region's cancer levels. The American Petroleum Institute's medical director, Neil Weaver, says he isn't aware of any epidemiological studies focusing on health and oil-field waste.

A few Louisianians are so desperate for answers they have undertaken crude studies of their own. Evelyn Allison, an organist at a retirement home in Lafayette, has traipsed through South Louisiana communities scrawling blots and stick figures on maps to mark clusters of cancer cases. "Nobody else is doing anything," she says.

But doing something isn't easy. When the state planning office assigned Lawrence Lynch to edit the 1979 "State of the State" report, he included cancer-rate data and a warning about "serious problems of air, water and ground pollution." His bosses in Baton Rouge relieved him of his duties and never published the report.

Petrochemical Waste

Pollution concerns in the coastal marshes of Louisiana focus on oil-field pits and dumps, but there is another major source of oil-industry waste in the state—the large refineries and petrochemical plants. Much of their waste now is safely sunk in so-called injection wells, but not all of it.

In the 1960s and early 1970s, a commercial disposer dumped wastes from Exxon, Shell Oil and eight other big chemical producers into a giant pit below a bluff in the Mississippi River flood plain above Baton Rouge. Some of it migrated into a marsh called Devil's Swamp, now an expanse of dead cypress trees. Flood waters commonly cover it in the spring.

The companies' wastes are no longer dumped at the pit. In response to a suit by the EPA, they have agreed to excavate the soil there to a depth of one foot. A 1982 consultant's study, however, said that a reddish sludge had saturated some soil as deep as 25 feet.

Handling of chemical waste, which the EPA regulates as "hazardous," has improved in Louisiana, but the agency nevertheless says that 40% of the state's major hazardous-waste disposal facilities violate federal regulations. This is roughly double the average for all states. In a June letter to the state, the EPA said it had found several deficiencies in ground-water monitoring at three contaminated disposal sites in Louisiana, run by Rollins Environmental Services Inc., Tenneco Inc. and Martin Marietta Corp. All deny such shortcomings and say they are cleaning up all contaminants.

In addition, a third of the big refining, processing and industrial plants that generate wastes classed as hazardous have advised the state of possible ground-water contamination at one or more of their installations. For example, PPG Industries Inc. found that toxic wastes buried at its chemical plant one to two decades ago were migrating underground and entering a ship channel at a rate of 10 pounds a day. It says the material hasn't endangered any drinking water.

The Mississippi's Water

Even injection of chemical waste into dry wells isn't foolproof. One injection well, used by Tenneco for refinery wastes, has leaked contaminants into the underground sands from which New Orleans would draw an emergency drinking-water supply, according to reports by a Tenneco consultant and the state. Tenneco says that the well only contaminated a shallower aquifer and that a cleanup program is under way.

New Orleans's main source of water, the Mississippi River, is a dumping place for Tenneco and more than 100 other refiners, sewage plants, petrochemical producers and other industrial operators in Louisiana. It isn't known whether the river dumping is related, but a National Cancer Institute study in the mid-1970s showed New Orleans' cancer death rate to be 21% above the U.S. average and the highest among 11 metropolitan areas surveyed. More recenty, state water specialists began finding evidence of carcinogens in the river water.

Now Louisiana is asking the EPA to permit four fertilizer plants to dump into the Mississippi each year millions of tons of gypsum waste, containing uranium, radium and other toxic materials. An EPA staff memo to Administrator William Ruckelshaus recommends approval even though the dumping might cause the river, at low flow, to violate the federal government's water-quality standards.

A few years ago, a company called IT Corp. proposed to build in Louisiana the world's largest disposal plant for hazardous waste. It got $375,596 from the state to do a feasibility study and paid $53,836 to a consultant to help out. The consultant, however, happened to be working for the state government's own hazardous-waste division on the same project.

The Louisiana Ethics Commission last year fined the company $10,000 over the affair, which it declared had "led to actual illgotten gain by IT Corp. and others" and had "clouded the integrity of the state's hazardous-waste management program." IT, denying any conflict of interest, is appealing the commission's ruling. An IT official says, "We feel very genuinely clean and honest."

Oil's Legacy

Louisiana Marshlands, Laced With Oil Canals, Are Rapidly Vanishing

Sea Water Invades Wetlands, A Big Fish and Fur Source And Hurricane Bulwark

Plight of Local Governments

By George Getschow
And Thomas Petzinger Jr.
Staff Reporters of The Wall Street Journal

EASTERN ISLES DERNIERES, La.—On this barrier island off Louisiana's marshy coast stands a statue of the Virgin Mary, used in blessing the shrimp boats before they put out to sea. But in recent years the statue itself has had to be saved from the ocean. Three times the fishermen have moved the Virgin farther inland to escape the encroaching waters.

This is Terrebonne Parish, or county, and it is the state's largest. But it is getting smaller. Terrebonne Parish is largely made up of coastal marshes and islands, and every year eight more square miles of them disappear.

That hasn't always been the trend. For 7,000 years, geologists estimate, the vast coastal wetlands of southern Louisiana were the fastest growing land mass in North America. But for the past 30 years, these scientists say, the Louisiana marshes have rated as the continent's fastest *shrinking* land mass (See maps on page 26.)

It is a matter of some consequence. Louisiana has 40% of all the coastal wetlands in the country—three times as much marsh as low-lying Holland has. The state's 5.4 million acres of ecologically fragile wetlands supply almost one-third of the seafood produced in the U.S. Most of the shrimp caught in the Gulf of Mexico mature in this huge aquatic factory.



Third of a series of articles on Louisiana and the oil and gas industry

The marshes once produced more income in pelts than Alaska did in gold, and even today Louisiana supplies about half of North America's fur harvest. Counting recreational activities such as hunting, the Louisiana marshes annually generate well over $1 billion in revenue.

The wetlands also function as Louisiana's chief line of defense against hurricanes, so that every square mile lost brings potential flood waters closer to the 1.1 million residents of the coastal zone. To build flood-control structures that would protect as well as the marsh does would cost $10 billion, estimates Oliver Houck, an associate professor at Tulane law school and former counsel of the American Wildlife Federation.

But every 16 minutes, another acre of marshland disappears. Practically all the terrain south of New Orleans will be gone in 50 years if the destruction continues at its current rate. It isn't likely to stay at that rate, however; marshland loss has been accelerating year by year.

Canals and Levees

Geologists at Louisiana universities have a pretty good idea why, and nearly all the causes they cite involve the oil-and-gas stampede in the area. It started in the early 1930s, when Standard Oil, Texaco, Gulf Oil and others sent battalions of explorationists to blast the swamps for seismic readings and teams of dredgers to clear routes for floating drilling rigs. By the 1950s, pipeline navies were sinking 3,000 feet of steel in a day.

Over the years, the marshes have been sliced up by an estimated 12,000 miles of oilfield canals. The Gulf of Mexico's salty tide sweeps through these channels, killing the marsh grasses whose roots hold land in place. Meanwhile, the piles of dirt left alongside dredged canals retard drainage, so that naturally occurring substances accumulate to levels that are toxic to plants. And each trip through the canals and bayous by an oil-service boat—there are about 4,000 such trips a day—throws a wake that eats away a bit more.

The oil and gas industry doesn't agree that its activity is damaging the swamps. "You could eliminate oil and gas dredging, and the wetlands erosion problem won't go away," says William Bailey, a lobbyist for the Mid-Continent Oil & Gas Association, a trade group. He and others from the industry lay the blame on two other important factors that university geologists cite: land subsidence and the building of flood-control levees. Subsidence lets in more salt water, while levees interfere with the deposit of Mississippi River silt.

Sinking Faster

Yet these forces, too, are related to oil and gas operations. The levees, for instance, are built not just to protect settled areas but also to promote navigation by merchant ships, crude-oil tankers and other vessels.

As for land subsidence, it has been going on for centuries but apparently has accelerated sharply in recent years. Using tide-gauge records and carbon dating of sediment, some scientists have estimated that after thousands of years of sinking about eight inches a century (an amount for which silting more than compensated), the land now is subsiding at a rate of at least 24 inches a century. They suspect that one reason is the draining of oil and gas reservoirs.

But the more such scientists study marshland loss, the more of it they attribute to the dredging of canals. A 1973 study laid 39% of the loss to these canals; a 1979 study put the figure at 69%; and last year, a study by LSU's Center for Wetlands Resources concluded that canals may account for 89% of the marshland loss. The canals are "a continuing legacy that extends decades beyond the time of their construction," the study said.

The swamp's shrinkage and the sea's encroachment are grist for the academicians, but the process is real to coastal residents. At the Leeville Lounge in Leeville, La., the juke box and the cigarette machine have been put up on boxes to dodge the rising waters. Crypts at a graveyard are slipping little by little into the bayou. Debbie Billiot, who lives nearby, opened the door to her house trailer recently and the water was so high a snake slithered in.

A major navigation canal called the Mississippi River Gulf Outlet has more than doubled in width in some areas and has washed away a road and much of the land that used to be a town called Shell Beach. "We got the name but we ain't got the beach," says fisherman Frank Campo Jr., watching the wake of an oceangoing vessel cascade into intersecting bayous.

In places the protective barrier islands, once large expanses where tourists vacationed and company employees played softball, have shrunk to slender sand bars or have vanished. If the islands disappear, as is predicted in 30 years or so, it is anyone's guess what will happen to the erosion rate at the shore.

Parishes' Plight

Some local officials are growing desperate. James Edmonson, the head of Terrebonne Parish's effort to save the islands, on a recent day is inspecting some stakes he placed a month earlier on Eastern Isles Dernieres. He is shocked to find waves lapping over them. Mr. Edmonson assures a fisherman, Hebert Price, that the parish will put up more snow fence and plant more dune grass soon. "It could be gone by then," Mr. Price mutters. "The gulf is eating us alive."

Terrebonne Parish has begun preparing residents for the day when large bond issues may be needed to finance hurricane walls. Billboards teach people "what a barrier island does for you," and eighth-graders get instruction on the importance of preserving marshland.

But local governments have little power to control marsh development. When a coastal county next to New Orleans, St. Bernard Parish, tried to assume some control over dredging permits, the state sued it for overstepping its authority. Nor do local and statewide coastal advisory commissions have any clout, says John Uhl, a concrete contractor who serves on such boards. "We won't be able to manage the wetlands as long as the oil companies hold sway," he believes.

Oil and gas development could coexist with the marsh if only oil companies used more environmentally sensitive drilling procedures, argues Sherwood Gagliano, a former LSU geology professor who today helps landowners and local governments try to save their property. The problem, as he sees it, is the attitude of many companies that "you take, take, take and give nothing."

The state does have marshland regulations, but the oil and gas industry helped to draft them. As a result, the rules were held to "a lot of vague, innocuous language," says Winston Day, an LSU law professor and former state environmental regulator.

Assembly Line

Louisiana has never denied an oil company's application for permission to dredge through the marshes, people close to the process say. Dredging permits are approved by the dozen each month. "They look like McDonald's processing hamburgers," says Donald Boesch, the head of a marine laboratory in Terrebonne Parish.

Coastal dredging also has to be approved by the U.S. Army Corps of Engineers, but it, too, has apparently never denied a request in Louisiana. Promoting oil and gas development and cutting red tape are both national policies, federal officials explain. Oil companies "go through the permit procedure, but in effect they get what they want anyway," a member of the Corps of Engineers staff in New Orleans says.

The U.S. will give states $34 million for coastal-protection programs this year, including $2 million for Louisiana. But U.S. guidelines are flexible, and the National Oceanic and Atmospheric Administration, which dispenses the funds, lets states set their own preservation and development priorities. The agency's 1983 evaluation found "significant problems" with Louisiana's coastal regulatory program and took note of "deep frustration" by local governments.

The Lousiana Coastal Commission, an appeals body that overseas marshland regulation until it was disbanded recently, was for years largely made up of people whose livelihoods depended on the oil and gas industry. But last year seven members, including the chairman, were charged by the state Ethics Commission with violating the state's ethics code by having extensive business dealings with companies they regulated.

Gerald Bordelon, the chairman, acknowledged during an Ethics Commission hearing that he was affiliated with or part owner of 10 oil-field service concerns that "worked for every major oil company"—including several for which his commission approved coastal use permits. Mr. Bordelon was found guilty of violating the ethics law and told he must either leave the commission or get rid of his business interests. He and the six others choose to resign.

Shell Dredging

There is another kind of dredging in Louisiana coastal regions, called shell dredging. Operators gather tons of seashells each day by hauling 400-foot draglines through the

coastal marshes and in Lake Pontchartrain near New Orleans. They sell the shells for use in petrochemical processes and in construction, including building oil-field roads and stabilizing oil and gas production platforms. The activity is opposed by many fishermen and environmentalists on the grounds that the extensive dredging destroys shrimp and oyster habitats and promotes marshland erosion.

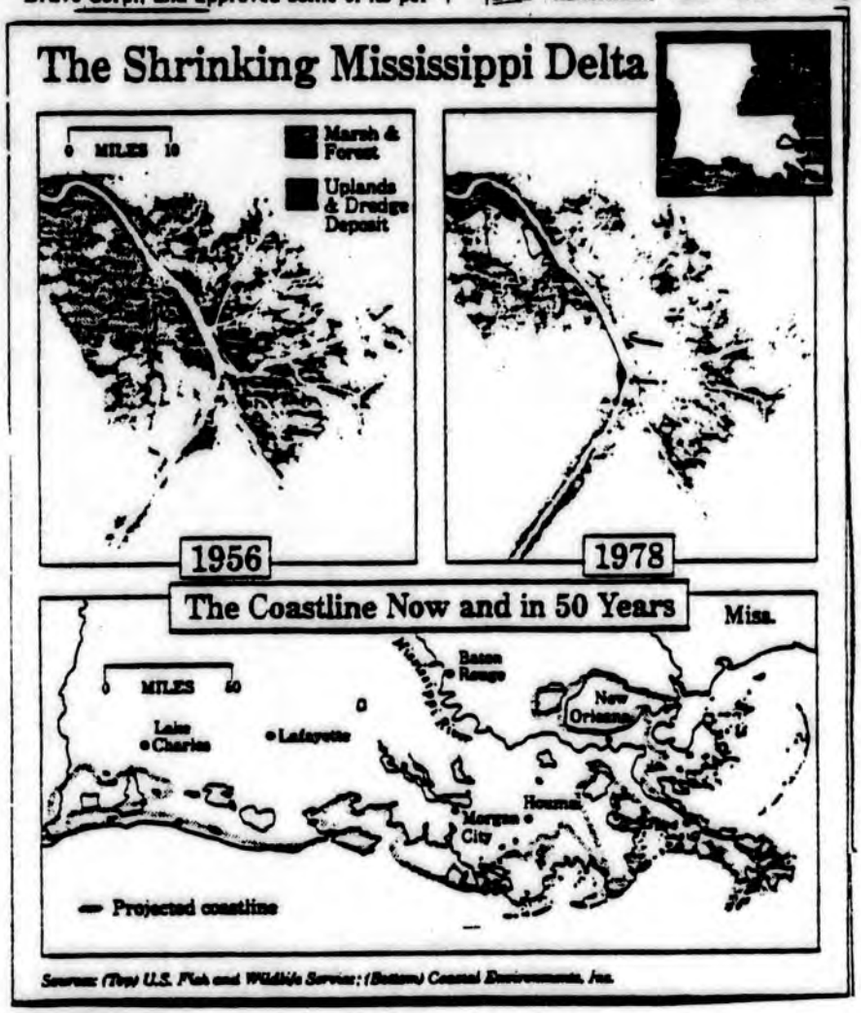
Mr. Bordelon, while he was still chairman of the Coastal Commission, did marine-transportation and machine-shop work for a shell dredger, the Radcliff Materials unit of Dravo Corp., and approved some of its permit applications. He also backed the state wildlife and fisheries secretary at the time, Jesse Guidry, in opposing an effort to restrict shell dredgers.

Mr. Guidry took an unusual step for a regulator last year when he testified before a natural-resources committee of the legislature and disputed the claims that shell dredging damages shrimp and oyster habitats (although some states have banned shell dredging to protect fish habitat). Marold Schoeffler, an environmentalist and head of a group opposed to shell dredging, says that "the shrimpers were astonished and shocked that their chief guardian would stand up and defend the shell-dredging industry."

Few realized, however, that Mr. Guidry had married the longtime former chief lobbist for the shell dredgers' association. Asked about this, Mr. Guidry says that "she stopped working for the industry quite a while before we got married," and that "I didn't know who she worked for at the time we dated."

The deterioration of the marshlands has turned some ordinary citizens into activists. Nolan Bergeron of Houma never have much thought to environmental matters during his years as an oil-field technician. But he is an avid fisherman, and while navigating through a labyrinth of marshland canals one day, he says, he was struck with the thought that "good God, this is all going to be destroyed one day." Now, as a Terrebonne Parish councilman, he is fighting to draw state officials' attention to what is happening to the wetlands.

The fight is uphill. Mr. Bergeron says he "could have filled a courthouse with people" to oppose a Tenneco Inc. dredging proposal if he had known its scope. But it was too late by the time he learned that Tenneco's dredging permit, when linked with separately issued permits, would result in a 6.7-mile pathway.



The long canal, to be created mostly by deepening existing canals and bayous, "will change the water flow of the entire area," Mr. Bergeron asserts. "Now you're going to have more salt water coming in." Tenneco says it has installed dams to prevent saltwater intrusion and has complied in all ways with state regulations.

Salt water was also a concern of another citizen-activist, Houma pharmacist Donald Landry. He spent years in a losing fight against plans to dredge a 50-mile marshland navigation channel, one wide enough to giant deep-water drilling platforms. He fears that the new marshland highway, as wide in some stretches as the Panama Canal, will worsen Houma's already-salty public water supply.

Spilled Oil

Louisiana had twice as many reported oil spills as any other state from 1980 through last year, the U.S. Coast Guard says, a total of 8,600 spills. In 1980-81, the spills dumped 15 million gallons of oil into rivers and coastal waters. When such spills occur in swamps, numberous studies show, the ill effects are long lasting because the water is shallow and slow-moving.

A state biologist's report of an inspection of some Terrebonne Parish oil fields in 1980 tells of oil and brine spewing directly into the marshes from broken pipelines and damaged waste-pit levees and storage tanks. Near a leaking brine pit of Union Texas Petroleum, wrote the biologist, Kerry St. Pe, "it is obvious that much of the adjacent fresh marsh has been destroyed." Union Texas, which is a subsidiary of Allied Corp., says it has since upgraded its saltwater disposal system to protect the marshes.

Mr. St. Pe also found a broken pipeline that formed a pool of oil and brine, but—as is often the case—the owner couldn't be determined. The difficulty of identifying owners has also hobbled fishermen who have sought to sue when their boats or nets have been snagged by a section of the thousands of miles of pipeline stems submerged in the marshes.

"It's a spaghetti bowl out there," says Mariano Hinojosa, the head of Louisiana's pipeline-regulation office. "They're sinking trawlers better than a U-boat ever could."

The U.S. Fish and Wildlife Service says total seafood production in the wetlands remains strong, but only because there are many more boats in the water; yields per boat have fallen an estimated 90% since the 1940s. The agency also believes that marshland erosion has begun to alter migration and nesting patterns of ducks and geese in the Louisiana marshes, the winter home for more waterfowl than any other spot on the continent.

But environmentalism isn't a strong movement in this state where oil pays so many. The state's Department of Wildlife and Fisheries draws nearly half of its $35 million annual budget from oil and gas royalties and collects $1.5 million in shell-dredging royalties. The Sierra Club branch in Lafayette has several members from the oil industry, and "it's definitely a limiting factor," says Paul Bickhart, a former Tenneco geologist who served on the chapter's board. Even a marshland refuge of the National Audubon Society contains oil-field canals, and the society gets $415,000 a year in oil and gas royalties from Conoco Inc.

One marsh the environmentalists have especially wanted to preserve is the Atchafalaya Basin, the largest river—overflow swamp in the country. So former Gov. David Treen and Dow Chemical Co. won a lot of good will three years ago when they negotiated an agreement under which Dow gave the state 46,000 acres in the swamp, a move Mr. Treen called "an outstanding example of corporate citizenship."

But when the property agreement arrived at the state land office months after the fanfare, "it was a shock," says Steve Zerangue, the head of the office. The bureaucrats discovered that Dow shared ownership of one-third of the gift land with other interests, some of whom were embroiled in title disputes with the company. The state inherited these disputes, along with the cost of land surveys required to settle them. With the state defending the surface rights, Dow's mineral rights (which it retained) would be defended free.

Michael Bourgeois, deputy secretary of natural resources, says it would cost $2 million to clarify the titles, and the state has already been in court 20 times defending citizens detained for trespassing on disputed lands that Gov. Treen had said were public. "It reminds me of a joke: 'Do you want to buy some swamp land?'" Mr. Bourgeois says.

Asked about the matter, Dow Chemical says it has "a workable program coming to pass that will resolve these things." A spokesman also says that the benefit of the gift to the state goes far beyond the benefit to Dow. Former Gov. Treen insists the donation was "a bonanza for the state."

Meanwhile, Louisiana environmentalists have finally obtained restrictions on timber clear-cutting in the Atchafalaya Basin, as well as curbs on the conversion of wetlands to dry. But that is as far as they got. "Oil and gas companies were given a free rein in the basin," says Foster Sanders, a lawyer who headed the Save the Atchafalaya Basin committee. He adds, "Anybody who thinks the oil and gas companies aren't omnipotent in Louisiana is just lying."

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Oil's Legacy

In Louisiana Oil Rush, One Thing Left Behind Was Culture of Cajuns

Laid Off as Wells Run Dry, They Discover Fish, Fur And Traditions Depleted

Stigma of Speaking French

By George Getschow
And Thomas Petzinger Jr.
Staff Reporters of The Wall Street Journal

BAYOU BENOIT, La.—Roy Blanchard, third-generation crawfisherman, once gave up his boat and traps for a steady job on the oil rigs. The money was good, he says, but "fishing is in my blood. I always had a longing to go back to the swamp."

He did go back, but as the 44-year-old Cajun guides his boat through the bayous these days, he is painfully aware that the swamp isn't what it used to be. Besides cypress and Spanish moss, he passes oil-field crew boats and pumping stations, storage tanks and pipeline "danger" signs. Amid the occasional rumble of dynamite exploded for seismic readings, he takes solace in knowing he soon will reach Red Eye Swamp, a backwater so remote his only visitor is a hootowl he feeds from his hand.

Today, however, there is an intruder in his sanctuary. It is a thick black electric cable strung above his crawfish traps. The cable is there to tell oil men what the geology is, but what it tells Mr. Blanchard is that the drilling rigs aren't far behind.

Last of a series of articles on Louisiana and the oil and gas industry



"It looks like they're going to take over the swamp," the fisherman says, his eyes moistening. "I know we got to have oil. I got to have oil myself. But places like this—they could show more respect. This swamp was made by God, and once it's gone, it's forever."

As the swamp goes, so goes the Cajuns's way of life. For a century, these French-speaking people lived a life almost frozen in time. They had come in the late 1700s, fleeing British rule over their colony of Acadia in what now is Nova Scotia, Canada. South Louisiana's remote swamps isolated the Acadians as they pursued their self-sufficient, simple lives of fishing, trapping muskrats and catching crawfish.

Then came the oil boom.

The oil men who surged into South Louisiana in the 1930s to seek their fortunes often disparaged the swampers. They called the Cajuns "coon-asses" and ridiculed their quaint customs and clumsy English. At first the Cajuns were upset with the intruders. But, recalls J.P. Owens, an 86-year-old former Texas wildcatter, "when they found out what we were paying, the Cajuns stopped complaining."

Rig City

Like Mr. Blanchard, most of the swampers and subsistence farmers eventually welcomed the outsiders—"Texians," they called them—and Cajun workers became the backbone of the oil and gas industry's big buildup in South Louisiana in the 1950s. Many Cajuns converted their shrimp boats to crew boats and leased or sold their land, often for what now seems a pittance.

Today, the imprint of petroleum is everywhere in South Louisiana, from the veritable city of production platforms in the Gulf of Mexico to a sprawling petrochemical complex along the Mississippi River. But Big Oil is beginning to pack up and leave the Louisiana fields. With oil and gas reserves drying up, and the jobs with them, a wave of dissention and soul-searching is sweeping through Cajun society. The question many Cajuns are asking themselves is whether they gave up their heritage too hastily.

Some of them mourn the withering of their language and customs over the past half-century. Others talk of how the seven-day-on, seven-day-off work schedules pulled apart their close family ties. And as thousands of laid-off Cajun workers return from the drilling rigs, they are anguished to find their ancestral fishing grounds despoiled by years of furious oil and gas production.

Many Regrets

Many Cajuns admit that they were more than willing participants in the degradation of their land. For 31 years on the rigs, Severin Broussard keeps quiet about the marsh dredging and waste dumping while he collected a steady paycheck. Then one day an oil-field accident broke his back. Now, at 76, he is trying to supplement a $34-a-month pension from Union Oil Co. of California by pulling catfish from a polluted lake.

"I feel worse about what the oil industry did to the lake than about what they did to my back," the old Cajun says. "I can make out, but what about future generations? They can't make it fishing because the fishing grounds have been destroyed, and now the oil industry is folding up and leaving. I feel sad, very sad, because I sold my heritage to the oil industry and now it's gone."

Mr. Broussard's 50-year-old son, Max, sees the changes from the perspective of a Catholic priest. An annual autumn duty of Father Broussard's predecessors was to give the special blessing to the shrimp fleet at Morgan City's fall festival. But at last month's festivities, he blessed a navy of oil-field supply boats.

"In 30 years we went from being a self-sufficient society to one totally dependent on the oil industry," he says. "It's a shame, but none of us ever stopped to question what was happening. We just jumped in and be-

came part of the money society."

Of course, oil by itself could never have transformed Cajun society so radically. Public education, automobiles, telephones and television, those great homogenizers, also exposed Cajuns to the way people lived outside the swamps. But the oil influx meant the modern ways were not only known to Cajuns but illustrated in their midst—and, perhaps more important, affordable.

"Television and the media gave Cajuns a lot of ideas about a different and better way of life, but the oil industry made it possible," says Glenn Conrad, who heads the University of Southwestern Louisiana's Center for Louisiana Studies in Lafayette.

Nowhere is the change clearer than in Lafayette itself, once the quaint Cajun capital of Louisiana. Today the sprawling, traffic-snarled town looks more like a mini-Houston. Suburban office centers and oilfield service companies have gobbled up land where cotton gins and sugar mills stood. A 150-acre tract that once was a nursery is a cluster of hotels and office buildings called The Oil Center. Hundreds of out-of-state oil companies do business here.

The town, swollen to a city of nearly 140,000, now includes some very un-Cajun institutions, places like the posh and exclusive Petroleum Club. But Cajuns, too, are among its diners. Cajuns ski in Colorado with the Cajun Ski Club, which claims to be the largest ski club in the country. Bumper stickers proclaim that "Cajun country is oil country."

Grown Up and Gone

But Lafayette also is a town of leave-takings, a place where many spend half their lives on offshore drilling rigs and production platforms. Twenty-five years ago, Lennis Hebert lived in the country and dug potatoes for $5 a day. Then he got a job assembling and repairing wellheads, and ever since he has been on call round the clock.

"I make a lot more money than I would have if I had stayed on the farm," he says. "But my kids are grown up now and I didn't have time to enjoy them. I was always away on the job."

Mr. Hebert, who has risen to division manager of a giant oil-field supply company, knows a lot of affluent Cajuns like himself. "They've got big campers, bass boats and swimming pools, but they had to spend half their lifetime offshore to pay for them. When I was growing up on the farm, money didn't mean much to us, but oil's changed us. Now, everyone's trying to keep up with the Joneses."

The changes he speaks of occurred all across Acadiana, a loose dominion of 24 Cajun parishes, or counties, in South Louisiana. When petrodollars began flowing into French Louisiana, Cajuns accustomed to the spotty income of fishing or trapping adopted the slogan *laissez les bon temps rouler*—let the good times roll. Round-the-clock festivals of music and dance, with lots of beer and *boudin* (spicy pork sausage), became regular weekend reminders that the good times had come.

Today, local Cajun harvest festivals and *boucheries*—neighborhood pig roasts—have been transformed into slick tourist attractions, complete with souvenir stands, carnival shows and country-and-western bands. A tiny boucherie in St. Martinville, started by a Cajun butcher to keep the dying custom alive, now is called by its publicists La Grande Boucherie des Cajuns. It brings in 30,000 tourists a day to drink, to eat, drink and party.

Super Coon

"It's just a money-making thing now," says Louis Durand, who ran the bourcherie last year. Golden Meadow's Super Coon Sunday, sponsored by the oil-dominated Chamber of Commerce, is a raucous affair featuring beer-drinking and other contests for the title of Super Coon.

Lafayette's Festivals Acadiens, begun as a Cajun heritage revival, now is a cultural gumbo that mixes Cajun *fais do-dos* (dances) and *chanky chank* (music) with alien imports like Ferris wheels, craft show and Haagen-Dazs ice cream. Leona Guirard, 76, used to sit in the Cajun storytellers' booth at the festival, but not anymore. "It's become a carnival for people who have nothing in common," she says.

Before the swampers catapulted into modern society, generations of Cajun parents kept their families close by building small wooden homes next door for married children and connecting each to the main home with a wooden walkway across the marsh. The people of Cajun communities were bound together by their history of exile, their French patois by their temperament, what has often seemed to outsiders a naive, happy-go-lucky approach to life.

But such traits also left them vulnerable. Glenn Pitre, who is a Cajun from Cut Off, La., but went to Harvard, says, "Cajuns were an isolated peasant society with little or no education. They weren't equipped to deal with the sudden influx of oil companies making promises in a language that 90% of them didn't understand."

No French

The Cajuns quickly discovered that their language was a liability out on the oil rigs and supply boats. They were told that any communication mixup could mean a costly mishap, perhaps a fatal one. Until they learned English, Cajuns could only expect to get dirty, dangerous jobs as roustabouts or roughnecks.

Before long, Cajun schoolteachers were punishing Cajun children for saying *merci* instead of thank you. The shame Cajuns came to feel for their linguistic heritage lingers today in French Louisiana, and the language is rapidly disappearing.

Roman Catholicism was once as integral a part of Cajuns' heritage as their much-noted joie de vivre. The church's bazaars, card games and Mardi gras anchored Cajuns' social lives. But the oil and gas boom brought in Protestant evangelists, mostly

Baptists, from Texas, Oklahoma and other Bible Belt states. They condemned the drinking, gambling and merrymaking as sinful and challenged the Cajuns to defend their ways. Many couldn't, and today Protestant churches flourish throughout Acadiana.

Father Columban Lesquiuit, a Catholic priest in Catahoula, speaks bitterly about "those Protestants" who moved in and complained about the public schools' providing religious instruction and time off to go to Mass. "It was against the law, but no one complained before because everyone was Catholic," he says. "Then the Protestants came here and forced us to stop."

The Rev. Dore Langley, a Baptist minister in St. Martinville, says that "it's been difficult to get them to give up their good-times ethos, because it's a way of life with them." But he says he has managed to convert "a good percentage" of Catholic Cajuns to the Baptist faith. "The oil industry helped us tremendously," he says, "because it strengthened our numbers and our resolve to preach to the community."

Politics Shift

The industry also strengthened the numbers of another group foreign to Cajuns: Republicans. Acadiana had long been a stronghold of populist, Democratic politics, but after the oil influx the region in the 1950s got its first Republican officeholders. Alfred Lamson, who claims that he was the first, says proudly, "We've become homogeneous. We're not just oil people any more, or just Cajuns. We're all people of Acadiana."

Still, Cajuns sometimes feel a little like oddities in their own land. Last year Gulf Oil service stations distributed "crawgater" cups, portraying Cajuns as people hatched from the eggs of those mythical swamp creatures. Gulf halted the promotion after it was denounced as demeaning, and it says it didn't intend any slight to Cajuns.

The oil and gas industry has long sought to smooth relations with the Cajuns and to play down reports of friction. In Morgan City, the annual Shrimp Festival was years ago renamed the Shrimp and Petroleum Festival. A statue in a city park depicts a shrimp lovingly curled around a drilling rig. In Jennings, the Oil and Gas Museum displays an old Cajun cottage alongside the replica of a derrick.

As far back as the 1940s, Exxon underwrite a film called "Louisiana Story" about a Cajun trapping family's idyllic encounters with the crew of an Exxon drilling rig. The preface noted that the film showed "how the impact of industry may come gently to a land, without disturbing overmuch the harmony between land and people."

French Renaissance

James Domengeaux, a wealthy oil man and former congressman from Lafayette, sees things much the same way. "The oil industry hasn't disturbed Cajun society in the slightest," he says, adding that Anglo oil men are among the strongst supporters of a movement he heads to energize Cajun culture. The movement, called French Renaissance, imports about 200 tutors from Europe each year to teach French in public schools, and it sponsors overseas scholarships and "twinning ceremonies" between Cajun communities and French-speaking foreign towns.

But its efforts, such as teaching Parisian French to Cajuns, is viewed with skepticism by some, including Cajun radio personality Randy Whatley. "It's an elitist movement that's trying to supplant Cajun society with a wine-and-cheese-set society," he says. Mr. Whatley heads a counter-movement, dedicated to averting "cultural and linguistic genocide," that teaches *Cajun* French and publishes Cajun literature.

Neither movement, however, has much meaning to the crawfishermen and muskrat trappers out in the bayous. They are more worried about the condition of the swamps.

The deterioration of those marshlands as fish and fur habitat is evident at an 18,000-acre marsh near Golden Meadow, where oil and gas drilling has been going on for 30 years. Alex Plaisance, whose father was in charge of trapping there for the Michigan company that owns the marsh, went in the business of canal dredging in the 1950s. He helped rip up the marshes to make way for drilling rigs and supply boats from Texaco and other companies.

Today his son Alex Plaisance Jr. is the manager of the property—such as it is. One-fifth of the marsh has vanished, and salt water admitted by the canals is eating away at the rest. An area from which his grandfather and a crew of 25 trappers harvested a million muskrats and minks a year now barely supports five local trappers. "Everything that isn't dead is dying," Mr. Plaisance says.

With oil production in the marsh declining, along with royalties to the out-of-state owner, the Michigan company has decided to install dams, a marine laboratory and other projects to try to revive the population of shrimp, muskrats and frogs. It is the kind of expenditure—$2.5 million—that only a large landowner could afford.

But as the owners of the marshes seek to replace their declining oil-royalty income, some Cajun swampers suddenly are finding themselves no longer welcome. "No trespassing" signs have recently been posted on thousands of acres, and in some cases even armed guards. It is a development that angers Loulan Pitre, a retired boat captain from the town of Cut Off.

"The oil and gas is running out, and so now they want the swamp all to themselves," he says. "Bayous that my grandfather used to fish in are being blocked off for commercial fish farms. Now what are the Cajuns supposed to do? Starve to death?"

As oil-field layoffs mount, thousands of Cajuns seek to return to the marshes for a living, only to find them shrunken, polluted with drilling waste, littered with submerged steel—and frequently off-limits anyway. Tension is in the air.

Crawfish Strike

The competition for crawfish has become so fierce that fishermen are selling even the tiniest ones they catch. The volume of crawfish that the many new fishermen are bringing in has caused prices to fall. Recently, hundreds of angry fishermen struck the processing plants. Crawfish buyers faced an ugly atmosphere hitherto unknown in the bayou communities, one of slashed tires and threats.

"A lot of hard feelings came out during the strike," says Sidney Guidry, a crawfish processor in Catahoula. "People are bitter because the oil industry is dying here and it's taking the crawfishing industry down with it."

Some upwardly mobile Cajuns regret having built big brick houses with bank money. "A lot of young farmers and fishermen who found oil jobs bought fancy $60,000 homes, thinking the oil boom would last forever," says Camile Blanchard, an oil-field worker who still has his job. "But now the banks are foreclosing on some of them who've lost their jobs." Teche Federal Savings & Loan Association in Franklin, La., says its foreclosures have soared.

And in Morgan City, Father Broussard finds that divorce, drug addiction, social diseases and suicide have gone from virtually nonexistent to almost commonplace. Even those who still have their oil-field jobs are affected, he says, as neighborhood get-togethers increasingly degenerate into weekend-long orgies of gluttony, drunkenness and drugs.

"Cajuns find strange ways of expressing anger and distress," the priest says. "All the frenetic partying and pleasure-taking masks fears that their prosperity is threatened. They're saying, 'Let's enjoy it while we can because it ain't going to be around long.' "

MEMORANDUM State of Alaska

TO: Bill Ross
Commissioner

DATE: Febuary 19, 1985

FILE NO:

TELEPHONE NO: 465-2640

FROM: Keith Kelton
Director
Division of Environmental Quality

SUBJECT: Spill Expense Reserve Account
History and Status Report

In 1976, the Alaska Legislature passed its first major legislation addressing the problem of oil spills. It required oil spill contingency plans, proof of financial responsibility for cleanup efforts, as well as provisions for charges against terminal users and oil tankers based on the degree of spill risk their equipment and operations presented. Funds collected from the program were to be used to develop a contingency fund to meet cleanup costs in the event of a major spill. The fund was struck down by the courts, leaving the other two provisions intact.

In order to maintain the State's oil pollution control program, a new bill, HB 205, was introduced by the 1979 Legislature. This legislation extended the contingency plans and financial responsibility to offshore exploration and production facilities, and oil barges. The new legislation was to correct the defects in the 1976 law and ensure that Alaska had a strong program for preventing and mitigating the effects of an oil spill. Chapter 120, SLA 80, Section 53 provided $1,542,600 for HB 205 (FY 80), and provided a $1 million expense reserve and a fiscal note to start and fund the Oil Pollution Control Program. The Spill Expense Reserve was to pay costs directly involved in the abatement, containment, and removal of a discharge of oil or hazardous substances: the fiscal note provided for staff, equipment, and training.

House Journal Supplement No. 43 indicated that, "the cleanup reserve be maintained by capital appropriation at the $1 million level. The balance of the reserve should carry over from year to year. Subsequent budget requests may be less than $1 million." An additional $250,000 was appropriated in 1981 and another $250,000 in 1984.

Since the inception of the program, hundreds of spills have been cleaned up. Most of the expenses are charged directly to the spiller. When the spiller was unknown or the spill incident required immediate emergency action, the spill reserve was used to fund the cleanup work.

Some spills involve action by the courts and the Attorney General's Office. The account balance on January 31, 1985, was $410,080.74. There are several spills that are still in the litigation or pre-litigation stages and may require sizable funding. The Nome Gasoline Spill has cost over $680,000 to date.

On December 27, 1984, we received a reimbursement of $597,896.07 for spill expenses from the U.S. Coast Guard for the Nome Spill; this is the first time that the state has received federal funds for reimbursement of spill expenses.

On July 14, 1983, a settlement/agreement was reached between the State and the Alyeska Pipeline Service Company on the two spills that occurred over four years prior, the Atigun Pass Spill and the Mile Post 734 Spill. The settlement was for $350,000.

AS 46.03.758(k) states that "penalties received by the state under this section shall be deposited in the general fund and credited to a special account called the 'oil spill mitigation account.' The legislature may annually appropriate from the spill mitigation account a sum equivalent to the amount of penalties received under this section for the calendar year preceding the legislative session in which the appropriation is made, the appropriation to be made for the purpose of restoring and enhancing environments affected by oil pollution, including but not limited to the funding of aquaculture projects."

Amount expended in FY 84		$ 785,112.62
Amount expended for FY 85 to date		69,827.18
	TOTAL	$ 854,939.80
Amount recovered FY 84		354,541.73
Amount recovered FY 85 to date		608,885.58
	TOTAL	$ 963,427.31

We are asking for a capital appropriation of $550.0 for FY 86 to bring the Spill Reserve Account back up the $1.0 million level.

4

PROJECT TITLE: Spill Expense Reserve Account	AGENCY PRIORITY: __ __ OF __ __
LOCATION: Statewide	
ELECTION DISTRICT: 99	FISCAL YEAR: 8 6 DURATION: continuing
APPROPRIATION TO: Alaska Department of Environmental Conservation	PROGRAM: Oil Pollution Control

	FUNDING:	CAPITAL REQUEST	REVISED REQUEST	OPERATING COSTS
1002	FEDERAL RECEIPTS			
1003	GENERAL FUND MATCH			
1004	GENERAL FUND	550.0		
1005	INTER-AGENCY RECEIPTS			
1028	PROGRAM RECEIPTS			
	TOTALS:	550.0		
	POSITIONS (PFT):			-0-

PROJECT DESCRIPTION AND JUSTIFICATION:

LINE (1) To fund cleanup of oil or hazardous substance on land and inland waters of the state, account originated
LINE (2) in FY 80 by HB250 with $1 million and appropriations in FY 81 and 84 of $250.0 each. HJ Supplement 40
LINE (3) states account to be maintained at $1 million, funds to be continuing from year to year. AS 46.03.758(k)
LINE (4) states appropriations may be made annually, revenue from fines and forfeitures deposited to General Fund.

CP1 CAPITAL PROJECTS DESCRIPTION
DATA ENTRY WORKSHEET
(6/84)-cp1

WORKSHEET

FY 86

PAGE 1 OF 2
REVISED DATE

Since the inception of the program, hundreds of spills have been cleaned up. Most of the expenses are charged to the spiller. If the spiller is unknown or the spill incident requires immediate emergency action, the spill reserve account is used to fund the cleanup work.

Some spills involve action by the courts and the Attorney General's Office. The account balance at this time is $447.0. There are several spills that have not been cleaned up completely and may require sizable funding. The Nome Gasoline Spill has cost over $680.0 to date and the North Slope Salvage Spill has cost over $38.0, both are under litigation.

From July 1980 to the end of August 1984, the amount received from spillers has been more than $470.0. Reimbursement from federal funds for the major part of the Nome Spill is expected upon completion of an audit by the U.S. Coast Guard.

We are asking for a capital appropriation of $550.0 for FY 86 to bring the Spill Reserve Account back up to the $1 million level.

CP1 ADDITIONAL EXPLANATION FORM

(6/84)-ael

AGENCY Environmental Conservation

PROGRAM NRMEC

BRU Environmental Conservation

COMPONENT Oil Pollution Control

REVISED DATE

FY 86

EXPLAIN THE REMAINING FIVE YEARS OF THE SIX-YEAR CAPITAL IMPROVEMENT PLAN (FY 87, 88, 89, 90, 91). DESCRIBE THE NEEDS TO BE MET IN THE COMING YEARS AND THE PROJECTS OR TYPES OF PROJECTS WHICH MAY BE REQUESTED TO MEET THOSE NEEDS. PLEASE INCLUDE MAJOR MAINTENANCE OR REPLACEMENT PROJECTS. ESTIMATE THE APPROXIMATE COST OF THE PROJECTS. IF THE PROJECTS ARE TO OCCUR SO FAR IN THE FUTURE OR ARE OF SUCH AN INDETERMINATE NATURE THAT A COST ESTIMATE WOULD NOT BE RELIABLE, PLEASE INDICATE THIS FACT. NOTE WHETHER A SIGNIFICANT PORTION OF THE TOTAL FUNDING WILL COME FROM NON-GENERAL FUND SOURCES. MAKE SPECIFIC REFERENCE TO FORMAL PLANNING DOCUMENTS USED AS A BASE FOR THIS DISCUSSION (FOR EXAMPLE, THE LONG-RANGE STATE TRANSPORTATION PLAN). PLEASE ATTACH A COPY OF PUBLISHED MATERIALS.

During the next five years, we would like to have yearly appropriations from the general fund that would keep the account at the $1 million level. All of the projects are of an indeterminate nature since we cannot predict when a spill will occur or its severity, location, chemical composition, or the environmental implications involved.

Chapter 116 SLA 1980 states "the two main purposes of this law are to provide protection to Alaskans from damage from oil spills and to provide the ability to clean up a spill and restore damaged areas."

The increase in oil and chemical development, increase in traffic and shipment of product, increased population and land development all lead to a broader spill experience potential. Our projection for following years will be based on records, experience and continuing projects.

AS 46.04.010 states the Department shall promptly seek reimbursement, either under 46.03.760(e) or from an applicable federal fund, for the expenses it incurs in cleaning up or containing a discharge of oil. Monies received under this section shall be deposited in the general fund.

In most cases the amount of requested appropriation will be offset by revenue received from fines and forfeitures.

CP2 CAPITAL PROJECTS PLAN FY 87-FY 90 EXPLANATION

(6/84)-cp2

AGENCY Environmental Conservation

PROGRAM Oil Pollution Control

PAGE OF

REVISED DATE

FY 86

CH, SLA, PAGE, LINE, OR RP	PROJECT TITLE AND LOCATION	AMOUNT AUTHORIZED	ESTIMATED TOTAL EXPENDITURE THROUGH JUNE 1984	PLANNED EXPENDITURE THROUGH COMPLETION	EST. COMP. DATE	STATUS
CH 82/81 P 141 L7	Spill Reserve Account Statewide	250.0	25.5	224.5		These are continuing funds

CP3 STATUS OF CURRENTLY AUTHORIZED CAPITAL PROJECTS

(6/84)-cp3

AGENCY Environmental Conservation

PAGE OF

REVISED DATE

FY 86

4. State Hazardous Waste Disposal Day Campaign

- This is the third year that ADEC has conducted this service to assure proper disposal of unregulated hazardous wastes from households and small businesses. This year ADEC requested the 4 municipalities contribute a percentage toward the cleanup. Testing and disposal costs are increasing so rapidly that the state will need to request a significant amount from municipalities next year or reduce services.

II. Site Investigations of Potentially Hazardous Waste Disposal

- In Alaska there are currently 97 potential uncontrolled hazardous waste sites identified on an EPA list. 45 of those sites are being investigated by the Department of Defense, 7 sites are being investigated by EPA, and during the past year ADEC performed preliminary investigations at 45 sites.

- ADEC ranked the 50 sites as to the significance of potential hazards and will be further evaluating 15 of the high ranking sites this summer. These site investigations may disclose potential or actual environmental contamination causing the site(s) to be listed as a federal Superfund site.

- To cope with any necessary remedial action, Alaska will need to establish a state site cleanup fund and hire additional staff to manage any corrective actions required at each site.

III. Drilling Muds and Fluids

- Drilling muds and fluids are excluded from regulation as a hazardous waste under both the federal and state hazardous waste statutes.

- Drilling muds are managed in Alaska under existing solid waste regulations for land disposal. Muds and fluids generated off-shore are regulated either under a state waste water discharge permit or a federal NPDES permits. In many cases muds are stored for re-use and the fluids reinjected into the formation.

- The existing statutes are strong enough to allow development of the states resources and minimize risks to the public and the environment. ADEC is developing internal guidelines for permit review and stipulations to assure consistency as well as protection of the environment considering the diverse geological and climatalogical conditions found in the state.

IV. Waste Oil

1. Oil Spill Expense Reserve

- Established by the 1980 legislature at $1.0 million level for the cleanup and litigation of coastal, inland, and underground oil spills.

- Current balance is $385,000.

- Requested $550,000 for FY 86.

- Expenditures to date - $1.12 million.
  Revenues to date - $1.10 million.

- A major spill cleanup, such as at Nome, can cost $700,000

- Anticipated FY 86 expenditures from the reserve is $300,000.

2. Road Oiling Regulations

- New regulations will become effective May 2, 1985.

- Regulations prohibit the use of contaminated oil on roads as a dust suppressant.

- Regulations define prohibited levels of PCBs, lead, volatile aromatics, and halogenated organics in road oil.

- Analytical testing is required of all road oil and sample analysis must be submitted to DEC before road oil permit is granted.

- Approximately 2 million gallons of waste oil is generated in Alaska per year.

- Approximately 1 million gallons is applied annually to roads in Alaska.

- EPA has stated their intent to ban road oiling throughout the U.S. by May 1987.

- EPA is now reviewing the federal hazardous and solid waste amendments of 1984 to determine whether Alaska and more than 30 other states will be allowed to issue road oiling permits this summer.

- Alternate dust suppressants exist and are in use throughout Alaska.

- Alternate methods of waste oil disposal exist (e.g. burning) but unresolved and logistical problems may limit their use in Alaska.

DD9/sm

Offered: 5/16/84
Referred: Rules

Original sponsor: Resources Committee

RECE
MAY 1
DEPART
ENVIRONMEN

IN THE SENATE BY THE FINANCE COMMITTEE

CS FOR SENATE BILL NO. 503 (Finance)

IN THE LEGISLATURE OF THE STATE OF ALASKA

THIRTEENTH LEGISLATURE - SECOND SESSION

A BILL

For an Act entitled: "An Act relating to hazardous waste and certain public contracts concerning hazardous waste; changing penalties for environmental pollution violations; and providing for an effective date."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

* Section 1. AS 46.03.299 is repealed and reenacted to read:

Sec. 46.03.299. REGULATION OF HAZARDOUS WASTE. (a) The department shall develop regulations for the identification and management of hazardous waste as defined by the Environmental Protection Agency and hazardous waste that exhibits the characteristic of toxicity, persistence, or carcinogenicity. The department shall adopt these regulations not later than July 1, 1986, in accordance with the Administrative Procedure Act (AS 44.62). These regulations shall take effect July 1, 1987.

(b) Regulations adopted under (a) of this section shall exempt from their coverage mining waste and waste associated with the exploration, development, or production of crude oil, natural gas, or geothermal energy until studies required under 42 U.S.C. 6982(f) and (m) are completed. The department, after considering the findings in the reports of these studies, may terminate or amend the exemptions.

(c) The department shall take all actions necessary to receive authorization from the administrator of the Environmental Protection Agency to administer and enforce a hazardous waste program in accordance with 42 U.S.C. 6901 - 6987 (Resource Conservation and Recovery

Act of 1976).

(d) Regulations adopted under (a) of this section shall cover (1) hazardous waste, not otherwise exempted by law, that is generated in any month by a single generator in an amount of 220 pounds or more, and (2) acute hazardous wastes identified in 40 C.F.R. 261.33(e), not otherwise exempted by law, that are generated in any month by a single generator in an amount of 2.2 pounds or more. The department shall extend the regulations to manage smaller quantities of hazardous waste if the quantities specified in this subsection exceed the quantities regulated under the authority of 42 U.S.C. 6921 - 6934, as amended. The department may at any time extend coverage of regulations adopted under (a) of this section to small quantities of hazardous waste and acute hazardous waste.

(e) During the period July 1, 1986 through June 30, 1987 the department shall conduct a program to inform persons of their responsibilities under regulations adopted under (a) of this section.

* Sec. 2. AS 46.03.308 is repealed and reenacted to read:

Sec. 46.03.308. TRANSPORTATION OF HAZARDOUS WASTE. (a) Hazardous waste may not be transported in the state unless the waste is accompanied by a manifest and the generator has delivered a copy of the manifest to the department before the transportation begins.

(b) The department shall send a copy of each manifest received under (a) of this section to

(1) the state and local public safety agencies with jurisdiction over areas covered by a hazardous waste transportation route; and

(2) the highest elected local official representing each area covered by a hazardous waste transportation route.

* Sec. 3. AS 46.03 is amended by adding a new section to read:

Sec. 46.03.309. TEMPORARY COLLECTION OF HAZARDOUS WASTE. The department shall provide for the temporary collection of hazardous waste to be prepared for shipment to a federally approved hazardous waste disposal site. The department shall establish four periods in each calendar year during which it shall collect hazardous waste. A collection point may accept hazardous waste only from small quantity generators and household generators as defined by the Environmental Protection Agency.

* Sec. 4. AS 46.03 is amended by adding new sections to read:

Sec. 46.03.313. HAZARDOUS WASTE MANAGEMENT FACILITIES AND SITES. (a) The department shall evaluate and select potential sites for hazardous waste management facilities in the state. In evaluating and selecting sites for management facilities, the department shall consider at least the following factors:

(1) economic feasibility, including proximity to concentrations of generators of the types of hazardous waste likely to be proposed and permitted for management;

(2) intrinsic suitability of the sites;

(3) federal and state pollution control and environmental protection regulations;

(4) the risk and effect for local residents, units of government, and the local public health, safety, and welfare, including such dangers as an accidental release of waste during transportation to a facility or at a facility, water, air, and land pollution, and fire or explosion;

(5) the consistency of a facility with, and its effect on, existing and planned local land use and development; local laws, ordinances, and permits; and local public facilities and services; and

(6) the adverse effects of a facility at the site on agri-

culture and natural resources and opportunities to mitigate or eliminate the adverse effects by stipulations, conditions, and requirements relating to the design and operation of a management facility at the proposed site.

(b) By July 1, 1986, the department shall adopt regulations that

(1) interpret and clarify the factors listed in (a) of this section; and

(2) establish procedures for processing, reviewing, and approving or disapproving applications for the siting and operation of privately owned hazardous waste management facilities.

(c) The department may authorize the siting and operation of privately owned hazardous waste management facilities in accordance with factors and requirements established under this section.

(d) The department shall hold public hearings in each election district in which a hazardous waste management facility site is proposed to be located. The department shall give reasonable public notice of the time, date, and place of each public hearing at least 30 days before the hearing. The public shall be afforded an opportunity at each hearing to submit written and oral testimony concerning a potential site. The department shall consider the testimony submitted at public hearings when it prepares reports under AS 46.03.314.

(e) For purposes of this section, "intrinsic suitability" of a site means that, based on existing data on the inherent and natural attributes, physical features, and location of the site, there is no known reason why a waste management facility that may be located in the site could not reasonably be expected to qualify for a permit under AS 46.03.302.

Sec. 46.03.314. REPORTS ON MANAGEMENT SITES AND FACILITIES. (a) Not later than July 1, 1987, the department shall submit to the gover-

nor and the legislature a preliminary report that includes

(1) proposals for the siting of hazardous waste management facilities in the state;

(2) proposals for the methods of financing and operating the facilities;

(3) proposals for the types of facilities that should be constructed, such as chemical processing facilities, incineration facilities, and transfer and storage facilities; and

(4) information about private hazardous waste management sites and facilities approved by the department.

(b) Not later than July 1, 1989, the department shall submit to the governor and the legislature a final report that includes

(1) identification of sites selected by the department for hazardous waste management facilities;

(2) recommendations for the methods of financing and operating facilities at the sites listed in (1) of this subsection;

(3) recommendations for the types of facilities that should be constructed at sites listed in (1) of this subsection; and

(4) information about private hazardous waste management sites and facilities approved by the department.

* Sec. 5. AS 46.03.760(a) is amended to read:

(a) A person who violates or causes or permits to be violated a provision of this chapter <u>other than AS 46.03.250 - 46.03.314, or a provision of</u> [OR] AS 46.04, or a regulation, a lawful order of the department, or a permit, approval, or acceptance, or term or condition of a permit, approval, or acceptance issued under this chapter or AS 46.04 is liable, in a civil action, to the state for a sum to be assessed by the court of not less than $500 nor more than $100,000 for the initial violation, nor more than $5,000 for each day <u>after that</u>

[THEREAFTER] on which the violation continues, and that [WHICH] shall reflect, when applicable,

(1) reasonable compensation in the nature of liquidated damages for any adverse environmental effects caused by the violation, that [WHICH] shall be determined by the court according to the toxicity, degradability and dispersal characteristics of the substance discharged, the sensitivity of the receiving environment, and the degree to which the discharge degrades existing environmental quality;

(2) reasonable costs incurred by the state in detection, investigation, and attempted correction of the violation; [AND]

(3) the economic savings realized by the person in not complying with the requirement for which a violation is charged.

* Sec. 6. AS 46.03.760(b) is amended to read:

(b) Except as determined by the court under (f)(4) of this section, actions [ACTIONS] under this section may not be used for punitive purposes, and sums assessed by the court must be compensatory and remedial in nature.

* Sec. 7. AS 46.03.760 is amended by adding a new subsection to read:

(f) A person who violates or causes or permits to be violated a provision of AS 46.03.250 - 46.03.314, or a regulation, a lawful order of the department, or a permit, approval, or acceptance, or term or condition of a permit, approval, or acceptance issued under AS 46.03.250 - 46.03.314 is liable, in a civil action, to the state for a sum to be assessed by the court of not less than $500 nor more than $100,000 for the initial violation, nor more than $10,000 for each day after that on which the violation continues, and that shall reflect, when applicable,

(1) reasonable compensation in the nature of liquidated damages for any adverse environmental effects caused by the violation,

that shall be determined by the court according to the toxicity, degradability and dispersal characteristics of the substance discharged, the sensitivity of the receiving environment, and the degree to which the discharge degrades existing environmental quality;

(2) reasonable costs incurred by the state in detection, investigation, and attempted correction of the violation;

(3) the economic savings realized by the person in not complying with the requirement for which a violation is charged; and

(4) the need for an enhanced civil penalty to deter future noncompliance.

* Sec. 8. AS 46.03.790 is amended to read:

Sec. 46.03.790. CRIMINAL PENALTIES. (a) Except as provided in (d) - (f) of this section, a [A] person who negligently violates [OR WHO CAUSES OR PERMITS A VIOLATION OF] a provision of this chapter or AS 46.04, or of a regulation, lawful order of the department, or permit, approval, or acceptance, or term or condition of a permit, approval, or acceptance issued under this chapter or AS 46.04 is guilty of a class B misdemeanor.

(b) Except as provided in (d) - (f) of this section, a [A] person who knowingly [WILFULLY] violates a provision of this chapter or AS 46.04, or of a regulation, lawful order of the department, or permit, approval, or acceptance, or term or condition of a permit, approval, or acceptance issued under this chapter or AS 46.04 is guilty of a class A misdemeanor.

(c) Each day on which a violation described in [(a) OR (b) OF] this section occurs is considered a separate violation.

(d) Notwithstanding (a) and (b) of this section, a [A] person who fails to provide or falsely states information required under AS 46.03.755 or AS 46.04 is guilty of a misdemeanor and, upon convic-

tion, is punishable by a fine of not more than $25,000, or by imprisonment for not more than one year, or by both. Each unlawful act constitutes a separate offense.

(e) Notwithstanding (a) and (b) of this section, a person who knowingly (1) transports any hazardous waste to a facility without a permit required under AS 46.03.250 - 46.03.314; (2) treats, stores, or disposes of hazardous waste without a permit required under AS 46.03.250 - 46.03.314; or (3) makes a false statement or representation in an application, label, manifest, record, report, permit, or other document filed, maintained, or used for purposes of compliance with the hazardous waste provisions of AS 46.03.250 - 46.03.314 or regulations adopted under those provisions, is punishable by a fine of not more than $10,000 per day or by imprisonment for not more than one year, or both.

(f) Notwithstanding the penalty provisions of (a) - (e) of this section, a defendant that is an organization is, upon conviction of a violation of any of the provisions listed in this section, subject to the penalties set out in AS 12.55.035(c).

* Sec. 9. AS 46.03.900 is amended by adding new paragraphs to read:

(36) "mining waste" means solid waste from the extraction, beneficiation and processing of ores and minerals, including coal, and including phosphate rock and overburden from the mining of uranium ore;

(37) "waste associated with the exploration, development, or production of crude oil, natural gas, or geothermal energy" means (A) waste, including drilling muds, cuttings, hydrocarbons, brine, acid, sand, and emulsions or mixtures of fluids produced from and unique to the operation or maintenance of a well, whether naturally occurring or added for the operation or productivity of the well; and (B) waste

that is derived intrinsically from primary field operations; "waste associated with the exploration, development, or production of crude oil, natural gas, or geothermal energy" does not include spent solvents and oils from equipment maintenance activities, discarded chemical products, or fuels;

(38) "waste derived intrinsically from primary field operations" means waste produced from a well, and removed (A) at the drill site; or (B) at crude oil production facilities by crude oil or wastewater treatment process before custody transfer of the crude oil.

* Sec. 10. AS 24.60 is amended by adding a new section to read:

Sec. 24.60.045. HAZARDOUS WASTE CONTRACTS. A legislative staff member may not solicit or receive a contract concerning hazardous waste from a state agency or department other than the legislature during the interim following a session in which the person worked. This section applies to legislative staff members range 18 or higher. In this section "hazardous waste" has the meaning given in AS 46.03.900.

* Sec. 11. This Act takes effect immediately in accordance with AS 01.-10.070(c).

Neve'/Walker/Kelton/Hemphill

Alaska Oil and Gas Association

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Suite 219
Anchorage, Alaska 99503-2553
(907) 272-1481

December 11, 1984

Dr. Richard A. Neve', Commissioner
Alaska Department of Environmental
Conservation
Pouch O
Juneau, Alaska 99811

Dear Commissioner Neve':

Pursuant to our meeting with Dave Walker on November 2, 1984, the attached material is intended to provide background information on the State's Hazardous Waste Program; the intent of SB503, Section 1; an explanation as to how the Degree of Hazard (DOH) approach differs from the Federal regulatory scheme; general issues associated with pursuing a regulatory approach substantially different from the Federal program; and sections of the regulations which need to be deleted to obtain a proper beginning vehicle.

Please feel free to contact me or Tom Brooks if we can provide additional information.

Very truly yours,

WILLIAM W. HOPKINS
Executive Director

WWH:TR2:211

Attachment

cc: Bob Martin w/attachment
Dave Walker w/attachment

ALASKA OIL AND GAS ASSOCIATION
DISCUSSION PAPER ON ADEC HAZARDOUS WASTE PROGRAM
DECEMBER, 1984

BACKGROUND

In 1981 the Alaska State legislature passed AS 46.03, charging the Alaska Department of Environmental Conservation with the task of developing Hazardous Waste Management regulations which are "consistent with and substantially equivalent to" federal regulations. AOGA was informed on November 24, 1981 that the Department would begin preparation of a "plan" for the State's Hazardous Waste Program. In May 1982 AOGA received the first draft of the State's proposed regulations at the May 28, 1982 Hazardous Waste Advisory Work Group Meeting (HWAWG). At this meeting, ADEC discussed its intent to establish a State program parallel to the Federal program; so convincing was ADEC that AOGA's representative reported:

> "ADEC very much wants their Program to be "consistent with and substantially equivalent to" the Federal Program. Although there was a difference of opinion regarding the interpretation of certain complex sections of the Federal Program, I am not as concerned about this difference as I was when I first reviewed the draft regulations. This is because it can be resolved with a close reading of the regulations. The important point is that the State intended to, and thought they had, interpreted the existing regulations. This significantly assuages my concern that the State had been trying to greatly expand their authority in this program, and trying to include regulatory requirements much more restrictive than the existing Federal Program. ADEC was not trying to expand their program, <u>they were trying to interpret and parallel the Federal Program</u>. Interpretation problems are resolvable with some time devoted to discussing the various sections of the regulations in detail, and utilizing the existing background documents from these same discussions which occurred at the Federal level."

It was not until February 7, 1983, that AOGA received the first draft of State regulations which reflected a "Degree of Hazard" (DOH) regulatory mechanism (a mechanism which is patterned after Washington State's program and is divergent from Federal regulations).

It is appropriate at this time to briefly reflect on Washington's Program. Their program began with passage of their Hazardous Waste Disposal Act in 1976. As a result, Washington's program and the Federal program were being developed simultaneously with the basis for Washington's Program being defined by statute.* The Act took the form of three pages of general directives regarding the identification and management of hazardous wastes. Principal among these directives was the establishment of the "two tiered" designation system or "designation-based on degree of risk". The fundamental basis for designating wastes with this early program was biological and other testing.

In late 1980, the issue was again before the Washington legislature. Unfortunately, its designation process was sufficiently complex to preclude any meaningful review by the legislators. There was no discussion at the legislative level of various alternative approaches that would satisfy the State's enabling act, nor was there any realization that the technical complexities of the State agency's program may have been overly complex to meet the need at hand. Fueling the controversy was the fact that a State site (Commencement Bay) was designated a priority cleanup site under Superfund and other examples of egregious past practices were brought to light during the public hearing process. It is likely that these past practices were illegal under either pre-existing State law or the RCRA regulations and would not have been prevented had the new regulations been in place. Nevertheless, public concern led to a demand for "an approach more stringent than the minimum federal requirements". Hence, in late 1980 the State legislature amended the original act to provide authority to bring the State regulations into federal compliance and did not allow the flexibility to parallel the federal program.

Washington State adopted on February 4, 1982, their present regulatory program. It is a combination of the original concept of waste designation based <u>solely</u> on testing and the Federal concept of designation based on rulemaking and simple testing. In its first few years of operation, the program captured 15% more wastes than the Federal RCRA program. Of the incremental wastes captured, most were designated as "dangerous" wastes; a classification not intended by the original State act to receive the comprehensive management strategy that was to be applied to State designated "extremely hazardous wastes" or Federally designated "hazardous wastes".

*NOTE: The U.S. EPA began formulating the national program (RCRA) in 1976. In 1980, RCRA was significantly amended to its present regulatory framework. At this time EPA decided that waste classification based on testing was inappropriate. For a detailed discussion as to EPA's rationale behind this decision, <u>re: FR Vol. 45, #98/May 19, 1980 pages 33164-33165, and 33105</u>.

In 1984, Washington enacted legislation which required the Department of Ecology to conduct studies regarding the "best management practices" for "dangerous" waste disposal. In the interim and until such time as "best management practices" regulations are in place (July 1, 1986) "dangerous" wastes may not be disposed of at commercial, off-site land disposal facilities. "Dangerous" wastes are now being stored or disposed of on site or must be shipped to RCRA disposal sites out of state.

In addition to the State being unable to facilitate the installation of a "dangerous" waste disposal site, the State has also been ineffective over an eight-year period in facilitating the acceptance and/or installation of an in-state disposal site for "hazardous or extremely hazardous" wastes.

Regarding the Alaska program, on March 3, 1983, AOGA informed Mr. Hungerford that the proposed rules of February 7, which reflected the DOH scheme from Washington State, were in need of in-depth technical review and notified him of forthcoming technical comments. On April 6, 1983, AOGA provided ADEC an in-depth technical review of the regulations. These comments were the culmination of extensive efforts by many engineers, marine biologists, toxicologists, attorneys and corporate management level individuals. The Department informed AOGA's representative on the Advisory Group that the ADEC could not expend the money or the manpower to consider AOGA's comments prior to release of a public hearing draft. On April 11, 1983, AOGA strongly requested that the regulations not be released until AOGA's comments could be reviewed and considered.

On April 19, 1983, the regulations were moved to public notice, with no apparent review or consideration of the technical comments provided to ADEC by AOGA. On April 25, 1983, Commissioner Neve' wrote AOGA indicating that the "comments of every member of the work group...were reviewed seriously and did help significantly in the preparation of these draft regulations". On May 25, 1983, at the Public Hearing AOGA stated that we felt that there was a lack of consideration of our industry's input in the development of the April 11, 1983, draft regulations.

By June 8, 1983, AOGA had provided ADEC with extensive oral and written testimony which was developed by the Environmental Committee in conjunction with the following industry experts:

- Joan DiNal, Senior Counsel, Environmental Affairs for Atlantic Richfield Company.
- Michael Hulse, Environmental Analyst, IMCO Services.
- James P. Ray, Ph.D., Manager of Environmental Sciences Support, Shell Oil Company.

- Robert E. Abbott, Ph.D., Coordinator of Environmental Affairs, Conoco Inc.
- Philip Dorn, Ph.D., Shell Development Company.
- Ilene Danse, M.D., Senior Advisor, Environmental Health Protection, Chevron Environmental Health Center, Inc.

The Department issued their latest draft in October 1983 which failed again to address significant concerns which have been repeatedly expressed by our industry. The Department has accepted AOGA's comments on three sets of draft regulations and failed to address the problems identified by AOGA.

AOGA next presented its case to the legislature. During this process, AOGA participated in the drafting of SB503, a piece of legislation which involved a compromise between members of the environmental community, small business, ADEC, AOGA, Labor, the Governor's Office, Sen. Fahrenkamp's office, etc., on key issues, one of which was DOH vs. the Federal Program.

INTENT OF SB503, SECTION 1

The compromise reached between the various parties for the management and control of hazardous waste in Alaska was a very delicate one. Because the legislature did not desire any confusion over the intent of this legislation, it adopted a Letter of Intent drafted by the Senate Resources Committee. The intent of the Legislature was for the Department of Environmental Conservation to "evaluate the most appropriate mechanism by which to identify a waste characteristic of toxicity, persistence or carcinogenicity and other characteristics identified as hazardous by the EPA". In order for a proper and complete analysis to be performed, no prior assumptions can be made as to the "appropriate mechanism" to be used by the State in its hazardous waste program.

Any regulations that are ultimately developed by the Department "must incorporate the results of this analysis" according to the intent letter. The Legislature, by the action of adopting this wording, instructed the Department to make an analysis and evaluation with no preconceived bias or ideas as to the appropriate mechanisms and only after the analysis is completed are the regulations to be drafted.

In summary, the Legislature has instructed ADEC to begin anew on identifying the regulatory mechanism of waste designation.

EXPLANATION OF DOH VS. RCRA

On May 19, 1980, EPA promulgated RCRA regulations that designated wastes by a formal rulemaking process (lists) and four reproducible and supportable characteristic tests. They reviewed various DOH programs and concluded a DOH approach was not an appropriate waste designation mechanism. To qualify for interim authorization, a state program had to encompass all RCRA wastes. In Washington, the two approaches were consolidated, resulting in the most complex designation system in use in the nation.

To briefly summarize, the DOH program is based on the concept that different wastes should be regulated with different procedures based on the degree of risk presented to human health and the environment, as demonstrated by existing biological and other test data or test results produced by generators. Initially, when the DOH approach was being developed it was envisioned that such data would be the sole basis for designating wastes, and that testing (bioassay, etc.) would be mandatory for all generators.

Although not specifically a designation issue, it must be kept in mind that nationally the small quantity generator exclusions are now much lower. If applied to Alaska, particularly without any special provision for small quantity generators, the combination of a much lower quantity exclusion and an extremely complex designation mechanism will result in an unenforceable program.

One of the difficulties inherent in the DOH designation procedure is that there is no adequate or simple means to describe how the federal and state universes of waste compare. No straightforward comparison can be made between a given category of federal wastes and categories defined under the state program. Consequently, the waste generator would often need to retain expert assistance. For example, professional assistance is especially recommended in instances where a waste not regulated under RCRA has "flunked" the state's proposed toxicity bioassay test. Determinations must be made regarding whether the test animals responded adversely to the potential toxic constituents or whether a physiological response to test conditions was involved. Such determinations will be subjective and inconsistent.

Technical complexities aside, the legal theory underlying the DOH regulations represents a marked departure from that embodied in the federal RCRA regulations. The federal regulations specify the criteria that the EPA administrator will consider in adding wastes to the lists in the RCRA regulations. The administrator is to consider potential wastes from the standpoint of toxicity, persistence, bioaccumulation, genetic effects, etc., and then to add appropriate wastes through formal rulemaking procedures. Thus, EPA's approach for developing hazardous waste lists inherently addresses biological considerations but centralizes the testing under EPA.

In contrast, DOH regulations place the burden on each generator to determine whether a waste not otherwise encompassed by the RCRA regulations is part of the state universe of wastes, and as previously stated, this determination may be made based on uncertain test results.

An individual generator's determination that a waste not regulated by RCRA might, for biological or other reasons, be regulated under the DOH regulations does not lead to a conclusive rulemaking. Thus, the process of identifying state regulated wastes is not accompanied by the certainty and procedural due process protections that characterize the listing process at the federal level.

A legal burden of designation is not to be confused with the cost burden of testing. Under both the federal and state regulations, the generator pays testing costs, as is typical of most environmental programs.

A major difficulty with the DOH designation system is that it creates an area of legal and technical vagueness. For example, biological test data can be inconclusive with regard to actual toxicity. The test animals may react adversely to test conditions rather than to the suspected toxic constituents, thus resulting in the over-designation of wastes. To further complicate the bioassay issue, there are no standard bioassay procedures which have been accepted by the scientific community at large. Difficulties may arise if a generator relies on an initial series of bioassay test results that show a waste to be nonhazardous. A subsequent test on the same waste yielding a positive determination of toxicity by the same or yet another generator may result in liability to the generator, who relied on the first series of tests in good faith. In either case, the uncertainties involved in the biological response of laboratory test animals to potentially toxic wastes may create a large gray area of potential liability for generators.

Under the State's proposed regulations, a generator may apply to the state agency for a determination of hazardous or nonhazardous status of a given waste. (This procedure is specific to the individual generator and does not provide notice or opportunity for comment from other generators of similar or related wastes and the scientific community at large.) However, such a certification would still not shield the generator from potential liability in the event of an erroneous certification by the state agency. Again, this ad hoc certification process cannot be viewed as a substitute for the certainty inherent in the federal designation system. In summary, the DOH generator is truly "at risk" to a degree not experienced by generators in the rest of the nation.

GENERAL ISSUES ASSOCIATED WITH PURSUING A REGULATORY APPROACH SUBSTANTIALLY DIFFERENT THAN THE FEDERAL PROGRAM

A substantial departure from the Federal and national trend in hazardous waste management by Alaska will make the State's program continually fraught with inherent technical, legal, and economic problems. Such a program will not be as readily able to take full advantage of the continued evolution or efforts of the Federal program.

The technical aspects of the national program is not the product of a few staff specialists or even the combined effort of one or two states. Rather, the Federal program has been and will continue to be the product of a concerted effort by this country's regulatory agencies, academic/scientific community, private industrial sector and environmental organizations. This effort cannot begin to be equaled by any single state.

As you are probably aware, the management of hazardous wastes is technically and legally complicated and highly controversial. Should the State embark on a program substantially different than the Federal program, Alaska will have to expend considerable amounts of time and resources in pursuing the continued development of a program which will be fraught with continuing implementation, legal, educational and enforcement problems. On the other hand, a state program that parallels the national trend can take full advantage of the billions of dollars this country has and will continue to spend in further evolving and implementing hazardous waste regulations.

Again, a state that is contemplating an approach that differs fundamentally from the Federal program should consider the following questions:

- Will the alternative program, if based on fundamentally different technical theories, isolate the state from the larger body of developing scientific expertise at the national level?
- Will the alternative program, if based on different legal theories, create the need for a divergent trend of judicial interpretation and thereby isolate the state from legal developments at the national level?
- How will a fundamentally different program that is more expansive than its federal counterpart be reconciled with related programs such as Superfund that provide mechanisms for partial federal funding for incidents involving federally designated waters?

- How will the fundamentally different state program relate to the interstate aspects of hazardous waste transport and management? This involves issues of reciprocity and the equity of burdening another state's disposal facilities if the state of origin has not provided ample sites for its own wastes.

- How will a fundamentally different state program be modified to remain consistent with evolving RCRA requirements?

- Does the fundamentally different state program exacerbate the interstate problems of hazardous waste management?

- What is EPA's enforcement interest in an incident involving a nonfederal waste that is considered hazardous in the state of origin but not in the state where the incident occurs? This issue stems from the fact that authorized state programs operate in lieu of RCRA regulations.

- To what extent would a fundamentally different program be delayed in obtaining final authorization?

- Will funding levels by the State be adequate to implement and maintain a program that is technically and legally divergent from the Federal program?

SECTIONS TO BE DELETED TO OBTAIN A PROPER BEGINNING VEHICLE

The following is intended as a list to highlight those major portions of the October 26, 1983, draft which should be deleted, pending a detailed evaluation by the Department:

- 18 AAC 62.010 Definition of Hazardous Wastes
- 18 AAC 62.030 Lists of Hazardous Wastes
- 18 AAC 62.050 Discarded Chemical Products
- 18 AAC 62.060 Characteristic of Toxicity
- 18 AAC 62.070 Characteristic of Persistence
- 18 AAC 62.080 Characteristic of Carcinogenicity
- 18 AAC 62.120 Waste Extraction Procedure (WEP) Characteristic
- 18 AAC 62.140 Exclusions
- Article 5 - Management of Moderate Risk Wastes

For a more detailed discussion, attached are both oral testimony and detailed written comments which were provided to the Department at the May, 1983 Public Hearing.

In addition, attached is an article from the October 26, 1984, Environmental Reporter, entitled EPA Staff Summary of 1984 Amendments to Resource Conservation and Recovery Act. This recent reauthorization addresses the majority of the real or perceived "loopholes" in the RCRA regulations. The reauthorization amendments only reinforce AOGA's contention that the nation's commitment to properly manage hazardous waste is real and a divergence from the Federal program is unnecessary.

tr2:220
Attachments

Alaska Health Project

Providing information about hazardous materials on the job and in the community.
417 West Eighth Avenue, Anchorage, Alaska 99501 (907) 276-2864

April 25, 1985

Representative Mike Davis
Pouch V
Juneau, Alaska 99811

APR 2 9 RECD

Dear Representative Davis:

Alaska Health Project appreciates your interest in issues concerning hazardous wastes in Alaska. As you may know, I have been directly involved with this issue for about three years at both the state and local level. Reflecting on my involvment in this area brings to mind the need for the Legislature to become more educated about the issue and for the Legislature to decide whether it deems hazardous wastes a priority concern for the future. It is my hope that the oversight hearings, or hearings of that type become the vehicle for this type of education. Further, it is my hope that the Legislature attack that hazardous waste issue in a similar fashion to the way it investigated proposals to develop a full scale petrochemcial industry several years ago. The hazardous waste issue deserves legislative commitment and coordination with state and local agencies, the public and industry.

It is important, in my opinion, that Alaska work hard to develop a preventive approach to hazardous waste, rather than falling into a dangerous trap of simply developing a program that reacts to hazardous materials incidents.

In light of this, certain testimony at the teleconference concerned me. While I agree with industry on the need for some sort of a hazardous waste disposal facility in Alaska (not necessarily a landfill) and with their concern regarding the current time frame for selecting a site, I do not wish to see the development of a site supersede development and implementation of a "total" state hazardous waste program. To develop a disposal facility without a state definition for when a solid waste becomes hazardous could result in serious technical, legal, and political problems down the road.

While I am the first to admit that management programs (such as a disposal site) are perhaps dollar for dollar better at solving problems than a regulatory approach, central to any management approach is a regulatory foundation which the state currently lacks. It is important that the state define, by regulation, when a waste becomes hazardous thus allowing Alaska to decide on hazardous waste management approaches. Determining

a state definition for hazardous wastes will also help industry with their plans to manage wastes as well as provide incentives for industry to reduce their wastes streams or investigate alternative processes which do not create a hazardous waste as defined by the State of Alaska.

Last year The Department of Environmental Conservation published a set of hazardous waste regulations which define hazardous waste by degree of hazard. While admittedly controversial, this approach provides a good starting point for future discussions. Regardless of the fact that earlier debates addressing this definition scheme resulted in a "cold war" relationship between industry and public interest organizations, it is important to confront this issue directly. Once the state can settle on a hazardous waste definition, all other aspects of the program will fall into place.

Once again, I sincerely appreciate your interest in this issue and I am available to discuss this issue with you at any time.

Cordially,

David Wigglesworth
Occupational Health Specialist

cc: Commissioner Ross
Committee Members

Statement by ARCO Alaska, Inc.
for Presentation to the
House Oil and Gas Committee
April 24, 1985

By Dr. T.R. Fink, Manager
Environmental Conservation

Waste categories

Waste materials are regulated by both Federal and State requirements. In general, the Federal requirements pertain to hazardous wastes and the State requirements to non-hazardous wastes. All wastes should be handled in an environmentally sound manner. All wastes do not require the same degree of environmental protection.

Wastes are considered hazardous if they are listed as such by the Environmental Protection Agency of if they meet certain characteristics for ignitability, corrosivity, reactivity or toxicity. Diesel fuel and acids are two examples that, when discarded, meet the hazardous characteristics. Household garbage and sewage are solid wastes, not hazardous waste. Drilling mud is a waste common in our industry which is a solid waste but not a hazardous waste.

Alaska must develop a hazardous waste disposal site in the State

There is no hazardous waste disposal site available for general use in Alaska. Even if the various entities involved in the hazardous waste issue in Alaska were to agree on the definition of hazardous waste, the procedures for regulating hazardous waste, and the means for cleaning-up abandoned hazardous waste sites, the hazardous waste problem in Alaska will not be resolved until there is a viable disposal option in Alaska. Costs, legal and technical restrictions and political considerations associated with shipping hazardous waste to the Lower 48 preclude it from being the answer for Alaska's hazardous waste.

The State of Alaska must be involved in the development of a hazardous waste management facility

NIMBYS - Not In My Back Yard Syndrome - is alive and well in Alaska. For a hazardous waste management facility to be developed in Alaska, the State of Alaska must be heavily involved. With the active involvement of the State we can take the most important step toward solving Alaska's hazardous waste problems.

The SB 503 timeframe for hazardous waste siting is too slow

SB 503 requires disposal options and sites to be selected by 1989. After disposal options and sites are selected, the permitting and construction phases will require four to five years to complete. Alaska can not afford to wait until the early 1990's to have a safe, permitted disposal option for Alaska hazardous waste.

The 1984 amendments to the Federal hazardous waste program have forced the siting issue to the forefront. The 1984 Federal amendments phase out land disposal, greatly increase the number of hazardous waste generators, require the study and listing of additional materials as hazardous waste, add a citizens's suit provision and increase the penalty provisions. The Amendments increase the cost and decease the options currently available for disposal in the Lower 48. There is no statewide hazardous waste disposal site available in Alaska.

A Governor appointed executive level committee is needed

The hazardous waste siting issue can best be resolved by a Governor appointed executive level committee with representatives from DEC, DNR, local government, environmental groups and industries. The task of the committee would be to develop a plan of action for siting a hazardous waste management facility in Alaska.

SCOMM

#46:7

INTERIM REPORT OF THE

HOUSE SPECIAL COMMITTEE ON OIL AND GAS

Prepared by

Jonathan Sperber, Staff

at the direction of

Representative Mike Davis, Chairman
House Special Committee on Oil and Gas

January 22, 1986

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STATE OF ALASKA

POUCH V
JUNEAU, ALASKA 99811
(907) 465-4941

HOUSE SPECIAL COMMITTEE ON OIL AND GAS

MEMORANDUM

From: Jonathan Sperber, Committee Aide

To: Rep. Mike Davis, Chairman
House Special Committee on Oil and Gas

Re: Interim Activities of the House Special Committee on Oil and Gas

Date: January 22, 1986

The House Special Committee on Oil and Gas focused on the following issues during the interim: the TAPS tariff case, proposals to sell royalty oil to certain in-state refiners, state policy regarding the taking and disposition of royalty oil and gas, projected development of North Slope oilfields, and the unpermitted release of oil and hazardous substances.

The committee held three public hearings in Anchorage on these issues, and all meetings were teleconferenced to Juneau, Fairbanks, Kenai, Valdez and other sites. The committee chairman also moderated a public meeting in Fairbanks regarding a proposal by Arctic Energy Corporation to build a refinery in Fox.

Related activities included attending conferences sponsored by industry and government relating to Arctic drilling technology, the disposal of hazardous wastes and drilling muds, pipeline ratemaking, and marginal oilfield development. The committee chairman also participated in all meetings of the Alaska Royalty Oil and Gas Development Advisory Board during this time.

Information gained through these meetings and conferences was supplemented by on-site visits to the North Slope oilfields, MAPCO's and Petro Star's North Pole refineries, Tesoro's Kenai refinery, one of Shell's Cook Inlet platforms, and one of Chevron's oil tankers.

The trip to the North Slope included visits to Milne Point, Endicott, Lisburne, Kuparuk and West Sak, a flight over Union's drill ship and several exploration islands, and a tour through the West Dock waterflood facility.

The committee drafted two major pieces of legislation as a result of these interim activities. These include one bill which would create a new chapter within AS 38 relating to the taking and disposition of royalty oil and gas, and another bill which would establish a funding mechanism for responding to the release of oil and hazardous substances. A third bill, presently in draft form, would direct the Alaska Power Authority to fund a comprehensive feasibility study regarding the use of North Slope natural gas to produce cogenerated electricity.

HB 495
Question and Answer Overview

What does HB 495 seek to accomplish?

HB 495 attempts to clarify state policy and administrative procedures regarding the taking and disposition of royalty oil and gas. This clarification is intended to facilitate the procurement of royalty oil and gas by eligible purchasers, while also improving the working relationship between industry, the legislature, and the administration.

In order to effect these changes, HB 495 isolates oil and gas royalties from other royalty resources in AS 38. A new chapter comprised in part of sections of AS 38.05 and AS 38.06 would deal exclusively with the taking and disposition of royalty oil and gas. This new chapter, AS 38.16, would also consolidate criteria regarding the sale of royalty oil and gas into a single section.

The revisor of statutes has also been asked to consider rearranging certain sections of AS 38.05 in order to further clarify the requirements and procedures set forth in this chapter.

What are the major policy and procedural issues addressed in the bill?

HB 495 focuses on several issues of consequence to the state. Following is a brief outline of the policy changes proposed in the bill.

1. Clear direction is given to the commissioner of DNR regarding the taking and disposition of royalty oil and gas. Central to this policy is the maximization of state revenues, with secondary goals being to expand foreign markets and to supply existing and new in-state refineries and utilities with royalty oil at current market value.

2. The commissioner of DNR must submit an annual report to the legislature delineating the status of all state-owned royalty oil and gas production and disposition. The report must be submitted no later than the 15th day of each regular session.

3. The state reserves the right to purchase residual oil from in-state refiners.

4. Language is deleted that allowed royalty oil or gas taken in kind to be exported from the state only after the commissioner made a determination that "the royalty-in-kind oil or gas is surplus to the present and projected intrastate domestic and industrial needs" of the state.

5. The term of a competitively-bid disposition of royalty oil or gas which may take place without legislative approval is extended to two years from the current one year limitation.

6. The commissioner of DNR must make public written findings and conclusions relating to non-competitive dispositions of royalty oil and gas.

7. The Alaska Royalty Oil and Gas Development Advisory Board is transferred to the Department of Natural Resources from the Department of Commerce and Economic Development.

8. All oil and gas exploration incentives are retained, with the exception that royalties on oil and gas cannot be reduced below 12.5 percent.

9. An assignment of unrefined royalty oil purchased from the state is prohibited unless certain minimum benefits to citizens of the state are met.

10. Prior to disposing of royalty oil or gas, consideration must be given not only to a prospective purchaser's ability to provide significant price and supply benefits to citizens of the state, but also to the degree of certainty and intent of the prospective purchaser that these benefits will be provided.

11. Prior to disposing of royalty oil or gas, consideration must also be given to the local or regional desirability of the disposition.

12. DNR may provide by regulation for the confidentiality of documents and records in the same manner that this is presently done by the royalty board. In neither case should these confidentiality provisions preclude proper legislative review of proposed sales of royalty oil or gas.

HB 495
Sectional Analysis

* Section 1.

Chapter 16. Taking and Disposition of Royalty Oil and Gas.

HB 495 isolates oil and gas royalties from other royalties in AS 38, and clarifies state policy for the taking and disposition of royalty oil and gas. Chapter 16 is a new chapter comprised, in part, of sections of AS 38.05 and AS 38.06.

Sec. 38.16.010. Directs the state to maximize revenues related to the taking and disposition of royalty oil and gas. Secondary goals are to supply existing in-state refineries and utilities with royalty oil or gas at current market value, supply new in-state refineries and utilities with royalty oil at current market value, and expand foreign markets for royalty resources.

Sec. 38.16.020. Rewording, without substantive change, of the provision that the state give preference to taking its royalty in kind. [AS 38.05.182(a)]

Sec. 38.16.030. (a) Rewording, without substantive change, of the provision that the state give preference to disposing of its royalty by competitive bid to the highest bidder. [AS 38.05.183(a)]

(b) Rewording to clarify that a single competitive bid may be rejected. [AS 38.05.183(b)]

(c) The commissioner must make public written findings and conclusions relating to dispositions of oil or gas which are to be made other than by competitive bid.

Sec. 38.16.040. This section consolidates criteria for the commissioner and the board to consider when reviewing propsals to dispose of royalty oil or gas non-competitively. Changes to these criteria are:

(1) Cash value for the oil or gas shall not be below current market value. [AS 38.05.183(e)]

(2) No substantive change. [AS 38.05.183(e) and AS 38.06.070(a)]

(3) Consideration of projected local and regional economic benefits of refining or processing oil or gas in state. [AS 38.05.183(e) and AS 38.06.070(a)]

Sec. 38.16.040. (Continued)

(4) No substantive change. [AS 38.06.070(a)]

(5) No substantive change. [AS 38.06.070(a)]

(6) No substantive change. [AS 38.06.070(a)]

(7) Consideration must be given not only to a prospective purchaser's ability to provide significant price and supply benefits to citizens of the state, but also to the intent and degree of certainty that these benefits will be provided.

Sec. 38.16.050. (a) No substantive change. [AS38.05.183(f)]

(b)(1) Prohibits an assignment of unrefined royalty oil purchased from the state unless certain minimum benefits to citizens of the state are met.

(b)(2) Reserves to the state the right to purchase residual oil from in-state refiners.

Sec. 38.16.060. Deletes language allowing royalty oil or gas taken in kind to be exported from the state only after the commissioner has made a determination that "the royalty-in-kind oil or gas is surplus to the present and projected intrastate domestic and industrial needs" of the state. [AS 38.05.183(d)]

Sec. 38.16.070. Subsection (c)(2) of this section extends the term of a competitively-bid disposition of royalty oil or gas which may take place without legislative approval to two years from one year. [AS 38.06.055]

Sec. 38.16.080. Requires the commissioner to submit a royalty oil and gas report to the legislature no later than the 15th day of each regular legislative session.

Sec. 38.16.090. The department may provide by regulation for the confidentiality of documents and records. Similar provisions remain in effect for the board under AS 38.06. [AS 38.06.060]

Sec. 38.16.900. Definitions.

* Section 2.

Sec. 38.05.020. (b) Technical change, referencing AS 38.16.

* Section 3.

Sec. 38.05.035. Technical change, reflecting Ch. 64 SLA 85 (HB 103).

* Section 4.

Sec. 38.05.036. (a) Technical change, referencing AS 38.16.

* Section 5.

Sec. 38.05.036. (b) Technical change, referencing AS 38.06.060 and AS 38.16.090.

* Section 6.

Sec. 38.05.069. (f) Technical change, referencing AS 38.16.

* Section 7.

Sec. 38.05.135. (a) Retains all exploration incentives, with the exception that royalties on oil and gas cannot be reduced below 12.5 percent.

* Section 8.

Sec. 38.05.140. (c) Technical change, deleting language relating to oil and gas lease acreage. This language is transferred to the new subsection AS 38.05.180(aa).

* Section 9.

Sec. 38.05.180. (l) Technical changes regarding the state's ability to store or trade its royalty share. Also adds a provision requiring the commissioner to make written findings prior to storing or trading the state's royalty share.

* Section 10.

Sec. 38.05.180. (q) Technical change, referencing the new subsection AS 38.05.180(aa).

* Section 11.

Sec. 38.05.180. (r) Technical change, referencing the new subsection AS 38.05.180(aa).

* Section 12.

Sec. 38.05.180. (t) Technical change, referencing the new subsection AS 38.05.180(aa).

* Section 13.

Sec. 38.05.180. Technical change, adding the new subsection (aa).

* Section 14.

Sec. 38.05.182. (a) References to oil and gas are deleted from this subsection relating to the taking of royalty.

* Section 15.

Sec. 38.05.182. The new subsection (c) is added, stating this this section does not apply to royalty oil or gas.

* Section 16.

Sec. 38.05.183. (a) The commissioner is not required to provide written notice to the royalty board regarding the non-competitive sale of non-oil or -gas royalty.

* Section 17.

Sec. 38.05.183. (b) The commissioner is not required to provide written notice to the royalty board regarding the rejection of a competitive bid for non-oil or -gas royalty. Language is changed to clarify that a single bid may be rejected without necessitating the rejection of all bids involved in the sale.

* Section 18.

Sec. 38.05.183. (c) The commission is not required to provide written notice to the royalty board regarding the determination upon which the decision was based to sell non-oil or -gas royalty non-competitively.

* Section 19.

Sec. 38.05.183. A new subsection (h) is added, stating this this section does not apply to royalty oil or gas. Disposition of royalty oil and gas, including requirements that the commissioner provide written notice to the royalty board, is addressed in AS 38.16.030 and AS 38.16.040.

* Section 20.

Sec. 38.06.010. The purpose of AS 38.06 is expanded to include local or regional desirability as a major consideration for the disposition of royalty oil or gas. Also included is a technical change referencing AS 38.16.

* Section 21.

Sec. 38.06.020. The Alaska Royalty Oil and Gas Development Advisory Board is transferred to the Department of Natural Resources from the Department of Commerce and Economic Development.

* Section 22.

Sec. 38.06.040. Technical changes, referencing AS 38.16.

* Section 23.

Sec. 38.06.050. Technical changes, referencing AS 38.16.

* Section 24.

Sec. 38.06.070. Subsection (a) is deleted, and the substance of this subsection is transferred to AS 38.16.040. The board may recommend that refiners proposing to distribute and sell refined products and by-products in-state provide significant price and supply benefits to the citizens of the state.

* Section 25.

Sec. 38.06.080. Definitions.

* Section 26.

Sec. 43.05.010. (16) Technical change referencing AS 38.16.

* Section 27.

Sec. 44.62.175. (a) Technical change referencing AS 38.16.030. Also requires that notice of findings required to be made public by the commissioner be published in the Alaska Administrative Journal.

* Section 28.

Sec. 38.05.183. Subsections (d), (e), (f) and (g) are repealed in order that this section exclusively address the sale of non-oil and -gas royalty. The sale of oil and gas royalty is addressed in AS 38.16.030 and AS 38.16.040.

Sec. 38.06.055. This section is repealed, and provisions regarding legislative approval of royalty oil and gas contracts are transferred to AS 38.16.070.

* Section 29.

Sec. 01.10.070. (c) Provides for an immediate effective date.

10.

STATE OF ALASKA

POUCH V
JUNEAU, ALASKA 99811
(907) 465-4941

HOUSE SPECIAL COMMITTEE ON OIL AND GAS

November 12, 1985

Mr. David Dierdorff, Revisor of Statutes
Division of Legal Aervices
Legislative Affairs Agency
Pouch Y
Juneau, Alaska 99811

Dear Mr. ~~Dierdorff~~, David

Enclosed is a copy of draft legislation that is presently being placed into bill form by legislative counsel Terry Bannister. I believe that the clarity of AS 38.05 would be enhanced by rearranging certain sections and subsections within the chapter, though I would prefer these changes to be made by revision rather than by legislation. I therefore ask that you take the following proposals into consideration:

1. Transfer AS 38.05.140(a) and (b) to the new subsections AS 38.05.150(f) and (g), respectively.

2. Transfer AS 38.05.140(c) to the new subsections AS 38.05.155(c), 38.05.165(d), and 38.05.180(aa), as appropriate.

3. Transfer AS 38.05.140(f) to the new subsection AS 38.05.184(h).

4. Renumber AS 38.05.181 to AS 38.05.177 in order to segregate oil and gas from other mineral resources.

Sincerely,

Rep. Mike Davis, Chairman
House Special Committee on Oil and Gas

11.

STATE OF ALASKA
THE LEGISLATURE
LEGISLATIVE AFFAIRS AGENCY

POUCH Y STATE CAPITOL
JUNEAU ALASKA 99811
907 465 3800

MEMORANDUM December 10, 1985

SUBJECT: Renumbering in AS 38.05
(W.O. 14-1399)

TO: Rep. Mike Davis
Chairman, House Special Committee on
Oil and Gas

FROM: David R. Dierdorff
Revisor of Statutes

I have reviewed your request for reorganization and renumbering of certain provisions in AS 38.05.140 and 38.05.181. Your request makes a lot of sense and if your bill (W.O. 14-1399) is passed by the 14th legislature, I will do the reorganization in connection with the transmittal of the bill to the Michie Company.

If your bill does not become law, I will make a note to our AS 38 file that the reorganization should be accomplished when the title pamphlet is next replaced.

If I can be of further assistance, please advise.

DRD:mkr
M1:125

IN THE HOUSE

BY THE HOUSE SPECIAL COMMITTEE ON OIL AND GAS

HOUSE BILL NO. 495

IN THE LEGISLATURE OF THE STATE OF ALASKA

FOURTEENTH LEGISLATURE - SECOND SESSION

A BILL

For an Act entitled: "An Act relating to state oil and gas interests; and providing for an effective date."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

* Section 1. AS 38 is amended by adding a new chapter to read:

CHAPTER 16. TAKING AND DISPOSITION OF ROYALTY OIL AND GAS.

Sec. 38.16.010. LEGISLATIVE FINDINGS RELATING TO ROYALTY OIL AND GAS. (a) The legislature finds that it is in the best interest of the state and the citizens of the state that the state take and dispose of royalty oil and gas in a manner that maximizes state revenue.

(b) To the extent consistent with the primary goal of maximizing state revenue, the secondary goals for the state in the taking and disposition of royalty oil and gas are to

(1) supply existing in-state refineries and oil- or gas-based utilities with oil or gas at the current market value for the oil or gas;

(2) promote new in-state refineries and oil- or gas-based utilities that are economically feasible at the current market value for oil or gas without the new refineries or utilities relying on royalty oil or gas contracts;

(3) expand the foreign market for the resources of the state.

Sec. 38.16.020. TAKING OF ROYALTY IN KIND. The state shall take in kind an oil or gas royalty provided for in AS 38.05.180, unless the commissioner determines that taking the royalty in value would be in

the best interest of the state.

Sec. 38.16.030. METHOD OF DISPOSITION OF ROYALTY. (a) The commissioner shall make a disposition of royalty oil or gas obtained by the state under AS 38.05.180 by competitive bid to the highest responsible bidder, unless the commissioner determines, after prior written notice to the board, that competitive bidding is not in the best interest of the state or that no competition exists.

(b) When competitive bids are required, the commissioner may, after prior written notice to the board, reject a bid if the commissioner determines that acceptance of a bid would not be in the best interest of the state due to the amount of the bid, the lack of responsibility of the bidder, or other reasons consistent with the criteria set out in AS 38.16.040.

(c) If the commissioner determines that a disposition of oil or gas is to be made other than by competitive bid, the commissioner shall make public in writing the specific findings and conclusions that are the basis for the determination.

Sec. 38.16.040. CRITERIA FOR DISPOSITION OF NONCOMPETITIVELY BID ROYALTY OIL OR GAS TAKEN IN KIND. When the state does not use competitive bidding to dispose of royalty oil or gas taken in kind by the state under AS 38.16.020, the commissioner shall make the disposition of royalty oil or gas to the prospective purchaser whose proposal offers the maximum revenue or other benefits to citizens of the state. When making an award under this subsection, the commissioner shall consider the following criteria:

(1) the cash value offered, which, notwithstanding AS 38.-05.810(a), may not be less than the current market value of the royalty oil or gas;

(2) the projected effects of the disposition of royalty oil

or gas on the revenue needs and projected fiscal condition of the state;

(3) the projected benefits to local and regional economies of the state of refining or processing the oil or gas in the state;

(4) the projected additional costs and responsibilities that the state and affected political subdivisions of the state may suffer due to the development related to the disposition of royalty oil or gas;

(5) the projected social effects of the disposition of royalty oil or gas;

(6) the projected environmental effects of the disposition of royalty oil or gas;

(7) the ability, intent and degree of certainty of the prospective purchaser to provide refined products or by-products for distribution and sale in the state with significant price and supply benefits for the citizens of the state;

(8) the local or regional desirability of the disposition of royalty oil or gas.

Sec. 38.16.050. CONTRACT PROVISIONS. (a) The commissioner may not enter into a contract for a disposition of royalty oil or gas obtained by the state under AS 38.05.180 unless the contract provides that an amendment of the contract that appreciably reduces the consideration received by the state requires the prior approval of the legislature.

(b) A disposition of royalty oil obtained by the state under AS 38.05.180 must

(1) prohibit an assignment of unrefined royalty oil purchased from the state unless the assignor or assignee demonstrates to the satisfaction of the commissioner that

(A) the assignment will result in a significant increase of direct monetary benefit to energy consumers in the state; and

(B) the total direct monetary benefit to energy consumers in the state from the assignment will outweigh the monetary benefit to the assignor and assignee; and

(2) reserve to the state the right to purchase residual oil from in-state refiners when the residual oil is a by-product of a disposition of royalty oil by the state.

Sec. 38.16.060. DISPOSITION OF ROYALTY OIL OR GAS FOR EXPORT. A disposition of royalty oil or gas taken in kind by the state under AS 38.16.020 may not be made for export from the state unless the commissioner determines that the disposition of royalty oil or gas is in the best interest of the state and makes public in writing the specific findings and reasons that are the basis for the determination.

Sec. 38.16.070. LEGISLATIVE APPROVAL. (a) In addition to the recommendation by the board required under AS 38.06.050, the commissioner may not enter into a disposition of royalty oil or gas obtained by the state under AS 38.05.180 without the prior approval of the legislature by enactment of legislation.

(b) The commissioner shall notify the board in writing of a determination by the commissioner that a disposition of royalty oil or gas requires legislative approval.

(c) The provisions of (a) of this section do not apply to

(1) the disposition of royalty oil or gas for one year or less if the disposition is entered into to relieve storage or market conditions;

(2) the disposition of royalty oil or gas for two years or

less if the disposition is bid competitively; or

(3) contracts for the disposition of royalty oil or gas that specify the sale and delivery of not more than

(A) 400 barrels of crude oil per day;

(B) 460 barrels of natural gas liquids per day; or

(C) 2,400 Mcf of natural gas per day.

(d) A disposition of royalty oil or gas under (c)(1) or (c)(2) of this section may not be continued after the end of one year or renewed with the same party without the prior approval of the legislature under (a) of this section. This subsection does not apply to a sequential competitively bid disposition of royalty oil or gas made with the same party under (c)(1) of this section.

Sec. 38.16.080. REPORT BY COMMISSIONER. The commissioner shall submit to the legislature between the first and the 15th day of each regular legislative session a royalty oil and gas report that includes

(1) the royalty status of all producing royalty oil and gas leases;

(2) proposed dispositions of royalty oil and gas;

(3) for each noncompetitively bid disposition of royalty oil or gas the findings of the commissioner on the criteria in AS 38.-16.040;

(4) an evaluation of the economic consumer benefits resulting from in-state refiners and processors currently receiving royalty oil or gas; and

(5) the volume, percentage, and reported value of royalty oil and gas

(A) being taken in kind and in value;

(B) purchased by in-state refiners and processors;

(C) actually refined or processed in the state;

(D) sold on a competitive and noncompetitive bid basis; and

(E) purchased by foreign nations.

Sec. 38.16.090. CONFIDENTIALITY. Notwithstanding AS 09.25.-110 - 09.25.120, the department may provide by regulation for the confidentiality of those documents and records in the possession or control of the department that contain confidential business or marketing information when the protection of the information is essential to the person who has submitted the information to the department, or when the department determines that protection of the information is essential to the best interest of the state. Confidentiality under this section does not preclude proper review by the legislature.

Sec. 38.16.900. DEFINITIONS. In this chapter

(1) "board" means the Alaska Royalty Oil and Gas Development Advisory Board;

(2) "commissioner" means the commissioner of natural resources;

(3) "department" means the Department of Natural Resources;

(4) "dispose of" or "disposition of" royalty oil or gas means the sale, exchange, or other alienation by the state of royalty oil or gas or of an interest in royalty oil or gas, and includes the waiver of a present or future right to take future production of oil or gas as a royalty; and

(5) "interest" in royalty oil or gas includes the right to take future production of oil or gas as a royalty.

* Sec. 2. AS 38.05.020(b) is amended to read:

(b) The commissioner may

(1) establish reasonable procedures and adopt reasonable regulations necessary to carry out this chapter <u>and AS 38.16</u> and,

whenever necessary, issue directives or orders to the director to carry out specific functions and duties; regulations adopted by the commissioner shall be adopted under the Administrative Procedure Act (AS 44.62); orders by the commissioner classifying land, issued after January 3, 1959, are not required to be adopted under the Administrative Procedure Act (AS 44.62);

(2) enter into agreements considered necessary to carry out the purposes of this chapter and AS 38.16, including agreements with federal and state agencies;

(3) review an [ANY] order or action of the director;

(4) exercise the powers and do the acts necessary to carry out the provisions and objectives of this chapter and AS 38.16;

(5) notwithstanding the provisions of another [ANY OTHER] section of this chapter, grant an extension of the time within which payments due on a [ANY] lease or sale of state land, minerals, or materials may be made, including payment of rental and royalties, on a finding that compliance with the requirements is or was prevented by reason of war, riots, or acts of God;

(6) classify tracts for agricultural uses and require the prequalification, including the submission of conservation plans, development plans, or other plans, schedules, or programs, of persons who apply to participate in an agricultural development project under AS 44.33.475;

(7) waive, postpone, or otherwise modify the development requirements of a contract for the sale of agricultural land if

(A) the land is inaccessible by road; and

(B) transportation, marketing, and development costs render the required development uneconomic.

* Sec. 3. AS 38.05.035 is amended by adding a new subsection to read:

(g) The provisions of (e) of this section do not apply to royalty on oil or gas obtained by the state under AS 38.05.180.

* Sec. 4. AS 38.05.036(a) is amended to read:

(a) The Department of Revenue shall audit reports, payments, and payments due relating to royalty and net profits under oil and gas contracts, agreements, or leases under this chapter and AS 38.16.

* Sec. 5. AS 38.05.036(b) is amended to read:

(b) The Department of Revenue may inspect all reports and other information filed in support of or relating to royalty and net profits payments, whether or not the [THAT] information is confidential, and shall hold the [THAT] information confidential to the extent required under oil and gas agreements, contracts, or leases, or by this chapter, AS 38.06.060, AS 38.16.090, or AS 43.05.230.

* Sec. 6. AS 38.05.069(f) is amended to read:

(f) Nothing in (c) of this section affects the disposal of minerals under AS 38.05.135 - 38.05.183 or AS 38.16.

* Sec. 7. AS 38.05.135(a) is amended to read:

(a) Except as otherwise provided, valuable mineral deposits in land belonging to the state are [SHALL BE] open to exploration, development, and the extraction of minerals. All land, together with tide, submerged, or shoreland, to which the state holds title [TO] or to which the state may become entitled, may be obtained by permit or lease for the purpose of exploration, development, and the extraction of minerals. Except as specifically limited by AS 38.05.135 - 38.05.-181, land may be withheld from lease application on a first-come, first-served basis, and offered only on a competitive bid basis when determined by the commissioner to be in the best interests of the state. In unproven areas the commissioner may offer additional incentives [, INCLUDING A REDUCTION OF ROYALTY TO A MINIMUM OF FIVE PERCENT

IN THE CASE OF OIL AND GAS,] and other terms in and granting a permit or lease for exploration and development whenever it appears to be in the best interests of the state to do so.

* Sec. 8. AS 38.05.140(c) is amended to read:

(c) A person may not take or hold at one time phosphate leases on state land exceeding in the aggregate 10,240 acres. A person may not take or hold sodium leases or permits during the life of sodium leases on state land exceeding in the aggregate acreage 5,120 acres, except that the commissioner may, where it is necessary in order to secure the economic mining of sodium compounds, permit a person to take or hold sodium leases or permits for up to 15,360 acres. [A PERSON MAY NOT TAKE OR HOLD AT ANY ONE TIME OIL OR GAS LEASES EXCEEDING IN THE AGGREGATE 500,000 ACRES GRANTED ON TIDE AND SUBMERGED LAND AND 500,000 ACRES ON ALL LAND OTHER THAN TIDE AND SUBMERGED LAND, INCLUDING LEASES HELD BOTH AS LESSEE AND UNDER OPTION OR OPERATING AGREEMENT FROM OTHERS. WHERE MORE THAN A SINGLE PERSON HOLDS AN INTEREST IN AN OIL OR GAS LEASE, EACH PERSON SHALL BE CHARGED ONLY WITH THAT PERCENTAGE OF THE TOTAL ACREAGE WHICH CORRESPONDS TO ITS PERCENTAGE SHARE OF THE TOTAL BENEFICIAL INTEREST IN THE LEASE.]

* Sec. 9. AS 38.05.180(1) is amended to read:

(1) Subject to the provisions of AS 31.05, the commissioner has discretion to enter into an agreement whereby, with the consent of the lessee, all or part of the state's royalty share of oil and gas production may be stored or retained in storage by the lessee, or the commissioner may enter into an agreement with one or more of the affected field lease holders to trade all or part of the current royalty production from a field for a like amount, kind, and quality of future production, if the commissioner makes a written finding [ON THE CONDITION] that the state receives back its stored or traded

royalty share before 80 percent of the estimated life of the field is depleted, considering the engineering constraints and other relevant factors [DURING THE FIRST HALF OF THE ESTIMATED FIELD LIFE OR NO LATER THAN 15 YEARS AFTER START OF PRODUCTION, WHICHEVER IS SOONER].

* Sec. 10. AS 38.05.180(q) is amended to read:

(q) A plan authorized by (p) of this section that [, WHICH] includes land owned by the state, may contain a provision vesting the commissioner, or a person, committee, or state agency, with authority to modify from time to time the rate of prospecting and development and the quantity and rate of production under the plan. All leases operated under a plan approved or prescribed by the commissioner are excepted in determining holdings or control under (aa) of this section [AS 38.05.140]. The provisions of this section concerning cooperative or unit plans are in addition to and do not affect AS 31.05.

* Sec. 11. AS 38.05.180(r) is amended to read:

(r) Producing acreage on a known geologic structure of a producing oil or gas field is excluded from chargeability as against the acreage limitation provisions of (aa) of this section [AS 38.05.140].

* Sec. 12. AS 38.05.180(t) is amended to read:

(t) The commissioner may prescribe conditions and approve, on conditions, drilling, or development contracts made by one or more lessees of oil or gas leases, with one or more persons, when, in the discretion of the commissioner, the conservation of natural resources or the public convenience or necessity requires it or the interests of the state are best served. All leases operated under approved drilling or development contracts and interests under them, are excepted in determining holding or control under (aa) of this section [AS 38.05.-140].

* Sec. 13. AS 38.05.180 is amended by adding a new subsection to read:

(aa) A person may not take or hold at one time oil or gas leases exceeding in the aggregate 500,000 acres granted on tide and submerged land and 500,000 acres on all land other than tide and submerged land, including leases held both as lessee and under option or operating agreement from others. Where more than one person holds an interest in an oil or gas lease, each person shall be charged only with that percentage of the acreage that corresponds to the person's share of the total beneficial interest in the lease.

* Sec. 14. AS 38.05.182(a) is amended to read:

(a) A [ANY] royalty provided for in AS 38.05.135 - 38.05.181 may be taken in kind rather than in money if the commissioner determines that the taking in kind would be in the best interest of the state. [HOWEVER, ROYALTIES ON OIL AND GAS SHALL BE TAKEN IN KIND UNLESS THE COMMISSIONER DETERMINES THAT THE TAKING IN MONEY WOULD BE IN THE BEST INTEREST OF THE STATE.]

* Sec. 15. AS 38.05.182 is amended by adding a new subsection to read:

(c) This section does not apply to a royalty on oil or gas obtained by the state under AS 38.05.180.

* Sec. 16. AS 38.05.183(a) is amended to read:

(a) The sale, exchange, or other disposal of a mineral obtained by the state as a royalty under this chapter [AS 38.05.182], or the sale, exchange or other disposal in whole or in part of a right to receive future mineral production under a state lease under this chapter, shall be by competitive bid and the sale, exchange or other disposal made to the highest responsible bidder, except that competitive bidding is not required when the commissioner [, AFTER PRIOR WRITTEN NOTICE TO THE ALASKA ROYALTY OIL AND GAS DEVELOPMENT ADVISORY BOARD UNDER AS 38.06.050,] determines that the best interest of the state does not require it or that no competition exists.

* Sec. 17. AS 38.05.183(b) is amended to read:

(b) When competitive bids are required, the commissioner [, AFTER PRIOR WRITTEN NOTICE TO THE ALASKA ROYALTY OIL AND GAS DEVELOPMENT ADVISORY BOARD,] may reject a bid [ALL BIDS] on a determination that because of the amount of the bid or [BIDS,] the lack of responsibility on the part of the bidder, [BIDDERS, OR FOR REASONS CONSISTENT WITH THE CRITERIA SET OUT IN AS 38.06.070,] the acceptance of the bid [BIDS] would not be in the best interest of the state.

* Sec. 18. AS 38.05.183(c) is amended to read:

(c) If the commissioner determines that a sale, exchange, or other disposal of a mineral obtained by the state as a royalty under this chapter [AS 38.05.182] or of a right to receive future mineral production under a state lease under this chapter shall be made other [OTHERWISE] than by competitive bid, [AND THE ALASKA ROYALTY OIL AND GAS DEVELOPMENT ADVISORY BOARD HAS BEEN NOTIFIED IN WRITING OF THAT DETERMINATION,] the commissioner shall make public in writing the specific findings and conclusions on [UPON] which the [THAT] determination is based.

* Sec. 19. AS 38.05.183 is amended by adding a new subsection to read:

(h) This section does not apply to a royalty on oil or gas obtained by the state under AS 38.05.180.

* Sec. 20. AS 38.06.010 is amended to read:

Sec. 38.06.010. PURPOSE. It is the purpose of this chapter to facilitate the wise development of Alaska's oil and gas royalty interests by providing means and procedures for [SALES, EXCHANGES OR OTHER] disposition of those interests in ways calculated to promote private economic growth consistent with applicable environmental standards, local or regional desirability, and public fiscal stability, and in accordance with AS 38.16 [AS 38.05.183].

* Sec. 21. AS 38.06.020 is amended to read:

Sec. 38.06.020. ESTABLISHMENT. There is established in the Department of Natural Resources [COMMERCE AND ECONOMIC DEVELOPMENT] the Alaska Royalty Oil and Gas Development Advisory Board.

* Sec. 22. AS 38.06.040 is repealed and reenacted to read:

Sec. 38.06.040. POWERS AND DUTIES OF THE BOARD. (a) The board shall

(1) in accordance with the criteria set out in AS 38.06.070 and AS 38.16.040, develop a plan for the wise development of the state's royalty oil and gas interests; the plan of development must be consistent with

(A) growth of the private sector of the economy;

(B) environmental standards required by law; and

(C) public fiscal stability;

(2) hold public hearings to determine whether a proposed disposition of royalty oil or gas complies with the criteria in AS 38.16.040;

(3) examine a proposed disposition of royalty oil or gas and recommend that the legislature approve or disapprove the proposed disposition of royalty oil or gas; and

(4) recommend to the commissioner conditions for the disposition, delivery, transportation, refining, or processing of the royalty oil or gas.

(b) The board may

(1) direct the commissioner to solicit development plans or bids consistent with the criteria set out in AS 38.06.070 and AS 38.16.040 for the disposition of royalty oil or gas obtained by the state under AS 38.05.180;

(2) employ an executive director, and contract for the

services of professionals, persons with knowledge of economics and other disciplines, and persons with technical skills who may be necessary to assist the board in the exercise of its powers and duties; and

(3) adopt regulations under the Administrative Procedure Act (AS 44.62) that are necessary to exercise its powers and duties.

* Sec. 23. AS 38.06.050 is repealed and reenacted to read:

Sec. 38.06.050. BOARD REVIEW AND RECOMMENDATION REQUIRED. If legislative approval is required by AS 38.16.070, the commissioner may not dispose of royalty oil or gas without prior review of the proposed disposition of royalty oil or gas by the board. The written recommendation of the board on the proposed disposition of royalty oil or gas shall be submitted to the legislature at the time the legislation approving the proposed disposition of royalty oil or gas is introduced in the legislature.

* Sec. 24. AS 38.06.070 is repealed and reenacted to read:

Sec. 38.06.070. CRITERIA. In the exercise of the powers of the board under AS 38.06.040(a) and 38.06.050, the board

(1) may, when it is economically feasible and in the public interest, recommend to the commissioner as a condition of the disposition of royalty oil or gas that

(A) the oil or gas be refined or processed in the state;

(B) the purchaser be a refiner who provides refined products or by-products for distribution and sale in the state with significant price and supply benefits to the citizens of the state; or

(C) the purchaser construct a processing or refining facility in the state;

(2) shall report fully to the department on each criterion in AS 38.16.040 and in (1) of this section for each disposition of royalty oil or gas that requires legislative approval under AS 38.16.070; the report shall be submitted to the legislature for review when the legislation approving the proposed disposition of royalty oil or gas is introduced in the legislature.

* Sec. 25. AS 38.06.080 is amended by adding new paragraphs to read:

(3) "commissioner" means the commissioner of natural resources;

(4) "department" means the Department of Natural Resources;

(5) "dispose of" or "disposition of" royalty oil or gas means the sale, exchange, or other alienation by the state of royalty oil or gas or of an interest in royalty oil or gas, and includes the waiver of a present or future right to take future production of oil or gas as a royalty;

(6) "interest" in royalty oil or gas includes the right to take future production of oil or gas as a royalty.

* Sec. 26. AS 43.05.010(16) is amended to read:

(16) audit reports, payments, and payments due relating to royalty and net profits under oil and gas contracts, agreements, or leases under AS 38.05 and AS 38.16;

* Sec. 27. AS 44.62.175(a) is amended to read:

(a) The lieutenant governor shall publish or contract for the publication of the Alaska Administrative Journal. The journal shall be published weekly. The journal must include

(1) notices of proposed actions given under AS 44.62.190(a);

(2) notices of state agency meetings required under AS 44.62.310(e), even if the meeting has been held;

(3) notices of solicitations to bid issued under AS 37.-05.230 and AS 38.16.030;

(4) notices of state agency requests for proposals issued under AS 18.55.255, 18.55.320; AS 19.10.190; AS 19.40.020; AS 35.15.-030; AS 36.98.030; AS 37.05.230, 37.05.315(d); AS 38.05.120; and AS 43.40.010;

(5) executive orders and administrative orders issued by the governor;

(6) written delegations of authority made by the governor or the head of a principal department under AS 44.17.010;

(7) the text or a summary of the text of a regulation or order of repeal of a regulation for which notice is given under AS 44.62.190(a), including an emergency regulation or repeal whether or not it has taken effect;

(8) a summary of the text of recently issued formal opinions and memoranda of advice of the attorney general; [AND]

(9) a list of vacancies on boards, commissions, and other bodies whose members are appointed by the governor;

(10) a notice of the findings required to be made public by the commissioner of natural resources under AS 38.16.030 and 38.16.-060.

* Sec. 28. AS 38.05.183(d), (e), (f), and (g); and AS 38.06.055 are repealed.

* Sec. 29. This Act takes effect immediately in accordance with AS 01.-10.070(c).

HB 470
Question and Answer Overview

Why is there a need for the Oil and Hazardous Substance Release Response Fund?

Releases of oil and hazardous substances pose a direct threat to the public health, environment, and economy of the state. HB 470 would provide ADEC with the statutory authority and readily available funding necessary to contain and cleanup releases of these materials. The response fund would allow ADEC to respond to future releases of oil and hazardous substances, as well as to cleanup existing sites.

What is the relationship between the response fund and the federal 'Superfund' program?

The 'Superfund' is directed toward the nationwide cleanup of existing sites. The Environmental Protection Agency evaluates these sites on a national priority basis to determine which sites which will receive federal funding. Because this ranking system is biased in favor of densely populated areas, Alaska is expected to receive only slight assistance from the 'Superfund'. HB 470 does make provision, however, for the federal requirement that states provide matching funds of between 10 percent and 50 percent of site cleanup costs in order to receive 'Superfund' money.

Who decides which sites will be cleaned up?

The commissioner of ADEC is given the authority to determine which sites will be cleaned up. The commissioner may also, by regulation, develop criteria for prioritizing the cleanup of existing sites. It is the intent of this legislation, however, that money in the response fund always remain available for the containment and cleanup of future releases of oil and hazardous substances.

When would the response fund be used?

Persons responsible for the release of oil or hazardous substances must notify ADEC of the release and then begin containment and cleanup efforts. ADEC may use money from the response fund for these purposes, however, if the responsible party's containment and cleanup efforts are inadequate or if the cause of the release is unclear or unexplained.

How does the funding mechanism of the response fund work?

The Oil and Hazardous Substance Release Response Fund is modeled after the Disaster Relief Fund and the Fire Suppression Fund. These three funds are also similar in that they are all directed toward the abatement of emergency situations. The response fund allows the governor to transfer up to $10 million during a fiscal year from the emergency operating expenses account to the fund, and money remaining in the fund at the end of a fiscal year remains available for expenditure in successive fiscal years.

The response fund may also receive legislative appropriations based on federal grants, money recovered from responsible parties for containment and cleanup, money recovered from responsible parties for fines, penalties or damages, and other sources.

What level of accounting oversight is provided for?

The response fund is administered by ADEC, although the commissioner of the Dept. of Revenue is custodian of the fund. Accounting records are maintained by ADEC, and the commissioner of ADEC must consult with the Governor and the commissioner of the Dept. of Revenue before adopting regulations governing fund accounting. The commissioner must also submit a fiscal report regarding the response fund to the Governor and the Legislature no later than the 10th day of each regular legislative session.

How does the response fund affect businesses and local communities?

The commissioner may enter into agreements with businesses, municipalities, unincorporated communities and other entities in order to facilitate a coordinated and effective oil and hazardous substance release response in the state. Agreements may also be entered into that provide for oil and hazardous substance release notification procedures or the cooperative review of oil and hazardous substance release contingency plans.

What provisions are made for the training and safety of workers cleaning up these materials?

Money from the response fund may be used to facilitate the efforts of the Department of Labor to assist employers in developing safety education programs for employees who may be called upon to respond to a release of oil or a hazardous substance.

How does the response fund affect existing state programs?

The state is attempting to gain federal authorization to establish a state-controlled hazardous waste management program (RCRA). Negotiations between the state and the Environmental Protection Agency would not be affected by establishment of the response fund. Industry requirements regarding RCRA authorization would also remain unaffected by creation of the fund.

The Oil Spill Mitigation Account would be repealed immediately upon the effective date of the Oil and Hazardous Substance Release Response Fund.

HB 470
Sectional Analysis

* **Section 1.**

Chapter 8. Oil and Hazardous Substance Releases.

Sec. 46.08.005. Statement of purpose declaring the release of oil or hazardous substances into the environment to be a threat to the public health and welfare, environment, and economy of the state. Concludes that it is in the best interest of the state to have funds readily available for ADEC to respond to releases of these materials.

Sec. 46.08.010. Establishes the Oil and Hazardous Substance Release Response Fund. The fund is administered by ADEC, although the Dept. of Revenue is custodian of the fund.

Sec. 46.08.020. Lists sources from which the legislature may appropriate money to the fund. Sources include the state and federal governments, money recovered from parties responsible for a release of oil or hazardous substances for containment and cleanup expenses, and fines, penalties, or damages received from a party responsible for such a release.

Sec. 46.08.030. (a) Statement of legislative intent that funds for the abatement of a release of oil or a hazardous substance will always be available.

(b) The commissioner shall use money appropriated to the department for response to releases of oil or hazardous substances before using money in the fund for such purposes. Money may also be available to respond to a release through the Disaster Relief Fund if the governor proclaims such a release to be a disaster emergency under AS 26.23.

Sec. 46.08.040. Lists acceptable uses of money from the fund, subject to the approval of the governor. These uses are to contain and cleanup releases or threatened releases of oil or hazardous substances, conduct work associated with such a release or threatened release, assist the Dept. of Labor in working with employers to develop employee safety education programs, provide matching funds for federal oil discharge and 'Superfund' (CERCLA) programs, and recover costs resulting from the release or threatened release of oil or hazardous substances.

Sec. 46.08.050. Delineates accounting procedures of the fund. Accounting records are maintained by ADEC, and by July 1 of each year the department must determine projected costs of the fund for the next fiscal year. The commissioner must adopt rules governing fund accounting, but shall consult with the governor and the commissioner of the Dept. of Revenue before adopting regulations in this regard.

Sec. 46.08.060. No later than the 10th day of each regular legislative session, the commissioner must submit a fiscal report to the legislature and the governor. The report must include the amount of money expended from the fund, and the amount and source of money recovered or received by the fund, during the previous fiscal year.

Sec. 46.08.070. (a) The commissioner is directed to seek reimbursement for costs incurred in the containment or cleanup of releases.

(b) At the request of the commissioner, the attorney general may attempt to recover money expended by the department in responding to releases or threatened releases of oil or hazardous substances.

Sec. 46.08.080. The commissioner shall adopt regulations in order to carry out the provisions of this chapter.

Sec. 46.08.900. Definitions in this chapter are largely based on definitions in AS 46.03 and AS 46.04.

* Section 2.

Chapter 9. Hazardous Substance Release Control.

Note: AS 46.09 is modeled after AS 46.04 (Oil Pollution Control).

Sec. 46.09.010. A person in charge of a unit from which a hazardous substance is released must promptly notify ADEC of the release. Persons may, however, enter into agreements with the commissioner for the periodic reporting of a controlled release of hazardous substances if the release is not into the waters of the state.

Sec. 46.09.020. (a) A person responsible for a release must make reasonable efforts to contain and cleanup the release unless the commissioner determines that containment and cleanup is either technically infeasible, or that such action would create greater environmental harm than the release itself.

(b) The commissioner must adopt regulations prescribing procedures and methods for containing and cleaning up releases and for disposing of wastes from a release.

(c) The commissioner, upon determining that containment and cleanup activities by a responsible party are inadequate, may order the person to cease the activity and ADEC may then take over the containment and cleanup operation.

(d) The commissioner may immediately undertake the containment and cleanup of a release if the cause of the release is unclear or unexplained. The same restrictions delineated in (a) of this section apply in this situation.

(e) The commissioner may enter into agreements with persons, including public or private corporations, municipalities, and unincorporated communities, in order to facilitate a coordinated and effective hazardous substance response in the state, provide for cooperative hazardous substance release notification procedures, or provide for cooperative review of hazardous substance contingency plans submitted to the department.

Sec. 46.09.030. The commissioner may request the governor to determine that an actual or imminent release of a hazardous substance constitutes a disaster emergency under AS 26.23. If the governor declares a disaster emergency, the commissioner may assist the adjutant general (Division of Emergency Services) in the relief of the emergency.

Sec. 46.09.040. The commissioner may contract with a person, including a public or private corporation, municipality or unincorporated community, for personnel, equipment, or services in order to carry out the purposes of this chapter. If such a contract is infeasible, the commissioner may establish and maintain personnel, equipment, and supplies for containment and cleanup purposes.

Sec. 46.09.050. ADEC employees designated by the commissioner as enforcement officers for the purposes of this chapter are also peace officers of the state.

Sec. 46.09.060. For the purposes of this chapter, the commissioner may enter into agreements, arrangements, or compacts with other states or countries.

Sec. 46.09.070. In the event of a regulatory conflict between the state and a municipality regarding the containment and cleanup of releases, the provisions of this chapter or regulations adopted by the commissioner prevail.

Sec. 46.09.080. The commissioner shall adopt regulations necessary to implement the provisions of this chapter.

Sec. 46.09.900. Definitions in this chapter are largely based on definitions in AS 46.03 and AS 46.04.

* Section 3.

Sec. 26.23.230. (1) The definition of "disaster" is expanded to include the release of a hazardous substance.

* Section 4.

Sec. 37.05.159. (g) The governor may transfer a maximum of $10 million during a fiscal year from the reserve for emergency operating expenses account to the fund.

* Section 5.

Sec. 44.19.050. The definition of "disaster" is expanded to include the release of a hazardous substance.

* Section 6.

Sec. 46.03.290. (a) Departmental findings regarding the declaring of an emergency are expanded to include oil and hazardous substances.

* Section 7.

Sec. 46.03.760. (a) Provides for civil liabilities for persons violating provisions of AS 46.09.

* Section 8.

Sec. 46.03.765. The superior court has jurisdiction to enjoin a violation of AS 46.09.

* Section 9.

Sec. 46.03.780. (a) Liability to the state for damages for injury or degradation to the environment in violation of AS 46.09.

* Section 10.

Sec. 46.03.790. (a) A person who negligently violates a provision of AS 46.09 is guilty of a class B misdemeanor.

* Section 11.

Sec. 46.03.790. (b) A person who knowingly violates a provision of AS 46.09 is guilty of a class A misdemeanor.

* Section 12.

Sec. 46.03.790. (d) A person who fails to provide or falsely states information required under AS 46.09 is guilty of a misdemeanor and, upon conviction, may be punished by a fine of not more than $25,000 or by imprisonment for not more than one year, or both.

* Section 13.

Sec. 46.04.010. ADEC is directed to promptly seek reimbursement for expenses incurred in the containment or cleanup of oil discharges, and the commissioner may request the attorney general to assist in the recovery of funds from responsible parties. Money received by ADEC under this section may be appropriated by the legislature to the response fund.

* Section 14.

Sec. 46.03.758. (k) The Oil Spill Mitigation Account is repealed.

* Section 15.

Sec. 01.10.070. (c) Immediate effective date.

Introduced: 1/13/86
Referred: Resources and Finance

BY DAVIS,KOPONEN,HURLEY, SZYMANSKI,GOLL,GRUENBERG, JENKINS,NAVARRE,SUND, MARROU,GRUSSENDORF, PIGNALBERI AND M.M.MILLER

IN THE HOUSE

HOUSE BILL NO. 470

IN THE LEGISLATURE OF THE STATE OF ALASKA

FOURTEENTH LEGISLATURE - SECOND SESSION

A BILL

For an Act entitled: "An Act relating to the release of oil and hazardous substances; and providing for an effective date."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

* Section 1. AS 46 is amended by adding a new chapter to read:

CHAPTER 08. OIL AND HAZARDOUS SUBSTANCE RELEASES.

Sec. 46.08.005. PURPOSE. The legislature finds and declares that the release of oil or hazardous substances into the environment presents a real and substantial threat to the public health and welfare, to the environment, and to the economy of the state. The legislature therefore concludes that it is in the best interest of the state and its citizens to provide a readily available fund for the payment of the expenses incurred by the Department of Environmental Conservation in the protection of the environment of the state from the release of oil or hazardous substances.

Sec. 46.08.010. FUND ESTABLISHED. (a) There is established in the state general fund the oil and hazardous substance release response fund. The fund shall be administered by the commissioner of environmental conservation, but the commissioner of revenue shall be the custodian of the fund.

(b) Money from an appropriation made to the fund remaining in the fund at the end of a fiscal year remains available for expenditure in successive fiscal years.

Sec. 46.08.020. FINANCING OF THE FUND. The legislature may appropriate from the following sources to the fund:

(1) money received from federal, state, or other sources or from a private donor;

(2) money recovered or otherwise received from parties responsible for the containment and cleanup of oil or a hazardous substance at a specific site, but excluding funds from performance bonds and other forms of financial responsibility held in escrow pending satisfactory performance of a privately financed response action;

(3) fines, penalties, or damages recovered under this chapter or other law for costs incurred by the state as a result of the release or threatened release of oil or a hazardous substance.

Sec. 46.08.030. FINANCING THE ABATEMENT OF OIL OR HAZARDOUS SUBSTANCE RELEASES. (a) It is the intent of the legislature and declared to be the public policy of the state that funds for the abatement of a release of oil or a hazardous substance will always be available.

(b) Notwithstanding the establishment of the fund under AS 46.-08.010, the commissioner shall, to the extent available, prefer funds appropriated to the department in the abatement of a release of oil or a hazardous substance. If appropriated funds are not available, then the commissioner may use money from the fund or, if the governor issues a proclamation of a disaster emergency under AS 26.23, funds available for disaster relief under AS 26.23.050 may be used in the abatement of a release of oil or a hazardous substance.

Sec. 46.08.040. PURPOSES OF THE FUND. Subject to the approval of the governor, the commissioner may use money from the fund to

(1) contain and clean up releases or threatened releases of oil or a hazardous substance;

(2) undertake plans, inspections, sampling, tests,

investigations, surveys, analyses, engineering, construction, operations, and maintenance necessary or appropriate to contain and clean up releases or threatened releases of oil or hazardous substances;

(3) facilitate the efforts of the Department of Labor under AS 18.60 to assist employers to develop safety education programs for employees who may be called upon to respond to a release of oil or a hazardous substance;

(4) provide matching funds for participation in federal oil discharge cleanup activities and under 42 U.S.C. 9601 - 9657 (Comprehensive Environmental Response, Compensation and Liability Act of 1980); and

(5) recover the cost to the state or to a municipality of a containment and cleanup resulting from the release or the threatened release of oil or a hazardous substance.

Sec. 46.08.050. RECORDS OF THE FUND. (a) The department shall maintain accounting records showing the income and expenses of the fund.

(b) By July 1 of each year, the department shall determine the projected cost for the following fiscal year of monitoring, operating, and maintaining sites where response has been completed or is expected to be continued during the fiscal year.

(c) The commissioner shall consult with the commissioner of revenue and the governor before adopting regulations governing fund accounting. The department shall develop procedures and adopt rules governing the expenditure of, and accounting for, money expended from the fund, and may not delay implementation of this chapter pending the effective date of the procedures and rules.

(d) The proper state officer shall pay disbursements from the fund on presentation of vouchers signed by the governor or the

governor's authorized representative.

Sec. 46.08.060. REPORT TO THE LEGISLATURE. The commissioner shall submit a report to the governor and to the legislature not later than the 10th day following the convening of each regular session of the legislature. The report may include information considered significant by the commissioner but must include:

(1) the amount of money expended under AS 46.08.040 during the preceding fiscal year; and

(2) the amount and source of money received and money recovered during the preceding fiscal year as specified in AS 46.08.-020.

Sec. 46.08.070. REIMBURSEMENT FOR CONTAINMENT AND CLEANUP. (a) The commissioner shall seek reimbursement promptly under this section, AS 46.03.760(e), or federal law for the cost incurred in the cleanup or containment of oil or a hazardous substance that has been released.

(b) The attorney general, at the request of the commissioner, may seek to recover money expended by the department under this chapter or other law to contain and clean up oil or a hazardous substance that has been released or to control the threatened release of oil or a hazardous substance.

Sec. 46.08.080. REGULATIONS. The commissioner shall adopt regulations necessary to implement the provisions of this chapter.

Sec. 46.08.900. DEFINITIONS. In this chapter

(1) "commissioner" means the commissioner of environmental conservation;

(2) "containment and cleanup" includes the direct and indirect efforts associated with the prevention, abatement, containment, or removal of a hazardous substance, the restoration of the environment to its former state, and incidental administrative costs;

(3) "department" means the Department of Environmental Conservation;

(4) "employee" means a person who works for an employer in a place that is not used primarily as a personal residence;

(5) "employer" means a person, including the state and a political subdivision of the state, who has one or more employees working in a place that is not used primarily as a personal residence;

(6) "fund" means the oil and hazardous substance release response fund;

(7) "hazardous substance" means

(A) an element or compound that, when it enters into or on the surface or subsurface land or water of the state, presents an imminent and substantial danger to the public health or welfare, or to fish, animals, vegetation, or any part of the natural habitat in which fish, animals, or wildlife may be found;

(B) a substance defined as a hazardous substance under state or federal law or by regulations adopted under state or federal law;

(8) "oil" means petroleum products of any kind and in any form, whether crude, refined, or a petroleum by-product, including petroleum, fuel oil, gasoline, lubricating oils, oily sludge, oily refuse, oil mixed with other wastes, liquified natural gas, propane, butane, and other liquid hydrocarbons regardless of specific gravity;

(9) "release" means an intentional or unintentional release into the environment of the state.

* Sec. 2. AS 46 is amended by adding a new chapter to read:

CHAPTER 09. HAZARDOUS SUBSTANCE RELEASE CONTROL.

Sec. 46.09.010. REPORT OF HAZARDOUS SUBSTANCE RELEASES. (a) Except as provided in (b) of this section, a person in charge of a

vehicle, vessel or container from which, or a place at which, a hazardous substance is released shall report the release to the department promptly after learning of the release.

(b) The commissioner may enter into an agreement with a person for the periodic reporting of a controlled release of a hazardous substance if the release is not into the water of the state.

Sec. 46.09.020. CONTAINMENT AND CLEANUP OF A RELEASED HAZARDOUS SUBSTANCE. (a) A person who causes a release of a hazardous substance shall make reasonable efforts to contain and clean up the hazardous substance promptly after learning of the release, unless the commissioner determines

(1) after consulting the Environmental Protection Agency, that containment or cleanup is technically infeasible; or

(2) that containment or cleanup would cause greater environmental damage than the release would cause if unabated.

(b) The commissioner shall adopt regulations prescribing procedures and methods to be used in the containment and cleanup of a hazardous substance and in the disposal of waste from the containment or cleanup.

(c) If the commissioner determines that the containment or cleanup of a hazardous substance undertaken is inadequate, the commissioner may direct the person undertaking the containment or cleanup to cease and may undertake the containment or cleanup directly or by contract.

(d) If it appears to the commissioner that the cause or responsibility for the release of a hazardous substance is unclear or unexplained, the commissioner may immediately undertake the containment and cleanup of the release unless the commissioner determines

(1) after consulting the Environmental Protection Agency,

that containment or cleanup is technically infeasible; or

(2) that containment or cleanup would cause greater environmental damage than the release would cause if unabated.

(e) The commissioner shall enter into agreement with the Environmental Protection Agency, and may enter into agreements with other persons, in order to

(1) facilitate a coordinated and effective hazardous substance response in the state; or

(2) provide for cooperative hazardous substance release notification procedures.

Sec. 46.09.030. DISASTER EMERGENCIES. The commissioner may request the governor to determine that an actual or imminent release of a hazardous substance constitutes a disaster emergency under AS 26.23. If the governor declares a disaster emergency under AS 26.23, the commissioner may assist the adjutant general in the relief of the emergency.

Sec. 46.09.040. HAZARDOUS SUBSTANCES CONTAINMENT AND CLEANUP. The commissioner may contract with a person or a municipality of the state for personnel, equipment, or services that may be useful to carry out the requirements of this chapter. If the commissioner determines that it is infeasible to contract with a person or a municipality in the state, the commissioner may establish and maintain containment and cleanup personnel, equipment, and supplies necessary to carry out the requirements of this chapter.

Sec. 46.09.050. PEACE OFFICERS. Employees of the department designated by the commissioner as enforcement officers in the implementation of this chapter are peace officers of the state.

Sec. 46.09.060. COMPACTS AUTHORIZED. The governor may enter into supplementary agreements, reciprocal arrangements, and compacts

with another state or country for the implementation of this chapter subject to the approval of the Congress of the United States, if required, under the Constitution of the United States.

Sec. 46.09.070. MUNICIPAL POWERS. (a) If a provision of this chapter or of a regulation adopted by the commissioner under this chapter conflicts with the charter, ordinance, or regulation of a municipality of the state, the provision of this chapter or of the regulation adopted by the commissioner under this chapter prevails.

(b) Except as provided in (a) of this section, a municipality of the state may exercise its police power within the area of the municipality.

Sec. 46.09.080. REGULATIONS. The commissioner shall adopt regulations necessary to implement the provisions of this chapter.

Sec. 46.09.900. DEFINITIONS. In this chapter

(1) "commissioner" means the commissioner of environmental conservation;

(2) "containment and cleanup" includes the direct and indirect efforts associated with the prevention, abatement, containment, or removal of a hazardous substance, the restoration of the environment to its former state, and incidental administrative costs;

(3) "department" means the Department of Environmental Conservation;

(4) "hazardous substance" means

(A) an element or compound that, when it enters into or on the surface or subsurface land or water of the state, presents an imminent and substantial danger to the public health or welfare, or to fish, animals, vegetation, or any part of the natural habitat in which fish, animals, or wildlife may be found; or

(B) a substance defined as a hazardous substance under state or federal law or by regulations adopted under state or federal law;

(6) "release" means an intentional or unintentional release into the environment of the state.

* Sec. 3. AS 26.23.230(1) is amended to read:

(1) "disaster" means the occurrence or imminent threat of widespread or severe damage, injury, or loss of life or property resulting from any natural or nonmilitary man-made cause including, but not limited to, fire, flood, earthquake, landslide, mudslide, avalanche, wind-driven water, weather condition, tsunami, [OIL SPILL OR OTHER WATER CONTAMINATION REQUIRING EMERGENCY ACTION TO AVERT DANGER OR DAMAGE], volcanic activity, epidemic, air contamination, blight, infestation, explosion, riot, equipment failure, or shortage of food, water, fuel, or clothing, or the release of oil or a hazardous substance requiring prompt action to avert environmental danger or damage;

* Sec. 4. AS 37.05.159 is amended by adding a new subsection to read:

(g) Notwithstanding the provisions of (b) of this section and AS 37.07.080(e), the governor may transfer a maximum of $10,000,000 during a fiscal year from the reserve for emergency operating expenses account to the oil and hazardous substance release response fund (AS 46.08).

* Sec. 5. AS 44.19.050 is amended to read:

Sec. 44.19.050. DEFINITION. In AS 44.19.048 and 44.19.049, "disaster" means the occurrence or imminent threat of widespread or severe damage, injury, or loss of life or property resulting from any natural or man-made cause including, but not limited to, fire, flood, earthquake, landslide, avalanche, wind-driven water, weather

condition, tsunami, [OIL SPILL OR OTHER WATER CONTAMINATION REQUIRING EMERGENCY ACTION TO AVERT DAMAGE,] volcanic activity, epidemic, air contamination, blight, infestation, explosion, [OR] riot, or the release of oil or a hazardous substance requiring emergency action to avert environmental danger or damage.

* Sec. 6. AS 46.03.290(a) is amended to read:

(a) When the department finds that an actual or imminent discharge of oil, a hazardous substance, or low level radioactive materials to the air, water, land or subsurface land of the state poses an immediate threat to the public health or welfare, or the environment of the state, it may issue an order declaring an emergency and directing a person or persons to take action the department believes necessary to meet the emergency, and protect the public health, welfare, or environment.

* Sec. 7. AS 46.03.760(a) is amended to read:

(a) A person who violates or causes or permits to be violated a provision of this chapter other than AS 46.03.250 - 46.03.314, or a provision of AS 46.04 or AS 46.09, or a regulation, a lawful order of the department, or a permit, approval, or acceptance, or term or condition of a permit, approval, or acceptance issued under this chapter or AS 46.04 or AS 46.09 is liable, in a civil action, to the state for a sum to be assessed by the court of not less than $500 nor more than $100,000 for the initial violation, nor more than $5,000 for each day after that on which the violation continues, and that shall reflect, when applicable,

(1) reasonable compensation in the nature of liquidated damages for any adverse environmental effects caused by the violation, that shall be determined by the court according to the toxicity, degradability and dispersal characteristics of the substance

discharged, the sensitivity of the receiving environment, and the degree to which the discharge degrades existing environmental quality;

(2) reasonable costs incurred by the state in detection, investigation, and attempted correction of the violation;

(3) the economic savings realized by the person in not complying with the requirement for which a violation is charged.

* Sec. 8. AS 46.03.765 is amended to read:

Sec. 46.03.765. INJUNCTIONS. The superior court has jurisdiction to enjoin a violation of this chapter, [OR] AS 46.04, or AS 46.09 or of a regulation, a lawful order of the department, or permit, approval, or acceptance, or term or condition of a permit, approval, or acceptance issued under this chapter, [OR] AS 46.04, or AS 46.09. In actions brought under this section, temporary or preliminary relief may be obtained upon a showing of an imminent threat of continued violation, and probable success on the merits, without the necessity of demonstrating physical irreparable harm. The balance of equities in actions under this section may affect the timing of compliance, but not the necessity of compliance within a reasonable period of time.

* Sec. 9. AS 46.03.780(a) is amended to read:

(a) A person who violates a provision of this chapter, [OR] AS 46.04, or AS 46.09, or who fails to perform a duty imposed by this chapter, [OR] AS 46.04, or AS 46.09, or violates or disregards an order, permit, or other determination of the department made under the provisions of this chapter, [OR] AS 46.04, or AS 46.09, respectively, and thereby causes the death of fish, animals, or vegetation or otherwise injures or degrades the environment of the state is liable to the state for damages.

* Sec. 10. AS 46.03.790(a) is amended to read:

(a) Except as provided in (d) - (f) of this section, a person

who negligently violates a provision of this chapter, [OR] AS 46.04, or AS 46.09, or of a regulation, lawful order of the department, or permit, approval, or acceptance, or term or condition of a permit, approval, or acceptance issued under this chapter, [OR] AS 46.04, or AS 46.09 is guilty of a class B misdemeanor.

* Sec. 11. AS 46.03.790(b) is amended to read:

(b) Except as provided in (d) - (f) of this section, a person who knowingly violates a provision of this chapter, [OR] AS 46.04, or AS 46.09, or of a regulation, lawful order of the department, or permit, approval, or acceptance, or term or condition of a permit, approval, or acceptance issued under this chapter, [OR] AS 46.04, or AS 46.09 is guilty of a class A misdemeanor.

* Sec. 12. AS 46.03.790(d) is amended to read:

(d) Notwithstanding (a) and (b) of this section, a person who fails to provide or falsely states information required under AS 46.03.755, [OR] AS 46.04, or AS 46.09 is guilty of a misdemeanor and, upon conviction, is punishable by a fine of not more than $25,000, or by imprisonment for not more than one year, or by both. Each unlawful act constitutes a separate offense.

* Sec. 13. AS 46.04.010 is amended to read:

Sec. 46.04.010. REIMBURSEMENT FOR CLEANUP EXPENSES. The department shall promptly seek reimbursement [, EITHER] under AS 46.03.760(e), AS 46.08.070, or from an applicable federal fund, for the expenses it incurs in cleaning up or containing a discharge of oil. If the department obtains reimbursement for a portion of its expenses from a federal fund, the remainder of the expenses incurred may be recovered under AS 46.03.760(e) or AS 46.08.070. Money received by the department under this section shall be deposited in the general fund and may be appropriated by the legislature to the oil and

hazardous substance release response fund (AS 46.08).

* Sec. 14. AS 46.03.758(k) is repealed.

* Sec. 15. This Act takes effect immediately in accordance with AS 01.-10.070(c).

STATE OF ALASKA

POUCH V
JUNEAU, ALASKA 99811
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HOUSE SPECIAL COMMITTEE ON OIL AND GAS

MEMORANDUM

From: Rep. Mike Davis, Chairman

To: Members of the House Special Committee on Oil and Gas

Re: TAPS Tariff Case

Date: January 22, 1985

The House Special Committee on Oil and Gas is not convinced that the TAPS Settlement Agreement is in the best interest of the state. The committee also believes that the Department of Law should cease pursuing settlement with Sohio and Amerada Hess, and that the department should instead continue to litigate the case with these parties.

The state has offered Sohio and Amerada Hess the opportunity to sign the settlement by February 12. The state will return to litigation with these carriers if they do not become party to the settlement by that date. The state is averse to requesting that FERC impose the settlement on these companies in the belief that an imposed settlement would be subject to legal challenge. FERC may, however, elect to impose the settlement at any time.

Unfortunately, the leverage of a drop-dead date works to the advantage of the carriers rather than to the benefit of the state. Having been given a deadline by which to sign the settlement, it benefits the companies to continue negotiating a settlement during the next few weeks in the hope of extracting concessions from the state, rather than to settle at this time.

The specific reasons given as to why the state should settle the TAPS case, all of which date back to the rejection of an earlier proposed settlement in the Spring of 1982, are as follows: certainty of revenue, presumed uncollectibility of refunds, marginal field development, stable tariffs in the outyears, and the deferring of revenues.

These elements, which comprise the basis for the settlement, deserve reexamination in light of changes which have taken place within the oil industry and the state's budget outlook since negotiations on the present settlement began four years ago.

On June 28, 1985 FERC issued the Williams II decision in regard to the Williams Brothers Co. pipeline ratemaking case. The most significant aspect of Williams II from the state's perspective was FERC's rejection of Modern Valuation, the industry's favored methodology. By adopting a modified Trended Original Cost (TOC) methodology, regardless of how this methodology may differ from a TAPS application, the committee believes that the state has gained a tremendous amount of certainty regarding its litigation position.

The uncanny timing of several carriers signing the settlement within days of the Williams II decision also indicates that these carriers felt they had little chance of winning through litigation, and that settlement was their preferred alternative.

In response to legislative concerns regarding the settlement, the Department of Law this summer requested the Department of Revenue to analyze the TAPS case in terms of uncertainty caused by continued litigation. The memorandum requesting this analysis also described in detail how such an analysis might be conducted.

The result of this request was a report issued by the Department of Revenue on November 14. Rather than review the settlement in regard to the state's Depreciated Original Cost (DOC) litigation position, however, the report focuses on comparisons of the potential revenue outcome of the settlement to Williams II. This comparison between two TOC methodologies, one of which has no direct application to TAPS, is of limited benefit in analyzing the settlement.

The Department of Revenue report is also surprising in that reference to refunds is omitted from an enumeration of those factors of greatest concern to the case. A statistical analysis of the collectibility of refunds also assumes a low likelihood that refunds would be collected by the state.

The presumed uncollectibility of refunds has often been cited by the state as one of the primary reasons why the state should abandon litigation in favor of settling the TAPS case. The reasoning in this regard has been that FERC would not subject the carriers to paying out large refunds to shippers, although little basis has been provided for this assumption.

It is also worth noting that several months ago Exxon was ordered by the courts to refund $1.2 billion to utilities as a pass-through to consumers for money received through price-fixing. More recently, Texaco was ordered to pay Pennzoil several billion dollars in reparation for takeover attempts of Getty Oil. Because the state is not collecting full refunds, the federal government is also receiving less than full windfall profits on pre-1982 oil.

Promoting marginal field development is another important factor relating to the settlement. North Slope oilfield economics have changed dramatically, however, in the time since settlement negotiations began in 1982. During the time of spiralling oil prices, concern was expressed that the state not exploit too great a share of its oil at a price which was certain to increase in the future.

A recent decline in oil prices has made the development prospects of marginal fields even more marginal, though, while at the same time resulting in lower state revenues from Prudhoe Bay and Kuparuk. To what extent, then, is the state subsidizing marginal field development through the settlement by paying carriers excessive tariffs? An important question which has not been adequately addressed is what the cost comparison is between this indirect subsidy and the revenues which would accrue to the state through development of these fields.

Another important consideration is that marginal fields, as all oilfields, are most expensive in their initial exploration and development phases since money must be provided on an up-front basis for these activities. Tariffs, on the other hand, are a relatively minor operations cost paid out over time on a per-barrel basis. It is deceptive and incorrect to look at overall projected tariff costs associated with a field and then treat these costs, and their timing, with the same degree of importance as exploration and development.

Arctic Slope Regional Corporation (ASRC) attorneys argue that the settlement debt equity provisions and a guaranteed after-tax profit of 35 cents per barrel would allow excessive future tariffs, and therefore impede marginal field development. ASRC economists also note problems with the allocation of fixed operating costs of the pipeline as provided in the settlement, stating that this cost allocation would create a disincentive for carriers to lower their tariffs in the future.

The problem, then, is that the after-tax profit agreed to in the settlement precludes the state from knowing what the carriers' rate-of-return will be, establishes a tariff that does not meet the standard of being just and reasonable, and does not necessarily attain the goal of promoting marginal field development. A factor directly related to this situation is that the development of marginal fields is far more sensitive to the price of oil than to the certainty of future tariffs.

In terms of revenue certainty and the deferring of state revenue, it should be noted that revenue from the TAPS case is not critical to the running of state government at this time, nor is it expected to be critical in the future. Although no one wishes to prolong the TAPS case longer than necessary, the apparent urgency of settling the case in order to gain future revenue certainty is far from being a fiscal necessity.

Having already signed with two-thirds of the TAPS owners, however, the state has already secured two-thirds of the revenue security that it has sought. Surely, the state can continue to litigate with Sohio and Amerada Hess in the hope of receiving at least <u>some</u> of the pre-1982 excess tariffs that have been paid by the state.

By refraining from continuing litigation, the state increases the opportunity for FERC to impose the settlement on the remaining parties. By continuing litigation, the state would enhance its opportunity to increase revenues received from Sohio and Amerada Hess, maintain the degree of certainty already received from parties that have signed the settlement, and minimize the chance of entering into an imposed settlement that could lead to greater expense and uncertainty to the state in the future.

In a settlement which consists of different agreements with different signatories and which fails to provide for just and reasonable tariffs, the state is certainly not precluded from continuing to litigate with those parties who, having been given the opportunity to sign or further negotiate the settlement for months, have refused to do so.

Anchorage Daily News Thursday, June 27, 1985

Problems remain in state's settlement of TAPS suit

By MIKE DAVIS

As chairman of the House Special Committee on Oil and Gas, I conducted several hearings on the TAPS tariff case. These hearings received only scant coverage in the news media, even though the final outcome of the settlement has enormous financial implications to the state's future.

It is perhaps the complexity of the Trans-Alaska Pipeline (TAPS) tariff case which has been responsible for the lack of media coverage on this issue. The TAPS case involves tariffs imposed by the owners of the Trans-Alaska Pipeline System on oil shipped through the pipeline since 1977.

As of today, five of the eight Trans-Alaska Pipeline owners have signed a TAPS tariff settlement with the state. These actions were taken by the administration without authorization or a resolution of support from the legislature.

The House Special Committee on Oil and Gas conducted its own investigation into the TAPS tariff case. Contrary to the Daily News' recent editorial, members of the committee had questions regarding several major aspects of the proposed settlement.

In order to gain a more thorough understanding of the tariff case, members of the committee met with several former Federal Energy and Regulatory Commission (FERC) commissioners, attended a national pipeline



rate-making conference, and met with the state's lead counsel in Washington, D.C., on the case.

As recently as 1982, the legislature rejected an earlier TAPS tariff settlement. This was due to the short duration of the proposed settlement, and the failure of the settlement to provide for low tariffs through the end of the century. The legislature directed the administration to come up with a settlement that encouraged the future development of marginal oil fields and deferred income from the major producing fields to the 1990s.

The Department of Law proceeded to work on a new settlement that would follow this legislative intent. The directives given to the administration were achieved in this settlement.

However, there are problems in the settlement that were identified by the House Special Committee on Oil and Gas.

These problems are as follows:

- **Refunds:** Under the proposed settlement, the state would waive its claim to an estimated $900 million in refunds, resulting from excessive tariffs paid from 1977 through 1982. In exchange for foregoing these refunds, the state relies on anticipated benefits from lower tariffs in the future. This is referred to as "front-end loading" the tariff.
- **Rate Base:** The state has argued in the TAPS tariff case that Trans-Alaska Pipeline construction costs contained at least $1.6 billion in imprudent cost overruns. In the settlement, however, the state settled for a $450 million rate base reduction for these overruns. This will result in higher tariffs and, consequently, less revenue to the state.
- **Discount Rate:** The settlement assumed a real interest rate of zero, meaning that money earned by the state would not earn any interest beyond inflation. As noted by the Department of Revenue, state investments such as the Alaska Permanent Fund earn significant income beyond inflation. Therefore, projections of even a moderate discount rate significantly lower the benefits that the settlement actually offers.
- **Marginal Fields:** The Arctic Slope Regional Corporation (ASRC) has filed a formal statement of opposition to the proposed settlement. ASRC argues that potential North Slope producers are jeopardized by the after-tax profit guaranteed to the TAPS owners as part of the settlement. ASRC believes that the proposed after-tax profit of 35 cents per barrel would preclude the development of otherwise economic fields.
- **FERC Approval:** The proposed settlement, even if signed by all of the pipeline owners, will not have the force of law unless approved by FERC. There may be challenges to the settlement and, even if there are no challenges, FERC must determine that the proposed rate is 'just and reasonable.'

The State of Alaska has sought a settlement in order to resolve a case which has lasted for eight years, cost the state $36 million, has not been dealt with in a timely manner by FERC, and would likely take several more years to resolve in the courts. If FERC does not approve the settlement, the state could still find itself spending several additional years arguing its case.

Given the complexity of this case and the likelihood that the settlement will be challenged, it is possible that this issue may be before the next session of the legislature. If this occurs, I intend to introduce a resolution that requires legislative approval of this settlement.

□ **Mike Davis, a Democrat from Fairbanks, is chairman of the House Special Committee on Oil and Gas.**

anel says hold off n TAPS settlement

ATTI EPLER ADN 7/17/85
News business reporter

ne House Oil and Gas mittee moved Tuesday to Gov. Bill Sheffield to ontinue his administra- s attempts to settle the ibillion dollar trans-Alas- ipeline tariff case.

fter a public hearing, the nittee asked its staff to a strongly worded letter g the governor to hold igning any more settle- agreements with the pipeline's owners.

So far, six of the eight companies that own the pipeline have signed agreements. The agreements would end the long and expensive dispute between the state and the pipeline owners over how much the owners charge to move oil from the North Slope to Valdez.

The state has argued for lower transportation charges, called tariffs, because high tariffs reduce the state's income from royalties and taxes.

For every penny increase in the TAPS tariff, the state loses $1.6 million a year in revenue. The rates the owners charge are as much as $4 higher than the state thinks they ought to be.

Testimony at Tuesday's hearing indicated a recent decision by the Federal Energy Regulatory Commission — which regulates oil pipelines and tariffs — significantly improves the state's position in the case. That decision, if applied to TAPS, increases the chance of the state gaining billions of dollars more by continuing to challenge tariffs set by pipeline owners than by settling.

Last month, the commission issued a ruling in a Lower 48 pipeline case that said, in part, that pipeline tariffs should be based on the original construction cost of a pipeline rather than what it would cost to replace it.

State officials have said they decided to settle the TAPS case because they feared the commission would rule against them. The settlement, they said, was an attempt to get a better deal than they thought the commission would give them.

The state has said the settlements will bring a guaranteed $4.6 billion to the state treasury, while continuing the case is a risky gamble for $7 billion.

But the commission ruling in the Williams Pipe Line Co. case was more in line with what the state had wanted all along, and less in favor of the pipeline companies.

The decision has had state officials, legislators and consultants scrambling for the past couple of weeks, trying to estimate how much money the state might receive if it decided to continue its challenge rather than settle.

The House committee's consultant, Jamie Love, said the state could receive as much as $3 billion by the end of 1985, based on the method of figuring pipeline tariffs set out by the commission. That compares with about $300 million the state would receive by the end of the year under the settlement, he said.

Love also said he thinks the state will do even better because there are elements involved in the TAPS case that are unique to Alaska and must be taken into account by the commission.

Assistant Attorney General Robert Maynard and other state attorneys declined to publicly release their figures on the value of the Williams decision to the state. Maynard said, however, the state's figures were not drastically different from Love's.

Both Love and Maynard cautioned, however, that precise figures are not available because there are a number of variables involved in figuring the result of continuing the case.

Robert Loeffler, an attorney hired by the state to work on the TAPS case, said it still is unclear whether the Williams methodology will be applied to TAPS. He told legislators each pipeline case will have to be decided individually by the commission.

Maynard added that state attorneys still are hesitant to trust the commission, despite the favorable Williams ruling.

Of the eight pipeline owners, two — Sohio Pipe Line Co. and Amerada Hess Pipeline Corp. — have refused to sign settlement agreements. Sohio officials have said the proposed settlement unfairly burdens companies that shipped oil through the pipeline in the early years, and benefits those who might use the line in later years.

The companies that have settled are Arco Pipe Line Co., BP Pipelines Inc., Phillips Alaska Pipeline Corp., Union Alaska Pipeline Co., Mobil Alaska Pipeline Co. and Exxon Pipeline Co.

The settlements still must be approved by the federal energy commission. The commission has until Nov. 30 to register approval. If it doesn't do so, the state or the pipeline owners can withdraw from the settlements.

Alaska State Legislature

House of Representatives

Official Business

Pouch V
State Capitol
Juneau, Alaska 99811

House Special Committee on Oil and Gas

July 18, 1985

Governor Bill Sheffield
Third Floor, Capitol Building
Juneau, Alaska 99811

Dear Governor Sheffield:

The House Special Committee on Oil and Gas has conducted extensive inquiry into the TAPS tariff case during the past several months. Public hearings and committee research have largely been directed toward reviewing the state's litigation and settlement positions within the framework of the 1982 Williams pipeline ratemaking methodology set forth by the Federal Energy Regulatory Commission.

The settlement of the TAPS case seemed at the time to be a correct and reasonable move for the state, given the possibility of a ruling from FERC that would follow the 1982 Williams decision. We were concerned that FERC might adopt a tariff methodology that would not only eliminate current refunds, but that would also result in high tariffs in the later years of pipeline operation.

The state's litigation position improved in 1984 when a U.S. Circuit Court of Appeals decision rejected the 1982 Williams decision. There continued to be a great deal of uncertainty among legislators, however, regarding FERC's response to the Circuit Court's remand of the case, the timing of a FERC decision, and the risks faced by the state through continued litigation.

On June 28, the FERC announced that it had revised its pipeline ratemaking method in regard to the Williams Pipe Line Co. (Williams II). It now appears that the tariffs under Williams II would be lower than the proposed settlement tariffs through 1993, and that outyear tariffs would not be as high as the tariffs that were feared under the Williams I decision. This could result in a substantial net gain to the state, relative to the settlement, in refunds and additional taxes and royalties.

Although we do not believe the Williams II decision is the best outcome for the state, or even necessarily the most likely outcome of further litigation, we do think that within the framework of Williams II the state has the flexibility to argue for a tariff that meets the state's objectives of protecting shippers from unjust and unreasonable tariffs, while also providing a long-term tariff structure that encourages the orderly development of North Slope oil resources.

Specifically, the state could argue for a more rapid depreciation schedule under a Williams II trended equity rate. This action would lower outyear tariffs while still resulting in an overall tariff structure that is lower over the entire life of TAPS, thus resulting in higher state revenues than provided in the settlement. In short, the June 28, 1985 Williams II FERC decision and our review of the 1984 Circuit Court's remand decision have caused us to dramatically revise our assessment of the downside risk to further litigation and the benefits of the proposed settlement.

Moreover, analysis of the rationale behind Williams II suggests that this decision may not be applied to Alaska, and that the TAPS tariff case may be resolved under an even more favorable methodology to the state. The key disadvantage of Williams II is the use of a trended equity portion of a pipeline rate base, which was justified for Lower-48 pipelines where new pipelines face competition from older ones, and the trending of the rate base results in a more level tariff structure.

This situation is quite different from Alaska's, in which the TAPS owners are not realistically expected to face competition from a new pipeline. Also, the unique production profile from the North Slope would result in an uneven tariff which, under a trended rate base, increases in real terms over time. Consequently, the specific objective sought by FERC -- a level tariff -- is not served by a trended rate base for TAPS. The State of Alaska is therefore in a strong position to continue to press for a rate base that is based on depreciated original cost (DOC), which is and always has been the preferred ratemaking methodology from the state's point of view.

The House Special Committee on Oil and Gas commends the good faith efforts of the Office of the Governor and the Department of Law in negotiating the TAPS settlement, and the willingness of your office and the administration to work with the committee on this issue. However, in light of recent significant developments with the TAPS case, the committee recommends that reconsideration be given to the current pursuit of the settlement, in favor of continued litigation based on just and reasonable tariff rates.

The committee also recommends that the Department of Law not sign the settlement with any additional pipeline owners until, under your direction to the administration, comparisons are made of the different tariff profiles under different versions of the Williams II and DOC methodologies, including tariffs based on more rapid depreciation schedules. Based on these tariff profiles, estimates should also be made of (1) the ownership shares and total volume of future oil production (2) the state's interest in future production through taxes, royalties, and net profit share agreements and (3) the impact of different tariff structures on the state treasury and future North Slope oil production.

Sincerely,

Rep. Mike Davis, Chairman

Mike Davis

Rep. Sam Cotten, Vice-chairman

Samuel R. Cotten (by M.M.H.)

Rep. Andre Marrou

Andre Marrou (by M.M.H.)

Rep. Marco Pignalberi

Marco Pignalberi

Rep. Pat Poorchot

Pat Poorchot

Rep. Mike Szymanski

Mike Szymanski

Rep. John Sund

John Sund (by JES)

BILL SHEFFIELD
GOVERNOR

STATE OF ALASKA
OFFICE OF THE GOVERNOR
JUNEAU

July 22, 1985

The Honorable Mike Davis
Chairman
House Special Committee on Oil and Gas
315 Barnett Street, Room 103
Fairbanks, AK 99701

Dear Representative Davis and
Members of the Committee:

Thank you for your letter and recommendations of July 18 concerning the pending TAPS settlement. I agree that a full review of the settlement, in light of the recent decision by the Federal Energy Regulatory Commission (FERC) in the Williams Bros. case, is appropriate, and I have already directed that such a review be undertaken not only for the TAPS case, but also for other Alaska oil pipelines such as Kuparuk and the proposed Continental pipeline to Milne Point.

As you point out, the TAPS settlement was a correct and reasonable move for the State at the time it was signed with 65 percent of the owners of the pipeline. It secured $4.6 billion of the potential $7.0 billion in 1985 dollars at stake; it assured low tariffs for the critical decades ahead (thereby increasing the chance of developing North Slope reserves and also assuring substantial revenues in those decades); and it also brought extremely costly and complex litigation to an end, litigation that has already lasted seven years and is expected to take about five to ten more years to resolve. The settlement was a prudent course of action given the then-perceived risks and length of continued litigation.

The recent Williams Bros. decision appears to have altered the odds of continued litigation in the State's favor. Although a very sketchy decision, and not totally in the State's favor, it appears to have narrowed the risk of continued litigation. Some of the potential disastrous results faced by the State only a few months before now appear to have disappeared. In light of the new landscape,

I agree with your recommendation that we proceed cautiously and not settle with additional pipeline owners until a full review of the settlement and the alternatives have been completed.

The State does, however, have a signed agreement with 65 percent of the pipeline owners. Whatever the results of the analysis, the State will stand by its agreement. This includes doing nothing to directly or indirectly subvert the approval process before the FERC. While the State may be less enthusiastic for the settlement, the obligations of good faith and fair dealing are of the highest importance both in these and other dealings by the State.

Nor is it a foregone conclusion that a full review of the settlement will lead to a preference for continued litigation with the remaining pipeline companies or, if FERC approval does not occur within the agreed deadlines, with the other companies.

First, the settlement produces results that are acceptable in and of themselves. The goals of our negotiations were originally designed to achieve independent State policies. They were not selected based on the odds of winning or losing the litagation. However, odds of winning the litigation were used as a check on the settlement objectives. The recent change in the odds of litigation does not alter the underlying acceptability of the settlement -- it only means that we have the chance of getting something better. Whether that chance should be taken is not a black and white question.

Second, a few weeks ago the judge in the TAPS case estimated that it would take at least another ten years to resolve the case. The recent Williams decision, while certainly a swing in the State's direction, is at least the third swing of the pendulum in only the last four years. Much can happen in ten years, including the potential for Congressional deregulation of oil pipelines. Victory is not just around the corner, it is still miles away.

Also, the settlement secures hundreds of millions of dollars for the State annually both now and over the next decade. While the Williams Bros. decision gives the State the opportunity for much more, that money won't be seen for at least a decade if the TAPS judge is correct about the timing. And, although the Williams Bros. decision makes that huge potential refund sum more probable, it is still not assured.

Finally, the Williams Bros. decision leads to relatively higher tariffs in later years, usually 50-100 percent higher than the settlement after 1991-1993. Past State policy has expressed an overwhelming preference for low tariffs in later years to encourage additional development of the North Slope. While the potential large refunds might outweigh that interest, given the remaining uncertainties, the balance may still be in favor of the settlement.

In other words, these and other considerations do not make the decision an easy one -- detailed study and review is called for. I will certainly include your specific suggestions for study topics in our review, if they have not already been included. I appreciate the careful attention your committee, and other members of the Legislature, have given to this important topic. I will continue to work with you in resolving this long, complex, and often frustrating matter.

Sincerely,

Bill Sheffield

Bill Sheffield
Governor

61.

Alaska State Legislature

House of Representatives

Official Business

Pouch V
State Capitol
Juneau, Alaska 99811

October 11, 1985

Mr. Kenneth F. Plumb, Secretary
Federal Energy Regulatory Commission
825 North Capital St., N.E.
Washington, D.C. 20426

Dear Sir:

We are writing in regard to the Trans Alaska Pipeline System (TAPS) settlement agreement that is currently under review by the FERC. Members of the Alaska House of Representatives have taken a special interest in the TAPS case because we are concerned about how the six-company settlement will affect the state.

We are aware that the comment and reply periods have closed, but we request that you allow our comments to be entered into the record at this time.

It has been our position that the state would be better off continuing to litigate than to settle. However, we have confidence in the state's lead TAPS council, Bob Maynard, and decided not to protest the state's position at the time the settlement was signed and submitted to you.

Although we continue to respect Mr. Maynard and his work on the TAPS case, several events have now caused us to reconsider our position not to criticize the settlement. The first two concern timing. It appears that the "Williams II" decision may give a much better outcome to the state than the settlement position -- this decision was issued on June 28, 1985, the same day the state's settlement was submitted to you.

In addition, we are uncomfortable with the timing of Exxon Pipeline Company, Mobil Alaska Pipeline Company and Union Alaska Pipeline Company in reaching a settlement agreement with the state. These three companies reached an agreement with the state on June 21, 1985 -- only seven days before the Williams II decision was officially announced.

A third development of note is a critique of the settlement, issued this summer by economist James Love, entitled "An Analysis of the TAPS Tariff Settlemer .." The study compares the state's litigation position and a Williams II scenario with the settlement. Mr. Love concludes that the settlement is by far the worst of the three scenarios for the state. Although the factual basis of Mr. Love's conclusions is controversial, we think the report indicates that differing analyses of the settlement are possible and that the settlement may not be in the state's best interests.

Finally, one of the original assumptions in developing the settlement was that "development interests," i.e. incentives for exploration and development of new fields and resultant production, would be enhanced by the proposed settlement's tariff curve. We now feel that the settlement may not meet this all-important goal. In fact, Alaska's Department of Revenue is currently analyzing the settlement in light of the Williams II decision and is considering this very question.

These events indicate to us that continued pursuit of the settlement may not be in the state's best interest. We believe that the uncertainty of continued litigation is preferable to the uncertainty of the settlement's benefits to the state and, therefore, we ask that you do not give the settlement your approval.

We hereby certify that a copy of these comments has been served upon all parties of record in the above proceeding in the docket No. OR78-1 et. al. by first class mail, postage prepaid on this 11th day of October, 1985.

Sincerely,

Ben Grussendorf - by L.W.C. Don Clocksin

Ben Grussendorf
Speaker

Don Clocksin
Majority Leader

Al Adams
Chair, Finance Committee

Mike Davis D.S.A.P.
Mike Davis
Chair, Oil & Gas Committee

Sam Cotten
Chair, Finance Subcommittee on Oil & Gas
Vice Chair, Oil & Gas Committee

FEDERAL ENERGY REGULATORY COMMISSION
WASHINGTON, D. C. 20426

OFFICE OF THE GENERAL COUNSEL

OCT 30 1985

Honorable Mike Davis
Alaska State Legislature
House of Representatives
Pouch V
State Capitol
Juneau, Alaska 99811

Dear Mr. Davis:

This is in response to your letter of October 11, 1985, to Mr. Kenneth F. Plumb, Secretary, Federal Energy Regulatory Commission, in which you presented your views opposing the Trans Alaska Pipeline System (TAPS) settlement agreement. As you are aware, the time period had already closed for receiving comments on the settlement agreement. Therefore, we were unable to enter your letter into the official TAPS record.

Moreover, your concern focused on the apparent assumption that the methodology adopted by the Commission in the Williams II decision would be applied to TAPS. In my opinion, that assumption is misplaced which I had publicly pointed out to the participating parties. The Williams II methodology is applicable to pipelines in the lower forty-eight states which operate in a truely competitive environment. However, it is almost uniformly recognized that TAPS is unique. It was built under unique circumstances and required unique engineering and construction techniques. Therefore, in my view it required its own unique solution which presented itself in the context of the rate case settlement. The Commission apparently agreed, as is discussed more fully in the order approving the settlement.

On October 23, 1985, the Commission unanimously voted to accept the order approving settlement as to the six settling parties, and remanded the proceedings as to non-settling parties to the administrative law judges for expedited processing. A copy of the Commission's order is enclosed.

I hope this information is helpful to you. If I can be of further assistance to you in this or any other Commission matter, please let me know.

Sincerely yours,

William H. Satterfield

William H. Satterfield
General Counsel

Enclosure

SCOMM

#46:8

OVERVIEW OF PRESENT MAJOR OIL LITIGATION

A. Introduction. The State is presently in the middle of one of the largest litigation efforts in U.S. history. The amounts at issue in the State's oil and gas litigation total at least 15 to 20 billion dollars in present day dollars. The cases range from a title dispute with the federal government over valuable oil and gas lands in the Beaufort Sea (U.S. v. Alaska), wide-ranging disputes with a number of companies over the valuation of Alaska North Slope (ANS) crude oil (State v. Amerada Hess, State v. Alaska Oil, MDL-150), through litigation over the State's novel corporate income tax scheme of 1980-81 (Arco v. State), to the largest utility rate case ever presented (The Trans Alaska Pipeline Rate Case). These cases are characterized by their complexity and the enormous effort that is required to litigate them successfully. In some of these cases literally millions of documents have had to be examined. Hundreds of expert witnesses have given testimony and thousands of hours of hearings have been conducted. Similar activity is expected over the next few years.

The Oil and Gas Pricing Cases and Trans Alaska Pipeline Rate Case, described more specifically below, revolve primarily around a single concern: What is the value of Alaska North Slope oil at the point it enters the Trans Alaska Pipeline? The State's oil and gas revenues are primarily derived from the value of ANS oil at that point. It is the value at that point which

determines the amount taxed for the State oil and gas production tax. It is also the amount that the State is owed for its royalty share of ANS production, and is also the price term at which the State sells its royalty oil to third parties.

That value, in turn, is determined by the price that the oil commands in the distant markets of the West Coast of the United States and the Gulf Coast, minus the cost of moving the oil through the Trans Alaska Pipeline and by tanker to the various ports and refineries where it is sold. The higher the transportation costs, the lower the wellhead value and, consequently oil and gas revenues. In addition, the marketing of Prudhoe Bay oil in the lower 48 is a complex matter -- not only is a large portion of the oil sold in internal transfers from one company division to another, but also the oil that is sold to third parties is often sold in exchanges with other considerations than simply price attached. As a result, the value of the oil at those distant markets is not a clearcut issue, and the State contends that the amounts reported by the producers for the value of the oil when it reaches its ultimate destinations are too low by a significant amount.

Much of the State's oil and gas litigation revolves around the determinations of the level of transportation costs

and the price received for the oil at its ultimate destination. For every dollar per barrel change in those elements, the State will receive approximately 25 to 30 cents of that amount in increased royalty and production tax. At presently projected production rates from State lands through the year 2010, this involves approximately 3.75 to 4.5 billion dollars in present day dollars for every dollar per barrel change as a result of this litigation.

B. Oil and Gas Pricing Cases -- State v. Amerada Hess (North Slope Royalty Case), State v. Alaska Oil, MDL-150 (California Anti-trust Case). The amounts at issue in these cases collectively for both past and future royalties are likely upwards of two billion dollars in present day dollars. This group of cases revolves around the twin questions of the value of the oil at its ultimate point of sale in the lower 48, and the cost of moving the oil by tanker from Valdez to the points of sale. (The Trans Alaska Pipeline charge is a subject of a separate lawsuit to be explained later.) Three cases presently involve similar factual issues concerning the value of Prudhoe Bay oil. The main case is the North Slope royalty case, State v. Amerada Hess, et al.. This case involves the valuation of the State's royalty share of oil from Prudhoe Bay. The two primary issues are the proper value to be attributed to North Slope crude

oil when it reaches the lower 48, and second, the proper deductions to be made for tanker transportation in arriving at a value of the oil as it enters the Trans Alaska Pipeline System. A previous part of the case, involving the amount that could properly be charged against the State's royalty for field costs, was settled in 1980.

In addition to the North Slope Royalty Case, there are two other lawsuits which involve similar issues. One is the Alaska Oil price dispute, which involves the attempt of the State to recover approximately 62 million dollars withheld by the Alaska Oil Company for royalty oil sold to that company during the period July 1980 through February 1982. The contract with Alaska Oil required that it pay the "in-value" price, which was to be determined under the North Slope Royalty Case. Alaska Oil disputed the amounts billed by the State from the producer royalty reports, contending that the producers were reporting prices which were too high. The State disagreed, and attempted to quickly resolve the matter by going straight to bankruptcy court. The bankruptcy court ruled that bankruptcy was not appropriate at that time and the case is now before the State superior court on the issue of the amount of the debt. That case has been stayed pending the Charter bankruptcy in Florida. Since the amount of the debt is determined by the "in-value" price, the

resolution of this case will involve many of the same issues and facts as the North Slope royalty and production tax cases.

In another case the State was successful in asking the federal district court in the central district of California (at Los Angeles) to allow it to gain access to confidential information discovered in an anti-trust case brought by the State of California and the City of Long Beach against California oil companies. The case is entitled MDL-150. This case involves an alleged conspiracy to undervalue California crude oil. Since ANS crude oil competes with California crude oil for markets on the West Coast, the State may have a corresponding claim for damages depending upon the particular facts of that litigation.

In essence, these cases will require the State to make a detailed factual review of all West Coast and Gulf Coast oil marketing transactions for a seven year period, and will have to track the disposition of billions of barrels of ANS crude oil. Because of the similar factual circumstances, these cases will have to be closely coordinated among themselves and with portions of the Trans Alaska Pipeline Rate Case which involve similar issues. The massive discovery, document evaluation, and expert preparation will have to result in a consistent position in all of the cases.

FY 86-87 will be the peak years of activity in these cases. These cases are presently in a state of preliminary discovery, with the State and the companies both battling on the production of documents and confidentiality to be attached to those documents. By the beginning of FY 85 experts (whose testimony is essential) have been selected, the preliminary battles over discovery are over, and large amounts of documents have begun to arrive (expected to total two to three million documents by the end of discovery). Also, a system to code, index, and computerize these documents is being put in place. In FY 85, then, the State began actual work on these cases; documents still need to be analyzed, depositions taken, and experts prepared.

State v. Phillips and State v. Marathon were cases involving the value of the State's royalty gas from the North Cook Inlet and Kenai fields. The Phillips case was settled last year, resulting in a payment of about $30 million to the State for past royalties, and an increase of $12 million per year in future royalties.

C. Trans Alaska Pipeline Rate Case. The case which has received the most intense litigation effort at this point is the Trans Alaska Pipeline Rate Case. The amounts at issue

between the best case and the worst case outcomes, over the life of the field, are approximately 7 to 10 billion dollars in present day dollars.

This case involves the appropriate tariff to be charged for transporting oil through the Trans Alaska Pipeline System (TAPS). The case is in two parts. The first part is the question of the proper methodology, or formula, to be used in calculating the tariff. The second part involves the actual numbers, including the cost of construction, to be put into the formula. The case has been litigated since 1977, and prompt resolution is not expected.

Phase I of the case is now on "hold" after a number of delays. The F.E.R.C. has informally indicated that it does not want to resolve the TAPS case.

The trial of the second part of the case, primarily involving the prudent cost of constructing the Trans Alaska Pipeline, is now over and is being briefed before an administrative law judge.

The State is now attempting to settle this dispute, and has reached an agreement with Arco. The other companies have not yet signed on.

D. Arco v. State (The Oil and Gas Corporate Income Tax Case). This case involves a question of the constitutionality of Alaska's previous oil and gas corporate income tax. That tax was based on a concept of "separate accounting," which attempted to isolate those profits made by oil and gas operations in Alaska. Other states often use a concept called "formula apportionment," which divides total corporate profits by the percentage of certain factors (usually payroll, sales, and property) in each particular state. The companies are basically charging that our unique formula violated the Commerce Clause by resulting in double taxation. The amount at issue is approximately two billion dollars, which the State has collected and would have to refund if the State lost the case. The State won the case at the superior court level on summary judgment (without trial), and the case is presently on appeal to the Alaska Supreme Court. The Alaska Supreme Court is likely to rule in early FY 86, and can either affirm our victory, reverse and rule that our taxation scheme was unconstitutional, or it could remand the case back to superior court for a full trial on a number of factual issues.

E. U.S. v. Alaska. U.S. v. Alaska is a case before the United States Supreme Curt involving title to lands in the Beaufort Sea. At the 1979 joint state-federal Beaufort Sea Oil and Gas Lease Sale, the disputed lands at issue in this lawsuit drew $536,000,000 in bonus bids alone. Those lands have some of the highest potential for oil and gas development in the State, and if we are successful, the State will gain billions of dollars in extra royalties and taxes. Over $980 million is presently in escrow. Moreover, the principles established in this case would govern such disputes in virtually all areas of Alaska's coast. Given the industry's current interest in offshore oil and gas leasing, the possible benefit to the State from 1979 lease sale if a favorable decision is reached could be multiplied many times over as those principles are extended to other areas of Alaska's coast. The case is presently being heard before a special master appointed by the United States Supreme Court.

SCOMM

#46:9

STATE OF ALASKA

POUCH V
JUNEAU, ALASKA 99811
(907) 465-4941

HOUSE SPECIAL COMMITTEE ON OIL AND GAS

MEMORANDUM

To: All Interested Persons

From: Rep. Mike Davis, Chairman
House Special Committee on Oil and Gas

Date: April 7, 1986

Re: Petroleum Products Pricing Briefing

The House Special Committee on Oil and Gas will conduct an oversight hearing regarding petroleum products pricing at 4:00 p.m. on Thursday, April 10. The meeting will be held in Room 519 of the Capitol Building, and will be teleconferenced to the legislative information offices at all standing sites.

Representatives from the Department of Law, the Department of Natural Resources - Division of Oil and Gas, and the House Research Agency have been asked to participate in the hearing.

The main purpose of the hearing is to provide members of the House Special Committee on Oil and Gas with information regarding the relationship between the price of crude oil and that of refined products, the structure and traits of Alaska's regional markets, an overview of the petroleum product stream, consumer obligations associated with the purchase of royalty oil by in-state refiners, and the authority of the Department of Law and the ability of consumer interest groups to monitor product pricing.


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100 CUSHMAN ST.
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FAIRBANKS, ALASKA 99701
PHONE: (907) 452-1568

☒ POUCH K - STATE CAPITOL
JUNEAU, ALASKA 99811
PHONE: (907) 465-3600

DEPARTMENT OF LAW

OFFICE OF THE ATTORNEY GENERAL

March 11, 1986

The Honorable Bill Sheffield
Governor
State of Alaska
P.O. Box A
Juneau, AK 99811

Dear Governor Sheffield:

Enclosed is my office's report on Fairbanks gasoline prices, as requested by your letter of January 13, 1986. As you know, during the last year gasoline prices in Fairbanks have increased, during a time when crude oil prices have decreased substantially.

Our investigation looked at all levels of the gasoline distribution system in Fairbanks: retail, wholesale, distributor, and refinery. Our conclusion is that the higher prices are the result of price increases at the refinery level. That is, the refineries are charging more for refined gasoline, even though they are paying less for the crude oil they use to make the gasoline. This price increase has been entirely passed on through the distribution chain to the Alaska consumer.

There is no law against charging high prices, as far too many Alaskans can testify. However, this situation is particularly deplorable. Alaskans are being paid less and less for the state royalty oil that goes into the refinery, but are being charged more for the product that comes out of the refinery.

Sincerely yours,

Harold M. Brown
Attorney General

HMB:RDM:cck
Enclosure:

cc: Hon. Mike Davis
Alaska State House of
Representatives

03-C5LH

FYI P

STATE

BILL SHEFFIELD, GOVERNOR

REPLY TO:

☐ 1031 W 4th AVENUE
SUITE 200
ANCHORAGE, ALASKA 99501
PHONE: (907) 276-3550

☐ 1st NATIONAL CENTER
100 CUSHMAN ST.
SUITE 400
FAIRBANKS, ALASKA 99701
PHONE: (907) 452-1568

■ POUCH K · STATE CAPITOL
JUNEAU, ALASKA 99811
PHONE: (907) 465-3600

DEPARTMENT OF LAW

OFFICE OF THE ATTORNEY GENERAL

August 26, 1985

The Honorable Mike Davis
Alaska State House of Representatives
P.O. Box 81435
College, AK 99708

Dear Representative Davis:

Enclosed per your request is a copy of our report on the gasoline price situation in Southeast Alaska. We did not look at the Fairbanks market during this investigation.

Our conclusion was that prices will not go down in Southeast until there is more competition, both wholesale and retail. The outlook for this is not too good. The two wholesalers do not show any desire to undercut each other or to expand their shares of the total market. The retailers in Southeast, especially Juneau, appear content with the high profit margins on their present sales volume. We did not find any evidence of price fixing at the wholesale level, although we did find some evidence of price fixing at the retail level.

To prove price fixing requires a showing that competitors (1) met and discussed setting prices, (2) agreed to fix prices, and (3) acted on their agreement. If this is proven, the parties are subject to criminal misdemeanor prosecution, with a potential of a year in jail and a $20,000 fine for each offense. As 45.50.578. In addition, any injured party can get treble damages -- a judgment of three times the amount of his actual damages. AS 45.50.576. The treble damage remedy exists to encourage prosecution of what can be very difficult cases to prove.

Most of our successful antitrust prosecutions have begun as consumer complaints. To start an investigation, the law requires the Attorney General to have a reasonable belief that a violation of the antitrust statutes has occurred. AS 45.50.590. We need more than just a consumer "suspicion" that price fixing has happened to begin an investigation. If your constituent has some good evidence as to price fixing in the Fairbanks gasoline market, we would certainly like to hear about it.

03-C5LH

Please feel free to call if you have any questions.

Sincerely yours,

HAROLD M. BROWN
ATTORNEY GENERAL

By:
Richard D. Monkman
Assistant Attorney General

HMB:RDM:cct
cc w/o enc.:
Randy Olsen
Assistant Attorney General
Attorney General's Office/Fairbanks

MEMORANDUM

State of Alaska

Community and Regional Affairs

TO: Raymond Gillespie
Chief of Staff
Office of the Governor

DATE: February 28, 1986

FILE NO:

TELEPHONE NO: 465-4890

FROM: Emil Notti
Commissioner

SUBJECT: Exxon Oil
Overcharge Funds

This is response to your request for information regarding the Exxon Oil Overcharge Funds that the State of Alaska will soon be receiving.

On January 26, 1986, the U.S. Supreme Court ruled that Exxon Corporation must pay over $2 billion in refunds and interest for oil overcharges. The Court also upheld a lower court ruling that the money must be distributed to the States and spent on the federal energy programs (Energy Extension Service, State Energy Conservation Program, Institutional Conservation Program, Weatherization, and Low-Income Energy Assistance). It is estimated that Alaska's share will exceed $7.9 million.

It is not clear at this time what restrictions will be placed upon the funds. In its decision the federal court ruled that the funds must be disbursed in accordance with Section 155 of Public Law 97-377,96 (Warner Amendment). The Warner Amendment stipulates that the State must apply the funds among the five federal energy conservation programs, that interest gained on the funds must be used for the same purpose and that none of the funds may be for administrative expenses. The U.S. Department of Energy (DOE) has, to date, issued no directives regarding the use of the funds.

It is my recommendation that the funds be placed into a trust account until such time clear guidance is given by the DOE as to what policies will govern the expenditure of the funds.

Steve Baden, Program Manager of the Division's Conservation section, has been tracking the developments in regards to the case and will be in Juneau next week, Mr. Baden and I will be glad to provide you a more detailed briefing and answer any questions you may have at that time.

MAR 14 1986

THE COMMISSIONER

RECEIVED

MAR 05 1986

COMMISSIONER'S OFFICE
COMMUNITY & REGIONAL AFFAIRS

ALASKA PETROLEUM PRODUCT PRICING

A review of industry practice and policy and its effect upon energy costs to Alaskans

Prepared for the
SENATE RESOURCES COMMITTEE:

Senator Bettye Fahrenkamp, Chairman
Senator Robert H. Ziegler, Vice-Chairman
Senator Paul Fischer
Senator Richard I. Eliason
Senator Vic Fischer
Senator Bob Mulcahy
Senator Arliss Sturgulewski

by
Louis F. DeLong
Lloyd M. Pernela

PACIFIC-ALASKA, INC.
Fairbanks, Alaska

February 1,1983

Adopted: 12/09/85

RESOLUTION NO. 85-089

A RESOLUTION ASKING FOR AN INVESTIGATION INTO THE PRICE OF GASOLINE AND FUEL OILS IN ALASKA

WHEREAS, the price of crude oil on the world markets has been in decline for the past several months; and

WHEREAS, the supply of crude oil has been in excess of demand for the past several months; and

WHEREAS, this over-supply of crude oil has existed long enough for the consumer prices of gasoline and fuel oils to go down in the Lower Forty-eight States; and

WHEREAS, the State of Alaska continues to experience a large decline in State Revenues from its crude oil sales; and

WHEREAS, this decline in State Revenues is affecting most of the State's residents, municipalities, schools, and businesses; and

WHEREAS, the consumer prices for gasoline and fuel oils have continued to increase in the Interior of Alaska during this time of declining prices for the crude oil;

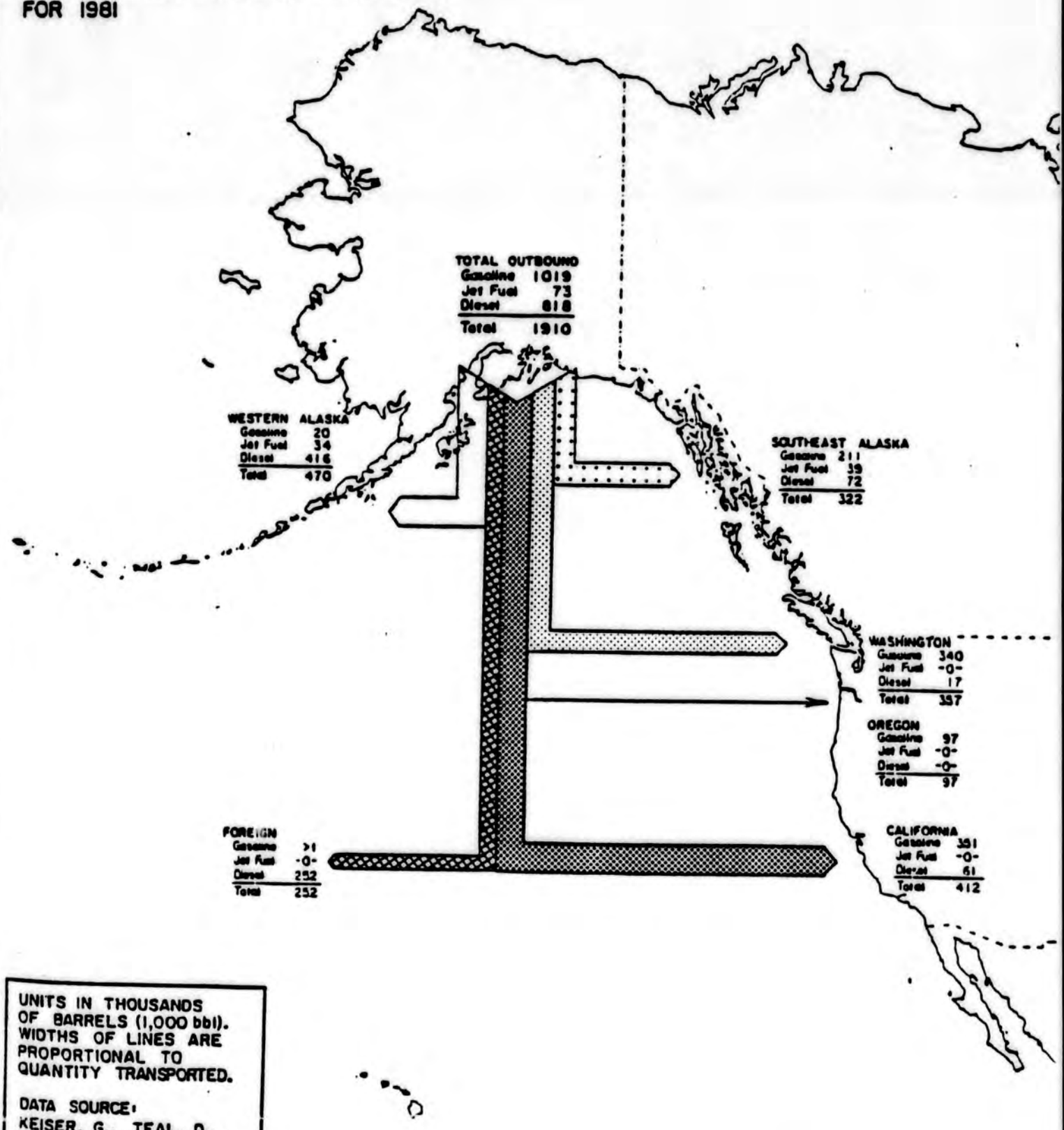
NOW, THEREFORE, BE IT RESOLVED that the Fairbanks North Star Borough Assembly requests the Governor of Alaska to create a task force for the purpose of examining the reasons for the inverse situations in gasoline and fuel oil prices in Alaska.

PASSED AND APPROVED THIS 9TH DAY OF DECEMBER, 1985.

Senator Scott Stringer
Presiding Officer

ATTEST:
Nora Lisa Dresler

SOUTHCENTRAL ALASKA
COASTAL FUEL MOVEMENTS-OUTBOUND
FOR 1981



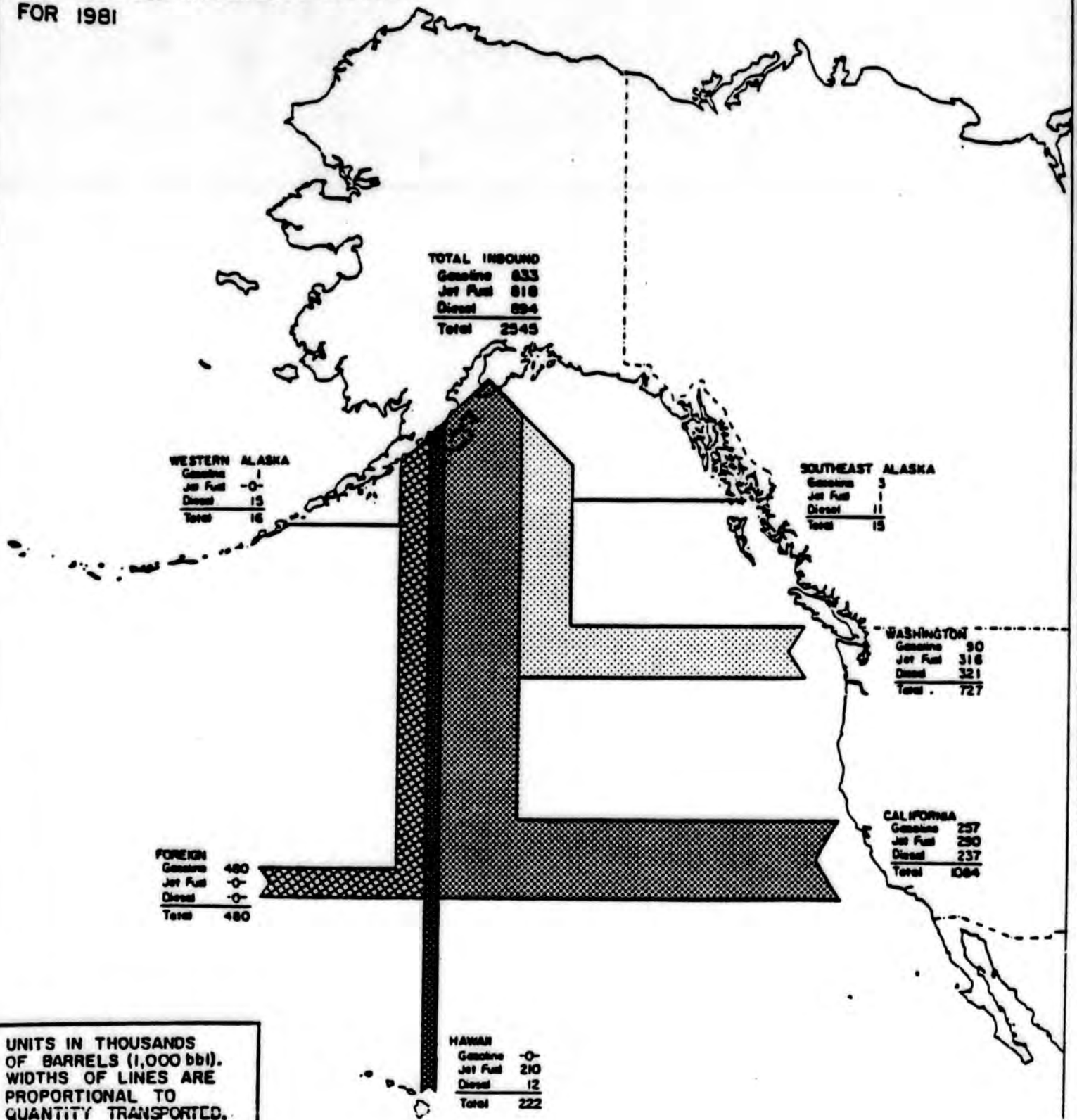
UNITS IN THOUSANDS OF BARRELS (1,000 bbl). WIDTHS OF LINES ARE PROPORTIONAL TO QUANTITY TRANSPORTED.

DATA SOURCE:
KEISER, G., TEAL, D., FUEL CONSUMPTION AND PRICING IN ALASKA, A REGIONAL ANALYSIS, HOUSE RESEARCH AGENCY REPORT 83-C, JAN. 1984

Historical + Projected Oil + Gas Consumption - DNR 1/86

FIGURE 3.6

SOUTHCENTRAL ALASKA
COASTAL FUEL MOVEMENTS-INBOUND
FOR 1981



UNITS IN THOUSANDS OF BARRELS (1,000 bbl). WIDTHS OF LINES ARE PROPORTIONAL TO QUANTITY TRANSPORTED.

DATA SOURCE:
KEISER, G., TEAL, D., FUEL CONSUMPTION AND PRICING IN ALASKA, A REGIONAL ANALYSIS, HOUSE RESEARCH AGENCY REPORT 83-C, JAN. 1984

Historical + Projected Oil + Gas Consumption - DNR 1/86

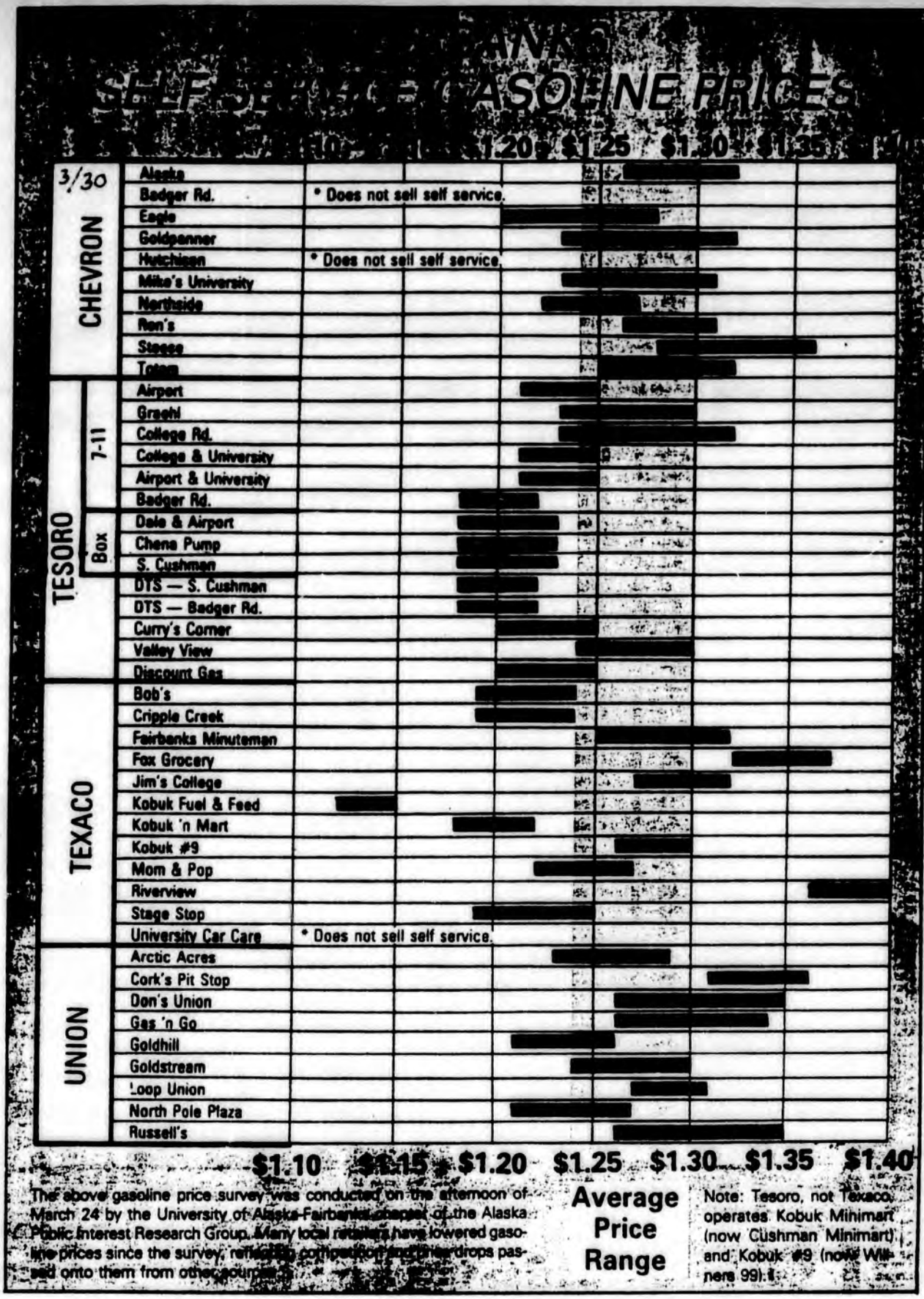
Table 51
GASOLINE PRICE COMPARISONS
Fairbanks Area Service Stations
September 1985

Station	Price (In Cents Per Gallon)						
	Full-Service				Self-Service		
	Regular	Unleaded	Super	Diesel	Regular	Unleaded	Super
CHEVRON							
Alaska Chevron**	147.9¢	153.9¢	160.9¢	--	134.9¢	140.9¢	147.9¢
Badger Road Chevron	131.9	138.9	148.9	138.9¢	--	--	--
Eagle Chevron	147.9	153.9	160.9	135.9	131.9	138.9	146.9
Goldpanner Chevron	149.9	155.9	159.9	146.0	132.9	139.9	--
Hutchison's Standard	137.9	145.9	148.9	148.5	--	--	--
Mike's University Chevron	151.9	156.9	160.9	135.9*	133.9	140.9	148.9
Northside Grocery and Gas	--	--	--	--	131.9	136.9	142.9
Ron's Service	146.9	151.9	157.9	--	132.9	137.9	--
Steese Chevron	--	--	--	--	129.9	136.9	143.9
Totem Chevron	146.9	152.9	159.9	--	131.9	137.9	144.9
TESORO							
7-Eleven, Airport Way	--	--	--	--	130.9	138.9	--
7-Eleven, Graehl	--	--	--	--	131.9	139.9	--
7-Eleven, College and University	142.9	147.9	--	143.9	131.9	138.9	--
7-Eleven, Airport and University	--	--	--	134.9	132.9	138.9	--
7-Eleven, Badger Road	--	--	--	132.9	126.9	132.9	--
Box Boy Gas, Airport and Dale Road	--	--	--	--	128.9	131.9	--
Box Boy Gas, Chena Pump Road	128.9	133.9	--	129.9	--	--	--
Box Boy Gas, South Cushman	125.9	129.9	--	--	--	--	--
Curry's Corner	--	--	--	133.9	124.9	129.9	--
Discount Truck Stop, South Cushman	--	--	--	129.9	130.9	134.9	--
Discount Truck Stop, Badger Road	--	--	--	134.9	128.9	134.9	--
Michael's Tesoro	--	--	--	--	123.9	129.9	--
Valley View Center	--	--	--	--	126.9	132.9	--
TEXACO							
Bob's Texaco	148.9	153.9	160.9	--	128.9	133.9	140.9
Cripple Creek Store	--	--	--	126.9	119.9	124.9	--
Fairbanks Minuteman	145.9	152.9	155.9	--	129.9	135.9	145.9
Fox Grocery and Gas	--	--	--	140.0	134.9	139.9	--
Jim's College Texaco	152.9	158.9	168.9	--	131.9	137.9	154.9
Kobuk Fuel and Feed	--	--	--	113.9	119.9	124.9	--
Kobuk Mini-Mart, South Cushman	--	--	--	--	127.9	133.9	--
Kobuk No. 9, College Road	--	--	--	--	129.9	134.9	--
Mom and Pop Gas	--	--	--	--	130.9	135.5	--
Riverview Liquors	--	--	--	--	127.9	125.9	136.9
Stage Stop	--	--	--	130.9	123.9	129.9	--
University Car Care Center	143.9	148.9	154.9	--	--	--	--
UNION							
Arctic Acres Country Store	--	--	--	129.0	123.9	129.9	--
Cork's Pit Stop	132.0	137.0	155.0ϕ	136.0	--	--	--
Don's Union	148.9	154.9	--	--	128.9	134.9	--
Gas 'n Go	--	--	--	130.9	128.9	136.9	--
Gold Hill Liquor	--	--	--	--	119.9	124.9	--
Goldstream General Store	--	--	--	--	127.9	133.9	--
Loop Union	--	--	--	136.0	128.9	132.9	--
North Pole Plaza Union	--	--	--	131.9	129.9	139.9	--
Russell's Union	148.9	154.9	--	--	128.9	134.9	--
AVERAGE							
September 1985	143.4	149.1	158.0	134.3	129.0	134.7	145.4
September 1984	141.0	146.3	154.5	132.6	123.4	130.4	140.2
% Change September 1984 - September 1985	2%	2%	2%	1%	5%	3%	4%

NOTE: Figures reflect prices shown on the gasoline pumps. Some stations offer discounts to customers paying cash. Also the retail price of gasoline depends on the date of delivery. Therefore, variations in price may partly reflect different delivery dates. Stations are grouped according to the brand of gasoline sold, as shown on their pumps.

* Self-service only. The price for full-service diesel was 145.3¢.
** Alaska Chevron has a "cash only" island which shows pump prices of 5 cents less per gallon than those given here for the regular self-service island.
ϕ A high octane (96) leaded gasoline.

Fairbanks North Star Borough —
Community Research Center



UAF - AKPIRG

News - Miner 3/30/86

SCOMM

#46:10

Outline of Presentation to

HOUSE SPECIAL COMMITTEE ON OIL AND GAS
January 25, 1985

Department of Natural Resources
Esther C. Wunnicke, Commissioner

Kay Brown, Director
Division of Oil and Gas

Donna Wood-Johnson, Royalty Manager
Division of Oil and Gas

OVERVIEW OF ROYALTY OIL POLICY ISSUES

I. Goals

II. History

A. 1969 - first sale (Cook Inlet oil to Alaska Oil and Refining, which later became Tesoro Petroleum Company)
B. 1974 - legislature established Alaska Royalty Oil and Gas Development Advisory Board
C. 1976 - seven-year contract with GVEA for Prudhoe Bay royalty crude
D. 1978 - contract with Alpetco in varying amounts from 150,000 to 75,000 b/d in exchange for "world class" petrochemical complex
E. 1978 - contract with Earth Resources Company of Alaska (MAPCO) for 15% of Prudhoe Oil (27,500 b/d), with call on up to total of 35,000 b/d of uncommitted royalty oil statewide, through 2003
F. 1979 - agreement with Prudhoe Bay producers to retain royalty shares for one year
G. 1980 - competitive auction, with 17 bid lots of 5000 b/d for one year
H. 1981 - Alpetco cancels its refinery project
I. 1982 - On January 12, Alpetco's contract with the state terminated.
J. 1982 - Tesoro contract for 21.208-21.326% of Prudhoe Royalty Oil through 1995
K. 1982 - Chevron contract for 9.6% of Prudhoe Royalty Oil to 1995
L. 1983 - Tesoro contract for 13.86% of Prudhoe Royalty Oil to 1995
M. 1984 - competitive auction of 18 lots of 5,000 bbl each of Prudhoe Bay and Kuparuk River Unit Royalty Oil for six-month and one-year contracts, with first delivery commencing 4/1/85

III. Statutory framework

A. Commissioner of DNR (AS 38.05.182 -- AS 38.05.183, AS 38.05.035, AS 38.05.945)
B. Royalty Oil and Gas Development Advisory Board (AS 38.06)
C. Role of Legislature (AS 38.06.055)

IV. Policy criteria for sales

A. Under AS 38.05.183(e), noncompetitive disposals must be to the prospective buyer whose proposal offers maximum benefits to the citizens of the state, considering:

1. The cash value offered
2. The projected effects of the sale, exchange or other disposal on the economy of the state
3. The projected benefits of refining or processing the oil or gas in the state
4. The ability of the prospective buyer to provide refined products or by-products for distribution and sale in the state with price or supply benefits to the citizens of the state
5. The criteria listed in AS 38.06.070(a)

B. AS 38.06.070(a) requires the Royalty Board in making recommendations on royalty dispositions to consider:

1. Revenue needs and the projected fiscal condition of the state
2. Present and projected in-state needs
3. Direct and indirect economic effects of royalty oil and gas sales
4. Projected social impacts
5. Projected additional costs to state and local governments
6. Local or regional labor or consumption markets that could be met by the transaction
7. Projected environmental effects, both positive and negative
8. Effects on existing private enterprise and investment patterns

V. Recap of current dispositions

A. Competitive sale
B. Tesoro
C. Chevron
D. Mapco
E. GVEA

VI. Options for Disposition of Remaining Uncommitted Royalty Oil

A. GVEA renewal
B. Future competitive sales
C. New in-state use proposals

1. Valdez Refining Company (new refinery in Valdez)
2. Petro Star (new refinery in Fairbanks)
3. Other

D. Export
E. In-value

VII. Proposed statute change

VIII. Plan for resolution of pending policy decisions

A. Competitive sale analysis
B. Possible solicitation
C. Royalty Board meeting February 20

STATE OF ALASKA
ANS IN-KIND ROYALTY OIL CONTRACTS
(in barrels per day)

NOMINATION PERCENTAGES EFFECTIVE APRIL 1, 1985

~3/8 leg. intro

PRUDHOE BAY UNIT

COMPANY	% OF DAILY ROYALTY OIL	QUANTITY	TERM	PRICE	
MAPCO	0.186667	35,000.06	11/26/79 - 12/31/2003	EXHIBIT B	1/
TESORO	0.213260	39,986.25	01/01/83 - 01/01/95	IN-VALUE	2/
CHEVRON	0.096000	18,000.00	05/30/84 - 01/01/95	IN-VALUE + $.30	3/
GVEA 4/	0.026667	5,000.06	07/01/84 - 06/30/85	IN-VALUE + $.30	3/
CHEVRON (COMP SALE)	0.026667	5,000.00	04/01/85 - 09/30/85	18.95	6/
CHEVRON (COMP SALE)	0.080000	15,000.00	04/01/85 - 03/31/86	18.95	6/
TEXACO (COMP SALE)	0.080000	15,000.00	04/01/85 - 09/30/85	18.56	6/
TEXACO (COMP SALE)	0.133333	25,000.00	04/01/85 - 03/31/86	18.56	6/
SOHIO (COMP SALE)	0.026667	5,000.00	04/01/85 - 09/30/85	18.43	6/
U.S. OIL (COMP SALE)	0.053333	10,000.00	04/01/85 - 03/31/86	18.96	6/
TOTAL RIK	0.922594	172,986.38			
TOTAL RIV	0.077406	14,513.62		IN-VALUE	2/
TOTAL RIK & RIV	1.000000	187,500.00			

NOMINATION PERCENTAGES EFFECTIVE OCTOBER 1, 1985

PRUDHOE BAY UNIT

COMPANY	% OF DAILY ROYALTY OIL	QUANTITY	TERM	PRICE	
MAPCO	0.186667	35,000.06	11/26/79 - 12/31/2003	EXHIBIT B	1/
TESORO PB #1	0.245330	45,999.38	01/01/83 - 01/01/95	IN-VALUE	2/
TESORO PB #2	0.138670	26,000.63	10/01/85 - 01/01/95	IN-VALUE + $.35	5/
CHEVRON	0.096000	18,000.00	05/30/84 - 01/01/95	IN-VALUE + $.30	3/
CHEVRON (COMP SALE)	0.080000	15,000.00	04/01/85 - 03/31/86	18.95	6/
TEXACO (COMP SALE)	0.133333	25,000.00	04/01/85 - 03/31/86	18.56	6/
U.S. OIL (COMP SALE)	0.053333	10,000.00	04/01/85 - 03/31/86	18.96	6/
TOTAL RIK	0.933334	175,000.06			
TOTAL RIV	0.066666	12,499.94		IN-VALUE	2/
TOTAL RIK & RIV	1.000000	187,500.00			

1/ Current EXHIBIT B price as of Oct 84 production month is $18.28773.

2/ In-value price (10/84) = Weighted average price less field cost of $.69 per barrel. Current in-value price as of Oct 84 is $17.3365.

3/ In-value price (10/84) + $.30 premium + $.69 field cost.

4/ This contract will terminate 06/30/85. A long-term contract to GVEA for 5,000 bpd will be submitted to the Legislature this Session and commence four months after approval by the Governor and the Legislature.

5/ In-value price (10/84) + $.35 premium + $.69 field cost.

6/ This price will fluctuate monthly based on posted prices of West Texas Sour crude.

STATE OF ALASKA
ANS IN-KIND ROYALTY OIL CONTRACTS
(in barrels per day)

NOMINATION PERCENTAGES EFFECTIVE APRIL 1, 1985

KUPARUK RIVER UNIT

COMPANY	% OF DAILY ROYALTY OIL	QUANTITY	TERM	PRICE	
CHEVRON (COMP SALE)	0.222222	5,000.00	04/01/85 - 09/30/85	17.09	1/
CHEVRON (COMP SALE)	0.222222	5,000.00	04/01/85 - 09/30/85	17.09	1/
UNION (COMP SALE)	0.222222	5,000.00	04/01/85 - 09/30/85	17.45	1/
TOTAL RIK	0.666667	15,000.00			
TOTAL RIV	0.333333	7,500.00		IN-VALUE	2/
TOTAL RIK & RIV	1.000000	22,500.00			

NOMINATION PERCENTAGES EFFECTIVE OCTOBER 1, 1985

KUPARUK RIVER UNIT

COMPANY	% OF DAILY ROYALTY OIL	QUANTITY	PRICE	
CHEVRON (COMP SALE)	0.000000	0.00		
CHEVRON (COMP SALE)	0.000000	0.00		
UNION (COMP SALE)	0.000000	0.00		
TOTAL RIK	0.000000	0.00		
TOTAL RIV	1.000000	22,500.00	IN-VALUE	2/
TOTAL RIK & RIV	1.000000	22,500.00		

1/ This price will fluctuate monthly based on posted prices of West Texas Sour crude.
2/ In-value price (10/84) = weighted average price less field cost.
of $.40 per barrel. Current in-value price as of Oct 84 is $16.4587,

State of Alaska

Department of Natural Resources

Final Findings & Determination

to Sell Prudhoe Bay Royalty Oil to

Golden Valley Electric Association, Inc.

January 16, 1985

TABLE OF CONTENTS

		Page
I.	Introduction	1
II.	Background and Chronology	1
III.	Summary of Proposed Contract Terms	2
IV.	Comments Received	3
V.	Contract Revisions	4
VI.	Findings and Determinations	7
VII.	Conclusion	9

I. Introduction.

The State of Alaska proposes to sell 2.667% of its daily royalty oil (approximately 5,000 barrels per day) from the Prudhoe Bay Unit to Golden Valley Electric Association, Inc. (GVEA) under a long-term, noncompetitive contract. In accordance with AS 38, the Department of Natural Resources must determine whether this disposal serves the state's best interest before the sale may take place. This final finding describes the proposed sale and analyzes its potential effects.

II. Background and Chronology.

GVEA is the public cooperative electric utility in Fairbanks. The state's previous long-term royalty oil contract with GVEA, executed in 1976, was the first royalty oil contract negotiated and executed after the 1976 establishment of the Alaska Royalty Oil and Gas Development Advisory Board. GVEA requested royalty oil so that crude oil might be used as turbine fuel for power generation in the event that the cost of turbine fuel from the North Pole Refinery became prohibitive.

GVEA's contract with the state was for the purchase of 5,000 bpd. GVEA did not exercise its option to purchase royalty oil until June 17, 1981. GVEA assigned its contract rights to North Pole Refinery, Inc., which is now owned by MAPCO Petroleum Inc. (MAPCO), in exchange for a price discount on the turbine fuel refined from the royalty oil. MAPCO refines the royalty oil into jet fuels, diesel, heating oil, and other refined products in addition to turbine fuel, and reinjects the remaining return oil into the Trans Alaska Pipeline System (TAPS).

In a November 1982 letter to the Department of Natural Resources, GVEA requested an extension of its contract for an additional ten years. No action was taken on that request pending the change of administrations. In March 1983, the new administration began negotiations with GVEA on a new ten-year contract to assist in satisfying the needs of GVEA's 50,000 in-state consumers. Notice of the proposed long-term sale to GVEA was published on November 8, 1983. A notice of that royalty board meeting, which included a review of the proposed GVEA disposal (among other things), was also published on November 16, 1983.

The Alaska Royalty Oil and Gas Development Advisory Board's December 7, 1983 review of the proposed GVEA disposal and the agreement, as negotiated to that date, revealed specific concerns by both the public and board members with respect to the state's option on return oil and the relationship between MAPCO and GVEA. In view of those reservations and the limited time for further negotiation, the long-term GVEA contract was not presented for legislative approval. Instead, an interim one-year contract not requiring legislative approval was put into effect. Subsequently, GVEA and the Department undertook sporadic negotiations during early 1984 with the goal of making long-term contract revisions responsive to the issues raised at the December 7, 1983 royalty board meeting. During this period, the assignment agreement between MAPCO and GVEA also remained in effect. On September 12, 1984, the Director of the Division of Oil & Gas briefed the royalty board on the Department's continuing negotiations with GVEA and MAPCO.

On November 29, 1984, GVEA, MAPCO and the Department reached tentative agreement on a new long-term contract to be presented to the royalty board and the legislature. The terms of the proposed contract, which were included in the Department's Preliminary Findings and Determination to Sell Prudhoe Bay Royalty Oil to Golden Valley Electric Association, Inc. of December 7, 1984, are again summarized below.

III. Summary of Proposed Contract Terms.

1. Price: The total price per barrel to be received by the state in the proposed contract is the sum of the following components:

   (a) The (monthly) volume weighted average of the Prudhoe Bay lessees' current reported netback prices, as adjusted for transportation and other costs by those lessees.

   (b) Additional amounts, primarily from GVEA's assignee (MAPCO), if the state obtains a favorable resolution of litigation disputing the validity of the Prudhoe Bay lessees' current reported netback prices (State of Alaska, et al vs. Amerada Hess, et al).

   (c) Those cleaning and dehydration field costs which the state must pay when either taking its royalty share in-value (receiving money from the Prudhoe Bay lessees equal to the volume weighted average of their current reported netback prices, as may be retroactively adjusted upon resolution of the Amerada Hess litigation) or taking title to its royalty share of oil for an "in-kind" disposal. In a 1980 partial settlement of the Amerada Hess litigation, the state acknowledged limited responsibility for certain field costs in either case. And,

   (d) A $.30 per barrel premium.

2. Term:

   (a) The date of first delivery will be four months after enactment of legislation by the State of Alaska (including approval by the Governor) approving the agreement unless the state, in its sole discretion, sets an earlier date.

   (b) The termination date of the contract is June 30, 1995.

   (c) The price specified above is subject to renegotiation in July 1987 and every two years thereafter for the duration of the contract.

3. Quantity: 2.667% (approximately 5,000 bpd) of daily royalty oil from the Prudhoe Bay Unit.

4. Point of Delivery: Custody transfer meters into the Trans Alaska Pipeline system at Prudhoe Bay.

5. In-State Use: When the Department executes the agreement, it will also execute an agreement with GVEA and MAPCO approving GVEA's assignment of its royalty oil to MAPCO. The state retains the right to terminate its approval of the MAPCO/GVEA relationship, in which MAPCO provides GVEA a specific discount on a specific quantity of turbine fuel. Should the assignment be terminated, GVEA's continued receipt of royalty oil would be conditioned upon GVEA arranging a new means of using royalty oil to provide GVEA consumers electricity at a cost lower than otherwise possible.

6. Security: GVEA will arrange to provide a letter of credit to the state in the amount of $5,316,000, which is equivalent to approximately sixty days' worth of oil. Upon default, this letter is redeemable upon signature of the Attorney General and the Commissioner.

7. Return Oil: Throughout the term of the contract, the state will have the option to purchase all return oil produced, refined, or exchanged under the contract. In consideration of MAPCO's consent to accept the majority of any liabilities stemming from the resolution of the Amerada Hess dispute, the state has agreed not to exercise its return oil option so long as MAPCO receives royalty oil under the GVEA royalty oil contract.

8. Standard Contract Terms: The contract will contain all appropriate standard state contract terms.

IV. Comments Received

Written comments addressing the Preliminary Finding and Decision were received from two parties prior to the close of the comment period. By a letter dated December 28, 1984, Tesoro Alaska Petroleum Company (Tesoro) expressed concern about the extent to which the proposed disposal may benefit MAPCO. Tesoro suggested that a more favorable contract for GVEA might have been secured during negotiations with MAPCO. The Department agrees that the benefits to GVEA of the proposed disposal are modest. While perhaps not sufficiently emphasized in the Preliminary Findings, the proposed disposal is based upon benefits to the state as well as to GVEA. Consequently, the price terms of the proposed disposal are similar to those of the state's recently executed royalty oil contracts with Tesoro and Chevron.

Since the state would be a major financial beneficiary of the proposed disposal, more advantageous contract terms for GVEA could not necessarily be borne by MAPCO. Although MAPCO must benefit to some degree as an indirect party to the agreement, the Department has sought to confine (to the extent possible in collective bargaining) the benefits of the proposed disposal to the state and GVEA. Upon receiving Tesoro's comments, the Department encouraged direct consultations between Tesoro and GVEA. As these discussions did not lead GVEA to conduct further negotiations with MAPCO, GVEA has presumably secured the best terms possible from MAPCO as well as the state.

By a letter dated January 8, 1985, James B. Gottstein, the Chair of the Royalty Oil and Gas Advisory Board (Royalty Board), also submitted comments related to the proposed disposal. Gottstein was concerned with a possible relationship between this disposal and the decision to shorten the contract terms of three 5,000 b/d lots of Kuparuk River royalty oil from one year to six months for the competitive royalty oil sale of December 11, 1984. However, the Kuparuk oil withdrawn from the sale was not committed to MAPCO or GVEA as Gottstein apparently believed was the case. That oil remains uncommitted.

Gottstein also said the Department did not properly inform the Royalty Board of that decision, as he believed was required. The Royalty Board review mandated by AS 38.06.050 extends only to royalty oil dispositions for which legislative approval is required. The December 11, 1984 competitive royalty oil sale was a short-term market conditions sale, for which legislative approval was not required (AS 38.06.055(b)(1)). At the September 12, 1984 Royalty Board meeting, the division did brief the Royalty Board about the competitive sale. In the Invitation to Bid discussed at the Royalty Board meeting, future revisions to sale terms at the direction of the commissioner were clearly contemplated. The rationale for the Department's revision was also publicly analyzed in-depth in the November 28, 1984 Supplemental Findings for the Competitive Royalty Oil Sale. Royalty Board input was not required for the decision to decrease the terms of the Kuparuk lots, and the division's consultation with regard to the sale in general exceeded statutory and regulatory requirements.

V. Contract Revisions

Since publication of the previous preliminary notice in November, 1983, the proposed GVEA contract has been altered by the Department and GVEA to address the concerns raised about the earlier proposed contract. Two key issues, both of which led to revisions in the contract form, were in-state use and return oil.

Currently, the consumer benefits of the GVEA contract depend on MAPCO's agreement with GVEA to provide turbine fuel at a price lower than what GVEA would otherwise pay. Under GVEA's present contract, the state is unable to enforce the degree of advantage afforded to GVEA since that agreement is between GVEA and MAPCO only. Consequently, Section 2.11 (In-State Use) of the proposed contract has been rewritten, and an agreement between the state, GVEA, and MAPCO has been added to assure that the agreed upon refining arrangement with MAPCO will be maintained, within certain bounds, over the life of the GVEA contract. The state will have the option to terminate its approval of the assignment should the relationship between GVEA and MAPCO change materially.

The state has insisted on the option to terminate the contract on these grounds since the proposed disposal is based in part on the specific benefits provided for GVEA members. Approximately one-third (625 barrels) of GVEA's daily turbine fuel requirements would be provided at a discounted price to GVEA through the proposed disposal. When compared to the refining charge which GVEA must pay for the remaining two-thirds of its turbine fuel needs, this discount translates into an annual savings to GVEA of about $550,000.

GVEA's total turbine fuel consumption now accounts for about 45% of its fuel use. The balance of GVEA's power generation comes from coal. Given the operations costs of GVEA's turbine fuel and coal-fired generation and the volume of discounted turbine fuel the proposed royalty oil contract would provide GVEA, MAPCO's discount to GVEA would reduce the GVEA consumer's average power generation cost by about 1.57%. Due to a mathematical oversight, the Preliminary Findings erroneously implied that an average power generation cost savings to GVEA of about 1% would result from the proposed disposal.

The state's ability to ensure that the GVEA contract would continue to provide these consumer benefits has been reinforced by the addition of Exhibit A, an agreement (attached to the proposed GVEA contract) between the State, GVEA, and MAPCO. Article II of Exhibit A calls for MAPCO and GVEA to keep the state apprised of any changes in their assignment agreement, and reiterates that changes to that agreement which materially affect the consumer benefits are grounds for termination of the assignment approval by the state. In addition, Article III of Exhibit A ensures that MAPCO will give nine (9) months written notice to GVEA before reducing the amount of royalty oil taken, since GVEA must also notify the state nine (9) months in advance of such a reduction.

Residual oil is a by-product of most refineries, including the North Pole Refinery. Residual oil represents that portion of a barrel of crude oil which a refinery is unable to process into product. Because MAPCO is situated to reinject residual oil into TAPS (where it re-emerges as whole oil at Valdez), this oil is also referred to as "return oil".

The assignment agreement between MAPCO and GVEA allows MAPCO to keep and dispose of the royalty return oil for export. Because MAPCO appeared to be a major beneficiary of the prior GVEA royalty oil contract, in part through its control over the return oil, the state has sought additional consideration from MAPCO for state approval of the assignment agreement. Consequently, Article IV of Exhibit A makes MAPCO primarily responsible for any GVEA liabilities resulting from retroactive price adjustments attending the resolution of the Amerada Hess dispute.

GVEA would be responsible only for one-eighth of the Amerada Hess liability accrued in a period not to exceed one year. The remaining seven-eighths of the liability accrued in that period, and all liabilities accrued in all other years during the term of the proposed GVEA contract, would be borne by MAPCO. This provision of Exhibit A insulates GVEA from the effects of a favorable outcome for the state in the Amerada Hess dispute and consequently, increases the benefits received by GVEA's consumers. MAPCO's agreement to bear the largest share of any future liability would increase the effective benefit to GVEA members of the proposed royalty oil contract by several fold. With this protection, GVEA largely avoids a potential liability which could accumulate for a period of up to ten years and consequently harm its financial position.

The return oil provision of the proposed contract gives the state the option to purchase all return oil produced, refined, or exchanged under the contract. However, in consideration of Article IV of Exhibit A, by which MAPCO accepts the potential Amerada Hess liabilities discussed above, the state agrees not to exercise its right to purchase return oil so long as MAPCO receives royalty oil under the GVEA royalty oil contract.

In addition to the revisions of the in-state use and return oil provisions, other changes have been made to the proposed 1983 contract to conform GVEA's proposed contract to the state's most recent contract forms where possible. These changes can be found in Section 7.1 (Default), Section 8.2 (Inability to Receive Oil) Article XIX (Amendment), and a number of minor areas.

For the state's protection, a new clause in Section 8.2 assigns to the state all transportation rights, including nominations, charter agreements, and any other transportation arrangements which GVEA has for state royalty oil, in the event of the purchaser's inability to receive royalty oil. This is now a standard provision for state royalty oil contracts and is found in both the backup and primary form contracts for the December 11, 1984 competitive sale.

An additional sentence in Article XIX (Amendment) states that, "Any material amendment to the contract which appreciably reduces the consideration received by the state requires prior approval of the Legislature of the State of Alaska". This contract language is required by AS 38.05.183(f).

In Section 7.1 (Default), the first of the six conditions of default listed has been added so that the state may, with evidence of impending failure to perform, declare a condition of default. This is an important protection for the state since there is often circumstantial evidence, such as inadequate transportation arrangements, which precede actual failure to perform.

Minor revisions can be found in two sections of Article V (Payments and Accounting). These revisions, which track the state's recent royalty oil contracts, make the terms of payment somewhat more stringent for the purchaser. Section 5.3 now calls for payment by wire transfer, and no longer provides for clerical mistakes as an acceptable basis for failing to pay the amount billed. Section 5.7 also eliminates several circumstances previously specified as acceptable grounds for failure to make full payment.

The remaining changes to the GVEA contract are technical in nature and concern numerical corrections, date corrections, definition clarifications, changes in the format, and minor revisions to Sections 3.2 (Good Standing and Due Authorization) and 16.1 (Preferential Hiring). Also, the word "Royalty" has been deleted throughout the contract wherever it precedes the word "Oil" and certain terms made unnecessary by the introduction of the term "Purchase Price" have been deleted.

The clauses particular to GVEA's situation, and to long-term negotiated contracts in general, have been left intact. Examples include Section 2.1 (Quantity), where GVEA may elect to change, within certain bounds, the quantity of royalty oil received, and Section 7.3 (Seller's Remedies), which allows the state to release GVEA from the in-state use requirement, at the state's sole discretion. Section 8.1 (Disposition of Oil Upon Default or Termination) also falls into this category, but GVEA's obligation to continue payment in event of default has a four-month, rather than the standard seven-month, duration. This is because the Prudhoe Bay Unit producers will, by contractual agreement, accept physical custody of small quantities of royalty oil with only a 90-day notice. The volume of royalty oil proposed for sale to GVEA falls within that quantity range.

VI. Findings and Determinations.

1. Competitive bidding is waived.

I have determined in accordance with AS 38.05.183(a) that the best interest of the state does not require competitive bidding for this disposal. The best interest of the state is served by making this award on factors other than the highest price received from a competitive sale. Those factors are detailed in the following section of this document.

In order to realize the objectives implied by the considerations listed in AS 38.05.182-183 and AS 38.06.070 and to obtain benefits for Alaska consumers, disposal by competitive bid with the award determined entirely upon the cash value offered is not in the best interest of the state in this instance. Rather, it is in the best interest of the state to dispose of this royalty oil to GVEA, which offers maximum benefits to state citizens and which will pay a $.30 premium over what the state would have received had the state taken the oil at the weighted average of the Prudhoe Bay lessees' current reported netback prices, as may be retroactively adjusted by resolution of the Amerada Hess litigation.

2. The sale is in the best interests of the State.

Under AS 38.05.183(e) a noncompetitive sale, exchange, or other disposal of royalty oil or gas taken in-kind by the state may be awarded by the commissioner to the prospective buyer whose proposal offers maximum benefits to the citizens of the state.

In accordance with AS 38.05.035(e), AS 38.05.183(c) and (e), and 11 AAC 03.010(d), I find and determine that the taking of royalty oil in-kind and the disposal of that oil to Golden Valley Electric Association, Inc. (GVEA) for use in-state is in the best interests of the state. The following has been considered in making this determination:

a. The state will receive no less from this sale than if it had continued to take its royalty oil in-value at the weighted average of the Prudhoe Bay lessees' current reported netback prices as retroactively adjusted by litigation. The premium of $.30 over that price will likely offset any adverse effects on that price (and state revenues) which could occur when the state meets the needs of a refinery (in this case MAPCO) that would otherwise be a crude oil customer on the West Coast. The Commissioner's Preliminary Findings and Determination to Negotiate Backup Royalty Oil Contract(s) and Conduct a Competitive Royalty Oil Sale of July 12, 1984 detail those potential effects. It is not possible to forecast the impact of customer displacement on West Coast prices, let alone its influence on the current reported in-value price. However, the amount of the premium is likely to cover a reasonable differential. Further, MAPCO presently receives similar amounts of crude oil daily under the existing GVEA short-term contract. AS 38.05.183(e)(1).

b. A disposal to GVEA will have a favorable effect on the economy of the state because it will ensure that the cooperative's members continue to benefit directly from lower electric rates than would otherwise be possible. Each consumer to whom GVEA provides electric service is a member of the cooperative. Profit margins are allocated back to the consumer owners, all of whom are Alaska residents. The cooperative's goal is to provide dependable electrical service to its member-owners at the most economical price.

GVEA is regulated by the Alaska Public Utilities Commission. Over the past year, GVEA has experienced increased consumer need represented by an addition of 2,700 new households. GVEA currently employs 174 people (25 more workers than last year) to bring electric service to more than 50,000 Alaskans. AS 38.05.183(e)(2).

c. An in-state refiner, MAPCO, will be favorably impacted by the proposed GVEA contract. MAPCO's assigned right to purchase 5,000 bpd of state royalty oil enables MAPCO to refine many products for Alaskans in addition to turbine fuel for GVEA. The 5,000 bpd of royalty oil also assists MAPCO in meeting the feedstock requirements of its soon-to-be-expanded refinery. MAPCO may also sell or exchange the resulting return oil (so long as the price discount on turbine fuel provided to GVEA remains materially unaltered) to acquire more oil from TAPS near its Fairbanks refinery.

Although MAPCO will benefit from the proposed GVEA contract, it will not receive a windfall. Because of the $.30 premium, MAPCO will likely pay more for the assigned oil than it does under its own state royalty oil contract. Further, MAPCO's Exhibit A agreement to pay most of any Amerada Hess liabilities arising under the proposed GVEA contract precludes it from passing on Amerada Hess adjustments to GVEA, as it would otherwise do. AS 38.05.183(e)(3).

d. GVEA is uniquely able to use its royalty oil purchases to allow it to supply electrical energy to more than 50,000 Alaskans who currently enjoy price benefits directly attributable to the cooperative's purchase of state royalty oil. AS 38.05.183(e)(4).

e. The state is now highly dependent on oil revenues and will continue to depend on oil revenues in the future. The price term of the proposed sale protects the state's interest by ensuring that revenues from this sale will exceed the in-value alternative. AS 38.06.070(a)(1).

f. The local and regional needs of the Fairbanks area for electrical supply are met by service provided by GVEA to its member owners. The assignment agreement with MAPCO also helps satisfy local and regional needs for petroleum products. AS 38.06.070(a)(2).

g. The continued operation of GVEA, with the attendant payroll and secondary benefits, will have a positive and desired effect on the citizens of the state. While this disposal will likely not result in new capital investment or development, it will enable the efficient use of existing investment and development and contribute to the requirements of a refinery planned for expansion. AS 38.06.070(a)(3).

h. The projected social impacts of a disposal to GVEA are anticipated to be favorable. The benefits presently received from the operation of the electrical cooperative will continue. AS 38.06.070(a)(4).

i. Any additional costs and responsibilities which could be imposed upon the state and affected political subdivisions are likely to be minimal. AS 38.06.070(a)(5).

j. Local and regional consumption of both fuel oil-fired electricity and refined petroleum products will be directly and favorably affected by the GVEA disposal. Local labor markets will continue to benefit through employment opportunities at both GVEA and MAPCO. AS 38.06.070(a)(6).

k. Environmental effects resulting from the proposal will be negligible, if any, since the facility is already in existence. AS 38.06.070(a)(7).

l. The proposed disposal will help existing commercial private enterprise and patterns of investments by assisting in the continued operation of the GVEA cooperative and providing, through assignment, royalty oil to the North Pole Refinery for processing into refined products. AS 38.06.070(a)(8).

In accordance with 11 AAC 03.060(b), the weight given to the applicable criteria in determining the maximum benefit to Alaska citizens must be addressed. In making this finding the Department first assured itself that the state would not lose money by making a disposal to GVEA. Once so assured, other benefits attendant to the disposal were examined. If the price offered did not assure the state at least what it would have received had it left the oil in-value then the sale would not, in the Department's view, serve the state's best interests. For this reason the greatest weight in this disposal was placed on AS 38.05.183(e)(1), the cash value offered. After the cash value offered, the greatest weight was given to the projected benefits of using the oil in the state to directly benefit Alaskan citizens through lower electric rates.

VII. Conclusion.

By the terms of the proposed contract, the state is guaranteed the litigation-adjusted in-value price for its oil as well as a premium on each barrel. The additional premium assures that the state is not initially receiving less for its oil than if it elected to take its royalty share in money at the weighted average of the Prudhoe Bay lessees' reported prices. Should the Amerada Hess litigation be resolved in the state's favor, the state will be entitled to reimbursements resulting from the retroactive price adjustments provided for in the contract, with MAPCO holding the major responsibility for that potential liability. The satisfactory price terms of the proposed contract, coupled with associated direct and secondary benefits for Alaska citizens, supports the decision to waive competitive bidding.

The foregoing facts and analysis support my final finding that this disposal is in the best interests of the state and that it maximizes benefits to Alaska citizens.

Kay Brown

Kay Brown, Director
for/Esther C. Wunnicke
Commissioner

January 16, 1985
Date

AGREEMENT FOR THE SALE AND PURCHASE OF ROYALTY OIL

THIS AGREEMENT is entered into as of February 8, 1985 by and between THE STATE OF ALASKA ("Seller") and GOLDEN VALLEY ELECTRIC ASSOCIATION INC., an Alaskan Electric Cooperative Corporation, hereinafter referred to as "Purchaser".

ARTICLE I
DEFINITIONS

As used in this Agreement, the following terms shall have the following respective meanings:

1.1 "Commissioner" means the Commissioner of the Alaska Department of Natural Resources or her designee.

1.2 "Day" means a period of twenty-four (24) consecutive hours, beginning at 12:01 a.m., Alaska Standard Time.

1.3 "Effective Date" shall have the meaning set out in Article VI.

1.4 "Leases" means the Oil and Gas leases which are subject to the terms of the Unit Agreement.

1.5 "Lessee" means any person owning a working interest in any of the Leases.

1.6 "Month" means the period beginning at 12:01 a.m., Alaska Standard Time, on the first day of the calendar Month and ending at the same time on the first day of the next succeeding calendar Month.

1.7 "Oil" or "crude oil" shall have the same meaning as the word "Oil" under the Unit Agreement.

1.8 "Point of Delivery" shall have the meaning set out in Section 2.4.

1.9 "Royalty Oil" means the Oil which the Seller may take in-kind (amount) as its royalty under the Leases whether or not Seller has elected to take or is taking that royalty in-kind.

1.10 "Daily Royalty Oil" means the quantity of Royalty Oil produced by the Lessees each day.

1.11 "Unit Agreement" means the Prudhoe Bay Unit Agreement effective April 1, 1977, by and between Seller and the Lessees, as amended from time to time.

1.12 "TAPS" means the Trans Alaska Pipeline System.

ARTICLE II
SALE OF ROYALTY OIL

2.1 Quantity. Seller agrees to sell to Purchaser and Purchaser agrees to buy from Seller that amount of Oil equal to 2.667% of the Daily Royalty Oil (Maximum Quantity"). Upon at least nine (9) Months written notice to Seller, Purchaser may increase or decrease the amount of Oil to be tendered by Seller at the Point of Delivery, but the amount tendered by Seller under this Agreement shall not exceed the Maximum Quantity. Purchaser recognizes that Seller must normally give six (6) Months notice under the Unit Agreement (or ninety (90) days if the amount increased or decreased is less than ten (10) percent of the current nominations) to increase or decrease the amount of Daily Royalty Oil to be taken in-kind. It is understood and agreed that the volume of Daily Royalty Oil available to Seller will vary and may be interrupted from time to time, and depends upon a variety of factors, including the rate of production from the Leases. Seller disclaims and Purchaser waives any representation, covenant or warranty, expressed or implied, as to the specific quantity or the total or daily, Monthly, average, or aggregate volume of Royalty Oil to be sold or tendered under this Agreement. Seller warrants that it has good title to the Oil tendered under this Agreement. Seller shall hold Purchaser harmless from all liens, encumbrances and valid adverse claims that may affect the Royalty Oil at the time the Royalty Oil is tendered to Purchaser.

If Seller underlifts or stores Royalty Oil at Prudhoe Bay, or if Seller recovers underlifted or stored Royalty Oil, the quantity of Oil tendered under this Agreement shall be calculated as if no Royalty Oil was underlifted or stored or recovered.

2.2 Quality. The Oil sold shall be the same quality as the Royalty Oil delivered by the Lessees to the Seller at the Point of Delivery. It is understood and agreed that the quality of the Oil sold may vary from time to time. Seller disclaims, and Purchaser waives, any guarantee, representation, or warranty, either expressed or implied, of the merchantability, fitness for use, or suitability for any particular use or purpose, or otherwise, of any of the Oil delivered under this Agreement or as to any specific, average or overall quality or characteristic of Oil to be sold or tendered under this Agreement.

2.3 Price of the Royalty Oil. The price for the oil tendered under this Agreement shall be equal to the amount that Seller would have received from its Lessees for the Royalty Oil tendered if that royalty had been payable in money (taken in value) rather than taken in kind plus a premium of $0.30 per barrel plus the Field Cost Allowance incurred by that oil as determined under the Prudhoe Bay Royalty Settlement Agreement (dated April 1, 1980 for reference purposes only), which was entered as part of a final judgment dated August 13, 1980 in State of Alaska, et al v. Amerada Hess Corp., et al., (Superior Court for the State of Alaska, First Judicial District at Juneau) ("Amerada Hess") ("Settlement Agreement") ("Purchase Price"). The Purchase Price shall be determined by Seller based upon the reports submitted by the Lessees for royalty purposes or, when those reports are unavailable, incomplete, or inaccurate, upon information submitted by the Lessees for production tax or other tax purposes, as may be adjusted from time to time as provided in this Agreement. Buyer will only be entitled to review or request material or information which is not confidential under state law or regulation.

The method, basis and amount of royalty due Seller when it takes its royalty in value from the Leases is presently the subject of litigation in Amerada Hess. One of the issues involved is the proper method to be used by the Lessees in calculating the state's royalty when the royalty is payable in money (in value). Until there is a resolution of that dispute through judicial resolution or settlement, the Purchase Price will be based upon the calculation of an amount per barrel equal to the per barrel volume weighted average of the in-value prices reported by the Lessees to Seller for royalty purposes or, when the royalty reports are unavailable, incomplete, or inaccurate, upon information submitted by the Lessees for production tax or other tax purposes, plus $0.30 per barrel plus the Field Cost Allowance as determined under the Settlement Agreement. Upon final non-appealable resolution of each of the various issues that are or will be involved in Amerada Hess, adjustments will be made to previous payments in accordance with each resolution.

If additional amounts are owed by Purchaser to Seller, interest on those amounts will be paid at a variable interest rate which is the higher of: (1) the reference rate as may be announced from time to time by The Bank of America, San Francisco, California, plus three percent (3%); or (2) the rate of return as is realized from time to time in the investment of the State of Alaska's general fund. Amounts owed from Seller to Purchaser shall be repaid at the rate set out in Article 5.6. Buyer will not voluntarily intervene or otherwise participate in Amerada Hess unless Seller expressly consents to that participation in writing. A settlement of Amerada Hess will be binding upon Buyer whether or not Buyer agrees with or consents to the terms of that settlement.

If any applicable law of the United States of America or any rule or regulation promulgated by a federal agency will, in the judgment of Seller, operate to prohibit or prevent Seller from receiving the full amount due under the above provision, Purchaser's obligation to pay the amount of the Purchase Price in excess of the amount permitted will be suspended or adjusted to the minimum extent required for Seller to comply with that law, rule or regulation.

Either party shall have the right to reopen this Agreement, as to price only, during the Month of July, 1987 and every two years thereafter for the purpose of negotiating a new price for the Royalty Oil to be paid under this Section 2.3. The right to reopen may be exercised by either party by giving to the other party thirty (30) days prior written notice. Upon receipt of a notice to reopen, the parties will promptly commence good-faith negotiations in an attempt to establish a new price. In the event that a new price is not agreed to by the parties within ninety (90) days of the effective date of the notice to reopen, either party may terminate this Agreement upon nine (9) Months written notice to the other. The price for any Oil tendered during any such period pending termination shall be calculated as set out hereinabove or as agreed to in a previous reopener. If a new price is agreed to by both parties, such new price shall be effective for Oil tendered in the Month following agreement by the parties on the new price.

2.4 Point and Time of Delivery. Simultaneous with receipt of its Royalty Oil from its Lessees, Seller shall tender the Oil to Purchaser at the point at which Seller receives the Royalty Oil from its Lessees. That point as presently agreed to by Seller and its Lessees in Section 2.3 of the Settlement Agreement is the custody transfer meters into TAPS at Prudhoe Bay.

2.5 Passage of Title and Risk of Loss. Title and risk of loss to the Oil sold under this Agreement shall pass from Seller to Purchaser for all purposes when Seller tenders the Oil at the Point of Delivery.

2.6 Purchaser's Responsibility. Purchaser shall be responsible for the Oil after passage of title. Purchaser will indemnify and hold Seller harmless from and against any and all claims, costs, damages (including reasonably foreseeable consequential damages), expenses or causes of action arising from or in connection with any transaction or event which relates to the crude Oil after title has passed to Purchaser.

2.7 Transportation Arrangements. Purchaser shall make all necessary arrangements for transporting the Oil sold under this Agreement from the Point of Delivery, including satisfaction of line fill obligations and storage tank bottom requirements of TAPS, if any. If and as requested by the Seller, and

at the time or times requested by Seller, Purchaser shall submit specific information concerning the arrangement it has made for transportation of the Oil sold under this Agreement through and away from TAPS and for the resale or other disposal of the Oil. Such information may include the specific tenders of Oil made to TAPS and identification of tankers which will transport the Oil. In addition, Purchaser will provide Seller, if and as requested by Seller, with satisfactory evidence or reasonable assurance of the existence and continuing validity of adequate arrangements for the transportation or disposal of the Oil subject to this Agreement. Failure to provide information, evidence or assurances requested will, at Seller's election by notice to Purchaser, be a material default under this Agreement.

2.8 Absolute Obligations. The obligations of Purchaser to accept, pay for, and arrange for the transportation of the Oil tendered or sold under this Agreement are absolute and will not be excused or discharged by the operation of any disability of Purchaser, event of force majeure, impracticability of performance, change in conditions, or any other reason or cause.

2.9 Date of First Delivery. The date of First Delivery will be four (4) Months after the Effective Date unless Seller, in its sole discretion, sets an earlier date.

2.10 Performance Guaranty and Reservation Fee. If Purchaser does not take the Maximum Quantity on the Date of First Delivery, Purchaser shall pay to Seller, in addition to the Purchase Price, an amount equal to 1.25% of the Purchase Price per barrel per day on the difference between the Maximum Quantity and the actual quantity tendered to and accepted by Purchaser ("Actual Quantity") for each day Purchaser does not take the Maximum Quantity on and after the Date of First Delivery. The payment of this fee shall end on the day that Purchaser accepts delivery of the Maximum Quantity. When Purchaser accepts the Maximum Quantity, all of the amounts paid under this Article 2.10 will be allowed to be credited against future payments for Oil tendered under this Agreement except for an amount to be retained by Seller equal to .75% of the Purchase Price per barrel per day on the difference between the Maximum Quantity and the Actual Quantity for each day Purchaser did not take the Maximum Quantity on and after the Date of First Delivery. If

Purchaser should thereafter decrease the amount of Oil to be tendered under this Agreement, Purchaser shall pay to Seller, in addition to the Purchase Price, an amount equal to .75% of the Purchase Price per barrel per day after the date that the decrease in the amount of Oil to be tendered by Seller takes effect on the difference between the Maximum Quantity and the Actual Quantity.

2.11 In-State Processing. Purchaser agrees that all Oil purchased under the terms of this agreement shall be processed or burned in the State of Alaska. As used in this Agreement "processed or burned in the State of Alaska" means the following described uses or a use substantially similar to those uses, which provides an equivalent benefit to GVEA's consumers. Purchaser has assigned its Oil to MAPCO PETROLEUM Inc. for processing the crude oil into a fuel usable at Purchaser's generating station. Under this arrangement, Purchaser is assured of a dependable supply of fuel, which assists Purchaser in providing uninterrupted electrical service to its consumers. Purchaser also receives from MAPCO a lower refining charge or processing fee which Purchaser passes directly through to its consumers in the form of reduced electric rates. If Purchaser's arrangement with MAPCO ever fails to yield these benefits, Purchaser has a commitment from the Rural Electrification Administration for mortgage funds to be made available to pay for the prompt conversion of Purchaser's generating units so that the Oil could be burned as fuel by Purchaser without first being processed. Upon such conversion, Purchaser could again provide its consumers with a dependable supply of electricity at a cost lower than otherwise possible.

Purchaser's continued receipt of a dependable supply of fuel upon terms that allow Purchaser to provide its consumers with electricity at a cost significantly lower than otherwise possible is a material element of this agreement. Purchaser's failure to process or burn in the State of Alaska as defined in this Agreement the Oil tendered under this agreement will, at Seller's option, constitute a material default under this agreement. However, Seller may, at its option, waive the in-state processing or burning requirement in whole or in part, if Seller is satisfied that the waiver would not be contrary to the underlying intent of the other provisions of this Agreement.

ARTICLE III
REPRESENTATION AND OBLIGATIONS OF PURCHASER

Purchaser warrants, represents, and agrees:

3.1 Good Standing and Due Authorization. Purchaser is, and at all times during the operation of this Agreement shall remain, a corporation organized and existing under and by virtue of the laws of the United States or of any state, territory or the District of Columbia, and qualified to do business in, and in good standing with, the State of Alaska. Purchaser has all necessary corporate power to enter into this Agreement and to perform its covenants and obligations under this Agreement. All necessary corporate action has been taken to authorize Purchaser's entering into this Agreement and performing its covenants and obligations under this Agreement.

3.2 Financial Condition. The financial information submitted to Seller is complete and correct and fairly presents Purchaser's financial condition at the time the information was submitted to Seller. The financial information was prepared in accordance with generally accepted accounting principles consistently applied. Since the date the information was submitted, the condition, business and properties of Purchaser have not been materially adversely affected in any way. Purchaser agrees to inform Seller immediately if during the term of this Agreement there is any material adverse change in the condition, business, or properties of Purchaser which would have an appreciable adverse effect on Purchaser's ability to perform under this Agreement. Purchaser, in addition, will immediately inform Seller of any significant change in ownership of either Purchaser or any of its affiliates or parent company, and of any change in Purchaser's operations or agreements, which would appreciably affect Purchaser's performance under this Agreement.

3.3 Financial Statements. As soon as possible after the end of each fiscal year of Purchaser, and in any event within one hundred twenty (120) days thereafter, Purchaser will furnish to Seller, at Purchaser's sole cost and expense, a report or a complete copy of a report in a form to be prescribed from time to time by Seller which will include Purchaser's balance

sheet as of the close of the fiscal year and the income statement for that year, prepared in each case in accordance with generally accepted accounting principles consistently applied by certified public accountants of recognized standing. For purposes of complying with this Article, Purchaser may submit, and Seller will accept, the annual report of the Golden Valley Electric Association, Inc.

3.4 Option to Purchase Return Oil. If Purchaser assigns Oil purchased under this agreement for fuel usable in the present configuration of its generating station, there may remain a portion of Oil or Oil products which will not be processed for consumption in-state ("Return Oil"). This Return Oil may be shipped through TAPS. Return Oil shipped through TAPS becomes intermingled with unprocessed crude oil so that when the Return Oil is picked up in Valdez it is identical to the common stream crude oil shipped through TAPS. A shipper of Return Oil presently is, and may continue to be, liable for the payment of a quality bank adjustment differential based upon the resulting degradation of TAPS common-stream crude ("quality penalty").

Purchaser grants Seller an option to purchase all the Return Oil. For the purposes of determining the volume of Return Oil for which Seller may exercise its option to purchase under this Agreement, that volume shall be a proportion of the Oil tendered under this Agreement equivalent to the ninety (90) day rolling weighted average, determined monthly, of the ratio of total refined products produced to total refinery charge. Seller shall exercise this option by giving Purchaser nine (9) months' advance written notice. The notice shall specify the date delivery will commence and the point of delivery to Seller. Thereafter Seller may terminate the purchase of Return Oil by giving nine (9) months' advance written notice.

Seller shall have the option to take title to the Return Oil either at the tanker flange inlet in Valdez, Alaska, or at the MAPCO refinery outlet to the Golden Valley Pipeline at North Pole, Alaska. The per-barrel Return Oil purchase price shall be the full cost to Purchaser or Purchaser's assignee at the point of redelivery minus any "quality penalty" which had or would attach, which will be paid by Purchaser. Purchaser or Purchaser's assignee will assign all necessary shipment rights to guarantee delivery to Seller at

Seller's designated delivery point and to facilitate the reinjection into and transportation of the Return Oil through TAPS.

Purchaser or Purchaser's assignee shall furnish Seller or the Seller's designee, on or before the tenth day of the month following the month of delivery, a provisional invoice covering the Return Oil delivered to Seller or Seller's designee in the preceding month. The price of the Return Oil to Seller or Seller's designee shall be the price paid by Purchaser for Oil tendered under this Agreement for the month preceding delivery. The Seller or the Seller's designee shall make payment to Purchaser or Purchaser's assignee on or before the twentieth day of the month following the month of delivery. The initial billing may be adjusted in a subsequent month's invoice as more accurate or complete information concerning the quantity and Purchase Price of the Return Oil delivered each Month is available. Subsequent adjustments to the Return Oil initial billing shall also be made for Amerada Hess as specified in Section 2.3 and for other adjustments as specified in Section 5.5.

The amount of all sums which are not paid when due under this option or which are subsequently determined to be due under an adjustment, shall bear interest from the date accrued until paid in full at a variable rate per annum equal to the reference rate as announced from time to time by the Bank of America, San Francisco, California, plus one and one-quarter percent (1.25%) per annum, provided, however, that any interest due on an adjustment made as a result of the Amerada Hess litigation shall be at the same rate charged by Seller under Section 2.3.

The option to purchase Return Oil will remain in effect for the term of this Agreement. Failure to exercise this option for any period of time will not affect the Seller's right to exercise the option at a later time. This option, in whole or in part, and for any term, shall be freely assignable by Seller and such assignment shall release Seller from all obligations to receive or pay for the Return Oil sold under this option, provided, however, that Purchaser or Purchaser's assignee shall have the right to demand of an assignee of the Seller reasonable security for the Return Oil sold to that assignee. If authorized in an assignment by Seller, that assignee shall have the further right freely to assign that option, however, that assignment shall

not release the assignee (or any subsequent assignee) of any responsibilities or liabilities to Purchaser or Purchaser's assignee unless agreed to by Purchaser or Purchaser's designee. Seller shall provide Purchaser or Purchaser's designee with written notice of any such assignment.

ARTICLE IV
MEASUREMENTS AND TESTS

The quantity and quality of the crude Oil sold under this Agreement shall be determined at the Point of Delivery. Procedures and methods for measuring and metering the Oil sold under this Agreement shall be in accordance with the practices then in effect at Prudhoe Bay, Alaska.

ARTICLE V
PAYMENTS AND ACCOUNTING

5.1 Billing. Seller will send to Purchaser, on or before the 10th (tenth) business day of each Month after delivery of Oil, an invoice statement of account of all Royalty Oil estimated to have been measured at the custody transfer meter into TAPS and tendered to Purchaser under this Agreement during the immediately preceding Month according to the best information available to Seller, the estimated Purchase Prices applicable to those deliveries, and the total amount due ("initial billing"). The estimates will be made by Seller according to the best information reasonably available to Seller. Seller may render its initial billing to Purchaser based in part upon information reported by the Lessees to Seller and information published by the U.S. Government. Seller shall thereafter adjust its initial billing under this Article as soon as more accurate information concerning the quantity and Purchase Price of Oil delivered each Month is available. Seller, however, shall not be required to adjust the initial billing prior to the sending of the next Month's invoice statement of account.

5.2 Initial Adjustment. After the Monthly invoice under Section 5.1, the subsequent Monthly invoice will also state Seller's initial adjustments to be made, if any, to the invoice rendered in the immediately preceding Month, in accordance with any additional or more accurate information which may have become available to Seller. Whether or not initial adjustments are made, however, subsequent adjustments may be made under Section 5.5.

5.3 Payment. Purchaser will make payment of each amount billed under this Article within ten (10) days after receipt of the invoice statement of account. Payment shall be made without any deduction, set off, or withholding, by wire transfer of immediately available funds to Seller's account at the following address:

First Pennsylvania Bank Philadelphia
ABA No. 031000024
For Credit to State of Alaska
Account No. 07/089250/00
Attn: Catherine Hess

Payment may be made in such other manner or to such other address as Seller may specify in the invoice statement of account or by other written notice. All other payments to be made under this Agreement shall be paid in the same manner. If payment is due on a Saturday, Sunday, or legal holiday of the place where payment is to be received, payment shall be made on the next following business day. It is recognized that Seller may bill, and that Purchaser will pay, amounts that are based upon confidential information held or received by Seller. If confidential information is used as the basis for a billing, then upon request Seller will furnish Purchaser with the certified statement of the Commissioner that the amounts billed are correct based upon the best information available to Seller. If a dispute concerning a bill arises, Purchaser agrees to pay the full amount billed by Seller, pending final resolution of the dispute.

5.4 Payment to Lessee. Purchaser, at the request of Seller in the invoice statement of account or otherwise in writing, shall pay all or any portion designated by Seller of that payment required to be made to one or more of the Lessees at an address or addresses and in the manner designated by Seller. The payment will be made within the time limit specified in Section 5.3. Seller may authorize and designate a third party to make the request and

designate the amount, manner and place of payment under this provision. Unless otherwise specified, the balance of the payment due, if any, and payment for subsequent Months, shall be made in accordance with Section 5.3.

5.5 Subsequent Adjustments. Purchaser acknowledges that more accurate information concerning the quantity of or Purchase Price for Royalty Oil tendered may subsequently become available to Seller. In the event that any such information should subsequently become available to Seller, Seller shall promptly furnish a corrected invoice statement of account to Purchaser and the parties will adjust the amount billed and pay or refund the amount of those adjustments. In the event that Seller should render a corrected invoice to Purchaser, any amount to be refunded from Seller to Purchaser or paid from Purchaser to Seller will be paid within fifteen (15) days after the date of the corrected invoice. However, when the adjustment concerns an amount last invoiced more than sixty (60) days before the corrected invoice, the amount will be paid by Purchaser or refunded by Seller, as the case may be, in equal Monthly installments over the same period of time as that over which the adjustment accrued or six (6) Months, whichever is the shorter period. No adjustment will be made more than twelve (12) Months after the date of the last original invoice to which the adjustment relates, except for adjustments resulting from: (i) regulatory or court proceedings (including appeals) commenced or pending during that twelve (12) Month period, whether or not Seller or Purchaser is a party to the proceeding, or (ii) bona fide audits by Seller of any Lessee(s) commencing at any time during the period six (6) years after the date of the last invoice to which such adjustment relates, or any resolution of disputes arising out of those audits. Adjustments due to audits or regulatory proceedings or court proceedings may be made at any time. The provisions of this Section 5.5 will survive any termination of this Agreement.

5.6 Interest. Except for adjustments made upon resolution of Amerada Hess under Article 2.3, the amount of all sums which are not paid when due under this Agreement or which are subsequently determined to be due under an adjustment under Section 5.5, shall bear interest from the date accrued until paid in full at a variable rate per annum equal to the reference rate as announced from time to time by the Bank of America, San Francisco, California, plus one and one-quarter percent (1.25%) per annum.

5.7 Late Payment Penalty. If Purchaser fails to make full payment within one (1) day of the date that payment is due, then in addition to the amount due plus interest from the date that payment was due until the date of payment, Purchaser will pay an amount equal to one percent (1%) of the amount owed.

5.8 Payment to Third Parties. Seller may direct that Purchaser pay any amount due or which may become due directly to a third party in the manner and time as may be directed by Seller in written notice to Purchaser if, in the Seller's sole discretion, the payment to the third party will assist Seller in monitoring or enforcing this Agreement.

ARTICLE VI
TERM

This Agreement shall become effective upon execution by the parties and after enactment of legislation by the State of Alaska (including approval by the Governor) approving this Agreement. This Agreement shall be null and void if it is not so approved by September 30, 1985. Subject to the other provisions contained in this Agreement, Seller's obligation to sell and Purchaser's obligation to buy Royalty Oil shall begin as provided above, and shall end June 30, 1995. As used in this Article, "enactment of legislation" is as defined in AS 01.10.070(f)(4).

ARTICLE VII
DEFAULT OR TERMINATION

7.1 Default. If any one or more of the following events ("Events of Default") occur, then at Seller's option, Seller may terminate or suspend its obligation to tender and sell Royalty Oil and proceed to exercise any one or more of the rights and remedies provided in this Agreement:

(i) At any time, Purchaser (a) repudiates any of its covenants or obligations under this Agreement, or (b) fails, within five (5) Days after written request from Seller, to provide Seller with written affirmation of this Agreement and of Purchaser's intention to perform under this Agreement (together with evidence or assurances of transportation arrangements pursuant to Section 2.7 reasonably satisfactory to Seller); or

(ii) Purchaser does not pay in full any sum owed under this Agreement at the time when payment is due; or

(iii) Purchaser fails to observe or perform any of its other covenants and obligations under Article II; or

(iv) Purchaser does not perform any act required or contemplated under this Agreement and either: (a) the nonperformance continues for more than thirty (30) days after Seller has notified Purchaser of Purchaser's nonperformance; or (b) Purchaser had failed to perform the same or any other act required or contemplated under this Agreement during the immediately preceding twelve (12) Month period; or

(v) There is a material adverse change in Purchaser's condition, business or property which appreciably affects the ability of Purchaser to perform any of its obligations under this Agreement, and Purchaser is unable to give Seller adequate assurance of continued performance either within five (5) days of a request for such an assurance or within such other shorter time period as Seller may reasonably request under the circumstances; or

(vi) Any representation or warranty made by Purchaser in this Agreement proves to have been false or incorrect in any material respect at the time that the representation or warranty was made.

7.2 Failure to Pay Debts. If at any time Purchaser becomes unable to pay any of its debts when those debts are due, or should otherwise become insolvent (without regard to how that insolvency may be evidenced), Purchaser will immediately give notice of that fact to Seller. Whether or not that notice is given, if Purchaser becomes unable to pay any of its debts when those debts are due or should otherwise become insolvent, Seller's obligation to tender and sell Oil under this Agreement will automatically and immediately terminate without any requirement of notice or other action by Seller; however, Purchaser will nevertheless be and remain liable for payment and performance of all of its obligations and covenants under this Agreement with respect to Oil actually tendered by Seller to and after any such termination. Within thirty (30) days after receipt of Purchaser's notice or, if no notice is given, after Seller otherwise becomes aware (as determined in Seller's sole discretion) of Purchaser's insolvency, Seller will have the right, upon written notice to Purchaser, to reinstate all of Seller's and Purchaser's obligations under this Agreement retroactively to the date of termination.

7.3 Seller's Remedies. Upon the occurrence of any Event of Default or if Seller's obligation to tender and sell Oil under this Agreement is terminated or suspended under Sections 7.1 and 7.2, all obligations of Purchaser accrued but not otherwise due and payable under this Agreement will immediately be due and payable in full. In addition, Purchaser will indemnify and hold Seller harmless from and against all other liability, damages (including reasonably foreseeable consequential damages), costs, losses and expenses (including reasonable attorneys' fees and disbursements) incurred by Seller and arising out of the Event of Default, termination, or suspension. Seller shall have the right cumulatively to exercise any and all other rights and remedies and to obtain all other relief available under applicable law or at equity, including mandatory injunction and specific performance. Seller, upon occurrence of any Event of Default, in its sole discretion, may arrange for any disposition to third parties of Royalty Oil to be tendered and sold under this Agreement. Upon the occurrence of any Event of Default, Purchaser may, in Seller's discretion, be released from the obligations set forth in Article 2.11 (In-State Processing) until the Event of Default no longer exists or the obligation of Purchaser to take Oil under this Agreement expires. If upon occurrence of any Event of Default Seller makes arrangement for

disposition to third parties of Oil, or if Purchaser is released from Article 2.11, whether or not this Agreement is terminated, Purchaser will nevertheless be and remain liable to Seller for the full amount of the Purchase Price for that Oil in excess of the Purchase Price over any amount or amounts received by Seller on account of that disposition, net of the expenses of that disposition and for all other costs, expenses (including reasonable attorneys' fees and disbursements), and losses incurred by Seller and arising out of the Event of Default or disposition.

7.4 Purchaser's Exclusive Remedies. Upon any breach of, or default in, the due and timely observance or performance of any of Seller's convenants or obligations under this Agreement, Purchaser acknowledges and agrees that Purchaser's remedies will not include a temporary restraining order or preliminary injunction preventing Seller from taking any action with regard to the Royalty Oil which is the subject of this Agreement.

ARTICLE VIII
DISPOSITION OF OIL

8.1 Disposition of Oil Upon Default or Termination. Purchaser acknowledges and agrees that under the Unit Agreement and Leases, Seller's election to take Royalty Oil in-kind can be revoked or reversed only upon the satisfaction of various conditions, including the giving of six (6) Months notice to return all or more than ten percent (10%) of Seller's then current nominations. Purchaser acknowledges and agrees that Seller's election to invoke its rights to return to taking its Royalty Oil in value on less than six (6) Month's prior notice, or to attempt to secure a waiver of any condition or requirement, is at Seller's sole and complete discretion. Notwithstanding termination of this Agreement for default or for any other reason, including expiration or termination under any provision contained in this Agreement, Purchaser shall continue to take and purchase Seller's Royalty Oil in the amount and for the price set forth in this Agreement for up to four (4) Months following termination of this Agreement if Seller, in its discretion, so requires.

8.2 Inability to Receive Oil. If for any reason Purchaser is unable or refuses to accept or receive any Oil tendered under this Agreement, Purchaser shall nevertheless be and remain responsible for the disposal of that Oil and for paying Seller for the Oil as though it had been received and accepted by Purchaser unless Seller, in its sole discretion, elects to waive this requirement. In order to secure the obligations of Purchaser under this Section 8.1 and under Section 2.8, Purchaser shall, if and as Seller may request from time to time, assign to Seller all right, title and interest of Purchaser under any nominations, leases, agreements, contracts, charter parties and other arrangements for the transportation of the Oil sold under this Agreement through and away from the Trans Alaska Pipeline System; provided, that Seller shall not have any liability or obligations under any such nominations, leases, agreements, contracts, charter parties or other arrangements unless, and to the extent that, Seller shall actually exercise its rights to succeed to Purchaser's interest thereunder and shall obtain the benefits thereof.

8.3 No Right to Storage or Underlift. Purchaser waives and disclaims any interest or right that it may assert to storage of Royalty Oil, including by underlift or other means, to which Seller is or may come to be entitled under the Leases or any other agreement.

ARTICLE IX
WAIVER

The failure of either party to insist upon strict performance of any provision of this Agreement shall not constitute a waiver of, or estoppel against, asserting the right to require that performance in the future. A waiver or estoppel in any one instance shall not constitute a waiver or estoppel with respect to a later breach of a similar nature or otherwise. A course of performance established by a party shall also not estop the other party from complaining of a later breach similar in nature.

ARTICLE X
VALIDITY

If any provision or clause of this Agreement or application of this Agreement to any person or circumstance is held invalid, that invalidity shall not affect other provisions or applications of this Agreement which can be given effect without the invalid provision or application. If, however, an invalidity should operate to impair any material right or remedy of a party to this Agreement, that party may terminate this Agreement by notice to the other.

ARTICLE XI
FORCE MAJEURE AND CHANGE IN CONDITION

11.1 Effect of Force Majeure. Except for Purchaser's obligations to make payment of money for Oil tendered under this Agreement and except for Purchaser's obligations to accept and dispose of Royalty Oil, neither party shall be liable for any failure to perform the terms of this Agreement when the failure is due in whole or in substantial part to force majeure. The term "force majeure" as applied to this Agreement shall mean Acts of God, strikes, lockouts and industrial disputes or disturbances, civil disturbances, arrests and restraints from rulers or people, interruptions by government or court orders or by present or future orders of any regulatory body having or asserting jurisdiction, acts of the public enemy, wars, riots, blockades, insurrections, inability to secure materials by reasons of allocations promulgated by authorized governmental agencies, epidemics, landslides, lightning, earthquakes, fires, storms, floods, washouts, explosions, breakage or accident to machinery or lines of pipe, freezing of wells or pipelines, or any other event or condition, whether of the kind herein enumerated or otherwise, not within the reasonable control of the party claiming the benefit of this excuse. If, however, any material obligation of Purchaser is excused or suspended because of a claim of force majeure for a period of three hundred sixty-five (365) successive days or more, Seller will have the right to terminate this Agreement. Prior to Seller exercising its right to terminate this Agreement Seller and Purchaser shall enter into good faith negotiations to restore, to the fullest extent possible, Seller and Purchaser to the

benefits and obligations that existed under this Agreement before the occurrence of the force majeure condition.

11.2 Responsibility. Upon the occurrence and discovery of an event providing the basis for a claim of force majeure, the party making a claim shall notify the other party to this Agreement of its claim of force majeure. Upon the occurrence of an event constituting force majeure, that event shall, so far as possible, be remedied with all reasonable diligence and dispatch. Except for Purchaser's obligations to make payment of money for Oil tendered under this Agreement and except for Purchaser's obligation to dispose of Oil, the obligations of the disabled party to perform under this Agreement, insofar as they are affected by that force majeure, shall be suspended from the time that force majeure occurs and for so long as the disability caused should have continued had the party claiming the existence of the force majeure remedied the event providing the basis of the claim of force majeure with reasonable diligence and dispatch, and for no longer. The settlement of strikes or lockouts or industrial disputes or disturbances will be entirely within the discretion of the party having the difficulty, and the above requirement that any force majeure shall be remedied with diligence and dispatch shall not require the settlement of strikes, lockouts, or industrial disturbances by acceding to the demands of any opposing party therein when such course is inadvisable in the sole discretion of the disabled party.

ARTICLE XII
NOTICES

12.1 Method. All notices, requests, demands or statements shall be in writing, and may be delivered personally to the party to be notified or may be sent by registered or certified United States mail, postage prepaid, with a return receipt requested to such party. Notice deposited in the mail in this manner shall be effective upon the expiration of seven (7) days after it is so deposited. Notice given in any other manner shall be effective only if and when received by the addressee. For the purposes of notice, the addresses of the parties to this Agreement shall be as follows:

If to Seller: State of Alaska
Commissioner of Natural Resources
Pouch "M"
Juneau, Alaska 99811

and

Commissioner of Revenue
Pouch "S"
Juneau, Alaska 99811

and

Director, Division of Oil and Gas
Pouch 7-034
Anchorage, Alaska 99510

If to Purchaser:

GOLDEN VALLEY ELECTRIC ASSOCIATION, INC.
P.O. Box 1249
Fairbanks, Alaska 99707

and (as long as the right to Oil is assigned thereto)

Vice President-Supply
MAPCO PETROLEUM Inc.
P.O. Box 645
Tulsa, Oklahoma 74101-0645

12.2 Change of Address. Each party may change its address for notice by giving notice of the change.

ARTICLE XIII
RULES AND REGULATIONS

This Agreement is subject to all present and future valid laws, orders, rules and regulations of the United States, the State of Alaska, and any duly constituted agency thereof.

ARTICLE XIV
SOVEREIGN POWER OF THE STATE

This Agreement and its covenants shall not be interpreted as a limit on the exercise by the State of Alaska of any of its sovereign or regulatory powers, whether conferred on the State by constitution, statute or regulation, including but not limited to, its regulatory power over the Leases. The exercise by the State of Alaska of any sovereign or regulatory power will not operate or be deemed to enlarge any rights of Purchaser or to limit or impair any obligations or liability of Purchaser under this Agreement, except for state statutes enacted after the effective date of this Agreement which have a direct and significant adverse effect on the ability of Purchaser to perform an obligation under this Agreement other than the obligations to accept, dispose, and pay for Royalty Oil tendered under this Agreement.

ARTICLE XV
SECURITY

Thirty (30) days prior to the Date of First Delivery, Purchaser shall cause to be furnished to Seller evidence that an irrevocable stand-by letter of credit for the benefit of Seller effective by Date of Delivery, will be issued by a state or national banking institution of the United States which is a member of the Federal Deposit Insurance Corporation and has an aggregate capital and surplus of not less than One Hundred Million Dollars ($100,000,000), or other banking institution acceptable to Seller in its sole discretion. The principal face amount of the letter of credit shall initially be Five Million, Three Hundred Sixteen Thousand Dollars ($5,316,000). The letter of credit shall be substantially in a form satisfactory to the Commissioner, but in any event shall not require any documents to be submitted in support of drafts drawn against this letter of credit other than the certified statement of the Commissioner or her designee and the Attorney General of the State of Alaska or his designee that Purchaser is liable to Seller for a sum equal to the amount of such draft, and that that sum is due and payable in full and has not been timely paid. In the event that Seller should have reasonable grounds for asserting any claims against Purchaser

under this Agreement and does assert those claims in an aggregate amount in excess of the aggregate principal face amount of the letter of credit then in effect, Purchaser shall upon Seller's request (whether or not Purchaser may deny, reject or otherwise resist such claims) cause the principal face amount of the letter of credit to be increased by an amount equal to the excess. The principal face amount of the letter of credit shall also be automatically increased by Purchaser without request from Seller whenever the face amount is less than the expected Purchase Price of sixty (60) days of Oil tendered under this Agreement, to an amount equal to the expected Purchase Price of sixty (60) days of Oil tendered. The principal face amount of the letter of credit may be decreased by Purchaser upon approval of Seller (which approval will not be unreasonably withheld) if the face amount is more than the expected Purchase Price of sixty (60) days of Royalty Oil tendered under this Agreement, to an amount equal to the expected Purchase Price of sixty (60) days of Royalty Oil tendered. The Commissioner may accept such other or additional security as she, in her sole discretion, considers adequate to protect Seller.

ARTICLE XVI
PREFERENTIAL HIRING AND NON-DISCRIMINATION

Purchaser agrees to hire and employ Alaska residents and Alaska companies to the extent they are available, willing and qualified for all work performed in Alaska that is performed under or in connection with this agreement. As used in this agreement "Alaska resident" means an individual who has resided in the State for one year at the time of hiring or employment and "Alaska companies" means those companies who are incorporated in the State of Alaska or whose principal place of business is in Alaska.

If this provision is determined to be unconstitutional by a court of competent jurisdiction, then Purchaser agrees to hire and employ Alaska residents and Alaska companies to the extent such preferential hiring is determined to be constitutional.

ARTICLE XVII
APPLICABLE LAW

17.1 Alaska Law. This Agreement shall be governed by and construed in accordance with the laws of the State of Alaska, excluding any conflict-of-law rule or principle which might refer such construction to the laws of another state or country.

17.2 Submission to Jurisdiction. Any legal action or proceeding arising out of or relating to this Agreement or for the enforcement of the covenants or obligation of either party must be instituted in a State court of general jurisdiction sitting in the State of Alaska, and Purchaser hereby irrevocably submits to the jurisdiction of that court in any such action or proceeding.

ARTICLE XVIII
WARRANTIES

The purchase and sale of Royalty Oil under this Agreement is subject only to the warranties of Seller expressly set forth in this Agreement and Seller disclaims and Purchaser waives all other warranties, expressed or implied in law, whatsoever.

ARTICLE XIX
AMENDMENT

This Agreement may be supplemented, amended or modified at any time, but only by written instrument duly executed by the parties to this Agreement. Any material amendment to the contract which appreciably reduces the consideration received by the State requires prior approval of the Legislature of the State of Alaska.

ARTICLE XX
SUCCESSORS AND ASSIGNS

No assignment, pledge or encumbrance of this Agreement shall be made by either party without first obtaining the written consent of the other party. The Commissioner may grant such consent on behalf of the Seller. The Commissioner shall have sole and complete discretion in granting or denying a proposed assignment, pledge or encumbrance. Subject to the above requirements in this Article, this Agreement will be binding upon and inure to the benefit of each of the parties and its successors and permitted assignees. In addition, if Purchaser gains or acquires a controlling interest in an entity which has an agreement with Seller for the sale of Royalty Oil ("Other Agreement"), then Seller, at its option and on one year's notice, may require Purchaser to terminate either this Agreement or the Other Agreement. The choice of which Agreement to terminate will be Purchaser's. Purchaser may request that Seller waive this option in advance of Purchaser gaining a controlling interest in an entity which has an agreement with Seller for the sale of Royalty Oil. The Commissioner has sole and complete discretion in granting or denying the requested waiver.

ARTICLE XXI
HEADINGS

Headings used in this Agreement are for convenience only and shall not affect the construction of this Agreement.

ARTICLE XXII
RECORDS

22.1 Preservation of Records. Purchaser will preserve and maintain all books, accounts, and records relating to or arising out of the performance of this Agreement, including but not limited to the purchase or sale of Royalty Oil and its refined products, for a period of six (6) years. Purchaser will also maintain and preserve all similar books, accounts, and records of which

it has possession belonging to those third parties with whom it contracts for the performance of various parts of this Agreement. Neither Purchaser nor Seller shall be required to retain any records for more than six (6) years unless retention of such records is specifically required by applicable law or regulation. Purchaser shall either maintain its records within the State of Alaska or make such records available to Seller at Purchaser's principal office in the State of Alaska within thirty (30) days after written request by Seller.

22.2 Inspection of Records of Parties. Purchaser and Seller will accord to each other and to their authorized agents, attorneys, and auditors during reasonable business hours access to any and all property, records, books, documents, and indexes directly relating to Purchaser's or Seller's performance of this Agreement and which are under the control of the party from which access is desired so that the other party may inspect, photograph and make copies of that property, records, books, documents and indexes. In no event, however, shall Seller be required to disclose any information, data, or records which are required to be held confidential by state law or regulation. If the information obtained by Seller may be held confidential under state or federal law or regulation, Purchaser may request that that information be held confidential by Seller.

ARTICLE XXIII
INTERPRETATION OF TERMS AND CONDITIONS

In the event that there is a disagreement about the meaning or application of a word, term, or condition in this Agreement, Purchaser will present the arguments supporting its view in writing to the Commissioner for her consideration. The Commissioner will subsequently, within a reasonable time, issue a finding on the meaning or application of the disputed word, term, or condition, setting forth the basis for her conclusions. Purchaser agrees to accept findings by the Commissioner under this Article as long as there is substantial evidence supporting the Commissioner's findings. None of the above shall empower the Commissioner to set the price of the Oil should such price become subject to renegotiation pursuant to Section 2.3.

DATED this 8th day of February 1985.

SELLER: THE STATE OF ALASKA

_____
Commissioner,
Department of Natural Resources

PURCHASER: GOLDEN VALLEY ELECTRIC ASSOCIATION, INC.

By _____
Michael P. Kelly
General Manager

STATE OF ALASKA
RIK IN-KIND ROYALTY OIL CONTRACTS
(in barrels per day)

NOMINATION PERCENTAGES EFFECTIVE APRIL 1, 1985

PRUDHOE BAY UNIT

COMPANY	% OF DAILY ROYALTY OIL	QUANTITY	TERM	PRICE	
MAPCO	0.186667	35,000.00	11/26/79 - 12/31/2003	EXHIBIT B	1/
TESORO	0.213260	39,986.25	01/01/83 - 01/01/95	IN-VALUE	2/
CHEVRON	0.096000	18,000.00	05/30/84 - 01/01/95	IN-VALUE + $.30	3/
GVEA 4/	0.026667	5,000.00	07/01/84 - 06/30/84	IN-VALUE + $.30	3/
CHEVRON (COMP SALE)	0.026667	5,000.00	04/01/85 - 09/30/85	18.95	6/
CHEVRON (COMP SALE)	0.080000	15,000.00	04/01/85 - 03/31/86	18.95	6/
TEXACO (COMP SALE)	0.080000	15,000.00	04/01/85 - 09/30/85	18.56	6/
TEXACO (COMP SALE)	0.133333	25,000.00	04/01/85 - 03/31/86	18.56	6/
SOHIO (COMP SALE)	0.026667	5,000.00	04/01/85 - 09/30/85	18.43	6/
U.S. OIL (COMP SALE)	0.053333	10,000.00	04/01/85 - 03/31/86	18.96	6/
TOTAL RIK	0.922594	172,986.30			
TOTAL RIV	0.077406	14,513.62		IN-VALUE	2/
TOTAL RIK & RIV	1.000000	187,500.00			

NOMINATION PERCENTAGES EFFECTIVE OCTOBER 1, 1985

PRUDHOE BAY UNIT

COMPANY	% OF DAILY ROYALTY OIL	QUANTITY	TERM	PRICE	
MAPCO	0.186667	35,000.00	11/26/79 - 12/31/2003	EXHIBIT B	1/
TESORO PB #1	0.245330	45,999.38	01/01/83 - 01/01/95	IN-VALUE	2/
TESORO PB #2	0.130670	26,000.63	10/01/85 - 01/01/95	IN-VALUE + $.35	5/
CHEVRON	0.096000	18,000.00	05/30/84 - 01/01/95	IN-VALUE + $.30	3/
CHEVRON (COMP SALE)	0.080000	15,000.00	04/01/85 - 03/31/86	18.95	6/
TEXACO (COMP SALE)	0.133333	25,000.00	04/01/85 - 03/31/86	18.56	6/
U.S. OIL (COMP SALE)	0.053333	10,000.00	04/01/85 - 03/31/86	18.96	6/
TOTAL RIK	0.933334	175,000.06			
TOTAL RIV	0.066666	12,499.94		IN-VALUE	2/
TOTAL RIK & RIV	1.000000	187,500.00			

1/ Current EXHIBIT B price as of Oct 84 production month is $18.28773.

2/ In-value price (10/84) = Weighted average price less field cost of $.69 per barrel. Current in-value price as of Oct 84 is $17.3365.

3/ In-value price (10/84) + $.30 premium + $.69 field cost.

4/ This contract will terminate 06/30/85. A long-term contract to GVEA for 5,000 bpd will be submitted to the Legislature this Session and commence four months after approval by the Governor and the Legislature.

5/ In-value price (10/84) + $.35 premium + $.69 field cost.

6/ This price will fluctuate monthly based on posted prices of West Texas Sour crude.

STATE OF ALASKA
ANS IN-KIND ROYALTY OIL CONTRACTS
(in barrels per day)

NOMINATION PERCENTAGES EFFECTIVE APRIL 1, 1985

KUPARUK RIVER UNIT

COMPANY	% OF DAILY ROYALTY OIL	QUANTITY	TERM	PRICE	
CHEVRON (COMP SALE)	0.222222	5,000.00	04/01/85 - 09/30/85	17.09	1/
CHEVRON (COMP SALE)	0.222222	5,000.00	04/01/85 - 09/30/85	17.09	1/
UNION (COMP SALE)	0.222222	5,000.00	04/01/85 - 09/30/85	17.45	1/
TOTAL RIK	0.666667	15,000.00			
TOTAL RIV	0.333333	7,500.00		IN-VALUE	2/
TOTAL RIK & RIV	1.000000	22,500.00			

NOMINATION PERCENTAGES EFFECTIVE OCTOBER 1, 1985

KUPARUK RIVER UNIT

COMPANY	% OF DAILY ROYALTY OIL	QUANTITY	PRICE	
CHEVRON (COMP SALE)	0.000000	0.00		
CHEVRON (COMP SALE)	0.000000	0.00		
UNION (COMP SALE)	0.000000	0.00		
TOTAL RIK	0.000000	0.00		
TOTAL RIV	1.000000	22,500.00	IN-VALUE	2/
TOTAL RIK & RIV	1.000000	22,500.00		

1/ This price will fluctuate monthly based on posted prices of West Texas Sour crude.
2/ In-value price (10/84) = weighted average price less field cost.
of $.48 per barrel. Current in-value price as of Oct 84 is $16.4587,

STATE OF ALASKA
COOK INLET IN-KIND ROYALTY OIL CONTRACTS
(in barrels per day)

NOMINATION PERCENTAGES EFFECTIVE APRIL 1, 1985

COMPANY	% OF DAILY ROYALTY OIL	QUANTITY	TERM	PRICE
TESORO	100.000000	6,718.75	01/01/84 - 09/30/85	IN-VALUE 1/
TOTAL RIK	100.000000	6,718.75		
TOTAL RIV	0.000000	0.00		
TOTAL RIK & RIV	100.000000	6,718.75		

NOMINATION PERCENTAGES EFFECTIVE OCTOBER 1, 1985

COMPANY	% OF DAILY ROYALTY OIL	QUANTITY	PRICE
TESORO	0.000000	0.00	
TOTAL RIK	0.000000	0.00	
TOTAL RIV	100.000000	6,718.75	IN-VALUE 1/
TOTAL RIK & RIV	100.000000	6,718.75	

1/ In-value price (10/84) = weighted average price less transportation cost. Current in-value price as of Oct 84 is $24.854.

STATE OF ALASKA
COMPETITIVE ROYALTY OIL SALE

DEC. 11, 1984

PURCHASER		LOT #	ESTIMATED BARRELS PER DAY	CONTRACT LENGTH (IN DAYS)	TOTAL EST. BARRELS PER CONTRACT	BASE PRICE	PREMIUM	TOTAL REALIZED (1)	DIFFERENCE REALIZED (1) (2)
CATEGORY A: KUPARUK									
CHEVRON	*	1	5,000	182.5	912,500	$16.92	$0.82	$16,187,750.00	$804,177.13
UNION	*	2	5,000	182.5	912,500	$16.92	$0.53	$15,921,125.00	$539,552.13
CHEVRON	*	3	5,000	182.5	912,500	$16.92	$0.17	$15,594,625.00	$211,052.13
SUBTOTAL			15,000		2,737,500			$47,705,500.00	$1,554,781.38
		HIGHEST PREMIUM BID:		$0.82	AVERAGE PREMIUM BID:		$0.51		
CATEGORY B: PRUDHOE									
U.S. OIL		1	5,000	365	1,825,000	$17.92	$1.84	$34,682,000.00	$1,783,655.75
U.S. OIL		2	5,000	365	1,825,000	$17.92	$1.84	$34,682,000.00	$1,783,655.75
CHEVRON	*	3	5,000	365	1,825,000	$17.92	$1.83	$34,583,750.00	$1,685,405.75
CHEVRON	*	4	5,000	365	1,825,000	$17.92	$1.83	$34,583,750.00	$1,685,405.75
CHEVRON	*	5	5,000	365	1,825,000	$17.92	$1.83	$34,583,750.00	$1,685,405.75
TEXACO	*	6	5,000	365	1,825,000	$17.92	$0.64	$33,072,000.00	$173,655.75
TEXACO	*	7	5,000	365	1,825,000	$17.92	$0.64	$33,072,000.00	$173,655.75
TEXACO	*	8	5,000	365	1,825,000	$17.92	$0.64	$33,072,000.00	$173,655.75
TEXACO	*	9	5,000	365	1,825,000	$17.92	$0.64	$33,072,000.00	$173,655.75
TEXACO	*	10	5,000	365	1,825,000	$17.92	$0.64	$33,072,000.00	$173,655.75
SUBTOTAL			[illegible]		18,250,000			$342,315,250.00	$13,331,887.50
		HIGHEST PREMIUM BID:		$1.84	AVERAGE PREMIUM BID:		$0.84		
CATEGORY C: PRUDHOE									
CHEVRON	*	1	5,000	182.5	912,500	$17.92	$1.83	$17,291,875.00	$842,702.88
TEXACO	*	2	5,000	182.5	912,500	$17.92	$0.64	$16,936,000.00	$486,827.88
TEXACO	*	3	5,000	182.5	912,500	$17.92	$0.64	$16,936,000.00	$486,827.88
TEXACO	*	4	5,000	182.5	912,500	$17.92	$0.64	$16,936,000.00	$486,827.88
SOHIO		5	5,000	182.5	912,500	$17.92	$0.51	$16,817,375.00	$368,202.88
SUBTOTAL			25,000		4,562,500			$84,917,250.00	$2,671,389.38
		HIGHEST PREMIUM BID:		$1.83	AVERAGE PREMIUM BID:		$0.69		
TOTALS FOR ALL LOTS:		18	90,000		25,550,000			$474,938,000.00	$17,557,978.25

(1) THESE PROJECTIONS ASSUME THAT CURRENT MARKET CONDITIONS AND PRICES CONTINUE.

(2) THIS AMOUNT IS THE DIFFERENCE BETWEEN THE ESTIMATED ROYALTY-IN-VALUE RECEIPTS BASED ON THE VOLUME WEIGHTED AVERAGE OF PRODUCERS' REPORTED NETBACK PRICES (OCTOBER) AND THE ESTIMATED RECEIPTS OF THE COMPETITIVE SALE BASED ON THE BID PREMIUM PLUS THE BASE PRICE.

(*) PRIORITY BIDDERS

STATE OF ALASKA
COMPETITIVE ROYALTY OIL SALE

DEC. 11, 1984

NUMBER OF BIDS SUBMITTED:	49
NUMBER OF BIDDERS PARTICIPATING:	8
HIGHEST PREMIUM BID: SUBMITTED BY: U.S. OIL	1.84
ESTIMATED TOTAL REVENUES FROM SALE:	$474,938,000
COMPANY WITH MOST WINNING BIDS:	TEXACO WITH 8 LOTS
NUMBER OF LOTS WON BY PRIORITY BIDDERS:	15
NUMBER OF LOTS WON BY NON-PRIORITY BIDDERS:	3

JAN. 14, 1985

STATE OF ALASKA
DEPARTMENT OF NATURAL RESOURCES
DIVISION OF OIL AND GAS

ESTIMATED PRODUCTION FOR PRUDHOE BAY AND KUPARUK RIVER UNITS

	ESTIMATED TOTAL PRODUCTION (BARRELS PER DAY)			ESTIMATED ROYALTY (BARRELS PER DAY)			ESTIMATED SALES OF ROYALTY OIL (BARRELS PER DAY)							
YEAR	TOTAL PRUDHOE	(1) TOTAL KUPARUK	TOTAL	PRUDHOE ROYALTY	KUPARUK ROYALTY	TOTAL ROYALTY	NAPCO	(2) BVEA (OLD)	(3) BVEA (PROPOSED)	(4) TESORO (OLD)	(5) TESORO (NEW)	(6) CHEVRON	(7) COMPETITIVE SALE	ROYALTY IN VALUE
1984	1,580,000	120,000	1,620,000	187,500	15,000	202,500	35,000	5,000		39,765		18,000		184,77
1985	1,502,000	180,000	1,680,000	187,500	22,500	210,000	35,000		5,000	45,999	26,001	18,000	65,000	15,00
1986	1,500,000	180,000	1,680,000	187,500	22,500	210,000	35,000		5,000	45,999	26,001	18,000		80,00
1987	1,475,000	180,000	1,655,000	184,375	22,500	206,875	35,000		4,917	45,233	25,367	17,700		78,45
1988	1,325,000	200,000	1,525,000	165,625	25,000	190,625	35,000		4,417	40,633	22,967	15,900		71,70
1989	1,175,000	200,000	1,375,000	146,875	25,000	171,875	35,000		3,917	36,033	20,367	14,100		62,45
1990	1,050,000	200,000	1,250,000	131,250	25,000	156,250	35,000		3,500	32,200	18,200	12,600		54,75
1991	950,000	200,000	1,150,000	118,750	25,000	143,750	35,000		3,167	29,133	16,467	11,400		48,58
1992	850,000	200,000	1,050,000	106,250	25,000	131,250	35,000		2,833	26,066	14,734	10,200		42,41
1993	750,000	200,000	950,000	93,750	25,000	118,750	35,000		2,500	23,000	13,000	9,000		36,25
1994	650,000	170,000	820,000	81,250	21,250	102,500	35,000		2,167	19,933	11,267	7,800		26,33
1995	575,000	145,000	720,000	71,875	18,125	90,000	35,000							55,00
1996	510,000	120,000	630,000	63,750	15,000	78,750	35,000							43,75
1997	460,000	100,000	560,000	57,500	12,500	70,000	35,000							35,00
1998	420,000	80,000	500,000	52,500	10,000	62,500	35,000							27,50
1999	380,000	75,000	455,000	47,500	9,375	56,875	35,000							21,87
2000	340,000	65,000	405,000	42,500	8,125	50,625	35,000							15,62
2001	300,000	55,000	355,000	37,500	6,875	44,375	35,000							9,37
2002	270,000	50,000	320,000	33,750	6,250	40,000	35,000							5,00
2003	240,000	40,000	280,000	30,000	5,000	35,000	35,000							
2004	210,000	35,000	245,000	26,250	4,375	30,625								30,62
2005	180,000	25,000	205,000	22,500	3,125	25,625								25,62
2006	160,000	25,000	185,000	20,000	3,125	23,125								23,12
2007	140,000	20,000	160,000	17,500	2,500	20,000								20,00
2008	110,000	20,000	130,000	13,750	2,500	16,250								16,25
2009	80,000	10,000	90,000	10,000	1,250	11,250								11,25
2010	50,000	10,000	60,000	6,250	1,250	7,500								7,50

NOTES:

(1) DNR ESTIMATE OF FIELD PERFORMANCE, OCTOBER 1984.

(2) BVEA'S CURRENT CONTRACT EXPIRES JUNE 30, 1985.

(3) BVEA'S PROPOSED TEN-YEAR CONTRACT WOULD COMMENCE FOUR MONTHS AFTER APPROVAL BY THE LEGISLATURE AND GOVERNOR. QUANTITY IS 2.667% OF DAILY PRUDHOE ROYALTY OIL.

(4) TESORO'S CURRENT CONTRACT CALLS FOR A MAXIMUM QUANTITY OF 24.333% OF DAILY PRUDHOE ROYALTY OIL LESS COOK INLET ROYALTY PRODUCTION. THE QUANTITY IS 21.288% IN 1984, AND WILL BE 21.385% STARTING JAN. 1, 1985. THIS CONTRACT WILL BE INCREASED TO ITS' MAXIMUM QUANTITY ON OCTOBER 1, 1985 DUE TO CANCELLATION OF THE COOK INLET CONTRACT ON THAT DATE. THE CONTRACT EXPIRES JANUARY 1995.

(5) MOST OF THIS VOLUME (ABOUT 25,000 BPD), WHICH IS CURRENTLY BEING TAKEN "IN VALUE," WAS SOLD COMPETITIVELY FOR DELIVERY APRIL 1, 1985 THRU SEPT. 30, 1985. ON OCTOBER 1, 1985 IT IS ANTICIPATED THAT TESORO WILL COMMENCE DELIVERIES UNDER ITS 12/9/83 PRUDHOE CONTRACT, WHICH HAS A MAXIMUM QUANTITY OF 13.86% OF DAILY PRUDHOE ROYALTY OIL AND EXPIRES JAN. 1, 1995.

(6) CHEVRON'S CONTRACT CALLS FOR A MAXIMUM QUANTITY OF 9.6% OF DAILY PRUDHOE ROYALTY OIL. THE CONTRACT EXPIRES JANUARY 1, 1995.

(7) DELIVERIES WILL COMMENCE APRIL 1, 1985 FOR 50,000 BPD OF PRUDHOE BAY UNIT ROYALTY OIL AND 15,000 BPD OF KUPARUK RIVER UNIT ROYALTY OIL, AND WILL CONTINUE FOR ONE-YEAR, AND SIX-MONTH PERIODS, RESPECTIVELY, AS A RESULT OF THE DEC. 11, 1984 COMPETITIVE SALE. PRIOR TO THAT TIME THIS OIL REMAINS "IN VALUE."

dw;

STATE OF ALASKA
DEPARTMENT OF NATURAL RESOURCES
DIVISION OF OIL AND GAS

BILL SHEFFIELD, GOVERNOR

POUCH 7-034
ANCHORAGE, ALASKA 99510

STATE OF ALASKA
Alaska Royalty Oil & Gas Development Advisory Board
Notice of Public Hearing

The Alaska Royalty Oil and Gas Development Advisory Board will hold a public hearing on a proposed sale of State royalty oil from the Prudhoe Bay Unit. The hearing will be held by teleconference on Wednesday, February 20, 1985, at 10:30 a.m. The teleconference system will be available at that time in Anchorage, Fairbanks, and Juneau. The public may appear at the following locations to present testimony:

Legislative Information Office
1024 West 6th
Anchorage, Alaska
278-9624

Legislative Information Office
315 Barnett Street, Suite 101
Fairbanks, Alaska
452-4448

State Office Building
10th Floor Conference Room
Juneau, Alaska
465-3836

The Department of Natural Resources has proposed a long-term, noncompetitive sale of State royalty oil from the Prudhoe Bay Unit to Golden Valley Electric Association (GVEA).

The proposed GVEA agreement is for the sale of 2.667% of the daily royalty oil available from the Prudhoe Bay Unit (approximately 5,000 bpd). The contract would commence four months after approval by the Governor and the Legislature, and would terminate June 30, 1995. The proposed contract includes a provision allowing either party to reopen price negotiations during the month of July, 1987 and every two years thereafter.

The Alaska Royalty Oil and Gas Development Advisory Board, under AS 38.06.040 (a)(2), is required to "hold public hearings on proposed sales, exchanges, or other disposals of royalty oil or gas to determine whether the proposals comply with AS 38.06.070."

AS 38.06.070 states the "criteria" the Board must consider in the exercise of its powers. These are:

(1) the revenue needs and projected fiscal condition of the state;

(2) the existence and extent of present and projected local and regional needs for oil and gas products and by-products, the effect of state and federal commodity allocation requirements which might be applicable to those products and by-products, and the priorities among competing needs;

(3) the desirability of localized capital investment, increased payroll, secondary development and other possible effects of the sale, exchange or other disposition of oil and gas or both;

(4) the projected social impacts of the transaction;

(5) the projected additional costs and responsibilities which could be imposed upon the state and affected political subdivisions by development related to the transaction;

(6) the existence of specific local or regional labor or consumption markets or both which should be met by the transaction;

(7) the projected positive and negative environmental effects related to the transaction; and

(8) the projected effects of the proposed transaction upon existing private commercial enterprise and patterns of investments.

The evaluation of proposed sales in accordance with the criteria and the public hearing process is to enable the Board to more effectively carry out its purpose to "facilitate the wise development of Alaska's oil and gas royalty interests by providing means and procedures for sales, exchanges or other disposition of those interests in ways calculated to promote private economic growth consistent with applicable environmental standards and public fiscal stability...." AS 38.06.010. The Board is required to recommend to the State Legislature whether the proposed sale to GVEA should be approved or rejected. AS 38.06.050

The Board solicits comments from the public concerning this proposed sale. You are invited to present a statement, oral or written, at the hearing or send it directly to the Chairman, Alaska Royalty Oil and Gas Development Advisory Board, c/o Kay Brown, Director, Division of Oil and Gas, Department of Natural Resources, Pouch 7-034, Anchorage, Alaska 99510.

Copies of the proposed meeting agenda, applicable Alaska statutes, regulations, and other information relating to the proposed sale may be obtained by contacting Sandra Schwartzbauer at 265-4274.

James B. Gottstein
Chairman

Pub: January 17, 1985

Proposed Agenda

ALASKA ROYALTY OIL & GAS DEVELOPMENT ADVISORY BOARD
PUBLIC HEARING

February 20, 1985

10:30 a.m. - 4:30 p.m.

(Teleconference with Anchorage, Juneau and Fairbanks)

Legislative Information Office
1024 West 6th
Anchorage, Alaska

Legislative Information Office
315 Barnett Street, Suite 101
Fairbanks, Alaska

State Office Building
10th Floor Conference Room
Juneau, Alaska

(1) Opening remarks, roll call, approval of minutes of the previous Royalty Board meeting, adoption of agenda.

(2) Overview of proposed non-competitive sale of royalty oil to Golden Valley Electric Association.

(3) Public testimony on GVEA contract.

(4) Royalty Board vote on GVEA contract for recommendation to Legislature, which must approve the contract (AS 38.06.050-055).

(5) Report from Director, Division of Oil and Gas, on:

. Results of 2nd competitive Royalty Oil Sale;

. Proposed statute change; and

. Possible royalty oil solicitation.

(6) Report from Jim Gottstein on underlift proposal.

(7) Presentations by companies seeking to purchase royalty oil. *

(8) Other business or announcements from board members.

(9) Adjournment.

* Companies that wish to make a brief presentation to the board should call Roberta Staats at 265-4257 to schedule time on the agenda.

3207s

SCOMM

#46:11

STATE OF ALASKA

POUCH V
JUNEAU, ALASKA 99811
(907) 465-4941

HOUSE SPECIAL COMMITTEE ON OIL AND GAS

MEMORANDUM

To: All Interested Persons

From: Rep. Mike Davis, Chairman
House Special Committee on Oil and Gas

Date: March 20, 1986

Re: Valdez Oil Terminal Facility Oversight Hearing

The House Special Committee on Oil and Gas will conduct an oversight hearing regarding operations at Alyeska's Valdez Oil Terminal Facility at 4:00 p.m. on Thursday, April 3. The meeting will be held in Room 519 of the Capitol Building, and will be teleconferenced to the legislative information offices in Anchorage, Fairbanks and Valdez. Persons in other communities wishing to participate in the hearing may request, through my office, that additional teleconference connections be made for them.

Representatives from Alyeska, the Environmental Protection Agency, and the Alaska departments of Environmental Conservation, Labor and Law have been asked to participate in the hearing. Businessman Charles Hamel is also expected to participate by teleconference.

The main purpose of the hearing is to provide members of the House Special Committee on Oil and Gas with information regarding past and present problems associated with the water treatment plant at Alyeska's Valdez oil terminal, the status of state and federal investigations into operations at the facility, a description of state and federal compliance orders that have been issued to Alyeska, and the degree and timeliness with which the requirements of the compliance orders are being met.

Valdez Oil Terminal Facility Oversight Hearing - April 3

The purpose of the hearing is to provide members of the legislature with the following information regarding the oil terminal:

1. What operational problems have been associated with the terminal's water treatment plant since this facility came on-line in 1977?

2. To what extent have operational problems at the terminal's water treatment plant led to the uncontrolled release of toxic pollutants into Prince William Sound?

3. To what extent has the facility been operated in violation of its water-discharge permit?

4. Alyeska's oil spill contingency plan expired on Jan. 3. What is the current status of Alyeska's new oil contingency plan? What is Alyeska's degree of preparedness regarding the containment and cleanup of a major oil spill?

5. What hazardous chemicals have workers at the plant been exposed to, and what has been done to abate this threat to their health?

6. What is the present status of federal investigations into operations at the water treatment facility, including investigations by the Environmental Protection Agency, National Institute of Occupational Safety and Health, and the General Accounting Office? What actions are being taken by these agencies?

7. To what extent are investigations being directed toward Alyeska's alleged falsification of pollution tests, and toward the company having allegedly ignored internal documents that suggested correcting major operational deficiencies at the facility?

8. What is the present status of state investigations into operations at the water treatment facility? What actions are being taken by the Alaska Department of Environmental Conservation? What, if any, criminal charges are under consideration by the Department of Law?

J

TESTIMONY OF IVAN L. HENMAN

ALYESKA PIPELINE SERVICE COMPANY

House Special Committee on Oil and Gas
April 3, 1986

Good afternoon. My name is Ivan Henman, and I am in charge of the Ballast Water Treatment Facility Task Force established by Alyeska Pipeline Service Company to address the concerns raised about that facility--which I shall refer to as the BWT facility. Prior to this assignment, I was head of the Engineering Department at Alyeska. Also, I was Pipeline Superintendent for Alyeska from 1982 to 1985 and Terminal Superintendent at our Marine Terminal in Valdez from 1980 to 1982.

I would also like to introduce Bob McCollom and Dr. Richard Wade. Bob McCollom is the Vice President and Manager of Woodward-Clyde's Alaska operation. Bob has been in charge of the testing and studies which have been undertaken in response to the EPA Compliance Order.

Woodward-Clyde Consultants is a national consulting firm with extensive expertise in wastewater management. Their professional support staff includes Ph.D. level engineers and scientists in wastewater management and water quality.

Doctor Richard Wade is Director of Risk Management Services for International Technology Corporation from San Francisco, California. Dr. Wade has been retained by Alyeska to evaluate our industrial hygiene program and to be sure that we remain in compliance with regulations.

We are here in response to your request for information about the Valdez BWT facility including the status of our response to various action items included in the Compliance Order and Amended Compliance Order issued by the Environmental Protection Agency.

The jurisdiction of EPA and Alaska Department of Environmental Conservation is based upon the legal requirement for a permit before treated ballast water can be discharged from the BWT facility. It is called a National Pollutant Discharge Elimination System Permit, or for short, an NPDES Permit. NPDES Permits set limits on the level of pollutants which may be discharged with treated water and require compliance with the state water quality criteria.

In view of the various allegations about our Terminal, the EPA and ADEC last November requested a number of studies of the BWT facility's operation. Alyeska and its consultants embarked upon these studies, including an analysis of every process of the facility to determine if we are discharging sludge into the bay. We have literally looked at the plant inside and out and have even employed under-water cameras inside the tanks.

Most of these studies have been completed; all of them soon will be. All requirements of the Compliance Order have been submitted on or before the dates they were due. Both EPA and ADEC have met with Alyeska at least monthly and they have been kept completely informed of all our efforts. Their advice, recommendations, and suggestions as to the contents of the studies has been very welcome and helpful.

All of these extensive studies demonstrate that there is no sludge being discharged into Port Valdez, that there is no detectable damage to the environment of Port Valdez and Prince William Sound resulting from the operation of the BWT facility, and that the facility has been operated in compliance with applicable health and safety standards.

A brief history of the BWT plant may help to put the various allegations and the results of our studies into their proper context. The BWT facility treats the oily seawater, called ballast, which is carried in tankers arriving at the Marine Terminal to load crude oil. The seawater is pumped into the vessels when they leave ports elsewhere to begin their journeys to Valdez; this is done to provide stability when the

tankers are sailing without cargoes of oil. This ballast water is carried in the vessel's oil cargo compartments when they are empty of oil. This water becomes mixed with small amounts of oil remaining in the tanks. When the tankers arrive at the Marine Terminal, the ballast water must be pumped out of the oil cargo tanks so that the vessels may be loaded with crude oil. It is pumped directly to the BWT facility which separates the oil from the ballast. It does this mainly through gravitation in three large settling tanks.

To more easily understand the BWT facility, it may be helpful to think in terms of a three-stage treatment plant:

- First, gravity separation of the oil, water, and a small amount of solids. This occurs in the gravity settling tanks.

- Second, a chemical and air injection system to further reduce the amount of oil in the water. This secondary treatment takes place in the dissolved air flotation or DAF chambers.

- Third, retention in large impound basins for final separation before the treated ballast water is discharged into the waters of Port Valdez.

Gravity separation means that at each of the three treatment stages, oil--being lighter--rises to the top, and water settles out at the bottom. There will also be an emulsion layer between the oil and water, and this layer is composed of oil, water, and some solids. In addition, during the separation process, heavier solids, such as sand, will settle to the bottoms of the tanks, and they may carry some of the oil with them. Our recent studies have confirmed that this accumulation is substantially less than one inch per year in each of the tanks. This slow buildup of solids in the tanks means the tanks need only be cleaned when they are entered for periodic maintenance--normally every four to five years. That, in a nutshell, is how our system operates.

We believe Alyeska has compiled a good record in operating its BWT facility under the NPDES Permit. Despite its good record, Alyeska has been accused of producing large quantities of sludge at the BWT facility and dumping it into Port Valdez. This simply is not true.

I think if you look closely at these allegations regarding sludge, you will find many of them are based on references to the oil-water emulsion in the settling tanks. However, this emulsion is pumped to the crude system and ultimately loaded in tankers. It is not discharged with the treated effluent.

There is another area of possible confusion. The seawater taken in by the tankers as ballast just naturally contains suspended particles of silt. Most of these particles remain suspended in the ballast water throughout the treatment process, just as they were suspended when picked up by the tankers. This naturally occurring material is called TSS for total suspended solids. There is nothing unusual about the presence of this TSS in the discharge effluent from the BWT plant. By way of comparison, the TSS in our treated effluent is 50 times less than the TSS in water flowing into Port Valdez naturally from the Lowe River during the summer time.

The fact remains, the only thing discharged from our BWT facility is the treated ballast water. The recovered crude oil and the oil-water emulsion are pumped to our crude oil system.

The Compliance Order and Amended Compliance Order issued by EPA found that Alyeska had violated its NPDES Permit because sludge that had been separated or removed from one unit of the system had been reintroduced into another unit. Alyeska disagreed with those findings and with EPA's right to issue the order. Nonetheless, Alyeska agreed to cooperate to the best of its ability to comply with the studies required by the Compliance Order. We have done that.

The studies have confirmed that there has been no significant accumulation of sludge in the ballast water treatment process units. Measurements have generally been in the range of one to two inches in the tank bottoms and DAF chambers. The studies also confirm that there is no discharge of sludge to Port Valdez. We have also conducted extensive testing of the sludge that has been removed from the system. These tests show conclusively that this material is not a hazardous waste as defined by government regulations. The agencies have been advised of our findings, and they have not disagreed.

I said Alyeska's record of BWT operation is good. As with any plant, however, there are times when operations are less than 100 percent perfect. For the months October, 1985 through February, 1986, the monthly average of lab test results for aromatic hydrocarbons (BTX) in our effluent has averaged about 6.5 parts per million--slightly higher than the six parts per million authorized by the permit. Both EPA and ADEC have been kept fully informed of these results. These results followed a change in Alyeska's procedures for preserving effluent samples. This change was made because of a recommendation which arose out of an internal audit. It was not a requirement imposed by the Compliance Order. Nevertheless, we will be working with the EPA and ADEC to resolve the issue.

Perhaps the most important fact to recognize is that the available scientific evidence, including preliminary data taken by the University of Alaska last fall, indicates that there has been no detectable damage to the environment of Port Valdez and Prince William Sound as a result of Alyeska's operation of the ballast water system.

As to the alleged health hazards associated with the operation of the facility and the handling of sludge, we have found that company policies and procedures provide for a safe work environment. We have conducted our own industrial hygiene inspections of the facility and also retained industrial hygiene consultants to inspect our facilities in 1981 and again in 1984. And there have been other inspections.

In 1985, the Alaska Department of Occupational Safety and Health conducted an inspection of the Terminal. DOSH found no violations of health and safety standards. Also, in 1985, another industrial hygiene inspection was conducted at the Terminal by our consultant, IT Corporation. Again, the Terminal was found to be operating in accordance with applicable health and safety standards.

And, in 1986 the National Institute of Occupational Safety and Health (NIOSH) visited the Terminal to investigate alleged health hazards. We have cooperated fully with the investigation. The NIOSH report has just been received by Alyeska. NIOSH concluded there were no chronic health effects from chemical exposures at the BWT and informed the Alaska Department of Labor that they contemplate no further medical studies.

We feel that we have an outstanding record in the safety and health protection of our employees. Nonetheless, we are increasing our monitoring efforts to assure that our existing industrial health procedures and policies are followed by all employees and contractor personnel.

We have responded to any and all concerns about occupational safety and health at the Terminal. And we continue to respond to suggestions for improvement in our operating procedures and to initiate such improvements ourselves to assure the safety and health of the persons employed there.

In conclusion, I think the facility at Valdez has been one of the most analyzed of its kind in the world. We have made the operation and all of our records available for inspection by the appropriate government agencies. We have consistently operated the BWT system in a good faith effort to achieve its maximum effectiveness in accordance with its design. We have been cooperating with the agencies and meeting the requirements of the Compliance Order. We believe we have operated the facility in a manner to protect our employees, contractors, and the marine environment of Port Valdez and Prince William Sound. Thank you.

DEPARTMENT OF HEALTH & HUMAN SERVICES

Public Health Service

Centers for Disease Control
National Institute for
Occupational Safety & Health
Robert A. Taft Laboratories
4676 Columbia Parkway
Cincinnati OH 45226-1998

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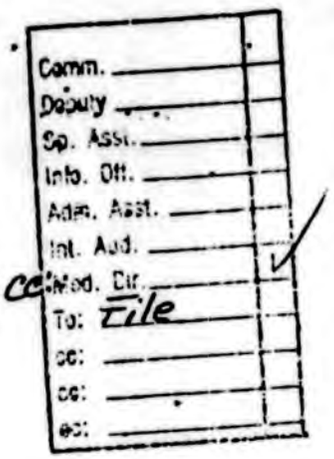
APR 1 1986

OFFICE OF THE COMMISSIONER

March 26, 1986
HETA 86-132



Annette S. Thorn, M.D., M.P.H.
Medical Director of Occupational Health
Alaska Department of Labor
P.O. Box 1149
Juneau, Alaska 99802

Dear Dr. Thorn:

I would like to report the findings of my investigations among workers at the Ballast Water Treatment Facility (BWT) at Alyeska Pipeline Service Company's marine terminal in Valdez, Alaska. You had requested a NIOSH investigation because of reports of health problems among contract laborers who performed such jobs as cleaning tanks, dissolved air flotation (DAF) cells, basins, and ponds, and because of workers' concerns about potential health effects resulting from exposure to organic vapors and sludge during this work.

According to the business manager for the Construction and General Laborers Union -- Local 341, about 75 union members have worked at the BWT. An estimated 40 have had more than minimal contact with sludge, and an estimated 15-20 of these had heavy exposure or health complaints. I interviewed a sample of 10 of these workers, 7 in Anchorage and 3 in Valdez..

During our walk-through inspection of the BWT, I interviewed 13 employees. These included eight maintenance employees and five others (operators and oil spill and marine technicians). I also interviewed by telephone one maintenance worker from a different shift who, I had been told, had health complaints.

Five of the eight maintenance workers at the plant (and the one interviewed by phone) reported headache, dizziness, or nausea sometimes when working around the DAF cells without a respirator. These symptoms typically resolved within two hours, sometimes within minutes, after leaving the area or putting on a respirator. One worker reported symptoms lasting 1-1/2 days after performing work (not his usual job) in the DAF area. Another worker reported a rash after contact with oil in the past, but had no current problem.

There was agreement among Alyeska employees that protective clothing and respirators were readily available, whether or not specifically required for a particular job. There was also general agreement that work involving the most

contact with sludge was done by contractors. Some Alyeska employees observed contract laborers using the same protective gear as Alyeska employees, but others said that this was not always the case.

The contract laborers reported acute irritative, respiratory, and other symptoms. They also reported a variety of chronic respiratory, dermatologic, neurologic, and other problems. Many reported that protective equipment was not readily available, that it was not in good condition, or that it was provided without adequate instruction in its use.

In summary, Alyeska maintenance workers reported self-limited symptoms associated with work in the DAF area without a respirator. Such symptoms are consistent with exposures to volatile organic compounds known to be present in the area. Although measured exposures have been within current Alaska Department of Labor standards, at levels that would not be expected to produce acute symptoms, (1) exposure concentrations averaged over the duration of the job (rather than over the full shift) have not been determined for specific maintenance jobs. Furthermore, (2) symptoms can occur even when air concentrations of individual substances are below their OSHA permissible exposure limits, especially when there is exposure to a combination of substances.

Except for their severity, the acute symptoms reported by contract laborers were comparable to those reported by Alyeska employees and were consistent with unprotected exposure to substances present in the BWT. We could not answer the question of whether unprotected or inadequately protected exposure was as common in the past as claimed by the laborers. Even if there were heavy exposures in the past, however, the reported chronic health problems, in my opinion, were sufficiently varied that they did not suggest a pattern of association with exposures at the BWT. (This does not rule out the possibility that there may be individual cases of health problems related to past exposures at the BWT, but evaluation of such cases on an individual basis is beyond the scope of a NIOSH investigation.) Given the lack of an identified chronic health effect characteristic of potential chemical exposures at the BWT, (1) the relatively small group of workers with substantial exposure to sludge or other substances, (2) the sporadic occurrence of such exposures, and (3) potential exposures from other jobs over the years, I do not think that further epidemiologic investigation of past workers for chronic health effects attributable to exposures at the BWT would be productive.

On the basis of symptoms reported by Alyeska workers, some maintenance tasks in the DAF area appear to warrant routine use of respirators. Exposures associated with the various tasks should be monitored. Respirator usage can then be based on the exposure data.

Although no further medical or epidemiologic evaluation is contemplated, NIOSH plans to evaluate employee exposures during a tank cleaning operation, currently scheduled for April 1986.

Sincerely yours,

Mitchell Singal

Mitchell Singal, M.D., M.P.H.
Assistant Chief
Medical Section
Hazard Evaluations and Technical Assistance Branch
Division of Surveillance, Hazard Evaluations, and Field Studies

cc:
Gary P. Bader
Mano Frey
Richard L. Wade
Donald Whorton, M.D., M.P.H.
Daniel Lawn
John P. Middaugh, M.D.
Don Praast
Charles Hamel
Allen Stayman

EPA STATUS REPORT ON
ALYESKA PIPELINE SERVICE CO.
VALDEZ, ALASKA
BALLAST WATER TREATMENT PLANT

This ballast water treatment plant is located at the southern end of the Trans-Alaska Pipeline and is one of the world's largest such facilities. Oily wastewater from tanker ballasting is treated prior to discharge into Port of Valdez, a subarctic fjord. This facility has been under an EPA National Pollutant Discharge Elimination System (NPDES) permit since start-up in 1977.

During a routine annual compliance inspection in 1984, several questions were raised by EPA concerning the operation of the facility. A Clean Water Act, Section 308 "Request for Information" was issued in January 1985. A joint EPA/Alaska Department of Environmental Conservation (ADEC) follow-up compliance inspection was done in April, 1985.

Based upon the response to the Section 308 "Request for Information" and the April inspection, a Clean Water Act, Section 309 Order was issued on July 12, 1985, which required the company to stop reintroducing sludges into the ballast water treatment plant and to submit a plan describing the procedures that would be followed in removing and disposing of all sludges. Specifically, EPA found that "on numerous occasions agents and employees of the respondent removed sludges from one part of the BWT (i.e. retention ponds) and reintroduced those sludges into the wastewater (i.e. 90 tanks) being treated within the BWT, in violation of Part II.A.6. of the NPDES permit.

The major pollutants of concern to EPA in ballast water coming into the plant and their ranges are as follows:

Pollutant	Typical Ballast Water Ranges
Oil & Grease	10-40 mg/l
Total Suspended solids	20-150 mg/l
pH	6-9
Aromatic Hydrocarbons	1-10 mg/l

"BWT" refers to the ballast water treatment facility. The treatment process consists of gravity settling in one of three "90 tanks", followed by dissolved air floatation (DAF), transfer to a retention or impound basin, and discharge to Port Valdez. The "80 tanks" are a part of the oil recovery system. Oil skimmed from these tanks is transferred with crude oil from the Trans-Alaskan Pipeline onto tanker ships.

As a result of implementing a laboratory quality assurance program required by the Compliance Order, the Company has modified its laboratory procedures for testing for BTX. Prior to October 1985, BTX samples were not acidified at the time of collection to preserve the sample. Since October monthly average BTX values in the plant effluent have been in violation of the permit limits.

Receiving water monitoring and computer modeling of the effluent plume in Port Valdez appear to show that violations of State water quality standards have occurred at the boundary of the mixing zone. Further study is underway to confirm this.

Further EPA/ADEC sampling inspections were conducted in July and August 1985. Based upon these visits and the Agency determination that the Company's response to the original order provided essentially a continuation of existing practices, an amended Order was issued on November 6, 1985. This amendment set out 13 specific actions required of the company with related time schedules for progress toward compliance with the 309 Order schedule for each action. A joint EPA/ADEC/Alyeska work group has been established to monitor progress toward compliance with the 309 Order.

EPA is developing a new discharge permit for the facility. At this time we anticipate soliciting public comment on the draft permit in June 1986. This schedule is subject to review. After addressing comments received on the draft permit and the Alaska Department of Environmental Conservation's certification under Section 401, EPA will finalize and issue the permit.

EPA is committed to completing the evaluations required for reissuance of the permit in as timely a manner as possible. While a number of aspects of the permit development process can proceed independently from the enforcement investigation, EPA feels that certain aspects of the permit must be closely coordinated with the enforcement investigation. In the interim, the existing NPDES permit has been continued under the Administrative Procedures Act, and as such remains fully effective and enforceable.

Attachments to this summary include:

1. Table 1, Enforcement Actions taken by EPA
2. Table 2, Status of Actions Required of Alyeska Under Section 309 Compliance Order
3. July 12, 1985 Section 309 Compliance Order
4. November 6, 1985 Amendment to Section 309 Compliance Order

Attachment #1

TABLE 1. ENFORCEMENT ACTIONS TAKEN BY EPA

Jan. 28, 1985	Issuance Date of a Section 308 Formal Request For Information No. 11084-12-04-308
April 5,1985	Letter From Robert S. Burd To Alyeska Requiring Retention of All Records Presently in Possession or Control of the Company
July 12, 1985	Issuance Date of Section 309 Compliance Order No. 1085-07-35-309A
Nov. 6, 1985	Issuance Date of Amendment to Section 309 Compliance Order No. 1085-07-35-309A

Attachment #2

TABLE 2. STATUS OF ACTIONS REQUIRED OF ALYESKA
UNDER SECTION 309 COMPLIANCE ORDERS

March 20, 1986

Paragraph	Task	Due Date	Status
309 ORDER NO. 0185-07-35-309A (7/12/85)			
1	Cease reintroduction of sludge to treatment system.	Immediately.	See below.
2	Submit sludge handling plan.	9/15/85	Plan submitted on time. EPA's evaluation resulted in issuance of amended order.
AMENDED 309 ORDER NO. 1085-07-35-309A (11/6/86)			
	Consistent with the timeframes below, cease and desist reintroduction, resuspension, or re-entrainment of sludges into treatment plant.	See below.	See below.
10	Submit plan for transfer of wastewater from crude oil storage tanks to 90 tanks. Implement upon approval.	11/20/85	Plan submitted on time & implemented by Alyeska. Approved March 19, 1986.
11	Order equipment for continuous flow-weighted effluent sampling.	11/20/85	Completed on time.
5	Submit study of DAF flow velocity and plan for correcting any operational problems. Implement plan upon approval.	1/6/86	Plan submitted on time. Company notified that submittal was inadequate.
7	Submit study for treatment and disposal of DAF and impound basin "float". Implement upon approval.	1/6/86	Plan submitted on time. Under EPA/ADEC review.
6	Reinstall and operate originally designed equipment in DAF.	3/6/86	
	OR		
	Submit plan for equivalent or better removal of sludges. Implement upon approval.	1/6/86	Plan submitted on time. Company notified that submittal was inadequate.

13	Submit analytical quality assurance plan. Implement upon approval.	1/6/86	Plan submitted on time. Approved by EPA 2/21/86.
12	Submit evaluation of placement and design of effluent sampling system and plan to install most effective system for collecting a representative sample. Implement upon approval.	2/6/86	Plan submitted and implemented by Alyeska.
11	Install composite effluent sampler and commence operation.	2/6/86	Installed 11/27/85. In operation 2/1/86.
8	Submit operating plan for transferring only clarified wastewater from 80 to 90 tanks. Implement upon approval.	3/6/86	Plan submitted on time. Under EPA/ADEC review.
2	Submit study of settling characteristics of 90 tanks; determine settling time required for wastewater separation.	3/6/86	Plan submitted on time. Under EPA/ADEC review.
3	Submit plan to ensure only clarified wastewater is moved from 90 tanks to DAF unit. Implement upon approval.	3/6/86	Plan submitted on time. Under EPA/ADEC review.
4	Submit plan for routine removal of sludge from bottoms of 90 and 80 tanks. Implement upon approval.	5/6/86	
9	Submit plan for treatment and/or disposal of system-generated sludge. Implement upon approval.	5/6/86	

Attachment #3

UNITED STATES ENVIRONMENTAL PROTECTION AGENCY
Region 10
1200 Sixth Avenue
Seattle, Washington 98101

IN THE MATTER OF: Alyeska Pipeline Service Company 1935 South Bragaw Street Anchorage, Alaska 99512 NPDES Permit No. AK-002324-8	No. 1085-07-35-309A COMPLIANCE ORDER

Pursuant to Section 309 of the Clean Water Act, 33 USC §1319, and the authority vested in the Administrator of the U.S. Environmental Protection Agency (EPA) which has been delegated to the EPA Regional Administrator, Region 10, the following FINDINGS OF FACT are made and COMPLIANCE ORDER issued.

FINDINGS OF FACT

1. Alyeska Pipeline Service Company (respondent) operates a ballast water treatment facility located near Valdez, Alaska. That facility discharges treated ballast water to Port Valdez.

Form CSD-183
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2. Port Valdez is navigable waters of the United States as defined by Section 502(7) of the Act, 33 USC §1362(7), and 40 CFR §122.2.

3. Respondent was issued a National Pollutant Discharge Elimination System (NPDES) permit (the permit) with an effective date of September 10, 1980, and an expiration date of June 1, 1983, authorizing the discharge of identified pollutants. Respondent submitted an application for reissuance of its permit on August 20, 1982. Hence, the provisions of the permit remain in effect under 40 CFR §122.6.

4. Part II.A.6. of the permit provides that "solids, sludges, filter backwash, or other pollutants removed from or resulting from treatment or control of wastewaters shall be disposed of in a manner to prevent any pollutant from such materials from entering navigable waters, except as limited in Part I.A."

5. Part II.A.6. of the permit means that once a pollutant (i.e., sludge, solids, etc.) has been removed from the influent to, or wastewater within, the Ballast Water Treatment Facility (BWT), that removed substance shall not be reintroduced, reinjected, or returned in any way to the influent or wastewater being treated by the BWT.

6. For the purposes of this ORDER and the permit, sludge is defined as everything, regardless of its viscosity or solids content, that is above and below the water phase except recoverable crude oil.

7. During the spring of 1983, approximately 500 gallons of sewage treatment sludges were pumped into the oily water recovery system of respondent's ballast water treatment plant, which is in violation of Part II.A.6. of the permit.

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12-8-76 DOJ

8. On numerous occasions agents and employees of respondent removed sludges from one part of the BWT (i.e. retention ponds) and reintroduced those sludges into the wastewater (i.e. 90 tanks) being treated within the BWT, in violation of Part II.A.6. of the permit.

ORDER

Based on the foregoing Findings of Fact, and pursuant to Section 309 of the Clean Water Act, 33 USC 1319, it is hereby ORDERED as follows:

1. Immediately upon receipt of this ORDER, respondent shall cease and desist the reintroduction of sludges back into the BWT. Recoverable crude oil shall not be reintroduced into the BWT.

2. Within twenty (20) days after receipt of this ORDER, respondent shall submit in writing, a plan describing the procedures that will be followed in the removal and disposal of all sludges.

3. Submittals required by this ORDER shall be made to:

U.S. Environmental Protection Agency
1200 Sixth Avenue
Seattle, Washington 98101
Attn: Mr. Don Dossett, M/S 513

Form OSO-183
8-76 DOJ

SANCTIONS

Notice is hereby given that violation of, or failure to comply with, any of the provisions of the foregoing ORDER shall subject respondent to civil penalties pursuant to Section 309(d) of the Act, 33 USC §1319(d).

Nothing in this ORDER shall be construed to relieve respondent of any obligations under any applicable federal, state, or local law.

Dated this 12th day of July, 1985.

Ernesta B. Barnes
Regional Administrator

Form OBD-183
1-8-76 DOJ

Attachment #4

UNITED STATES ENVIRONMENTAL PROTECTION AGENCY
Region 10
1200 Sixth Avenue
Seattle, Washington 98101

IN THE MATTER OF: Alyeska Pipeline Service Company 1835 South Bragaw Street Anchorage, Alaska 99512 NPDES Permit No. AK-002324-8	Amendment to Compliance Order No. 1085-07-35-309A

Pursuant to Section 309 of the Clean Water Act (the Act), 33 USC §1319, and the authority thereunder of the Administrator of the U.S. Environmental Protection Agency (EPA), which authority has been duly delegated to the EPA Regional Administrator, Region 10, the following FINDINGS OF FACT are made and Amendment to above ORDER issued.

FINDINGS OF FACT

1. Pursuant to the Findings of Fact set out in ORDER No. 1085-07-35-309A issued to Alyeska Pipeline Service Company (respondent) this Amendment hereby supplements the provisions of said ORDER as follows:

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1-8-76 DOJ

ORDER

Based on the foregoing Findings of Fact (those more specifically set out in Order No. 1085-07-35-309A), and pursuant to Section 309 of the Clean Water Act, 33 USC §1319, it is hereby ORDERED as follows:

1. Consistent with the timeframes specified in provisions 2 through 10 of this amended ORDER (the ORDER), respondent shall cease and desist the reintroduction, resuspension, or re-entrainment of sludges into the ballast water treatment facility (BWT) or any part, stream, or segment thereof, or any stream flowing therefrom.

2. Within four (4) months of the date of the ORDER, respondent shall submit the results of a study which determines with reasonable accuracy the settling time required for effective separation of floating oil and suspended solids from wastewater in the 90 tanks. This study shall, at a minimum, include settling tests and chemical analyses of the effluent from the 90 tanks, and effectively profile the contents of the 90 tanks during typical settling periods. In addition, settling tests and chemical analyses shall be conducted on representative samples of the influent to the 90's tank.

3. Within four (4) months of the date of the ORDER, respondent shall submit an appropriate and comprehensive plan to ensure that only clarified wastewater is moved from the 90 tanks to the Dissolved Air Flotation (DAF) unit of the BWT. Upon approval by EPA, respondent shall immediately implement this plan.

4. Within six (6) months of the date of the ORDER, respondent shall submit an appropriate and comprehensive plan and schedule, based on the rate of sludge production, for regular and routine removal of sludge from the bottoms of the 90 tanks and the 80 tanks. Upon approval by EPA, respondent shall immediately commence sludge removal in accordance with the approved plan and schedule. Paragraphs 2, 3, and 4 can be addressed together in a single report.

epm 080-183

5. Within two (2) months of the date of the ORDER, respondent shall submit the results of a study which effectively evaluates the flow velocity configuration in the DAF cells and compares that flow velocity configuration with design criteria for such cells. Where short circuiting or other factors which may contribute to the inefficient operation of the cells are identified, respondent shall submit with the study results, a plan for correcting such operational problems. Upon approval by EPA, the corrective action plan shall be implemented immediately.

6. Within four (4) months of the date of the ORDER, respondent shall reinstall and operate the surface and bottom scrapers of the DAF unit as originally designed. As an alternative, Alyeska may, within two (2) months, submit a plan for the design, installation, and operation of an alternative system which provides equivalent or better removal efficiencies of surface and bottom sludges than the originally designed DAF system. Whichever system is chosen shall effectively remove sludge from the DAF system. Upon approval by EPA, the alternative corrective action plan shall be implemented immediately.

7. Within two (2) months of the date of the ORDER, respondent shall submit an appropriate and comprehensive plan for treatment and disposal of the DAF and impound basin "float". Upon approval by EPA, respondent shall immediately implement such plan. This plan may include a technical evaluation of the feasibility of breaking the emulsion by introducing the DAF and impound basin "float" into the oil layer of the 80 tanks.

8. Within four (4) months of the date of the ORDER, respondent shall submit an operating procedure that ensures the transfer of only clarified wastewater from the 80 tanks to the 90 tanks. Upon approval by EPA, respondent shall immediately implement the procedure.

Form OSO-183
7-8-76 DOJ

9. Within six (6) months of the date of the ORDER, respondent shall submit the results of an engineering study which analyzes and selects an appropriate and comprehensive plan for treatment and/or disposal of system-generated sludge. Upon approval by EPA, respondent shall immediately implement the plan.

10. Within two (2) weeks of the date of the ORDER, respondent shall submit a plan describing all procedures to be followed to ensure that only separated water and not sludge or oil/water emulsions are transferred to the 90 tanks from any of the crude oil storage tanks. Upon approval by EPA, respondent shall immediately implement the plan.

11. Within the shortest reasonable time, such time not to exceed three (3) months of the date of the ORDER, respondent shall install and operate a continuous flow-weighted effluent sampler for collection and analysis of composite samples for Total Suspended Solids (TSS) and Total Organic Carbon (TOC). The equipment necessary to comply with this provision shall be ordered within two (2) weeks of the date of the ORDER. The 24 hour composite samples shall be analyzed daily. Results of these analyses shall hereafter be submitted with the monthly discharge monitoring reports.

12. Within the shortest reasonable period of time, such time not to exceed three (3) months of the date of the ORDER, respondent shall submit an appropriate and comprehensive evaluation of the placement and design of the present effluent sampling system, an evaluation of alternative methods of collecting a representative effluent sample, identification of the most effective effluent sampling system, the basis of that choice, and a plan for installing such system. Upon approval by EPA, respondent shall immediately implement the plan to install and continuously operate the alternative effluent sampling system.

13. Within two (2) months of the date of the ORDER, respondent shall submit a final quality assurance plan for all analytical methods to be employed by respondent or its agents or employees in sampling and analyzing waste streams or effluent from the BWT or any part thereof. Upon approval by EPA, respondent shall immediately implement the plan.

14. Copies of all study plans to collect information pursuant to this ORDER shall be submitted to EPA and ADEC as developed.

15. Should the various plans required in paragraphs 2 through 14 above not meet with the approval of EPA, the ORDER may be further amended to direct respondent to conduct specific actions by specific dates.

16. For the purposes of this document, the term "90 tank(s)" means tanks 92, 93, and 94. The term "80 tank(s)" means tanks 80 and 81. The term "float" means sludge that has separated from the waste stream by rising to the surface layers of the DAF unit or impound basins. The term "plan" includes, but is not limited to, design plans, modifications, proposed construction schedules, construction, and operation of new or existing equipment. The term "sludge" is defined in the original ORDER.

17. All of the requirements set out above that result in changes to the current BWT shall be continuously operated and maintained until the issuance of a new NPDES permit for the facility.

18. Submittals required by this Order shall be sent to:

U.S. Environmental Protection Agency
1200 Sixth Avenue
Seattle, Washington 98101
Attn: Water Compliance Section, M/S 513

and

Alaska Department of Environmental Conservation
437 E Street
Anchorage, Alaska 99501
Attn: Bob Martin

Nothing in this Order shall relieve respondent from fully complying with all other requirements of NPDES permit No. AK-002324-8 and any applicable federal, state, or local law.

SANCTIONS

Notice is hereby given that violation of, or failure to comply with, any of the provisions of the foregoing ORDER may subject respondent to civil penalties pursuant to Section 309(d) of the Act, 33 USC §1319(d).

DATED this 6th day of NOVEMBER, 1985.

ERNESTA B. BARNES
Regional Administrator

SECTION J

Sunday Business

Anchorage Daily News Sunday, February 2, 1986

Alyeska's oil spill controls in question

Agency reviews response plan

By PATTI EPLER
Daily News business reporter

The company that runs the busy oil shipping terminal in Valdez may lack adequate equipment and trained personnel to contain anything effectively except the smallest oil spill, according to some state environmental officials and people who have worked for the company.

The state Department of Environmental Conservation is reviewing an oil spill contingency plan filed by Alyeska Pipeline Service Co., which operates the terminal and trans-Alaska pipeline for the eight oil companies that own the facilities. The plan expired Jan. 3 and must be re-certified by the state.

DEC is to meet with Alyeska this week to go over problems. Alyeska has told the state that some problems recently have been rectified, according to two DEC officials.

Concerns expressed by DEC field officers and others familiar with the company's clean-up plan include:

- Equipment is outdated, ill-suited for Prince William Sound and faulty because it has been allowed to deteriorate over the last several years.
- A lack of trained workers to run clean-up equipment. The company once had crews assigned solely to oil spill clean-up and equipment maintenance, but the crews were eliminated when Alyeska cutback on staff. Clean-up duties have been spread among other employees who have little training and other jobs to do.
- Inadequate inspection of oil tankers by state officials due to lack of money and manpower in the DEC Valdez office. By 1984, DEC's presence at Alyeska had dwindled to the point that one field officer was prompted to write in a memo to his supervisors in Anchorage, "We can no longer ignore the routine monitoring of Alyeska unless we do not care if a major catastrophic event occurs."
- A greater risk of oil spills because of an increased iceberg flow from the Columbia Glacier. More tankers also must anchor outside the terminal and wait for a spot at a berth to take on oil cargos, delaying response time if a spill occurs.

The Alyeska oil terminal is the largest facility of its kind in the nation and one of the largest in the world.

Each day the terminal loads aboard tankers about 1.7 million barrels of crude oil — nearly one-fifth of the nation's production.

Since the terminal started operations in 1977, there have been anywhere from a dozen to several dozen oil spills, depending on which agency is counting. All of the spills have been considered small.

But a few near disasters in the last eight years have sharpened the state's interest in ensuring that every possible oil spill can be handled.

DEC has been meeting with Alyeska to discuss problems that have become apparent to the state during mock spill drills, visits to the terminal and information supplied by employees. Alyeska also has raised issues of its own, said Paul O'Brien, DEC's oil spill program manager.

The two main concerns center on equipment and personnel — what type of equipment does Alyeska have, does it work, is it accessible and can people operate it, he said.

"Can the plan be executed in the field? That's really the bottom line for all contingency plans, whether it be Alyeska's or an exploratory rig in the Beaufort Sea," O'Brien said. "You can have a great document sitting on the shelf, but can it be executed?"

Alyeska believes it can. "We consider that Alyeska's oil spill response plan is one of the best and most comprehensive of its kind, and, based on the record of successful responses under the plan, we feel its effectiveness has been demonstrated," said John Ratterman, a spokesman for the pipeline company.

He said Alyeska trains people for oil spill response, and drills are held periodically to test and enhance the equipment and skills of workers.

Ratterman declined to be more specific about the number of people now assigned to oil spill response compared with the past, or about what type of training is given and how often. He also declined to address specific concerns about equipment.

He said Alyeska will meet with DEC again this week to answer some of its questions. "We do not feel it is appropriate to comment in any greater detail about our oil spill capability or about the meetings with the state while the state's review of the plan is continuing," he said.

The Coast Guard also thinks Alyeska has done a good job responding to spills at the terminal and in the port, said Coast Guard Lt. Cmdr. Robert Diaz of the marine safety office in Valdez.

He noted that the spills have been minor to date, and he said the company has the equipment and staff to respond at least initially to a larger spill. "It's hard to guage without a large spill actually occurring," Diaz said.

"Alyeska is not just thrown to the wolves" in the event of a large spill, he said. Other clean-up groups and equipment from Alaska and the Lower 48 would be called in to help, he said.

But Alyeska is expected to handle the smaller spills and provide a first response to larger spills, said DEC's O'Brien.

O'Brien said he's sure Alyeska can get to a spill with the equipment it has. But the state wants assurance the equipment will work and the people will know how to use it in light of concerns raised by DEC's own staff and problems evident during mock drills, he said.

The most recent drill monitored by the state was in September. Theresa Svancara, of DEC's Valdez office, reported that some workers were unfamiliar with equipment and didn't know how to do their assigned tasks. A list of people to be called in case more help was needed was outdated and useless, she said.

Some equipment did not work properly and Alyeska was unwilling to test some procedures fully, Svancara wrote in a report of the drill. For example, she said, a hose to pump some of the "spilled oil" was not deployed fully because an Alyeska supervisor "said it would be too much work to roll it up again."

"This type of attitude is not conducive to testing equipment to learn if it will work in various spill situations," Svancara said.

"This spill drill, along with the one attempted (in 1984), pointed out the inadequacies in Alyeska's equipment and response capabili-

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> *"We can no longer ignore the routine monitoring of Alyeska unless we do not care if a major catastrophic event occurs."*
>
> — DEC field report



Tugs tow floating booms through an oil slick in waters outside Alaska. So far, there have been no major spills at the Port of Valdez.



Alyeska Pipeline Co. photo

An Alyeska crew maneuvers a containment boom into position during a training session near the terminal.

Alyeska meets with DEC this week on oil spill response plan

Continued from Page J-1

ties," she said.

Dan Lawn, DEC's supervisor in Valdez, added this comment to Svancara's report: "The performance by Alyeska during this spill was similar to other drills the department has observed in the past. Again, there appears to be little or no improvement."

A report of the 1984 drill, written by a federal Environmental Protection Agency official, said the drill showed that the type of equipment used by Alyeska may not be suitable for conditions in Port Valdez.

An oil containment "boom" — an inflatable barrier used to corral oil and keep it from spreading — sank because of a faulty design that allows strong currents to push it over, the EPA report said.

The EPA report also questions the adequacy of training and said "it appears that Alyeska did not treat this exercise as a realistic spill event."

About 35 tankers call at Port Valdez each month, leaving with hundreds of millions of gallons of crude oil bound for refineries in the Lower 48.

The Coast Guard recently told Alaska Sen. Frank Murkowski's office that since 1977 there have been 19 spills totaling about 8,600 gallons of oil.

Alyeska said there have been 12 spills of oily ballast water or crude oil since 1980 that have been more than 40 gallons in size. The largest tanker incident was the ARCO Alaska in 1984 and amounted to about 2,830 gallons, Ratterman said.

DEC's Baylies testified at the Washington hearing that from 1977-79 there were at least 47 spills, and one alone was 1,500 gallons. Baylies noted that most of the tanker spills before 1980 were just a few gallons each.

But the threat of a major spill is real. Last month, a tanker loaded with Alaska crude oil on its way from Valdez to an Outside refinery apparently ran aground in Port Angeles, Wash. Nearly 200,000 gallons of oil spilled from a rupture in the vessel's tanks, killing nearly a thousand waterfowl and shorebirds and threatening sensitive marine habitats. A slick of the thick oil stretched for miles and fouled beaches. Clean-up costs have been estimated at $3 million.

DEC's O'Brien said there have been a couple of close calls in Prince William Sound.

In 1980, a tanker laden with 35 million gallons of crude oil lost all power as it was outbound from Valdez, according to testimony in 1981 by then-DEC field officer Randy Baylies. He was testifying before a Washington state council reviewing a plan for marine terminal operations in Port Angeles.

The fully loaded tanker was adrift and out of control for 17 hours. When the tanker finally regained power, it had drifted 26 miles and was less than 30 minutes from breakup on a rocky shoal at the northern end of Prince William Sound, Baylies said.

Tugs surrounded the tanker but could not get a line on it because of high waves and lack of equipment on the tanker, Baylies testified.

That near-mishap resulted in a change in Alyeska's oil spill contingency plan, O'Brien said. When the plan was recertified in 1983, it required tankers to have a "quick-connect" towing system so tugs can hook up to the giant vessels if propulsion systems fail, he said.

More recently, DEC staff members have become increasingly concerned that staff cutbacks and an apparent cost-cutting campaign by Alyeska could lead to serious problems in the company's ability to handle oil spills.

In May 1984, Lawn wrote a four-page memo to his supervisors in Anchorage detailing the situation.

"Over the past several months, there has taken place a general disembowelling of the Alyeska Valdez Marine Terminal operational plan," the memo said. "Not only have there been severe personnel cuts, but operational plans and routine maintenance have been reduced drastically."

Lawn pointed out that DEC has not been able to inspect the facility adequately because of lack of money and staff. "Unfortunately, this has been a signal to Alyeska that the state is no longer interested" in the pipeline project, he said.

Specifically, Lawn reported that many newer tankers had entered the Valdez trade and had never been inspected. The number of tankers calling at Port Valdez also had increased, he said.

But with the increase in shipping came a decrease in the number of persons assigned to marine operations, he said. At one time, there was a minimum of 14 people per shift, with two assigned to each loading tanker. By 1984, the number had dropped to an average of 11 people per shift with one person per tanker, Lawn said.

Lawn also criticized the cutback in workers on oil spill clean-up crews. He said the crews used to number four people per shift and were assigned only to oil spill clean-up.

In 1984, the number of people trained in oil spill response had been cut to two or three per shift and they were assigned other duties besides clean-up, he said.

Lawn warned that equipment was becoming outdated and training programs reduced. "The reliability of certain equipment is questioned, especially in a major spill situation," he said.

Lawn also said chances for oil spills were increasing because of an increased iceberg flow from the Columbia Glacier. An industry study in 1983 said there was no way to predict when ice from Columbia Bay, near the entrance to Valdez Arm, would move into shipping lanes, and vessels have refused to move through the area when it's dark, he said.

Tankers waiting for berth space have been forced to anchor several miles from the terminal and wait up to 100 hours before being able to take on oil, he said, adding that crews would not be able to respond to a spill as quickly.

Dave Decker, a Laborers Local 341 member who headed an oil spill crew for several years, echoed Lawn's concerns. Several other former and current Alyeska workers agreed with Lawn and Decker's assessment of the situation at the terminal.

The former workers, who requested anonymity, all had been laid off or fired. The current employees did not want their names used for fear of losing their jobs.

Decker worked at the terminal from 1979 until September 1984. He said he worked first for the contractor that provided oil spill clean-up crews, then in 1982 he stayed on as a union laborer when Alyeska eliminated the designated clean-up crews. Union laborers continued to respond to oil spills while performing routine maintenance throughout the terminal, he said.

Decker said while his crews were at the terminal, they tried to keep oil spill equipment in good shape. "But Alyeska never kept up with the technology of equipment," he said. "They depleted rather than upgraded it."

James Woodle, former marine superintendent and port captain for Alyeska, also expressed concern over cutbacks that seemed to result in an inability to handle a sizeable oil spill. Woodle was a 25-year veteran of the Coast Guard when he went to work for Alyeska in 1982, and had been commanding officer of the Coast Guard's Valdez office where he was responsible for oil spill clean-up operations from the regulatory side.

He was fired from the pipeline company in 1984 for insubordination. He declined to talk about his experience there because he has filed a lawsuit against Alyeska over his termination.

But a letter Woodle wrote to Alyeska soon after his departure outlines his concerns over several aspects of terminal operations, including oil spill response capabilities.

"Due to reduction in manning, age of equipment, limited training opportunities and lack of experienced coordination personnel, serious doubt exists that Alyeska would be able to contain and clean up effectively a medium or large-size oil spill," Woodle wrote.

He said proposed training was approved in theory but personnel never were sent to training programs. Cost-cutting measures limited purchase of new equipment, he said.

Unsafe Harbor 2/20/86

Alaska Pipeline Firm Is Accused of Polluting Sea Water Since 1977

Alyeska Documents Support Claims of Lax Procedures At Water-Treating Plant

Company Insists It Complies

By Andy Pasztor and Robert E. Taylor
Staff Reporters of The Wall Street Journal

First, federal inspector Dianne Soderlund noticed a layer of brownish scum on water ready to be discharged into Valdez harbor from the trans-Alaska oil pipeline's water-treatment plant. Later, when she spotted an oil slick at the same location, suspicion turned to alarm.

"It appears," she concluded, "there are significant operational problems at the facility." The plant is supposed to screen out oil and toxic pollutants from huge quantities of ballast water poured into the harbor by tankers as they queue up at the pipeline terminal to load crude oil at the feet of majestic, snow-shrouded peaks.

But evidence is piling up that the plant hasn't been doing its job effectively and that sludge containing toxic pollutants isn't properly removed from water that the plant discharges back into the harbor.

Larger Questions

The preliminary warning from Ms. Soderlund to the Environmental Protection Agency came 17 months ago. Since then, a flurry of federal and state investigations has shaken public confidence in the pipeline's management and forced it to make costly improvements. The revelations also raise larger questions: Can state and federal officials adequately monitor pollution from such large, complex facilities? And why did it take them so long to act in this case?

Investigators have uncovered a history of questionable plant actions since the 1977 opening of the pipeline's huge southern terminal in Valdez, Alaska, which currently supplies roughly 15% of total U.S. oil needs. And the scrutiny is far from over. Still under investigation are the reasons why some pollution-control devices designed for the plant were never installed and others were disconnected or modified without notification to the EPA.

State probers are looking into further allegations of such criminal violations as submission of fraudulent environmental test results and false testimony to government regulators about potential hazards. Internal company documents show that some pipeline officials years ago suspected that the plant posed potential environmental hazards, but federal and state regulators contend that management failed to take steps to resolve the deficiencies until it was ordered to do so in the past few months.

Improprieties Denied

Alyeska Pipeline Service Co., which operates the pipeline for eight major oil companies, says that it has complied with all anti-pollution laws and that all allegations of record-tampering, improper discharges and other improprieties are unfounded. It calls the pipeline terminal's ballast-water treatment plant "probably the best and most modern" facility of its kind in the industry, arguing that the criticism is fanned by misunderstanding of plant operations.

The focus of all this attention is a sprawling complex of giant tanks and miles of piping designed to remove and dispose of harmful pollutants contained in the roughly 13 million gallons of ballast water discharged by tankers daily. Empty tankers take on ballast water for added stability on the voyage to Valdez, then pump it out to take on crude oil destined for the lower 48 states.

An EPA administrative order issued last summer accuses Alyeska of violating the treatment plant's water-discharge permit by systematically recirculating potentially harmful sludge. A second compliance order was issued in conjunction with Alaska's Department of Environmental Conservation. Government officials contend that transfers of oily water and sludge from tank to tank within the plant allowed high levels of potentially harmful pollutants to build up in the system over the years and flow unnoticed to the bay.

'Serious Threat'

Ihor Lysyj, the main consultant hired by the EPA, recently reported to the agency that the plant's deficiencies allow "uncontrolled quantities" of toxic pollutants to enter the harbor. He also informally told the agency that such pollution presents an "imminent and serious threat to the environment."

Mr. Lysyj, one of the country's leading experts on ballast-water treatment, estimates that the plant currently spews 1,600 pounds of pollution into the harbor every day, including "extremely toxic and hazardous substances." Assuming that that rate has remained steady since the pipeline began operations more than eight years ago, he calculates, the plant may have released enough potentially hazardous sludge to cover completely about four football fields three feet deep.

The EPA's consultant compares Alyeska's sludge-handling procedures to "vacuuming your house, dumping all the collected dust back on the carpet and then starting the whole process over again." Federal and state regulators are conducting tests to determine how much of the sludge ends up in the rich fishing grounds of Prince William Sound and whether there has been any damage to marine life.

Although pipeline executives deny vio-

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Unsafe Harbor: Pollution of Ocean By Alaska Pipeline Firm Is Charged

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lating any laws, they clearly are on the defensive. Under pressure from state and EPA officials, Alyeska appears to be spending millions of dollars to revise operating procedures, install new pollution controls and upgrade laboratory equipment at the treatment plant. The company also has promised to take additional steps that may be necessary to comply with what are likely to be more-stringent requirements for a new federal permit for continued operations at Valdez.

But local fishermen and some environmental groups complain that the state and EPA officials still haven't gone far enough. "The regulators did a very poor job over the years by failing to devote the necessary attention and expertise to supervise plant operations," contends Robert Blake, the president of the Cordova District Fishermen United and one of Alyeska's sharpest critics.

Budget Pressures

Some state and federal enforcement officials concede that budget pressures, staff shortages and the press of other business contributed to the problem. Harold Geren, the regional chief of the EPA's water-pollution-control programs, recalls hearing concerns from his staff about the adequacy of the treatment plant as far back as 1981. But work on permits for pulp mills, offshore oil rigs and other facilities, Mr. Geren says, diverted attention from Alyeska. "We've been hard-pressed keeping permits issued promptly," he says.

The original design called for the plant to remove sludge from the system and burn it in a large incinerator. But Alyeska never constructed the incinerator and says it wasn't legally required to do so. A spokesman says the company decided it was unnecessary because the amount of sludge produced in the beginning was less than anticipated. Alyeska has said it segregated and stored only 450 cubic yards of the stuff since operations began in 1977. Also, under standard procedure, some is channeled into outgoing crude oil.

State and federal officials argue that much more sludge than that should have been removed. They say its recovery was impaired by operating and equipment changes, many of which Alyeska made without the notification that EPA officials say is required. For instance, the company substituted small, paddlewheel skimmers for the large, sweeping arms designed to skim oily scum off the surface of one set of tanks; and it stopped using equipment designed to scrape sludge off the bottom of the same tanks and to heat water to separate it from oil.

Effectiveness Unimpaired?

Alyeska has told federal investigators that such changes didn't reduce the plant's effectiveness. But pipeline officials refuse to answer questions from The Wall Street Journal or discuss specifics until their discussions with the EPA are completed. Company officials previously said many of the changes were intended to reduce costly maintenance problems. The company says it has fully complied with its water permit by generally curbing the plant's releases of oil, grease and three other oil-related pollutants specifically limited by the permit.

Investigators counter that the plant must be operated as efficiently as possible to remove all pollutants—regardless of whether they are explicitly mentioned in the permit. "There isn't any question that the practices we found are unacceptable, and they are violations of federal permit requirements," asserts Jamie Sikorski, former head of the EPA's clean-water compliance office for the region.

William Lamoreaux, a state environmental official who helped draft the plant's original operating permit, agrees. He says that a sludge pit, originally intended for temporary storage of wastes awaiting incineration, had been converted so that waste material was routinely pumped directly back into the ballast-water treatment tanks. Such recirculation of sludges was "never approved or contemplated by anyone involved at the beginning," Mr. Lamoreaux asserts.

For its part, Alyeska told the EPA in 1982 that toxic pollutants not specifically limited by the permit were found "in concentrations so low as to pose no possibility of significant or deleterious effects" on the port.

Earlier Documents

Nevertheless, company concerns about the amount of sludge generated by the plant—and what to do with it—have surfaced in internal Alyeska documents written at least as far back as 1978. In that year, the terminal's then superintendent, F.C. Jones, wrote a letter to engineers at Exxon Corp., one of the eight owners of the pipeline, complaining that the treatment plant "does not provide any facility to remove solids" and asking for their help in solving the problem. The letter went on to say that while some of the materials "exit in the water effluent," the plant's "high recirculation rate of solids is currently interfering in" the system's overall operation.

State and federal investigators are examining the letter, which was obtained separately by The Wall Street Journal along with other Alyeska documents on the plant. Exxon officials say they don't know what their company did in response to the letter. Alyeska documents say that an Exxon official studied the plant, found that the sludge disposal would cost at least $1.5 million annually and urged instead that more oily waste be diverted into crude oil destined for outgoing tankers.

In December 1978, an internal memo from plant operators estimated that "solids have accumulated at a rate of 1 to 2 tons per day (dry basis)," which, if accurate, would be far more than Alyeska has claimed to have separated and stored. State and federal regulators say that the company appears to be leaning toward building an incinerator at the treatment plant to dispose of stored sludge.

State officials also are investigating the adequacy of the pipeline's contingency plans for an oil spill. The EPA and congressional investigators are looking into allegations that Alyeska improperly used the treatment plant to dispose of some chemical wastes that didn't come from ballast water. And the state's attorney general has collected documents relating to Alyeska's earlier statements about sludge-handling and to the question of whether some plant workers may have been improperly exposed to harmful chemicals over the years.

Broker's Role

Some of the documents that investigators are using were obtained by Charles Hamel, an independent oil-transportation broker from Alexandria, Va. He has spearheaded criticism of Alyeska's management after contending that he suffered losses on some oil shipped through the pipeline that allegedly contained excess water. His allegations indirectly led to questions about the pollution-control practices at the plant, alerted Alaskan newspapers about the plant's apparent problems and prompted the EPA and the state to step up their investigations.

Investigators also have testimony from several former Alyeska employees claiming that their bosses encouraged or told them to tamper with pollution tests, report incorrect data and engage in other improper activities at the plant.

In sworn testimony to the Alaska Public Utilities Commission, Erlene J. Blake, a former plant laboratory technician, last year alleged it was "standard operating procedure at times" to "alter" such records. She told utility regulators that she was instructed to provide false reports to the EPA when the volume of treated water flowing into the bay exceeded maximum federal limits.

James Woodle, a former marine superintendent at the terminal, told the utility commission that "problem areas were masked and records modified" to suggest normal conditions at the treatment plant. Mr. Woodle also testified that plant operators were under instruction to disregard required safeguards if necessary in order to deal with unusually heavy incoming ballast flows. The operating principle, he said, was, "Just empty the tanks and make room."

Mr. Woodle is suing Alyeska, alleging that he was unfairly forced to leave the company before the investigations started. The company won't comment on the pending litigation.

Bill Ross, Alaska's top environmental official, several months ago confirmed that state officials, "working in concert with" the EPA, are conducting interviews and combing through Alyeska files to determine "whether any criminal violations may have occurred."

Many questions about the "sludge problem" at Valdez remain unanswered. But even the preliminary conclusions reached so far worry many scientists. David Shaw, a professor at the University of Alaska's Institute of Marine Sciences, who has studied Valdez harbor for Alyeska since the late 1970s, says of the increasing pollution on the sea bottom there: "I'm concerned it could be the tip of a serious problem."

Alyeska files show sludge problem

By PATTI EPLER
Daily News business reporter

Alyeska Pipeline Service Co.'s wastewater treatment plant in Valdez was producing so much toxic sludge two years after it started up that plant operators asked for Outside help to deal with the problem, according to documents from Alyeska's files.

The documents appear to directly contradict more recent statements by Alyeska officials that the plant has generated little sludge in more than eight years of operation.

The documents also indicate that at least two of the oil companies that own Alyeska advised it years ago that the plant wasn't working as well as anticipated and suggested ways to improve it. British Petroleum said in 1979 it was unlikely the plant could comply with new environmental permits.

But Alyeska apparently rejected those opinions and listened instead to experts who told them the plant was operating well, the documents indicate. The experts included a chemist with The Standard Oil Co. — the largest owner of the Alyeska facilities — and an environmental engineer for Alyeska.

The documents include reviews of the plant by oil company scientists, letters to and from Alyeska officials, minutes of high-level meetings and internal company memos. They tell a much different story — at least about

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ALYESKA: Files show sludge problem

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the plant's first few years of operation — than Alyeska officials have told the public and government agencies for the past year.

Most of the documents were obtained by Charles Hamel, a former Virginia oil shipper who has waged a private war against Alyeska for the past five years. Hamel blames the pipeline company and its owners for the loss of his lucrative oil shipping business. He recently gave numerous documents to the government agencies investigating Alyeska and to the news media.

Alyeska officials are unwilling to answer questions about the documents, explain apparent discrepancies in recent public comments, or discuss operation of the plant.

"We continue to maintain that it would be inappropriate for us to pre-empt the investigations of the Environmental Protection Agency and the Alaska Department of Environmental Conservation by responding to inquiries from the news media," said John Ratterman, spokesman for Alyeska. He said the company has responded fully to questions from the agencies.

Frank Turpin, who was president of Alyeska from 1978 until last year when he became head of the state-owned Alaska Railroad, could not be reached for comment on Friday. Most of the documents pertain to the years in which Turpin headed Alyeska.

Alyeska operates the Valdez terminal and trans-Alaska pipeline for the eight oil companies that own the facilities. The owners are Standard Oil, British Petroleum, Atlantic Richfield, Exxon, Mobil, Union, Phillips and Amerada Hess.

The environmental agencies are investigating allegations that Alyeska has discharged large amounts of toxic waste — called sludge — into Port Valdez. The sludge contains concentrated poisonous hydrocarbons that in sufficiently large quantities could damage the marine environment. For that reason, the amount of sludge produced by Alyeska — and its disposal — is a crucial question for the agencies.

The EPA and DEC have said they are convinced that the plant has produced much more sludge than Alyeska acknowledges. They are awaiting the results of tests to help them determine whether excessive, and illegal, amounts of sludge have been discharged into the bay.

Alyeska contracted to have the University of Alaska-Fairbanks conduct those tests.

Last July, EPA concluded that the way Alyeska ran the plant violated some conditions of its environmental permits. In November, it ordered Alyeska to make improvements in the treatment system that are likely to cost millions of dollars.

The primary purpose of the treatment plant is to clean the oil from about 13 million gallons of water brought to Valdez each day as ballast on oil tankers. The water stabilizes the ships on voyages from the Lower 48. Residual oil in the tankers mixes with the ballast water and must be removed before the water can be pumped back into the sea.

Sludge is a byproduct of treating ballast water. The treatment separates the oily water into three basic elements: crude oil, clarified water and sludge or waste.

Last year, Hamel, the former oil shipper, publicly accused Alyeska of piping sludge into the waters of Prince William Sound. In denying the allegation, Alyeska said that in eight years the plant had produced only 400 cubic yards, roughly 344 tons, of sludge. Almost all the sludge has been stored at the plant while Alyeska figures out how to dispose of it, company officials said.

They acknowledged that original plans for the plant called for construction of a huge incinerator to burn sludge, but it was never built, they said, because the plant never produced as much sludge as the engineers had predicted.

But a 1979 report by Exxon Research and Engineering Co., a separate review of the plant by British Petroleum and internal Alyeska memos say the plant was producing sludge and solid wastes in large enough quantities to hinder the treatment of ballast water.

In its first years of operation, the treatment process used a substance called alum to capture oily particles and separate them from the ballast water. The company soon realized that the powdery alum contributed to the large volume of solids. It switched to a liquid chemical that served the same purpose. But specialists from Exxon and British Petroleum believed the plant was continuing to produce large amounts of sludge.

On Sept. 20, 1978, F.C. Jones, at the time Alyeska's terminal superintendent, wrote to Exxon Research asking for help with the sludge problem:

"The present ballast water treatment plant design does not provide any facility to remove solids," Jones wrote. He said "a high recirculation rate of solids is currently interfering" with the water treatment and oil recovery processes.

A memo from Jones three months later said the solids appeared to accumulate at the rate of a ton or two a day.

In February 1979, G.W. Grove of Exxon Research wrote Alyeska with the results of his review of plant operations. He offered several suggestions for getting rid of the sludge, including incineration.

Grove calculated that the plant would generate at least 450 barrels of sludge, about 70 tons, each day "whether alum is used or not." Grove's estimate of sludge production is 500 times greater than Alyeska says was actually the case.

The cost of disposing of the sludge in 1979 was at least $2 million a year, Grove wrote. Incineration in Valdez could cost more than $6 million a year, perhaps less if water were removed before the sludge was burned, he said.

Ratterman, the Alyeska spokesman, refuses to discuss the incinerator or why it wasn't built. But minutes from a September 1978 Alyeska meeting show that the company was concerned about the costs of sludge disposal.

Grove suggested that the best sludge disposal method might be to inject it into the recovered crude oil bound for Outside refineries. He also examined the idea of barging sludge to the Lower 48.

In December 1979, British Petroleum engineers wrote another report on the treatment plant for Alyeska, and suggested a study of solids and sludge "problems" with a goal of eliminating "the recent build-up of solids."

Moreover, BP was critical of the fact that Alyeska didn't let incoming ballast water sit long enough to allow crude oil to float to the top and sludge to sink to the bottom of its holding tanks.

At the time, BP was operating a similar facility in Scotland.

T. Pytel, a BP scientist, wrote that "it is thought unlikely that the existing effluent treatment facilities will be able to produce results compatible with the proposed new effluent limit . . ." The effluent limit was a condition of a new permit Alyeska was about to receive from the EPA in 1980. Pytel recommended that Alyeska look for better treatment methods.

Alyeska officials won't say why the BP and Exxon recommendations weren't followed.

In fact, in January 1980, about a month after BP submitted its review, an Alyeska official dismissed most of BP's concerns.

In 1980, Dick Mikkelsen, now Alyeska's chief environmental specialist, said he had been told by other Alyeska officials that the problem with sludge build-up had stabilized since use of alum had stopped.

"Before Alyeska commits to an expensive solids handling or (sic) removal system, I would suggest that we carefully study the extent of the problem," Mikkelsen wrote in a memo to one of his superiors.

BP's belief that the treatment plant would not be able to meet new federal permit requirements was unfounded, Mikkelsen said. He cited test results he said showed that the effluent was well within limits set out in the permit.

Still, two months later Mikkelsen was looking for ways to dispose of a lot of watery sludge.

A March 1980 memo from Mikkelsen recounts his conversations with a Kenai Peninsula company about disposing of 20,000 to 25,000 barrels, about 6,500 tons, of "sludge and oil/water emulsion" that had settled to the bottom of the tanks holding recovered crude oil. That's about 10 times more sludge — after 2½ years of operation — than Alyeska says has been generated since 1977.

In the summer of 1980, Alyeska again had the treatment plant evaluated, this time by The Standard Oil Co. The study found that the plant was complying with its permit "99.9 percent" of the time.

The report does not address the question of sludge accumulation or disposal.

Pipeline owners quiet

By PATTI EPLER
Daily News business reporter

As much as possible, the eight oil companies that own Alyeska Pipeline Service Co. and its facilities have tried to keep Alyeska and its problems at a distance.

Officials with the owner companies — usually helpful and willing to talk about other issues like taxes and local hire — are steadfastly closed-mouthed about their Valdez oil shipping terminal and allegations that it is polluting Valdez bay.

Alyeska officials are the only people who can talk about Alyeska operations, said Perry Smith, a spokesman for Exxon Pipeline Co. "That's what Alyeska is for."

Exxon Pipeline Co. owns 20.3 percent of Alyeska.

"Our position remains that Alyeska is the operator for the plant," said Al Greenstein, an Atlantic Richfield Co. spokesman in Los Angeles.

An Arco official — Hi Bond — chairs the "owners' committee" that closely oversees Alyeska. Arco Pipeline Co. owns 21.23 percent.

Greenstein reiterated Alyeska's position that it won't comment on the treatment plant while government agencies are investigating.

"We have full confidence in Alyeska," Greenstein said.

Chuck Webster, a spokesman for The Standard Oil Co. in Cleveland, also declined to discuss Alyeska. Standard Oil owns the single largest share of Alyeska, with 33.34 percent.

BP Pipelines Inc. owns 16.96 percent of Alyeska. British Petroleum also owns 55 percent of Standard Oil, but BP officials say that doesn't mean BP has any more control over Alyeska.

Officials at the company's New York headquarters also refused to talk about Alyeska.

Ed Heffman, a Mobil Oil Corp. official and member of the Alyeska owners' committee, also declined to elaborate on the committee's feelings about the allegations of pollution. He said the committee meets periodically and occasionally inspects the facility in Valdez.

"We have a lot of faith in Alyeska," Hoffman said.

He said Mobil is a minor owner of the pipeline company and doesn't have the involvement the larger owners do. Mobil Alaska Pipeline Co. owns 4.17 percent of Alyeska.

"I can tell you this," he said. "I'm not aware of any sludge problem."

Other owners include Union Alaska Pipeline Co., 1.3% percent; Phillips Alaska Pipeline Corp., 1.39 percent; and Amerada Hess Pipeline Corp., 1.5 percent.

Journal article relates Alyeska's pollution ills

Pollution problems at Alyeska Pipeline Service Company's Valdez tanker terminal made national news today in a lengthy front-page article in the Wall Street Journal.

The article, headlined "Unsafe Harbor—Alaska Pipeline Firm Is Accused of Polluting Sea Water since 1977," contains relatively little that is new to Alaska readers. Instead, it summarizes the lengthy list of charges, countercharges, investigations, findings and denials that has been growing since Alaska newspapers began reporting on the situation at Valdez a year ago.

Problems at Valdez were brought to the attention of the Environmental Protection Agency 17 months ago, the Journal reported, after federal inspector Dianne Soderlund noticed a layer of brownish scum on water about to be pumped into the ocean from Alyeska's ballast water treatment system. Later, she noticed an oil slick at the same location.

The ballast water treatment system is intended to clean oily wastes out of the seawater that tankers carry to stabilize themselves as they head north to pick up crude oil at the Valdez terminal.

There is evidence that the treatment system isn't working right and that toxic sludge isn't properly removed from the water the plant sends into Valdez harbor, according to the Journal.

Alyeska did not respond to the News-Miner's request this morning for a comment on the article, but the article says Alyeska has denied any wrongdoing or improper discharges at the plant.

Ihor Lysyj, a ballast water expert hired as a consultant by the EPA, estimated the plant spews 1,600 pounds of pollution into the water every day, enough sludge to cover four football fields to a depth of three feet if the rate has been constant since operations began in 1977. Tests are under way to determine how much of the sludge has ended up in the rich fisheries of Prince William Sound and whether it has damaged marine life there.

Among the other revelations by the Wall Street Journal:

- Under investigation are the reasons why some pollution-control devices for the plant were never installed and why others were disconnected or modified without notice to the EPA;
- State officials are examining charges that fraudulent environmental test results were submitted and false testimony was given to government regulators about potential hazards;
- Internal Alyeska documents show that pipeline officials suspected years ago the plant might pose environmental hazards, but state and federal officials contend the company did nothing about it until it was ordered to do so a few months ago;
- Federal officials are studying whether Alyeska improperly used treatment system to dispose of chemical wastes that didn't come from ballast water;
- Alaska's attorney general is collecting documents about whether plant workers may have been exposed to harmful chemicals.

Anchorage Daily News

SCOMM

#46:12

IN THE HOUSE -- Offered: 1/13/86
Referred: House Special Committee on Oil and Gas and Resources

IN THE SENATE - Offered: 1/13/86
Referred: Resources

EXECUTIVE ORDER NO. 61

Under the authority of art. III, sec. 23, of the Alaska Constitution, and in accordance with AS 24.08.210, I order the following:

* Section 1. FINDINGS. As governor, I find that it would be in the best interests of efficient administration to transfer the Alaska Royalty Oil and Gas Development Advisory Board from the Department of Commerce and Economic Development to the Department of Natural Resources.

* Sec. 2. AS 38.06.020 is amended to read:

Sec. 38.06.020. ESTABLISHMENT. There is established in the Department of Natural Resources [COMMERCE AND ECONOMIC DEVELOPMENT] the Alaska Royalty Oil and Gas Development Advisory Board.

* Sec. 3. This Order takes effect March 15, 1986.

DATED: Jan 10, 1986.

Bill Sheffield
Governor

BILL SHEFFIELD
GOVERNOR

STATE OF ALASKA
OFFICE OF THE GOVERNOR
JUNEAU

January 13, 1986

The Honorable Ben Grussendorf
Speaker of the House
Alaska State Legislature
P.O. Box V
Juneau, AK 99811

Dear Representative Grussendorf:

Under the authority of art. III, sec. 23, of the Alaska Constitution, and in accordance with AS 24.08.210, I am transmitting an executive order relating to the Alaska Royalty Oil and Gas Development Advisory Board. This order transfers the board from the Department of Commerce and Economic Development to the Department of Natural Resources.

In 1974, in response to the concern that the sale of royalty oil and gas should be made with substantial public involvement, the board was established within the Department of Natural Resources as the mechanism for providing that public review. At that time, the board was given significant controls over the discretion of the commissioner of natural resources to dispose of the state's royalty oil and gas, including the power to veto proposed contracts.

In 1980, the royalty statutes were amended. Partly because of friction between the board and the commissioner of natural resources, the board was transferred to the Department of Commerce and Economic Development, and its powers were substantially reduced. Its primary role since the 1980 amendments has been to hold public hearings on, evaluate, and advise the commissioner of natural resources and the legislature regarding proposed dispositions of the state's royalty.

In 1984, in response to the need for fiscal belt tightening, funding for the board was eliminated from the FY 85 budget of the Department of Commerce and Economic Development.

Without funding, the board could no longer retain its full-time staff -- an executive director and secretary. In their absence, the Department of Natural Resources has provided the necessary money and staff support to enable the board to fulfill its statutory review functions. Because of this close working relationship between the board and the Department of Natural Resources, and because the board's primary responsibilities are most closely related to the functions of that department in disposing of the state's royalty, I am convinced that it would be in the best interests of efficient administration to transfer the board back to the Department of Natural Resources.

The transfer has the support of the commissioners of natural resources and commerce and economic development, and the royalty board's other members. In addition, transfer of the board from the Department of Commerce and Economic Development to the Department of Natural Resources was included in HB 366, introduced in the 1985 session by the House Special Committee on Oil and Gas.

Sincerely,

Bill Sheffield

Bill Sheffield
Governor

Sec. 24.08.110. Bills carry over. A bill introduced but not receiving final action in the first regular session of a legislature carries over in the same reading or status into the second regular session of the same legislature. (§ 40 ch 157 SLA 1959)

Revisor's notes. — Formerly AS 24.30.120. Renumbered in 1985.

Article 2. Constitutional Amendments and Executive Orders.

Section
200. Constitutional amendments
210. Executive orders

Sec. 24.08.200. Constitutional amendments. The legislature may propose amendments to the state constitution through the adoption of a joint resolution by an affirmative vote of two-thirds of the membership of each house. Resolutions proposing constitutional amendments shall be treated as bills. (§ 41 ch 157 SLA 1959)

Revisor's notes. — Formerly AS 24.30.130(a). Renumbered in 1985.

Sec. 24.08.210. Executive orders. An executive order proposing a change in the executive branch and requiring the force of law under art. III, sec. 23, Constitution of the State of Alaska shall be submitted to the presiding officer of each house on the day the house organizes. The legislature has 60 days of a regular session, or a full session if of shorter duration to disapprove the order. Unless disapproved by a special concurrent resolution introduced in either house, concurred in by a majority of the members in joint session, the order becomes effective at a date thereafter to be designated by the governor. An order submitted to but not disapproved by the legislature shall be published in the bound session laws and any codification of state law. (§ 12 ch 47 SLA 1961)

Revisor's notes. — Formerly AS 24.30.130(b). Renumbered in 1985.

Article 3. Filing, Pri

Section
300. Delivery by governor
310. Filing and effect

Collateral references. — 73 Am. Jur. 2d, Statutes, §§ 84-86.
82 C.J.S., Statutes, §§ 60-63.

Sec. 24.08.300. Delivery by signed a bill or allowed it to b signature, and when the governor governor's office is to deliver the c resolution to the executive directo The director shall sign for each b been photographed for duplicatior the office of the governor. (§ 7 ch 1973)

Revisor's notes. — Formerly AS 24.35.010(a). Renumbered in 1985.

Sec. 24.08.310. Filing and eff file the original enrolled copies o executive orders having the effect governor to the legislature and th documents shall be kept on file fo executive orders having the force ments to or replacement pamphlets facie a part of the Alaska Statutes. 32 SLA 1971)

Revisor's notes. — Formerly AS 24.35.010(b). Renumbered in 1985.

Sec. 24.08.320. Session laws. T responsible for arranging for the p distribution of the laws of each ses have the slip law copies of the en quantity for one complete set to be the publication of supplements to t sioner of education is to receive su official state distribution and the co distribution on the basis of product 157 SLA 1959; am § 7 ch 47 SLA 19

STATE OF ALASKA 1986 LEGISLATIVE SESSION
FISCAL NOTE

EO 61 #1

Revision Date : _____

REQUEST 377-0168

Bill/Resolution No. : Executive Order
Title : Transfer Royalty Oil Board from Dept. of Commerce to Dept. of Natural Resources
Sponsor : Governor
Requestor : Governor
Date of Request : 12-31-85

FISCAL DETAIL

Agency Affected : Natural Resources
BRU : Oil and Gas

Components : Petroleum Management

EXPENDITURES/REVENUES : (Thousands of Dollars)

OPERATING	FY 86	FY 87	FY 88	FY 89	FY 90	FY 91
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	-0-	-0-	-0-	-0-	-0-	-0-
CAPITAL						
REVENUE						

FUNDING : (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER						
TOTAL	-0-	-0-	-0-	-0-	-0-	-0-

POSITIONS :

FULL-TIME	-0-					
PART-TIME	-0-					
TEMPORARY	-0-					

ANALYSIS : Attach a separate page if necessary

Minimal additional administrative expense will be absorbed in Department's FY 87 Operating Budget.

Prepared by : Rod Mourant — Phone : 465-2424
Division : Management — Date : 12-31-85

Approved by Commissioner : Thomas E. Easton Jr. — Date : 12-31-85
Agency : Natural Resources

Distribution (by Agency preparing fiscal note) :
Legislative Finance
Legislative Sponsor
Requestor
Office of Management and Budget
Impacted Agency(ies)

10/25/85

STATE OF ALASKA 1986 LEGISLATIVE SESSION
FISCAL NOTE

Revision Date : _____

REQUEST EO 61 #2

Bill/Resolution No. : 377-016-84
Title : Transfer of oil and gas royalty board.

Sponsor : _____
Requestor : _____
Date of Request : _____

FISCAL DETAIL

Agency Affected : Dept. Comm. & Econ. Devel.
BRU : _____

Components : _____

EXPENDITURES/REVENUES : (Thousands of Dollars)

OPERATING	FY 86	FY 87	FY 88	FY 89	FY 90	FY 91
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	-0-	-0-	-0-	-0-	-0-	-0-
CAPITAL	-0-	-0-	-0-	-0-	-0-	-0-
REVENUE	-0-	-0-	-0-	-0-	-0-	-0-

FUNDING : (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER						
TOTAL	-0-	-0-	-0-	-0-	-0-	-0-

POSITIONS : None

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS : Attach a separate page if necessary

Prepared by : Joan Brown — Phone : 465-2503
Division : Administrative Services — Date : 12/31/85

Approved by Commissioner : _____ Date : _____
Agency : Dept. of Commerce & Economic Development

Distribution (by Agency preparing fiscal note) :
- Legislative Finance
- Legislative Sponsor
- Requestor
- Office of Management and Budget
- Impacted Agency(ies)

10/25/85

SCOMM

#46:13

BILL SHEFFIELD
GOVERNOR

STATE OF ALASKA
OFFICE OF THE GOVERNOR
JUNEAU

January 23, 1985

The Honorable Ben Grussendorf
Speaker of the House
Alaska State Legislature
Pouch V
Juneau, AK 99811

Dear Representative Grussendorf:

Under the authority of art. III, sec. 18, of the Alaska Constitution, I am transmitting a bill relating to allowable depreciation methods for oil and gas producers and pipelines.

Section 1 of the bill repeals a statutory provision that requires corporations engaged in oil or gas production or pipeline transportation to use a depreciation method allowed under sec. 167 of the Internal Revenue Code. as that section read on June 30, 1981. (26 U.S.C. sec. 167.) Repeal of this provision will allow these corporations to use the ACRS (accelerated cost recovery system) method of depreciation, which is the method now permitted by federal law and used by most taxpayers for federal purposes.

The current provision creates problems both for taxpayers and the Department of Revenue. Strict compliance by the oil and gas companies is virtually impossible, because the law requires separate accounting for a corporation's worldwide assets. Likewise, the law is difficult for the department to administer. First, the department does not now have resources or personnel available to audit a major petroleum company's worldwide depreciation expense. Secondly, because the state depreciation deduction does not conform to federal depreciation, the department is unable to rely on sources such as the Internal Revenue Service and independent accountants to verify accuracy of deductions reported.

While repeal will benefit both the department and the companies, revenues will not be affected. The existing law renders no additional revenues to the state, other than revenues indirectly generated as a result of the accelerated collection of revenues. Under the current law, there is no difference in the total depreciation expense ultimately taken, although there may be a difference in the period of

time over which an asset is depreciated. While this timing difference may result in increased revenues in earlier years, the acceleration is offset by a corresponding decrease in revenues in subsequent years.

Section 2 of the bill makes the change in current law applicable to tax years beginning after December 31, 1984.

Sincerely,

Bill Sheffield
Governor

STATE OF ALASKA 1985 LEGISLATIVE SESSION

FISCAL NOTE

Revision Date 10/19/84

REQUEST
Bill/Resolution No: HB 101
Title: Allowable depreciation methods for oil & gas producers and pipelines
Sponsor: Governor
Requestor:
Date of Request:

FISCAL DETAIL
Agency Affected: Department of Revenue
Program Category Affected: Collection and Management
BRU, Program of Subprogram(s) Affected:
Audit Division

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 85	FY 86	FY 87	FY 88	FY 89	FY 90
OPERATING						
100 PERSONAL SERVICES	-	-0-	-0-	-0-	-0-	-0-
200 TRAVEL	-	-0-	-0-	-0-	-0-	-0-
300 CONTRACTUAL	-	-0-	-0-	-0-	-0-	-0-
400 SUPPLIES	-	-0-	-0-	-0-	-0-	-0-
500 EQUIPMENT	-	-0-	-0-	-0-	-0-	-0-
600 LANDS & STRUCTURES	-	-0-	-0-	-0-	-0-	-0-
700 GRANTS, CLAIMS	-	-0-	-0-	-0-	-0-	-0-
800 MISCELLANEOUS	-	-0-	-0-	-0-	-0-	-0-
TOTAL OPERATING	-	-0-	-0-	-0-	-0-	-0-
CAPITAL	-	-0-	-0-	-0-	-0-	-0-
REVENUE	-	-0-	-0-	-0-	-0-	-0-

FUNDING: (Thousands of Dollars)

GENERAL FUND	-	-0-	-0-	-0-	-0-	-0-
FEDERAL FUNDS	-	-	-	-	-	-
OTHER	-	-	-	-	-	-
TOTAL	-	-0-	-0-	-0-	-0-	-0-

POSITIONS:

FULL-TIME	-	-	-	-	-	-
PART-TIME	-	-	-	-	-	-
TEMPORARY	-	-	-	-	-	-

ANALYSIS: Attach a separate page for analysis.

Prepared By: Maureen O'Brien Maureen O'Brien Phone: 465-2320
Division: Audit Division Date: 10/19/84

Approved by Commissioner: Date:
Agency:

Distribution (by Agency preparing fiscal note):
Legislative Finance
Legislative Sponsor
Requestor
Office of Management and Budget
Impacted Agency(ies)

An Act relating to allowable depreciation methods for oil and gas producers and pipelines --

Analysis:

Currently corporations engaged in oil or gas production or pipeline transportation in Alaska are required to use a different depreciation method for Alaska income tax purposes than the method used for Federal income tax purposes. The effect of the current depreciation provision is to create a difference in the time the depreciation expense is taken on the federal return and the time the depreciation expense is taken on the Alaska return. There should be no difference in the total depreciation expense ultimately taken. For Alaska, this law is most advantageous when the timing difference results in a smaller depreciation deduction for Alaska purposes in the earlier years of an asset's useful life as the state's revenues are then accelerated. This acceleration, however, will be offset by a corresponding decrease in revenues in later years. In summary, the existing law renders no additional revenues to the state other than those indirectly generated as a result of the accelerated collection of revenues.

The proposed amendment to AS 43.20.072 would return corporations engaged in oil or gas production or pipeline transportation in Alaska to a federal basis for depreciation. It is impossible to determine the exact impact on the state's revenues as a result of this amendment. There may be a short-term decrease in revenues, however, over the long-term there should be no impact on the state's revenues.

SUMMARY/EXPLANATION OF INTENT

The essential effect of the current depreciation provision in the law is to create a difference between the time when the depreciation expense is taken on the federal return and the time depreciation expense is taken on the Alaska return. There is no difference in the total depreciation expense ultimately taken although there may be a difference in the period of time over which an asset is depreciated. For Alaska, this law is most advantageous when the timing difference results in a smaller depreciation deduction for Alaska purposes in the earlier years of an asset's useful life, as the state's revenues are then accelerated. This acceleration, however, will be offset by a corresponding decrease in revenues in later years. Among the returns filed for 1982, the first year the law was in effect, there were some cases where the depreciation deduction for Alaska purposes was greater than that taken for federal purposes, resulting in a deferral of revenues. After netting this adjustment for all the oil and gas companies in 1982, this law resulted in approximately $5 million in accelerated revenues.

From the taxpayer's viewpoint, the benefits the state derives from this acceleration of revenues are not commensurate with the burdens of efforts and costs required of the taxpayers to comply specifically with the unique demands of Alaska's law. A special computer program and separate accounting for a corporation's worldwide assets would be necessary to meet the law's exact requirements. None of the oil and gas companies audited to date have fulfilled the letter of the law; instead all have substituted calculations prepared for other purposes that approximated the Alaska requirement. It has been necessary for the department to deal with the variations by regulation.

From the Audit Division's standpoint, practically speaking, the law is exceedingly difficult, if not impossible, to administer effectively and efficiently because of the difficulty in auditing the taxpayers' compliance with it. An audit of a major petroleum company's worldwide depreciation expense is far beyond the scope of the Division's audits. By divorcing Alaska's depreciation deduction from the federal depreciation, the law deprives the state of its ability to rely on third parties such as the IRS and independent CPA's to insure the accuracy of the depreciation deduction. This reliance on third party policing is especially desirable in the instance of depreciation since the Division itself does not comprehensively audit the deduction.

Further complicating the situation as it stands, is the fact that, absent some very involved and detailed recordkeeping by the taxpayers, for certain other items of income and expense affected by depreciation expense, such as the computation of gain or loss upon the deposition of an asset and the relevant Section 1245 and 1250 recapture, the amounts reported will not properly reflect the federal/state differences. It is highly unlikely that taxpayers will prepare the requisite records; hence, more erroneous reporting will result.

In summary, the existing law renders no additional revenues to the state other than those indirectly generated as a result of the accelerated collection of revenues. Furthermore, the existing law is not being faithfully complied with by the taxpayers and cannot satisfactorily be audited by the Audit Division. The effect of the amendment to the law would be to return taxpayers to a federal basis for depreciation. This change would promote conformity with the law and enhances its effective administration.

An Act relating to allowable depreciation methods for oil and gas producers and pipelines --

Analysis:

Currently corporations engaged in oil or gas production or pipeline transportation in Alaska are required to use a different depreciation method for Alaska income tax purposes than the method used for Federal income tax purposes. The effect of the current depreciation provision is to create a difference in the time the depreciation expense is taken on the federal return and the time the depreciation expense is taken on the Alaska return. There should be no difference in the total depreciation expense ultimately taken. For Alaska, this law is most advantageous when the timing difference results in a smaller depreciation deduction for Alaska purposes in the earlier years of an asset's useful life as the state's revenues are then accelerated. This acceleration, however, will be offset by a corresponding decrease in revenues in later years. In summary, the existing law renders no additional revenues to the state other than those indirectly generated as a result of the accelerated collection of revenues.

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SUMMARY/EXPLANATION OF INTENT

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From the taxpayer's viewpoint, the benefits the state derives from this acceleration of revenues are not commensurate with the burdens of efforts and costs required of the taxpayers to comply specifically with the unique demands of Alaska's law. A special computer program and separate accounting for a corporation's worldwide assets would be necessary to meet the law's exact requirements. None of the oil and gas companies audited to date have fulfilled the letter of the law; instead all have substituted calculations prepared for other purposes that approximated the Alaska requirement. It has been necessary for the department to deal with the variations by regulation.

From the Audit Division's standpoint, practically speaking, the law is exceedingly difficult, if not impossible, to administer effectively and efficiently because of the difficulty in auditing the taxpayers' compliance with it. An audit of a major petroleum company's worldwide depreciation expense is far beyond the scope of the Division's audits. By divorcing Alaska's depreciation deduction from the federal depreciation, the law deprives the state of its ability to rely on third parties such as the IRS and independent CPA's to insure the accuracy of the depreciation deduction. This reliance on third party policing is especially desirable in the instance of depreciation since the Division itself does not comprehensively audit the deduction.

Further complicating the situation as it stands, is the fact that, absent some very involved and detailed recordkeeping by the taxpayers, for certain other items of income and expense affected by depreciation expense, such as the computation of gain or loss upon the deposition of an asset and the relevant Section 1245 and 1250 recapture, the amounts reported will not properly reflect the federal/state differences. It is highly unlikely that taxpayers will prepare the requisite records; hence, more erroneous reporting will result.

In summary, the existing law renders no additional revenues to the state other than those indirectly generated as a result of the accelerated collection of revenues. Furthermore, the existing law is not being faithfully complied with by the taxpayers and cannot satisfactorily be audited by the Audit Division. The effect of the amendment to the law would be to return taxpayers to a federal basis for depreciation. This change would promote conformity with the law and enhances its effective administration.

§ 167. Depreciation

(a) **General rule.**—There shall be allowed as a depreciation deduction a reasonable allowance for the exhaustion, wear and tear (including a reasonable allowance for obsolescence)—

(1) of property used in the trade or business, or

(2) of property held for the production of income.

(b) **Use of certain methods and rates.**—For taxable years ending after December 31, 1953, the term "reasonable allowance" as used in subsection (a) shall include (but shall not be limited to) an allowance computed in accordance with regulations prescribed by the Secretary, under any of the following methods:

(1) the straight line method,

(2) the declining balance method, using a rate not exceeding twice the rate which would have been used had the annual allowance been computed under the method described in paragraph (1),

(3) the sum of the years-digits method, and

(4) any other consistent method productive of an annual allowance which, when added to all allowances for the period commencing with the taxpayer's use of the property and including the taxable year, does not, during the first two-thirds of the useful life of the property, exceed the total of such allowances which would have been used had such allowances been computed under the method described in paragraph (2).

Nothing in this subsection shall be construed to limit or reduce an allowance otherwise allowable under subsection (a).

(c) **Limitations on use of certain methods and rates.**—Paragraphs (2), (3) and (4) of subsection (b) shall apply only in the case of property (other than intangible property) described in subsection (a) with a useful life of 3 years or more—

(1) the construction, reconstruction, or erection of which is completed after December 31, 1953, and then only to that portion of the basis which is properly attributable to such construction, reconstruction, or erection after December 31, 1953, or

(2) acquired after December 31, 1953, if the original use of such property commences with the taxpayer and commences after such date.

(d) **Agreement as to useful life on which depreciation rate is based.**—Where, under regulations prescribed by the Secretary, the taxpayer and the Secretary have, after August 16, 1954, entered into an agreement in writing specifically dealing with the useful life and rate of depreciation of any property, the rate so agreed upon shall be binding on both the taxpayer and the Secretary in the absence of

facts or circumstances not taken into consideration in the adoption of such agreement. The responsibility of establishing the existence of such facts and circumstances shall rest with the party initiating the modification. Any change in the agreed rate and useful life specified in the agreement shall not be effective for taxable years before the taxable year in which notice in writing by certified mail or registered mail is served by the party to the agreement initiating such change.

(e) Change in method.—

(1) Change from declining balance method.—In the absence of an agreement under subsection (d) containing a provision to the contrary, a taxpayer may at any time elect in accordance with regulations prescribed by the Secretary to change from the method of depreciation described in subsection (b)(2) to the method described in subsection (b)(1).

(2) Change with respect to section 1245 property.—A taxpayer may, on or before the last day prescribed by law (including extensions thereof) for filing his return for his first taxable year beginning after December 31, 1962, and in such manner as the Secretary shall by regulations prescribe, elect to change his method of depreciation in respect of section 1245 property (as defined in section 1245(a)(3)) from any declining balance or sum of the years-digits method to the straight line method. An election may be made under this paragraph notwithstanding any provision to the contrary in an agreement under subsection (d).

(3) Change with respect to section 1250 property.—A taxpayer may, on or before the last day prescribed by law (including extensions thereof) for filing his return for his first taxable year beginning after December 31, 1975, and in such manner as the Secretary shall by regulation prescribe, elect to change his method of depreciation in respect of section 1250 property (as defined in section 1250(c)) from any declining balance or sum of the years-digits method to the straight line method. An election may be made under this paragraph notwithstanding any provision to the contrary in an agreement under subsection (d).

(f) Salvage value.—

(1) General rule.—Under regulations prescribed by the Secretary, a taxpayer may, for purposes of computing the allowance under subsection (a) with respect to personal property, reduce the amount taken into account as salvage value by an amount which does not exceed 10 percent of the basis of such property (as determined under subsection (g) as of the time as of which such salvage value is required to be determined).

(2) Personal property defined.—For purposes of this subsection, the term "personal property" means depreciable personal

property (other than livestock) more acquired after October 16,

(g) **Basis for depreciation.**—The b nd tear, and obsolescence are to be rty shall be the adjusted basis provi pose of determining the gain on the s roperty.

(h) **Life tenants and beneficiarie** ase of property held by one person ther person, the deduction shall be were the absolute owner of the prop ife tenant. In the case of property duction shall be apportioned betwe he trustee in accordance with the rument creating the trust, or, in th he basis of the trust income allocab ate, the allowable deduction shall b nd the heirs, legatees, and devisee he estate allocable to each.

(i) **Limitation in case of property the suspension period.—**

(1) In general.—Under regu tary, paragraphs (2), (3), and apply in the case of real prope erty (as defined in section 48(reconstruction, or erection of s gins during the suspension peri der placed during such period, ulations prescribed by the Secr provided by paragraphs (3), (4 tion 48(h) shall be applied for tence. In applying this paragr be taken into account only th properly attributable to constru before May 24, 1967.

(2) Exception.—Paragraph real property selected by the t erty (when added to the cost o selected by the taxpayer under $50,000. Under regulations p similar to the rules provided b shall be applied for purposes of

(3) Suspension period.—For term "suspension period" mea ber 10, 1966, and ending on Mar

property (other than livestock) with a useful life of 3 years or more acquired after October 16, 1962.

(g) **Basis for depreciation.**—The basis on which exhaustion, wear and tear, and obsolescence are to be allowed in respect of any property shall be the adjusted basis provided in section 1011 for the purpose of determining the gain on the sale or other disposition of such property.

(h) **Life tenants and beneficiaries of trusts and estates.**—In the case of property held by one person for life with remainder to another person, the deduction shall be computed as if the life tenant were the absolute owner of the property and shall be allowed to the life tenant. In the case of property held in trust, the allowable deduction shall be apportioned between the income beneficiaries and the trustee in accordance with the pertinent provisions of the instrument creating the trust, or, in the absence of such provisions, on the basis of the trust income allocable to each. In the case of an estate, the allowable deduction shall be apportioned between the estate and the heirs, legatees, and devisees on the basis of the income of the estate allocable to each.

(i) **Limitation in case of property constructed or acquired during the suspension period.—**

(1) In general.—Under regulations prescribed by the Secretary, paragraphs (2), (3), and (4) of subsection (b) shall not apply in the case of real property which is not section 38 property (as defined in section 48(a)) if the physical construction, reconstruction, or erection of such property by any person begins during the suspension period, or begins, pursuant to an order placed during such period, before May 24, 1967. Under regulations prescribed by the Secretary, rules similar to the rules provided by paragraphs (3), (4), (7), (8), (9), and (10) of section 48(h) shall be applied for purposes of the preceding sentence. In applying this paragraph to any property, there shall be taken into account only that portion of the basis which is properly attributable to construction, reconstruction, or erection before May 24, 1967.

(2) Exception.—Paragraph (1) shall not apply to any item of real property selected by the taxpayer if the cost of such property (when added to the cost of all other items of real property selected by the taxpayer under this paragraph) does not exceed $50,000. Under regulations prescribed by the Secretary, rules similar to the rules provided by paragraph (2) of section 48(c) shall be applied for purposes of this paragraph.

(3) Suspension period.—For purposes of this subsection, the term "suspension period" means the period beginning on October 10, 1966, and ending on March 9, 1967.

(j) Special rules for section 1250 property.—

(1) General rule.—Except as provided in paragraphs (2) and (3), in the case of section 1250 property, subsection (b) shall not apply and the term "reasonable allowance" as used in subsection (a) shall include an allowance computed in accordance with regulations prescribed by the Secretary, under any of the following methods:

(A) the straight line method,

(B) the declining balance method, using a rate not exceeding 150 percent of the rate which would have been used had the annual allowance been computed under the method described in subparagraph (A), or

(C) any other consistent method productive of an annual allowance which, when added to all allowances for the period commencing with the taxpayer's use of the property and including the taxable year, does not, during the first two-thirds of the useful life of the property, exceed the total of such allowances which would have been used had such allowances been computed under the method described in subparagraph (B).

Nothing in this paragraph shall be construed to limit or reduce an allowance otherwise allowable under subsection (a) except where allowable solely by reason of paragraph (2), (3), or (4) of subsection (b).

(2) Residential rental property.—

(A) In general.—Paragraph (1) of this subsection shall not apply, and subsection (b) shall apply in any taxable year, to a building or structure—

(i) which is residential rental property located within the United States or any of its possessions, or located within a foreign country if a method of depreciation for such property comparable to the method provided in subsection (b)(2) or (3) is provided by the laws of such country, and

(ii) the original use of which commences with the taxpayer.

In the case of residential rental property located within a foreign country, the original use of which commences with the taxpayer, if the allowance for depreciation provided under the laws of such country for such property is greater than that provided under paragraph (1) of this subsection, but less than that provided under subsection (b), the allowance for depreciation under subsection (b) shall be limited to the amount provided under the laws of such country.

(B) Definition.—Fo
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(B) **Definition.**—For purposes of subparagraph (A), a building or structure shall be considered to be residential rental property for any taxable year only if 80 percent or more of the gross rental income from such building or structure for such year is rental income from dwelling units (within the meaning of subsection (k)(3)(C)). For purposes of the preceding sentence, if any portion of such building or structure is occupied by the taxpayer, the gross rental income from such building or structure shall include the rental value of the portion so occupied.

(C) **Change in method of depreciation.**—Any change in the computation of the allowance for depreciation for any taxable year, permitted or required by reason of the application of subparagraph (A), shall not be considered a change in a method of accounting.

(3) **Property constructed, etc., before July 25, 1969.**—Paragraph (1) of this subsection shall not apply, and subsection (b) shall apply, in the case of property—

(A) the construction, reconstruction, or erection of which was begun before July 25, 1969, or

(B) for which a written contract entered into before July 25, 1969, with respect to any part of the construction, reconstruction, or erection or for the permanent financing thereof, was on July 25, 1969, and at all times thereafter, binding on the taxpayer.

(4) **Used section 1250 property.**—Except as provided in paragraph (5), in the case of section 1250 property acquired after July 24, 1969, the original use of which does not commence with the taxpayer, the allowance for depreciation under this section shall be limited to an amount computed under—

(A) the straight line method, or

(B) any other method determined by the Secretary to result in a reasonable allowance under subsection (a), not including—

(i) any declining balance method,

(ii) the sum of the years-digits method, or

(iii) any other method allowable solely by reason of the application of subsection (b)(4) or paragraph (1)(C) of this subsection.

(5) **Used residential rental property.**—In the case of section 1250 property which is residential rental property (as defined in paragraph (2)(B)) acquired after July 24, 1969, having a useful life of 20 years or more, the original use of which does not commence with the taxpayer, the allowance for depreciation

under this section shall be limited to an amount computed under—

(A) the straight line method,

(B) the declining balance method, using a rate not exceeding 125 percent of the rate which would have been used had the annual allowance been computed under the method described in subparagraph (A), or

(C) any other method determined by the Secretary to result in a reasonable allowance under subsection (a), not including—

(i) the sum of the years-digits method,

(ii) any declining balance method using a rate in excess of the rate permitted under subparagraph (B), or

(iii) any other method allowable solely by reason of the application of subsection (b)(4) or paragraph (1)(C) of this subsection.

(6) Special rules.—

(A) Under regulations prescribed by the Secretary, rules similar to the rules provided in paragraphs (5), (9), (10), and (13) of section 48(h) shall be applied for purposes of paragraphs (3), (4), and (5) of this subsection.

(B) For purposes of paragraphs (2), (4), and (5), if section 1250 property which is not property described in subsection (a) when its original use commences, becomes property described in subsection (a) after July 24, 1969, such property shall not be treated as property the original use of which commences with the taxpayer.

(C) Paragraphs (4) and (5) shall not apply in the case of section 1250 property acquired after July 24, 1969, pursuant to a written contract for the acquisition of such property or for the permanent financing thereof, which was, on July 24, 1969, and at all times thereafter, binding on the taxpayer.

(k) Depreciation of expenditures to rehabilitate low-income rental housing.—

(1) 60-month rule.—The taxpayer may elect, in accordance with regulations prescribed by the Secretary, to compute the depreciation deduction provided by subsection (a) attributable to rehabilitation expenditures incurred with respect to low-income rental housing after July 24, 1969, and before January 1, 1979, under the straight line method using a useful life of 60 months and no salvage value. Such method shall be in lieu of any other method of computing the depreciation deduction under subsection (a), and in lieu of any deduction for amortization, for such expenditures.

(2) Limitations.—

(A) The aggregate amou paid or incurred by the tax ing unit in any low-incom taken into account under $20,000.

(B) Rehabilitation expen taxpayer in any taxable ye unit in any low-income re account under paragraph (consecutive years, includin amount of such expenditure

(3) Definitions.—For purpos

(A) Rehabilitation expe tion expenditures" means a count and incurred for pr ments to property (or rela of 5 years or more, in conn an existing building for i such term does not include building or any interest th

(B) Low-income rental h rental housing" me ns any which are held for occupar and individuals of low or by the Secretary in a man Housing Program under Housing Act of 1937 pursu der this subsection.

(C) Dwelling unit.—The house or an apartment use tions in a building or struc in a hotel, motel, inn, or one-half of the units in whi

(D) Rehabilitation expe tion expenditures incurred entered into before Januar penditures incurred with r ing the rehabilitation of w 1979, shall be deemed incu

(l) Reasonable allowance in case

(1) Pre-1970 public utility pr

(A) In general.—In the ty property, the term "re subsection (a) means an all

(i) a subsection (*l*) n

(2) **Limitations.—**

(A) The aggregate amount of rehabilitation expenditures paid or incurred by the taxpayer with respect to any dwelling unit in any low-income rental housing which may be taken into account under paragraph (1) shall not exceed $20,000.

(B) Rehabilitation expenditures paid or incurred by the taxpayer in any taxable year with respect to any dwelling unit in any low-income rental housing shall be taken into account under paragraph (1) only if over a period of two consecutive years, including the taxable year, the aggregate amount of such expenditures exceeds $3,000.

(3) **Definitions.**—For purposes of this subsection—

(A) **Rehabilitation expenditures.**—The term "rehabilitation expenditures" means amounts chargeable to capital account and incurred for property or additions or improvements to property (or related facilities) with a useful life of 5 years or more, in connection with the rehabilitation of an existing building for low-income rental housing; but such term does not include the cost of acquisition of such building or any interest therein.

(B) **Low-income rental housing.**—The term "low-income rental housing" means any building the dwelling units in which are held for occupancy on a rental basis by families and individuals of low or moderate income, as determined by the Secretary in a manner consistent with the Leased Housing Program under section 8 of the United States Housing Act of 1937 pursuant to regulations prescribed under this subsection.

(C) **Dwelling unit.**—The term "dwelling unit" means a house or an apartment used to provide living accommodations in a building or structure, but does not include a unit in a hotel, motel, inn, or other establishment more than one-half of the units in which are used on a transient basis.

(D) **Rehabilitation expenditures incurred.**—Rehabilitation expenditures incurred pursuant to a binding contract entered into before January 1, 1979, and rehabilitation expenditures incurred with respect to low-income rental housing the rehabilitation of which has begun before January 1, 1979, shall be deemed incurred before January 1, 1979.

(l) **Reasonable allowance in case of property of certain utilities.—**

(1) **Pre-1970 public utility property.—**

(A) **In general.**—In the case of any pre-1970 public utility property, the term "reasonable allowance" as used in subsection (a) means an allowance computed under—

(i) a subsection (*l*) method, or

(ii) the applicable 1968 method for such property.

Except as provided in subparagraph (B), clause (ii) shall apply only if the taxpayer uses a normalization method of accounting.

(B) Flow-through method of accounting in certain cases.—In the case of any pre-1970 public utility property, the taxpayer may use the applicable 1968 method for such property if—

(i) the taxpayer used a flow-through method of accounting for such property for its July 1969 accounting period, or

(ii) the first accounting period with respect to such property is after the July 1969 accounting period, and the taxpayer used a flow-through method of accounting for its July 1969 accounting period for the property on the basis of which the applicable 1968 method for the property in question is established.

(2) Post-1969 public utility property.—In the case of any post-1969 public utility property, the term "reasonable allowance" as used in subsection (a) means an allowance computed under—

(A) a subsection (*l*) method,

(B) a method otherwise allowable under this section if the taxpayer uses a normalization method of accounting, or

(C) the applicable 1968 method, if, with respect to its pre-1970 public utility property of the same (or similar) kind most recently placed in service, the taxpayer used a flow-through method of accounting for its July 1969 accounting period.

(3) Definitions.—For purposes of this subsection—

(A) Public utility property.—The term "public utility property" means property used predominantly in the trade or business of the furnishing or sale of—

(i) electrical energy, water, or sewage disposal services,

(ii) gas or steam through a local distribution system,

(iii) telephone services, or other communication services if furnished or sold by the Communications Satellite Corporation for purposes authorized by the Communications Satellite Act of 1962 (47 U.S.C. 701), or

(iv) transportation of gas or steam by pipeline,

if the rates for such furnishing or sale, as the case may be, have been established or approved by a State or political

subdivision thereof, by any ag the United States, or by a publ commission or other similar bo subdivision thereof.

(B) Pre-1970 public utility 1970 public utility property" m public utility property in the h time before January 1, 1970.

(C) Post-1969 public utility 1969 public utility property" me erty which is not pre-1970 public

(D) Applicable 1968 method.– method" means, with respect erty—

(i) the method of depreci respect to such property fo which a return was filed bef

(ii) if clause (i) does no the taxpayer on a return fo which a return was filed b respect to its public utility (or if there is no property of the most similar kind) m ice, or

(iii) if neither clause (i) tion (*l*) method.

In the case of any section 125 tion (j) applies, the term "appl the method permitted under su nearly comparable to the appl mined under the preceding sente

(E) Applicable 1968 method i payer evidenced the intent to u (other than its applicable 1968 method) with respect to any timely application for change before August 1, 1969, or in th pense for purposes of reflecti regulated books of account for riod, such other method shall b 1968 method with respect to su ty property of the same (or placed in service.

(F) Subsection (*l*) method.– method" means any method det result in a reasonable allowanc

subdivision thereof, by any agency or instrumentality of the United States, or by a public service or public utility commission or other similar body of any State or political subdivision thereof.

(C) **Pre-1970 public utility property.**—The term "pre-1970 public utility property" means property which was public utility property in the hands of any person at any time before January 1, 1970.

(D) **Post-1969 public utility property.**—The term "post-1969 public utility property" means any public utility property which is not pre-1970 public utility property.

(E) **Applicable 1968 method.**—The term "applicable 1968 method" means, with respect to any public utility property—

(i) the method of depreciation used on a return with respect to such property for the latest taxable year for which a return was filed before August 1, 1969,

(ii) if clause (i) does not apply, the method used by the taxpayer on a return for the latest taxable year for which a return was filed before August 1, 1969, with respect to its public utility property of the same kind (or if there is no property of the same kind, property of the most similar kind) most recently placed in service, or

(iii) if neither clause (i) nor (ii) applies, a subsection (*l*) method.

In the case of any section 1250 property to which subsection (j) applies, the term "applicable 1968 method" means the method permitted under subsection (j) which is most nearly comparable to the applicable 1968 method determined under the preceding sentence.

(F) **Applicable 1968 method in certain cases.**—If the taxpayer evidenced the intent to use a method of depreciation (other than its applicable 1968 method or a subsection (*l*) method) with respect to any public utility property in a timely application for change of accounting method filed before August 1, 1969, or in the computation of its tax expense for purposes of reflecting operating results in its regulated books of account for its July 1969 accounting period, such other method shall be deemed to be its applicable 1968 method with respect to such property and public utility property of the same (or similar) kind subsequently placed in service.

(G) **Subsection (*l*) method.**—The term "subsection (*l*) method" means any method determined by the Secretary to result in a reasonable allowance under subsection (a), oth-

er than (i) a declining balance method, (ii) the sum of the years-digits method, or (iii) any other method allowable solely by reason of the application of subsection (b)(4) or (j)(1)(C).

(G) Normalization method of accounting.—In order to use a normalization method of accounting with respect to any public utility property—

(i) the taxpayer must use the same method of depreciation to compute both its tax expense and its depreciation expense for purposes of establishing its cost of service for ratemaking purposes and for reflecting operating results in its regulated books of account, and

(ii) if, to compute its allowance for depreciation under this section, it uses a method of depreciation other than the method it used for the purposes described in clause (i), the taxpayer must make adjustments to a reserve to reflect the deferral of taxes resulting from the use of such different methods of depreciation.

(H) Flow-through method of accounting.—The taxpayer used a "flow-through method of accounting" with respect to any public utility property if it used the same method of depreciation (other than a subsection (*l*) method) to compute its allowance for depreciation under this section and to compute its tax expense for purposes of reflecting operating results in its regulated books of account.

(I) July 1969 accounting period.—The term "July 1969 accounting period" means the taxpayer's latest accounting period ending before August 1, 1969, for which it computed its tax expense for purposes of reflecting operating results in its regulated books of account.

For purposes of this paragraph, different declining balance rates shall be treated as different methods of depreciation.

(4) Special rules as to flow-through method.—

(A) Election as to new property representing growth in capacity.—If the taxpayer makes an election under this subparagraph before June 29, 1970, in the manner prescribed by the Secretary, in the case of taxable years beginning after December 31, 1970, paragraph (2)(C) shall not apply with respect to any post-1969 public utility property, to the extent that such property constitutes property which increases the productive or operational capacity of the taxpayer with respect to the goods or services described in paragraph (3)(A) and does not represent the replacement of existing capacity.

(B) Certain pending applications for changes in method.—In applying paragraph (1)(B), the taxpayer shall be

deemed to have used a flow-throug for its July 1969 accounting perio pre-1970 public utility property for application for change of accountin 1, 1969, if with respect to public same (or similar) kind most recent used a flow-through method of acco accounting period.

(5) Reorganizations, assets acquisitio a corporate reorganization, by reason o of the assets of one taxpayer by anothe the fact that any trade or business of th ratemaking by more than one body, or cumstances, the application of any prov to any public utility property does not c this subsection, the Secretary shall pro the application of such provisions in a the purposes of this subsection.

(m) Class lives.—

(1) In general.—In the case of a tax election under this subsection for the "reasonable allowance" as used in subs respect to property which is placed in s ble year and which is included in any life has been prescribed) only an allow life prescribed by the Secretary which anticipated useful life of that class of or other group. The allowance so presc lations prescribed by the Secretary) per class life by not more than 20 percent half year) of such life.

(2) Certain first-year conventions n vention with respect to the time at w placed in service shall be permitted u generally would provide greater depreci the taxable year in which the assets ar would be permitted if all assets were p throughout the year and if depreciatio puted without regard to any convention.

(3) Making of election.—An electio for any taxable year shall be made at ner, and subject to such conditions as n Secretary by regulations.

(n) Straight line method in certain cases.-

(1) In general.—In the case of any part constructed, reconstructed, erected,

deemed to have used a flow-through method of accounting for its July 1969 accounting period with respect to any pre-1970 public utility property for which it filed a timely application for change of accounting method before August 1, 1969, if with respect to public utility property of the same (or similar) kind most recently placed in service, it used a flow-through method of accounting for its July 1969 accounting period.

(5) **Reorganizations, assets acquisitions, etc.**—If by reason of a corporate reorganization, by reason of any other acquisition of the assets of one taxpayer by another taxpayer, by reason of the fact that any trade or business of the taxpayer is subject to rate-making by more than one body, or by reason of other circumstances, the application of any provisions of this subsection to any public utility property does not carry out the purposes of this subsection, the Secretary shall provide by regulations for the application of such provisions in a manner consistent with the purposes of this subsection.

(m) Class lives.—

(1) **In general.**—In the case of a taxpayer who has made an election under this subsection for the taxable year, the term "reasonable allowance" as used in subsection (a) means (with respect to property which is placed in service during the taxable year and which is included in any class for which a class life has been prescribed) only an allowance based on the class life prescribed by the Secretary which reasonably reflects the anticipated useful life of that class of property to the industry or other group. The allowance so prescribed may (under regulations prescribed by the Secretary) permit a variance from any class life by not more than 20 percent (rounded to the nearest half year) of such life.

(2) **Certain first-year conventions not permitted.**—No convention with respect to the time at which assets are deemed placed in service shall be permitted under this section which generally would provide greater depreciation allowances during the taxable year in which the assets are placed in service than would be permitted if all assets were placed in service ratably throughout the year and if depreciation allowances were computed without regard to any convention.

(3) **Making of election.**—An election under this subsection for any taxable year shall be made at such time, in such manner, and subject to such conditions as may be prescribed by the Secretary by regulations.

(n) **Straight line method in certain cases.**—

(1) **In general.**—In the case of any property in whole or in part constructed, reconstructed, erected, or used on a site which

was, on or after June 30, 1976, occupied by a certified historic structure (as defined in section 191(d)(1)) which is demolished or substantially altered (other than by virtue of a certified rehabilitation as defined in section 191(d)(3)) after such date—

(A) subsections (b), (j), (k), and (*l*) shall not apply,

(B) the term "reasonable allowance" as used in subsection (a) shall mean only an allowance computed under the straight line method.

(2) Exception.—The limitations imposed by this subsection shall not apply to personal property.

(*o*) Substantially rehabilitated historic property.—

(1) General rule.—Pursuant to regulations prescribed by the Secretary, the taxpayer may elect to compute the depreciation deduction attributable to substantially rehabilitated historic property as though the original use of such property commenced with him. The election shall be effective with respect to the taxable year referred to in paragraph (2) and all succeeding taxable years.

(2) Substantially rehabilitated property.—For purposes of paragraph (1), the term "substantially rehabilitated historic property" means any certified historic structure (as defined in section 191(d)(1)) with respect to which the additions to capital account for any certified rehabilitation (as defined in section 191(d)(3)) during the 24-month period ending on the last day of any taxable year, reduced by any amounts allowed or allowable as depreciation or amortization with respect thereto, exceeds the greater of—

(A) the adjusted basis of such property, or

(B) $5,000.

The adjusted basis of the property shall be determined as of the beginning of the first day of such 24-month period, or of the holding period of the property (within the meaning of section 1250(e)), whichever is later.

(p) Depreciation of improvements in the case of mines, etc.—

For additional rule applicable to depreciation of improvements in the case of mines, oil and gas wells, other natural deposits, and timber, see section 611.

Aug. 16, 1954, c. 736, 68A Stat. 51; Sept. 2, 1958, Pub.L. 85-866, Title I, § 89(b), 72 Stat. 1665; Oct. 16, 1962, Pub.L. 87-834, § 13(b), (c)(1), 76 Stat. 1034; Nov. 8, 1966, Pub.L. 89-800, § 2, 80 Stat. 1513; June 13, 1967, Pub.L. 90-26, §§ 1, 2(b), 81 Stat. 57, 58; Dec. 30, 1969, Pub.L. 91-172, Title IV, § 441(a), Title V, § 521(a), (d), 83 Stat. 625, 649, 653; Dec. 10, 1971, Pub.L. 92-178, Title I, § 109(a), 85 Stat. 508; Jan. 3, 1975, Pub.L. 93-625, § 3(c), 88 Stat. 2109; Oct. 4, 1976, Pub.L. 94-455, Title II, §§ 202(c)(3), 203(a), Title XIX, §§

...1(a)(27), 1906(b)(13)(A), Title XX ... 1530, 1768, 1834, 1918; Nov. 12, 19 ... 1355.

Historical No

... **Internal Revenue Code.** Similar ... provisions to this section were contained ... section 23(*l*), (n), 114(a) of the 1939 In... Revenue Code.

... **vation and Similar Provisions.** For ... tion and similar provisions to sec... I.R.C.1939, see Historical Note ... section 161 of this title.

... tion 114, I.R.C.1939, was derived ... Act May 28, 1938, c. 289, § 114, 52 ... 494.

... visions similar to those in section ... I.R.C.1939, were contained in the fol... prior Revenue Acts:

...—June 22, 1936, c. 690, § 114, 49 ... 1686.

...—May 10, 1934, c. 277, § 114, 48 ... Stat. 710.

...—June 6, 1932, c. 209, § 114, 47 ... Stat. 202.

...—May 29, 1928, c. 852, § 114, 45 ... Stat. 821.

...—Feb. 26, 1926, c. 27, § 204, 44 ... Stat. 14, as amended by Act June ... 29, 1939, c. 247, Title II, § 213(i), 53 ... Stat. 872.

...—June 2, 1924, c. 234, § 204, 43 ... Stat. 258, as amended by Act June ... 29, 1939, c. 247, Title II, § 213(i), 53 ... Stat. 872.

References in Text. Section 8 of the ... States Housing Act of 1937, re...ferred to in subsec. (k)(3)(B), is classi...fied to section 1437f of Title 42, The Pub... Health and Welfare.

... Communications Satellite Act of ... 47 U.S.C. 701), referred to in subsec. ...(3)(A)(iii), is Pub.L. 87-624, Aug. 31, ... 76 Stat. 419, which is classified gen...erally to chapter 6 (section 701 et seq.) ... Title 47, Telegraphs, Telephones, and ...phototelegraphs. For complete classifica... of this Act to the Code, see Short ... note under section 701 of Title 47 ... Tables volume.

1976 Amendment. Subsec. (k). Pub.L. ...471, substituted "January 1, 1979" for ...uary 1, 1978" wherever appearing in ...(1) and (3)(D).

1966 Amendment. Subsec. (b). Pub.L. ...455, § 1906(b)(13)(A), struck out "or ... delegate" following "Secretary".

Subsec. (d). Pub.L. 94-455, §§ ...(a)(27)(A), 1906(b)(13)(A), substitut-

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1901(a)(27), 1906(b)(13)(A), Title XXI, § 2124(c)(1), (d)(1), 90 Stat. 1530, 1768, 1834, 1918; Nov. 12, 1977, Pub.L. 95-171, § 4(a), 91 Stat. 1355.

Historical Note

[illegible] Internal Revenue Code. Similar [illegible] this section were contained [illegible] (a), 114(a) of the 1939 Internal Revenue Code.

[illegible] and Similar Provisions. For [illegible] and similar provisions to sec[illegible] 1939, see Historical Note [illegible] of this title.

[illegible] I.R.C.1939, was derived [illegible] May 28, 1938, c. 289, § 114, 52 Stat. [illegible]

[illegible] similar to those in section [illegible] were contained in the following [illegible] Revenue Acts:

[illegible] June 22, 1936, c. 690, § 114, 49 [illegible]

[illegible] May 10, 1934, c. 277, § 114, 48 [illegible]

[illegible] June 6, 1932, c. 209, § 114, 47 [illegible]

[illegible] May 29, 1928, c. 852, § 114, 45 [illegible] 821.

[illegible] Feb. 26, 1926, c. 27, § 204, 44 Stat. [illegible], as amended by Act June 29, 1939, c. 247, Title II, § 213(i), 53 Stat. 872.

1924—June 2, 1924, c. 234, § 204, 43 Stat. 258, as amended by Act June 29, 1939, c. 247, Title II, § 213(i), 53 Stat. 872.

References in Text. Section 8 of the United States Housing Act of 1937, referred to in subsec. (k)(3)(B), is classified to section 1437f of Title 42, The Public Health and Welfare.

The Communications Satellite Act of [illegible] 47 U.S.C. 701), referred to in subsec. [illegible] is Pub.L. 87-624, Aug. 31, [illegible] 76 Stat. 419, which is classified generally to chapter 6 (section 701 et seq.) of Title 47, Telegraphs, Telephones, and Radiotelegraphs. For complete classification of this Act to the Code, see Short Title note under section 701 of Title 47 and Tables volume.

[illegible] Amendment. Subsec. (k). Pub.L. [illegible] substituted "January 1, 1979" for "January 1, 1978" wherever appearing in [illegible] and (3)(D).

[illegible] Amendment. Subsec. (b). Pub.L. [illegible] 1906(b)(13)(A), struck out "or his delegate" following "Secretary".

[illegible] (d). Pub.L. 94-455, §§ [illegible](27)(A), 1906(b)(13)(A), substituted "after August 16, 1954" for "after the date of enactment of this title" and struck out "or his delegate" following "Secretary" in first sentence preceding "shall be binding".

Subsec. (e). Pub.L. 94-455, §§ 202(c)(3), 1906(b)(13)(A), substituted in par. (3) "beginning after December 31, 1975" for "beginning after July 24, 1969" and in pars. (1) to (3) struck out "or his delegate" following "Secretary".

Subsec. (f)(1). Pub.L. 94-455, § 1906(b)(13)(A), struck out "or his delegate" following "Secretary".

Subsec. (f)(2). Pub.L. 94-455, § 1901(a)(27)(B), substituted "October 16, 1962" for "the date of enactment of the Revenue Act of 1962".

Subsec. (i). Pub.L. 94-455, § 1906(b)(13)(A), struck out in pars. (1) and (2) "or his delegate" following "Secretary".

Subsec. (j). Pub.L. 94-455, § 1906(b)(13)(A), struck out in pars. (1), (4)(B), (5)(C), and (6)(A) "or his delegate" following "Secretary".

Subsec. (k)(1). Pub.L. 94-455, §§ 203(a)(1), 1906(b)(13)(A), substituted reference to January 1, 1978 for reference to January 1, 1976 and struck out "or his delegate" following "Secretary".

Subsec. (k)(2)(A). Pub.L. 94-455, § 203(a)(2), substituted "$20,000" for "$15,000".

Subsec. (k)(3)(B). Pub.L. 94-455, §§ 203(a)(3), 1906(b)(13)(A), substituted "the Leased Housing Program under section 8 of the United States Housing Act of 1937" for "the policies of the Housing and Urban Development Act of 1968" and struck out "or his delegate" following "Secretary".

Subsec. (k)(3)(D). Pub.L. 94-455, § 203(a)(4), added subsec. (k)(3)(D).

Subsec. (l)(3)(F). Pub.L. 94-455, § 1906(b)(13)(A), struck out "or his delegate" following "Secretary".

Subsec. (l)(4)(A). Pub.L. 94-455, §§ 1901(a)(27)(C), 1906(b)(13)(A), substituted "before June 29, 1970," for "within 180 days after the date of the enactment of this subparagraph" and struck out "or his delegate" following "Secretary".

Even if tax court had duty to consider income taxpayer's uncontroverted and self-serving trial testimony given as establishing that his dominant motivation for loans was to make profit in his own land development business, tax court was also entitled to consider contemporaneous objective circumstances surrounding the loans, which permitted reasonable inference inconsistent with such testimony. Id.

141. Findings

Tax Court did not err in determining that dominant motivation of shareholders in guaranteeing third party's loan was investment-related and not business related, and, thus, that bad debt was nonbusiness, where only evidence of dominant motivation was size of shareholders' investment in third party. Tennessee Securities Inc. v. C.I.R., C.A.6, 1982, 674 F.2d 570.

Tax Court properly found that obligation with respect to which income taxpayer suffered loss was worthless where at time of payments principal debtor's estate was insolvent, but where there were two principal debtors on the bond, income taxpayer, seeking deduction for payment made on his guaranty, was bound to show that obligation of other debtor, on performance bond funded by surety in favor of county and water district, was also worthless to county or to surety, and same was true despite Tax Court's finding that second debtor was principal in name only to comply with local law and that liability thus fell upon taxpayer when his father, first-mentioned debtor, became insolvent. Hunsaker v. Commissioner of Internal Revenue Service, C.A.9, 1980, 615 F.2d 1253.

Where Tax Court found that income taxpayer's purpose in becoming actively involved in development corporation was to protect his father's very substantial investments and his own, not as shareholder but as creditor and perhaps also as future joint venturer, not to enter trade or business of managing corporations or with intent of becoming employee of corporation or of insuring development projects for his own businesses, Tax Court could find that taxpayer's payments made as guarantor on performance bonds were not result of connection with, nor were the losses incurred in, taxpayer's real estate and land development businesses. Id.

142. Review

For purposes of review of Commissioner's determination as to whether taxpayer is entitled to deduction for partially worthless debt, facts must be considered as they existed at time deduction was taken; of course, Commissioner's denial of partially worthless debt deduction does not preclude taxpayer from attempting to establish deduction for later years. Brimberry v. C.I.R., C.A.5, 1979, 588 F.2d 975.

Given church's consistently healthy operating revenues in 1968 and 1969 and prospect of successful reorganization in 1968, neither insolvency of church, Securities and Exchange Commission's complaint against church in 1967, nor church's institution of chapter X reorganization proceeding in 1968 necessarily demonstrated partial worthlessness of debt owed taxpayer by church and thus Commissioner's disallowance of taxpayer's claimed partially worthless debt deductions for 1967 and 1968 was neither arbitrary nor erroneous. Id.

§ 167. Depreciation

(a) General rule.—There shall be allowed as a depreciation deduction a reasonable allowance for the exhaustion, wear and tear (including a reasonable allowance for obsolescence)—

(1) of property used in the trade or business, or

(2) of property held for the production of income.

In the case of recovery property (within the meaning of section 168), the deduction allowable under section 168 shall be deemed to constitute the reasonable allowance provided by this section, except with respect to that portion of the basis of such property to which subsection (k) applies.

[See main volume for text of (b) and (c)]

(d) Agreement as to useful life on which depreciation rate is based.—Where, under regulations prescribed by the Secretary, the taxpayer and the Secretary have, after August 16, 1954, entered into an agreement in writing specifically dealing with the useful life and rate of depreciation of any property, the rate so agreed upon shall be binding on both the taxpayer and the Secretary in the absence of facts or circumstances not taken into consideration in the adoption of such agreement. The responsibility of establishing the existence of such facts and circumstances shall rest with the party initiating the modification. Any change in the agreed rate and useful life specified in the agreement shall not be effective for taxable years before the taxable year in which notice in writing by certified mail or registered mail is served by the party to the agreement initiating such change. This subsection shall not apply with respect to recovery property defined in section 168.

[See main volume for text of (e) to (h)]

[(i) Repealed. Pub.L. 95-600, Title III, § 312(c)(4), Nov. 6, 1978, 92 Stat. 2826]

[See main volume for text of (j)]

(k) Depreciation of expenditures to rehabilitate low-income rental housing.—

(1) 60-month rule.—The taxpayer may elect, in accordance with regulations prescribed by the Secretary, to compute the depreciation deduction provided by subsection (a) attributable to rehabilitation expenditures incurred with respect to low-income rental housing after July 24, 1969, and before January 1, 1984, under the straight line method using a useful life of 60 months and no salvage value. Such method shall be in lieu of any other method of computing the depreciation deduction under subsection (a), and in lieu of any deduction for amortization, for such expenditures.

(2) Limitations.—

(A) Except as provided in subparagraph (B), the aggregate amount of rehabilitation expenditures paid or incurred by the taxpayer with respect to any dwelling unit in any low-income rental housing which may be taken into account under paragraph (1) shall not exceed $20,000.

(B) The aggregate amount of rehabilitation expenditures paid or incurred by the taxpayer with respect to any dwelling unit in any low-income rental housing which may be taken into account under paragraph (1) may exceed $20,000, but shall not exceed $40,000, if the rehabilitation is conducted pursuant to a program certified by the Secretary of Housing and Urban Development, or his delegate, or by the government of a State or political subdivision of the United States and if:

(i) the certification of development costs is required;

(ii) the tenants occupy units in the property as their principal residence and the program provides for sale of the units to tenants demonstrating home ownership responsibility; and

(iii) the leasing and sale of such units are pursuant to a program in which the sum of the taxable income, if any, from leasing of each such unit, for the entire period of such leasing, and the amount realized from sale or other disposition of a unit, if sold, normally does not exceed the excess of the taxpayer's cost basis for such unit of property, before adjustment under section 1016 for deductions under section 167, over the net tax benefits realized by the taxpayer, consisting of the tax

benefits from such deductions under section 167 minus the tax incurred on such taxable income from leasing, if any.

(C) Rehabilitation expenditures paid or incurred by the taxpayer in any taxable year with respect to any dwelling unit in any low-income rental housing shall be taken into account under paragraph (1) only if over a period of two consecutive years, including the taxable year, the aggregate amount of such expenditures exceeds $3,000.

(3) Definitions.—For purposes of this subsection—

[See main volume for text of (A) to (C)]

(D) Rehabilitation expenditures incurred.—Rehabilitation expenditures incurred pursuant to a binding contract entered into before January 1, 1984, and rehabilitation expenditures incurred with respect to low-income rental housing the rehabilitation of which has begun before January 1, 1984, shall be deemed incurred before January 1, 1984.

(*l*) Reasonable allowance in case of property of certain utilities.—

[See main volume for text of (1) and (2)]

(3) Definitions.—For purposes of this subsection—

[See main volume for text of (A) and (B)]

(C) Post-1969 public utility property.—The term "post-1969 public utility property" means any public utility property which is not pre-1970 public utility property and which is placed in service before January 1, 1981.

[See main volume for text of (D) to (F)]

(G) Normalization method of accounting.—In order to use a normalization method of accounting with respect to any public utility property—

[See main volume for text of (i) and (ii)]

For purposes of this subparagraph, rules similar to the rules of section 168(e)(3)(C) shall apply.

[See main volume for text of (H) and (I)]

For purposes of this paragraph, different declining balance rates shall be treated as different methods of depreciation.

[See main volume for text of (4) and (5)]

(m) Class lives.—

[See main volume for text of (1) to (3)]

(4) Termination.—This subsection shall not apply with respect to recovery property (within the meaning of section 168) placed in service after December 31, 1980.

[(n), (*o*) Repealed. Pub.L. 97-34, Title II, § 212(d)(1), Aug. 13, 1981, 95 Stat. 239]

(p) Straight line method for boilers fueled by oil or gas.—In the case of any boiler which, by reason of section 48(a)(10), is not section 38 property—

(1) subsections (b), (j), and (*l*) shall not apply, and

(2) the term "reasonable allowance" as used in subsection (a) shall mean only an allowance computed under the straight line method using a useful life equal to the class life prescribed by the Secretary under subsection (m) which is applicable to such property (determined without regard to the last sentence of subsection (m)(1)).

(q) Retirement or replacement of certain boilers, etc., fueled by oil or gas.—

(1) In general.—If—

(A) a boiler or other combustor was in use on October 1, 1978, and as of such date the principal fuel for such combustor was petroleum or petroleum products (including natural gas), and

(B) the taxpayer establishes to the satisfaction of the Secretary that such combustor will be retired or replaced on or before the date specified by the taxpayer,

then for the period beginning with the taxable year in which subparagraph (B) is satisfied, the term "reasonable allowance" as used in subsection (a)

includes an allowance under the stra
equal to the period ending with the
(B).

(2) Interest.—If the retirement or repl
occur on or before the date referred to in

(A) this subsection shall cease to ap
of such date, and

(B) interest at the rate determined
the tax benefit arising from the appli
to such combustor shall be due and
such tax benefit was available to th
referred to in paragraph (1)(B).

(r) Depreciation of improvements in the c

**For additional rule applicable to c
case of mines, oil and gas wells, oth
section 611.**

(As amended Nov. 6, 1978, Pub.L. 95-600, Title III, §
92 Stat. 2826, 2857, 2901, 2902; Nov. 8, 1978, Pub.L.
Pub.L. 95-618, Title III, § 301(d)(3), (e)(1), 92 Stat.
§§ 2(c), (d), 3, 94 Stat. 3204, 3205; Dec. 28, 1980, Pu
1981, Pub.L. 97-34, Title II, §§ 203(a)-(c)(1), (d), 20
227, 239, 264; Jan. 6, 1983, Pub.L. 97-424, Title V, §

1983 Amendment. Subsec. (*l*)(3)(G). Pub.L. 97-424, § 541(a)(2), added provision that, for the purposes of this paragraph, rules similar to the rules of section 168(e)(3)(C) of this title shall apply.

1981 Amendment. Subsec. (a). Pub.L. 97-34, § 203(a), added provision that, in the case of recovery property (within the meaning of section 168), the deduction allowable under section 168 shall be deemed to constitute the reasonable allowance provided by this section, except with respect to that portion of the basis of such property to which subsection (k) applies.

Subsec. (d). Pub.L. 97-34, § 203(d), provided that subsec. (d) did not apply with respect to recovery property defined in section 168.

Subsec. (k)(2). Pub.L. 97-34, § 264(a), substituted "Except as provided in subparagraph (B), the aggregate amount" for "The aggregate amount" in subpar. (A), added subpar. (B), and redesignated former subpar. (B) as (C).

Subsec. (*l*)(3)(C). Pub.L. 97-34, § 209(d)(3), added "and which is placed in service before January 1, 1981" following "pre-1970 public utility property".

Subsec. (m)(4). Pub.L. 97-34, § 203(b), added par. (4).

Subsecs. (n), (o). Pub.L. 97-34, § 212(d)(1), struck out subsec. (n) which dealt with the use of the straight line method of depreciation in certain cases and subsec. (o) which dealt with the method of depreciation to be used in the case of substantially rehabilitated historic property.

Subsec. (r). Pub.L. 97-34, § 203(c)(1), redesignated subsec. (s) as (r). Former subsec. (r), relating to the retirement-replacement-betterment method of calculating depreciation, was stricken out.

1980 Amendments. Subsec. (k). Pub.L. 96-541, § 3, substituted in pars. (1) and (3)(D) "January 1, 1984" for "January 1, 1982" wherever appearing.

includes an allowance under the straight line method using a useful life equal to the period ending with the date established under subparagraph (B).

(2) **Interest.**—If the retirement or replacement of any combustor does not occur on or before the date referred to in paragraph (1)(B)—

(A) this subsection shall cease to apply with respect to such combustor as of such date, and

(B) interest at the rate determined under section 6621 on the amount of the tax benefit arising from the application of this subsection with respect to such combustor shall be due and payable for the period during which such tax benefit was available to the taxpayer and ending on the date referred to in paragraph (1)(B).

(r) Depreciation of improvements in the case of mines, etc.—

For additional rule applicable to depreciation of improvements in the case of mines, oil and gas wells, other natural deposits, and timber, see section 611.

(As amended Nov. 6, 1978, Pub.L. 95-600, Title III, §§ 312(c)(4), 367, Title VII, § 701(f)(4), (6), 92 Stat. 2826, 2857, 2901, 2902; Nov. 8, 1978, Pub.L. 95-615, § 7(a), 92 Stat. 3098; Nov. 9, 1978, Pub.L. 95-618, Title III, § 301(d)(3), (e)(1), 92 Stat. 3200, 3201; Dec. 17, 1980, Pub.L. 96-541, §§ 2(c), (d), 3, 94 Stat. 3204, 3205; Dec. 28, 1980, Pub.L. 96-613, § 2(a), 94 Stat. 3579; Aug. 13, 1981, Pub.L. 97-34, Title II, §§ 203(a)-(c)(1), (d), 209(d)(3), 212(d)(1), 264(a), 95 Stat. 221, 222, 227, 239, 264; Jan. 6, 1983, Pub.L. 97-424, Title V, § 541(a)(2), 96 Stat. 2192.)

1983 Amendment. Subsec. (*l*)(3)(G). Pub.L. 97-424, § 541(a)(2), added provision that, for the purposes of this paragraph, rules similar to the rules of section 168(e)(3)(C) of this title shall apply.

1981 Amendment. Subsec. (a). Pub.L. 97-34, § 203(a), added provision that, in the case of recovery property (within the meaning of section 168), the deduction allowable under section 168 shall be deemed to constitute the reasonable allowance provided by this section, except with respect to that portion of the basis of such property to which subsection (k) applies.

Subsec. (d). Pub.L. 97-34, § 203(d), provided that subsec. (d) did not apply with respect to recovery property defined in section 168.

Subsec. (k)(2). Pub.L. 97-34, § 264(a), substituted "Except as provided in subparagraph (B), the aggregate amount" for "The aggregate amount" in subpar. (A), added subpar. (B), and redesignated former subpar. (B) as (C).

Subsec. (l)(3)(C). Pub.L. 97-34, § 209(d)(3), added "and which is placed in service before January 1, 1981" following "pre-1970 public utility property".

Subsec. (m)(4). Pub.L. 97-34, § 203(b), added par. (4).

Subsecs. (n), (o). Pub.L. 97-34, § 212(d)(1), struck out subsec. (n) which dealt with the use of the straight line method of depreciation in certain cases and subsec. (o) which dealt with the method of depreciation to be used in the case of substantially rehabilitated historic property.

Subsec. (r). Pub.L. 97-34, § 203(c)(1), redesignated subsec. (s) as (r). Former subsec. (r), relating to the retirement-replacement-betterment method of calculating depreciation, was stricken out.

1980 Amendments. Subsec. (k). Pub.L. 96-541, § 3, substituted in pars. (1) and (3)(D) "January 1, 1984" for "January 1, 1982" wherever appearing.

Subsec. (n)(4). Pub.L. 95-541, § 2(c), added par. (4).

Subsec. (o)(3). Pub.L. 96-541, § 2(d), added par. (3).

Subsec. (r). Pub.L. 96-613 added subsec. (r) and redesignated former subsec. (r) as (s).

Subsec. (s). Pub.L. 96-613 redesignated former subsec. (r) as (s).

1978 Amendments. Subsec. (i). Pub.L. 95-600, § 312(c)(4), struck out subsec. (i), which related to a limitation in the case of property constructed or acquired during the suspension period.

Subsec. (k). Pub.L. 95-615 substituted "January 1, 1979" for "January 1, 1978" wherever appearing in pars. (1) and (3)(D).

Pub.L. 95-600, § 367, substituted "January 1, 1982" for "January 1, 1979".

Subsec. (n). Pub.L. 95-600, § 701(f)(4), in par. (1), substituted "occupied by a certified historic structure (or by any structure in a registered historic district) which is demolished or substantially altered after such date" for "occupied by a certified historic structure (as defined in section 191(d)(1)) which is demolished or substantially altered (other than by virtue of a certified rehabilitation as defined in section 191(d)(3) after such date", inserted the "and" preceding subpar. (B), substituted "means" for "shall mean" in subpar. (B), and added provision that "The preceding sentence shall not apply if the last substantial alteration of the structure is a certified rehabilitation."; in par. (2), substituted heading "Exceptions" for "Exception", designated existing text as subpar. (A), and added subpar. (B); and added par. (3).

Subsec. (o). Pub.L. 95-600, § 701(f)(6), inserted in par. (1) "(other than property with respect to which an amortization deduction has been allowed to the taxpayer under section 191)" following "substantially rehabilitated historic property" and substituted in par. (2) "section 191(d)(4)" for "section 191(d)(3)".

(File Nos. 5762, 5815), P.2d (1983).

When sale has taken place. — A sale has taken place when crab are delivered to the processor in Alaska under a previously negotiated contract. Sjong v. State, Dep't of Revenue, Sup. Ct. Op. No. 2269 (File No. 4255), 622 P.2d 967 (1981), appeal dismissed, 454 U.S. 1131, 102 S. Ct. 986, 71 L. Ed. 2d 284 (1982), decided under former AS 43.20.130.

Sec. 43.20.072. Oil and gas producers and pipelines. (a) All business income of a taxpayer engaged in the production of oil or gas from a lease or property in this state or engaged in the transportation of oil or gas by pipeline in this state shall be apportioned to this state in accordance with the Multistate Tax Compact (AS 43.19) as modified by this section.

(b) A taxpayer's business income to be apportioned under this section to the state shall be the federal taxable income of the taxpayer's consolidated business for the tax period, except that

(1) taxes based on or measured by net income that are deducted in the determination of the federal taxable income shall be added back;

(2) intangible drilling and development costs that are deducted as expenses under 26 U.S.C. 263(c) (Internal Revenue Code) in the determination of the federal taxable income shall be capitalized and depreciated as if the option to treat them as expenses under 26 U.S.C. 263(c) (Internal Revenue Code) had not been exercised;

(3) depletion deducted on the percentage depletion basis under 26 U.S.C. 613 (Internal Revenue Code) in the determination of the federal taxable income shall be recomputed and deducted on the cost depletion basis under 26 U.S.C. 612 (Internal Revenue Code) and

(4) depreciation shall be computed on the basis of 26 U.S.C. 167 (Internal Revenue Code) as that section read on June 30, 1981.

(c) A taxpayer's business income shall be apportioned to this state by multiplying the taxpayer's income determined under (b) of this section by the apportionment factor applicable to the taxpayer among the following factors:

(1) the apportionment factor of a taxpayer subject to this section but not engaged in the production of oil and gas from a lease or property in this state during the tax period is a fraction, the numerator of which is the sum of the property factor under the Multistate Tax Compact (AS 43.19) and the sales factor under (d) of this section for the taxpayer for that tax period, and the denominator of which is two;

(2) the apportionment factor of a taxpayer subject to this section but not engaged in the pipeline transportation of oil or gas in this state during the tax period is a fraction, the numerator of which is the sum of the property factor under (e) of this section and the extraction factor under (f) of this section for the taxpayer for the tax period, and the denominator of which is two;

(3) the apportionment factor of a taxpayer engaged both in the production of oil or gas from a lease or property in this state and in the pipeline transportation of oil or gas in this state during the tax period

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STATES CONTINUE TO RESPOND TO ACRS IN DIVERSE WAYS

On August 13, 1981, the Economic Recovery Tax Act of 1981 became Public Law 97-34. Among the provisions of this Act was the establishment of a new and more rapid form of depreciation known as the Accelerated Cost Recovery System.

States have responded to ACRS in different ways. Among the states where changes in federal depreciation provisions are automatically accepted for state tax purposes, some states have passed legislation to reject ACRS and some have allowed only a portion of ACRS. Among the states where the adoption of ACRS is not automatic, some have acted to adopt ACRS and some have allowed a portion of ACRS depreciation. Twenty states have enacted legislation in 1981 or 1982 affecting the application of ACRS for state tax purposes.

As a result of these changes, 24 states and the District of Columbia were generally in conformity with federal depreciation provisions in 1982. (Two of these states have denied ACRS to certain industries.) Ten states allowed a flat percentage of depreciation determined under ACRS or made similar adjustments. Another ten states did not allow ACRS and required that depreciation for state tax purposes be determined under the same rules as before ACRS was enacted.

STATUS OF ACCELERATED COST RECOVERY SYSTEM
FOR
STATE CORPORATION INCOME TAXES AT END OF 1982

ACRS Allowed	Percentage of ACRS	ACRS Not Allowed
Alabama	Connecticut	Arkansas
Alaska(1)	Florida	California
Arizona	Kentucky(7)	Georgia
Colorado	Maine(6)(9)	New Jersey(6)(7)
Delaware	Minnesota	New York(6)
Hawaii	Ohio(7)	North Dakota(8)
Idaho	Pennsylvania(7)	Oklahoma(6)(9)
Illinois	Tennessee	Oregon
Indiana(2)	Virginia	South Carolina
Iowa	West Virginia	Utah(9)
Kansas		
Louisiana		
Maryland		
Massachusetts(3)		
(Michigan)(4)		
Mississippi		
Missouri		
Montana		
Nebraska		
New Hampshire		
New Mexico		
North Carolina		
Rhode Island		
Vermont		
Wisconsin(5)		
District of Columbia		

(1) Depreciation for oil and gas producers and pipelines is computed on the basis of section 167 of the Internal Revenue Code as that section read on June 30, 1981.
(2) ACRS not allowed in 1981.
(3) ACRS not available to individuals because the personal income tax is based on the Internal Revenue Code existing on November 6, 1978.
(4) No corporation income tax. ACRS allowed for personal income tax. Depreciation not relevant for single business tax.
(5) ACRS not available to public utilities.
(6) ACRS allowed in full in 1981.
(7) ACRS allowed in full for individuals.
(8) Individuals filing the short form may use ACRS because the short form is based on the current Internal Revenue Code.
(9) ACRS allowed in full for individuals and Subchapter S corporations.

(Prepared by FTA)

Legislation enacted by states to allow ACRS. Most of the states allowing ACRS tie their statutes or regulations to the current federal Internal Revenue Code. In anticipation of ACRS, Hawaii enacted legislation on June 17, 1981, providing that the state would conform to the new federal provisions. Wisconsin enacted legislation on July 30, 1981, giving corporations and individuals the option of using depreciation under the current Internal Revenue Code, in effect incorporating ACRS when it was enacted.

Arizona, Idaho, Indiana, and Iowa tie their corporation income tax laws to the Internal Revenue Code of a specific date. In 1982, each of these states changed their reference dates so that ACRS would apply. In Arizona, Idaho, and Iowa, the changes were retroactive to 1981 tax years. In Indiana, ACRS was made effective with 1982 tax years. Indiana and Iowa raised their corporation income tax rates at the time they made ACRS applicable.

Alaska does not allow oil and gas producers and pipelines to use ACRS. By 1982 legislation, Wisconsin provided that telephone, telegraph, pipeline, gas, electric, and hot water utilities were not to use ACRS for state tax purposes.

Legislation enacted by states to disallow ACRS. Ten states do not allow ACRS. Four of these states have adopted legislation specifically rejecting ACRS. Oregon enacted legislation on August 17, 1981, disallowing ACRS for 1981 and 1982 tax years for personal and corporation income taxes. New Jersey, New York, and Oklahoma adopted legislation in 1982 rejecting ACRS. The legislation in New Jersey applies to tax years after 1981 but does not apply to personal income taxes. The legislation in New York applies to 1982 and 1983 tax years and to both personal and corporation taxes. The legislation in Oklahoma applies to property placed in service after 1981 but does not

...ly to personal income taxes or Subchapter S corporations.

Percentage of ACRS. Ten states accept ACRS as a starting point for determining depreciation for state tax purposes but in effect allow a deduction for depreciation that is a percentage of the amount determined under ACRS.

In January 1982, Connecticut provided that corporations are to take a declining percentage of the federal depreciation deduction for tax years 1981 through 1984. The percentages are 96 percent for 1981, 91 percent for 1982, 84 percent for 1983, and 77 percent for 1984. The unused portion of the depreciation may be taken as a deduction over a five-year period, one-fifth each year, beginning three years after the year in which it would otherwise have been claimed.

In April 1982, Florida enacted an excise tax equal to 2 percent of the excess of ACRS depreciation over straight line depreciation. The tax applies to tax years 1981 through 1984. The excise tax may be taken as a credit in the fifth year following the year for which the tax was paid.

In March 1982, Kentucky provided that, for tax years beginning before July 1, 1984, deductions under ACRS are to be divided by 1.4 to determine the depreciation deduction for state purposes. After July 1, 1984, ACRS may be claimed in full and the unused depreciation from the earlier years may be deducted over the next six years.

In December 1981, Maine authorized the use of ACRS for 1981 tax years only. In May 1982, Maine provided that whether ACRS would be allowed for 1982 would depend on whether the state budget officer determined that available revenues were sufficient. In December, he ruled that revenues were not sufficient. Consequently, corporate taxpayers are to add back 18 percent of the ACRS deduction to taxable income. The amount added back may be taken as a deduction in equal amounts during the next three years. ACRS applies in full for individuals and Subchapter S corporations.

In January 1982, Minnesota provided that personal and corporate taxpayers could claim 85 percent of ACRS for 1981 tax years and 83 percent for 1982. In March, Minnesota reduced the allowable percentage to 60 percent for real property, beginning with 1982 tax years, and 80 percent for other property, beginning with 1983 tax years. The unused depreciation may be claimed over a one to seven year period (depending on the class of the property) after the full federal deduction has been claimed.

In November 1981, Ohio provided that corporate taxpayers could either determine depreciation under the prior rules or add to taxable income 10 (continued on page 23)

FRANK BANE

Frank Bane, distinguished public servant and long-time head of the Council of State Governments, died January 23 at the age of 89. A native of Virginia, he served as state director of public welfare in Tennessee and in Virginia and founded the American Public Welfare Association in 1930. From 1935, when it was organized, until 1938, he administered the Social Security System. From 1938 to 1958, he was executive director of the Council of State Governments. During World War II, he also served as director of field operations in the Office of Price Administration. He was the first person to serve as Chairman of the Advisory Commission on Intergovernmental Relations, established by Congress in 1959.

BRUCE WALKER RETIRES AFTER LONG CAREER IN CALIFORNIA

Bruce Walker has retired from state service after an extensive career with the California Franchise Tax Board. Positions that he has held include assistant executive officer, chief counsel, operations chief, income tax chief, and compliance chief. He has also served as director of the department of veterans affairs and as member of the veterans board. A retirement dinner was held for him in Sacramento on January 20, 1983.

NESTOA CHOOSES NEW OFFICERS

The Executive Committee of the North Eastern State Tax Officials Association met in Washington, D.C. at the headquarters of the Federation of Tax Administrators on January 27, 1983. Because of the resignation of L. Joyce Hampers as Massachusetts Commissioner of Revenue and as NESTOA President, new officers were elected. The new officers are J. Basil Wisner, Maryland, President; Thomas F. Hogan, New York, Vice President; Robert Chastant, Delaware, Treasurer; and Gary Clark, Rhode Island, Secretary.

CENSUS BUREAU REPORTS ON STATE TAX COLLECTIONS

The Governments Division of the Bureau of the Census reports that state government tax revenue totaled $162.7 billion in fiscal years ending in 1982, 8.6 percent more than in the previous year. Of this amount, the largest portions were the general sales tax (31.0 percent) and the individual income tax (28.1 percent). Other taxes that accounted for more than 4 percent of the total were the corporation income tax (8.6 percent), motor fuel tax (6.4 percent), and severance taxes (4.8 percent). Motor vehicle licenses contributed 3.4 percent, public utility taxes yielded 3.0 percent, and cigarettes and tobacco products amounted to 2.4 percent.

PENNSYLVANIA COURT CLARIFIES SCOPE OF PROPERTY TAX EXEMPTION

The Pennsylvania Supreme Court has ruled that a private, nonprofit hospital was entitled to a property tax exemption, despite the fact that most of its operating expenses were covered by the fees it charged its patients. A lower court had held that since the law required an institution to be a "purely public charity" in order to qualify for an exemption, the hospital had to be supported primarily by charitable donations. The supreme court said that this was a misinterpretation of the statute. "Purely," it said, was meant to modify "public" not "charity"; and the hospital was purely public in its admissions policy and did not use the fees it collected for any prohibited purpose. (WEST ALLEGHENY HOSPITAL v. BOARD OF PROPERTY ASSESSMENT, decided December 23, 1982)

FLORIDA COURT RULES RESIDENCY REQUIREMENT FOR HOMESTEAD EXEMPTION IS UNCONSTITUTIONAL

The Florida Supreme Court has held that that state's requirement for five years' residence before a taxpayer could claim an additional property tax exemption on his home violated equal protection. This decision overturns a ruling by the Florida District Court of Appeal (reviewed in TAN, August 1982, page 93).

The provision challenged allowed homeowners who had lived in Florida continuously for five years a $25,000 exemption; other residents got only a $5,000 exemption. The court did not decide whether the statute should be subjected to strict scrutiny, for it found that it failed the "rational basis" test under the equal protection clause of the state constitution.

The court said it could find no valid reason for the establishment of two classes of bona fide permanent state residents for purposes of the exemptions. Under the recent U.S. Supreme Court case ZOBEL v. WILLIAMS (TAN, August 1982, page 94), it is not a legitimate state purpose to reward certain citizens, to the detriment of others, for their past contributions. Neither was it permissible for the state to seek to discourage immigration from other states, even if new residents do create extra expenses for services for the localities into which they move. Concluding, the court ruled that all homeowners would be entitled to the $25,000 exemption beginning in 1983; the decision was retroactive only for those who had actually challenged the statute. (OSTERNDORF v. TURNER, decided December 16, 1982)

PROGRAM ON UTILITY AND RAILROAD APPRAISAL

The thirteenth annual program on the appraisal of utilities and railroad property for ad valorem taxation will be held July 25-28, 1983, in Wichita, Kansas. The program is cosponsored by the Public Utilities and Transportation Taxation Committee of the National Tax Association/Tax Institute of America and the College of Business Administration of Wichita State University. The program will include general sessions on significant current topics, a basic utility and railroad appraisal course, and concurrent sessions for advanced participants. Information can be obtained from the Center for Management Development, Campus Box 86, Wichita State University, Wichita, Kansas 67208, (316) 689-3118.

(continued from page 14) percent of the depreciation claimed for federal purposes. This provision applies to the first two tax years ending on or after November 15, 1981. The unused depreciation can be claimed as a deduction during a five year period, beginning two years after the tax year affected. ACRS applies in full for individuals.

In December 1981, Pennsylvania provided that for 1981 and 1982 corporate taxpayers are to determine depreciation under the former federal provisions. For 1983, taxpayers will also be allowed to take half of the additional depreciation allowed by ACRS. For 1984 and thereafter, ACRS will apply in full. The unused deductions can be claimed over a four-year period beginning in 1984. ACRS applies in full for individuals.

In May 1982, Tennessee provided that taxpayers could either determine depreciation under prior rules or add to taxable income 10 percent of the depreciation claimed for federal purposes. This provision applies to tax years ending between July 15, 1982, and July 14, 1983.

In April 1982, Virginia provided that personal and corporate taxpayers could claim only 70 percent of ACRS depreciation for state purposes in the 1982 and 1983 tax years. The unused depreciation can be claimed over the following five years.

In March 1982, West Virginia required personal and corporate taxpayers to add to taxable income a percentage of the ACRS deduction, depending on the class of the asset. For five-year property, 10 percent of the deduction is added; for ten-year property, 15 percent; for fifteen-year public utility property, 25 percent; and for fifteen-year real property, 35 percent. For three-year property, no addition is required.

(File Nos. 5762, 5815), P.2d (1983).

When sale has taken place. — A sale has taken place when crab are delivered to the processor in Alaska under a previously negotiated contract. Sjong v. State, Dep't of Revenue, Sup. Ct. Op. No. 2269 (File No. 4255), 622 P.2d 967 (1981), appeal dismissed, 454 U.S. 1131, 102 S. Ct. 986, 71 L. Ed. 2d 284 (1982), decided under former AS 43.20.130.

Sec. 43.20.072. Oil and gas producers and pipelines. (a) All business income of a taxpayer engaged in the production of oil or gas from a lease or property in this state or engaged in the transportation of oil or gas by pipeline in this state shall be apportioned to this state in accordance with the Multistate Tax Compact (AS 43.19) as modified by this section.

(b) A taxpayer's business income to be apportioned under this section to the state shall be the federal taxable income of the taxpayer's consolidated business for the tax period, except that

(1) taxes based on or measured by net income that are deducted in the determination of the federal taxable income shall be added back;

(2) intangible drilling and development costs that are deducted as expenses under 26 U.S.C. 263(c) (Internal Revenue Code) in the determination of the federal taxable income shall be capitalized and depreciated as if the option to treat them as expenses under 26 U.S.C. 263(c) (Internal Revenue Code) had not been exercised;

(3) depletion deducted on the percentage depletion basis under 26 U.S.C. 613 (Internal Revenue Code) in the determination of the federal taxable income shall be recomputed and deducted on the cost depletion basis under 26 U.S.C. 612 (Internal Revenue Code) and

(4) depreciation shall be computed on the basis of 26 U.S.C. 167 (Internal Revenue Code) as that section read on June 30, 1981.

(c) A taxpayer's business income shall be apportioned to this state by multiplying the taxpayer's income determined under (b) of this section by the apportionment factor applicable to the taxpayer among the following factors:

(1) the apportionment factor of a taxpayer subject to this section but not engaged in the production of oil and gas from a lease or property in this state during the tax period is a fraction, the numerator of which is the sum of the property factor under the Multistate Tax Compact (AS 43.19) and the sales factor under (d) of this section for the taxpayer for that tax period, and the denominator of which is two;

(2) the apportionment factor of a taxpayer subject to this section but not engaged in the pipeline transportation of oil or gas in this state during the tax period is a fraction, the numerator of which is the sum of the property factor under (e) of this section and the extraction factor under (f) of this section for the taxpayer for the tax period, and the denominator of which is two;

(3) the apportionment factor of a taxpayer engaged both in the production of oil or gas from a lease or property in this state and in the pipeline transportation of oil or gas in this state during the tax period

Introduced: 1/23/85
Referred: House Special Committee on
Oil & Gas,Resources and Finance

IN THE HOUSE

BY THE RULES COMMITTEE BY REQUEST OF THE GOVERNOR

HOUSE BILL NO. 101

IN THE LEGISLATURE OF THE STATE OF ALASKA

FOURTEENTH LEGISLATURE - FIRST SESSION

A BILL

For an Act entitled: "An act relating to allowable depreciation methods for oil and gas producers and pipelines; and providing for an effective date."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

* Section 1. AS 43.20.072(b)(4) is repealed.

* Sec. 2. Section 1 of this Act is retroactive to January 1, 1985, and applies to tax returns for tax years beginning after December 31, 1984.

* Sec. 3. This Act takes effect immediately in accordance with AS 01.-10.070(c).

SCOMM

#46:14

103

SAP

DELIVER TO: Ned Farquhar LOCATION 465-2400 586-
FROM: Betty Harrison LOCATION 265-4244
TELEPHONE/TELECOPIER #_____ TOTAL NUMBER OF PAGES 3
TRANSMITTING ON/SPEED_____ DATE 9/7 TIME 12:05
PHONE FOR PROBLEMS-NAME/NUMBER 265-4244 and Sue Kang's Room
COMMENTS Per Cole, pls make necessary changes. Thanks.

1985 LEGISLATIVE PROPOSAL REQUEST FORM

DATE: August 30, 1984

DEPARTMENT: Department of Natural Resources (Oil and Gas)

SUBJECT OF PROPOSED BILL:
Royalty oil sales statewide change.

SUMMARY/EXPLANATION OF INTENT: (Why is legislation requested. Explain need. Attach additional sheet, if necessary.)
The proposed bill would 1) clarify and streamline procedural requirements for royalty oil sales by eliminating the best interest finding required by AS 38.05.035(e); and 2) enable the department to establish a regular program of short-term competitive royalty oil sales. The department proposes to conduct a competitive royalty oil (continued on attachment)

ESTIMATED FISCAL IMPACT: 0

Capital: 0

Operating: 0

Has this or a substantially similar bill been introduced (and not passed) in the Legislature in previous session? No
Has it been drafted and but not introduced: (If so, please attach copy of approved draft and give Department of Law file no.: 377-_____-_____.)

Why wasn't it passed?

Rate the bill's importance to the department by priority number (in relationship to your department's other requests if any).

COMMISSIONER'S SIGNATURE: _____
DATE: _____

Governor's Office Recommendation:

Continuation of Summary/Explanation of Intent:

Ned: this should read "similar"

sale in December, and it may wish to conduct similar competitive sales in the future. The statute requires legislative approval of royalty contracts except for small volume sales and sales of one year or less to relieve storage or market conditions. The statute further provides that a short-term sale to relieve storage or market conditions may not be continued after the end of one year or renewed with the same party without prior approval of the legislature.

The Department of Law has advised the department that if a second competitive sale were to be held in 1985 (assuming the 1984 proposed competitive sale proceeds as planned), successful bidders in the 1984 sale would not be able to participate in the 1985 sale due to the provision prohibiting continuation of a contract with the same party beyond one year without approval of the legislature. Thus, without the proposed statutory change, competition in any subsequent sales would be severely limited. The proposed legislation would allow companies that are successful bidders in the December competitive sale to participate in succeeding competitive sales for short-term contracts without requiring legislative approval of those contracts.

Regarding clarification of procedural requirements for royalty sales, AS 38.05.035(a)~~(14)~~ arguably applies to royalty sales even though the finding and related notice requirements are duplicative of the extensive royalty oil sale procedures in AS 38.05.182, .183, and AS 38.06. (Draft legislation attached.)

(e) ok

Ned: AS 38.05.035(a)(14)
Should read:
AS 38.05.035(e)

Offered:

Referred:

Original sponsors:

IN THE HOUSE

HOUSE BILL NO.

IN THE LEGISLATURE OF THE STATE OF ALASKA

FOURTEENTH LEGISLATURE - FIRST SESSION

A BILL

For an Act entitled: "An Act relating to royalty oil; and providing for an effective date."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

*Section 1. As 38.05.183 is amended by adding a new subsection to read:

(f) AS 38.05.035~~(a)(14)~~ (e) does not apply to a sale, exchange or other disposal of oil or gas under this section.

*Section 2. AS 38.06.055(c) is amended to read:

(c) A sale, exchange, or other disposition of oil or gas made other than by competitive bid under (b)(1) of this section may not be continued after the end of one year or renewed with the same party to provide relief for market or storage conditions without the prior approval of the legislature under (a) of this section.

*Section 3. This act takes effect immediately in accordance with AS 01.10.070(c).

telecopy → Kay
draft transmittal ltr
no fiscal impact?

DRAFT

Under the authority of art. III, sec. 18, of the Alaska Constitution, I am transmitting a bill relating to royalty oil. The bill would (1) clarify and streamline procedural requirements for royalty oil and gas sales by expressly providing that the best-interest finding set out in AS 38.05.035(e) does not apply to those sales; and (2) enable the Department of Natural Resources to establish a regular program of short-term competitive royalty oil sales.

It is unclear whether AS 38.05.035(e) applies to royalty oil and gas sales. Royalty oil and gas sales have detailed finding and notice requirements set out in AS 38.05.182, 38.05.183, and AS 38.06, and are expressly committed to commissioner actions. AS 38.05.035(e), on the other hand, is essentially duplicative of those other processes and concerns actions taken by the director of the division of lands. Although we believe that the provisions of AS 38.05.035(e) are not presently applicable to oil and gas sales, such confusion does cast a cloud over royalty oil sales (particularly those that are entered into because of an emergency situation). The amendment in sec. 1 of the bill resolves the issue.

The second change, in sec. 2 of the bill, would allow competitive royalty oil sales for terms of less than

DELIVER TO: Kay Brown LOCATION Oil & Gas
FROM: Ned Fregulare LOCATION Ph-Spec
TELEPHONE/TELECOPIER # TOTAL NUMBER OF PAGES 2
TRANSMITTING ON/SPEED DATE 10/5 TIME 9:50A
PHONE FOR PROBLEMS-NAME/NUMBER Marvin 465-2400
COMMENTS

one year to be conducted without legislative approval of those sales. To await legislative approval under a competitive bid situation for contracts of one year or less would defeat the entire purpose of that type of short-term competitive sales. Under the present statutory scheme, however, there is a serious question as to whether a party who gained royalty oil under one competitive sale could re-bid in a subsequent royalty oil sale if the combination of the two sales would lead to that particular buyer receiving oil for more than a one year period. Although it has been the consistent position of this and previous administrations that the requirement of legislative approval is unconstitutional, administrations have always, as a matter of comity, respected the legislature's desire to be consulted in long-term or negotiated royalty oil contracts. Further, the presence of the statute, whether or not constitutional, would cast a cloud on any sale. Thus we believe that a clarification to allow short-term competitive royalty oil sales would be in the best interests of all.

Sincerely,

Bill Sheffield
Governor

DRAFT

November 19, 1984

DISCUSSION OUTLINE
PROPOSED ROYALTY OIL STATUTE REVISION

Summary

The royalty oil statute needs revision in order to establish a program of regular competitive sales, a policy option the Sheffield administration may wish to pursue in 1986 after analyzing results from the December sale. In addition, other revisions are needed to clarify overall policy goals and streamline procedures.

Statement of Problem

1. The statute does not clearly define the purpose and policy goals of royalty oil sales. The statute does not provide effective guidance for assessing in-kind versus in-value taking, or competitive versus negotiated sales.

2. The prescribed procedures are cumbersome.

3. The statute as written arguably would not allow continuing, short-term competitive sales without legislative approval.

4. There is uncertainty over the division of responsibilities between the legislative and executive branches.

5. The result of these problems is that the state does not project a business-like atmosphere in conducting royalty oil sales. In past years we have seen extended arguments between the executive and legislative branches, and within the legislature itself, over proposed royalty oil contracts. Lawsuits have been filed. A proposed refinery and petrochemical complex based on a royalty oil contract failed to materialize. These problems cause uncertainty and delay for royalty oil purchasers, as well as administrative difficulties for the agency. Most important, failure to clearly define the purpose of the program may jeopardize our ability to maximize the state's income from royalty oil sales.

Recommendations for Statute Revision

1. Clarify policy criteria for sales.

   a. The primary policy goal for royalty oil sales should be to maximize the state's income.

   b. To the extent they are consistent with the primary objective of maximizing income, secondary policy goals should be to:

DRAFT

° Supply existing in-state refiners and utilities at market prices.

° Promote new in-state projects based on royalty oil and gas to the extent they are economically feasible at market prices in the absence of a royalty oil contract.

° Promote expansion of foreign markets for Alaska resources.

° Promote competition in the in-state market by giving preferences to in-state suppliers of petroleum products in competitive sales.

2. Clarify and Streamline Procedural Requirements.

a. Establish presumption for short-term (up to two years), competitive bid contracts which would not be approved by the legislature.

b. All long-term, negotiated contracts would require legislative approval.

Negotiated contracts would be allowed to achieve the first three secondary policy goals described above.

c. Short-term negotiated contracts (one year or less) could be allowed without legislative approval in specific, defined circumstances (such as emergency shortages and storage conditions).

d. Add requirement for an annual royalty report to be submitted to the legislature. Establish a schedule for contract submission and, if possible, for review by the legislature.

e. Clarify the role of the royalty oil and gas development advisory board.

Specific Proposed Revisions

° Consolidate and clarify procedural requirements of AS 38.05.182 - .183, AS 38.05.035(e), 38.05.345 and 38.06.

° Adopt general procedures to cover all royalties taken in-kind under AS 38.05.135-.181 (energy minerals including oil, gas, coal, geothermal, phosphates, oil shale, sodium, sulphur and potassium), and more specific procedures to cover only oil and gas.

DRAFT

° Add a provision requiring the Commissioner to reserve in-kind taking rights in all leases issued under 38.05.135-.181.

° Retain (or clarify) the present in-kind presumption in 38.05.182(a)(applies only to oil and gas). Eliminate the present opportunity for the Legislature to revoke a determination to take in-value in 38-.05.182(b).

° Add a requirement that the Commissioner submit an annual report on the royalty status of all producing leases to the Legislature within 10 days of the convening of a regular legislative session. The report would be similar in format and content to the Five-Year Oil and Gas Leasing Program document, and would include the percentages of royalties taken in-kind and in-value for each resource; the percentage of royalties purchased by in-state refiners/processors and the percentage of royalty oil or other resource actually processed in the state; proposed royalty contracts (if any) and .035 findings to support them.

° Generally, eliminate all requirements for separate procedures in 38.06 and 38.05.182-.183, and rely on the general disposition procedures in 38.05.035 and .345.

Incorporate all findings for specific items (such as determination of projected in-state hydrocarbon needs; determination to waive competitive bidding; etc.) into best interest findings under 38.05.035(e).

° Repeal most of AS 38.06 (Royalty Board).

Reestablish the board under .183 as an advisory group to the Commissioner of Natural Resources. Require the board to hold a hearing and make a written recommendation to the Commissioner on proposed sales which require legislative approval.

° Transfer 38.06.055 to .183 (legislative approval requirement and exemptions for short-term and small volume sales). Expand exemptions to include competitively bid contracts with terms of two years or less. (The requirements of .055 would continue to apply only to oil and gas.)

° Transfer the confidentiality provisions in 38.06.060 to .183.

1486K

MEMORANDUM

To: Senator Jay Kertulla

From: Jonathan Sperber, Committee Aide
House Special Committee on Oil and Gas

Date: May 9, 1985

Re: Underlift Amendment

Attached is a copy of the proposed amendment to CSHB 103, incorporating language changes suggested by Senator Halford and approved by Director Kay Brown and Commissioner Wunnicke.

I have also attached an opinion by Legislative Counsel Randall Moen stating that this amendment does not fall within the scope of the title of CSHB 103. It is the belief of both the Department of Law and the Department of Natural Resources, however, that underlifting is a form of disposal and that there is therefore no problem in attaching this amendment to the bill.

The purpose of this amendment is to allow the commissioner to defer disposing of royalty natural gas in the Southcentral marketplace until a later date. The state must dispose of its natural gas at the time of receipt, and the date of receipt and disposal is directly affected by underlifting of the gas.

As mentioned in 38.05.183(a), there may be a "disposal in whole or in part of a right to receive future mineral production under a state lease under this chapter." In this case, the state is giving up its right to receive royalty natural gas at this time, in order to exercise its right to receive royalty natural gas at a later date.

Please call me at 465-4930/4941 if I can be of assistance to you or your staff in this matter.

REMARKS

by

KAY BROWN, DIRECTOR, DIVISION OF OIL & GAS

on

CS HB 103 (Oil and Gas)

to

HOUSE RESOURCES COMMITTEE

February 25, 1985

Thank you Mr. Chairman. For the record, I'm Kay Brown, Director of the Division of Oil and Gas for the Alaska Department of Natural Resources. I appreciate the opportunity to address the committee on CS HB 103.

This bill makes two technical changes to the royalty oil and gas disposal statute.

SECTION 1 of the bill would remove royalty oil and gas disposals from the procedures that govern all disposals of interest in state land or resources under AS 38. It is unclear whether AS 38.05.035(e) applies to royalty oil and gas sales. Royalty oil and gas sales have detailed finding and notice requirements under AS 38.05.182, 183 and AS 38.06. Although we believe that .035 is not presently applicable to royalty oil and gas sales, the possibility that it does apply would cast a cloud over sales that had to be entered into because of an emergency situation. Further, elimination of the .035 requirement streamlines the procedural requirements by removing conflicting timelines for disposal.

SECTION 2 of the bill would allow continuing competitive royalty oil sales

for terms of less than one year to be conducted without legislative approval of those sales. AS 38.06.055(a) provides that the legislature will approve all royalty oil and gas sales. Subsection (b) of that section sets out several exceptions for short-term and small volume sales which do not require legislative approval. Subsection (b)(1) makes an exception for sales of one year or less to relieve storage or market conditions, and this is the section under which we held the competitive sale in December 1984. Subsection (c), which is the section being amended in CS HB 103, goes on to say that a sale made under (b)(1) may not be continued after the end of one year or renewed with the same party without the prior approval of the legislature under (a) of the statute.

The Department of Law has advised us that there is a serious question as to whether a party who gained royalty oil under one competitive sale could re-bid in a subsequent royalty oil sale if the combination of the two sales would lead to that particular buyer receiving oil for more than a one-year period.

We see no reason why a company which bids and wins in one competitive sale should not be able to bid again the next year and again win the right to receive oil if it bids the highest price.

To await legislative approval under a competitive bid situation for contracts of one year or less would defeat the entire purpose of that type of short-term competitive sale.

Although it has been the consistent position of this and previous

administrations that the requirement of legislative approval is unconstitutional, administrations have always, as a matter of comity, respected the legislature's desire to be consulted in long-term or negotiated royalty oil contracts. Further, the presence of the statute, whether constitutional or not, could cast a cloud on any subsequent competitive sale.

Mr. Chairman, while we have not yet made a firm decision on whether continuing competitive sales would be beneficial to the state, we would like to have that option available for consideration at the same time we are considering the new proposals for in-state use.

That concludes my remarks Mr. Chairman. Thank you very much for your time.

1585K

STATE OF ALASKA
THE LEGISLATURE

POUCH Y STATE CAPITOL
JUNEAU, ALASKA 99811
907 465 3800

LEGISLATIVE AFFAIRS AGENCY

M E M O R A N D U M May 9, 1985

SUBJECT: Constitutionality of amendment to CSHB 103(Fin)

TO: Representative Mike Davis

FROM: Randall J. Moen
Legislative Counsel

You have requested an amendment to CSHB 103(Fin), "An Act relating to prerequisites for the disposal of royalty oil and gas;", that, among other things, authorizes the commissioner of natural resources to enter into an agreement with affected field lease holders to store all or part of the state's royalty share of oil and gas before the end of 80 percent of the estimated field life.

In my opinion the amendment to CSHB 103(Fin) violates Article II, sec. 13, Constitution of the State of Alaska, which requires that "the subject of each bill shall be expressed in the title". The subject of the amendment relates to the storage of royalty oil and gas, whereas, the title addresses the disposal of royalty oil and gas. Storage is not a disposal. Storage relates to the safekeeping of one's goods and not the consumption or sale. O'Niel v. Buffalo F. Ins. Co., 3 N.Y. 122. Disposal pertains to the sale, pledge, giving away, use, consumption or any other disposition of a thing. C.B. Norton Jewelry Co. v. Maddock, 115 Kan. 108, 222 P.113, 114.

Because storage of royalty oil and gas and the disposal of royalty oil and gas are two distinct subjects, I conclude that the subject of the amendment to CSHB 103(Fin) is not expressed in the title of CSHB 103(Fin), and therefore is in violation of Article II, sec. 13 of the Alaska Constitution.

RJM:ojb
J14/108

Possible Amendment to AS 38.05.183(d)

(d) Except for sales of one year or less to relieve storage or market conditions, oil or gas taken in-kind by the state as its royalty share may not be sold or otherwise disposed of for export from the state until the commissioner determines that the royalty in-kind oil or gas is surplus to the present and projected intrastate domestic and industrial needs. The commissioner shall make public, in writing, the specific findings and reasons on which ~~his~~ THE determination is based and shall, within 10 days of the convening of a regular session of the legislature, submit a report showing the immediate and long-range domestic and industrial needs of the state for oil and gas and an analysis of how these needs are to be met.

3210s

Alaska State Legislature
House

Official Business

Pouch V
State Capitol
Juneau, Alaska 99811

MEMORANDUM

DATE: February 28, 1985

TO: Representative Davis
Representative Cotten
Representative Shultz
Representative Adams

FROM: Representative Marco Pignalberi MAP (mk)

SUBJECT: CSHB 103

I didn't have time to do homework on HB103 while it was in Oil & Gas Committee. However, subsequent review indicates to me that it has a serious flaw. Namely, that there is no limit on the frequency or duration of the renewals and continuations that DNR may award to a "short-term royalty oil contract holder.

I'd appreciate it if you would address this in your committee.

CSHB 103
ANALYSIS
REPRESENTATIVE MARCO A. PIGNALBERI

SECTION 1

AS 38.05.183 (a) Oil and gas royalties shall be by competitive bid.

(c) If oil and gas royalty sale is by other than competitive bid, then Commissioner shall make public, written justification.

(e) If oil and gas royalty sale is other than competitive bid, Commissioner shall award to buyer who proposes maximum benefits to state.

HB103 would add new section, (g), as follows:

(g) AS 38.05.035(e) does not apply to a sale of oil and gas under this section.

AS 38.05.035(e) Director may approve contracts for sale of land and resources with consent of Commissioner.

Analysis: This is a housekeeping amendment. It is not clear that 38.05.035(e) applies to royalty oil and gas. Its thrust is definitely land sales. In order to eliminate confusion, this section specifically excludes oil & gas.

****

SECTION 2

AS 38.06.055 (a) Requires legislative approval for royalty oil and gas contracts by enactment of legislation.

(b) Exceptions to legislative approval

(1) if sale is less than one year to relieve storage or market conditions

(2) "small amounts"

AS 38.06.055 (c) Present language says contracts that are exempt from legislative approval because they're for less than one year to relieve storage or market conditions, may not be continued or renewed beyond one year.

The proposed AS 38.06.055 (c) would allow a competitive bid sale that is less than one year to be continued or renewed without legislative approval. But it would not allow a negotiated sale to be renewed without legislative approval.

Analysis: Summarily, the protection of the public interest afforded by legislative review and approval is replaced by competitive bid procedures. However, the proposed change in AS 38.06.055 (c) does not limit the frequency or duration of renewals and continuances that may be made without the legislature's approval.

Conclusion: This amendment may have the effect of circumventing the legislature by transitioning all short-term, "market conditions" contracts to long-term contracts. I believe this flaw is serious, especially in light of DNR's position that legislative approval is an unconstitutional burden.

In addition, I suggest you delete the phrase beginning on line 17 and ending on line 18 that says [to provide relief for market or storage conditions].

Alaska State Legislature
House

Official Business

Pouch V
State Capitol
Juneau, Alaska 99811

February 28, 1985

Kay Brown, Director
Division of Oil and Gas
Department of Natural Resources
Pouch 7-034
Anchorage, Alaska 99510

Dear Kay:

During your testimony on HB 103, before the House Oil and Gas Committee, it was not made clear what time savings would accrue or deadline conflicts would be averted with enactment of the bill. Would you please explicate these matters in writing and copy the members shown below.

Thank you.

Yours truly,

Marco A. Pignalberi
State Representative

MAP:mk
cc: Representative Mike Davis
Representative Dick Shultz
Representative Al Adams
Representative Terry Martin

STATE OF ALASKA
DEPARTMENT OF NATURAL RESOURCES
DIVISION OF OIL AND GAS

BILL SHEFFIELD, GOVERNOR

POUCH 7-034
ANCHORAGE, ALASKA 99510

March 5, 1985

The Honorable Al Adams, Chairman
House Finance Committee
Alaska State House of Representatives
Juneau, AK 99811

Dear Representative Adams:

CSHB 103 (Oil and Gas), which relates to prerequisites for disposal of royalty oil and gas, is scheduled for a hearing tomorrow in your committee.

At the House Resources Committee hearing on February 25, 1985, the question was raised as to whether the proposed amendment in Section 2 of the bill would allow a competitive bid sale of one year or less to be continued or renewed beyond one year without legislative approval and without going to competitive bid.

While the language could possibly be interpreted to allow that outcome, I am informed by the Attorney General's Office that the case law on competitive bidding would preclude it, since a competitively-bid contract cannot be materially amended after it is awarded.

Nevertheless, we believe the bill could be improved and an unintended construction could be prevented by adoption of the following language for Section 2 of the bill (substitute beginning on line 14):

*Sec. 2. AS 38.06.055(c) is amended to read:
(c) A sale, exchange, or other disposition of oil or gas [MADE] under (b)(1) of this section may not be continued after the end of one year or renewed with the same party [TO PROVIDE RELIEF FOR MARKET OR STORAGE CONDITIONS] without the prior approval of the legislature under (a) of this section. <u>This subsection does not apply to contracts awarded to the same party in sequential competitive sales of oil or gas under (b)(1) of this section.</u>

Thank you for your consideration.

Sincerely,

Kay Brown
Director

cc: House Finance Committee Members
Commissioner Esther C. Wunnicke

3/1

Mike --

You asked for comments regarding Marco's analysis of HB 103:

As you know from conversations we had prior to the bill's introduction, there is no limit to the number of times that a company would be eligible to receive consecutive short-term competitive bid contracts under HB 103. You will recall that we discussed the possibility of proposing amendments that would either limit the number of times that such a contract could be renewed, or that would extend the maximum duration of a short-term contract while disallowing renewal.

Marco is also correct in noting that DNR regards the need for legislative approval of long-term royalty oil contracts as unconstitutional, as this was directly stated in the Governor's letter of transmittal. We are also aware from repeated conversations with Kay Brown that DNR is a proponent of competitive bid sales and, in large degree, an opponent of negotiated sales.

As was discussed in committee, language allowing for the sale of royalty oil to meet market or storage conditions does provide an effective means of circumventing statutory requirements for legislative approval of long-term sales. Although definitions of market and storage conditions are present in 11 AAC 03.080 and .090, these terms are not defined in the statutes themselves. DNR has pointed out that this lack of definition presents problems from their perspective as well.

Please advise as to what you would like done at this point.

Jim

Introduced: 1/23/85
Referred: House Speical Committee on
Oil & Gas, Resources and Finance

IN THE HOUSE

BY THE RULES COMMITTEE BY REQUEST OF THE GOVERNOR

HOUSE BILL NO. 103

IN THE LEGISLATURE OF THE STATE OF ALASKA

FOURTEENTH LEGISLATURE - FIRST SESSION

A BILL

For an Act entitled: "An Act relating to royalty oil; and providing for an effective date."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

* Section 1. AS 38.05.183 is amended by adding a new subsection to read:

(g) AS 38.05.035(e) does not apply to a sale, exchange, or other disposal of oil or gas under this section.

* Sec. 2. AS 38.06.055(c) is amended to read:

(c) A sale, exchange, or other disposition of oil or gas, ~~other than by competitive~~ bid, made under (b)(1) of this section may not be continued after the end of one year or renewed with the same party to provide relief for market or storage conditions without the prior approval of the legislature under (a) of this section.

* Sec. 3. This Act takes effect immediately in accordance with AS 01.-10.070(c).

① add ", other than by competitive bid,"

OR

② add a new sentence "This subsection does not apply to contracts awarded in sequential competitive sales of oil or gas under (b)(1) of this section."

Original sponsor: Rules/Governor

IN THE HOUSE BY THE FINANCE COMMITTEE

CS FOR HOUSE BILL NO. 103 (Finance)

IN THE LEGISLATURE OF THE STATE OF ALASKA

FOURTEENTH LEGISLATURE - FIRST SESSION

A BILL

For an Act entitled: "An Act relating to prerequisites for the disposal of royalty oil and gas; and providing for an effective date."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

* Section 1. AS 38.05.183 is amended by adding a new subsection to read:

(g) AS 38.05.035(e) does not apply to a sale, exchange, or other disposal of oil or gas under this section.

* Sec. 2. AS 38.06.055(c) is amended to read:

(c) A sale, exchange, or other disposition of oil or gas [MADE] under (b)(1) of this section may not be continued after the end of one year or renewed with the same party [TO PROVIDE RELIEF FOR MARKET OR STORAGE CONDITIONS] without the prior approval of the legislature under (a) of this section. <u>This subsection does not apply to a sequential competitively bid sale of oil or gas made with the same party under (b)(1) of this section.</u>

* Sec. 3. This Act takes effect immediately in accordance with AS 01.-10.070(c).

Moen

A M E N D M E N T

Offered in the SENATE

TO: CSHB 103 (Finance)

Page 1, after line 9 insert a new bill section to read:

"* Section 1. AS 38.05.180(1) is amended to read:

(1) Subject to the provisions of AS 31.05, the commissioner has discretion to enter into an agreement whereby, with the consent of the lessee, the state's royalty share of oil and gas production may be stored or retained in storage by the lessee, or the commissioner may enter into an agreement with one or more of the affected field lease holders to trade current royalty production from a field for a like amount, kind, and quality of future production. An agreement for storage may be made only [,] on the condition that the state receives back its stored [OR TRADED] royalty share during the first half of the estimated field life or no later than 15 years after start of production, whichever is sooner. An agreement to trade all or part of current royalty production for future production may be made only if the commissioner makes a written finding that the state will receive back its traded royalty share before 80 percent of the estimated field reserves are depleted, considering engineering constraints, whether reserves from other producing fields are pledged to protect the traded royalty share, and other relevant factors. An agreement to trade current production for future production entered into under this subsection must contain a provision holding the lessee harmless in the

event that, without the fault of the lessee, the state is unable to receive its traded royalty share because of unanticipated depletion of the field and any other pledged producing fields."

Page 1, line 10, delete "* Section 1." and insert "* Sec. 2."

Renumber remaining bill section accordingly.

AMENDMENT

Offered in the SENATE

TO: CSHB 103 (Finance)

Page 1, after line 9 insert a new bill section to read:

"* Section 1. AS 38.05.180(1) is amended to read:

(1) Subject to the provisions of AS 31.05, the commissioner has discretion to enter into an agreement whereby, with the consent of the lessee, all or part of the state's royalty share of oil and gas production may be stored or retained in storage by the lessee, or the commissioner may enter into an agreement with one or more of the affected field lease holders to trade all or part of current royalty production from a field for a like amount, kind, and quality of future production, if the commissioner makes a written finding [ON THE CONDITION] that the state receives back its stored or traded royalty share before 80 percent of the estimated field life is depleted, considering engineering constraints, whether reserves from other producing fields are pledged to protect the stored or traded royalty share, and other relevant factors [DURING THE FIRST HALF OF THE ESTIMATED FIELD LIFE OR NO LATER THAN 15 YEARS AFTER START OF PRODUCTION, WHICHEVER IS SOONER]."

Page 1, line 10, delete "* Section 1." and insert "* Sec. 2."

Renumber remaining bill section accordingly.

Zamor Kerttula

MEMORANDUM

DEPARTMENT OF NATURAL RESOURCES
DIVISION OF OIL AND GAS

State of Alaska

TO: Senator Jalmar Kerttula

DATE: May 9, 1985

FILE NO:

TELEPHONE NO: 276-2653

FROM: Kay Brown, Director Kay

SUBJECT: Underlift Amendment

Here is some additional background for your information.

	Kenai gas field	Beluga gas field
Date of first production	1962	1968
Years produced	23	17
Total recoverable gas	2410 BCF	985 BCF
Total production to date	1560 BCF	185 BCF
Percent of total recoverable gas produced to date	65	19
Average annual production	108 BCF	19 BCF
Years of production remaining (at current rates)	8	42
Year that 80% of recoverable gas will have been produced (at current rates)	1989	2016

1657K

Handle ASAP. Pers Comments

DELIVER TO: Ned Farquhar LOCATION 465-2400
FROM: Kay Brown LOCATION 265-4241
TELEPHONE/TELECOPIER # _____ TOTAL NUMBER OF PAGES (1)
TRANSMITTING ON/SPEED _____ DATE 5/9 TIME 10 am
PHONE FOR PROBLEMS NAME/NUMBER 265-4244 - Betty

STATE OF ALASKA

POUCH V
JUNEAU, ALASKA 99811
(907) 465-4941

HOUSE SPECIAL COMMITTEE ON OIL AND GAS

MEMORANDUM

To: Legislative Drafting

From: Rep. Mike Davis, Chairman

Date: Feb. 14, 1985

Re: CSHB 103

On Feb. 13 the House Special Committee on Oil and Gas passed out CSHB 103 with the following amendment:

> The title has been changed to "An Act relating to prerequisites for the disposal of royalty oil and gas; and providing for an effective date."

Please send a final draft of CSHB 103 incorporating this amendment to my office.

Thank you for your assistance.

STATE OF ALASKA

DEPARTMENT OF NATURAL RESOURCES

OFFICE OF THE COMMISSIONER

BILL SHEFFIELD, GOVERNOR

POUCH M
JUNEAU, ALASKA 99811
PHONE: 907-465-2400

May 8, 1985

The Honorable Mike Davis
Alaska State House
Pouch V
Juneau, AK 99811

Dear Representative Davis:

The Department of Natural Resources has proposed an amendment to AS 38.05.180(1) that I believe deserves your support. The proposed amendment is needed to give the State more flexibility to resolve a dispute over the value of Cook Inlet royalty gas.

The Department of Natural Resources recently informed Cook Inlet gas lessees that it would no longer accept long-term contract prices as the value for royalty gas taken in-value. Under the leases, the State is entitled to get current market value for the royalties. The department took the action to fulfill its responsibility under the law and the leases to obtain full value for the State's resources.

One consequence of the lease enforcement action is that consumer prices for electricity and gas in Southcentral will go up by a small amount (no more than 4 percent).

One lessee -- ARCO -- recently sued the State over the action, and the other lessees have indicated they also will fight the action in court.

A representative of one of the Beluga gas field lessees suggested a few days ago that the State consider an "underlift" of its royalty share as a possible way to resolve the dispute. Under this approach, the State's gas could be kept in the ground and recovered at a later date.

The current statute authorizes trades of current royalty production for future production, but provides that the traded royalty share must be recovered during the first half of the field life or within 15 years from the start of production, whichever is sooner.

10-J9LH

Both the Kenai gas field and the Beluga gas field are more than 15 years into production. The Beluga field, which began production in 1968, has about 80 percent of its recoverable reserves remaining to be produced after 17 years of production. The Kenai field, which began production in 1962, has about 34 percent of its recoverable reserves remaining, but the State's effective royalty share is only about 2 percent in that field. To ensure that the State receives its share before the end of the field life, gas from other nearby fields could be pledged as a backup mechanism.

The possibility of arranging a trade of current production for future production holds promise as a way to resolve the current dispute without compromising the State's position in other royalty litigation or the lease enforcement process. However, we cannot pursue this possibility unless the statute is amended.

We think the underlift approach could be attractive to all parties because:

- Consumer electric and gas rate increases that would otherwise occur could be avoided (or at least postponed for perhaps 5-7 years);

- The State would be banking the resources until a local or foreign export market develops for the gas;

- Lengthy litigation could be avoided;

- All future options for disposition of the gas would remain open;

- The Legislature would have more time to consider the issue of using royalties to provide consumer energy subsidies;

- If the Legislature does desire to subsidize Southcentral utility rates through in-kind royalty sales in the future, more gas would be available to offset large price increases that will occur in the early 1990s when long-term contracts expire.

The expected fiscal impact of underlifting in the Beluga and Kenai fields, if agreement could be reached by the State, lessees, and utilities to allow that arrangement, would be a loss of about $1.5 million in FY 86.

The State's options for disposition of the gas are limited at this time. Immediate local needs appear to be satisfied by existing contracts between the utilities and gas producers. Certain contractual provisions in those contracts may make in-kind royalty gas sales unattractive to the utilities at this time. For example, the Chugach Electric contract for Beluga Gas contains a "most favored nation" provision which would jeopardize the utility's favorable long-term contract price if it purchases gas from that field at a higher price. Enstar also would have no incentive to purchase royalty gas from the Kenai field because any such purchase would reduce the volume of gas Enstar is entitled to receive under its 61¢ long-term contract with Union and Marathon.

It is our expectation that the amendment will be proposed during Senate floor debate on CSHB 103(Finance). In addition to the underlift amendment, I urge your support of that bill. The bill would remove possible legal impediments to renewing with the same purchaser short-term, competitively bid royalty oil contracts.

If you have any questions, please call.

Sincerely,

Esther C. Wunnicke
Commissioner

Attachment

May 8, 1985

DEPARTMENT OF NATURAL RESOURCES

Proposed amendment to AS 38.05.180(1).

(1) Subject to the provisions of AS 31.05, the commissioner has discretion to enter into an agreement whereby, with the consent of the lessee, all or part of the state's royalty share of oil and gas production may be stored or retained in storage by the lessee, or the commissioner may enter into an agreement with one or more of the affected field lease holders to trade all or part of current royalty production from a field for a like amount, kind, and quality of future production, [ON THE CONDITION] if the commissioner makes a written finding that the state will receive[S] back its stored or traded royalty share [DURING THE FIRST HALF OF THE ESTIMATED FIELD LIFE OR NO LATER THAN 15 YEARS AFTER THE START OF PRODUCTION, WHICHEVER IS SOONER.] before the end of the estimated field life, considering engineering constraints, whether reserves from other fields are pledged to protect the royalty amount, and other relevant factors.

BILL SHEFFIELD
GOVERNOR

HB103

STATE OF ALASKA
OFFICE OF THE GOVERNOR
JUNEAU

January 23, 1985

The Honorable Ben Grussendorf
Speaker of the House
Alaska State Legislature
Pouch V
Juneau, AK 99811

Dear Representative Grussendorf:

Under the authority of art. III, sec. 18, of the Alaska Constitution, I am transmitting a bill relating to royalty oil. The bill would (1) clarify and streamline procedural requirements for royalty oil and gas sales by expressly providing that the best-interest finding set out in AS 38.05.035(e) does not apply to those sales; and (2) enable the Department of Natural Resources to establish a regular program of short-term competitive royalty oil sales.

It is unclear whether AS 38.05.035(e) applies to royalty oil and gas sales. Royalty oil and gas sales have detailed finding and notice requirements set out in AS 38.05.182, 38.05.183, and AS 38.06, and are expressly committed to commissioner actions. AS 38.05.035(e), on the other hand, is essentially duplicative of those other processes and concerns actions taken by the director of the division of lands. Although we believe that the provisions of AS 38.05.035(e) are not presently applicable to oil and gas sales, such confusion does cast a cloud over royalty oil sales (particularly those that are entered into because of an emergency situation). The amendment in sec. 1 of the bill resolves the issue.

The second change, in sec. 2 of the bill, would allow competitive royalty oil sales for terms of less than one year to be conducted without legislative approval of those sales. To await legislative approval under a competitive bid situation for contracts of one year or less would defeat the entire purpose of that type of short-term competitive sales. Under the present statutory scheme, however, there is a serious question as to whether a party who gained royalty oil under one competitive sale could re-bid in a subsequent royalty oil sale if the combination of the two sales would lead to that particular buyer receiving oil for more than a one year period. Although it has been the

consistent position of this and previous administrations that the requirement of legislative approval is unconstitutional, administrations have always, as a matter of comity, respected the legislature's desire to be consulted in long-term or negotiated royalty oil contracts. Further, the presence of the statute, whether or not constitutional, would cast a cloud on any sale. Thus we believe that a clarification to allow short-term competitive royalty oil sales would be in the best interests of all.

Sincerely,

Bill Sheffield
Governor

STATE OF ALASKA 1985 LEGISLATIVE SESSION

FISCAL NOTE

Revision Date:

REQUEST

Bill/Resolution No.: HB 103

Title: An Act relating to royalty

Sponsor:

Requestor:

Date of Request:

FISCAL DETAIL

Agency Affected: Natural Resources

Program Category Affected: NRMEC

BRU, Program or Subprogram(s) Affected: Minerals and Energy Management

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 85	FY 86	FY 87	FY 88	FY 89	FY 90
OPERATING						
100 PERSONAL SERVICES						
200 TRAVEL						
300 CONTRACTUAL						
400 SUPPLIES						
500 EQUIPMENT						
600 LAND & STRUCTURES						
700 GRANTS, CLAIMS						
800 MISCELLANEOUS						
TOTAL OPERATING	0	0	0	0	0	0
CAPITAL						
REVENUE						

FUNDING: (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER						
TOTAL						

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS: Attach a separate page if necessary

No fiscal impact.

Prepared By: Kay Brown Phone: 265-4241

Division: Oil and Gas Date: December 7, 1984

Approved by Commissioner: Robert D Arnold, Deputy Date: December 10, 1984

Agency: Natural Resources

Distribution (by Agency preparing fiscal note):

Legislative Finance
Legislative Sponsor
Requestor
Office of Management and Budget
Impacted Agency(ies)

7/1/84

best interests determination described in 11 AAC 03.010(d). (Eff. 12/12/80, Reg. 76)

Authority: AS 38.05.020
AS 38.05.183
AS 38.06.070

11 AAC 03.070. REJECTION OF PROPOSALS. (a) If the commissioner has either (1) solicited proposals for the noncompetitive sale of royalty oil, gas, or gas liquids, (2) issued a written determination to dispose of royalty oil, gas, or gas liquids by a method other than by competitive bid, or (3) issued written procedures for the noncompetitive disposal of royalty oil, gas, or gas liquids as described in 11 AAC 03.050, and the commissioner proposes to reject any proposal or application received as a result of the solicitation, determination, or written procedures, the commissioner will notify the Alaska Royalty Oil and Gas Development Advisory Board in writing before rejecting the proposal or application.

(b) The notification required by (a) of this section will consist of a list of the names of the prospective buyers whose proposals are rejected along with their proposals and any correspondence received from the prospective buyers.

(c) The commissioner will, in his or her discretion, reject unsolicited or uninvited proposals for the noncompetitive disposal of royalty oil, gas, or gas liquids without notifying the Alaska Royalty Oil and Gas Development Advisory Board. (Eff. 12/12/80, Reg. 76; am 8/8/84, Reg. 91)

Authority: AS 38.05.020
AS 38.06.050

11 AAC 03.080. STORAGE CONDITIONS. The commissioner disposes of royalty oil, gas, or gas liquids to relieve storage conditions when

(1) the royalty oil, gas, or gas liquids have either been noticed for a taking in-kind or are being taken in-kind or are being taken in-kind by the state; and

(2) the disposition planned for the oil, gas, or gas liquids at the time of the notice to take the oil, gas, or gas liquids in-kind can no longer be effectuated for any reason, or the disposition is no longer in the best interests of the state. (Eff. 12/12/80, Reg. 76; am 8/8/84, Reg. 91)

Authority: AS 38.05.020
AS 38.05.183
AS 38.06.055

11 AAC 03.090. MARKET CONDITIONS. The commissioner disposes of royalty oil, gas, or gas liquids to relieve market conditions when

(1) in a noncompetitive disposition of royalty oil, gas, or gas liquids the price to be received under the noncompetitive disposition is higher than the amount being received by the state, either in-value or in-kind, at the time of the disposition and the commissioner estimates that the sale price will be higher than the in-value amount throughout the term of the contract for disposition;

(2) in a disposition by competitive bid the commissioner determines, at the time of issuance of the invitation to bid, that there is a substantial probability that the state will receive more than the in-value price as a result of the disposition by competitive bid;

(3) the royalty oil, gas, or gas liquids disposed of will be used to meet in-state needs for crude oil, gas, or gas liquids or petroleum products and the sale price of that royalty oil, gas, or gas liquids is at least equal to the in-value amount which would have been received by the state during the same period; or

(4) there is or will be an emergency in-state need for crude oil, gas, or gas liquids or petroleum products, which could be alleviated by the sale of the royalty oil, gas, or gas liquids. (Eff. 12/12/80, Reg. 76; am 8/8/84, Reg. 91)

Authority: AS 38.05.020
AS 38.05.183
AS 38.06.055

11 AAC 03.091. PROVISIONS APPLICABLE TO ROYALTY CONTRACTS. (a) Within 10 days after receiving written notice from a royalty purchaser of its intent to renegotiate price, as provided for by the terms of that purchaser's state royalty contract, or within 10 days after giving a royalty purchaser written notice of the state's intent to renegotiate price, as provided for by the terms of that purchaser's state royalty contract,

or before the adoption of any material amendment to a royalty contract which appreciably reduces the consideration received by the state, the commissioner will publish notice of the intent to renegotiate price or amend the contract in a newspaper of general statewide circulation. In addition, the commissioner will, in his or her discretion, publish notice by radio, television, or other electronic media. The notice will include

(1) a summary of information pertinent to the royalty contract, including quantity, current price, and termination date;

(2) a statement indicating where copies of the contract may be obtained; and

(3) a statement that any person may file written comments on the notice with the commissioner within 30 days after publication of the notice.

(b) In establishing or renegotiating the price of a royalty contract, the commissioner will obtain a price at least equal to the price that would have been received had the oil, gas, or gas liquids been taken in-value, plus field costs incurred by the royalty share, unless the commissioner determines that a lower price for the royalty gas would best serve the state's interests.

(c) The commissioner will submit to the legislature for approval any material amendment to a royalty contract which appreciably reduces the consideration received by the state.(Eff. 8/8/84, Reg. 91)

Authority: AS 38.05.020
AS 38.05.182
AS 38.05.183

11 AAC 03.100. DISPOSITION BY COMPETITIVE BID. (a) A disposition of royalty oil, gas, or gas liquids by competitive bid will, in the commissioner's discretion, be made without a written determination by the commissioner that the disposition of royalty oil, gas, or gas liquids by competitive bidding is in the best interests of the state.

(b) A disposition of royalty oil, gas or gas liquids by competitive bid will, in the commissioner's discretion, be made by the commissioner without notice to the Alaska Royalty Oil and Gas Development Advisory Board; however, the commissioner will follow the procedures set out in 11 AAC 03.210 and 11 AAC 03.240. (Eff. 12/12/80, Reg. 76; am 8/8/84, Reg. 91)

Authority: AS 38.05.020
AS 38.05.183

11 AAC 03.110. SEALED BIDS. A disposition of royalty oil, gas, or gas liquids by competitive bid will be by sealed bid. The bids must be addressed to the commissioner and must be delivered in the manner, to the place, and by the date and time specified in the invitation to bid. Bids will be opened in public at the date, time, and place specified in the invitation to bid, unless the commissioner designates a later time for opening. (Eff. 12/12/80, Reg. 76; am 8/8/84, Reg. 91)

Authority: AS 38.05.020
AS 38.05.183

11 AAC 03.120. INVITATION TO BID. A disposition of royalty oil, gas, or gas liquids by competitive bid will be initiated by the commissioner by issuance of an invitation to bid. The invitation to bid will specify the quantity of oil, gas, or gas liquids to be sold, the term of disposition, the point of delivery, and any other terms and conditions of the disposition considered necessary by the commissioner. The commissioner will, in his or her discretion, include a form contract in the invitation rather than specifying terms and conditions. The invitation will specify qualifications of bidders and, if a determination of the qualification of a bidder by the commissioner is required, an explanation of the procedure for qualification. If priorities among bidders are to be assigned, the invitation will include an explanation of the procedure for obtaining a priority designation. The invitation will specify where, when, and how bids may be submitted to the commissioner and will specify the bond or other security which must accompany the bid. The invitation will specify the date, time, and place of bid opening, and the procedures under which the royalty oil will be awarded and contracts for disposition executed. (Eff. 12/12/80, Reg. 76; am 8/8/84, Reg. 91)

Authority: AS 38.05.020
AS 38.05.183

11 AAC 03.130. SECURITY. The commissioner may require that security, which in his

State of Alaska

Department of Natural Resources

Supplemental Findings

Competitive Royalty Oil Sale

(Prudhoe Bay and Kuparuk River Units)

November 28, 1984

Supplemental Findings
Competitive Royalty Oil Sale
(Prudhoe Bay and Kuparuk River Units)

AS 38.05.183(d) states that oil and gas taken in-kind as the state's royalty share of production may not be sold or otherwise disposed of for export from the state until the Commissioner of Natural Resources determines that the royalty in-kind oil or gas is surplus to the present and projected intrastate domestic and industrial needs for oil and gas. I find that the 90,000 bpd scheduled for competitive sale on December 11, 1984 is surplus to present and projected intrastate domestic and industrial needs for oil.

AS 38.05.183 also requires the Commissioner to submit an annual report to the state legislature "showing the immediate and long-term domestic and industrial needs of the state for oil and gas and an analysis of how these needs are to be met." The Department of Natural Resources, Division of Oil & Gas (the Department) complies with that requirement by preparing a document, published each January, entitled Historical and Projected Oil and Gas Consumption (also called the Supply/Demand study). The January 1984 Supply/Demand study concluded, as it had in previous years, that in-state supplies of both oil and gas far exceeded the immediate and long-term domestic and industrial needs of the state for oil and gas.

Due to the absence of any new information concerning the immediate and long-term domestic and industrial needs of the state for oil and gas, the Department again concluded, both in the Preliminary Findings and Determination to Negotiate Backup Royalty Oil Contract(s) and Conduct a Competitive Royalty Oil Sale (July 12, 1984) and the Final Findings and Determination to Conduct a Competitive Royalty Oil Sale for In-Kind Oil from the Prudhoe Bay and Kuparuk River Units (October 10, 1984), that the 90,000 bpd of state royalty oil to be sold competitively on December 11, 1984 is surplus to in-state needs. Consequently, upon the publication of the Preliminary Finding and execution of contracts with backup purchasers, the state gave a six-month notice to the North Slope producers of its intent to take 90,000 bpd of royalty oil in-kind (as provided by procedures in the Prudhoe Bay and Kuparuk River Unit Agreements).

The Department's conclusion was and is based in part on the interpretation of AS 38.05.183 stated in each Supply/Demand study since 1982. In that year, the study first gave specific definitions to certain phrases in that statute. Since 1982, the first chapter of every Supply/Demand study has contained a list of possible definitions for some of the imprecise clauses of AS 38.05.183, such as "how these needs are to be met". The Supply/Demand study definition of that phrase specifies the Department's long-standing position that the state's present and projected intrastate domestic and industrial needs for oil and gas may be met from a variety of sources, including state royalty oil. See 1984 Supply/Demand study page 1.7.

The intent of the statute should not be regarded as complete state self-sufficiency in refined products from state royalty oil. Rather, the Department believes the legislature was aiming at ensuring adequate overall oil and gas supplies for the state. The 1984 Supply/Demand study states that, "Under reasonable assumptions about recoverable reserves and Alaskan consumption, the current inventory of both oil and gas is more than sufficient to meet the presently identifiable needs of Alaskans for the next 15 years." Presently, the Department of Revenue's most recent crude oil price forecasts remain conservative due to the continued surplus in world supplies. While unfavorable from a revenue standpoint, that surplus will likely translate into dampened crude oil prices for Alaska consumers and industrial users. Only if the cost of imported products were significantly above the cost of products which could be refined in Alaska (e.g. when oil is not available to local refiners at the market price), or if Alaska users were suffering from an absolute shortfall in petroleum products, would the Department not consider the royalty oil to be sold at the competitive sale as "surplus" to present and projected in-state needs. Neither of these was found to be the case.

The Department's view of the purpose of AS 38.05.183 stems first from the atmosphere of absolute shortage, particularly in motor fuels, which prevailed at the time the statute was written. The statute was adopted in 1974, when the worldwide oil crisis and the imposition of federal oil contract controls raised the spectre of product shortages in Alaska despite North Slope crude oil production. The Department's view stems second from the apparent paradox of continued imports into regions such as Southeast Alaska, where the landed cost of such imports from Puget Sound undercuts the cost of delivered refined products to Southeast from Railbelt refiners. Under the most constrained interpretation of the statute, the Department would be obliged to promote in-state refining with royalty oil for the sake of absolute self-sufficiency, even when this resulted in higher prices for Alaskans. Clearly, this was not the intent of the statute. Intrastate needs for oil and gas are presently being met from a variety of sources, including state royalty oil. As charged, the 1984 Supply/Demand study identifies those sources and discusses how in-state needs are to be met, given the total supply of hydrocarbons within the state. In terms of total present and projected demand vs. total present and projected supply, intrastate refined product needs can be met with ease by the unprecedented production of crude oil from the North Slope, which is available to any purchaser willing to meet the market clearing price for that oil. For these reasons, the Department determined in the 1984 Supply/Demand study that the state enjoys a surplus of hydrocarbons relative to present and foreseeable demand.

Even if AS 38.05.183(d) were interpreted to require all intrastate needs to be satisfied by royalty oil before export could occur, I would find that the competitive sale amounts are surplus to present and projected intrastate domestic and on industrial needs for two reasons. First, persons who have a demand for oil as a result of current in-state processing or supply activities are granted priority rights to purchase royalty oil at the competitive sale. Second, during the term of the competitive sale contracts, royalty oil will remain in-value and will be available for disposition in-state.

The Department has provided for satisfaction of demand for royalty oil on the part of in-state refiners and in-state suppliers by giving them priority rights to purchase oil at the competitive sale. A priority will be offered to bidders which have sold an average of at least 5,000 bpd of refined petroleum products to distributors or consumers within the State of Alaska during the twelve-month period beginning June 1, 1983 and ending May 31, 1984, and which possess the ability to process crude oil into refined petroleum products at a processing facility owned by the bidder. Priority status will enable the in-state supplier to meet the highest winning bid in each of the three categories of royalty oil to be competitively sold. That right extends to the number of lots remaining in each category after the first round award of lot(s) to the highest winning bidder(s) in each category and priority bidders who have been posted as apparent high bidders. Consequently, in the first round of awards, priority bidders enjoy the possibility of receiving oil at the lowest price posted in each category. In addition, in-state suppliers are reasonably assured of receiving the desired volume of oil in the second round of awards, provided they are willing to meet the competitively established price. 11 AAC 03.250(5) states that:

> "present or projected intrastate domestic and industrial needs" means in-state domestic and industrial demand at a competitive market price for the royalty oil, gas, or gas liquids. "Competitive market price" includes, but is not limited to, a price established by competitive bid.

Thus, in-state refiners and suppliers will have the first right to royalty crude at a competitive market price so that their supply is assured.

At the present time the state leaves approximately 104,735 bpd of royalty oil in-value with the North Slope lessees. The lessees export this oil from Alaska and tender the reported netback sale proceeds to the state. During the first six months of the term of the competitive sale contracts, April 1985 to September 1985, approximately 26,013 bpd of royalty oil will remain in-value. During the following six months of the term, October 1985 to March 1986, approximately 41,013 bpd of royalty oil will remain in-value. These amounts will remain available for disposition in-state if the Department finds the disposition(s) to be in the State's best interest. (If a contract currently being negotiated with Golden Valley Electric Association is approved, future amounts available for disposition would be reduced by 5,000 bpd.)

Several parties have recently expressed an interest in purchasing royalty oil from the State. Our conclusion that the competitive sale amounts are surplus to present and projected needs was drawn with the knowledge that all in-state refiners do not have 100% of their projected capacity supplied by state royalty oil. For example, as mentioned in the Preliminary Finding, the Department has conducted negotiations for the sale of royalty oil to MAPCO Inc. to fuel a proposed refinery expansion. The successful outcome of those negotiations is not, however, regarded by the Department as prerequisite to the possible export of the state's royalty oil in the planned competitive sale. First, MAPCO representatives indicated to the Department that the proposed refinery expansion may not be built, throwing the question of MAPCO's projected needs into doubt. Second, if MAPCO had a projected demand for royalty oil at a competitive price, it could have availed itself of its

opportunity to purchase oil at the competitive sale, as a priority bidder. Since it is a current in-state refiner, MAPCO would have been entitled to all the priority rights discussed above. Third, by virtue of its proximity to the Trans Alaska Pipeline (TAPS), MAPCO has unique opportunities to supply its refinery with North Slope oil. MAPCO currently receives 35,000 bpd of royalty oil directly from the State. MAPCO also receives 5,000 bpd of royalty oil through its agreement with another state royalty oil purchaser - the Golden Valley Electric Association. In addition, about 60% of the oil run through the MAPCO refinery is, with a minor quality penalty, reinjected into TAPS to re-emerge as whole oil at Valdez. That oil, which is the property of MAPCO, may be exchanged for more oil from the North Slope and again withdrawn from TAPS at Fairbanks. One of the several advantages that MAPCO enjoys with its state royalty oil contract, relative to other in-state refiners, is this absence of any state control over the return oil. MAPCO could also purchase oil directly from the North Slope lessees to satisfy any demand not met through the purchase and exchange of royalty oil. Finally, MAPCO's location on TAPS allows it to enter into "in-transit stop" arrangements in which MAPCO "borrows" oil from other TAPS shippers. The borrowed oil is processed in MAPCO's refinery with the full amount returned to the original shipper at Valdez through a combination of return oil and quality bank payments. This in-transit stop arrangement remains feasible so long as MAPCO's current contract which does not expire until 2003, remains in effect. The Department believes that any failure by MAPCO to secure oil through these possible sources of supply indicates that MAPCO's demand may exist only so long as it believes the State is willing to supply it with oil at a price below competitive prices. As explained above, 11 AAC 03.250(5) provides that projected needs means in-state demand at a competitive price.

Since the Department made its most recent finding of ample in-state hydrocarbon supplies, published in the Final Finding of October 10, 1984, several Alaskan parties in addition to MAPCO have expressed interest in purchasing royalty oil. Chevron has requested further volumes of royalty oil to meet a possible increase in "throughput" at its 18,000 bpd Nikiski Refinery. Chevron owns and exports 12,000 bpd of North Slope production in addition to the 18,000 bpd of royalty oil which it processes at Nikiski. New parties also propose to create additional new refineries in Alaska. Because these proposals were not known to the Department at the time of the most recent determination of an in-state hydrocarbon surplus, the state has decided to reduce the one-year term of those lots offered in the Kuparuk River oil category (category A) to six months. This will enable the state to have an additional 15,000 bpd of royalty oil available in the fall of 1985 for those who offer to purchase state royalty oil at terms which lead the Department to find that the disposition(s) would be in the state's best interest.

As stated, the impressive quantities of oil available within the state, which are the highest in the nation on a per-capita basis, diminish the likelihood of an actual "need" by these groups in the sense of supply availability. However, given the very recent nature of the new proposals received, the Department will further review their merits, as well as supply alternatives in addition to royalty oil. It has been the Division's experience that the term "need" is perceived differently by prospective in-state royalty oil

purchasers. Rather than the physical unavailability of oil due to world shortages or the unwillingness of North Slope producers to sell ANS crude at the market clearing price, prospective in-state royalty oil purchasers often view their feedstock needs in terms of the royalty oil price and terms they require for economic viability. While the Department recognizes that there are a host of oil-related economic activities which can be made viable should the state choose to undercut the market clearing price of Alaska North Slope oil for specific parties, this is not seen as the definition of "need" in AS 38.05.183, nor is it clearly in the State's best interest to do so.

Given the short-term nature of the proposed competitive sale, the consideration extended to in-state refiners and suppliers through the priority bidding system, the lack of demonstrated current need on the part of other potential in-state purchasers, and the amounts of oil remaining in-value available for disposition, I find pursuant to AS 38.05.183 that the royalty oil to be disposed of at the competitive sale is surplus to present and projected intrastate domestic and industrial needs.

Kay Brown

Kay Brown, Director
Division of Oil & Gas
Department of Natural Resources

11-28-84
Date

HB 101

Section 2 of the bill makes the change in current law applicable to tax years beginning after December 31, 1984.

Sincerely,

/s/

Bill Sheffield
Governor"

HB 102

HOUSE BILL NO. 102 by the Rules Committee by request of the Governor, entitled:

"An Act relating to the Alaska Resources Corporation; and providing for an effective date."

was read the first time and referred to the House Special Committee on State Loans and the Finance Committee.

A zero fiscal note was attached. The Governor's transmittal letter, dated January 23, 1985, appears below:

"Dear Representative Grussendorf:

Under the authority of art. III, sec. 18, of the Alaska Constitution, I am transmitting a bill relating to the divestiture of assets and equity investments of the Alaska Resources Corporation (ARC).

Section 1 of the bill permits the board to dispose of assets, including those acquired through default or foreclosure, in any manner that serves the best interests of the state, including extended payments over time.

Section 2 of the bill permits the board to convert its equity investments into debt, which will then be treated in the same manner as the corporation's current outstanding loan portfolio.

This bill is necessary to permit the ARC board the flexibility necessary to wind up the corporation's affairs by 1989, in accordance with ch. 161, SLA 1984.

Sincerely,

/s/

Bill Sheffield
Governor"

HB 103

HOUSE BILL NO. 103 by the Rules Committee by request of the Governor, entitled:

"An Act relating to royalty oil; and providing for an effective date."

was read the first time and referred to the House Special Committee on Oil & Gas, the Resources and Finance Committees.

A zero fiscal note was attached. The Governor's transmittal letter, dated January 23, 1985, appears below:

"Dear Representative Grussendorf:

Under the authority of art. III, sec. 18, of the Alaska Constitution, I am transmitting a bill relating to royalty oil. The bill would (1) clarify and streamline procedural requirements for royalty oil and gas sales by expressly providing that the best-interest finding set out in AS 38.05.035(e) does not apply to those sales; and (2) enable the Department of Natural Resources to establish a regular program of short-term competitive royalty oil sales.

It is unclear whether AS 38.05.035(e) applies to royalty oil and gas sales. Royalty oil and gas sales have detailed finding and notice requirements set out in AS 38.05.182, 38.05.183, and AS 38.06, and are expressly committed to commissioner actions. AS 38.05.035(e), on the other hand, is essentially duplicative of those other processes and concerns actions taken by the director of the division of lands. Although we believe that the provisions of AS 38.05.035(e) are not presently applicable to oil and gas sales, such confusion does cast a cloud over royalty oil sales (particularly those that are entered into because of an emergency situation). The amendment in sec. 1 of the bill resolves the issue.

The second change, in sec. 2 of the bill, would allow competitive royalty oil sales for terms of less than one year to be conducted without legislative approval of those sales. To await legislative approval under a competitive bid situation for contracts of one year or less would defeat the entire purpose of that type of short-term competitive sales. Under the present statutory scheme, however, there is a serious question as to whether a party who gained royalty oil under one competitive sale could re-bid in a subsequent royalty oil sale if the combination of the two sales would lead to that particular buyer receiving oil for more than a one year period. Although it has been the consistent position of this and previous administrations that the requirement of legislative approval is unconstitutional, administrations have always, as a matter of comity, respected the legislature's desire to be consulted in long-term or negotiated royalty oil contracts. Further, the presence of the statute, whether or not constitutional, would cast a cloud on any sale.

HB 103

Thus we believe that a clarification to allow short-term competitive royalty oil sales would be in the best interests of all.

Sincerely,

/s/

Bill Sheffield
Governor"

HB 104

HOUSE BILL NO. 104 by the Rules Committee by request of the Governor, entitled:

"An Act relating to computation, forfeiture and restoration of statutory good time."

was read the first time and referred to the Health, Education & Social Services and Judiciary Committees.

A zero fiscal note with analysis was attached and appears in House Journal Supplement No. 7. The Governor's transmittal letter, dated January 23, 1985, appears below:

"Dear Representative Grussendorf:

Under the authority of art. III, sec. 18, of the Alaska Constitution, I am transmitting a bill relating to the computation, forfeiture, and restoration of statutory good time for state prisoners.

Good time accounting for state prisoners is currently being computed under three different systems dependent upon when a prisoner committed a criminal offense. Because of the complexities, an inordinate amount of staff time and frequent computational errors.

This bill will greatly simplify basic time accounting, and bring all Alaskan prisons under one time accounting system. For those prisoners already incarcerated on the date this bill becomes law, this bill will have the effect of changing the time accounting method from one of accruing good time at a set rate per month to one of a grant of good time in a block, the amount of which is dependent on the time remaining to be served on their sentences.

Additionally, although the primary purpose of the bill is to simplify the good time computation process, it will result in a minor reduction in the time prisoners will serve (one-twelfth of the sentence), if they observe all the rules of the institution while incarcerated.

HB 104

Finally, the bill will assist in the statewide uniform application of restoration of forfeited good time for prisoners who demonstrate good conduct during their incarceration.

Sincerely,

/s/

Bill Sheffield
Governor"

HB 105

HOUSE BILL NO. 105 by the Rules Committee by request of the Governor, entitled:

"An Act relating to the international airports revenue bonds authorization; and providing for an effective date."

was read the first time and referred to the Transportation and Finance Committees.

A fiscal note was attached and appears in House Journal Supplement No. 7. The Governor's transmittal letter, dated January 23, 1985, appears below:

"Dear Representative Grussendorf:

Under the authority of art. III, sec. 18, of the Alaska Constitution, I am transmitting a bill to raise from $62,825,000 to $86,525,000 the amount of international airports revenue bonds that may be issued by the state bond committee. This additional $23,700,000 is intended to be used for the Anchorage International Airport Terminal Renovation, Phase II.

Sincerely,

/s/

Bill Sheffield
Governor"

HB 106

HOUSE BILL NO. 106 by the Rules Committee by request of the Governor, entitled:

"An Act making technical amendments relating to state taxation; and providing for an effective date."

was read the first time and referred to the Finance Committee.

mkt - Taking adv. of a situation
storage - as for purchaser for oil

best interests determination described in 11 AAC 03.010(d). (Eff. 12/12/80, Reg. 76)

Authority: AS 38.05.020
AS 38.05.183
AS 38.06.070

11 AAC 03.070. REJECTION OF PROPOSALS. (a) If the commissioner has either (1) solicited proposals for the noncompetitive sale of royalty oil, gas, or gas liquids, (2) issued a written determination to dispose of royalty oil, gas, or gas liquids by a method other than by competitive bid, or (3) issued written procedures for the noncompetitive disposal of royalty oil, gas, or gas liquids as described in 11 AAC 03.050, and the commissioner proposes to reject any proposal or application received as a result of the solicitation, determination, or written procedures, the commissioner will notify the Alaska Royalty Oil and Gas Development Advisory Board in writing before rejecting the proposal or application.

(b) The notification required by (a) of this section will consist of a list of the names of the prospective buyers whose proposals are rejected along with their proposals and any correspondence received from the prospective buyers.

(c) The commissioner will, in his or her discretion, reject unsolicited or uninvited proposals for the noncompetitive disposal of royalty oil, gas, or gas liquids without notifying the Alaska Royalty Oil and Gas Development Advisory Board. (Eff. 12/12/80, Reg. 76; am 8/8/84, Reg. 91)

Authority: AS 38.05.020
AS 38.06.050

11 AAC 03.080. STORAGE CONDITIONS. The commissioner disposes of royalty oil, gas, or gas liquids to relieve storage conditions when

(1) the royalty oil, gas, or gas liquids have either been noticed for a taking in-kind or are being taken in-kind or are being taken in-kind by the state; and

(2) the disposition planned for the oil, gas, or gas liquids at the time of the notice to take the oil, gas, or gas liquids in-kind can no longer be effectuated for any reason, or the disposition is no longer in the best interests of the state. (Eff. 12/12/80, Reg. 76; am 8/8/84, Reg. 91)

Authority: AS 38.05.020
AS 38.05.183
AS 38.06.055

11 AAC 03.090. MARKET CONDITIONS. The commissioner disposes of royalty oil, gas, or gas liquids to relieve market conditions when

(1) in a noncompetitive disposition of royalty oil, gas, or gas liquids the price to be received under the noncompetitive disposition is higher than the amount being received by the state, either in-value or in-kind, at the time of the disposition and the commissioner estimates that the sale price will be higher than the in-value amount throughout the term of the contract for disposition;

(2) in a disposition by competitive bid the commissioner determines, at the time of issuance of the invitation to bid, that there is a substantial probability that the state will receive more than the in-value price as a result of the disposition by competitive bid;

(3) the royalty oil, gas, or gas liquids disposed of will be used to meet in-state needs for crude oil, gas, or gas liquids or petroleum products and the sale price of that royalty oil, gas, or gas liquids is at least equal to the in-value amount which would have been received by the state during the same period; or

(4) there is or will be an emergency in-state need for crude oil, gas, or gas liquids or petroleum products, which could be alleviated by the sale of the royalty oil, gas, or gas liquids. (Eff. 12/12/80, Reg. 76; am 8/8/84, Reg. 91)

Authority: AS 38.05.020
AS 38.05.183
AS 38.06.055

11 AAC 03.091. PROVISIONS APPLICABLE TO ROYALTY CONTRACTS. (a) Within 10 days after receiving written notice from a royalty purchaser of its intent to renegotiate price, as provided for by the terms of that purchaser's state royalty contract, or within 10 days after giving a royalty purchaser written notice of the state's intent to renegotiate price, as provided for by the terms of that purchaser's state royalty contract,

or before the adoption of any material amendment to a royalty contract which appreciably reduces the consideration received by the state, the commissioner will publish notice of the intent to renegotiate price or amend the contract in a newspaper of general statewide circulation. In addition, the commissioner will, in his or her discretion, publish notice by radio, television, or other electronic media. The notice will include

(1) a summary of information pertinent to the royalty contract, including quantity, current price, and termination date;

(2) a statement indicating where copies of the contract may be obtained; and

(3) a statement that any person may file written comments on the notice with the commissioner within 30 days after publication of the notice.

(b) In establishing or renegotiating the price of a royalty contract, the commissioner will obtain a price at least equal to the price that would have been received had the oil, gas, or gas liquids been taken in-value, plus field costs incurred by the royalty share, unless the commissioner determines that a lower price for the royalty gas would best serve the state's interests.

(c) The commissioner will submit to the legislature for approval any material amendment to a royalty contract which appreciably reduces the consideration received by the state.(Eff. 8/8/84, Reg. 91)

Authority: AS 38.05.020
AS 38.05.182
AS 38.05.183

11 AAC 03.100. DISPOSITION BY COMPETITIVE BID. (a) A disposition of royalty oil, gas, or gas liquids by competitive bid will, in the commissioner's discretion, be made without a written determination by the commissioner that the disposition of royalty oil, gas, or gas liquids by competitive bidding is in the best interests of the state.

(b) A disposition of royalty oil, gas or gas liquids by competitive bid will, in the commissioner's discretion, be made by the commissioner without notice to the Alaska Royalty Oil and Gas Development Advisory Board; however, the commissioner will follow the procedures set out in 11 AAC 03.210 and 11 AAC 03.240. (Eff. 12/12/80, Reg. 76: am 8/8/84, Reg. 91)

Authority: AS 38.05.020
AS 38.05.183

11 AAC 03.110. SEALED BIDS. A disposition of royalty oil, gas, or gas liquids by competitive bid will be by sealed bid. The bids must be addressed to the commissioner and must be delivered in the manner, to the place, and by the date and time specified in the invitation to bid. Bids will be opened in public at the date, time, and place specified in the invitation to bid, unless the commissioner designates a later time for opening. (Eff. 12/12/80, Reg. 76; am 8/8/84, Reg. 91)

Authority: AS 38.05.020
AS 38.05.183

11 AAC 03.120. INVITATION TO BID. A disposition of royalty oil, gas, or gas liquids by competitive bid will be initiated by the commissioner by issuance of an invitation to bid. The invitation to bid will specify the quantity of oil, gas, or gas liquids to be sold, the term of disposition, the point of delivery, and any other terms and conditions of the disposition considered necessary by the commissioner. The commissioner will, in his or her discretion, include a form contract in the invitation rather than specifying terms and conditions. The invitation will specify qualifications of bidders and, if a determination of the qualification of a bidder by the commissioner is required, an explanation of the procedure for qualification. If priorities among bidders are to be assigned, the invitation will include an explanation of the procedure for obtaining a priority designation. The invitation will specify where, when, and how bids may be submitted to the commissioner and will specify the bond or other security which must accompany the bid. The invitation will specify the date, time, and place of bid opening, and the procedures under which the royalty oil will be awarded and contracts for disposition executed. (Eff. 12/12/80, Reg. 76; am 8/8/84, Reg. 91)

Authority: AS 38.05.020
AS 38.05.183

11 AAC 03.130. SECURITY. The commissioner may require that security, which in his

Alaska State Legislature

Senate
Finance Committee

Official Business

Pouch V
State Capitol
Juneau, Alaska 99811

JAN FAIKS
CO-CHAIRMAN

January 29, 1985

Senator Faiks put this on the agenda

MEMORANDUM

TO: Representative Mike Davis

FROM: Senator Jan Faiks

SUBJECT: Special Committee on Oil and Gas

Thank you for putting me on your notification list with regard to upcoming meetings of the House Special Committee on Oil and Gas. I appreciate being kept informed of your agendas.

In fact, House Bill 103, which is scheduled for this coming Thursday really caught my eye. Not so much the specifics of the bill but its title, "An Act relating to royalty oil".

You might want to consider being more specific because as you know, a broad title allows all sorts of amendments to be added as the bill winds its way through the legislative process. Again, this is not a specific request on my part, more of a suggestion. If you have any comments, please feel free to give me a call.

SCOMM

#46:15

Moen
2/5/85/

Original sponsor: House Special Committee on Oil and Gas

IN THE HOUSE

BY THE HOUSE SPECIAL COMMITTEE ON OIL AND GAS

CS FOR HOUSE BILL NO. 143 (Oil and Gas)

IN THE LEGISLATURE OF THE STATE OF ALASKA

FOURTEENTH LEGISLATURE - FIRST SESSION

A BILL

For an Act entitled: "An Act relating to oil and gas activities along highway rights-of-way;* and providing for an effective date."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

* Section 1. AS 19.40.200 is amended to read:

Sec. 19.40.200. PROHIBITION ON DISPOSAL OF LAND WITHIN FIVE MILES OF THE HIGHWAY. The state may not dispose of state land under AS 38 which is within five miles of the right-of-way of the highway, except for purposes of reconstruction or maintenance of the highway. This section does not apply to an oil and gas lease under AS 38.05.180, or to a disposal necessary for exploration, development, production, or transportation of oil and gas north of 68 degrees north latitude.

* Sec. 2. AS 19.40.210 is amended to read:

Sec. 19.40.210. PROHIBITION OF OFF-ROAD VEHICLES. Off-road vehicles are prohibited on land within five miles of the right-of-way of the highway. However, this prohibition does not apply to off-road vehicles necessary for oil and gas exploration conducted under an oil and gas lease issued under AS 38.05.180 or to a person who holds a mining claim in the vicinity of the highway and who must use land within five miles of the right-of-way of the highway to gain access to the [HIS] mining claim.

* Sec. 3. This act takes effect immediately in accordance with AS 01.10.070 (c).

Alaska State Legislature

ARLISS STURGULEWSKI, Chairman
BETTYE FAHRENKAMP, Vice Chairman
JACK COGHILL
DICK ELIASON
VIC FISCHER
RICK HALFORD
FRED ZHAROFF

POUCH V
JUNEAU, ALASKA 99811
(907) 465-4907

Senate
Committee on Resources

M E M O R A N D U M

January 30, 1985

TO: All Members
Senate Resources Committee

FROM: Senator Arliss Sturgulewski
Chairman, Senate Resources Committee

RE: Proposed legislation regarding haul road right-of-way

In 1980 the legislature passed AS 19.40.200 and .210. These sections prohibit the disposal of state land within five miles of the Dalton Highway and also prohibit the use of off-road vehicles in this same area.

An oil and gas lease sale is currently scheduled to be announced in March and to take place in May of this year. This sale, number 47, would include area that is within this five mile border of the highway. If the existing statutes are not modified, the lease sale could not proceed.

The Department of Natural Resources, Division of Oil and Gas, has asked the Senate Resources Committee to introduce the attached legislation to remedy this problem. The House Special Committee on Oil and Gas introduced identical legislation yesterday.

A copy of the proposed legislation and a map of the area involved is attached.

Enclosures

IN THE SENATE BY THE RESOURCES COMMITTEE

SENATE BILL NO.

IN THE LEGISLATURE OF THE STATE OF ALASKA

FOURTEENTH LEGISLATURE - FIRST SESSION

A BILL

For an Act entitled: "An Act relating to oil and gas exploration along highway rights-of-way."

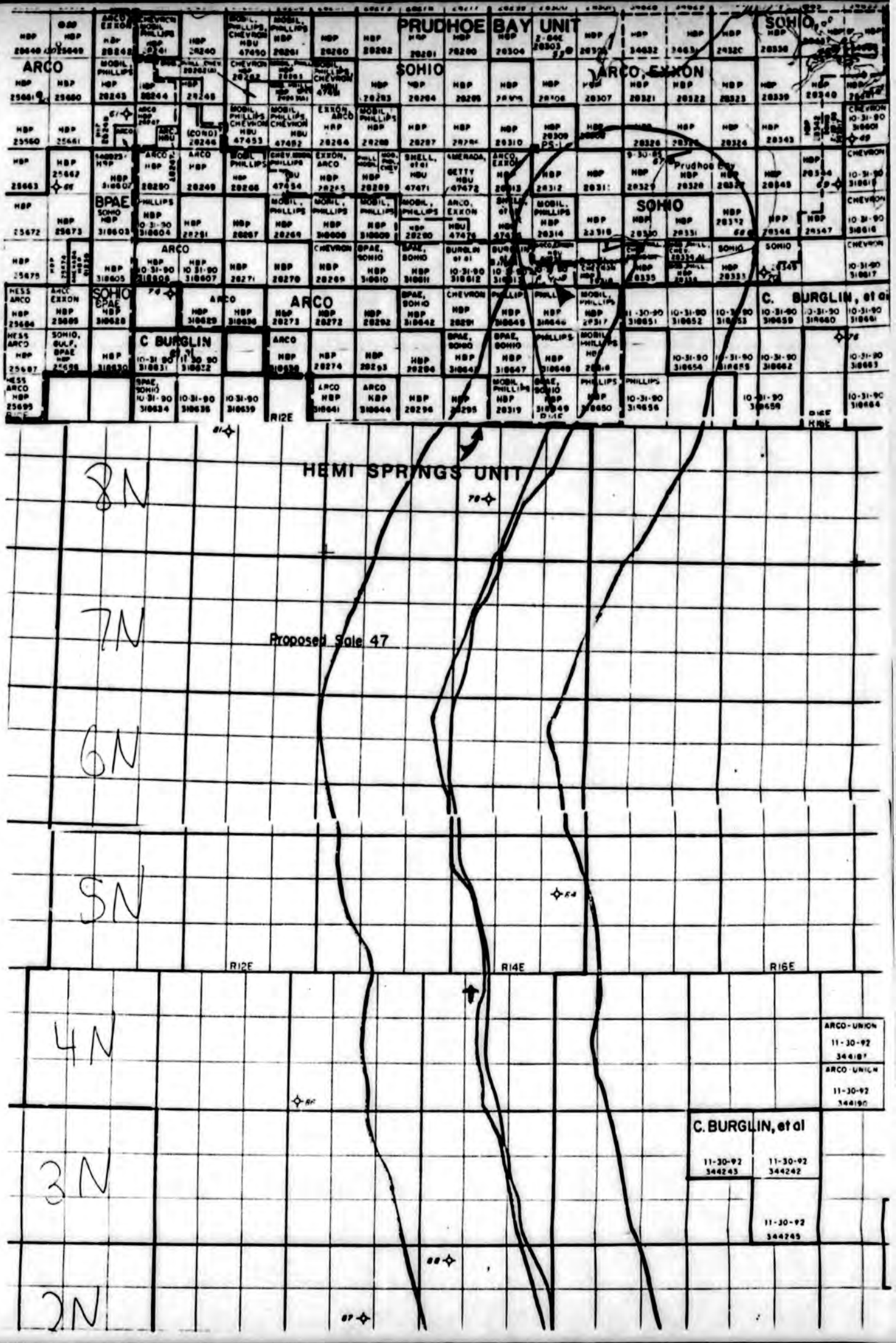
BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

* Section 1. AS 19.40.200 is amended to read:

Sec. 19.40.200. PROHIBITION ON DISPOSAL OF LAND WITHIN FIVE MILES OF THE HIGHWAY. The state may not dispose of state land under AS 38 which is within five miles of the right-of-way of the highway. This section does not apply to an oil and gas lease under AS 38.05.180; other state land disposals necessary for oil and gas exploration, development, production, or transportation; or other state land disposals necessary for highway maintenance and construction.

* Sec. 2. AS 19.40.210 is amended to read:

Sec. 19.40.210. PROHIBITION OF OFF-ROAD VEHICLES. Off-road vehicles are prohibited on land within five miles of the right-of-way of the highway. However, this prohibition does not apply to off-road vehicles supporting oil and gas exploration, development, production or transportation, or to a person who holds a mining claim in the vicinity of the highway and who must use land within five miles of the right-of-way of the highway to gain access to the [HIS] mining claim.


PRUDHOE BAY UNIT
SOHIO
ARCO
ARCO, EXXON
SOHIO
BPAE
SOHIO
ARCO
ARCO
C BURGLIN
C. BURGLIN, et al
HEMI SPRINGS UNIT
Proposed Sale 47
8N
7N
6N
5N
4N
3N
2N
R12E
R14E
R16E
ARCO - UNION
11-30-92
344187
ARCO - UNION
11-30-92
344190
C. BURGLIN, et al
11-30-92
344243
11-30-92
344242
11-30-92
344245

DEPARTMENT OF NATURAL RESOURCES

PROPOSED AMENDMENT TO SECTION 1 OF H. B. 143

Delete Section 1 and insert:

*Section 1. AS 19.40.200 is amended to read:

Section 19.40.200. PROHIBITION ON DISPOSAL WITHIN FIVE MILES OF THE HIGHWAY. The state may not dispose of state land under AS 38 which is within five miles of the right-of-way of the highway. This section does not apply to an oil and gas lease under AS 38.05.180; material sales under AS 38.05.110-.120 necessary for exploration, development, production or transportation of oil and gas or for highway reconstruction and maintenance; oil and gas pipeline rights-of-way under AS 38.35; and leases under AS 38.05.070 necessary for oil field development.

Not used

DEPARTMENT OF NATURAL RESOURCES

ALTERNATE AMENDMENT TO HB 143

1. Delete Section 1 and insert:

*Section 1. AS 19.40.200 is amended to read:

Section 19.40.200. PROHIBITION ON DISPOSAL WITHIN FIVE MILES OF THE HIGHWAY. The state may not dispose of state land under AS 38 which is within five miles of the right-of-way of the highway. This section does not apply to an oil and gas lease under AS 38.05.180; a material sale under AS 38.05.110-.120 necessary for oil and gas development or for reconstruction and maintenance of existing highways; oil and gas pipeline rights-of-way under AS 38.35; and leases under AS 38.05.070 necessary for oil and gas development.

2. Add a new section to read:

*Sec. 3. This Act takes effect immediately in accordance with AS 01.10.070(c).

3. Change title to read: "An Act relating to oil and gas activities along highway rights-of-way; and providing for an effective date."

Alaska State Legislature

Official Business

Pouch V
State Capitol
Juneau, Alaska 99811

HOUSE SPECIAL COMMITTEE ON OIL AND GAS

MEMORANDUM

To: Ms. Lynn Barnes,
Division of Legal Services

From: Rep. Mike Davis
Chairman, House Special Committee on Oil and Gas

Date: January 24, 1985

Re: Draft legislation

Attached are amendments to AS 19.40.200-.210. Please draft a final bill for me as soon as possible that incorporates both of these amendments. This is to be a House bill, introduced by the House Special Committee on Oil and Gas.

DISCUSSION DRAFT
1/21/85

Proposed clarification amendments to AS 19.40.200-.210

Dalton Highway

Sec. 19.40.200. Prohibition on disposal of land within five miles of the highway. The state may not dispose of state land under AS 38 which is within five miles of the right-of-way of the highway. However, this prohibition does not apply to oil and gas leases under AS 38.05.180; to other disposals necessary for oil and gas exploration, development, production or transportation; or to disposals for highway maintenance and construction purposes.

Sec. 19.40.210. Prohibition of off-road vehicles. Off-road vehicles are prohibited on land within five miles of the right-of-way of the highway. However, this prohibition does not apply to off-road vehicles supporting oil and gas exploration, development, production or transportation, or to a person who holds a mining claim in the vicinity of the highway and who must use land within five miles of the right-of-way of the highway to gain access to his mining claim.

1/21-cor
butts3

IN THE HOUSE

BY THE HOUSE SPECIAL COMMITTEE ON OIL AND GAS

CS FOR HOUSE BILL NO. 143 (Oil and Gas)

IN THE LEGISLATURE OF THE STATE OF ALASKA

FOURTEENTH LEGISLATURE - FIRST SESSION

A BILL

For an Act entitled: "An Act relating to ~~land use and disposal near~~ oil and gas ~~a~~ activities along a highway ~~right~~ rights-of-way; and providing for an effective date."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

* Section 1. AS 19.40.200 is amended by adding a new subsection to read:

(b) The prohibition on disposal of state land under (a) of this section does not apply to a disposal necessary for

(1) an oil and gas lease under AS 38.05.180;

(2) exploration, development, production, or transportation of oil and gas north of 68 degrees north latitude; or

(3) reconstruction or maintenance of the highway.

* Sec. 2. AS 19.40.210 is amended to read:

Sec. 19.40.210. PROHIBITION OF OFF-ROAD VEHICLES. Off-road vehicles are prohibited on land within five miles of the right-of-way of the highway. However, this prohibition does not apply <u>to off-road vehicles necessary for oil and gas exploration conducted under an oil and gas lease issued under AS 38.05.180 or</u> to a person who holds a mining claim in the vicinity of the highway and who must use land within five miles of the right-of-way of the highway to gain access to <u>the</u> [HIS] mining claim.

* Sec. 3. This Act takes effect immediately in accordance with AS 01.-10.070(c).

unanimous do-pass
retro to 10/5/80

Introduced: 1/31/85
Referred: Resources and Transportation

IN THE SENATE BY THE RESOURCES COMMITTEE

SENATE BILL NO. 115

IN THE LEGISLATURE OF THE STATE OF ALASKA

FOURTEENTH LEGISLATURE - FIRST SESSION

A BILL

For an Act entitled: "An Act relating to oil and gas exploration along highway rights-of-way; and providing for an effective date."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

* Section 1. AS 19.40.200 is amended to read:

Sec. 19.40.200. PROHIBITION ON DISPOSAL OF LAND WITHIN FIVE MILES OF THE HIGHWAY. The state may not dispose of state land under AS 38 which is within five miles of the right-of-way of the highway. This section does not apply to an oil and gas lease under AS 38.05.180; ~~other~~ a state ~~land disposals~~ lease or material sale necessary for ~~oil and gas~~ exploration, development, production, or transportation of oil and gas or ~~other state land disposals necessary~~ ~~lease or material sale~~ for ~~highway maintenance and~~ reconstruction and maintainance of the highway.

* Sec. 2. AS 19.40.210 is amended to read:

Sec. 19.40.210. PROHIBITION OF OFF-ROAD VEHICLES. Off-road vehicles are prohibited on land within five miles of the right-of-way of the highway. However, this prohibition does not apply to off-road vehicles supporting oil and gas exploration, development, production or transportation, or to a person who holds a mining claim in the vicinity of the highway and who must use land within five miles of the right-of-way of the highway to gain access to the [HIS] mining claim.

Sec. 3. This Act takes effect immediately in accordance with AS 01.10.070(c).

[At the end of Sec. 1]:

Prior to selling materials under this section to a private entity or to a state agency for disposal to a private entity, the state shall consider reasonably available private sources of materials in the area.

DEPARTMENT OF NATURAL RESOURCES

PROPOSED AMENDMENT TO HB 143

1. Delete Section 1 and insert:

*Section 1. AS 19.40.200 is amended to read:

Section 19.40.200. PROHIBITION ON DISPOSAL WITHIN FIVE MILES OF THE HIGHWAY. The state may not dispose of state land under AS 38 which is within five miles of the right-of-way of the highway. This section does not apply to an oil and gas lease under AS 38.05.180, or to a disposal necessary for exploration, development, production, or transportation of oil and gas ~~or for reconstruction and maintenance of existing highways~~.

2. Add a new section to read:

*Sec. 3. This Act takes effect immediately in accordance with AS 01.10.070(c).

3. Change title to read: "An Act relating to oil and gas activities along highway rights-of-way; and providing for an effective date."

Moen
2/8/85

Original sponsor: Resources Committee

IN THE SENATE BY THE RESOURCES COMMITTEE

CS FOR SENATE BILL NO. 115 (Resources)

IN THE LEGISLATURE OF THE STATE OF ALASKA

FOURTEENTH LEGISLATURE - FIRST SESSION

A BILL

For an Act entitled: "An Act relating to land use and disposal near a highway right-of-way; and providing for an effective date."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

* Section 1. AS 19.40.200 is amended by adding new subsections to read:

(b) The prohibition on disposal of state land under (a) of this section does not apply to a

(1) disposal necessary for an oil and gas lease under AS 38.05.180;

(2) a state lease or materials sale necessary for exploration, development, production, or transportation of oil and gas or reconstruction or maintenance of the highway.

(c) Before the sale of materials under (b)(2)of this section to a private entity or person or to a state agency the state shall give due consideration to the availability of materials from private sources in the area where the materials are needed.

* Sec. 2. AS 19.40.210 is amended to read:

Sec. 19.40.210. PROHIBITION OF OFF-ROAD VEHICLES. Off-road vehicles are prohibited on land within five miles of the right-of-way of the highway. However, this prohibition does not apply to off-road vehicles necessary for oil and gas exploration, development, production, or transportation [redacted] or to a person who holds a mining claim in the vicinity of the highway and who must use land within five miles of the right-of-way of

the highway to gain access to the [HIS] mining claim.

* Sec. 3. This Act takes effect immediately in accordance with AS 01.-10.070(c).

STATE OF ALASKA

DEPARTMENT OF NATURAL RESOURCES

OFFICE OF THE COMMISSIONER

BILL SHEFFIELD, GOVERNOR

POUCH M
JUNEAU, ALASKA 99811
PHONE: 907-465-2400

January 31, 1985

The Honorable Mike Davis, Chairman
House Special Committee on Oil and Gas
Pouch V
Juneau, AK 99811

Dear Representative Davis:

The Department of Natural Resources is requesting amendment of AS 19.40.200 and AS 19.40.210 to allow oil and gas exploration and development within five miles of the right-of-way of the Dalton Highway (North Slope Haul Road).

The statute presently prohibits the disposal of state land under AS 38 and use of off-road vehicles within five miles of the highway. "State land" under AS 38 includes oil and gas leases for exploration and production rights.

Although the department does not believe it was the intent of the 1980 Legislature to prohibit oil and gas activities along the highway, the statute as presently written may be interpreted to have that effect. Oil and Gas Lease Sale 47 (Kuparuk Uplands) is tentatively scheduled for May 21, 1985 and contains approximately 611,840 acres. Of that total, some 230,000 acres (52 of the 113 tracts) are within the five-mile corridor and will have to be deleted from the sale without clarification of the statutes cited above. Final notice of Sale 47 is scheduled to be given March 22, 1985.

I appreciate the willingness of your Committee to introduce HB 143, which would rectify the apparent oversight. Thank you in advance for your consideration and timely action on the bills.

Sincerely,

Esther C Wunnicke

Esther C. Wunnicke
Commissioner

10-J9LH

STATE OF ALASKA 1985 LEGISLATIVE SESSION

FISCAL NOTE

Revision Date:

REQUEST

Bill/Resolution No.: HB 143

Title: Exploration and Development in Highway Rights-of-Way

Sponsor:

Requestor: Rep. Davis

Date of Request: 1/31/85

FISCAL DETAIL

Agency Affected: Natural Resources

Program Category Affected: NRMEC

BRU, Program or Subprogram(s) Affected: Minerals and Energy Management

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 85	FY 86	FY 87	FY 88	FY 89	FY 90
OPERATING						
100 PERSONAL SERVICES						
200 TRAVEL						
300 CONTRACTUAL						
400 SUPPLIES						
500 EQUIPMENT						
600 LAND & STRUCTURES						
700 GRANTS, CLAIMS						
800 MISCELLANEOUS						
TOTAL OPERATING		-0-	-0-	-0-	-0-	-0-
CAPITAL						
REVENUE						

FUNDING: (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER						
TOTAL		-0-	-0-	-0-	-0-	-0-

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS: Attach a separate page if necessary

No fiscal impact.

Prepared By: Ned Farquhar — Phone: 465-2400

Division: Commissioner's Office — Date: January 31, 1985

Approved by Commissioner: [signature] — Date: January 31, 1985

Agency: Natural Resources

Distribution (by Agency preparing fiscal note):

- Legislative Finance
- Legislative Sponsor
- Requestor
- Office of Management and Budget
- Impacted Agency(ies)

7/1/84

STATE OF ALASKA 1985 LEGISLATIVE SESSION

FISCAL NOTE

Revision Date:

REQUEST

Bill/Resolution No.: SB 115

Title: Exploration and Development in Highway Rights-of-Way

Sponsor:

Requestor: Sen. Sturgulewski

Date of Request: 1/31/85

FISCAL DETAIL

Agency Affected: Natural Resources

Program Category Affected: NRMEC

ERU, Program or Subprogram(s) Affected: Minerals and Energy Management

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 85	FY 86	FY 87	FY 88	FY 89	FY 90
OPERATING						
100 PERSONAL SERVICES						
200 TRAVEL						
300 CONTRACTUAL						
400 SUPPLIES						
500 EQUIPMENT						
600 LAND & STRUCTURES						
700 GRANTS, CLAIMS						
800 MISCELLANEOUS						
TOTAL OPERATING		-0-	-0-	-0-	-0-	-0-
CAPITAL						
REVENUE						

FUNDING: (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER						
TOTAL		-0-	-0-	-0-	-0-	-0-

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS: Attach a separate page if necessary

No fiscal impact.

Prepared By: Ned Farquhar — Phone: 465-2400

Division: Commissioner's Office — Date: January 31, 1985

Approved by Commissioner: Robert D Arnold — Date: January 31, 1985

Agency: Natural Resources

Distribution (by Agency preparing fiscal note):

Legislative Finance
Legislative Sponsor
Requestor
Office of Management and Budget
Impacted Agency(ies)

7/1/84

Moen
2/7/85

Original sponsor: Resources Committee

IN THE SENATE BY THE RESOURCES COMMITTEE

CS FOR SENATE BILL NO. 115 (Resources)

IN THE LEGISLATURE OF THE STATE OF ALASKA

FOURTEENTH LEGISLATURE - FIRST SESSION

A BILL

For an Act entitled: "An Act relating to land use and disposal near a highway right-of-way; and providing for an effective date."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

* Section 1. AS 19.40.200 is amended by adding new subsections to read:

(b) The prohibition on disposal of state land under (a) of this section does not apply to a

(1) disposal necessary for an oil and gas lease under AS 38.05.180;

(2) a state lease or materials sale necessary for exploration, development, production, or transportation of oil and gas or reconstruction or maintenance of the highway.

(c) Before the sale of materials under (b)(2)of this section to a private entity or person or to a state agency the state shall give due consideration to the availability of materials from private sources in the area where the materials are needed.

* Sec. 2. AS 19.40.210 is amended to read:

Sec. 19.40.210. PROHIBITION OF OFF-ROAD VEHICLES. Off-road vehicles are prohibited on land within five miles of the right-of-way of the highway. However, this prohibition does not apply to off-road vehicles necessary for oil and gas exploration [redacted] or [redacted] to a person who holds a mining claim in the vicinity of the highway and who must use land within five miles of the right-of-way of the highway to gain access to

the [HIS] mining claim.
Sec. 3 This Act is retroactive to October 5, 1980.
* Sec. 4. This Act takes effect immediately in accordance with AS 01.-10.070(c).

Moen
2/11/85

Original sponsor: House Special Committee on Oil and Gas

IN THE HOUSE BY THE RESOURCES COMMITTEE

CS FOR HOUSE BILL NO. 143 (Resources)

IN THE LEGISLATURE OF THE STATE OF ALASKA

FOURTEENTH LEGISLATURE - FIRST SESSION

A BILL

For an Act entitled: "An Act relating to oil and gas activities along a highway right-of-way; and providing for an effective date."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

* Section 1. AS 19.40.200 is amended by adding new subsections to read:

(b) The prohibition on disposal of state land under (a) of this section does not apply to a

(1) disposal necessary for an oil and gas lease under AS 38.05.180;

(2) a state lease or materials sale necessary for exploration, development, production, or transportation of oil and gas or reconstruction or maintenance of the highway.

(c) Before the sale of materials under (b)(2)of this section to a private entity or person or to a state agency the state shall give due consideration to the availability of materials from private sources in the area where the materials are needed.

* Sec. 2. AS 19.40.210 is amended to read:

Sec. 19.40.210. PROHIBITION OF OFF-ROAD VEHICLES. Off-road vehicles are prohibited on land within five miles of the right-of-way of the highway. However, this prohibition does not apply <u>to off-road vehicles necessary for oil and gas exploration, development, production, or transportation or</u> to a person who holds a mining claim in the vicinity of the highway and who must use land within five miles of the right-of-way of the highway to gain access to <u>the</u> [HIS] mining claim.

* Sec. 3. This Act is retroactive to October 5, 1980.

* Sec. 4. This Act takes effect immediately in accordance with AS 01.-10.070(c).

STATE OF ALASKA
THE LEGISLATURE
LEGISLATIVE AFFAIRS AGENCY

POUCH Y · STATE CAPITOL
JUNEAU, ALASKA 99811
907-465-3800

MEMORANDUM February 11, 1985

SUBJECT: CS for House Bill 134 (oil & gas)

TO: House Special Committee on Oil and Gas

FROM: Randall J. Moen
Legislative Counsel

Upon further review of CS for HB 143 it is my opinion the title, "An Act relating to oil and gas activities along a right-of-way; . . ." may not adequately describe the content of the bill. My reason is that Section 1. (b) (3) allows for disposal of state land along the James Dalton highway for purposes other than oil and gas activities, (i.e.) reconstruction or maintenance of the highway.

RJM:ojb
J11/076

Proposed amendment to CSSB 115/CSHB~~143~~

Section 1.

(b)(2) a state lease or materials sale necessary for exploration, development, or production of oil and gas or reconstruction or maintenance of the highway.

(b)(3) a state lease for transportation of oil and gas within one-quarter mile of the highway centerline under AS 38.35.

Sec. 19.40.100. Use of the highway by industrial or commercial traffic. (a) The department shall maintain the highway and keep it open to industrial or commercial traffic throughout the year.

(b) "Industrial or commercial travel" means

(1) travel necessary and related to resource exploration and development or to support of those activities, if the individual engaged in those activities has all necessary permits; or

(2) travel necessary and related to access by local residents to their property; or

(3) motor carriers engaged in commerce which are common carriers or contract carriers regulated by the Alaska Transportation Commission under AS 42.10. (§ 3 ch 177 SLA 1980)

Sec. 19.40.110. Public use of a portion of the highway. The department shall maintain the section of the highway between the Yukon River and Dietrich Camp and shall keep that section of the highway open to use by the public between June 1 and September 1 each year. (§ 4 ch 177 SLA 1980; AS 19.40.120)

Revisor's notes. — This section was enacted as AS 19.40.120 but was renumbered by the revisor of statutes pursuant to AS 01.05.031.

Sec. 19.40.120. Closure of the highway to traffic. The provisions of AS 19.10.100 apply to the closure of the highway by the department. (§ 3 ch 177, SLA 1980; AS 19.40.110)

Revisor's notes. — This section was enacted as AS 19.40.110 but was renumbered by the revisor of statutes pursuant to AS 01.05.031.

Sec. 19.40.200. Prohibition on disposal of land within five miles of the highway. The state may not dispose of state land under AS 38 which is within five miles of the right-of-way of the highway. (§ 5 ch 177 SLA 1980)

Legislative history reports. — For governor's letter returning SCS HB am S (H. failed eff. date) see 1980 House Journal, p. 2240, and 1980 Senate Journal, p. 1781. For attorney general's opinion advising the governor that the house and senate did not pass the same bill, see Op. Atty. Gen. July 1, 1980.

Sec. 19.40.210. Prohibition of off-road vehicles. Off-road vehicles are prohibited on land within five miles of the right-of-way of the highway. However, this prohibition does not apply to a person who holds a mining claim in the vicinity of the highway and who must use land within five miles of the right-of-way of the highway to gain access to his mining claim. (§ 5 ch 177 SLA 1980; AS 19.40.200(b))

Revisor's notes. — This section was enacted as AS 19.40.200(b) but was renumbered by the revisor of statutes pursuant to AS 01.05.031.

BACKGROUND ON SB 115
DEPARTMENT OF NATURAL RESOURCES
February 8, 1985
Senate Resources Committee

DISPOSALS UNDER AS 38 NECESSARY FOR OIL AND GAS DEVELOPMENT:

- Oil and gas leases under AS 38.05.180 convey exploratory drilling rights and production rights for any oil and gas discovered.

- Material (sand and gravel) sales are made to private entities under AS 38.05.110-120 for roads, drill pads, offshore artificial drilling islands, causeways, and other facilities. "Sales" are also made to the Department of Transportation and Public Facilities for highway reconstruction and maintenance under AS 38.05.810 (public and charitable use).

- Oil and gas pipeline right-of-way leases under AS 38.35 are the required authorization to construct an oil or gas pipeline on or across state land.

- Leases under AS 38.05.070 are held by private service companies and contractors in the Prudhoe Bay Industrial Tract Subdivision. These companies and contractors sell, rent, and repair equipment and provide services to oil and gas lessees. Alyeska Pipeline Service Co. also holds leases (for example, construction camp site).

ACTIVITIES IMMEDIATELY AFFECTED BY THE PROPOSED LEGISLATION

- Oil and Gas Lease Sale 47 (Kuparuk Uplands) is tentatively scheduled for May 21, 1985,and contains approximately 611,840 acres. Of that total, about 230,000 acres (52 of the 113 tracts) are within five miles of the highway and would have to be deleted from the sale without the proposed clarification of existing statute. Final notice of Sale 47 is scheduled to be given March 22, 1985.

- Seismic exploration using off-road vehicles is currently prohibited within the 10-mile corridor.

- Several existing material sales to the Department of Transportation and Public Facilities, and current pending applications for continued materials requirements of Alyeska will be in jeopardy.

BILL SHEFFIELD, GOVERNOR

REPLY TO:

☒ 1031 W 4th AVENUE
SUITE 200
ANCHORAGE, ALASKA 99501
PHONE: (907) 276-3550

☐ 1st NATIONAL CENTER
100 CUSHMAN ST.
SUITE 400
FAIRBANKS, ALASKA 99701
PHONE: (907) 452-1568

☐ POUCH K - STATE CAPITOL
JUNEAU, ALASKA 99811
PHONE: (907) 465-3600

DEPARTMENT OF LAW

OFFICE OF THE ATTORNEY GENERAL

February 12, 1985

The Honorable Arliss Sturgulewski, Chairman
Senate Resources Committee
Alaska State Senate
Pouch V
Juneau, Alaska 99811

Re: CSSB 115 (Res)

Dear Senator Sturgulewski:

Kay Brown, director of the division of oil and gas, has asked us to respond to your inquiry whether there would be any negative legal implications from the retroactive application of the proposed amendments to AS 19.40.200 - 19.40.210 contained in the referenced bill. 1/ We believe that there would not.

Although retrospective laws are generally not favored, curative legislation is encouraged. Here, the legislation is in part being proposed to validate certain existing AS 38.05 disposals and off-road vehicle activities which might otherwise be void for failure to conform with the existing proscriptions of

---

1/ You will recall that the inquiry was made at your meeting of February 8, at which time Ms. Brown proposed that the provisions of CSSB 115 (Res) be made retroactive. We had earlier advised Ms. Brown that any question regarding the validity of existing uses of state land along the Dalton Highway could be resolved in the context of an attorney general's opinion. However, on February 4, it was brought to our attention that at least one existing oil and gas lease would be void unless made valid by retroactive application of the proposed amendments contained in the bill.

AS 19.40.200 - 19.40.210. These disposals and activities were authorized by state officials under the mistaken belief that the provisions of AS 19.40.200 - 19.40.210 were limited in scope to certain circumstances of primary concern to the legislature when the original Act was passed, namely, the prohibition of cabin site and other land surface disposals under AS 38.05 and of hunting with ORVs along the Haul Road corridor. The plain language of the statute, however, exceeds this narrow application, even though a broad interpretation reportedly was not the legislature's original intent.

Nevertheless, even curative legislation must comply with certain legal requirements. Among these is the requirement of AS 01.10.090 for an express statement of retroactivity. The legislative drafting manual suggests that language providing for retroactive application of a bill be set out in a separate section immediately preceding the effective date section, and that the retroactive section and the sections of the bill that are to be retroactive have immediate effective dates. Thus, CSSB 115 (Res) should contain an additional section to read:

* Sec. 3. Sections 1 - 2 of this Act are retroactive to October 5, 1980. 2/

From a constitutional standpoint, a curative Act may not impair the obligation of contracts, take property without due process of law, or interfere with purely judicial matters. We are not aware of any potential problems arising in these three areas of concern if the presently proposed amendments to AS 19.40.200 - 19.40.210 are made retroactive to the effective date of the original Act. To the contrary, retroactive application will avoid the possibility of finding invalid existing uses of state land previously authorized by state officials.

In sum, we are of the opinion that CSSB 115 (Res), which grants new rights rather than takes away existing rights,

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2/ The present Section 3, providing for an immediate effective date, would be renumbered Section 4.

will present no negative legal implications if its provisions are applied retroactively. To the contrary, because of the uncertain validity of some existing uses of state land, we strongly encourage inclusion in the bill of a retrospective clause such as the one we have suggested.

Very truly yours,

NORMAN GORSUCH
ATTORNEY GENERAL

A. E. Prezyna

By: Ann E. Prezyna
Assistant Attorney General

AEP/ma

cc: Kay Brown, Director
Division of Oil and Gas
Department of Natural Resources

Arthur H. Peterson
Assistant Attorney General
Department of Law - Juneau

STATE OF ALASKA

OFFICE OF THE GOVERNOR

BILL ANALYSIS

DEPARTMENT	DIVISION	BILL NUMBER	SPONSOR
Fish and Game	Habitat	CSHB 143	House Special Committee on Oil and Gas

DEPARTMENT POSITION

Neutral

PREPARED BY	DATE	COMMISSIONER'S SIGNATURE	DATE
Region III	2/26/85		3-21-85

SUMMARY

OTHER AGENCIES AFFECTED BY BILL	CONSTITUENT GROUP(S) AFFECTED BY BILL
Department of Natural Resources	North Slope Borough Arctic Slope Regional Corp.
ORGANIZATIONAL SUPPORT FOR BILL	**ORGANIZATIONAL OPPOSITION TO BILL**
Alaska Oil and Gas Association	Unknown

FISCAL IMPACT: ☒ NONE ☐ FISCAL NOTE ATTACHED

BACKGROUND/LEGISLATIVE INTENT

AS 19.40.200 and .210 currently prohibits the disposal of state land and the use of off-road vehicles within a five mile corridor on both sides of the Dalton Highway right-of-way. This bill would amend AS 91.40.200 and .210 to permit disposals or use of off-road vehicles for oil and gas exploration, development, production, or transportation or the reconstruction or maintenance of the highway.

ANALYSIS OF BILL/PROGRAM EFFECTS

Adds a new subsection AS 19.40.200(b) exempting AS 38.05.180 oil and gas leases and other leases or material sales necessary for oil and gas exploration, development, production or transportation north of 68 degrees north latitude or reconstruction or maintenance of the highway. Amends AS 19.40.210 to exempt off-road vehicles necessary for oil and gas exploration conducted under an AS 38.05.180 oil and gas lease.

No program effects are anticipated; will not adversely affect AS 16.05.789 nor any other ADF&G programs currently mandated by law.

AMENDMENTS PROPOSED

None.

PLEASE ATTACH A SEPARATE SHEET FOR ADDITIONAL COMMENTS OR ANALYSIS.

STATE OF ALASKA

DEPARTMENT OF NATURAL RESOURCES

ESTHER C. WUNNICKE, COMMISSIONER
POUCH M
JUNEAU, AK 99811
(907) 465-2400

PUBLIC AFFAIRS OFFICE
555 CORDOVA ST / POUCH 7-005
ANCHORAGE, AK 99510
(907) 276-2653

MEDIA RELEASE

DIVISION OF:	Oil and Gas	CONTACT	Leila Wise
RELEASE DATE:	March 26, 1985	PHONE:	265-4300
SUBJECT:	Delay of Oil & Gas Lease Sale 47	DNR NEWSLINE:	265-4129

The Department of Natural Resources, Division of Oil and Gas, announced today that Oil and Gas Lease Sale 47 (Kuparuk Uplands) will be delayed from May 1985 until September 1985 and held in conjunction with Sale 45A (North Slope). The delay results from a state statutory conflict which would have reduced the acreage available for leasing in Sale 47, and could have adversely affected the value of the remaining sale acreage by hindering access.

The Dalton Highway crosses the Sale 47 area and approximately one-half of the Sale 47 tracts lie within or partially within a five mile corridor on either side of the highway right-of-way. Alaska Statutes preclude oil and gas leasing within the corridor, as well as use of off-road vehicles.

-MORE-

Sale 47 acreage lies on the North Slope, from the Kuparuk River in the west to the Sagavanirktok River in the east; sale acreage is situated southeast of the Kuparuk River oil field and south of the Prudhoe Bay oil field. Originally scheduled for May 1985 and now scheduled f September 1985, Sale 47 will offer approximately 611,840 acres in 113 tracts, assuming the legislature acts on the proposed changes before adjourning.

For further information about Sale 47 or other proposed oil and gas lease sales, contact the Division of Oil and Gas, Department of Natural Resources, at 555 Cordova, Pouch 7-034, Anchorage, Alaska 99510 or call Ron Beran at 265-4276.

preliminary

The Department of Natural Resources is requesting amendment of AS 19.40.200 and AS 19.40.210 to allow oil and gas exploration and development within five miles of the right-of-way of the Dalton Highway (North Slope Haul Road).

The statute presently prohibits the disposal of state land under AS 38 and use of off-road vehicles within five miles of the highway. "State land" includes resources owned by the state, including oil and gas.

Although the department does not believe it was the intent of the 1980 legislature to prohibit oil and gas activities along the highway, the statute as presently written may be interpreted to have that effect. Oil and Gas Lease Sale 47 (Kuparuk Uplands) is tentatively scheduled for May 21, 1985 and contains approximately 611,840 acres. Of that total, some 230,000 acres (52 of the 113 tracts) are within the five-mile corridor and will have to be deleted from the sale without clarification of the statutes cited above. Final notice of Sale 47 is scheduled to be given March 22, 1985.

Offered: 2/11/85
Referred: Transportation

Original sponsor: Resources Committee

IN THE SENATE BY THE RESOURCES COMMITTEE

CS FOR SENATE BILL NO. 115 (Resources)

IN THE LEGISLATURE OF THE STATE OF ALASKA

FOURTEENTH LEGISLATURE - FIRST SESSION

A BILL

For an Act entitled: "An Act relating to land use and disposal near a highway right-of-way; and providing for an effective date."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

* Section 1. AS 19.40.200 is amended by adding new subsections to read:

(b) The prohibition on disposal of state land under (a) of this section does not apply to a

(1) disposal necessary for an oil and gas lease under AS 38.05.180;

(2) a state lease or materials sale necessary for exploration, development, production, or transportation of oil and gas or reconstruction or maintenance of the highway.

(c) Before the sale of materials under (b)(2)of this section to a private entity or person or to a state agency the state shall give due consideration to the availability of materials from private sources in the area where the materials are needed.

* Sec. 2. AS 19.40.210 is amended to read:

Sec. 19.40.210. PROHIBITION OF OFF-ROAD VEHICLES. Off-road vehicles are prohibited on land within five miles of the right-of-way of the highway. However, this prohibition does not apply <u>to off-road vehicles necessary for oil and gas exploration, development, production, or transportation or</u> to a person who holds a mining claim in the vicinity of the highway and who must use land within five miles of the right-of-way of the highway to gain access to <u>the</u> [HIS] mining claim.

* Sec. 3. This Act is retroactive to October 5, 1980.

* Sec. 4. This Act takes effect immediately in accordance with AS 01.-10.070(c).

STATE OF ALASKA

POUCH V
JUNEAU, ALASKA 99811
(907) 465-4941

HOUSE SPECIAL COMMITTEE ON OIL AND GAS

CSSB 115/CSHB 143

Sectional Analysis

CSSB 115 and CSHB 143 are identical bills, except for differences in their titles. Although the intent of both bills is exclusively to allow oil and gas activities to take place within the Dalton Highway right-of-way, the title of CSHB 143 is more specific to this purpose.

The Dalton Highway was constructed for the purpose of oil and gas exploration, development, and transportation, and it is the feeling of this committee that prohibitions within the highway corridor were never intended to apply to these activities. Passage of these bills would allow for the sale of oil and gas leases within the Dalton Highway right-of-way, as well as allowing for related oil and gas activities and the associated use of off-road vehicles. Timely passage of this legislation would also allow the Department of Natural Resources' May 1985 Kuparuk Uplands Sale #47 to take place on schedule.

Section 1.

(b)(1) This subsection addresses AS 38.05.180, which specifically applies to land disposals related to oil and gas leases. Disposals other than those related to oil and gas leasing cannot take place under this section.

(b)(2) This subsection refers to all other leases and materials sales necessary for oil and gas activities. These disposals include oil and gas pipeline right-of-way leases (AS 38.35) and materials sales (AS 38.05.110-120 and .810). Materials sales refer specifically to the sale of sand and gravel.

(c) Due consideration shall be given by the state to purchasing sand and gravel needed for reconstruction or maintenance of the highway from private sources in the area. This subsection is not intended to imply that preference should be given to purchasing materials from these sources, but only that due consideration be given to them.

Section 2.

This section allows off-road vehicles to be used within the Dalton Highway right-of-way when necessary for oil and gas activities. No changes are made to the existing exemption which allows miners to use off-road vehicles within the right-of-way to reach their claims.

Section 3.

This act is retroactive to October 5, 1980; the date at which this statute was first enacted. The reason for the retroactive date is that several leases and material sales have taken place within the right-of-way since 1980.

STATE OF ALASKA

DEPARTMENT OF NATURAL RESOURCES

OFFICE OF THE COMMISSIONER

BILL SHEFFIELD, GOVERNOR

POUCH M
JUNEAU, ALASKA 99811
PHONE: 907-465-2400

January 31, 1985

The Honorable Mike Davis, Chairman
House Special Committee on Oil and Gas
Pouch V
Juneau, AK 99811

Dear Representative Davis:

The Department of Natural Resources is requesting amendment of AS 19.40.200 and AS 19.40.210 to allow oil and gas exploration and development within five miles of the right-of-way of the Dalton Highway (North Slope Haul Road).

The statute presently prohibits the disposal of state land under AS 38 and use of off-road vehicles within five miles of the highway. "State land" under AS 38 includes oil and gas leases for exploration and production rights.

Although the department does not believe it was the intent of the 1980 Legislature to prohibit oil and gas activities along the highway, the statute as presently written may be interpreted to have that effect. Oil and Gas Lease Sale 47 (Kuparuk Uplands) is tentatively scheduled for May 21, 1985 and contains approximately 611,840 acres. Of that total, some 230,000 acres (52 of the 113 tracts) are within the five-mile corridor and will have to be deleted from the sale without clarification of the statutes cited above. Final notice of Sale 47 is scheduled to be given March 22, 1985.

I appreciate the willingness of your Committee to introduce HB 143, which would rectify the apparent oversight. Thank you in advance for your consideration and timely action on the bills.

Sincerely,

Esther C Wunnicke

Esther C. Wunnicke
Commissioner

10-J9LH

STATE OF ALASKA 1985 LEGISLATIVE SESSION
FISCAL NOTE

Revision Date:

REQUEST
Bill/Resolution No.: HB 143
Title: Exploration and Development in Highway Rights-of-Way
Sponsor:
Requestor: Rep. Davis
Date of Request: 1/31/85

FISCAL DETAIL
Agency Affected: Natural Resources
Program Category Affected: NRMEC
BRU, Program or Subprogram(s) Affected: Minerals and Energy Management

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 85	FY 86	FY 87	FY 88	FY 89	FY 90
OPERATING						
100 PERSONAL SERVICES						
200 TRAVEL						
300 CONTRACTUAL						
400 SUPPLIES						
500 EQUIPMENT						
600 LAND & STRUCTURES						
700 GRANTS, CLAIMS						
800 MISCELLANEOUS						
TOTAL OPERATING		-0-	-0-	-0-	-0-	-0-
CAPITAL						
REVENUE						

FUNDING: (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER						
TOTAL		-0-	-0-	-0-	-0-	-0-

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS: Attach a separate page if necessary

No fiscal impact.

Prepared By: Ned Farquhar — Phone: 465-2400
Division: Commissioner's Office — Date: January 31, 1985

Approved by Commissioner: [signature] — Date: January 31, 1985
Agency: Natural Resources

Distribution (by Agency preparing fiscal note):
- Legislative Finance
- Legislative Sponsor
- Requestor
- Office of Management and Budget
- Impacted Agency(ies)

7/1/84

STATE OF ALASKA 1985 LEGISLATIVE SESSION

FISCAL NOTE

Revision Date:

REQUEST

Bill/Resolution No.: SB 115

Title: Exploration and Development in Highway Rights-of-Way

Sponsor:

Requestor: Sen. Sturgulewski

Date of Request: 1/31/85

FISCAL DETAIL

Agency Affected: Natural Resources

Program Category Affected: NRMEC

ERU, Program or Subprogram(s) Affected: Minerals and Energy Management

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 85	FY 86	FY 87	FY 88	FY 89	FY 90
OPERATING						
100 PERSONAL SERVICES						
200 TRAVEL						
300 CONTRACTUAL						
400 SUPPLIES						
500 EQUIPMENT						
600 LAND & STRUCTURES						
700 GRANTS, CLAIMS						
800 MISCELLANEOUS						
TOTAL OPERATING		-0-	-0-	-0-	-0-	-0-
CAPITAL						
REVENUE						

FUNDING: (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER						
TOTAL		-0-	-0-	-0-	-0-	-0-

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS: Attach a separate page if necessary

No fiscal impact.

Prepared By: Ned Farquhar — Phone: 465-2400

Division: Commissioner's Office — Date: January 31, 1985

Approved by Commissioner: Robert D Arnold — Date: January 31, 1985

Agency: Natural Resources

Distribution (by Agency preparing fiscal note):

Legislative Finance
Legislative Sponsor
Requestor
Office of Management and Budget
Impacted Agency(ies)

7/1/84

SCOMM

#46:16

Offered: 2/21/85
Referred: Finance

Original sponsors: Coghill, Bennett and Fahrenkamp

IN THE SENATE BY THE RESOURCES COMMITTEE

CS FOR SENATE BILL NO. 152 (Resources)

IN THE LEGISLATURE OF THE STATE OF ALASKA

FOURTEENTH LEGISLATURE - FIRST SESSION

A BILL

For an Act entitled: "An Act relating to extension and renewal of certain sales of state royalty oil; and providing for an effective date."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

* Section 1. The following provisions of law do not apply to an extension or renewal of not more than three months of a sale of oil that is subject to approval by the legislature under AS 38.06.055(c):

(1) AS 38.05.035(e);

(2) AS 38.05.183(a), (c), and (e); and

(3) AS 38.06.050.

* Sec. 2. A three-month extension of the "Agreement for the Sale and Purchase of Royalty Oil between the State of Alaska and Golden Valley Electric Association, Inc.," dated May 9, 1984, is hereby approved and ratified.

* Sec. 3. Section 1 of this Act is repealed October 1, 1985.

* Sec. 4. This Act takes effect immediately in accordance with AS 01.-10.070(c).

Introduced: 2/25/85
Referred: House Special Committee
on Oil & Gas, Resources and Finance

IN THE HOUSE

BY M.W. MILLER, FRANK, KOPONEN, RINGSTAD, SHULTZ AND DAVIS

HOUSE BILL NO. 233

IN THE LEGISLATURE OF THE STATE OF ALASKA

FOURTEENTH LEGISLATURE - FIRST SESSION

A BILL

For an Act entitled: "An Act relating to extension and renewal of certain sales of state royalty oil; and providing for an effective date."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

* Section 1. The following provisions of law do not apply to an extension or renewal of not more than three months of a sale of oil that is subject to approval by the legislature under AS 38.06.055(c):

(1) AS 38.05.035(e);

(2) AS 38.05.183(a), (c), and (e); and

(3) AS 38.06.050.

* Sec. 2. A three-month extension of the "Agreement for the Sale and Purchase of Royalty Oil between the State of Alaska and Golden Valley Electric Association, Inc.," dated May 9, 1984, is hereby approved and ratified.

* Sec. 3. Section 1 of this Act is repealed October 1, 1985.

* Sec. 4. This Act takes effect immediately in accordance with AS 01.-10.070(c).

7

GVEA

GVEA ROYALTY OIL CONTRACT

FACT SHEET

TITLE: Agreement for Sale and Purchase of Royalty Oil

TERM: 3 months

MAJOR FACTS/BENEFITS:

a. This is a renewal or continuation of GVEA's 1977 royalty oil contract which was the first royalty contract. GVEA is presently receiving oil and has been receiving continuously since 1981.

b. The contract has specific "In State Processing Requirement".

c. Guaranteed Benefits:

(1) Directly benefits more than 50,000 Interior residents who are consumers of GVEA by providing GVEA a lower price for turbine generator fuel.

(2) GVEA's fuel derived from the royalty oil agreement costs 9.4% less than next best competitive alternative.

(3) GVEA saves in excess of $550,000 a year which is passed on directly to the consumer via GVEA's "Cost of Power Adjustment (CPAC)" tariff and has been a credit adjustment on the last 33 monthly electric billings.

d. Fairbanks area electric consumers are the only major group in Alaska who do not presently benefit from hydro development, power cost assistance, or availability of economical natural gas fuels.

e. Although approval now seems within our grasp, there have been several delays in the approval of GVEA's contract. We are in a position at this late date where even if the proposed contract is approved immediately, we will lose our oil supply because of the crude oil denomination and re-nomination requirements associated with the lapse of our current contract and implementation of the new contract. When DNR granted our present one year contract, they pledged their best efforts to insure that GVEA would suffer no crude flow interruption. Passage of S.B. 152 will insure that the commitment is kept.

f. The 3 month lapse would result in $125,000 to $135,000 higher electric bills to the GVEA consumer via GVEA's CPAC.

Alaska State Legislature

ARLISS STURGULEWSKI, Chairman
BETTYE FAHRENKAMP, Vice Chairman
JACK COGHILL
DICK ELIASON
VIC FISCHER
RICK HALFORD
FRED ZHAROFF

POUCH V
JUNEAU, ALASKA 99811
(907) 465-4907

Senate
Committee on Resources

MEMORANDUM February 19, 1985

TO: All Members
Senate Resources Committee

FROM: Staff
Senate Resources Committee

RE: SB 152 "An Act relating to extension and renewal of certain sales of state royalty oil; and providing for an effective date."

SB 152 is designed to cover a time lapse between the expiration of the state's royalty oil contract with GVEA (Golden Valley Electric Association) and the effective date of a new contract. The current contract is due to expire June 30, 1985. This bill would extend that date to September 30, 1985.

A bill approving a new royalty oil contract with GVEA is scheduled to be introduced at the request of the Governor on March 8, 1985. Royalty oil contracts become effective four months after they are signed which means that the new contract could not become effective before the original expiration date.

When the state is taking its royalty oil in kind rather than in value, State regulations require 90 days written notice when the amount of oil taken is going to change. (See attached copy of 11 AAC 82.700[2]) If the contract lapsed, the state would have to give 90 days notice that it was decreasing the amount of oil taken in kind and then, when the contract was signed, would have to give another 90 days notice that the amount was going to go back up. These notice requirements, together with the actual lapse in the contract would cause a substantial interruption in the supply of oil to GVEA.

The Department of Natural Resources has issued findings that the GVEA contract is in the best interest of the state. It appears that the issue of whether the GVEA contracts are a good or bad deal for the state is an issue that would more properly be addressed when the new contract is before this body. Nothing in this bill would commit the state in any way to the new contract.

In this packet is a sectional analysis of the committee substitute proposed by Sen. Coghill's office; a memo from Sen. Coghill's office on this issue; a copy of the relevant regulations; a chart showing the current distribution of the state's royalty oil; and a copy of GVEA's current contract.

STATE OF ALASKA
THE LEGISLATURE

POUCH Y STATE CAPITOL
JUNEAU ALASKA 9981
907 465 [illegible]

LEGISLATIVE AFFAIRS AGENCY

MEMORANDUM February 18, 1985

SUBJECT: Sectional Analysis for CS for HB 152 (Resources)

TO: Senator Arliss Sturgulewski
Chairman, Senate Resources Committee

FROM: Randall J. Moen
Legislative Counsel

Section 1 The following need not occur if a sale of state royalty oil subject to legislative approval is extended or renewed for not more that three months and the extension or renewal relates to a one year or less prior sale of oil with the same party to relieve market or storage conditions:

1. A written finding to the public by the director of the division of lands for the Department of Natural Resources that a sale of oil will serve the best interests of the state. (AS 38.05.035(e))

2. Competitive bidding by the commissioner of natural resources or prior written notice to the Alaska Royalty Oil and Gas Development Advisory Board of reasons for waiver of competitive bidding. (AS 38.05.183(a))

3. Prior written notice to the public and the Alaska Royalty Oil and Gas Development Advisory Board of the reasons why the commissioner of natural resources intends to sell royalty oil other than by competitive bid. (AS 38.05.183(c))

4. A requirement of the commissioner of natural resources to sell royalty oil to a prospective buyer whose proposal offers maximum benefits to the state. (AS 38.05.183(e))

5. Review and written recommendation to the legislature by the Alaska Royalty Oil and Gas Development Advisory Board. (AS 38.06.050(a))

6. Prior written notice to the Alaska Royalty Oil and Gas Development Advisory Board by the Commissioner of natural resources of rejection of a bid or application for the purchase of royalty oil. (AS 38.06.060(b))

7. Prior written notice to the Alaska Royalty Oil and Gas Development Advisory Board by the commissioner of natural resources before the waiver of competitive bidding. (AS 38,06.050(c))

Section 2 The legislature approves and ratifies a three month extension of a royalty oil contract between the State of Alaska and Golden Valley Electric Association, Inc.

Section 3 On October 1, 1985 the provisions of law noted in section 1 will apply to an extension or renewal of not more than three months of sale of oil that is subject to approval by the legislature under AS 38.96.055(c).

Section 4 Immediate effective date.

RJM:csh
c3/004

Prepared by:
Senator Coghill's
Office 2/19/85

Golden Valley Electric Assn.

Contract Extension

SB 152

Golden Valley and the State of Alaska negotiated an agreement in 1976 to sell 5,000 barrels per day of royalty oil. Golden Valley requested royalty oil so that crude oil might be used as turbine fuel for power generation if market conditions made the cost prohibitive.

Golden Valley did not exercise its option to purchase until 1981. It assigned its contract rights to Mapco in exchange for a price discount on the turbine fuel.

This price discount, over $500,000 a year, is passed on to its 50,000 electric customers. The Department of Natural Resources has indicated that continued royalty oil sales to GVEA is in the best interest of the state because it offers maximum benefits to the citizens of the State.

The new Golden Valley contract with the State is a long-term noncompetitive bid contract for 10 years. It is still awaiting final approval. This contract will require legislative approval and will not be ready for that appr al until March. It then must be signed by the governor. It becomes effective four months after signing.

The expiration date of the existing contract is June 30, 1985. As part of the Prudhoe Bay Unit Agreement of April 1, 1971, 90 days notice must be given to the producers to switch from in kind taking to in value for a small volume. This is the nomination/denomination process.

Notice must be given to the producers by March 31, 1985 under the existing contract-- if it expires June 30--in order for the State to return to in value taking.

Essentially with no extension the royalty oil will stop coming to Golden Valley. There will be a gap between the old and new contract. There is a four month waiting period before the new contract takes effect so that the State may notify the producers of its desire to take in kind. In addition to these problems are the procedural requirements found in the bill relating to public notice. Each notice step takes a certain amount of time.

This bill will allow the Golden Valley contract to extend for three months, enough time for the new contract to take effect and keep the prices of turbine fuel down to help lower fuel costs to its customers. The legislation is temporary and expires October 1, a time fixed to coincide with the new contract start-up.

It is not practical at this time to treat the proposed extension as a new disposal due to numerous requirements which would be waived by the proposed CS for SB 152.

STATE OF ALASKA
THE LEGISLATURE

LEGISLATIVE AFFAIRS AGENCY

POUCH Y STATE CAPITOL
JUNEAU, ALASKA 99811
907 465 3800

MEMORANDUM March 4, 1985

SUBJECT: Constitutionality of HB 233

TO: House Special Committee on Oil and Gas

FROM: Randall J. Moen
Legislative Counsel

You have asked whether section 1 of HB 233 violates Article II, section 19 of the Alaska Constitution. In my opinion it does not.

Section 1 of HB 233 temporarily waives certain provisions of law relating to a particular type of sales of state royalty oil. It states:

> The following provisions of law do not apply to an extension or renewal of not more than three months of a sale of oil subject to approval by the legislature under AS 38.06.055(c): (1) AS 38.05.035(e); (2) AS 38.05.183(a), (c), and (e); and (3) AS 38.06.050.

Article II, section 19 of the Alaska Constitution reads in part, "The legislature shall pass no local or special act if a general act can be made applicable." Two questions emerge: Is the language of section 1 of HB 233 of a special or local nature, and if so, can a general act be made applicable? I will only address the first question.

The two leading Alaska cases regarding Article II, section 19 of the Alaska Constitution are State v. Abrams, 534 P.2d 91 (1975) and State v. Lewis, 559 P.2d 630 (1977). Abrams, supra, dealt with a law giving Eagle River special incorporation privileges. In Lewis, supra, the court was faced with a law waiving other laws for a particular three way land exchange agreement. Both cases are similar in that they dealt with acts which on their face were applicable to only one entity or party or locale. This can be distinguished from section 1 of HB 233 which may apply to anyone or anywhere in general. It is not limited to any one entity or

party or locale. Therefore, section 1 is not a "special or local" act under Article II, section 19 of the Alaska Constitution.

RJM:ojb
J12/051

STATE OF ALASKA

POUCH V
JUNEAU, ALASKA 99811
(907) 465-4941

HOUSE SPECIAL COMMITTEE ON OIL AND GAS

HB 233/CSSB 152

Passage of either HB 233 or its companion bill, CSSB 152, would provide for an emergency three-month extension of the present GVEA royalty oil contract. The best-interest finding of this bill is based on the royalty oil being assigned to MAPCO, and MAPCO in turn selling turbine fueld to GVEA at a discounted price. This discount results in a 1.57% savings to consumers on their electrical costs.

Because this legislation would bypass several procedures relating to the disposition of royalty oil, it is worthwhile to review the events that led to the introduction of this legislation.

1976 Negotiations take place between the Department of Natural Resources and GVEA

1977 GVEA contract is signed

1978 GVEA is eligible to begin receiving royalty oil; contract expires six years from date of first receipt

1981 GVEA elects to begin receiving royalty oil, at a rate of 5,000 b/d

1982 GVEA request 10-year extension of contract

1983 Negotiations take place between the Department of Natural Resources and GVEA; Royalty Board reviews the proposed contract

1984 The six-year contract expires, and an emergency one-year contract is signed

1985 HB 233 and CSSB 152 would provide for an emergency three-month extension

STATE OF ALASKA

POUCH V
JUNEAU, ALASKA 99811
(907) 465-4941

HOUSE SPECIAL COMMITTEE ON OIL AND GAS

HB 233

Letter of Intent

Passage of this legislation is in no way to be construed as tacit approval or endorsement having been given to the proposed ten-year royalty oil contract with GVEA. The ten-year contract shall be reviewed exclusively on its own merits at such time as this contract is presented to the Legislature.

STATE OF ALASKA
THE LEGISLATURE

LEGISLATIVE AFFAIRS AGENCY

POUCH Y · STATE CAPITOL
JUNEAU, ALASKA 99811
907 465 3800

MEMORANDUM March 4, 1985

SUBJECT: Constitutionality of HB 233

TO: House Special Committee on Oil and Gas

FROM: Randall J. Moen
Legislative Counsel

You have asked whether section 1 of HB 233 violates Article II, section 19 of the Alaska Constitution. In my opinion it does not.

Section 1 of HB 233 temporarily waives certain provisions of law relating to a particular type of sales of state royalty oil. It states:

> The following provisions of law do not apply to an extension or renewal of not more than three months of a sale of oil subject to approval by the legislature under AS 38.06.055(c): (1) AS 38.05.035(e); (2) AS 38.05.183(a), (c), and (e); and (3) AS 38.06.050.

Article II, section 19 of the Alaska Constitution reads in part, "The legislature shall pass no local or special act if a general act can be made applicable." Two questions emerge: Is the language of section 1 of HB 233 of a special or local nature, and if so, can a general act be made applicable? I will only address the first question.

The two leading Alaska cases regarding Article II, section 19 of the Alaska Constitution are State v. Abrams, 534 P.2d 91 (1975) and State v. Lewis, 559 P.2d 630 (1977). Abrams, supra, dealt with a law giving Eagle River special incorporation privileges. In Lewis, supra, the court was faced with a law waiving other laws for a particular three way land exchange agreement. Both cases are similar in that they dealt with acts which on their face were applicable to only one entity or party or locale. This can be distinguished from section 1 of HB 233 which may apply to anyone or anywhere in general. It is not limited to any one entity or

party or locale. Therefore, section 1 is not a "special or local" act under Article II, section 19 of the Alaska Constitution.

RJM:ojb
J12/051

STATE OF ALASKA 1985 LEGISLATIVE SESSION

FISCAL NOTE

Revision Date:

REQUEST

Bill/Resolution No.: SB 152

Title: Royalty Oil, GVEA

Sponsor: Coghill

Requestor:

Date of Request:

FISCAL DETAIL

Agency Affected: Natural Resources

Program Category Affected: NRMEC

BRU, Program or Subprogram(s) Affected: Minerals and Energy Management

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 85	FY 86	FY 87	FY 88	FY 89	FY 90
OPERATING						
100 PERSONAL SERVICES						
200 TRAVEL						
300 CONTRACTUAL						
400 SUPPLIES						
500 EQUIPMENT						
600 LAND & STRUCTURES						
700 GRANTS, CLAIMS						
800 MISCELLANEOUS						
TOTAL OPERATING		-0-	-0-	-0-	-0-	-0-
CAPITAL						
REVENUE						

FUNDING: (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER						
TOTAL		-0-	-0-	-0-	-0-	-0-

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS: Attach a separate page if necessary

No fiscal impact.

Prepared By: Ned Farquhar Phone: 465-2400

Division: Commissioner's Office Date: 15 February 1985

Approved by Commissioner: Esther C Wunnicke Date: 18 February 1985

Agency: Natural Resources

Distribution (by Agency preparing fiscal note):

Legislative Finance
Legislative Sponsor
Requestor
Office of Management and Budget
Impacted Agency(ies)

7/1/84

STATE OF ALASKA

BILL SHEFFIELD, GOVERNOR

DEPARTMENT OF NATURAL RESOURCES

OFFICE OF THE COMMISSIONER

POUCH M
JUNEAU, ALASKA 99811
PHONE:

February 18, 1985

Senator Arliss Sturgulewski, Chairman
Senate Resources Committee
Alaska State Senate
Pouch V
Juneau, Ak 99811

Dear Senator Sturgulewski:

The attached Extension Amendment has been drafted to accommodate a proposed extension of the current royalty oil contract between the State and Golden Valley Association, Inc., as contemplated by the proposed Committee Substitute for Senate Bill 152. Upon enactment of the legislation (including approval by the Governor), I am prepared to execute the amendment.

Sincerely yours,

Esther C Wunnicke

Esther C. Wunnicke
Commissioner
Department of Natural Resources

Attachment as stated

cc: Mike Kelly, Golden Valley Electric Assoc., Inc.

1574K

10-J8LH

Extension Amendment

The following language amends the agreement for the sale and purchase of royalty oil dated May 9, 1984 between the State of Alaska and Golden Valley Electric Association, Inc.:

ARTICLE VI

TERM

6.1 Term. This Agreement shall become effective upon execution by the parties. Subject to the other provisions contained in this Agreement, Seller's obligation to sell and Purchaser's obligation to buy Royalty Oil shall begin July 1, 1984 and end June 30, 1985.

6.2 Extension of Term. Upon enactment on or before March 28, 1985 of legislation approving and ratifying a three-month extension of this Agreement, Seller's obligation to sell and Purchaser's obligation to buy Royalty Oil shall not end until September 30, 1985, or until the date of first delivery under the agreement for the sale and purchase of Royalty Oil conditionally entered into by Seller and Purchaser on February 8, 1985, whichever comes first. As used in this article, "enactment of legislation" is as defined in AS 01.10.070(f)(4).

6.3 Security for Extension of Term. Seller shall not be obligated to deliver Royalty Oil to Purchaser under any extension of the term of this Agreement if Purchaser fails by March 28, 1985 to deliver to Seller evidence that Seller may issue drafts against Purchaser's Article XV Security instrument up to and including November 30, 1985.

Date: _____

_____
Commissioner
Department of Natural Resources

Date: _____

_____
Golden Valley Electric
Association, Inc.

From GVEA 2/19/85

GVEA ROYALTY OIL CONTRACT

FACT SHEET

TITLE: Agreement for Sale and Purchase of Royalty Oil

TERM: 3 months

MAJOR FACTS/BENEFITS:

a. This is a renewal or continuation of GVEA's 1977 royalty oil contract which was the first royalty contract. GVEA is presently receiving oil and has been receiving continuously since 1981.

b. The contract has specific "In State Processing Requirement".

c. Guaranteed Benefits:

(1) Directly benefits more than 50,000 Interior residents who are consumers of GVEA by providing GVEA a lower price for turbine generator fuel.

(2) GVEA's fuel derived from the royalty oil agreement costs 9.4% less than next best competitive alternative.

(3) GVEA saves in excess of $550,000 a year which is passed on directly to the consumer via GVEA's "Cost of Power Adjustment (CPAC)" tariff and has been a credit adjustment on the last 33 monthly electric billings.

d. Fairbanks area electric consumers are the only major group in Alaska who do not presently benefit from hydro development, power cost assistance, or availability of economical natural gas fuels.

e. Although approval now seems within our grasp, there have been several delays in the approval of GVEA's contract. We are in a position at this late date where even if the proposed contract is approved immediately, we will lose our oil supply because of the crude oil denomination and re-nomination requirements associated with the lapse of our current contract and implementation of the new contract. When DNR granted our present one year contract, they pledged their best efforts to insure that GVEA would suffer no crude flow interruption. Passage of S.B. 152 will insure that the commitment is kept.

f. The 3 month lapse would result in $125,000 to $135,000 higher electric bills to the GVEA consumer via GVEA's CPAC.

Alaska State Legislature

ARLISS STURGULEWSKI, Chairman
BETTYE FAHRENKAMP, Vice Chairman
JACK COGHILL
DICK ELIASON
VIC FISCHER
RICK HALFORD
FRED ZHAROFF

POUCH V
JUNEAU, ALASKA, 99811
(907) 465-4907

Senate
Committee on Resources

MEMORANDUM

February 19, 1985

TO: All Members
Senate Resources Committee

FROM: Staff
Senate Resources Committee

RE: SB 152 "An Act relating to extension and renewal of certain sales of state royalty oil; and providing for an effective date."

SB 152 is designed to cover a time lapse between the expiration of the state's royalty oil contract with GVEA (Golden Valley Electric Association) and the effective date of a new contract. The current contract is due to expire June 30, 1985. This bill would extend that date to September 30, 1985.

A bill approving a new royalty oil contract with GVEA is scheduled to be introduced at the request of the Governor on March 8, 1985. Royalty oil contracts become effective four months after they are signed which means that the new contract could not become effective before the original expiration date.

When the state is taking its royalty oil in kind rather than in value, State regulations require 90 days written notice when the amount of oil taken is going to change. (See attached copy of 11 AAC 82.700[2]) If the contract lapsed, the state would have to give 90 days notice that it was decreasing the amount of oil taken in kind and then, when the contract was signed, would have to give another 90 days notice that the amount was going to go back up. These notice requirements, together with the actual lapse in the contract would cause a substantial interruption in the supply of oil to GVEA.

The Department of Natural Resources has issued findings that the GVEA contract is in the best interest of the state. It appears that the issue of whether the GVEA contracts are a good or bad deal for the state is an issue that would more properly be addressed when the new contract is before this body. Nothing in this bill would commit the state in any way to the new contract.

In this packet is a sectional analysis of the committee substitute proposed by Sen. Coghill's office; a memo from Sen. Coghill's office on this issue; a copy of the relevant regulations; a chart showing the current distribution of the state's royalty oil; and a copy of GVEA's current contract.

STATE OF ALASKA
THE LEGISLATURE

POUCH V STATE CAPITOL
JUNEAU ALASKA 998
907 465 3867

LEGISLATIVE AFFAIRS AGENCY

MEMORANDUM February 18, 1985

SUBJECT: Sectional Analysis for CS for HB 152 (Resources)

TO: Senator Arliss Sturgulewski
Chairman, Senate Resources Committee

FROM: Randall J. Moen
Legislative Counsel

Section 1 The following need not occur if a sale of state royalty oil subject to legislative approval is extended or renewed for not more that three months and the extension or renewal relates to a one year or less prior sale of oil with the same party to relieve market or storage conditions:

1. A written finding to the public by the director of the division of lands for the Department of Natural Resources that a sale of oil will serve the best interests of the state. (AS 38.05.035(e))

2. Competitive bidding by the commissioner of natural resources or prior written notice to the Alaska Royalty Oil and Gas Development Advisory Board of reasons for waiver of competitive bidding. (AS 38.05.183(a))

3. Prior written notice to the public and the Alaska Royalty Oil and Gas Development Advisory Board of the reasons why the commissioner of natural resources intends to sell royalty oil other than by competitive bid. (AS 38.05.183(c))

4. A requirement of the commissioner of natural resources to sell royalty oil to a prospective buyer whose proposal offers maximum benefits to the state. (AS 38.05.183(e))

5. Review and written recommendation to the legislature by the Alaska Royalty Oil and Gas Development Advisory Board. (AS 38.06.050(a))

6. Prior written notice to the Alaska Royalty Oil and Gas Development Advisory Board by the Commissioner of natural resources of rejection of a bid or application for the purchase of royalty oil. (AS 38.06.060(b))

7. Prior written notice to the Alaska Royalty Oil and Gas Development Advisory Board by the commissioner of natural resources before the waiver of competitive bidding. (AS 38,06.050(c))

Section 2 The legislature approves and ratifies a three month extension of a royalty oil contract between the State of Alaska and Golden Valley Electric Association, Inc.

Section 3 On October 1, 1985 the provisions of law noted in section 1 will apply to an extension or renewal of not more than three months of sale of oil that is subject to approval by the legislature under AS 38.96.055(c).

Section 4 Immediate effective date.

RJM:csh
c3/004

Prepared by:
Senator Coghill's
Office 2/19/85

Golden Valley Electric Assn.

Contract Extension

SB 152

Golden Valley and the State of Alaska negotiated an agreement in 1976 to sell 5,000 barrels per day of royalty oil. Golden Valley requested royalty oil so that crude oil might be used as turbine fuel for power generation if market conditions made the cost prohibitive.

Golden Valley did not exercise its option to purchase until 1981. It assigned its contract rights to Mapco in exchange for a price discount on the turbine fuel.

This price discount, over $500,000 a year, is passed on to its 50,000 electric customers. The Department of Natural Resources has indicated that continued royalty oil sales to GVEA is in the best interest of the state because it offers maximum benefits to the citizens of the State.

The new Golden Valley contract with the State is a long-term noncompetitive bid contract for 10 years. It is still awaiting final approval. This contract will require legislative approval and will not be ready for that approval until March. It then must be signed by the governor. It becomes effective four months after signing.

The expiration date of the existing contract is June 30, 1985. As part of the Prudhoe Bay Unit Agreement of April 1, 1971, 90 days notice must be given to the producers to switch from in kind taking to in value for a small volume. This is the nomination/denomination process.

Notice must be given to the producers by March 31, 1985 under the existing contract-- if it expires June 30--in order for the State to return to in value taking.

Essentially with no extension the royalty oil will stop coming to Golden Valley. There will be a gap between the old and new contract. There is a four month waiting period before the new contract takes effect so that the State may notify the producers of its desire to take in kind. In addition to these problems are the procedural requirements found in the bill relating to public notice. Each notice step takes a certain amount of time.

This bill will allow the Golden Valley contract to extend for three months, enough time for the new contract to take effect and keep the prices of turbine fuel down to help lower fuel costs to its customers. The legislation is temporary and expires October 1, a time fixed to coincide with the new contract start-up.

It is not practical at this time to treat the proposed extension as a new disposal due to numerous requirements which would be waived by the proposed CS for SB 152.

(2) state location and status of all past and present activities on the lease;

(3) include a detailed report of all production during the six months preceding the filing of the application;

(4) contain a detailed statement covering the entire life of the lease showing all expenses and costs of operating the lease including all royalties and overriding royalties and all income from all produced minerals from the lease; and

(5) include an agreement by the applicant to defray the cost of publishing a notice as provided in (b) of this section.

(b) Upon receipt of an application complying with (a) of this section, the commissioner will cause to be published a notice of public hearing if required on the application. The notice must

(1) state the time and place of hearing;

(2) describe the lands involved; and

(3) state the name of the applicant and the nature of the relief applied for.

(c) The notice must be published at least once a week for at least two consecutive weeks in advance of the hearing date, which must be at least 15 days after the last date of publication, in at least one newspaper of general circulation in the vicinity of the principal office of the department, and must be posted at that office for the same period.

(d) At the time and place specified in the published notice, the commissioner will hear evidence offered by the applicant and any other interested party.

(f) The commissioner must give notice of the findings and determination to the lessee and to any other person who has filed a written request for it. The action taken is effective on the date specified in the notice. (Eff. 9/5/74, Reg. 51; am 7/22/79, Reg. 71)

Authority: AS 38.05.020
AS 38.05.140
AS 38.05.145(a)

11 AAC 82.670. SUSPENSION OF PRODUCTION OR OPERATIONS. (a) Applications for suspension of production or operations under AS 38.05.140 must comply with 11 AAC 88.105 and must contain complete information showing the necessity or justification for the suspension.

(b) Whenever the commissioner takes an action under AS 38.05.140, he will give notice to the lessee, specifying the action taken, the effective date of it, and the duration of any suspension, and note the action in the status record.

(c) No lease expires because operations or production or both are suspended under any order or with the assent of the commissioner. (Eff. 9/5/74, Reg. 51; am 7/22/79, Reg. 71)

Authority: AS 38.05.020
AS 38.05.140
AS 38.05.145(a)

11 AAC 82.675. EFFECTIVE DATE OF LEASES AND PERMITS. The effective date of a lease or permit is the first day of the month following the date on which the lease or permit was signed on behalf of the state or upon prior written request on the first day of the month in which it was signed on behalf of Alaska. (Eff. 9/5/74, Reg. 51)

Authority: AS 38.05.020
AS 38.05.145(a)

ARTICLE 7.
ROYALTY PRODUCTS

Section
700. Taking royalty in kind
705. Bidding method
710. Notice of sale
715. Qualifications

11 AAC 82.700. TAKING ROYALTY IN KIND. Royalty products taken in kind as provided by AS 38.05.182 must be taken pursuant to the provisions of the lease which reserves the royalty to the state. If no provision is made in the lease or in the regulations dealing with the products to be taken, all or any portion of the state's share may, at the option of the commissioner, be taken in kind in accordance with the following:

(1) 90 days' written notice will be given to

each lessee of the state's election to take the royalty products in kind; however, if the proportion of the state's share to be taken in kind exceeds 50 percent of the state's share, 180 days' notice will be given;

(2) after taking has actually commenced, the amount to be taken in kind may be increased or decreased from time to time by not more than 10 percent upon 30 days' written notice to each lessee of record, from 10 percent to 50 percent upon 90 days' written notice, and over 50 percent upon 180 days' written notice;

(3) the products must be delivered to the state or its designated purchaser free of charge at the point provided in the lease for determination of the value of the royalty product if the production to be taken were paid in money rather than taken in kind; the condition of the product must be the same as the non-royalty share at the point of taking; the lessee shall, if necessary, furnish safe storage for the royalty share free of charge for the same duration and in the same manner as storage is provided for the non-royalty share; when all or part of the royalty product to be taken consists of gas, the commissioner will take into consideration the effect this taking may have on the long-term gas supply contracts that the lessee has entered into. (Eff. 9/5/74, Reg. 51; am 7/22/79, Reg. 71)

Authority: AS 38.05.020
AS 38.05.145(a)
AS 38.05.182

11 AAC 82.705. BIDDING METHOD. Royalty products which the commissioner determines are to be sold by competitive bid will be offered for sale by sealed bid or at public auction. (Eff. 9/5/74, Reg. 51; am 7/22/79, Reg. 71)

Authority: AS 38.05.020
AS 38.05.145(a)
AS 38.05.183

11 AAC 82.710. NOTICE OF SALE. If the commissioner determines that royalty products will be offered for competitive sale, notice of the sale will be given as provided by AS 38.05.345. The notice must specify all the terms and conditions of the sale, including the royalty products to be sold, bidding method, bond requirements, sale place and time, minimum bid, if prescribed, and any other term or condition which the commissioner determines necessary to carry out the purposes of AS 38.05.183. (Eff. 9/5/74, Reg. 51; am 7/22/79, Reg. 71; am 3/18/83, Reg. 85; am 3/30/83, Reg. 85)

Authority: AS 38.05.020(b) AS 38.05.145
AS 38.05.135(b) AS 38.05.180

11 AAC 82.715. QUALIFICATIONS. A purchaser of the state royalty products must comply with the qualification requirements of 11 AAC 82.200 and must supply the showing of qualification required of mineral permittees and lessees by 11 AAC 82.205. (Eff. 9/5/74, Reg. 51; am 7/22/79, Reg. 71)

Authority: AS 38.05.020
AS 38.05.145(a)

ARTICLE 8.
RECORDS AND REPORTS

Section
800. Production records
805. Test results
810. Confidentiality of data
815. Cross-referencing

11 AAC 82.800. PRODUCTION RECORDS. (a) Mineral lessees of state land shall keep in their possession accurate books and records showing the production and disposition of all minerals produced from the leased land and shall permit the commissioner or his agents at all reasonable hours to examine them.

(b) The commissioner will, in his discretion, require copies of sales contracts and other agreements with the first bona fide purchaser affecting produced minerals which are subject to royalties. (Eff. 9/5/74, Reg. 51; am 7/22/79, Reg. 71)

Authority: AS 38.05.020(b)(1)
AS 38.05.145(a)

11 AAC 82.805. TEST RESULTS. The lessee of a state-issued mineral lease shall furnish, upon request of the commissioner, a copy of all geological, geophysical, engineering, and other factual data obtained from the lease, including all pertinent tests, records, surveys, and analyses conducted on or pertaining to the leased land or products from it, but not including interpretations of these items or proprietary research data

JAN. 14, 1985

STATE OF ALASKA
DEPARTMENT OF NATURAL RESOURCES
DIVISION OF OIL AND GAS

ESTIMATED PRODUCTION FOR PRUDHOE BAY AND KUPARUK RIVER UNITS

	ESTIMATED TOTAL PRODUCTION (BARRELS PER DAY)			ESTIMATED ROYALTY (BARRELS PER DAY)			ESTIMATED SALES OF ROYALTY OIL (BARRELS PER DAY)							
YEAR	TOTAL PRUDHOE	(1) TOTAL KUPARUK	TOTAL	PRUDHOE ROYALTY	KUPARUK ROYALTY	TOTAL ROYALTY	NARCO	(2) SHEA (OLD)	(3) SHEA (PROPOSED)	(4) TESORO (OLD)	(5) TESORO (NEW)	(6) CHEVRON	(7) COMPETITIVE SALE	ROYALTY IN VALUE
1984	1,500,000	120,000	1,620,000	187,500	15,000	202,500	25,000	5,000		23,765		18,000		184,765
1985	1,533,333	183,333	1,680,000	187,500	22,500	210,000	24,000		5,000	45,999	26,001	18,000	63,000	182,000
1986	1,500,000	180,000	1,680,000	187,500	22,500	210,000	23,000		5,000	45,999	26,001	18,000		118,000
1987	1,477,000	180,000	1,657,000	184,875	22,500	207,375	23,000		4,917	45,233	25,567	17,700		116,417
1988	1,325,000	200,000	1,525,000	165,625	25,000	190,625	23,000		4,417	48,633	22,967	15,900		114,917
1989	1,175,000	200,000	1,375,000	146,875	25,000	171,875	23,000		3,917	36,833	20,367	14,100		75,217
1990	1,050,000	200,000	1,250,000	131,250	25,000	156,250	23,000		3,500	32,200	18,200	12,600		66,500
1991	950,000	200,000	1,150,000	118,750	25,000	143,750	23,000		3,167	29,133	16,467	11,400		59,167
1992	850,000	200,000	1,050,000	106,250	25,000	131,250	23,000		2,833	26,066	14,734	10,200		53,833
1993	750,000	200,000	950,000	93,750	25,000	118,750	23,000		2,500	23,000	13,000	9,000		47,500
1994	650,000	170,000	820,000	81,250	21,250	102,500	23,000		2,167	19,933	11,267	7,800		41,167
1995	575,000	145,000	720,000	71,875	18,125	90,000	23,000							23,000
1996	510,000	128,000	638,000	63,750	15,000	78,750	23,000							23,000
1997	460,000	100,000	560,000	57,500	12,500	70,000	23,000							23,000
1998	420,000	80,000	500,000	52,500	10,000	62,500	23,000							23,000
1999	380,000	75,000	455,000	47,500	9,375	56,875	23,000							23,000
2000	340,000	65,000	405,000	42,500	8,125	50,625	23,000							23,000
2001	300,000	55,000	355,000	37,500	6,875	44,375	23,000							23,000
2002	270,000	50,000	320,000	33,750	6,250	40,000	23,000							23,000
2003	244,000	44,000	288,000	30,000	5,000	35,000	23,000							23,000
2004	218,000	35,000	245,000	26,250	4,375	30,625								30,625
2005	180,000	25,000	205,000	22,500	3,125	25,625								25,625
2006	160,000	25,000	185,000	20,000	3,125	23,125								23,125
2007	140,000	28,000	168,000	17,500	2,500	20,000								20,000
2008	110,000	28,000	138,000	13,750	2,500	16,250								16,250
2009	80,000	10,000	90,000	10,000	1,250	11,250								11,250
2010	50,000	10,000	60,000	6,250	1,250	7,500								7,500

NOTES: (1) DNR ESTIMATE OF FIELD PERFORMANCE, OCTOBER 1984.

(2) [redacted]

(3) [redacted]

(4) TESORO'S CURRENT CONTRACT CALLS FOR A MAXIMUM QUANTITY OF 24.5% OF DAILY PRUDHOE ROYALTY OIL LESS COOK INLET ROYALTY PRODUCTION. THE QUANTITY IS 21.28% IN 1984, AND WILL BE 21.32% STARTING JAN. 1, 1985. THIS CONTRACT WILL BE INCREASED TO ITS' MAXIMUM QUANTITY ON OCTOBER 1, 1985 DUE TO CANCELLATION OF THE COOK INLET CONTRACT ON THAT DATE. THE CONTRACT EXPIRES JANUARY 1995.

(5) MOST OF THIS VOLUME (ABOUT 25,000 BPD), WHICH IS CURRENTLY BEING TAKEN "IN VALUE," WAS SOLD COMPETITIVELY FOR DELIVERY APRIL 1, 1985 THRU SEPT. 30, 1985. ON OCTOBER 1, 1985 IT IS ANTICIPATED THAT TESORO WILL COMMENCE DELIVERIES UNDER ITS 12/9/83 PRUDHOE CONTRACT, WHICH HAS A MAXIMUM QUANTITY OF 13.86% OF DAILY PRUDHOE ROYALTY OIL AND EXPIRES JAN. 1, 1995.

(6) CHEVRON'S CONTRACT CALLS FOR A MAXIMUM QUANTITY OF 9.6% OF DAILY PRUDHOE ROYALTY OIL. THE CONTRACT EXPIRES JANUARY 1, 1995.

(7) DELIVERIES WILL COMMENCE APRIL 1, 1985 FOR 50,000 BPD OF PRUDHOE BAY UNIT ROYALTY OIL AND 13,000 BPD OF KUPARUK RIVER UNIT ROYALTY OIL, AND WILL CONTINUE FOR ONE-YEAR, AND SIX-MONTH PERIODS, RESPECTIVELY, AS A RESULT OF THE DEC. 11, 1984 COMPETITIVE SALE. PRIOR TO THAT TIME THIS OIL REMAINS "IN VALUE."

dwj

MAPCO PETROLEUM INC.
A SUBSIDIARY OF MAPCO INC.

480 NORTH BELT
SUITE 111
HOUSTON, TEXAS 77060
(713) 931-7860
TELEX 794655

February 15, 1985

Senator John B. (Jack) Coghill
Alaska State Legislature
Pouch V (MS 3100)
Juneau, Alaska 99811

Dear Senator Coghill:

Mapco would support legislation introduced by yourself and co-sponsored by Senators Bennett and Fahrenkamp, that would extend for three months the term of the royalty oil sale contract between the State of Alaska and Golden Valley Electric Association, Inc. This extension would ensure a steady supply of oil available for processing for Golden Valley's account until the new long term contract is in place.

We appreciate the efforts of the Alaska legislature in this regard.

Very truly yours,

David K. Cooley
Vice President

DKC:jr

jr

STATE OF ALASKA

POUCH V
JUNEAU, ALASKA 99811
(907) 465-4941

HOUSE SPECIAL COMMITTEE ON OIL AND GAS

To: Representative Mike Davis, Chairman

From: Jonathan Sperber, Committee Aide

Date: March 17, 1985

Re: CSSB 152

The present and proposed GVEA royalty oil contracts are both predicated on GVEA assigning its crude oil to MAPCO, in exchange for which MAPCO then sells a share of #4 turbine fuel to GVEA at a discounted price. Of the 5,000 b/d of crude oil presently being assigned to MAPCO, 625 b/d of #4 turbine fuel is in return sold to GVEA. This represents approximately one-third of GVEA's turbine fuel needs, and one-sixth of the utility's total energy needs.

The turbine fuel is sold to GVEA at a discount from MAPCO's standard price, and this $550,000 annual discount is passed through to GVEA's members as a 1.57% savings on their electrical costs. This consumer benefit satisfies the best-interest requirements set forth in AS 38, and thus serves as the basis and justification for the state to sell royalty oil to GVEA.

The product breakdown of the 5,000 b/d of crude oil that MAPCO presently receives from GVEA is as follows:

625 b/d	#4 turbine fuel sold to GVEA at discount
1758 b/d	other refined products
2617 b/d	residual oil
5000 b/d	total

The residual oil is returned to the Trans-Alaska Pipeline at Fairbanks, and is then reclaimed by MAPCO as whole crude oil at Valdez. MAPCO may then exchange this oil for crude oil from the North Slope, thereby repeating the process of receiving, refining, returning, and exchanging oil. As a penalty for returning lower-quality oil into the pipeline, MAPCO pays a quality bank differential of 10¢ per API degree loss. At a 7 degree quality loss, MAPCO would pay a penalty of 70¢ per barrel.

Each barrel of crude oil refined by MAPCO produces approximately 5.25 gallons of turbine fuel and 11.18 gallons of jet fuel and diesel/heating oil. The remaining oil is reinjected into the pipeline as resid. MAPCO marks-up turbine fuel at about 9¢/gal. (from assignment agreement with MAPCO) and jet and diesel/heating oil at about 26¢/gal. (from Alaska Petroleum Product Pricing). This implies an annual gross profit of about $2,170,000 based on 1758 b/d at a mark-up of $3.38 per barrel. Operating and depreciation expenses would be deducted from this figure to arrive at MAPCO's annual net profit.

SCOMM

#46:17

Introduced: 3/13/85
Referred: House Special Committee
on Oil & Gas, Resources and Finance

IN THE HOUSE

BY THE RULES COMMITTEE BY
REQUEST OF THE GOVERNOR

HOUSE BILL NO. 287

IN THE LEGISLATURE OF THE STATE OF ALASKA

FOURTEENTH LEGISLATURE - FIRST SESSION

A BILL

For an Act entitled: "An Act approving the sale of Prudhoe Bay royalty oil by the State of Alaska to the Golden Valley Electric Association; and providing for an effective date."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

* Section 1. The "Agreement for the Sale and Purchase of Prudhoe Bay Royalty Oil" between the State of Alaska and the Golden Valley Electric Association, dated February 8, 1985, is approved and ratified.

* Sec. 2. This Act takes effect immediately in accordance with AS 01.-10.070(c).

STATE OF ALASKA

POUCH V
JUNEAU, ALASKA 99811
(907) 465-4941

HOUSE SPECIAL COMMITTEE ON OIL AND GAS

This bill packet for HB 287 contains the following materials:

Letter of Transmittal

In which certain inconsistencies in the royalty statutes are noted, and the view is expressed that the statutory requirement that the legislature approve royalty oil contracts is unconstitutional.

Fiscal Note

Zero fiscal note.

Royalty Board Resolution

The Royalty Board recommends that the legislature approve the GVEA contract.

MAPCO Statement

Provides breakdown of additional refined products to be produced by MAPCO, and notes aspects of agreement between MAPCO and GVEA.

Royalty Oil Production Table

North Slope royalty oil production, royalty oil obligated through current negotiated contracts, and remaining in-value royalty oil are all shown on the cover table. The other tables refer to the competitive royalty oil sale held in December, 1984.

DNR Final Findings & Determination

This document provides a background and chronology of the contract, summary of proposed contract terms, contract revisions since November, 1983, and findings leading to the determination that this contract is in the best interests of the state.

Agreement for the Sale and Purchase of Royalty Oil

Contract between the State of Alaska and GVEA. Brief descriptions of the three agreements related to this contract are made on the following page. Exhibit A is dated 1985. Exhibit B and the Petroleum Products Agreement, both dated 1980, were confirmed this Fall by MAPCO and GVEA as the working agreements for the present contract.

Exhibit A

Agreement between the State of Alaska, MAPCO, and GVEA. This agreement address the assignment of royalty oil from GVEA to MAPCO, MAPCO's ability to designate the volume of royalty oil that GVEA will receive, Amerada Hess adjustments and penalties for breaking the assignment agreement, and the State's agreement to not exercise its return oil option so long as MAPCO receives royalty oil under the GVEA contract.

Exhibit B - Assignment and Product Sales Agreement

Agreement between MAPCO and GVEA. This agreement specifies that MAPCO will sell to GVEA turbine fuel equal to 12.5% of the total crude oil received by MAPCO under this agreement. At 5,000 b/d, this equates to 625 b/d of turbine fuel. This agreement also states that the turbine fuel will be sold at MAPCO's acquisition cost, plus a processing fee.

Petroleum Products Agreement

Agreement between MAPCO and GVEA. This agreement specifies the quantity, quality, and title of the turbine fuel to be sold by MAPCO to GVEA. This agreement also specifies a fixed margin allowed to MAPCO on this turbine fuel, and addresses the duration of the contract and the three year cancellation clause.

Letter of Credit

An irrevocable letter of credit for GVEA in the amount of $5,400,000.

Tesoro's Letter of Concern

Concerns expressed by Tesoro that the present contract does not benefit the consumer sufficiently to justify the arrangement between MAPCO and GVEA.

House Research Agency

A brief analysis of the major provisions of MAPCO's current royalty oil contract with the State of Alaska.

TESTIMONY

BY DIRECTOR, DIVISION OF OIL & GAS

TO HOUSE RESOURCES COMMITTEE & HOUSE SPECIAL COMMITTEE ON OIL & GAS

ON HB 287

ROYALTY OIL CONTRACT WITH GOLDEN VALLY ELECTRIC ASSOCIATION

MARCH 20, 1985

Thank you Mr. Chairman. For the record, I'm Kay Brown, Director of the Division of Oil and Gas for the Alaska Department of Natural Resources. With me is Assistant Attorney General Steve Porter. I appreciate this opportunity to discuss the proposed long-term royalty oil contract with the Golden Valley Electric Association, also known as GVEA.

Contract Terms

The proposed contract would sell about 2.6% of the state's daily royalty oil from Prudhoe Bay Unit -- currently about 5,000 barrels a day -- to GVEA for 10 years.

The contract price is the monthly volume weighted average of the producers' current reported netback prices, plus field costs, plus adjustments for the final outcome of the Amerada Hess litigation, plus a 50¢ premium, with a price reopener in July 1987 and every two years thereafter.

I would refer the committee to the one-page sheet of background information we have provided on SB 232/HB 287, which summarizes the major

provisions of the contract.

Background

Golden Valley Electric Association is a cooperative which generates electricity for sale to its members. It uses a variety of fuels to generate the electricity, including turbine fuel. Some of the turbine fuel GVEA purchases is refined directly from royalty oil purchased under the cooperative's present state contract. GVEA purchases additional turbine fuel directly from the Mapco refinery.

Under its present and former state royalty oil contracts, GVEA assigns the royalty oil to Mapco, which processes the oil at its North Pole Refinery and sells Golden Valley turbine fuel at a discount. The discount on those purchases amounts to about $550,000 annually in savings to GVEA. When measured from the consumer's perspective, this discount translates to a savings of about 1.5% on the average consumer bill.

History of GVEA Sales and Negotiations

I would like to briefly give the committee some history on the state's royalty oil sales with Golden Valley Electric Association. The first contract with Golden Valley was signed in April 1977, shortly after establishment of the Royalty Oil and Gas Development Advisory Board and the adoption of new statutory procedures governing royalty oil sales. Golden Valley did not commence taking under the contract until June 1981, when it began purchasing 5,000 barrels per day and assigning it to Mapco.

That contract expired in June 1984.

In November 1982, well in advance of the expiration of Golden Valley's original contract, GVEA requested a 10-year extension of the contract. No action was taken by the outgoing administration in 1982, and the new administration began negotiations with Golden Valley in March 1983. In November 1983, the department published a public notice of its intention to adopt a new contract with Golden Valley. The royalty board reviewed the contract in December 1983, and that review revealed specific concerns by both the public and the board members with respect to the state's option on residual oil and the relationship between Mapco and GVEA. In view of those reservations and the limited time for further negotiation, the long-term GVEA contract was not presented for legislative approval in 1984. Instead, an interim contract not requiring legislative approval was put into effect pending contract revisions responsive to the issues raised at the meeting of December 7, 1983. That interim contract expires June 30, 1985.

Intermittent negotiations were held on the proposed long-term contract during 1984. We had planned to complete negotiations so that approval legislation for the long-term contract could be introduced on the first day of the 1985 session.

Our timeline called for a preliminary contract and findings to be completed and a preliminary notice to be published in early October 1984. The final contract and findings were to be available November 16, 1984, Royalty Board review was scheduled for December 7, 1984, and approval

legislation was to be introduced on the first day of the session. Due to denomination deadlines, it was apparent to all the parties that if legislative approval did not occur by March 29, 1985, oil deliveries would have to be interrupted.

During September 1984, I informed Golden Valley and Mapco of the time pressure under this timeline, and had numerous negotiation sessions with representatives of both Golden Valley and Mapco. Draft agreements were exchanged, and we believed that agreement had been reached in early October 1984. However, at the conclusion of a negotiation session on October 9, 1984, Bert Sharp of Golden Valley stated his severe reservations about Golden Valley's liability for retroactive adjustments to the royalty oil price based on the Amerada Hess litigation. His primary objection was that as a regulated public utility, Golden Valley could only pass on to its customers retroactive adjustments for a one-year period. Amerada Hess adjustments for purchases older than one year could not be passed on to Golden Valley's customers, and would cause Golden Valley severe financial difficulty. Mr. Sharp proposed that the state charge an increased price premium but that it waive Amerada Hess adjustments. This price term offer was unacceptable to the state, and we suggested contract terms that would require Mapco to pay the Amerada Hess adjustments.

Negotiations stalled for almost two months at this deadlock. However, on November 23, 1984, I wrote to Bert Sharp and stated that an agreement among the state, Golden Valley and Mapco looked unlikely. I suggested commencing negotiations towards a contract between Golden Valley and the

state, without any assignment of the oil to Mapco. Negotiations resumed immediately, and on November 29, 1984, an agreement was reached on the terms now found in the proposed long-term contract. We immediately prepared findings and a final contract, and worked to get the contract before the royalty board and the legislature as soon as possible. However, due to the negotiation stalemate, legislation approving the long-term contract could not even be introduced in the legislature until mid-March 1985.

Unless a new contract with Golden Valley is approved prior to March 29, 1985, - or unless the present contract is extended - we will denominate the oil and return it to in-value. CSSB 152 would give the commissioner the authority to extend the existing Golden Valley contract for up to three months to avoid a lapse in taking by GVEA during the summer of 1985.

I want to briefly discuss two concerns that have been raised with the contract that were originally identified at the royalty board meeting of December 1983.

Consumer Benefits

The sale is premised on providing benefits to Alaska consumers. These consumer benefits depend on GVEA's assignment agreement with Mapco, which provides turbine fuel at a price lower than what GVEA would otherwise pay. Under GVEA's current contract, the state is unable to enforce the degree of advantage afforded to GVEA since that agreement is between GVEA and Mapco only.

Exhibit A to the new contract is a three-party agreement signed by the state, GVEA and Mapco. Exhibit A recognizes existing agreements between GVEA and Mapco. In Exhibit A, the state consents to those agreements so long as they are not modified to reduce the benefits to GVEA's consumers. The state retains the option to terminate the contract should the relationship between GVEA and Mapco change materially.

Thus, the modest consumer benefit that I described earlier will continue over the life of the contract, or the state will have the option to cancel the contract.

Return Oil

A second issue of concern involves the return oil provision of the contract. The Mapco refinery, because of its location near the Trans Alaska Pipeline, is able to reinject the heavy and lightest ends of the barrel which are not converted into products back into the pipeline. This so-called "return oil" then reemerges as whole oil at Valdez, with Mapco paying a $.10 per degree quality bank differential penalty.

We did negotiate an option to purchase the return oil into the new GVEA contract. However, although the option to purchase return oil is embodied in Section 3.4 of the new GVEA contract, the state has agreed in Exhibit A that we will not exercise that option in return for Mapco paying Amerada Hess adjustments on the portion of the royalty oil that is converted into turbine fuel used by GVEA.

As I mentioned a moment ago, the negotiations were deadlocked for several months, and foregoing the return oil option was a concession we made to break the deadlock.

Refinery Profits

Another issue of concern raised by legislators during consideration of the three-month extension bill, CSSB 152, involves the amount of profits made by Mapco off of the Golden Valley contract.

For a number of reasons, it is difficult to calculate the profitability of a refinery based on information in the public record. Although the Department of Natural Resources has access to some confidential information provided by Mapco, we are obligated to hold this information confidential under AS 38.05.035 at Mapco's request. However, considering those constraints, we have attempted to provide some general information about refining profits.

Mapco's refining profits were examined in the February 1983 report entitled Alaska Petroleum Product Pricing prepared for the Senate Resources Committee. That document was authored by Messers. Pernela and Delong, both of whom are former employees of North Pole Refining. As can be seen in the report and the responses of Mapco and Tesoro to that document, the profitibility of a refiner is nearly impossible to infer without access to certain cost data which is normally held confidential. This has proven true even though the authors, as former employees of

Mapco, may have had access to such data. This information gap largely accounts for the difference in the return to investment calculated in the report - 46% - and Mapco's stated return to investment of 15% to 17% (see Mapco's letter to Sen. Fahrenkamp of April 8, 1983).

Like most refiners, Mapco does not make available to the public separate accounts of its various operations such as the North Pole refinery. While Mapco's overall profitability is stated in its annual reports, the profits of a particular refinery cannot be deduced from those reports. The operating costs of a refinery are not normally available to the public since such knowledge would be of considerable advantage to a competitor.

For this reason Messers. Pernela and Delong were forced to rely on a variety of unsatisfactory proxy figures which included the original cost of the North Pole refinery, a supposed cost of capital, and the adjusted operating costs of refiners in the continental United States, among other things. These shortcomings enabled Mapco to handily rebut the report by mentioning such items as investment which occurred after the initial construction, interest during construction, the original investment risk, the irrelevance of operating costs in other parts of the U.S. and the vagaries of the federal crude oil entitlement program, which was in effect over part of the study period.

Although Mapco's apparent markup can be found by comparing their wholesale prices with the aquisition cost of crude oil, a net profit per barrel cannot be arrived at without knowing all the capital and operating costs of the refinery as well as the method of amortization. Mapco has not

volunteered this information to date.

Summary

In summary, Mr. Chairman, this contract is intended to provide a modest amount of consumer benefit to the Alaska citizens living in the Interior and served by the Golden Valley Electric Assiciation cooperative, and also to provide the state with a market price for the royalty oil. I believe that the state's interest is served by pursuing this alternative, compared to the alternative of not making a sale and leaving the oil in-value. It could be argued that this contract does not maximize the value of royalty oil relative to what could be obtained by selling the oil competitively. However, the statutes do not require competitive sales and, in fact, the statutes clearly contemplate negotiated sales that provide ancillary benefits from using the royalty oil within the State of Alaska. I think you could view this contract as maintaining the status quo between the in-state refiners, as it does not increase Mapco's benefit relative to the present situation. In fact, Mapco's benefit is slightly decreased under the new GVEA contract.

Mr. Chairman, I believe this contract complies with all requirements of the statute and the regulations, and that it is consistent with the state's policy of obtaining market value for its royalty oil.

For these reasons, the administration supports the contract and we urge your approval of HB 287.

Sam Murray, a petroleum economist on my staff, is standing by in Anchorage

to assist us with answering any questions the committee may have. That concludes my formal remarks, Mr. Chairman. Thank you.

1623K

TESTIMONY BY DIRECTOR, DIVISION OF OIL AND GAS
TO HOUSE RESOURCES COMMITTEE AND
HOUSE SPECIAL COMMITTEE ON OIL AND GAS
ON HOUSE BILL 287

ROYALTY OIL CONTRACT WITH
GOLDEN VALLEY ELECTRIC ASSOCIATION

March 21, 1985

Thank you Mr. Chairman. For the record, I'm Kay Brown, Director of the Division of Oil and Gas for the Alaska Department of Natural Resources.

Several issues and questions were raised at the hearing yesterday, and I'd like to provide the committee with some additional information on those points.

Many of the questions at the hearing yesterday centered on the benefits to be derived from the proposed contract -- what those benefits are and who receives them. Three parties would receive benefits -- the State, GVEA, and Mapco.

I'd like to briefly summarize those benefits as we perceive them, Mr. Chairman.

Benefits to the State of Alaska

The benefits to the State are described in our final finding of January 16, 1985. Under the statutes governing royalty oil and gas sales, the commissioner is obligated to maximize benefits to the citizens in a negotiated sale.

The price received is a benefit to the State. The State will receive a 30¢ premium above in-value, which makes this sale roughly equivalent to the Tesoro and Chevron royalty oil contracts approved by the Legislature last session. There is no price subsidy to GVEA, and to the extent that Mapco gets the oil, it pays more for this oil than it does for the oil it buys directly from the State.

Other benefits to the State are explained in detail in the final findings, but they include cheaper electricity rates for Fairbanks consumers, a dependable electricity supply, and protection of existing investments in the North Pole refinery and the utility's turbines.

Benefits to GVEA

GVEA's benefits come not from a reduced sale price, but from the reduced turbine fuel price Mapco gives GVEA on the turbine fuel Mapco produces from GVEA's royalty oil.

GVEA's benefit can be calculated by comparing two prices. Those prices are Mapco's general turbine fuel price to GVEA (which covers roughly half of GVEA's turbine fuel needs) and Mapco's reduced price to GVEA for turbine fuel processed from GVEA's royalty oil (which covers the other half of GVEA's turbine fuel needs). Specifically, the 1980 Petroleum Products Agreement

between GVEA and Mapco generally obligates Mapco to sell turbine fuel to GVEA at a price of Mapco's acquisition cost plus a processing fee. Mapco has requested that we keep that exact processing fee confidential. A second 1980 agreement between GVEA and Mapco obligates Mapco to sell GVEA turbine fuel processed from GVEA's royalty oil at a reduced processing fee. Mapco has also requested that we keep that exact fee confidential.

Although the exact processing fees charged by Mapco are confidential, GVEA manager Bert Sharp testified yesterday that the difference is between 5 and 6 cents a gallon. Multiplying that savings by 42 gallons per barrel, by 625 barrels per day, and by 365 days per year, GVEA achieves a yearly savings of between $479,000 and $575,000. In our final sale findings, our petroleum economist projected an annual savings to GVEA of approximately $550,000.

This $550,000 yearly savings translates into a benefit to GVEA's consumers of .1446¢ per kilowatt hour. (This number is obtained by dividing the $550,000 yearly benefit by the 380,412,000 kwh that GVEA produces each year.)

Benefits to Mapco

The committee's third area of concern is the amount of benefits to Mapco under this contract. Mapco does benefit since it gets 87.5%

of each barrel, either as non-turbine fuel products or as return oil.

The profitability figures for Mapco shown on the chart prepared by staff that you received yesterday are basically accurate. However, the six-million dollar gross profit figure does not include the expenses Mapco incurs in refining the oil.

A more relevant comparison could be made by looking at the price that Mapco would otherwise have to pay the producers to obtain oil if it did not receive royalty oil on assignment from GVEA. For example, the January, 1985 Pump Station 1 in-value price is $16.90. Thus Mapco's Pump 1 price would be $17.20. By way of comparison, Pump 1 prices in January were reported as $18.13 for British Petroleum, $17.16 for Phillips and $16.95 for Sohio. Thus, it is not clear that Mapco would pay less for State royalty oil than it would for producers oil.

A similar comparison can be made with regard to the return oil. The value of the return oil to Mapco at Valdez would roughly be the Pump 1 price of $17.20, plus tariffs of about ~~$6.01~~ $6.10, plus a $1.22 quality differential penalty, for a Valdez price of $24.52. By comparison, Valdez prices for producers oil would be $24.14 for BP, $23.17 for Phillips and $22.96 for Sohio. Again, this does not appear to be a windfall for Mapco.

To the extent that committee members feel that Mapco is getting a "good deal" from the State, I would suggest that the "good deal" does not come from this contract. Rather, Mapco's competitive advantage comes from Mapco's own royalty oil contract, which contains terms significantly more attractive than those found in Alaska's other royalty oil contracts, and from Mapco's geographical location, which insulates it from the competition of other refiners.

Since the information available to DNR concerning Mapco's profitability must by statute be held confidential, I would suggest that your specific questions about the relationship between GVEA and Mapco, and about Mapco's profits from this sale, be addressed to either GVEA or Mapco.

I'd like to correct one number that I gave to the committee yesterday. The amount of return oil barrels from the GVEA contract is roughly 3,300 bpd, rather than 1,500 to 1,600 bpd.

Thank you, Mr. Chairman. That concludes my remarks.

FINANCIAL ANALYSIS HB 287

	Bbls. per Day	Gal. Per Bbl.	Gal. Per Day (5000 Bbl.)	MAPCO Markup	MAPCO daily Gross Profit	MAPCO Annual Gross Profit
Turbine Fuel	5,000	5.25	26,250	$0.09	$2,362.50	$862,312.50
Diesel/heating	5,000	11.18	55,900	$0.26	$14,534.00	$5,304,910.00
Totals			82,150		$16,896.50	$6,167,222.50
						==========
G.P. Turbine/per bbl		0.4725				
G.P. Diesel/heating		2.9068		GVEA Estimated Savings		$550,000.00
Total G.P. per bbl/crude		3.3793				==========
				% of profit to GVEA		8.92%
Crude bbl per day		5,000				==========
G.P. per day (total)	$16,896.50					

STATE OF ALASKA

POUCH V
JUNEAU, ALASKA 99811
(907) 465-4941

HOUSE SPECIAL COMMITTEE ON OIL AND GAS

To: Rep. Mike Davis, Chairman
From: Jonathan Sperber, Committee Aide
Date: March 19, 1985
Re: HB 287

The sale of royalty oil to Golden Valley Electric Association (GVEA) involves the purchase of royalty oil by GVEA, the assignment of that oil from GVEA to MAPCO, and the sale of 625+ b/d of industrial turbine fuel from MAPCO to GVEA at a discounted price. This discounted fuel represents approximately one-third of GVEA's turbine fuel needs, and one-sixth of the utility's total energy requirements.

The 625 b/d of turbine fuel is sold to GVEA at MAPCO's acquisition cost, plus a processing fee and a fixed margin. This represents a $550,000 annual discount to GVEA, which is passed through to GVEA's members as a 1.57% savings on their electric costs. This consumer benefit satisfies the best-interest requirement set forth in AS 38, and this serves as the basis and justification for the state to sell royalty oil to GVEA.

Direct consumer benefit is an extremely important aspect of negotiated royalty oil contracts. In order to maximize benefits to both local consumers and the state as a whole, however, attention should be given to the following terms of the proposed GVEA contract:

1. Contract terms: duration, volume, premium
2. Three-year cancellation clause
3. Agreement for the state to not purchase return oil
4. Amerada Hess adjustment liabilities
5. Consumer savings v. MAPCO profits
6. Value of royalty oil taken in-kind v. in-value

1. Contract Terms

Duration: Ten years. The present GVEA contract is for a 7-year period, the Tesoro and Chevron contracts approved last year are both 10-year contracts, and the MAPCO contract lasts 25 years.

Volume: 2.667% of Prudhoe Bay Unit royalty oil production. Initial volume of 5,000 b/d, decreasing to 2,167 b/d in 1994. Since one-eighth of the crude oil volume must be made available to GVEA as turbine fuel at a discounted price, GVEA will receive 625 b/d of this fuel in 1985, and 270 b/d in 1994.

Premiums: 30¢ per barrel. This is the same as the premium negotiated with Chevron last year. Premiums on competitive bid sales significantly exceed those on negotiated sales, however, as evidenced by average premiums of 51¢, 69¢, and 84¢ on the three Prudhoe Bay and Kuparuk categories offered in the December, 1984 competitive bid sale.

2. Three-Year Cancellation Clause

The extreme length of notice required for GVEA to cancel its agreement with MAPCO, in concert with GVEA's being liable for Amerada Hess adjustments on all turbine fuel purchased under this agreement if the agreement is cancelled, is a very strong disincentive against breaking the agreement with MAPCO. A three-year cancellation clause effectively locks out GVEA's ability to negotiate a better deal on its energy purchases should favorable opportunities arise.

3. Agreement For the State to Not Purchase Royalty Oil

Based on MAPCO's agreement to be responsible for Amerada Hess adjustments, the state has agreed to not exercise its option to purchase return oil as long as MAPCO receives royalty oil under the GVEA contract. It is worth noting that the state does not have an opportunity to purchase return oil under the MAPCO contract, although this option does exist with both the Tesoro and Chevron contracts negotiated last year.

Return (or residual) oil is returned by MAPCO to the Trans-Alaska Pipeline at Fairbanks, and is then reclaimed by MAPCO as whole crude oil at Valdez. MAPCO may then exchange this oil for crude oil from the North Slope, thereby repeating the process of receiving, refining, returning, and exchanging oil. As a penalty for returning lower-quality oil into the pipeline, MAPCO pays a quality bank differential of 10¢ per API degree loss. At a 7 degree quality loss, MAPCO would pay a penalty of 70¢ per barrel.

4. Amerada Hess Adjustment Liabilities

GVEA is liable for Amerada Hess adjustments on the turbine fuel received under the agreement with MAPCO for a 12-month period immediately prior to final resolution of Amerada Hess litigation. At an Amerada Hess adjustment figure of $2 per barrel, and following MAPCO's stated intent to sell GVEA 685 b/d under this agreement, this equates to a loss of $500,000. This loss represents approximately one year's annual savings to GVEA at the high-volume end of the contract. As mentioned above, GVEA will be liable for all Amerada Hess adjustments on turbine fuel received under this agreement if the utility cancels its agreement with MAPCO.

5. Consumer Savings v. MAPCO Profits

Each barrel of crude oil refined by MAPCO produces approximately 5.25 gallons of turbine fuel and 11.18 gallons of jet fuel and diesel/heating oil. The remaining oil is reinjected into the pipeline as resid. MAPCO marks-up turbine fuel at about 9¢/gal. (from assignment agreement with MAPCO) and jet and diesel/heating oil at about 26¢/gal. (from Alaska Petroleum Product Pricing). This implies an annual gross profit of about $1,800,000 based on 1469 b/d at a mark-up of $3.38 per barrel. Operating and depreciation expenses would be deducted from this figure to arrive at MAPCO's annual net profit.

6. Value of Royalty Oil Taken In-Kind v. In-Value

The difference in net value between oil taken in-kind and that taken in-value is based upon the premium and the extent (if any) to which the West Coast value of return oil emerging at Valdez exceeds the in-value price paid of it plus the quality bank penalty.

BILL SHEFFIELD
GOVERNOR

STATE OF ALASKA
OFFICE OF THE GOVERNOR
JUNEAU

March 13, 1985

The Honorable Ben Grussendorf
Speaker of the House
Alaska State Legislature
Pouch V
Juneau, AK 99811

Dear Representative Grussendorf:

Under the authority of art. III, sec. 18, of the Alaska Constitution, I am transmitting a bill that provides for legislative approval of a royalty oil contract between the state and Golden Valley Electric Association for the sale of Prudhoe Bay royalty oil. Also transmitted with this bill is a copy of the resolution of the Alaska Royalty Oil and Gas Development Advisory Board recommending approval of this contract, along with a letter from the board chairman. This resolution is being transmitted in accordance with AS 38.06.040(a)(3) and AS 38.06.070(c).

This contract is also described in the findings issued by the Department of Natural Resources on January 16, 1985. Copies of these findings have been made available to the legislature and the public for review.

This contract is being submitted for legislative approval for two reasons. First, although this and the previous administration have consistently taken the position that the statutory requirement of legislative approval of royalty oil contracts (AS 38.06.055) is unconstitutional, as a matter of comity I respect the legislature's desire to have a direct voice in major disposals of royalty oil. Therefore, this contract contains provisions requiring approval by the legislature before it becomes effective. Second, this bill would ratify the agreement for sale of oil. This ratification would cure any procedural defect that may have occurred in the process of entering into this contract. Although we believe that all necessary steps have been taken, the statutes and regulations governing the disposal of royalty oil represent often conflicting desires and goals -- both procedural and substantive. For example, even if statutorily requiring legislative approval were constitutional, the present statutes provide, on the one hand, that the legislature is to approve the contract by enacting

legislation (AS 38.06.055(a)), but, on the other hand, they also provide that a report of the Royalty Board "shall be submitted for legislative review at the time a resolution for legislative approval of a proposed disposition of royalty oil and gas is introduced in the legislature" (AS 38.06.070(c)). Since legislative approval is required anyway as a matter of contract, I believe that it is only prudent to present this contract for legislative approval and ratification at this time.

Sincerely,

Bill Sheffield
Governor

STATE OF ALASKA 1985 LEGISLATIVE SESSION

FISCAL NOTE

Revision Date:

REQUEST

Bill/Resolution No.: HB 287

Title: Approving royalty oil contract with GVEA

Sponsor:

Requestor:

Date of Request:

FISCAL DETAIL

Agency Affected: Natural Resources

Program Category Affected: NRMEC

BRU, Program or Subprogram(s) Affected: Oil and Gas

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 85	FY 86	FY 87	FY 88	FY 89	FY 90
OPERATING						
100 PERSONAL SERVICES						
200 TRAVEL						
300 CONTRACTUAL						
400 SUPPLIES						
500 EQUIPMENT						
600 LAND & STRUCTURES						
700 GRANTS, CLAIMS						
800 MISCELLANEOUS						
TOTAL OPERATING		-0-	-0-	-0-	-0-	-0-
CAPITAL						
REVENUE						

FUNDING: (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER						
TOTAL		-0-	-0-	-0-	-0-	-0-

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS: Attach a separate page if necessary

No fiscal impact.

Prepared By: Ned Farguhar Phone: 465-2400

Division: Commissioner's Office Date: March 5, 1985

Approved by Commissioner: Esther C. Wunnicke Date: March 5, 1985

Agency: Natural Resources

Distribution (by Agency preparing fiscal note):

Legislative Finance
Legislative Sponsor
Requestor
Office of Management and Budget
Impacted Agency(ies)

7/1/84

BILL SHEFFIELD, GOVERNOR

DEPARTMENT OF NATURAL RESOURCES

DIVISION OF OIL AND GAS

POUCH 7-034
ANCHORAGE, ALASKA 99510

March 11, 1985

The Honorable Ben F. Grussendorf
Speaker of the House of Representatives
Alaska State Legislature
Pouch V
Juneau, Alaska 99811

Reference: "An Act Relating to the Sale and Purchase of Royalty Oil from the Prudhoe Bay Unit between the State of Alaska and Golden Valley Electric Association, Inc."

Dear Mr. Speaker:

In accordance with AS 38.06.040(3), I am forwarding for your consideration the resolution of the Alaska Royalty Oil and Gas Development Advisory Board which recommends that the legislature approve the referenced sale of royalty oil to Golden Valley Electric Association, Inc.

If we can be of further service, please do not hesitate to call.

Sincerely,

James B. Gottstein
Chairman

The Alaska Royalty Oil & Gas Development Advisory Board

Resolution 85-1

Findings

1. On December 5, 1984, the Alaska Royalty Oil and Gas Development Advisory Board ("board") received the preliminary findings and determinations of the commissioner of the Alaska Department of Natural Resources ("commissioner") on the sale of Prudhoe Bay royalty oil to Golden Valley Electric Association, Inc. ("GVEA") and the draft contract with GVEA for the sale and purchase of that royalty oil.

2. On January 16, 1985, the board received the commissioner's final findings and determinations on the sale of Prudhoe Bay royalty oil to GVEA.

3. On February 8, 1985, the State of Alaska, through the commissioner, executed the agreement for the sale of royalty oil with GVEA and provided each board member with a copy of the GVEA contract.

4. On February 20, 1985, the board held a public hearing in Anchorage, with telecommunication hookups in Fairbanks, Juneau, and Valdez, to receive testimony on the proposed sale of Prudhoe Bay royalty oil to GVEA and met to discuss the GVEA contract, the commissioner's findings and determination, and the public testimony.

Conclusions

Based on the board's review of the GVEA contract, the commissioner's findings and determinations, and the public testimony, the board concludes that the proposed disposal of Prudhoe Bay royalty oil to GVEA meets the requirements of AS 38.06.

Resolution

Based on these findings and conclusions, the board recommends to the Fourteenth Alaska Legislature that the "Agreement for the Sale and Purchase of Royalty Oil" between the State of Alaska and Golden Valley Electric Association, Inc., dated February 8, 1985, be APPROVED.

Dated: March 11, 1985

BILL SHEFFIELD, GOVERNOR

DEPARTMENT OF NATURAL RESOURCES

DIVISION OF OIL AND GAS

POUCH 7-034
ANCHORAGE, ALASKA 99510

April 4, 1985

Marco Pignalberi
Alaska State Legislature
Pouch V (MS 3100)
Juneau, Alaska 99811

Dear Mr. Pignalberi:

As you requested, this letter responds to your concern that the Department of Natural Resources' ("DNR") January 16, 1985 Final Findings and Determination to Sell Prudhoe Bay Royalty Oil to Golden Valley Electric Association, Inc. contained an inexplicable factual error. This letter will explicate those concerns.

In that Finding DNR stated that approximately one-third (625 barrels) of GVEA's daily turbine fuel requirements would be provided at a discounted price to GVEA through the proposed disposal. GVEA Manager Burt Sharp noted at a recent House Oil & Gas Committee Hearing that at the time the Findings were prepared the DNR only had 1983 numbers. Mr. Sharp also noted that in his recent analysis of 1984 figures the barrels which would be provided at a discounted price to GVEA through the proposed disposal are now closer to one-half (983 barrels) of GVEA's daily turbine fuel requirement.

Although the contract contemplated a maximum quantity of 5000 bpd, as you can see by Attachment 1 (Exhibit B to the original GVEA contract), there are annual ceiling limits to this quantity, such limits expiring December 15, 1983. On December 3, 1980, GVEA gave notice to the State that they wished to commence taking 2,055 barrels per day of state royalty oil (1.096%), with deliveries commencing on June 17, 1981 (Attachment 2). The 2,055 barrels per day was the maximum GVEA could have taken at that time under the annual ceiling. On April 15, 1983 notification was sent to the producers at GVEA's request (See Attachment 3 - April 7, 1983 letter to Mike Kelly) increasing the maximum quantity to the 5,000 bpd authorized under the terms of the contract. Therefore, deliveries for 1983 to GVEA can be calculated as follows:

January 1 - July 31 @ 2,055 bpd X 212 days	= 435,660
August 1 - December 31 @ 5,000 bpd X 153 days	= 765,000
Total barrels	1,200,660

In 1984 deliveries were not subject to the annual quantity ceiling.

The amount of discounted turbine fuel provided to GVEA through the new contract will represent a larger proportion of GVEA's overall turbine fuel needs than DNR reported in its Findings. Measured as a proportion, the proposed contract will have an even more favorable impact on GVEA. However, this proportion does not affect the $550,000 annual benefit to GVEA or the per-kilowatt hour savings of between one and two-tenths of one percent as specified in DNR's January Findings.

If there is anything else I can help you with please do not hesitate to ask.

Sincerely,

Donna Wood Johnson

Donna Wood Johnson
Royalty Manager, Oil & Gas

DWJ/skt/3443s

EXHIBIT B

Attached to and Made a Part of the Royalty Oil Sales Agreement dated _____, 1977, Between GOLDEN VALLEY ELECTRIC ASSOCIATION, INC., an Alaskan Non-profit Corporation, "Buyer", and the Commissioner of Natural Resources of THE STATE OF ALASKA, acting pursuant to AS 38.05.183(d), "Seller", With Respect to Certain Royalty Oil Owned and Taken In-Kind by Seller Under the Leases Described in Exhibit "A", Covering Lands in the State of Alaska and Following the Herein Described Schedule of Delivery of Crude Oil.

SCHEDULE OF
DELIVERY OF CRUDE OIL

DATES			QUANTITY (But not to exceed on an annual basis*)
From	To	(bbls/day)	
December 15, 1977	December 15, 1978	2000	500,000
December 15, 1978	December 15, 1979	3000	750,000
December 15, 1979	December 15, 1980	3000	750,000
December 15, 1980	December 15, 1981	3000 ✓	750,000
December 15, 1981	December 15, 1982	5000	1,200,000
December 15, 1982	December 15, 1983	5000	1,200,000

*in barrels

Attachment 1

Document provided by MAPCO 3/18/85

MAPCO has had a contract with Golden Valley Electric Association (GVEA) since September 1, 1977. The contract is for MAPCO to deliver industrial turbine fuel into GVEA's fuel storage tanks via pipeline, based on a monthly requirement from GVEA. MAPCO assumes financial obligation to deliver product from the refinery to GVEA's storage tanks. For all ANS crude that is delivered through GVEA's feeder line to MAPCO's refinery, which runs approximately 2.3 miles from the TAPS line, MAPCO pays to GVEA a transportation fee.

MAPCO and GVEA signed a contract on May 1, 1980 whereby MAPCO supplied turbine fuel (which includes HF/DF #1 and HF/DF #2) for diesel generator facilities at North Pole and in Fairbanks. The Fairbanks product is delivered by rail tank car or transport truck. The proposed royalty oil contract between State of Alaska and GVEA insures a continued source of turbine fuel.

MAPCO signed an agreement with GVEA on October 22, 1984 whereby MAPCO had constructed, at a cost of $2,250,000, an electric substation to connect MAPCO electrical facilities to the transmission system of GVEA. GVEA provides MAPCO system control and data acquisition capabilities for the 69 KV portion of the substation. As MAPCO and GVEA's operations are in close proximity, either party is available for any required maintenance work on a 24 hour basis.

GVEA is working with the Department of Natural Resources, State of Alaska, for a 5000 BPD royalty oil contract. A breakdown of that product, based on average percentage yields, is listed below:

Refinery fuel		60 BPD
GVEA - turbine fuel		685
Return oil		2786
Refined product		1469
JP-4/Jet B	407	
#1 fuel oil - Jet A	784	
#2 fuel oil -10°	242	
#2 fuel oil +05°	36	
	1469	
		5000 BPD

The turbine fuel is provided at a discount to GVEA. This accounts for approximately one-third of GVEA's daily turbine fuel requirements. The refining charge GVEA pays for the other two-thirds of its daily turbine fuel needs would translate into a savings to GVEA of about $550,000 annually.

MAPCO and GVEA have an agreement for MAPCO to keep and dispose of the royalty return oil on an earlier contract. As the state has requested additional consideration from MAPCO for assignment agreement, MAPCO will be responsible for any GVEA liabilities resulting from retroactive price

adjustments regarding the resolution of the Amerada Hess dispute. GVEA would be responsible for one-eighth of the Amerada Hess liability accrued in one year. The remaining seven-eights during that one year period, and any liabilities accrued in all other years during the term of the proposed GVEA contract, would be assumed by MAPCO. This provision guards GVEA from the effects of a favorable outcome for the state and increases benefits to be received by GVEA customers. With MAPCO's agreement to cover the largest share of any future liability, the benefit to GVEA members on the proposed royalty oil contract is great. This protection allows GVEA the freedom from a liability which could accumulate for up to ten years and be financially devastating.

The negotiation of this contract would have great benefits for the residents of Interior Alaska.

1. With population increasing in Interior Alaska, a constant electrical energy source is assured.

2. The benefits of an electrical cooperative will continue.

3. Local labor markets will benefit by employment with GVEA and MAPCO.

4. Alaska's petroleum requirements can be met with additional refined products available.

JAN. 14, 1985

STATE OF ALASKA
DEPARTMENT OF NATURAL RESOURCES
DIVISION OF OIL AND GAS

ESTIMATED PRODUCTION FOR PRUDHOE BAY AND KUPARUK RIVER UNITS

	ESTIMATED TOTAL PRODUCTION (BARRELS PER DAY)			ESTIMATED ROYALTY (BARRELS PER DAY)			ESTIMATED SALES OF ROYALTY OIL (BARRELS PER DAY)							
.EAR	TOTAL PRUDHOE	(1) TOTAL KUPARUK	TOTAL	PRUDHOE ROYALTY	KUPARUK ROYALTY	TOTAL ROYALTY	MAPCO	(2) SVEA (OLD)	(3) SVEA (PROPOSED)	(4) TESORO (OLD)	(5) TESORO (NEW)	(6) CHEVRON	(7) COMPETITIVE SALE	ROYALTY IN VALUE
1984	1,500,000	120,000	1,620,000	187,500	15,000	202,500	35,000	5,000		39,765		18,000		104,735
1985	1,502,000	180,000	1,680,000	187,500	22,500	210,000	35,000		5,000	45,999	26,001	18,000	65,000	15,000
1986	1,500,000	180,000	1,680,000	187,500	22,500	210,000	35,000		5,000	45,999	26,001	18,000		80,000
1987	1,477,000	180,000	1,657,000	184,375	22,500	206,875	35,000		4,917	45,233	25,567	17,700		78,450
1988	1,325,000	200,000	1,525,000	165,625	25,000	190,625	35,000		4,417	40,633	22,967	15,900		71,700
1989	1,175,000	200,000	1,375,000	146,875	25,000	171,875	35,000		3,917	36,033	20,367	14,100		62,450
1990	1,050,000	200,000	1,250,000	131,250	25,000	156,250	35,000		3,500	32,200	18,200	12,600		54,750
1991	950,000	200,000	1,150,000	118,750	25,000	143,750	35,000		3,167	29,133	16,467	11,400		48,583
1992	850,000	200,000	1,050,000	106,250	25,000	131,250	35,000		2,833	26,066	14,734	10,200		42,417
1993	750,000	200,000	950,000	93,750	25,000	118,750	35,000		2,500	23,000	13,000	9,000		36,250
1994	650,000	170,000	820,000	81,250	21,250	102,500	35,000		2,167	19,933	11,267	7,800		25,333
1995	575,000	145,000	720,000	71,875	18,125	90,000	35,000							55,000
1996	510,000	120,000	630,000	63,750	15,000	78,750	35,000							43,750
1997	460,000	100,000	560,000	57,500	12,500	70,000	35,000							35,000
1998	420,000	80,000	500,000	52,500	10,000	62,500	35,000							27,500
1999	380,000	75,000	455,000	47,500	9,375	56,875	35,000							21,875
2000	340,000	65,000	405,000	42,500	8,125	50,625	35,000							15,625
2001	300,000	55,000	355,000	37,500	6,875	44,375	35,000							9,375
2002	270,000	50,000	320,000	33,750	6,250	40,000	35,000							5,000
2003	240,000	40,000	280,000	30,000	5,000	35,000	35,000							0
2004	210,000	35,000	245,000	26,250	4,375	30,625								30,625
2005	180,000	25,000	205,000	22,500	3,125	25,625								25,625
2006	160,000	25,000	185,000	20,000	3,125	23,125								23,125
2007	140,000	20,000	160,000	17,500	2,500	20,000								20,000
2008	110,000	20,000	130,000	13,750	2,500	16,250								16,250
2009	80,000	10,000	90,000	10,000	1,250	11,250								11,250
2010	50,000	10,000	60,000	6,250	1,250	7,500								7,500

NOTES:

(1) DNR ESTIMATE OF FIELD PERFORMANCE, OCTOBER 1984.

(2) SVEA'S CURRENT CONTRACT EXPIRES JUNE 30, 1985.

(3) SVEA'S PROPOSED TEN-YEAR CONTRACT WOULD COMMENCE FOUR MONTHS AFTER APPROVAL BY THE LEGISLATURE AND GOVERNOR. QUANTITY IS 2.667% OF DAILY PRUDHOE ROYALTY OIL.

(4) TESORO'S CURRENT CONTRACT CALLS FOR A MAXIMUM QUANTITY OF 24.533% OF DAILY PRUDHOE ROYALTY OIL LESS COOK INLET ROYALTY PRODUCTION. THE QUANTITY IS 21.208% IN 1984, AND WILL BE 21.326% STARTING JAN. 1, 1985. THIS CONTRACT WILL BE INCREASED TO ITS' MAXIMUM QUANTITY ON OCTOBER 1, 1985 DUE TO CANCELLATION OF THE COOK INLET CONTRACT ON THAT DATE. THE CONTRACT EXPIRES JANUARY 1995.

(5) MOST OF THIS VOLUME (ABOUT 25,000 BPD), WHICH IS CURRENTLY BEING TAKEN "IN VALUE," WAS SOLD COMPETITIVELY FOR DELIVERY APRIL 1, 1985 THRU SEPT. 30, 1985. ON OCTOBER 1, 1985 IT IS ANTICIPATED THAT TESORO WILL COMMENCE DELIVERIES UNDER ITS 12/9/83 PRUDHOE CONTRACT, WHICH HAS A MAXIMUM QUANTITY OF 13.86% OF DAILY PRUDHOE ROYALTY OIL AND EXPIRES JAN. 1, 1995.

(6) CHEVRON'S CONTRACT CALLS FOR A MAXIMUM QUANTITY OF 9.6% OF DAILY PRUDHOE ROYALTY OIL. THE CONTRACT EXPIRES JANUARY 1, 1995.

(7) DELIVERIES WILL COMMENCE APRIL 1, 1985 FOR 50,000 BPD OF PRUDHOE BAY UNIT ROYALTY OIL AND 15,000 BPD OF KUPARUK RIVER UNIT ROYALTY OIL, AND WILL CONTINUE FOR ONE-YEAR, AND SIX-MONTH PERIODS, RESPECTIVELY, AS A RESULT OF THE DEC. 11, 1984 COMPETITIVE SALE. PRIOR TO THAT TIME THIS OIL REMAINS "IN VALUE."

dmj

STATE OF ALASKA
COMPETITIVE ROYALTY OIL SALE

DEC. 11, 1984

PURCHASER		LOT #	ESTIMATED BARRELS PER DAY	CONTRACT LENGTH (IN DAYS)	TOTAL EST. BARRELS PER CONTRACT	BASE PRICE	PREMIUM	TOTAL REALIZED (1)	DIFFERENCE REALIZED (1) (2)
CATEGORY A: KUPARUK									
CHEVRON	*	1	5,000	182.5	912,500	$16.92	$0.82	$16,187,750.00	$884,177.13
UNION	*	2	5,000	182.5	912,500	$16.92	$0.53	$15,923,125.00	$539,552.13
CHEVRON	*	3	5,000	182.5	912,500	$16.92	$0.17	$15,594,625.00	$211,052.13
SUBTOTAL			15,000		2,737,500		-	$47,705,500.00	$1,554,781.38
		HIGHEST PREMIUM BID:		$0.82	AVERAGE PREMIUM BID:		$0.51		
CATEGORY B: PRUDHOE									
U.S. OIL		1	5,000	365	1,825,000	$17.92	$1.04	$34,682,000.00	$1,783,635.75
U.S. OIL		2	5,000	365	1,825,000	$17.92	$1.04	$34,682,000.00	$1,783,635.75
CHEVRON	*	3	5,000	365	1,825,000	$17.92	$1.03	$34,583,750.00	$1,685,485.75
CHEVRON	*	4	5,000	365	1,825,000	$17.92	$1.03	$34,583,750.00	$1,685,485.75
CHEVRON	*	5	5,000	365	1,825,000	$17.92	$1.03	$34,583,750.00	$1,685,485.75
TEXACO	*	6	5,000	365	1,825,000	$17.92	$0.64	$33,872,000.00	$973,635.75
TEXACO	*	7	5,000	365	1,825,000	$17.92	$0.64	$33,872,000.00	$973,635.75
TEXACO	*	8	5,000	365	1,825,000	$17.92	$0.64	$33,872,000.00	$973,635.75
TEXACO	*	9	5,000	365	1,825,000	$17.92	$0.64	$33,872,000.00	$973,635.75
TEXACO	*	10	5,000	365	1,825,000	$17.92	$0.64	$33,872,000.00	$973,635.75
SUBTOTAL			50,000		18,250,000			$342,315,250.00	$13,331,887.50
		HIGHEST PREMIUM BID:		$1.04	AVERAGE PREMIUM BID:		$0.84		
CATEGORY C: PRUDHOE									
CHEVRON	*	1	5,000	182.5	912,500	$17.92	$1.03	$17,291,875.00	$842,702.88
TEXACO	*	2	5,000	182.5	912,500	$17.92	$0.64	$16,936,000.00	$486,827.88
TEXACO	*	3	5,000	182.5	912,500	$17.92	$0.64	$16,936,000.00	$486,827.88
TEXACO	*	4	5,000	182.5	912,500	$17.92	$0.64	$16,936,000.00	$486,827.88
SOHIO		5	5,000	182.5	912,500	$17.92	$0.51	$16,817,375.00	$368,202.88
SUBTOTAL			25,000		4,562,500			$84,917,250.00	$2,671,389.38
		HIGHEST PREMIUM BID:		$1.03	AVERAGE PREMIUM BID:		$0.69		
TOTALS FOR ALL LOTS:		18	90,000		25,550,000			$474,938,000.00	$17,557,978.25

(1) THESE PROJECTIONS ASSUME THAT CURRENT MARKET CONDITIONS AND PRICES CONTINUE.

(2) THIS AMOUNT IS THE DIFFERENCE BETWEEN THE ESTIMATED ROYALTY-IN-VALUE RECEIPTS BASED ON THE VOLUME WEIGHTED AVERAGE OF PRODUCERS' REPORTED NETBACK PRICES (OCTOBER) AND THE ESTIMATED RECEIPTS OF THE COMPETITIVE SALE BASED ON THE BID PREMIUM PLUS THE BASE PRICE.

(*) PRIORITY BIDDERS

STATE OF ALASKA
COMPETITIVE ROYALTY OIL SALE

DEC. 11, 1984

NUMBER OF BIDS SUBMITTED:	49
NUMBER OF BIDDERS PARTICIPATING:	8
HIGHEST PREMIUM BID: SUBMITTED BY: U.S. OIL	1.04
ESTIMATED TOTAL REVENUES FROM SALE:	$474,938,000
COMPANY WITH MOST WINNING BIDS:	TEXACO WITH 8 LOTS
NUMBER OF LOTS WON BY PRIORITY BIDDERS:	15
NUMBER OF LOTS WON BY NON-PRIORITY BIDDERS:	3

State of Alaska

Department of Natural Resources

Final Findings & Determination

to Sell Prudhoe Bay Royalty Oil to

Golden Valley Electric Association, Inc.

January 16, 1985

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I. Introduction.

The State of Alaska proposes to sell 2.667% of its daily royalty oil (approximately 5,000 barrels per day) from the Prudhoe Bay Unit to Golden Valley Electric Association, Inc. (GVEA) under a long-term, noncompetitive contract. In accordance with AS 38, the Department of Natural Resources must determine whether this disposal serves the state's best interest before the sale may take place. This final finding describes the proposed sale and analyzes its potential effects.

II. Background and Chronology.

GVEA is the public cooperative electric utility in Fairbanks. The state's previous long-term royalty oil contract with GVEA, executed in 1976, was the first royalty oil contract negotiated and executed after the 1976 establishment of the Alaska Royalty Oil and Gas Development Advisory Board. GVEA requested royalty oil so that crude oil might be used as turbine fuel for power generation in the event that the cost of turbine fuel from the North Pole Refinery became prohibitive.

GVEA's contract with the state was for the purchase of 5,000 bpd. GVEA did not exercise its option to purchase royalty oil until June 17, 1981. GVEA assigned its contract rights to North Pole Refinery, Inc., which is now owned by MAPCO Petroleum Inc. (MAPCO), in exchange for a price discount on the turbine fuel refined from the royalty oil. MAPCO refines the royalty oil into jet fuels, diesel, heating oil, and other refined products in addition to turbine fuel, and reinjects the remaining return oil into the Trans Alaska Pipeline System (TAPS).

In a November 1982 letter to the Department of Natural Resources, GVEA requested an extension of its contract for an additional ten years. No action was taken on that request pending the change of administrations. In March 1983, the new administration began negotiations with GVEA on a new ten-year contract to assist in satisfying the needs of GVEA's 50,000 in-state consumers. Notice of the proposed long-term sale to GVEA was published on November 8, 1983. A notice of that royalty board meeting, which included a review of the proposed GVEA disposal (among other things), was also published on November 16, 1983.

The Alaska Royalty Oil and Gas Development Advisory Board's December 7, 1983 review of the proposed GVEA disposal and the agreement, as negotiated to that date, revealed specific concerns by both the public and board members with respect to the state's option on return oil and the relationship between MAPCO and GVEA. In view of those reservations and the limited time for further negotiation, the long-term GVEA contract was not presented for legislative approval. Instead, an interim one-year contract not requiring legislative approval was put into effect. Subsequently, GVEA and the Department undertook sporadic negotiations during early 1984 with the goal of making long-term contract revisions responsive to the issues raised at the December 7, 1983 royalty board meeting. During this period, the assignment agreement between MAPCO and GVEA also remained in effect. On September 12, 1984, the Director of the Division of Oil & Gas briefed the royalty board on the Department's continuing negotiations with GVEA and MAPCO.

On November 29, 1984, GVEA, MAPCO and the Department reached tentative agreement on a new long-term contract to be presented to the royalty board and the legislature. The terms of the proposed contract, which were included in the Department's Preliminary Findings and Determination to Sell Prudhoe Bay Royalty Oil to Golden Valley Electric Association, Inc. of December 7, 1984, are again summarized below.

III. Summary of Proposed Contract Terms.

1. Price: The total price per barrel to be received by the state in the proposed contract is the sum of the following components:

   (a) The (monthly) volume weighted average of the Prudhoe Bay lessees' current reported netback prices, as adjusted for transportation and other costs by those lessees.

   (b) Additional amounts, primarily from GVEA's assignee (MAPCO), if the state obtains a favorable resolution of litigation disputing the validity of the Prudhoe Bay lessees' current reported netback prices (State of Alaska, et al vs. Amerada Hess, et al).

   (c) Those cleaning and dehydration field costs which the state must pay when either taking its royalty share in-value (receiving money from the Prudhoe Bay lessees equal to the volume weighted average of their current reported netback prices, as may be retroactively adjusted upon resolution of the Amerada Hess litigation) or taking title to its royalty share of oil for an "in-kind" disposal. In a 1980 partial settlement of the Amerada Hess litigation, the state acknowledged limited responsibility for certain field costs in either case. And,

   (d) A $.30 per barrel premium.

2. Term:

   (a) The date of first delivery will be four months after enactment of legislation by the State of Alaska (including approval by the Governor) approving the agreement unless the state, in its sole discretion, sets an earlier date.

   (b) The termination date of the contract is June 30, 1995.

   (c) The price specified above is subject to renegotiation in July 1987 and every two years thereafter for the duration of the contract.

3. Quantity: 2.667% (approximately 5,000 bpd) of daily royalty oil from the Prudhoe Bay Unit.

4. Point of Delivery: Custody transfer meters into the Trans Alaska Pipeline system at Prudhoe Bay.

5. In-State Use: When the Department executes the agreement, it will also execute an agreement with GVEA and MAPCO approving GVEA's assignment of its royalty oil to MAPCO. The state retains the right to terminate its approval of the MAPCO/GVEA relationship, in which MAPCO provides GVEA a specific discount on a specific quantity of turbine fuel. Should the assignment be terminated, GVEA's continued receipt of royalty oil would be conditioned upon GVEA arranging a new means of using royalty oil to provide GVEA consumers electricity at a cost lower than otherwise possible.

6. Security: GVEA will arrange to provide a letter of credit to the state in the amount of $5,316,000, which is equivalent to approximately sixty days' worth of oil. Upon default, this letter is redeemable upon signature of the Attorney General and the Commissioner.

7. Return Oil: Throughout the term of the contract, the state will have the option to purchase all return oil produced, refined, or exchanged under the contract. In consideration of MAPCO's consent to accept the majority of any liabilities stemming from the resolution of the Amerada Hess dispute, the state has agreed not to exercise its return oil option so long as MAPCO receives royalty oil under the GVEA royalty oil contract.

8. Standard Contract Terms: The contract will contain all appropriate standard state contract terms.

IV. Comments Received

Written comments addressing the Preliminary Finding and Decision were received from two parties prior to the close of the comment period. By a letter dated December 28, 1984, Tesoro Alaska Petroleum Company (Tesoro) expressed concern about the extent to which the proposed disposal may benefit MAPCO. Tesoro suggested that a more favorable contract for GVEA might have been secured during negotiations with MAPCO. The Department agrees that the benefits to GVEA of the proposed disposal are modest. While perhaps not sufficiently emphasized in the Preliminary Findings, the proposed disposal is based upon benefits to the state as well as to GVEA. Consequently, the price terms of the proposed disposal are similar to those of the state's recently executed royalty oil contracts with Tesoro and Chevron.

Since the state would be a major financial beneficiary of the proposed disposal, more advantageous contract terms for GVEA could not necessarily be borne by MAPCO. Although MAPCO must benefit to some degree as an indirect party to the agreement, the Department has sought to confine (to the extent possible in collective bargaining) the benefits of the proposed disposal to the state and GVEA. Upon receiving Tesoro's comments, the Department encouraged direct consultations between Tesoro and GVEA. As these discussions did not lead GVEA to conduct further negotiations with MAPCO, GVEA has presumably secured the best terms possible from MAPCO as well as the state.

By a letter dated January 8, 1985, James B. Gottstein, the Chair of the Royalty Oil and Gas Advisory Board (Royalty Board), also submitted comments related to the proposed disposal. Gottstein was concerned with a possible relationship between this disposal and the decision to shorten the contract terms of three 5,000 b/d lots of Kuparuk River royalty oil from one year to six months for the competitive royalty oil sale of December 11, 1984. However, the Kuparuk oil withdrawn from the sale was not committed to MAPCO or GVEA as Gottstein apparently believed was the case. That oil remains uncommitted.

Gottstein also said the Department did not properly inform the Royalty Board of that decision, as he believed was required. The Royalty Board review mandated by AS 38.06.050 extends only to royalty oil dispositions for which legislative approval is required. The December 11, 1984 competitive royalty oil sale was a short-term market conditions sale, for which legislative approval was not required (AS 38.06.055(b)(1)). At the September 12, 1984 Royalty Board meeting, the division did brief the Royalty Board about the competitive sale. In the Invitation to Bid discussed at the Royalty Board meeting, future revisions to sale terms at the direction of the commissioner were clearly contemplated. The rationale for the Department's revision was also publicly analyzed in-depth in the November 28, 1984 Supplemental Findings for the Competitive Royalty Oil Sale. Royalty Board input was not required for the decision to decrease the terms of the Kuparuk lots, and the division's consultation with regard to the sale in general exceeded statutory and regulatory requirements.

V. Contract Revisions

Since publication of the previous preliminary notice in November, 1983, the proposed GVEA contract has been altered by the Department and GVEA to address the concerns raised about the earlier proposed contract. Two key issues, both of which led to revisions in the contract form, were in-state use and return oil.

Currently, the consumer benefits of the GVEA contract depend on MAPCO's agreement with GVEA to provide turbine fuel at a price lower than what GVEA would otherwise pay. Under GVEA's present contract, the state is unable to enforce the degree of advantage afforded to GVEA since that agreement is between GVEA and MAPCO only. Consequently, Section 2.11 (In-State Use) of the proposed contract has been rewritten, and an agreement between the state, GVEA, and MAPCO has been added to assure that the agreed upon refining arrangement with MAPCO will be maintained, within certain bounds, over the life of the GVEA contract. The state will have the option to terminate its approval of the assignment should the relationship between GVEA and MAPCO change materially.

The state has insisted on the option to terminate the contract on these grounds since the proposed disposal is based in part on the specific benefits provided for GVEA members. Approximately one-third (625 barrels) of GVEA's daily turbine fuel requirements would be provided at a discounted price to GVEA through the proposed disposal. When compared to the refining charge which GVEA must pay for the remaining two-thirds of its turbine fuel needs, this discount translates into an annual savings to GVEA of about $550,000.

GVEA's total turbine fuel consumption now accounts for about 45% of its fuel use. The balance of GVEA's power generation comes from coal. Given the operations costs of GVEA's turbine fuel and coal-fired generation and the volume of discounted turbine fuel the proposed royalty oil contract would provide GVEA, MAPCO's discount to GVEA would reduce the GVEA consumer's average power generation cost by about 1.57%. Due to a mathematical oversight, the Preliminary Findings erroneously implied that an average power generation cost savings to GVEA of about 1% would result from the proposed disposal.

The state's ability to ensure that the GVEA contract would continue to provide these consumer benefits has been reinforced by the addition of Exhibit A, an agreement (attached to the proposed GVEA contract) between the State, GVEA, and MAPCO. Article II of Exhibit A calls for MAPCO and GVEA to keep the state apprised of any changes in their assignment agreement, and reiterates that changes to that agreement which materially affect the consumer benefits are grounds for termination of the assignment approval by the state. In addition, Article III of Exhibit A ensures that MAPCO will give nine (9) months written notice to GVEA before reducing the amount of royalty oil taken, since GVEA must also notify the state nine (9) months in advance of such a reduction.

Residual oil is a by-product of most refineries, including the North Pole Refinery. Residual oil represents that portion of a barrel of crude oil which a refinery is unable to process into product. Because MAPCO is situated to reinject residual oil into TAPS (where it re-emerges as whole oil at Valdez), this oil is also referred to as "return oil".

The assignment agreement between MAPCO and GVEA allows MAPCO to keep and dispose of the royalty return oil for export. Because MAPCO appeared to be a major beneficiary of the prior GVEA royalty oil contract, in part through its control over the return oil, the state has sought additional consideration from MAPCO for state approval of the assignment agreement. Consequently, Article IV of Exhibit A makes MAPCO primarily responsible for any GVEA liabilities resulting from retroactive price adjustments attending the resolution of the Amerada Hess dispute.

GVEA would be responsible only for one-eighth of the Amerada Hess liability accrued in a period not to exceed one year. The remaining seven-eighths of the liability accrued in that period, and all liabilities accrued in all other years during the term of the proposed GVEA contract, would be borne by MAPCO. This provision of Exhibit A insulates GVEA from the effects of a favorable outcome for the state in the Amerada Hess dispute and consequently, increases the benefits received by GVEA's consumers. MAPCO's agreement to bear the largest share of any future liability would increase the effective benefit to GVEA members of the proposed royalty oil contract by several fold. With this protection, GVEA largely avoids a potential liability which could accumulate for a period of up to ten years and consequently harm its financial position.

The return oil provision of the proposed contract gives the state the option to purchase all return oil produced, refined, or exchanged under the contract. However, in consideration of Article IV of Exhibit A, by which MAPCO accepts the potential Amerada Hess liabilities discussed above, the state agrees not to exercise its right to purchase return oil so long as MAPCO receives royalty oil under the GVEA royalty oil contract.

In addition to the revisions of the in-state use and return oil provisions, other changes have been made to the proposed 1983 contract to conform GVEA's proposed contract to the state's most recent contract forms where possible. These changes can be found in Section 7.1 (Default), Section 8.2 (Inability to Receive Oil) Article XIX (Amendment), and a number of minor areas.

For the state's protection, a new clause in Section 8.2 assigns to the state all transportation rights, including nominations, charter agreements, and any other transportation arrangements which GVEA has for state royalty oil, in the event of the purchaser's inability to receive royalty oil. This is now a standard provision for state royalty oil contracts and is found in both the backup and primary form contracts for the December 11, 1984 competitive sale.

An additional sentence in Article XIX (Amendment) states that, "Any material amendment to the contract which appreciably reduces the consideration received by the state requires prior approval of the Legislature of the State of Alaska". This contract language is required by AS 38.05.183(f).

In Section 7.1 (Default), the first of the six conditions of default listed has been added so that the state may, with evidence of impending failure to perform, declare a condition of default. This is an important protection for the state since there is often circumstantial evidence, such as inadequate transportation arrangements, which precede actual failure to perform.

Minor revisions can be found in two sections of Article V (Payments and Accounting). These revisions, which track the state's recent royalty oil contracts, make the terms of payment somewhat more stringent for the purchaser. Section 5.3 now calls for payment by wire transfer, and no longer provides for clerical mistakes as an acceptable basis for failing to pay the amount billed. Section 5.7 also eliminates several circumstances previously specified as acceptable grounds for failure to make full payment.

The remaining changes to the GVEA contract are technical in nature and concern numerical corrections, date corrections, definition clarifications, changes in the format, and minor revisions to Sections 3.2 (Good Standing and Due Authorization) and 16.1 (Preferential Hiring). Also, the word "Royalty" has been deleted throughout the contract wherever it precedes the word "Oil" and certain terms made unnecessary by the introduction of the term "Purchase Price" have been deleted.

The clauses particular to GVEA's situation, and to long-term negotiated contracts in general, have been left intact. Examples include Section 2.1 (Quantity), where GVEA may elect to change, within certain bounds, the quantity of royalty oil received, and Section 7.3 (Seller's Remedies), which allows the state to release GVEA from the in-state use requirement, at the state's sole discretion. Section 8.1 (Disposition of Oil Upon Default or Termination) also falls into this category, but GVEA's obligation to continue payment in event of default has a four-month, rather than the standard seven-month, duration. This is because the Prudhoe Bay Unit producers will, by contractual agreement, accept physical custody of small quantities of royalty oil with only a 90-day notice. The volume of royalty oil proposed for sale to GVEA falls within that quantity range.

VI. Findings and Determinations.

1. Competitive bidding is waived.

I have determined in accordance with AS 38.05.183(a) that the best interest of the state does not require competitive bidding for this disposal. The best interest of the state is served by making this award on factors other than the highest price received from a competitive sale. Those factors are detailed in the following section of this document.

In order to realize the objectives implied by the considerations listed in AS 38.05.182-183 and AS 38.06.070 and to obtain benefits for Alaska consumers, disposal by competitive bid with the award determined entirely upon the cash value offered is not in the best interest of the state in this instance. Rather, it is in the best interest of the state to dispose of this royalty oil to GVEA, which offers maximum benefits to state citizens and which will pay a $.30 premium over what the state would have received had the state taken the oil at the weighted average of the Prudhoe Bay lessees' current reported netback prices, as may be retroactively adjusted by resolution of the Amerada Hess litigation.

2. The sale is in the best interests of the State.

Under AS 38.05.183(e) a noncompetitive sale, exchange, or other disposal of royalty oil or gas taken in-kind by the state may be awarded by the commissioner to the prospective buyer whose proposal offers maximum benefits to the citizens of the state.

In accordance with AS 38.05.035(e), AS 38.05.183(c) and (e), and 11 AAC 03.010(d), I find and determine that the taking of royalty oil in-kind and the disposal of that oil to Golden Valley Electric Association, Inc. (GVEA) for use in-state is in the best interests of the state. The following has been considered in making this determination:

a. The state will receive no less from this sale than if it had continued to take its royalty oil in-value at the weighted average of the Prudhoe Bay lessees' current reported netback prices as retroactively adjusted by litigation. The premium of $.30 over that price will likely offset any adverse effects on that price (and state revenues) which could occur when the state meets the needs of a refinery (in this case MAPCO) that would otherwise be a crude oil customer on the West Coast. The Commissioner's Preliminary Findings and Determination to Negotiate Backup Royalty Oil Contract(s) and Conduct a Competitive Royalty Oil Sale of July 12, 1984 detail those potential effects. It is not possible to forecast the impact of customer displacement on West Coast prices, let alone its influence on the current reported in-value price. However, the amount of the premium is likely to cover a reasonable differential. Further, MAPCO presently receives similar amounts of crude oil daily under the existing GVEA short-term contract. AS 38.05.183(e)(1).

b. A disposal to GVEA will have a favorable effect on the economy of the state because it will ensure that the cooperative's members continue to benefit directly from lower electric rates than would otherwise be possible. Each consumer to whom GVEA provides electric service is a member of the cooperative. Profit margins are allocated back to the consumer owners, all of whom are Alaska residents. The cooperative's goal is to provide dependable electrical service to its member-owners at the most economical price.

GVEA is regulated by the Alaska Public Utilities Commission. Over the past year, GVEA has experienced increased consumer need represented by an addition of 2,700 new households. GVEA currently employs 174 people (25 more workers than last year) to bring electric service to more than 50,000 Alaskans. AS 38.05.183(e)(2).

c. An in-state refiner, MAPCO, will be favorably impacted by the proposed GVEA contract. MAPCO's assigned right to purchase 5,000 bpd of state royalty oil enables MAPCO to refine many products for Alaskans in addition to turbine fuel for GVEA. The 5,000 bpd of royalty oil also assists MAPCO in meeting the feedstock requirements of its soon-to-be-expanded refinery. MAPCO may also sell or exchange the resulting return oil (so long as the price discount on turbine fuel provided to GVEA remains materially unaltered) to acquire more oil from TAPS near its Fairbanks refinery.

Although MAPCO will benefit from the proposed GVEA contract, it will not receive a windfall. Because of the $.30 premium, MAPCO will likely pay more for the assigned oil than it does under its own state royalty oil contract. Further, MAPCO's Exhibit A agreement to pay most of any Amerada Hess liabilities arising under the proposed GVEA contract precludes it from passing on Amerada Hess adjustments to GVEA, as it would otherwise do. AS 38.05.183(e)(3).

d. GVEA is uniquely able to use its royalty oil purchases to allow it to supply electrical energy to more than 50,000 Alaskans who currently enjoy price benefits directly attributable to the cooperative's purchase of state royalty oil. AS 38.05.183(e)(4).

e. The state is now highly dependent on oil revenues and will continue to depend on oil revenues in the future. The price term of the proposed sale protects the state's interest by ensuring that revenues from this sale will exceed the in-value alternative. AS 38.06.070(a)(1).

f. The local and regional needs of the Fairbanks area for electrical supply are met by service provided by GVEA to its member owners. The assignment agreement with MAPCO also helps satisfy local and regional needs for petroleum products. AS 38.06.070(a)(2).

g. The continued operation of GVEA, with the attendant payroll and secondary benefits, will have a positive and desired effect on the citizens of the state. While this disposal will likely not result in new capital investment or development, it will enable the efficient use of existing investment and development and contribute to the requirements of a refinery planned for expansion. AS 38.06.070(a)(3).

h. The projected social impacts of a disposal to GVEA are anticipated to be favorable. The benefits presently received from the operation of the electrical cooperative will continue. AS 38.06.070(a)(4).

i. Any additional costs and responsibilities which could be imposed upon the state and affected political subdivisions are likely to be minimal. AS 38.06.070(a)(5).

j. Local and regional consumption of both fuel oil-fired electricity and refined petroleum products will be directly and favorably affected by the GVEA disposal. Local labor markets will continue to benefit through employment opportunities at both GVEA and MAPCO. AS 38.06.070(a)(6).

k. Environmental effects resulting from the proposal will be negligible, if any, since the facility is already in existence. AS 38.06.070(a)(7).

l. The proposed disposal will help existing commercial private enterprise and patterns of investments by assisting in the continued operation of the GVEA cooperative and providing, through assignment, royalty oil to the North Pole Refinery for processing into refined products. AS 38.06.070(a)(8).

In accordance with 11 AAC 03.060(b), the weight given to the applicable criteria in determining the maximum benefit to Alaska citizens must be addressed. In making this finding the Department first assured itself that the state would not lose money by making a disposal to GVEA. Once so assured, other benefits attendant to the disposal were examined. If the price offered did not assure the state at least what it would have received had it left the oil in-value then the sale would not, in the Department's view, serve the state's best interests. For this reason the greatest weight in this disposal was placed on AS 38.05.183(e)(1), the cash value offered. After the cash value offered, the greatest weight was given to the projected benefits of using the oil in the state to directly benefit Alaskan citizens through lower electric rates.

VII. Conclusion.

By the terms of the proposed contract, the state is guaranteed the litigation-adjusted in-value price for its oil as well as a premium on each barrel. The additional premium assures that the state is not initially receiving less for its oil than if it elected to take its royalty share in money at the weighted average of the Prudhoe Bay lessees' reported prices. Should the Amerada Hess litigation be resolved in the state's favor, the state will be entitled to reimbursements resulting from the retroactive price adjustments provided for in the contract, with MAPCO holding the major responsibility for that potential liability. The satisfactory price terms of the proposed contract, coupled with associated direct and secondary benefits for Alaska citizens, supports the decision to waive competitive bidding.

The foregoing facts and analysis support my final finding that this disposal is in the best interests of the state and that it maximizes benefits to Alaska citizens.

Kay Brown

Kay Brown, Director
for/Esther C. Wunnicke
Commissioner

January 16, 1985
Date

AGREEMENT FOR THE SALE AND PURCHASE OF ROYALTY OIL

THIS AGREEMENT is entered into as of February 8, 1985 by and between THE STATE OF ALASKA ("Seller") and GOLDEN VALLEY ELECTRIC ASSOCIATION INC., an Alaskan Electric Cooperative Corporation, hereinafter referred to as "Purchaser".

ARTICLE I
DEFINITIONS

As used in this Agreement, the following terms shall have the following respective meanings:

1.1 "Commissioner" means the Commissioner of the Alaska Department of Natural Resources or her designee.

1.2 "Day" means a period of twenty-four (24) consecutive hours, beginning at 12:01 a.m., Alaska Standard Time.

1.3 "Effective Date" shall have the meaning set out in Article VI.

1.4 "Leases" means the Oil and Gas leases which are subject to the terms of the Unit Agreement.

1.5 "Lessee" means any person owning a working interest in any of the Leases.

1.6 "Month" means the period beginning at 12:01 a.m., Alaska Standard Time, on the first day of the calendar Month and ending at the same time on the first day of the next succeeding calendar Month.

1.7 "Oil" or "crude oil" shall have the same meaning as the word "Oil" under the Unit Agreement.

1.8 "Point of Delivery" shall have the meaning set out in Section 2.4.

1.9 "Royalty Oil" means the Oil which the Seller may take in-kind (amount) as its royalty under the Leases whether or not Seller has elected to take or is taking that royalty in-kind.

1.10 "Daily Royalty Oil" means the quantity of Royalty Oil produced by the Lessees each day.

1.11 "Unit Agreement" means the Prudhoe Bay Unit Agreement effective April 1, 1977, by and between Seller and the Lessees, as amended from time to time.

1.12 "TAPS" means the Trans Alaska Pipeline System.

ARTICLE II
SALE OF ROYALTY OIL

2.1 Quantity. Seller agrees to sell to Purchaser and Purchaser agrees to buy from Seller that amount of Oil equal to 2.667% of the Daily Royalty Oil (Maximum Quantity"). Upon at least nine (9) Months written notice to Seller, Purchaser may increase or decrease the amount of Oil to be tendered by Seller at the Point of Delivery, but the amount tendered by Seller under this Agreement shall not exceed the Maximum Quantity. Purchaser recognizes that Seller must normally give six (6) Months notice under the Unit Agreement (or ninety (90) days if the amount increased or decreased is less than ten (10) percent of the current nominations) to increase or decrease the amount of Daily Royalty Oil to be taken in-kind. It is understood and agreed that the volume of Daily Royalty Oil available to Seller will vary and may be interrupted from time to time, and depends upon a variety of factors, including the rate of production from the Leases. Seller disclaims and Purchaser waives any representation, covenant or warranty, expressed or implied, as to the specific quantity or the total or daily, Monthly, average, or aggregate volume of Royalty Oil to be sold or tendered under this Agreement. Seller warrants that it has good title to the Oil tendered under this Agreement. Seller shall hold Purchaser harmless from all liens, encumbrances and valid adverse claims that may affect the Royalty Oil at the time the Royalty Oil is tendered to Purchaser.

If Seller underlifts or stores Royalty Oil at Prudhoe Bay, or if Seller recovers underlifted or stored Royalty Oil, the quantity of Oil tendered under this Agreement shall be calculated as if no Royalty Oil was underlifted or stored or recovered.

2.2 Quality. The Oil sold shall be the same quality as the Royalty Oil delivered by the Lessees to the Seller at the Point of Delivery. It is understood and agreed that the quality of the Oil sold may vary from time to time. Seller disclaims, and Purchaser waives, any guarantee, representation, or warranty, either expressed or implied, of the merchantability, fitness for use, or suitability for any particular use or purpose, or otherwise, of any of the Oil delivered under this Agreement or as to any specific, average or overall quality or characteristic of Oil to be sold or tendered under this Agreement.

2.3 Price of the Royalty Oil. The price for the oil tendered under this Agreement shall be equal to the amount that Seller would have received from its Lessees for the Royalty Oil tendered if that royalty had been payable in money (taken in value) rather than taken in kind plus a premium of $0.30 per barrel plus the Field Cost Allowance incurred by that oil as determined under the Prudhoe Bay Royalty Settlement Agreement (dated April 1, 1980 for reference purposes only), which was entered as part of a final judgment dated August 13, 1980 in State of Alaska, et al v. Amerada Hess Corp., et al., (Superior Court for the State of Alaska, First Judicial District at Juneau) ("Amerada Hess") ("Settlement Agreement") ("Purchase Price"). The Purchase Price shall be determined by Seller based upon the reports submitted by the Lessees for royalty purposes or, when those reports are unavailable, incomplete, or inaccurate, upon information submitted by the Lessees for production tax or other tax purposes, as may be adjusted from time to time as provided in this Agreement. Buyer will only be entitled to review or request material or information which is not confidential under state law or regulation.

The method, basis and amount of royalty due Seller when it takes its royalty in value from the Leases is presently the subject of litigation in Amerada Hess. One of the issues involved is the proper method to be used by the Lessees in calculating the state's royalty when the royalty is payable in money (in value). Until there is a resolution of that dispute through judicial resolution or settlement, the Purchase Price will be based upon the calculation of an amount per barrel equal to the per barrel volume weighted average of the in-value prices reported by the Lessees to Seller for royalty purposes or, when the royalty reports are unavailable, incomplete, or inaccurate, upon information submitted by the Lessees for production tax or other tax purposes, plus $0.30 per barrel plus the Field Cost Allowance as determined under the Settlement Agreement. Upon final non-appealable resolution of each of the various issues that are or will be involved in Amerada Hess, adjustments will be made to previous payments in accordance with each resolution.

If additional amounts are owed by Purchaser to Seller, interest on those amounts will be paid at a variable interest rate which is the higher of: (1) the reference rate as may be announced from time to time by The Bank of America, San Francisco, California, plus three percent (3%); or (2) the rate of return as is realized from time to time in the investment of the State of Alaska's general fund. Amounts owed from Seller to Purchaser shall be repaid at the rate set out in Article 5.6. Buyer will not voluntarily intervene or otherwise participate in Amerada Hess unless Seller expressly consents to that participation in writing. A settlement of Amerada Hess will be binding upon Buyer whether or not Buyer agrees with or consents to the terms of that settlement.

If any applicable law of the United States of America or any rule or regulation promulgated by a federal agency will, in the judgment of Seller, operate to prohibit or prevent Seller from receiving the full amount due under the above provision, Purchaser's obligation to pay the amount of the Purchase Price in excess of the amount permitted will be suspended or adjusted to the minimum extent required for Seller to comply with that law, rule or regulation.

Either party shall have the right to reopen this Agreement, as to price only, during the Month of July, 1987 and every two years thereafter for the purpose of negotiating a new price for the Royalty Oil to be paid under this Section 2.3. The right to reopen may be exercised by either party by giving to the other party thirty (30) days prior written notice. Upon receipt of a notice to reopen, the parties will promptly commence good-faith negotiations in an attempt to establish a new price. In the event that a new price is not agreed to by the parties within ninety (90) days of the effective date of the notice to reopen, either party may terminate this Agreement upon nine (9) Months written notice to the other. The price for any Oil tendered during any such period pending termination shall be calculated as set out hereinabove or as agreed to in a previous reopener. If a new price is agreed to by both parties, such new price shall be effective for Oil tendered in the Month following agreement by the parties on the new price.

2.4 Point and Time of Delivery. Simultaneous with receipt of its Royalty Oil from its Lessees, Seller shall tender the Oil to Purchaser at the point at which Seller receives the Royalty Oil from its Lessees. That point as presently agreed to by Seller and its Lessees in Section 2.3 of the Settlement Agreement is the custody transfer meters into TAPS at Prudhoe Bay.

2.5 Passage of Title and Risk of Loss. Title and risk of loss to the Oil sold under this Agreement shall pass from Seller to Purchaser for all purposes when Seller tenders the Oil at the Point of Delivery.

2.6 Purchaser's Responsibility. Purchaser shall be responsible for the Oil after passage of title. Purchaser will indemnify and hold Seller harmless from and against any and all claims, costs, damages (including reasonably foreseeable consequential damages), expenses or causes of action arising from or in connection with any transaction or event which relates to the crude Oil after title has passed to Purchaser.

2.7 Transportation Arrangements. Purchaser shall make all necessary arrangements for transporting the Oil sold under this Agreement from the Point of Delivery, including satisfaction of line fill obligations and storage tank bottom requirements of TAPS, if any. If and as requested by the Seller, and

at the time or times requested by Seller, Purchaser shall submit specific information concerning the arrangement it has made for transportation of the Oil sold under this Agreement through and away from TAPS and for the resale or other disposal of the Oil. Such information may include the specific tenders of Oil made to TAPS and identification of tankers which will transport the Oil. In addition, Purchaser will provide Seller, if and as requested by Seller, with satisfactory evidence or reasonable assurance of the existence and continuing validity of adequate arrangements for the transportation or disposal of the Oil subject to this Agreement. Failure to provide information, evidence or assurances requested will, at Seller's election by notice to Purchaser, be a material default under this Agreement.

2.8 Absolute Obligations. The obligations of Purchaser to accept, pay for, and arrange for the transportation of the Oil tendered or sold under this Agreement are absolute and will not be excused or discharged by the operation of any disability of Purchaser, event of force majeure, impracticability of performance, change in conditions, or any other reason or cause.

2.9 Date of First Delivery. The date of First Delivery will be four (4) Months after the Effective Date unless Seller, in its sole discretion, sets an earlier date.

2.10 Performance Guaranty and Reservation Fee. If Purchaser does not take the Maximum Quantity on the Date of First Delivery, Purchaser shall pay to Seller, in addition to the Purchase Price, an amount equal to 1.25% of the Purchase Price per barrel per day on the difference between the Maximum Quantity and the actual quantity tendered to and accepted by Purchaser ("Actual Quantity") for each day Purchaser does not take the Maximum Quantity on and after the Date of First Delivery. The payment of this fee shall end on the day that Purchaser accepts delivery of the Maximum Quantity. When Purchaser accepts the Maximum Quantity, all of the amounts paid under this Article 2.10 will be allowed to be credited against future payments for Oil tendered under this Agreement except for an amount to be retained by Seller equal to .75% of the Purchase Price per barrel per day on the difference between the Maximum Quantity and the Actual Quantity for each day Purchaser did not take the Maximum Quantity on and after the Date of First Delivery. If

Purchaser should thereafter decrease the amount of Oil to be tendered under this Agreement, Purchaser shall pay to Seller, in addition to the Purchase Price, an amount equal to .75% of the Purchase Price per barrel per day after the date that the decrease in the amount of Oil to be tendered by Seller takes effect on the difference between the Maximum Quantity and the Actual Quantity.

2.11 In-State Processing. Purchaser agrees that all Oil purchased under the terms of this agreement shall be processed or burned in the State of Alaska. As used in this Agreement "processed or burned in the State of Alaska" means the following described uses or a use substantially similar to those uses, which provides an equivalent benefit to GVEA's consumers. Purchaser has assigned its Oil to MAPCO PETROLEUM Inc. for processing the crude oil into a fuel usable at Purchaser's generating station. Under this arrangement, Purchaser is assured of a dependable supply of fuel, which assists Purchaser in providing uninterrupted electrical service to its consumers. Purchaser also receives from MAPCO a lower refining charge or processing fee which Purchaser passes directly through to its consumers in the form of reduced electric rates. If Purchaser's arrangement with MAPCO ever fails to yield these benefits, Purchaser has a commitment from the Rural Electrification Administration for mortgage funds to be made available to pay for the prompt conversion of Purchaser's generating units so that the Oil could be burned as fuel by Purchaser without first being processed. Upon such conversion, Purchaser could again provide its consumers with a dependable supply of electricity at a cost lower than otherwise possible.

Purchaser's continued receipt of a dependable supply of fuel upon terms that allow Purchaser to provide its consumers with electricity at a cost significantly lower than otherwise possible is a material element of this agreement. Purchaser's failure to process or burn in the State of Alaska as defined in this Agreement the Oil tendered under this agreement will, at Seller's option, constitute a material default under this agreement. However, Seller may, at its option, waive the in-state processing or burning requirement in whole or in part, if Seller is satisfied that the waiver would not be contrary to the underlying intent of the other provisions of this Agreement.

ARTICLE III
REPRESENTATION AND OBLIGATIONS OF PURCHASER

Purchaser warrants, represents, and agrees:

3.1 Good Standing and Due Authorization. Purchaser is, and at all times during the operation of this Agreement shall remain, a corporation organized and existing under and by virtue of the laws of the United States or of any state, territory or the District of Columbia, and qualified to do business in, and in good standing with, the State of Alaska. Purchaser has all necessary corporate power to enter into this Agreement and to perform its covenants and obligations under this Agreement. All necessary corporate action has been taken to authorize Purchaser's entering into this Agreement and performing its covenants and obligations under this Agreement.

3.2 Financial Condition. The financial information submitted to Seller is complete and correct and fairly presents Purchaser's financial condition at the time the information was submitted to Seller. The financial information was prepared in accordance with generally accepted accounting principles consistently applied. Since the date the information was submitted, the condition, business and properties of Purchaser have not been materially adversely affected in any way. Purchaser agrees to inform Seller immediately if during the term of this Agreement there is any material adverse change in the condition, business, or properties of Purchaser which would have an appreciable adverse effect on Purchaser's ability to perform under this Agreement. Purchaser, in addition, will immediately inform Seller of any significant change in ownership of either Purchaser or any of its affiliates or parent company, and of any change in Purchaser's operations or agreements, which would appreciably affect Purchaser's performance under this Agreement.

3.3 Financial Statements. As soon as possible after the end of each fiscal year of Purchaser, and in any event within one hundred twenty (120) days thereafter, Purchaser will furnish to Seller, at Purchaser's sole cost and expense, a report or a complete copy of a report in a form to be prescribed from time to time by Seller which will include Purchaser's balance

sheet as of the close of the fiscal year and the income statement for that year, prepared in each case in accordance with generally accepted accounting principles consistently applied by certified public accountants of recognized standing. For purposes of complying with this Article, Purchaser may submit, and Seller will accept, the annual report of the Golden Valley Electric Association, Inc.

3.4 Option to Purchase Return Oil. If Purchaser assigns Oil purchased under this agreement for fuel usable in the present configuration of its generating station, there may remain a portion of Oil or Oil products which will not be processed for consumption in-state ("Return Oil"). This Return Oil may be shipped through TAPS. Return Oil shipped through TAPS becomes intermingled with unprocessed crude oil so that when the Return Oil is picked up in Valdez it is identical to the common stream crude oil shipped through TAPS. A shipper of Return Oil presently is, and may continue to be, liable for the payment of a quality bank adjustment differential based upon the resulting degradation of TAPS common-stream crude ("quality penalty").

Purchaser grants Seller an option to purchase all the Return Oil. For the purposes of determining the volume of Return Oil for which Seller may exercise its option to purchase under this Agreement, that volume shall be a proportion of the Oil tendered under this Agreement equivalent to the ninety (90) day rolling weighted average, determined monthly, of the ratio of total refined products produced to total refinery charge. Seller shall exercise this option by giving Purchaser nine (9) months' advance written notice. The notice shall specify the date delivery will commence and the point of delivery to Seller. Thereafter Seller may terminate the purchase of Return Oil by giving nine (9) months' advance written notice.

Seller shall have the option to take title to the Return Oil either at the tanker flange inlet in Valdez, Alaska, or at the MAPCO refinery outlet to the Golden Valley Pipeline at North Pole, Alaska. The per-barrel Return Oil purchase price shall be the full cost to Purchaser or Purchaser's assignee at the point of redelivery minus any "quality penalty" which had or would attach, which will be paid by Purchaser. Purchaser or Purchaser's assignee will assign all necessary shipment rights to guarantee delivery to Seller at

Seller's designated delivery point and to facilitate the reinjection into and transportation of the Return Oil through TAPS.

Purchaser or Purchaser's assignee shall furnish Seller or the Seller's designee, on or before the tenth day of the month following the month of delivery, a provisional invoice covering the Return Oil delivered to Seller or Seller's designee in the preceding month. The price of the Return Oil to Seller or Seller's designee shall be the price paid by Purchaser for Oil tendered under this Agreement for the month preceding delivery. The Seller or the Seller's designee shall make payment to Purchaser or Purchaser's assignee on or before the twentieth day of the month following the month of delivery. The initial billing may be adjusted in a subsequent month's invoice as more accurate or complete information concerning the quantity and Purchase Price of the Return Oil delivered each Month is available. Subsequent adjustments to the Return Oil initial billing shall also be made for Amerada Hess as specified in Section 2.3 and for other adjustments as specified in Section 5.5.

The amount of all sums which are not paid when due under this option or which are subsequently determined to be due under an adjustment, shall bear interest from the date accrued until paid in full at a variable rate per annum equal to the reference rate as announced from time to time by the Bank of America, San Francisco, California, plus one and one-quarter percent (1.25%) per annum, provided, however, that any interest due on an adjustment made as a result of the Amerada Hess litigation shall be at the same rate charged by Seller under Section 2.3.

The option to purchase Return Oil will remain in effect for the term of this Agreement. Failure to exercise this option for any period of time will not affect the Seller's right to exercise the option at a later time. This option, in whole or in part, and for any term, shall be freely assignable by Seller and such assignment shall release Seller from all obligations to receive or pay for the Return Oil sold under this option, provided, however, that Purchaser or Purchaser's assignee shall have the right to demand of an assignee of the Seller reasonable security for the Return Oil sold to that assignee. If authorized in an assignment by Seller, that assignee shall have the further right freely to assign that option, however, that assignment shall

not release the assignee (or any subsequent assignee) of any responsibilities or liabilities to Purchaser or Purchaser's assignee unless agreed to by Purchaser or Purchaser's designee. Seller shall provide Purchaser or Purchaser's designee with written notice of any such assignment.

ARTICLE IV
MEASUREMENTS AND TESTS

The quantity and quality of the crude Oil sold under this Agreement shall be determined at the Point of Delivery. Procedures and methods for measuring and metering the Oil sold under this Agreement shall be in accordance with the practices then in effect at Prudhoe Bay, Alaska.

ARTICLE V
PAYMENTS AND ACCOUNTING

5.1 Billing. Seller will send to Purchaser, on or before the 10th (tenth) business day of each Month after delivery of Oil, an invoice statement of account of all Royalty Oil estimated to have been measured at the custody transfer meter into TAPS and tendered to Purchaser under this Agreement during the immediately preceding Month according to the best information available to Seller, the estimated Purchase Prices applicable to those deliveries, and the total amount due ("initial billing"). The estimates will be made by Seller according to the best information reasonably available to Seller. Seller may render its initial billing to Purchaser based in part upon information reported by the Lessees to Seller and information published by the U.S. Government. Seller shall thereafter adjust its initial billing under this Article as soon as more accurate information concerning the quantity and Purchase Price of Oil delivered each Month is available. Seller, however, shall not be required to adjust the initial billing prior to the sending of the next Month's invoice statement of account.

5.2 Initial Adjustment. After the Monthly invoice under Section 5.1, the subsequent Monthly invoice will also state Seller's initial adjustments to be made, if any, to the invoice rendered in the immediately preceding Month, in accordance with any additional or more accurate information which may have become available to Seller. Whether or not initial adjustments are made, however, subsequent adjustments may be made under Section 5.5.

5.3 Payment. Purchaser will make payment of each amount billed under this Article within ten (10) days after receipt of the invoice statement of account. Payment shall be made without any deduction, set off, or withholding, by wire transfer of immediately available funds to Seller's account at the following address:

First Pennsylvania Bank Philadelphia
ABA No. 031000024
For Credit to State of Alaska
Account No. 07/089250/00
Attn: Catherine Hess

Payment may be made in such other manner or to such other address as Seller may specify in the invoice statement of account or by other written notice. All other payments to be made under this Agreement shall be paid in the same manner. If payment is due on a Saturday, Sunday, or legal holiday of the place where payment is to be received, payment shall be made on the next following business day. It is recognized that Seller may bill, and that Purchaser will pay, amounts that are based upon confidential information held or received by Seller. If confidential information is used as the basis for a billing, then upon request Seller will furnish Purchaser with the certified statement of the Commissioner that the amounts billed are correct based upon the best information available to Seller. If a dispute concerning a bill arises, Purchaser agrees to pay the full amount billed by Seller, pending final resolution of the dispute.

5.4 Payment to Lessee. Purchaser, at the request of Seller in the invoice statement of account or otherwise in writing, shall pay all or any portion designated by Seller of that payment required to be made to one or more of the Lessees at an address or addresses and in the manner designated by Seller. The payment will be made within the time limit specified in Section 5.3. Seller may authorize and designate a third party to make the request and

designate the amount, manner and place of payment under this provision. Unless otherwise specified, the balance of the payment due, if any, and payment for subsequent Months, shall be made in accordance with Section 5.3.

5.5 Subsequent Adjustments. Purchaser acknowledges that more accurate information concerning the quantity of or Purchase Price for Royalty Oil tendered may subsequently become available to Seller. In the event that any such information should subsequently become available to Seller, Seller shall promptly furnish a corrected invoice statement of account to Purchaser and the parties will adjust the amount billed and pay or refund the amount of those adjustments. In the event that Seller should render a corrected invoice to Purchaser, any amount to be refunded from Seller to Purchaser or paid from Purchaser to Seller will be paid within fifteen (15) days after the date of the corrected invoice. However, when the adjustment concerns an amount last invoiced more than sixty (60) days before the corrected invoice, the amount will be paid by Purchaser or refunded by Seller, as the case may be, in equal Monthly installments over the same period of time as that over which the adjustment accrued or six (6) Months, whichever is the shorter period. No adjustment will be made more than twelve (12) Months after the date of the last original invoice to which the adjustment relates, except for adjustments resulting from: (i) regulatory or court proceedings (including appeals) commenced or pending during that twelve (12) Month period, whether or not Seller or Purchaser is a party to the proceeding, or (ii) bona fide audits by Seller of any Lessee(s) commencing at any time during the period six (6) years after the date of the last invoice to which such adjustment relates, or any resolution of disputes arising out of those audits. Adjustments due to audits or regulatory proceedings or court proceedings may be made at any time. The provisions of this Section 5.5 will survive any termination of this Agreement.

5.6 Interest. Except for adjustments made upon resolution of Amerada Hess under Article 2.3, the amount of all sums which are not paid when due under this Agreement or which are subsequently determined to be due under an adjustment under Section 5.5, shall bear interest from the date accrued until paid in full at a variable rate per annum equal to the reference rate as announced from time to time by the Bank of America, San Francisco, California, plus one and one-quarter percent (1.25%) per annum.

5.7 Late Payment Penalty. If Purchaser fails to make full payment within one (1) day of the date that payment is due, then in addition to the amount due plus interest from the date that payment was due until the date of payment, Purchaser will pay an amount equal to one percent (1%) of the amount owed.

5.8 Payment to Third Parties. Seller may direct that Purchaser pay any amount due or which may become due directly to a third party in the manner and time as may be directed by Seller in written notice to Purchaser if, in the Seller's sole discretion, the payment to the third party will assist Seller in monitoring or enforcing this Agreement.

ARTICLE VI
TERM

This Agreement shall become effective upon execution by the parties and after enactment of legislation by the State of Alaska (including approval by the Governor) approving this Agreement. This Agreement shall be null and void if it is not so approved by September 30, 1985. Subject to the other provisions contained in this Agreement, Seller's obligation to sell and Purchaser's obligation to buy Royalty Oil shall begin as provided above, and shall end June 30, 1995. As used in this Article, "enactment of legislation" is as defined in AS 01.10.070(f)(4).

ARTICLE VII
DEFAULT OR TERMINATION

7.1 Default. If any one or more of the following events ("Events of Default") occur, then at Seller's option, Seller may terminate or suspend its obligation to tender and sell Royalty Oil and proceed to exercise any one or more of the rights and remedies provided in this Agreement:

(i) At any time, Purchaser (a) repudiates any of its covenants or obligations under this Agreement, or (b) fails, within five (5) Days after written request from Seller, to provide Seller with written affirmation of this Agreement and of Purchaser's intention to perform under this Agreement (together with evidence or assurances of transportation arrangements pursuant to Section 2.7 reasonably satisfactory to Seller); or

(ii) Purchaser does not pay in full any sum owed under this Agreement at the time when payment is due; or

(iii) Purchaser fails to observe or perform any of its other covenants and obligations under Article II; or

(iv) Purchaser does not perform any act required or contemplated under this Agreement and either: (a) the nonperformance continues for more than thirty (30) days after Seller has notified Purchaser of Purchaser's nonperformance; or (b) Purchaser had failed to perform the same or any other act required or contemplated under this Agreement during the immediately preceding twelve (12) Month period; or

(v) There is a material adverse change in Purchaser's condition, business or property which appreciably affects the ability of Purchaser to perform any of its obligations under this Agreement, and Purchaser is unable to give Seller adequate assurance of continued performance either within five (5) days of a request for such an assurance or within such other shorter time period as Seller may reasonably request under the circumstances; or

(vi) Any representation or warranty made by Purchaser in this Agreement proves to have been false or incorrect in any material respect at the time that the representation or warranty was made.

7.2 Failure to Pay Debts. If at any time Purchaser becomes unable to pay any of its debts when those debts are due, or should otherwise become insolvent (without regard to how that insolvency may be evidenced), Purchaser will immediately give notice of that fact to Seller. Whether or not that notice is given, if Purchaser becomes unable to pay any of its debts when those debts are due or should otherwise become insolvent, Seller's obligation to tender and sell Oil under this Agreement will automatically and immediately terminate without any requirement of notice or other action by Seller; however, Purchaser will nevertheless be and remain liable for payment and performance of all of its obligations and covenants under this Agreement with respect to Oil actually tendered by Seller to and after any such termination. Within thirty (30) days after receipt of Purchaser's notice or, if no notice is given, after Seller otherwise becomes aware (as determined in Seller's sole discretion) of Purchaser's insolvency, Seller will have the right, upon written notice to Purchaser, to reinstate all of Seller's and Purchaser's obligations under this Agreement retroactively to the date of termination.

7.3 Seller's Remedies. Upon the occurrence of any Event of Default or if Seller's obligation to tender and sell Oil under this Agreement is terminated or suspended under Sections 7.1 and 7.2, all obligations of Purchaser accrued but not otherwise due and payable under this Agreement will immediately be due and payable in full. In addition, Purchaser will indemnify and hold Seller harmless from and against all other liability, damages (including reasonably foreseeable consequential damages), costs, losses and expenses (including reasonable attorneys' fees and disbursements) incurred by Seller and arising out of the Event of Default, termination, or suspension. Seller shall have the right cumulatively to exercise any and all other rights and remedies and to obtain all other relief available under applicable law or at equity, including mandatory injunction and specific performance. Seller, upon occurrence of any Event of Default, in its sole discretion, may arrange for any disposition to third parties of Royalty Oil to be tendered and sold under this Agreement. Upon the occurrence of any Event of Default, Purchaser may, in Seller's discretion, be released from the obligations set forth in Article 2.11 (In-State Processing) until the Event of Default no longer exists or the obligation of Purchaser to take Oil under this Agreement expires. If upon occurrence of any Event of Default Seller makes arrangement for

disposition to third parties of Oil, or if Purchaser is released from Article 2.11, whether or not this Agreement is terminated, Purchaser will nevertheless be and remain liable to Seller for the full amount of the Purchase Price for that Oil in excess of the Purchase Price over any amount or amounts received by Seller on account of that disposition, net of the expenses of that disposition and for all other costs, expenses (including reasonable attorneys' fees and disbursements), and losses incurred by Seller and arising out of the Event of Default or disposition.

7.4 Purchaser's Exclusive Remedies. Upon any breach of, or default in, the due and timely observance or performance of any of Seller's convenants or obligations under this Agreement, Purchaser acknowledges and agrees that Purchaser's remedies will not include a temporary restraining order or preliminary injunction preventing Seller from taking any action with regard to the Royalty Oil which is the subject of this Agreement.

ARTICLE VIII
DISPOSITION OF OIL

8.1 Disposition of Oil Upon Default or Termination. Purchaser acknowledges and agrees that under the Unit Agreement and Leases, Seller's election to take Royalty Oil in-kind can be revoked or reversed only upon the satisfaction of various conditions, including the giving of six (6) Months notice to return all or more than ten percent (10%) of Seller's then current nominations. Purchaser acknowledges and agrees that Seller's election to invoke its rights to return to taking its Royalty Oil in value on less than six (6) Month's prior notice, or to attempt to secure a waiver of any condition or requirement, is at Seller's sole and complete discretion. Notwithstanding termination of this Agreement for default or for any other reason, including expiration or termination under any provision contained in this Agreement, Purchaser shall continue to take and purchase Seller's Royalty Oil in the amount and for the price set forth in this Agreement for up to four (4) Months following termination of this Agreement if Seller, in its discretion, so requires.

8.2 Inability to Receive Oil. If for any reason Purchaser is unable or refuses to accept or receive any Oil tendered under this Agreement, Purchaser shall nevertheless be and remain responsible for the disposal of that Oil and for paying Seller for the Oil as though it had been received and accepted by Purchaser unless Seller, in its sole discretion, elects to waive this requirement. In order to secure the obligations of Purchaser under this Section 8.1 and under Section 2.8, Purchaser shall, if and as Seller may request from time to time, assign to Seller all right, title and interest of Purchaser under any nominations, leases, agreements, contracts, charter parties and other arrangements for the transportation of the Oil sold under this Agreement through and away from the Trans Alaska Pipeline System; provided, that Seller shall not have any liability or obligations under any such nominations, leases, agreements, contracts, charter parties or other arrangements unless, and to the extent that, Seller shall actually exercise its rights to succeed to Purchaser's interest thereunder and shall obtain the benefits thereof.

8.3 No Right to Storage or Underlift. Purchaser waives and disclaims any interest or right that it may assert to storage of Royalty Oil, including by underlift or other means, to which Seller is or may come to be entitled under the Leases or any other agreement.

ARTICLE IX
WAIVER

The failure of either party to insist upon strict performance of any provision of this Agreement shall not constitute a waiver of, or estoppel against, asserting the right to require that performance in the future. A waiver or estoppel in any one instance shall not constitute a waiver or estoppel with respect to a later breach of a similar nature or otherwise. A course of performance established by a party shall also not estop the other party from complaining of a later breach similar in nature.

ARTICLE X
VALIDITY

If any provision or clause of this Agreement or application of this Agreement to any person or circumstance is held invalid, that invalidity shall not affect other provisions or applications of this Agreement which can be given effect without the invalid provision or application. If, however, an invalidity should operate to impair any material right or remedy of a party to this Agreement, that party may terminate this Agreement by notice to the other.

ARTICLE XI
FORCE MAJEURE AND CHANGE IN CONDITION

11.1 Effect of Force Majeure. Except for Purchaser's obligations to make payment of money for Oil tendered under this Agreement and except for Purchaser's obligations to accept and dispose of Royalty Oil, neither party shall be liable for any failure to perform the terms of this Agreement when the failure is due in whole or in substantial part to force majeure. The term "force majeure" as applie to this Agreement shall mean Acts of God, strikes, lockouts and industrial disputes or disturbances, civil disturbances, arrests and restraints from rulers or people, interruptions by government or court orders or by present or future orders of any regulatory body having or asserting jurisdiction, acts of the public enemy, wars, riots, blockades, insurrections, inability to secure materials by reasons of allocations promulgated by authorized governmental agencies, epidemics, landslides, lightning, earthquakes, fires, storms, floods, washouts, explosions, breakage or accident to machinery or lines of pipe, freezing of wells or pipelines, or any other event or condition, whether of the kind herein enumerated or otherwise, not within the reasonable control of the party claiming the benefit of this excuse. If, however, any material obligation of Purchaser is excused or suspended because of a claim of force majeure for a period of three hundred sixty-five (365) successive days or more, Seller will have the right to terminate this Agreement. Prior to Seller exercising its right to terminate this Agreement Seller and Purchaser shall enter into good faith negotiations to restore, to the fullest extent possible, Seller and Purchaser to the

benefits and obligations that existed under this Agreement before the occurrence of the force majeure condition.

11.2 Responsibility. Upon the occurrence and discovery of an event providing the basis for a claim of force majeure, the party making a claim shall notify the other party to this Agreement of its claim of force majeure. Upon the occurrence of an event constituting force majeure, that event shall, so far as possible, be remedied with all reasonable diligence and dispatch. Except for Purchaser's obligations to make payment of money for Oil tendered under this Agreement and except for Purchaser's obligation to dispose of Oil, the obligations of the disabled party to perform under this Agreement, insofar as they are affected by that force majeure, shall be suspended from the time that force majeure occurs and for so long as the disability caused should have continued had the party claiming the existence of the force majeure remedied the event providing the basis of the claim of force majeure with reasonable diligence and dispatch, and for no longer. The settlement of strikes or lockouts or industrial disputes or disturbances will be entirely within the discretion of the party having the difficulty, and the above requirement that any force majeure shall be remedied with diligence and dispatch shall not require the settlement of strikes, lockouts, or industrial disturbances by acceding to the demands of any opposing party therein when such course is inadvisable in the sole discretion of the disabled party.

ARTICLE XII
NOTICES

12.1 Method. All notices, requests, demands or statements shall be in writing, and may be delivered personally to the party to be notified or may be sent by registered or certified United States mail, postage prepaid, with a return receipt requested to such party. Notice deposited in the mail in this manner shall be effective upon the expiration of seven (7) days after it is so deposited. Notice given in any other manner shall be effective only if and when received by the addressee. For the purposes of notice, the addresses of the parties to this Agreement shall be as follows:

If to Seller: State of Alaska
Commissioner of Natural Resources
Pouch "M"
Juneau, Alaska 99811

and

Commissioner of Revenue
Pouch "S"
Juneau, Alaska 99811

and

Director, Division of Oil and Gas
Pouch 7-034
Anchorage, Alaska 99510

If to Purchaser:

GOLDEN VALLEY ELECTRIC ASSOCIATION, INC.
P.O. Box 1249
Fairbanks, Alaska 99707

and (as long as the right to Oil is assigned thereto)

Vice President-Supply
MAPCO PETROLEUM Inc.
P.O. Box 645
Tulsa, Oklahoma 74101-0645

12.2 Change of Address. Each party may change its address for notice by giving notice of the change.

ARTICLE XIII
RULES AND REGULATIONS

This Agreement is subject to all present and future valid laws, orders, rules and regulations of the United States, the State of Alaska, and any duly constituted agency thereof.

ARTICLE XIV
SOVEREIGN POWER OF THE STATE

This Agreement and its covenants shall not be interpreted as a limit on the exercise by the State of Alaska of any of its sovereign or regulatory powers, whether conferred on the State by constitution, statute or regulation, including but not limited to, its regulatory power over the Leases. The exercise by the State of Alaska of any sovereign or regulatory power will not operate or be deemed to enlarge any rights of Purchaser or to limit or impair any obligations or liability of Purchaser under this Agreement, except for state statutes enacted after the effective date of this Agreement which have a direct and significant adverse effect on the ability of Purchaser to perform an obligation under this Agreement other than the obligations to accept, dispose, and pay for Royalty Oil tendered under this Agreement.

ARTICLE XV
SECURITY

Thirty (30) days prior to the Date of First Delivery, Purchaser shall cause to be furnished to Seller evidence that an irrevocable stand-by letter of credit for the benefit of Seller effective by Date of Delivery, will be issued by a state or national banking institution of the United States which is a member of the Federal Deposit Insurance Corporation and has an aggregate capital and surplus of not less than One Hundred Million Dollars ($100,000,000), or other banking institution acceptable to Seller in its sole discretion. The principal face amount of the letter of credit shall initially be Five Million, Three Hundred Sixteen Thousand Dollars ($5,316,000). The letter of credit shall be substantially in a form satisfactory to the Commissioner, but in any event shall not require any documents to be submitted in support of drafts drawn against this letter of credit other than the certified statement of the Commissioner or her designee and the Attorney General of the State of Alaska or his designee that Purchaser is liable to Seller for a sum equal to the amount of such draft, and that that sum is due and payable in full and has not been timely paid. In the event that Seller should have reasonable grounds for asserting any claims against Purchaser

under this Agreement and does assert those claims in an aggregate amount in excess of the aggregate principal face amount of the letter of credit then in effect, Purchaser shall upon Seller's request (whether or not Purchaser may deny, reject or otherwise resist such claims) cause the principal face amount of the letter of credit to be increased by an amount equal to the excess. The principal face amount of the letter of credit shall also be automatically increased by Purchaser without request from Seller whenever the face amount is less than the expected Purchase Price of sixty (60) days of Oil tendered under this Agreement, to an amount equal to the expected Purchase Price of sixty (60) days of Oil tendered. The principal face amount of the letter of credit may be decreased by Purchaser upon approval of Seller (which approval will not be unreasonably withheld) if the face amount is more than the expected Purchase Price of sixty (60) days of Royalty Oil tendered under this Agreement, to an amount equal to the expected Purchase Price of sixty (60) days of Royalty Oil tendered. The Commissioner may accept such other or additional security as she, in her sole discretion, considers adequate to protect Seller.

ARTICLE XVI
PREFERENTIAL HIRING AND NON-DISCRIMINATION

Purchaser agrees to hire and employ Alaska residents and Alaska companies to the extent they are available, willing and qualified for all work performed in Alaska that is performed under or in connection with this agreement. As used in this agreement "Alaska resident" means an individual who has resided in the State for one year at the time of hiring or employment and "Alaska companies" means those companies who are incorporated in the State of Alaska or whose principal place of business is in Alaska.

If this provision is determined to be unconstitutional by a court of competent jurisdiction, then Purchaser agrees to hire and employ Alaska residents and Alaska companies to the extent such preferential hiring is determined to be constitutional.

ARTICLE XVII
APPLICABLE LAW

17.1 Alaska Law. This Agreement shall be governed by and construed in accordance with the laws of the State of Alaska, excluding any conflict-of-law rule or principle which might refer such construction to the laws of another state or country.

17.2 Submission to Jurisdiction. Any legal action or proceeding arising out of or relating to this Agreement or for the enforcement of the covenants or obligation of either party must be instituted in a State court of general jurisdiction sitting in the State of Alaska, and Purchaser hereby irrevocably submits to the jurisdiction of that court in any such action or proceeding.

ARTICLE XVIII
WARRANTIES

The purchase and sale of Royalty Oil under this Agreement is subject only to the warranties of Seller expressly set forth in this Agreement and Seller disclaims and Purchaser waives all other warranties, expressed or implied in law, whatsoever.

ARTICLE XIX
AMENDMENT

This Agreement may be supplemented, amended or modified at any time, but only by written instrument duly executed by the parties to this Agreement. Any material amendment to the contract which appreciably reduces the consideration received by the State requires prior approval of the Legislature of the State of Alaska.

ARTICLE XX
SUCCESSORS AND ASSIGNS

No assignment, pledge or encumbrance of this Agreement shall be made by either party without first obtaining the written consent of the other party. The Commissioner may grant such consent on behalf of the Seller. The Commissioner shall have sole and complete discretion in granting or denying a proposed assignment, pledge or encumbrance. Subject to the above requirements in this Article, this Agreement will be binding upon and inure to the benefit of each of the parties and its successors and permitted assignees. In addition, if Purchaser gains or acquires a controlling interest in an entity which has an agreement with Seller for the sale of Royalty Oil ("Other Agreement"), then Seller, at its option and on one year's notice, may require Purchaser to terminate either this Agreement or the Other Agreement. The choice of which Agreement to terminate will be Purchaser's. Purchaser may request that Seller waive this option in advance of Purchaser gaining a controlling interest in an entity which has an agreement with Seller for the sale of Royalty Oil. The Commissioner has sole and complete discretion in granting or denying the requested waiver.

ARTICLE XXI
HEADINGS

Headings used in this Agreement are for convenience only and shall not affect the construction of this Agreement.

ARTICLE XXII
RECORDS

22.1 Preservation of Records. Purchaser will preserve and maintain all books, accounts, and records relating to or arising out of the performance of this Agreement, including but not limited to the purchase or sale of Royalty Oil and its refined products, for a period of six (6) years. Purchaser will also maintain and preserve all similar books, accounts, and records of which

it has possession belonging to those third parties with whom it contracts for the performance of various parts of this Agreement. Neither Purchaser nor Seller shall be required to retain any records for more than six (6) years unless retention of such records is specifically required by applicable law or regulation. Purchaser shall either maintain its records within the State of Alaska or make such records available to Seller at Purchaser's principal office in the State of Alaska within thirty (30) days after written request by Seller.

22.2 Inspection of Records of Parties. Purchaser and Seller will accord to each other and to their authorized agents, attorneys, and auditors during reasonable business hours access to any and all property, records, books, documents, and indexes directly relating to Purchaser's or Seller's performance of this Agreement and which are under the control of the party from which access is desired so that the other party may inspect, photograph and make copies of that property, records, books, documents and indexes. In no event, however, shall Seller be required to disclose any information, data, or records which are required to be held confidential by state law or regulation. If the information obtained by Seller may be held confidential under state or federal law or regulation, Purchaser may request that that information be held confidential by Seller.

ARTICLE XXIII
INTERPRETATION OF TERMS AND CONDITIONS

In the event that there is a disagreement about the meaning or application of a word, term, or condition in this Agreement, Purchaser will present the arguments supporting its view in writing to the Commissioner for her consideration. The Commissioner will subsequently, within a reasonable time, issue a finding on the meaning or application of the disputed word, term, or condition, setting forth the basis for her conclusions. Purchaser agrees to accept findings by the Commissioner under this Article as long as there is substantial evidence supporting the Commissioner's findings. None of the above shall empower the Commissioner to set the price of the Oil should such price become subject to renegotiation pursuant to Section 2.3.

DATED this 8th day of February 1985.

SELLER: THE STATE OF ALASKA

_____
Commissioner,
Department of Natural Resources

PURCHASER: GOLDEN VALLEY ELECTRIC ASSOCIATION, INC.

By _____
Michael P. Kelly
General Manager

EXHIBIT A

THIS AGREEMENT is entered into this 8th day of February, 1985 by and between the State of Alaska (State), and MAPCO PETROLEUM Inc. (MAPCO), and Golden Valley Electric Association, Inc. (GVEA).

ARTICLE I
DEFINITIONS

As used in this Agreement, the following terms shall have the following meanings:

1.1 "MAPCO" includes MAPCO PETROLEUM Inc. and its predecessors in interest, MAPCO Alaska Inc. and Earth Resources Company of Alaska, including the North Pole Refining Division of Earth Resources Company of Alaska.

1.2 "GVEA Royalty Oil Contract" means the Agreement for the Sale and Purchase of Royalty Oil dated February 8, 1985 between the State and Golden Valley Electric Association Inc. (GVEA).

1.3 "Assignment" means the Assignment and Product Sales Agreement between MAPCO and GVEA executed May 27, 1980. That Assignment provides for the assignment to MAPCO of GVEA's rights under the GVEA Royalty Oil Contract in exchange for GVEA paying MAPCO a reduced processing fee for turbine fuel.

1.4 "Petroleum Products Agreement" means the Petroleum Products Agreement between GVEA and MAPCO executed May 27, 1980. That Petroleum Products Agreement provides for MAPCO's sale of processed turbine fuel to GVEA at a price based on MAPCO's net acquisition cost for ANS crude plus a fixed margin.

ARTICLE II
APPROVAL OF ASSIGNMENT

The State consents to the Assignment and to the Petroleum Products Agreement in their present forms as modified by the terms of this Agreement, to include amending the term of said agreements to run as long as MAPCO receives Royalty Oil in the quantities specified under the GVEA Royalty Oil Contract. MAPCO and GVEA agree to notify the State of any modifications to those agreements; provided, that changes in price do not constitute a modification so long as the actual pricing mechanism (as compared to the price itself) contained in the Assignment is not changed and the price charged GVEA for fuel under the Assignment remains equal to or less than the price that would then be in effect calculated under the pricing mechanism contained in the Assignment. MAPCO agrees that modifications to the Assignment (or to the quality, price, or escalation provisions of the Petroleum Products Agreement) which materially reduce GVEA's benefits will give the State the right, in its discretion, to terminate the GVEA Royalty Oil Contract and/or the State's approval of the Assignment.

ARTICLE III
DESIGNATION OF ROYALTY OIL VOLUMES

The Assignment states that MAPCO is entitled to designate the volume of Royalty Oil that GVEA will take under the GVEA Royalty Oil Contract. However, GVEA can only reduce the quantity of Royalty Oil it takes under the GVEA Royalty Oil Contract by giving the State nine (9) Months written notice. In consideration of these facts MAPCO agrees that it will give GVEA nine (9) Months' written notice before exercising any rights it may have to decrease the amount of Royalty Oil it requires GVEA to designate under the GVEA Royalty Oil Contract, which nine (9) Month notice will be concurrent with the nine (9) Months' written notice GVEA gives the State (which notice GVEA agrees to give the State immediately upon receipt of any such notice from MAPCO).

ARTICLE IV

SUBSEQUENT AMERADA HESS ADJUSTMENTS

Except as provided herein, MAPCO agrees that the retroactive price adjustment provisions contained in Paragraph IV of the Petroleum Products Agreement, as it applies to the Assignment, shall not extend to adjustments made upon final non-appealable resolution of each of the issues in the Amerada Hess litigation pursuant to Section 2.3 of the GVEA Royalty Oil Contract. GVEA agrees to pay that portion of the Amerada Hess adjustment based on the ratio of the barrels of product purchased by GVEA under the assignment to the total barrels of Royalty Oil purchased under the GVEA Royalty Oil Contract during the twelve-month period immediately preceding the final non-appealable resolution of each of the issues of the Amerada Hess litigation. With the exception of the twelve-month period immediately preceding the final non-appealable resolution of each of the issues in the Amerada Hess litigation, MAPCO agrees to pay to the State any such adjustments owed by GVEA or MAPCO as a result of purchases made by MAPCO under the GVEA Royalty Oil Contract; provided, however, that [redacted] the Assignment and/or Petroleum Products Agreement under Paragraph X of the Petroleum Products Agreement, [redacted] Contract and/or this Agreement approving the Assignment as a result of a breach of either agreement by GVEA, [redacted] the Amerada Hess adjustment, with the percentage based on the ratio of the barrels of product purchased by GVEA under the assignment to the total barrels of royalty oil purchased under the GVEA Royalty Oil Contract during the period in which the Amerada Hess adjustment applies. Within ten days of being notified by the State that there has been a final non-appealable resolution of each of the issues in the Amerada Hess litigation, GVEA and MAPCO shall discuss with each other and advise the State of the percentage of the adjustment by month and year each is to pay the State.

ARTICLE V

OPTION ON RETURN OIL

MAPCO acknowledges that the State has reserved an option to purchase all Return Oil resulting from the sale of Royalty Oil under the GVEA Royalty Oil Contract. In consideration of MAPCO's agreements in Article IV of this Agreement concerning subsequent Amerada Hess adjustments, the State agrees to not exercise its return oil option so long as MAPCO receives Royalty Oil under the GVEA Royalty Oil Contract.

By _____
Commissioner,
Department of Natural Resources

GOLDEN VALLEY ELECTRIC ASSOCIATION

By _____
Michael P. Kelly
General Manager

MAPCO PETROLEUM INC.

_____
Robert M. Howe
President

EXHIBIT B

North Pole Refining P.O. Box 5028, North Pole, Alaska 99705

DIVISION OF EARTH RESOURCES COMPANY OF ALASKA

907/488-2741
907/488-2742

ASSIGNMENT AND PRODUCT SALES AGREEMENT

This Agreement, dated the 1st day of May 1980, by and between:

NORTH POLE REFINING, Division of Earth Resources Company of Alaska, an Alaskan Corporation, (NPR) and GOLDEN VALLEY ELECTRIC ASSOCIATION, INC., (GVEA)

shall be as follows:

1. GVEA, holder of certain rights to crude oil under a State Royalty Oil Contract, does hereby assign, transfer and convey its rights under said contract (as well as any future similar contracts) to NPR, effective on May 1, 1980, subject to the following terms and conditions:

   a. GVEA shall make request for State crude oil under its contract immediately upon receipt of written notice by NPR for the volumes so designated by NPR.

   b. NPR shall assume and be responsible for all obligations and duties of GVEA under its State Royalty Oil Contract for the volumes so designated.

   c. Certain provisions of the current GVEA Royalty Oil Contract and any future contracts may be excepted and modified as

dictated by any State declared GVEA/State Royalty contract relationships if mutually agreed to by NPR and GVEA.

d. NPR agrees that so long as GVEA State Royalty Oil is being delivered to NPR per the terms of this agreement, NPR will not issue notice of cancellation to the Petroleum Products Agreement referenced herein.

2. NPR, in consideration of this Agreement, agrees to sell GVEA and GVEA agrees to purchase quantities of turbine fuel to 12.5 volume percent of those barrels of crude oil acquired by NPR under this assignment at a cost equal to NPR's net acquisition cost as defined in the attached Petroleum Products Agreement between the parties plus a processing fee of $[redacted]/barrel. This fee shall escalate only as set forth in the Petroleum Products Agreement effective between the parties except for base period. Base period for the excalation of the $[redacted] processing fee shall be concurrent with the reporting period of the Bureau of Labor and Statistics Wholesale Price Index for Major Commodities and Special Groupings on May 1, 1980. Due to cyclic seasonal requirements and the limitations of GVEA storage facilities, the difference in quantities of turbine fuel available to GVEA and the amount purchased by GVEA under the 12.5% provision of this paragraph, shall accumulate month by month for annual periods and be available for puchase by GVEA until the end of each annual period. At the end of the annual period, that turbine fuel not purchased by GVEA shall not be carried forward into the next annual period. The annual period shall commence sixty (60) days after the anniversary date of the date of delivery of Royalty crude oil to NPR provided for in this agreement, and annually thereafter. The purpose of this accumulation statement is to guarnatee GVEA the option of purchasing turbine fuel equal to 12.5 volume percent of the total crude oil acquired by NPR under this agreement during the annual period. It is understood by both

parties that NPR has limited storage for turbine fuel at the refinery (a usable amount of approximately 20,000 barrels) and that transfer of quantities in any short period of time and in great excess of this amount, would be impractical.

3. It is further agreed by NPR and GVEA that no part of this agreement constitutes an obligation by NPR to nominate any or all of the State Royalty Oil rights assigned herein.

4. GVEA and NPR specifically agree that in the event any court shall decree or determine that NPR's acquisition of crude oil under this agreement shall be in any way unlawful, then the terms and conditions of this Assignment and Product Sales Agreement shall be null and void and no longer binding on either party.

ACCEPTED AND AGREED TO:

GOLDEN VALLEY ELECTRIC ASSOCIATION, INC.

By: R L Huffman

Title: Gen Mgr.

Date: 5-27-80

NORTH POLE REFINING

By: Brenda L Meyer

Title: Asst Marketing Manager

Date: May 7, 1980

File. use when used is taken.

North Pole Refining P.O. Box 5028, North Pole, Alaska 99705

DIVISION OF EARTH RESOURCES COMPANY OF ALASKA

907/488-2741
907/488-2742

PETROLEUM PRODUCTS AGREEMENT

This Agreement, dated the 1st day of May 1980, by and between:

NORTH POLE REFINING (NPR), Division of Earth Resources Company of Alaska, an Alaskan Corporation, and GOLDEN VALLEY ELECTRIC ASSOCIATION, INC. (GVEA).

Witnesseth

The Agreement, when duly executed, shall constitute an agreement under which NPR, shall sell and deliver to GVEA, and GVEA shall purchase and receive from NPR, processed turbine fuel, as per Section I below, at GVEA's North Pole and Zhender generating plants effective the date of first delivery at GVEA's meter station of Royalty crude oil as provided for in BUYER's Assignment and Product Sales Agreement, by NPR under terms and conditions as follows:

I QUANTITY AND QUALITY

NPR shall sell and deliver to GVEA hereunder Industrial Turbine Fuel (including HF/DF #1 and HF/DF #2) meeting G. E. specification GE141047H for Heavy True Distillate and all petroleum products identified herein as "Turbine Fuel" for use at the GVEA's gas turbine and/or diesel generator facilities located at North Pole and Fairbanks (Zhender), Exhibit I, II(A), and II(B). Said Industrial Turbine Fuel (heavy true distillate) shall be delivered by pipeline from NPR, at his expense, into the GVEA's Turbine Fuel storage tanks located at the North Pole Facility. Deliveries to Fairbanks (Zhender) locations will be by rail tank car or transport

I QUANTITY AND QUALITY (CONTINUED)

truck in full capacity of the conveyance as determined by GVEA. GVEA and NPR recognize highway weight restrictions in the fall and spring of each year may require scheduling of liftings to avoid this period with deliveries by transport truck. Deliveries shall be made during each month of the term hereof on GVEA's orders. GVEA will furnish NPR with estimated annual projections of all monthly petroleum fuel requirements to be updated at three (3) months intervals. GVEA hereby recognizes that product requirements in excess of one-hundred-ten percent (110%) of original monthly nominations (Exhibit III) may not, at NPR's option, be available. GVEA will confirm estimates of the quantities to be delivered during each month at least forty-five (45) days prior to the first day of the month in which said quantities are to be delivered. Exhibit IV formats the required data (modifications may be made that are mutually acceptable). Scheduling for deliveries of volumes specified will be coordinated on a weekly basis between NPR and GVEA's designated agent(s).

II MEASUREMENT AND TEST

Quantity and quality of Turbine Fuel sold and purchased hereunder shall be determined from NPR's recording flow meters and from samples taken at NPR's facility. Observed volume shall be corrected to sixty (60) degrees Fahrenheit by use of API Table 6. All sampling and testing shall be done as mutually agreed. Claims for errors, deficiencies or imperfections will not be entertained by NPR unless notice in writing is given by GVEA to NPR within ten (10) days of discover.

III TITLE

Title to the Turbine Fuel sold and delivered hereunder shall pass to GVEA when the Turbine Fuel enters GVEA's storage tanks or truck transport,

III TITLE (CONTINUED)

and risk of loss shall follow title. All Turbine Fuel sold hereunder shall be deemed to be in the entire custody and control of GVEA, immediately upon delivery into GVEA's terminal (GVEA's intake headers or storage tanks at North Pole or Zhender) or into GVEA's truck transport; GVEA shall indemnify and hold NPR harmless from any and all liability (including reasonable attorney's fees) for loss, damage, injury or other casualty to persons or property caused or occasioned by any leakage, fire, explosion and/or any other damage caused directly or indirectly by the Turbine Fuel sold hereunder when the said Turbine Fuel is in the custody of GVEA as aforesaid.

IV PRICE

For each net barrel of forty-two (42) U.S. gallons sold and purchased hereunder of Industrial Turbine Fuel only (heavy true distillate), GVEA agrees to pay and NPR agrees to accept a price equal to NPR's net acquisition cost for each barrel of forty-two (42) U.S. gallons of North Slope Alaskan crude oil plus a fixed margin of [redacted] per barrel. NPR's net acquisition cost shall include all tariffs for transportation of said crude oil, the effects of any programs of any governmental agencies and 67.67 percent of the cost associated with any specific gravity adjustments; Sulphur and B S & W relative to oil returned to the TAPS, excluding any impurities introduced into the return crude stream which was not an element of the acquired crude or generic to that portion of said return penalty shall be excluded when calculating GVEA's price of turbine fuel as it relates to NPR's total acquisition cost). NPR will certify to GVEA, within sixty (60) days following the end of the month in question, the actual acquisition cost of crude received during said month and will at that time issue any resulting retro-active adjustments to the selling prices for all deliveries made during the month in question. It is understood by both parties that certain components of

IV PRICE (CONTINUED)

the final cost of crude oil purchased by NPR may not be finalized until an indeterminate time in the future. It is therefore, agreed between both parties that any adjustments to the final crude cost for any months in question irrespective of the timing of these adjustments, will be handled retro-actively to the month in question in accordance with the pricing terms herein notwithstanding any limitations to the contrary contained elsewhere in this agreement.

For billing purposes, sales will be expressed in gallons. The price which GVEA shall pay NPR for delivery of the following Turbine Fuel products hereunder shall be as follows:

North Pole Refining Plant Posted Prices, F. O. B. NPR, at the time of each delivery for the particular product involved, less a discount equal to the maximum discount per gallon given to any other buyer of the particular product.

Diesel Fuel #1
Diesel Fuel #2

Notice of a change in discount for the above products will be given to GVEA by NPR ten (10) calendar days prior to change.

NPR will notify GVEA, in writing, within five (5) working days of the effective date of the posting change for the above products.

Transportation fee to be agreed upon by separate agreement.

V ESCALATION

Price of Industrial Turbine Fuel (heavy true distillate) will escalate/de-escalate relative to the August 1977 U.S. Bureau of Labor Statistics Wholesale Price Index for Major Commodity and Special Groupings (Table 1 Manufacture Goods) times eighty-seven percent (87%) of the fixed margin ($2.62 per barrel). Examples are shown in Exhibit II. Price escalations are to be computed at the end of each calendar quarter commencing on December 31, 1977 and quarterly thereafter, and be effective on purchases made during following quarters.

Escalator to be reviewed annually upon written request by either party no later than sixty (60) days prior to the anniversary date of this agreement.

VI PAYMENT

All payments for Turbine Fuel sold and delivered to GVEA hereunder during each calendar week shall be billed on the following Monday, payment terms net four (4) days from date of invoice.

VII TAXES

All taxes, fees, assessments and charges now or in the future assessed, levied and charged by any State, Federal and local government against or upon the Turbine Fuel covered hereby and against or upon the selling and transportation thereof shall be paid by GVEA; and if NPR has paid or shall hereafter pay any such tax, fee, assessment and charge, GVEA agrees to promptly reimburse NPR the full amount therefore, together with all penalties, interest and costs there on. Any such payments shall be in addtiion to the price otherwise provided for.

VIII FORCE MAJEURE

Except as to payments due hereunder, each of the parties hereto shall be excused from performance under this agreement as long as to the extent that performance may be prevented in whole or in part by reason of strike, fires, washouts, breakage of pipeline or tankage, acts of God, war, sabotage, the elements, earthquakes, differences of disputes with workmen (however arising or from whatever cause) inability to obtain labor or personnel service, shortages of supplies of crude oil, scheduled or unscheduled shutdown of plants, or any other cause, except financial, beyond its control, whether of a similar or dissimilar class, including specifically acts, orders or recommendations of Government officers, bodies or committees acting under claim of authority.

IX MUTUAL AGREEMENT

Any details of this agreement not specified herein shall be resolved by mutual agreement of the parties hereto.

X CONDITIONS/TERMS

This Agreement shall become effective on May 1, 1980. This Agreement shall remain in full force and effect for seven (7) years and thereafter until terminated. Either party may, at any time, terminate this Agreement upon three (3) year's written notice to the other.

XI NON-ASSIGNMENT: MODIFICATION

This Agreement may not be assigned to any third party except the administrator of the Rural Electrification Administration without the written

XI NON-ASSIGNMENT: MODIFICATION (CONTINUED)

consent of NPR. This agreement may not be modified or terminated except by instrument in writing, signed by the parties hereto.

XII GOVERNING LAW

This Agreement shall be governed and construed in accordance with the laws of the State of Alaska. All terms and provisions hereof are subject to the applicable orders, rules, and regulations of all governmental authorities.

XIII SUPERSEDING AGREEMENTS

This Agreement supersedes any previous Petroleum Product Agreement effective the date NPR receives first delivery of GVEA's State Royalty crude oil as provided for in GVEA's Assignment and Product Sales Agreement dated May 1, 1980.

ACCEPTED AND AGREED TO:

GOLDEN VALLEY ELECTRIC ASSOCIATION, INC.	NORTH POLE REFINING
By: R L Huffman	By: Brenda L. Moser
Title: Gen Mgr.	Title: Asst Marketing Manager
Date: 5-27-80	Date: May 27, 1980

North Pole Refining

Bankers Trust Company
LETTER OF CREDIT DIVISION
1 BANKERS TRUST PLAZA • NEW YORK

MAILING ADDRESS
P.O. BOX 318—CHURCH ST STA
NEW YORK, N.Y. 10015

JUNE 9, 1983

IRREVOCABLE LETTER OF CREDIT
NO. W-78702-S

COMMISSIONER OF NATURAL RESOURCES
STATE OF ALASKA
POUCH M
JUNEAU, ALASKA 99811

GENTLEMEN:

WE HEREBY ISSUE IN YOUR FAVOR OUR IRREVOCABLE LETTER OF CREDIT FOR ACCOUNT OF GOLDEN VALLEY ELECTRIC ASSN. (GVEA) , P.O. BOX 1249, FAIRBANKS, ALASKA 99701 FOR A SUM NOT TO EXCEED U.S. DOLLARS FIVE MILLION FOUR HUNDRED THOUSAND AND 00/100 **$5,400,000.00** WHICH IS AVAILABLE AGAINST PRESENTATION OF YOUR SIGHT DRAFT(S) DRAWN ON US WHEN ACCOMPANIED BY:

1) COPY OF UNPAID INVOICE REFERRED TO IN DOCUMENTARY REQUIREMENT NO. 2 IN THE AMOUNT PAYABLE TO THE STATE OF ALASKA BY GVEA FOR THEIR PURCHASE OF THE STATE OF ALASKA ROYALTY CRUDE OIL.

2) A STATEMENT PURPORTEDLY SIGNED BY THE COMMISSIONER OF NATURAL RESOURCES FOR THE STATE OF ALASKA OR HIS DESIGNEE, INDICATING NAME AND TITLE OF SIGNATOR READING AS FOLLOWS:

"THE UNDERSIGNED HEREBY CERTIFIES THAT:

A) THE ROYALTY OIL COVERED BY THE ACCOMPANYING INVOICE HAS BEEN DELIVERED TO GVEA AND THE AMOUNT COVERED BY THE INVOICE IS PAST DUE AND REMAINS UNPAID TO THE STATE OF ALASKA AT THE TIME OF DRAWING.

B) AN AUTHORIZED REPRESENTATIVE OF THE STATE OF ALASKA HAS DISCUSSED THE NON-PAYMENT OF SUCH INVOICE WITH AN OFFICER OF GVEA AND AN OFFICER OF MAPCO PETROLEUM, INC. (OF ALASKA).

C) THE TERMS OF PAYMENT DEFINED IN ARTICLE VIII, CLAUSES 8.1, 8.2, 8.4, 8.5 IN THE "AGREEMENT FOR THE SALE AND PURCHASE OF STATE ROYALTY OIL" BETWEEN GVEA AND THE STATE OF ALASKA DATED 4/12/77, HAVE NOT BEEN COMPLIED WITH; AND

D) A WRITTEN NOTICE OF DEFAULT PER CLAUSE 6.1 OF ARTICLE XVI HAS BEEN GIVEN BY THE STATE OF ALASKA TO CVEA.

BY_____

(*COMMISSIONER OF NATURAL RESOURCES FOR STATE OF ALASKA) OR (*DESIGNEE FOR COMMISSIONER OF NATURAL RESOURCES FOR STATE OF ALASKA)"

*APPROPRIATE DESIGNATION TO BE USED TO IDENTIFY PARTY SIGNING THE CERTIFICAT

This credit/advice is subject to the Uniform Customs and Practice for Documentary Credits (1974 Revision), International Chamber of Commerce Publication No. 290.

- C O N T I N U E D -

7

Bankers Trust Company
LETTER OF CREDIT DIVISION
1 BANKERS TRUST PLAZA • NEW YORK

MAILING ADDRESS
P.O. BOX 318—CHURCH ST. STA
NEW YORK, N.Y. 10015

RE: L/C W-78702-S

NOTWITHSTANDING ANY REFERENCE IN THIS LETTER OF CREDIT TO OTHER DOCUMENTS, INSTRUMENTS OR AGREEMENTS OR REFERENCES IN SUCH OTHER DOCUMENTS, INSTRUMENTS OR AGREEMENTS TO THIS LETTER OF CREDIT, THIS LETTER OF CREDIT CONTAINS THE ENTIRE AGREEMENT AMONG THE ACCOUNT PARTY, BENEFICIARY AND THE ISSUER HEREUNDER RELATING TO THE OBLIGATIONS OF THE ISSUER HEREUNDER.

ALL DRAFTS MUST BE MARKED "DRAWN UNDER BANKERS TRUST CO. CREDIT NO. W-78702-S".

DRAFTS AND ACCOMPANYING DOCUMENTS MUST BE PRESENTED TO THE DRAWEE NOT LATER THAN JUNE 30, 1984.

WE HEREBY AGREE WITH YOU THAT DRAFTS DRAWN UNDER AND IN COMPLIANCE WITH THE TERMS OF THIS CREDIT SHALL BE DULY HONORED ON DUE PRESENTATION TO THE DRAWEE.

VERY TRULY YOURS,

M. A. Orlando

AUTHORIZED SIGNATURE

This credit/advice is subject to the Uniform Customs and Practice for Documentary Credits (1974 Revision), International Chamber of Commerce Publication No. 290.

7

[redacted]
LETTER OF CREDIT DIVISION
1 BANKERS TRUST PLAZA • NEW YORK

MAILING ADDRESS:
P.O. BOX 318 - CHURCH ST. STA.
NEW YORK, N.Y. 10015

ADVICE OF AMENDMENT
OUR CREDIT NO. #787028

NEW YORK, APRIL 17, 1984

********** NOTE **********
THIS CONFIRMS OUR CABLE OF TODAY
****

BENEFICIARY:

COMMISSIONER OF NATURAL RESOURCES
STATE OF ALASKA
POUCH S
JUNEAU, ALASKA 99811

APPLICANT:

GOLDEN VALLEY ELECTRIC
ASSN. (GVEA)
P. O. BOX 1249
FAIRBANKS, ALASKA 99701

ADVISING BANK:

RECEIVED
APR 26 1984
DIVISION OF OIL & GAS
ANCHORAGE, ALASKA

GENTLEMEN:

THIS CREDIT HAS BEEN AMENDED AS FOLLOWS.

IN REFERENCE TO ITEM 28 THAT PART READING: "....AN OFFICER OF MAPCO PETROLEUM I.C. (OF ALASKA)..." NOW TO READ "....AN OFFICER OF MAPCO PETROLEUM INC. (ALASKA)..."

IN REFERENCE TO ITEM 20 AFTER "... BY THE STATE OF GVEA" ADD "AND MAPCO PETROLEUM INC. (ALASKA)"

DRAFTS MUST BE PRESENTED TO THE DRAWEE NOT LATER THAN JUNE 30, 1985.

ALL OTHER TERMS AND CONDITIONS AS PREVIOUSLY ADVISED REMAIN UNCHANGED.

IMMEDIATE NOTIFICATION MUST BE GIVEN TO US IF THIS AMENDMENT IS NOT ACCEPTED.

VERY TRULY YOURS,

Lorraine Gordon
AUTHORIZED SIGNATURE

Kathryn West
561-5521

Kay
cc: Doug, Ken, Tom, Sam, Steve, Ed & Susan
1/4
Clifford Gatch

RECEIVED
JAN 4 1985
DIVISION OF OIL & GAS
ANCHORAGE, ALASKA

Ewell A. Clarke
Vice President
Domestic Crude Oil

December 28, 1984

Alaska Department of Natural Resources
Attn: Ms. Kay Brown, Director
Division of Oil & Gas
Pouch 7-034
Anchorage, Alaska 99510

Dear Ms. Brown:

In response to your December 7 notice, we offer herewith our comment on the proposed royalty oil sale to Golden Valley Electric Association (GVEA). The purpose of our remarks is not to discourage the awarding of a contract which will benefit consumers of electric power in Fairbanks; but rather to suggest improvements in the clarity and definition of the agreements which would better assure that indeed it will be the consumers who benefit from the royalty oil sale.

It is clear that GVEA cannot employ the crude oil directly in its power generation facilities and therefore must rely on Mapco's adjacent refinery to process the crude, extracting a gas oil fraction which GVEA can use. Therefore, it is incumbent upon the State to assure that such processing and extraction results in the maximum benefit to GVEA rather than a windfall to Mapco. This is particularly important since the Commissioner's Preliminary Findings state (on page 7) that:

> "No profits accrue to persons who are not both residing in Alaska and utilizing the GVEA services in-state."

Before addressing the question "Who benefits?", we should like to turn briefly to the situation referred to in Paragraph 2.11 of the Agreement where GVEA would utilize directly the crude oil sold thereunder. We believe that the words "prompt conversion of Purchaser's generating units" may be misleading. There are a number of substantial problems which do not lend themselves to promptness, the least of which is the REA financing. Design of the facilities, ordering and delivery of materials, and construction are time-consuming. Far more difficult to resolve promptly, however, are the approval and permitting required by regulatory agencies to construct and operate facilities which would burn unprocessed crude oil with low flash point and high sulfur content. We believe that the facility conversion referred to in the Agreement represents a project which can be completed at best in many months to several years, and at worst, never. Furthermore, the cost of such conversion, together with interest cost of the financing, could eliminate any cost advantage of burning crude oil vs burning coal.

Turning now to the question of who benefits from this sale of royalty oil to GVEA, we note on page 4 of the Preliminary Findings that the "benefit" to the consumers will be about $0.00095/kwh and that the benefit results entirely from a "discount" which Mapco gives GVEA on the price of the gas oil extracted from the royalty crude.

It is unclear just what this discount is -- a discount below what? Paragraph 2.11 of the Agreement refers to it as a "lower refining charge" but does not indicate lower than what? The Preliminary Findings shed some light on the question, Paragraph IV, page 3, where it states that the Mapco/GVEA agreement provides fuel "at a price lower than what GVEA would pay otherwise." We conclude that GVEA gets a lower-priced gas oil from Mapco when Mapco buys GVEA's royalty oil than when Mapco buys its royalty oil from other sources.

If that is the correct conclusion, the obvious question is: Why does Mapco give GVEA the discount? One explanation might be that Mapco pays less for GVEA's crude than for crude acquired from others. However, we believe that such is not the case. The price which Mapco pays the State for its long-term royalty oil is within pennies of the price which GVEA pays the State (and assigns to Mapco). Therefore, if Mapco's costs are essentially the same when running its own royalty crude and when running GVEA's royalty crude, how is the "discount" justified? Or one could ask: how is Mapco's <u>undiscounted</u> price to GVEA justified? Or how is the amount of the discount determined?

Nothing in the Preliminary Findings or the Agreement speaks to the <u>amount</u> of the discount, although this amount is the heart of the justification for the royalty oil sale. Reference is made in the Preliminary Findings that:

> "Mapco's discount to GVEA would reduce GVEA's average power generation cost by about $0.00095/kwh."

This hardly seems to be a bonanza for the electric power consumer. A typical residential user on GVEA's system pays about $0.09/kwh; so the cost saving resulting from the Mapco discount amounts to about 1% of the price which the consumer pays for his electricity.

We suggest that there may be several alternatives available to GVEA which are more beneficial to consumers than a "discount" on 12% of the crude barrel. There are options which could result in GVEA's utilization of substantially more than 12% of the crude, at lower cost to GVEA than that of conventional refinery fractionation. We will be happy to discuss such options with you at your convenience.

In summary, since GVEA cannot use the crude oil to generate power, the State's proposed sale of royalty oil is really a sale to Mapco, contingent upon Mapco's agreement to sell to GVEA the gas oil which is extracted from the crude; and contingent upon Mapco's selling the gas oil at some unspecified "discount" below some unspecified price level. Viewed in this context, and recognizing that GVEA may have other available options which will yield greater benefits from the State royalty oil, we suggest that the awarding of a long-term crude contract to GVEA be deferred until the State is satisfied that the royalty oil being committed to GVEA is indeed being employed in the best interests of the GVEA consumer; and that GVEA's current needs be satisfied by short-term commitments not exceeding two years.

Very truly yours,

Emmett Clark

EAC/ml

8

LAW OFFICES OF
GROH, EGGERS & PRICE
550 WEST SEVENTH AVENUE, SUITE 1250
ANCHORAGE, ALASKA 99501

TELEPHONES
(907) 272-6474
(907) 274-9547

CLIFFORD J. GROH
KENNETH P. EGGERS, P.C.
MICHAEL W. PRICE
LANCE E. GIDCUMB
SALLY KUCKO

MICHAEL P. CONDON
SEMA E. LEDERMAN
ROBERT T. PRICE
ROBERT P. OWENS

March 27, 1985

MAR 2 8 RECD

Representative Mike Davis
Chairman
House Special Committee on Oil and Gas
Pouch V
Juneau, Alaska 99811

Dear Representative Davis:

Your committee has inquired about the options to which our client, Tesoro Alaska Petroleum Company, referred in its December 28, 1984 letter to the Department of Natural Resources, regarding the GVEA royalty oil contract being considered by your committee.

Since that time, at DNR's suggestion, we have met with representatives of GVEA and have discussed the alternatives we had in mind. We suggested that in order to utilize more effectively the State royalty oil, GVEA might construct adjacent to its North Pole generating station a crude oil extraction unit from which turbine fuel could be produced, perhaps in quantities greater than that provided from Mapco's processing agreement.

Energy-efficient design might utilize waste heat from GVEA's turbines, and operating costs might be minimized through the use of common maintenance and management personnel. The unused portion of the crude could be returned to the pipeline in return for which GVEA - or the State - would receive crude oil at Valdez.

After consideration of our suggestions, GVEA told us that investment of capital resources in such facilities was not in accordance with its management policy.

Very truly yours,

GROH, EGGERS & PRICE

Clifford J. Groh/hf.

:hf

Clifford J. Groh

cc: Rep. John Sund
Rep. Sam Cotten
Rep. Mike Szymanski
Rep. Pat Pourchot
Rep. Marco Pignalberi
Rep. Andre Marrou

ALASKA STATE LEGISLATURE
HOUSE OF REPRESENTATIVES
RESEARCH AGENCY

Pouch Y, State Capitol
Juneau, Alaska 99811
(907) 465-3991

May 19, 1983

MEMORANDUM

TO: Representative John Cowdery

FROM: David Teal
Research Staff

RE: MAPCO Contract for Alaska Royalty Oil
Research Request 83-158

You asked this agency to review the contract for the sale of State royalty oil to the North Pole Refinery (MAPCO) and to describe significant details of the contract, particularly as they differ from provisions of the proposed Tesoro and Chevron contracts. This memorandum responds to your request.

The contract in question was originally with the Earth Resources Company of Alaska, who operated the North Pole refinery until it was sold to MAPCO in 1981. The contract was approved by the Legislature in May of 1978. It provides royalty oil from the Prudhoe Bay Unit to the North Pole refinery through the year 2003. Some specific provisions of the contract are discussed below.

Quantity of Oil

The contract specifies that no more than 15 percent of the State's share of oil from the Prudhoe Bay leases is to be sold to MAPCO. Note, however, that 15 percent of current production levels is about 28,000 barrels per day while MAPCO is actually receiving about 35,000 barrels of royalty oil per day. This apparent discrepancy can be explained by a careful reading of sections 2.1.1 through 2.1.3. Section 2.1.1 allows MAPCO to nominate additional oil from the Prudhoe Bay leases as long as "such oil is unobligated and available." Section 2.1.3 limits the total amount of oil supplied by the State under this contract to 35,000 barrels per day. In addition, section 2.1.2 of the contract gives MAPCO an option on royalty oil from other leases (including future discoveries) so that the refinery can nominate up to 35,000 barrels of oil per day through 2003.

NOTE # INTERESTING CONSIDERATION. MAPCO HAS STATED IN WRITTEN TESTIMONY THAT THE PRICE THEY PAY FOR ROYALTY IS HIGHER THAN WHAT THEY COULD BUY IT FROM PRODUCERS

The North Pole refinery is not only purchasing the full 15 percent share of Prudhoe Bay oil to which it is entitled, but is also exercizing its option to purchase an additional 7,000 barrels per day to bring its total purchase to the contractual ceiling of 35,000 barrels per day. According to the contract, North Pole could nominate as little as 5,000 barrels per day without paying a penalty or endangering the contract. The continued high level of nomination is probably due to a combination of uncertainty in oil markets and the 7-month lag from date of notification of a change in volume to implementation of that change. ## NOTE

The fixed volume provision (35,000 barrels per day) in the MAPCO contract could allow the North Pole refinery to claim nearly half of all State royalty oil by 2003, when the contract terminates. (Unless additional discoveries are made, the State's share of crude oil is expected to decline to about 75,000 barrels per day in the year 2000.) The proposed Tesoro and Chevron contracts specify a proportion of Prudhoe Bay royalty oil (13.867 percent and 9.6 percent, respectively) so that the amount of oil delivered to them would decline as production from Prudhoe Bay declines.

Price of Oil

As you know, the proposed Tesoro and Chevron contracts call for a 30¢ per barrel premium over the in-value price of oil. North Pole does not pay a premium for royalty oil, but it does pay the "Exhibit B" price, which is about 50¢ per barrel above the average in-value price.[1] The price differential is due to different ways of making the price of royalty oil subject to resolution of the Almerada Hess litigation. The MAPCO contract specifies that the Exhibit B price will be paid, with the differential refunded if the State loses the case. The Tesoro and Chevron contracts specify that the average in-value price will be paid, with additional payments to be made if the State's arguments prevail.

---

[1]The Exhibit B price for a hypothetical Company X is defined as the higher of 1) the average price received by all producers including Company X and 2) the average price received by all producers except Company X.

Residual Oil

One of the more controversial aspects of the MAPCO contract is the disposition of residual oil. The North Pole refinery currently reinjects its residual oil into the pipeline. North Pole pays a fee for degradation of the virgin crude in the line and reclaims the oil at Valdez, where it is indistinguishable from any other oil that comes through the pipeline. Section 2.4 of the contract gave the State an option on the residual oil, but the option expired (unused) on September 1, 1978. The Tesoro and Chevron contracts would give the State an option on the residual oil for the life of the contracts.

Other Provisions

The 25-year term of the MAPCO contract, the lack of a premium over the in-value price, the option on future reserves, and the lack of a claim on residual oil have been discussed above. Other points of interest are briefly discussed below.

- The contract fails to impose in-state processing requirements. The proposed Tesoro and Chevron contracts specify that all royalty oil must be processed in-state and that 32 percent and 34.44 percent, respectively, of royalty oil must be refined into usable products.

- The contract fails to restrict exports of the petroleum products. The proposed Tesoro and Chevron contracts specify that the refiners must use their best efforts to market all royalty oil products in Alaska and require the purchasers to submit reports on performance. The MAPCO contract merely states that the refinery will notify the Commissioner of the Department of Natural Resources if products are exported.

- The contract does not impose a reservation fee if North Pole elects to claim less than the maximum quantity allowed by the contract. The proposed Tesoro and Chevron contracts specify that the purchaser shall pay a fee of .75 percent of the purchase price (about 15¢ per barrel at current prices) for each barrel difference between the maximum quantity and the quantity actually nominated.

- The contract has a much weaker security agreement than the proposed Tesoro and Chevron contracts. MAPCO is required to grant a security interest in all oil delivered or to provide security in the form of a bond. Under the proposed contracts, Tesoro and Chevron must furnish an irrevocable letter-of-credit that can be drawn upon by unilateral action of the State.

- The contract does not include a provision on disagreements. Section 23 of the proposed Tesoro and Chevron contracts says that, in the event of disagreement over the meaning or application of terms or conditions of the contract, the purchaser shall agree to accept the findings of the Commissioner of Natural Resources unless there is clear evidence for a contrary interpretation.

The conclusion of our review of the MAPCO contract is that it has significant disadvantages (to the State) relative to the proposed Tesoro and Chevron contracts. In addition to the differences listed in this section, the term of the MAPCO contract is longer, the price the State obtains for its royalty oil is lower, it gives options on future oil discoveries, and it gives the State no option on the residual product of the refinery. There is some possibility that these provisions could be renogotiated if the North Pole refinery wished to expand and if additional supplies of royalty oil were required to support that expansion.

* * *

I hope this review of the MAPCO contract is useful in your deliberation of the proposed contracts for royalty oil. If you have additional information requests, please contact the agency.

DT

GOLDEN VALLEY ELECTRIC ASSOCIATION INC. Box 1249, Fairbanks, Alaska 99707 Phone 907-452-1151

May 7, 1985

TO: Fairbanks Delegation

The Board of Directors and the management of Golden Valley Electric Association unanimously reaffirm their strong commitment toward obtaining a long-term royalty oil contract from the State of Alaska.

The 10-year agreement is essential to the negotiation of an assignment and processing agreement which will continue to maximize the fuel savings benefits to all GVEA consumers.

If potential refiner(s) materialize, which possess the capacity to meet GVEA fuel needs, GVEA will encourage them to offer competitive processing proposals. However, no viable alternative to MAPCO presently exists. One potential refiner that we are aware of will not have the capability to meet our turbine fuel needs. An existing refiner, Tesoro, was unable to match rack price for our turbine fuel let alone match the lower-priced turbine fuel derived from royalty oil processed by MAPCO.

The 10-year term of the proposed agreement is the key element which is attractive to all prospective processors and which will allow Golden Valley to obtain maximum benefits for its consumers. The 10-year term is also essential for cooperative fuel supply planning and financial forecasting.

At GVEA's annual meeting, May 6, the members passed an advisory resolution encouraging GVEA to try to re-negotiate its contract with MAPCO to obtain greater savings, or cancel with MAPCO and try to negotiate a better deal with potential MAPCO competitors. There was absolutely no direction from the GVEA members at the meeting suggesting that GVEA should modify its request for a 10-year contract.

Best regards,

Mike Kelly

Mike Kelly
General Manager

ALASKA STATE ROYALTY OIL SALE:
GOLDEN VALLEY ELECTRIC ASSOCIATION
1985

PREPARED
FOR

THE HOUSE SPECIAL COMMITTEE
ON
OIL AND GAS:

Representative Mike Davis, Chairman
Representative John Sund
Representative Sam Cotten
Representative Mike Szymanski
Representative Pat Pourchot
Representative Marco Pignalberi
Representative Andre Marron

BY

L. Frank DeLong

PACIFIC-ALASKA COMPANY
317 Senate Loop Road
Fairbanks, Alaska

April 30, 1985

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EXECUTIVE SUMMARY

The following conculusions are drawn from the research:

[A] The sale of Royalty crude oil to Golden Valley Electric Association (GVEA) and the assignment to MAPCO's North Pole Refining Company (NPR) compromises the mandate for a State owned natural resource's utilization to provide for the maximum benefit of all Alaskans [State Constitution Article VIII, Section 2].

The maximum benefits to all Alaskans of utilizing the royalty crude are not realized by this sale's benefits to GVEA customers. GVEA's customers benefit to a small degree either thru a small reduced rate or increased equity in their cooperative. Other utilities operating in Alaska would also benefit from lower cost fuels and may seek similar Royalty oil or gas arrangements.

The proposed sale has proceeded to this point because the benefits, although quite small and directed towards a unique group, do exist and though arguable appear to satisfy the best interest findings as structured by the State Administration.

The judgement call is whether the small benefits to GVEA are sufficient for the State to not exercize its other options with respect to the royalty crude. For example, the State could sell the crude oil on the market and realize enough premiums to give GVEA a benefit check and still realize a net gain.

Further the proposed sale's primary benefits are with MAPCO who will probably realize gross margins from product sales and return oil sales totaling just under $10,000,000 per annum. The GVEA benefits of $500,000 are small in comparison.

[B] Assigning a long term crude oil supply to a refinery, with the only economic benefit a long term supply of turbine fuel at times priced below landed crude price, ignores the value of owning Royalty oil, its multiple value-added products and the economic benefits from the exchange and/or barter of its petroleum products.

[C] The main argument for the transaction appears to focus upon assisting the GVEA customers, and not the primary economic benefit of owning crude oil which should have been used to secure additional benefits to GVEA. GVEA, while assigning 5,000 bpd of Royalty oil to NPR, receives a price discount on 625 bpd of turbine fuel, but does not receive a price break on the other 400 bpd of turbine fuel or on the #2 oil it utilizes at the in-town unit and it purchases from NPR.

[D] The benefits to GVEA are an estimated savings of $516,000 per year in fuel costs. This equates to approximately $.001466 per kilo-watt hour for the utility based on 380,412,000 kwh per annum. GVEA and the Department of Natural Resources (DNR) focused their attention upon an exchange of crude oil for a small volume of

relatively low-value turbine fuel and ignored the higher priced products to be made from the crude oil. A processing contract with the refinery would have been more supportive of GVEA's economic interests.

[E] The estimated gross margin that NPR will receive from the 5,000 bpd of crude oil may exceed $8,200,000, using MAPCO's stated product slate and January 1985 data. Most U.S. refineries today are operating with very small or at negative margins. OVER THE LAST YEAR U.S. REFINERY MARGINS HAVE BEEN DROPPING WHILE NPR'S MARGINS HAVE BEEN RISING. The ex-refinery product margins of NPR are perhaps the highest in the nation. The U.S. Gulf Coast Refining Margins are currently -$1.22 pb; NPR is +$10.55 pb. NPR'S MARGINS MAY EXCEED LOWER-48 MARGINS BY OVER A 1,000 %.

NPR's margins reflect its strong market position; some have called it a monopoly position.

[F] The proposed sale strengthens MAPCO's long term crude supply position and most important gives them title to the return oil. The sale of ANS crude on a long term basis can be very attractive. The return oil's quality bank costs are covered by NPR product prices. The return oil from the 5,000 bpd which becomes comingled ANS crude may net MAPCO a further gross margin of $1,860,000.

According to DNR, during the negotiations, when MAPCO received ownership of the return oil, they agreed to proceed with the three-party agreement. The contract stipulates that GVEA must give a three year notice to take ownership of the crude oil, however, GVEA will become liable for Amerada Hess if it exercises that right.

[G] Given the example of the recent State Royalty competitive bid sale, the state could sell the crude oil on the competitive market, give GVEA the $500,000 savings and still pocket a tidy sum above the 30 cent premium in the general fund. Further, there are experienced Alaskan crude oil traders who could realize even higher gains in the market place.

[H] NPR at times has posted ex-refinery turbine fuel prices less than their gross costs per barrel of product! Also, GVEA under its existing long term NPR products agreement already receives a significant price advantage for turbine fuel. The turbine fuel product is slightly heavier than ANS crude oil and consequently contributes to the quality bank penalty when returned to TAPS; it is in NPR's economic interest to sell, even at cost, as much of the heavier material as possible that it otherwise would return to TAPS.

[I] If the State loses the Amerada Hess litigation, NPR will receive a refund for paying the Exhibit-B price; under the proposed agreement between GVEA and MAPCO, GVEA would not receive an estimated $82,000 per year refund although its price of turbine fuel thru the net acquisition formula is 78 per cent based on Exhibit-B. If the settlement of the litigation results in a price greater than an Exhibit-B price, than GVEA will benefit for that period prior to

the last twelve months.

[J] In summary, GVEA's benefits are limited to receiving a portion of its turbine fuel requirements at a reduced price, no other Interior utilities benefit, nor does GVEA receive a price break for all its fuel needs. The primary beneficiary is MAPCO whose North Pole Refinery secures a long term crude supply, will receive significant revenues yielding the highest refinery margins in the Nation, and MAPCO secures title to the return oil which it may trade, sell or exchange as ANS crude oil at Valdez.

A. INTRODUCTION

This limited review of the proposed State Royalty Oil sale to Golden Valley Electric Association (GVEA) identifies the potential benefits and costs to the various parties of the sale of State Royalty Oil to GVEA.

Under the terms of the sale, GVEA will receive approximately 5,000 barrels per day (bpd) of State Royalty Oil [equal to 2.667% of Prudhoe Royalty Oil] at the average weighted delivery point value plus a premium of 30 cents per barrel (pb) with price reopeners every two years. The contract would run thru 1995.

The sale's agreement by the State to GVEA involves a third party, MAPCO which operates North Pole Refinery (NPR) in North Pole, Alaska, next to GVEA's power plant.

NPR has exclusively sold, since 1980, turbine fuel to GVEA thru two contracts: first, under a PETROLEUM PRODUCTS AGREEMENT and, second, under an ASSIGNMENT AND PRODUCT SALES AGREEMENT. The former prices turbine fuel at net crude acquisition costs (landed crude costs plus two-thirds gravity adjustment on nominal two barrels returned to TAPS for every barrel of product) plus a fixed fee of $2.62 escallated with U.S. Bureau of Labor Wholesale index for manufactured (industrial) commodities with a base of August 1977.

The latter contract assigns GVEA's current 5,000 bpd of State Royalty oil to NPR which inturn provides GVEA with up to 650 bpd of turbine fuel priced with a net crude acquisition cost as in the former but uses a processing fee of $1.25 escallated similarly to the former but with a base of May 1980. In January 1985, the two contracts had a $3.90, fixed fee, and $1.50, processing fee, respectively.

The GVEA's current Royalty Oil Contract will terminate this fall. GVEA, desiring to continue the contract, began negotiations with the State and MAPCO. Finally, the State, GVEA and MAPCO entered into an agreement with the crude oil to be priced at a $.30 per barrel premium, and the NPR would assume long term responsibility of the Amerada Hess settlement, and MAPCO would receive secure title to the return oil.

B. NPR LANDED CRUDE COSTS, TAPS QUALITY BANK, EX-REFINERY POSTINGS

NPR, to date, has operated as a simple distillation unit removing middle distillates and some light ends to produce

JP-4/Jet B (naptha based jet fuel),
#1 heating oil/diesel,
winter and summer grades of #2 heating oil/diesel,
Jet A-1 (kerosene based jet fuel),
and turbine/marine fuel (a #3 or #4 heating oil).

The refinery sells its products via a truck rack, rail tankcar rack, pipeline connecting to the old Haines Military pipeline, and turbine fuel usually by pipeline to GVEA's facilities next door.

NPR receives its crude oil exclusively from the Trans Alaska Pipeline System (TAPS) and uses GVEA's pipelines to bring the crude oil into the refinery from TAPS and return oil to TAPS. NPR runs approximately 45,000 bpd thru its refinery and returns a nominal two-thirds of the barrel back to TAPS.

NPR under its long term 35,000 bpd royalty contract with the State of Alaska pays a price determined by Exhibit-B of the contract. The Exhibit-B price as shown in Table Two yields the State a higher price for its royalty oil than it receives under average in-value receipts. The Exhibit-B price was used by the State to more closely represent the correct delivery point value. The ANS delivery point values used are taken from the latest DNR corrected price reports.

NPR, through a long and extensive TAPS tariff battle before the Alaska Public Utilities Commission (APUC) and Federal Energy Regulatory Commission (FERC), secured a settlement of the TAPS intra-state rate from the Alaska North Slope to GVEA's metering station and a settlement of how to determine the quality bank penalty. The TAPS intra-state rates are given in Table One and average $3.67 per barrel (pb).

The GVEA pipeline tariff is 6.28 cents pb transported to the NPR. Since a nominal two out of three barrels brought into the refinery are returned, the GVEA pipeline cost per product barrel (ppb) must include moving the two returned barrels.

By returning the unmarketed mix of products into TAPS, NPR is required to pay a TAPS quality bank penalty based on the change in specific gravity of the crude oil. The returned oil is heavier than the ANS crude oil the refinery receives [the lighter naptha and kerosenes having been removed].

The TAPS quality bank economically corrects for the entry of different specific gravity crudes into the TAPS system and compensates those whose oil has been degraded. Each crude oil stream has a unique specific gravity measured by the industry in terms of degree API. The current streams entering TAPS are Kuparuk,

Prudhoe and North Pole's return oil. The current TAPS crude oil is 26.5-27.0 degree API; the North Pole Refinery return oil stream is about 19.5 degree API. The quality bank cost is based on a decline in degree API of about 7.5 degree API.

Under the terms of the settlement, the following quality bank rates apply.

TAPS QUALITY BANK PENALTY RATE

cents per barrel per degree API	from	thru
8.53	6/1/1979	2/28/1982
12.80	3/1/1982	12/31/1982
18.77	1/1/1983	12/31/1983
17.91	1/1/1984	12/31/1984
17.50	1/1/1985	present

The quality bank (QB) costs are given in Table Two and currently run at about $2.63 ppb. Each product barrel has two nominal returned oil barrel quality bank penalties. These qualty bank costs associated with return oil entering TAPS are incorporated into NPR's product prices. [see the NPR GVEA "Petroleum Products Agreement" price section, dated May 1, 1980].

The refinery uses a nominal 1.5% of each barrel as refinery fuel to heat the crude such that the various fractions can be vaporized and condensed and to provide fuel for the process (e.g. steam, hot water, glycol tracing, etc). In that two nominal barrels are returned for each product barrel, the refinery's fuel is estimated at 4.5% ppb.

The landed cost of crude into NPR, fuel costs and QB penalties on the return oil determine the NPR gross costs per product barrel given in Table two. The costs per product barrel and margin determine NPR's prices.

The return oil is comingled with ANS crude in TAPS and is sold at Valdez bearing only the cost of acquisition and TAPS inter state tariff. The anttendant costs of the quality bank, heating the crude at NPR and the GVEA pipeline tariffs are borne by the purchasers of the NPR products. THE CONSUMERS OF NORTH POLE'S PRODUCTS ARE PAYING THE COSTS OF RETURN OIL BECOMING ANS CRUDE OIL. THIS HAS NOT BEEN FULLY APPRECIATED BY THE CONSUMER.

The estimated gross costs at NPR reached a peak in early 1981 at about $32.60 ppb and have subsequently fallen to $24.42 ppb in January 1985. The use of Exhibit-B is a good surrogate of NPR's crude costs because it receives 35,000 bpd under its royalty contract at this price. NPR also receives 5,000 bpd under GVEA's current royalty oil contract and the remaining 5,000 bpd from an ANS supplier, such as Exxon.

Table Three lists the ex-refinery postings of NPR from January 1980 thru January 1985 for the refinery's major products. These prices are taken from NPR's posted ex-refinery price notices to their customers. While gross costs ppb peaked in the Spring of 1981, ex-refinery product postings peaked thru the winter of 1981 and Spring of 1982. Generally the prices over 1984 have remained relatively constant and all are significantly below the Spring 1982 levels. The turbine fuel postings are close to gross costs.

Section D will discuss the refinery's gross margins implied by these postings with respect to other refineries and Section E with respect to retail prices.

C. GVEA BENEFITS

GVEA utilizes turbine fuel at its North Pole facility. At GVEA's intown peaking facilities, GVEA utilizes #2 heating oil and turbine fuel in the summer months.

NPR provides GVEA's turbine fuel on an exclusive basis using two contracts. Both contracts are dated May 1, 1980. The "Petroleum Products Agreement" provides GVEA with turbine fuel at a price equal to NET CRUDE ACQUISITION COST, plus a FIXED FEE. The NET CRUDE ACQUISITION COST is defined as the average ANS prices paid by NPR, plus TAPS tariff to GVEA, plus GVEA pipeline tariff, plus two thirds of the quality bank penalty on the portions of the barrel returned to TAPS (nominally, two returned barrels to one product barrel).

The "Petroleum Products Agreement" FIXED FEE utilizes a $2.62, August 1977 base escalating with the U.S. Bureau of Labor Statistics Wholesale Price Index for manufactured (industrial) goods at 184.8 for August 1977. Only 87 per cent of the fixed fee is escalated. The fixed fee has varied from $3.31 pb in June 1980 to $3.90 pb in the winter of 1984. See Table Four.

The "Petroleum Products Agreement" also provides for sale of #1 heating oil and #2 heating oil at a price equal to the posted rack price less the maximum discount given any other buyer of the same products.

The other agreement for sale of turbine fuel "Assignment and Products Sales Agreement" dated May 1, 1980, recognizes the GVEA royalty crude oil supply at 5,000 bpd. Under the agreement, GVEA assigns the 5,000 bpd of crude oil to NPR who inturn supplies to GVEA up to 12.5 % of the volume (maximum of 625 bpd) as turbine fuel. The price is the above NET CRUDE ACQUISITION COST plus a PROCESSING FEE.

The PROCESSING FEE escalates similarly to the "Petroleum Products Agreement" but the base is $1.25 for May 1980 and the reference wholesale index is 240. The fee has increased from the $1.25 for May 1980 to $1.50 pb during the winter of 1984. See Table Four.

The GVEA benefits of their royalty oil assignment to NPR are clearly seen in Table Four. The difference between the FIXED FEE and the PROCESSING FEE has increased from $2.06 ppb in May 1980 to $2.40 ppb in winter of 1984. In the winter of 1984, this equated to 5.7 cents per gallon reduction. The GVEA utilizes the assignment agreement to provide roughly two thirds of its turbine fuel requirements. GVEA purchases its remaining turbine fuel requirements under the "Petroleum Products Agreement". GVEA's annual savings with the royalty oil assignment to NPR from Table Four are estimated at:

GVEA's ESTIMATED ANNUAL BENEFITS
[Fixed Fee versus Processing Fee]

year	$ savings
1980	321,400
1981	507,200
1982	521,900
1983	532,500
1984	545,800

The net crude acquisition cost of NPR under the proposed sale of the 5,000 bpd of Royalty crude priced at the average ANS plus $.30 pb premium, will determine the price GVEA pays for its turbine fuel. Table Five presents the average ANS [delivery point value], the Exhibit-B price and the price under the new GVEA contract with the 30 cents premium. From Table Five which utilizes the history of past ANS prices, the price of GVEA's royalty oil may at times may be less than the Exhibit-B and at other times greater. NPR's crude costs may be estimated at 8 parts [40,000 bpd] at Exhibit-B and 1 part [5,000 bpd] at GVEA's new price. The net crude acquisition price component of GVEA's turbine fuel will not vary significantly from the Exhibit-B price.

Under the proposed agreement, NPR will assume responsibility for the Amerada Hess in-value crude oil price settlement for periods prior to the last twelve months. GVEA will assume the responsibility for the last twelve months. In all instances GVEA will be responsible for only its purchased turbine fuel volumes. GVEA's turbine price under the net crude acquisition cost calculation includes at least 7 parts Exhibit-B price due to the 35,000 bpd NPR Royalty oil contract.

The DNR's findings on this proposed contract speak only of the Amerada Hess "liability". It may be that the State will not succeed and payments made above the average delivery point value, such as Exhibit-B, will require refunds. Under the new agreement GVEA would be precluded from receiving any refund if the State was to lose the settlement. From Table Five, the amount of Amerada-Hess "adjustments" GVEA will have paid to NPR for under the net crude acquisition cost varies hypothetically from $95,000 in 1981 to $82,300 in 1984, assuming the GVEA proposed contract was in place during those years. Under the proposed agreement GVEA would not receive these "adjustments." This thought should be at least entertained in evaluating royalty oil contract pricing and long term liability.

If the State succeeds and additional payments are due the State, NPR would pay the amount due for the period prior to last twelve months.

In summary, the assignment agreement from GVEA's perspective results in lower turbine fuel costs for 650 bpd than from GVEA's "Petroleum Products Agreement" with NPR. GVEA receives no price benefits on about 400 bpd addition turbine fuel used annually, and no price

benefits on #2 heating which it also utilizes. #2 heating oil is a product of refining the barrel that provides the turbine fuel. Clearly, other petroleum products of the barrel [e.g. Jet A-1, #1 HO, JP-5] may have been exchanged to complete GVEA's total fuel requirements.

THE BENEFITS TO GVEA APPEAR LIMITED, it receives a price reduction on a product, turbine fuel, that is already priced at or near value of crude oil. See Table Three. In fact, most turbine fuel is returned to the TAPS because of no market. GVEA receives none of the gross margins from the other products made from the same barrel that generates the 12.5 % turbine fuel.

D. NORTH POLE REFINERY AND MAPCO BENEFITS

The gross costs associated with landed crude at NPR, fuel and quality bank penalties on the return oil were presented in Table Two. NPR's posted ex-refinery prices were presented in Table Three. The posted ex-refinery prices were taken from NPR official notices mailed to their customers informing them of changes in the posted ex-refinery prices. These prices determine the gross revenue that the refinery receives. The difference between the gross revenue and gross costs defines the gross margin of the refinery or individual product margin. The calculation of the gross margin is simple and affords comparison with published margins on other refineries.

Table Six presents the gross margin and product margins for NPR from January 1980 thru January 1985. January 1985 was the last available DNR monthly statement on Royalty Oil Value.

The 1980's are characterized by a portion of each ANS crude barrel's price being determined by the marketplace and the other portion by the Department of Energy's controlled price. The "bottomline" of the DOE program was that in 1980 the control of crude oil was being phased out. For each portion of ANS crude barrel that was controled the refiner received significant cash entitlements that exceeded $6 pb at one point. Consequently, the real NPR gross margins in 1980 are larger than presented in Table Six because the refinery was receiving additional direct cash payments from the DOE crude oil price control program for merely running ANS crude oil. Apparantly, MAPCO sought to continue the gross margin levels it received from DOE crude price controls by increasing over 1980 its product margins as the crude oil was being proportionately decontroled each month. This would explain the increasing gross margins per barrel of product over 1980.

In February 1981 the crude oil market was totally decontrolled. Table Six clearly shows the economic uniqueness of the NPR operation. SOME HAVE CHARACTERIZED NPR AS A MONOPOLY. The estimated margins indicate NPR may do what it wants with respect to price policy. The estimated gross margin per product barrel was calculated using the MAPCO product mix provided to DNR for the 5,000 bpd. The gross margin per barrel reached a peak of $19.00 ppb for all products in Winter 1982. The lowest gross margin was $7.29 ppb in winter 1981. In January 1985, the most current month with available data, THE NPR GROSS MARGIN WAS $10.55 PPB. Table Seven graphs the range in overall product margin per product barrel. Since 1983 to January 1985, the implied gross margin per product barrel increased $2.80 ppb.

The indicated NPR product margins based on the January 1985 data are given in Table Eight. The estimated product margins are:

$13.60 ppb	#1 Heating Oil
$12.06 ppb	#2 Heating Oil
$15.69 ppb	Jet A-1
$16.32 ppb	Jet-B
$ 1.83 ppb	turbine Fuel

THE ESTIMATED NPR GROSS MARGIN ON GVEA'S 5,000 BPD WOULD BE $22,700 PER DAY OR OVER $8,294,000 PER YEAR. Extrapolating these numbers, the NPR estimated gross margin for 35,000 bpd of royalty oil would be over $55,000,000. For the refinery at 45,000 bpd the estimated gross margin would exceed $70,000,000.

THE NPR GROSS MARGIN ESTIMATED TO BE $10.55 IN JANUARY 1985 IS EXTREMELY HIGH COMPARED TO THE REFINERY INDUSTRY AS A WHOLE. Paine Webber's monthly "Oil Investment Outlook" dated April 3, 1985 indicates that most U.S. refineries are currently operating at margins less than a dollar. For U.S. Gulf Coast refining margins (spot product value less spot crude price), the current refining margin for refiners utilizing Alaskan North Slope crude oil is -$1.22 pb in March 1985 and was -$.40 pb in January 1985.

Other crudes in March 1985 yield refinery margins of +$.08 pb for West Texas Intermediate, -$.11 for West Texas Sour and +$.91 for Mexican Mayan crude. These negative margins are create pressure from the refiners upon producers to reduce crude oil price. U.S. Gulf Coast refineries compete with MAPCO's only other refinery, Delta at Nashville, Tenn. The conclusion would be that MAPCO's Delta refinery margins are no better than those of U.S. Gulf refiners and that NPR is the primary contributor to the MAPCO Petroleum division.

ANS Crude Oil Refiner Margins

	U.S. Gulf Refiners' Margins, $ pb	NPR Margins, $ pb
Jan84	0.42	8.70
Feb	0.26	8.62
Mar	(1.14)	8.59
Apr	(0.26)	8.50
May	(0.09)	8.44
Jun	(1.03)	9.03
Jul	(1.02)	8.98
Aug	(0.87)	9.31
Sep	(0.45)	9.24
Oct	(0.37)	9.36
Nov	(1.13)	9.38
Dec	(0.71)	10.03
Jan85	(0.40)	10.55
Feb	(1.05)	na
Mar	(1.22)	na

[source for U.S. Gulf refiners margins: Paine Webber "Oil Investment Outlook", April 3, 1985]

The above table's U.S. Gulf refinery margins are indicative of the refinery industry as a whole over the last year and the first quarter of 1985. A truer comparison would remove NPR's fuel costs and quality bank costs which are included in the NPP gross costs; NPR's margins should be larger than indicated for this comparison. NPR is unaffected, obviously, by the market forces that are in effect in the lower-48. WHILE U.S. REFINERY'S GROSS MARGINS WERE DROPPING DURING THE ABOVE PERIOD, NPR'S MARGINS WERE INCREASING.

For #1 heating oil, the indicated margin in February 1981 was $10.57 pb. By January 1982 the indicated margin had increased to $20.08 pb. In January 1983 legislative hearings were conducted on petroleum pricing and a report by DeLong and Pernela entitled "Petroleum Product Pricing in Alaska" clearly indicated that with crude oil dropping in price, the crude reductions were not being passed onto the Alaska consumer compared to other parts of the country. The indicated margin on #1 Heating Oil subsequently, dropped by the summer to $11.91 and has remained relatively stable with a slight increase thru 1984. Table Nine indicates the wide variance that #1 margins have had in NPR's history. THAT THE RECENT NPR MARGINS ARE RELATIVELY UNCHANGING OVER A PERIOD OF TIME WITH CRUDE OIL PRICE DROPPING, INDICATES A WELL CONTROLLED MARKET.

The margin on turbine fuel indicates the nature of this product. It is somewhat heavier than ANS crude oil, having a gravity between 24-26 degree API. It is better to sell the turbine fuel, at or near cost and avoid increasing the quality bank penalty. NPR's turbine fuel pricing policy would appear to be close to their gross costs ppb. The turbine price to GVEA has no fuel component and only

assesses two-thirds of the return oil penalty; it does have a fixed fee or processing fee.

NPR's gross margins per barrel (posted ex-refinery price less crude cost, pipeline tariffs, quality bank payments on return oil, and fuel) are a good indicator of how the State's royalty oil is being utilized, and the potential gain that can occur in the NPR market area from refining the oil.

A number of products are refined from a barrel of oil and sold at much higher margins than that of turbine fuel. A SIMPLE PROCESSING AGREEMENT WITH NPR AND AN EXCHANGE OR SALE OF THE MORE VALUABLE PRODUCTS FROM THE GVEA BARREL (i.e. JP-4, Jet A, #1 HO, and #2 HO), PLUS THE TITLE OF RETURN OIL COULD HAVE PROVIDED MORE BENEFITS TO GVEA THAN APPEAR IN EITHER THE PRESENT OR PROPOSED CONTRACTS.

A CONCLUSION IS THAT THE FULL OWNERSHIP BENEFITS OF THE 5,000 CRUDE OIL bpd OF ROYALTY OIL ARE NOT AFFORDED TO GVEA, BUT ARE BEING GATHERED IN NPR'S GROSS MARGIN AND IN MAPCO'S CRUDE OIL SALES.

THE MAPCO REFINERY WOULD RECEIVE SIGNIFICANT BENEFITS FROM THE 5,000 BPD GVEA STATE ROYALTY OIL CONTRACT. IN ADDITION, TO RECEIVING THE ESTIMATED NPR GROSS MARGINS OF $8.2 MILLION FROM PRODUCT PRICING, MAPCO RECEIVES TITLE TO THE RETURN OIL. FURTHER, THE SALE OF RETURN OIL AS CRUDE OIL AT VALDEZ MAY NET MAPCO OVER $1.5 MILLION (see section F).

E. REGIONAL BENEFITS

THE PRIMARY BENEFITS FROM THE CONTRACT ARE LIMITED TO GVEA resulting either in a small reduction in power rates or increasing the utilities equity position. THE CONTRACT IGNORES OTHER UTILITIES WHO COULD ALSO BENEFIT BY A REDUCTION IN FUEL PRICES PAID TO NPR. Consequently, the proposed contract compromises the intent of selling State Royalty Oil for in-state use, namely that it benefit all the people. This contract benefits a unique group, GVEA's customers.

Approval of the contract would provide incentive to other utilities to approach the State for royalty oil or even natural gas to receive similar benefits for their members. It is not necessary to be located next door to the NPR refinery to seek a similar arrangement. THE POLICY ISSUE HERE IS HOW MAY THE STATE PROVIDE BENEFITS TO ELECTRIC CONSUMERS WITH POWER GENERATED BY DIESEL OR TURBINE FUELS.

Table Ten and Table Eleven indicate the retail prices for #1 and #2 heating oil as collected by the Fairbanks North Star Borough Community Research Center. Unfortunately, this sole source of retail prices in the Alaska Interior has abandoned its data collection effort and may only perform the retail fuel price survey for September of each year. With the passing of this data set, the ability of the Fairbanks residents to determine the elements of their retail prices is diminished. For the months of available data, the NPR product margin was responsible for up to 37 per cent of the retail price. The NPR gross margin is 26 % of retail price in September 1984.

The other argument for the ratification of the agreements is that by providing NPR with crude oil thru the sale of royalty oil, that the citizens of the NPR region shall receive maximum benefits from this utilization of this natural resource belonging to the State. The above margins for NPR by product indicate an ability to control product pricing over time and control the refineries gross margin over time.

NPR'S INDICATED GROSS MARGIN EXCEEDS LOWER-48 AVERAGES BY UNREASONABLE LEVELS --- MAYBE BY FACTORS GREATER THAN 1,000 PER CENT.

As discussed most U.S. refineries margins today are either negative or very small. NPR DUE TO IT LOWER CRUDE COSTS, CONSTANCY OF SUPPLY AND GEOGRAPHIC ADVANTAGE, APPEARS TO OPERATE WITHOUT COMPETITION. NPR'S PRICING POLICIES ARE UNAFFECTED BY MARKET FORCES AND TRENDS THAT RESULT IN THE LOW EX-REFINERY PRICES SEEN IN THE LOWER-48, BUT NOT IN ALASKA.

F. THE STATE OF ALASKA GENERAL FUND

According to DNR, WHEN THE STATE GAVE UP THE RIGHT TO RETAIN OWNERSHIP OF THE RETURN OIL, MAPCO BECAME INTERESTED IN THE CONTRACT. The return oil is valuable because it is available on a long term basis, at a known price, constant supply and even at a thirty cents premium, profits are to be made.

The best example of these profits was the State's own recent competitive bid royalty oil sale in December 1984 which resulted in premiums above the average weighted delivery point prices:

December 1984 Competitive Royalty Oil Sale

	days	volume	ave premium	high	benefit
Kuparuk	182.5	15,000	$.51	$ .82	$ 1,554,781
Prudhoe	182.5	25,000	$.69	$1.84	$ 2,671,389
Prudhoe	365.0	50,000	$.84	$1.83	$13,331,807

The GVEA contract requires a $.30 premium to be paid on the royalty oil above the average delivery point price. Clearly, if MAPCO was to sell this return oil at the time of the above competitive sale it could receive a price greater than its costs for the GVEA crude oil.

With 5,000 bpd purchased by GVEA/NPR, 2,786 bpd is returned to TAPS and quality penalties are taken care of in NPR margins which yields from the above:

$1.83 pb maximum premium
less $ .30 pb GVEA premium
---
up to $1.53 pb gross margin!

The annual gross margin can be up to $1,550,000 on the return oil! The value of the return oil title can be significant to a crude oil broker.

The State could:

sell the 5,000 bpd at the $.84 pb premium (average) for Prudhoe, [$1,533,000]

place a $.30 pb premium (equal to GVEA) into the general fund [$547,500]

place the $.54 pb remaining premium into the general fund [$985,400] and from which,

WRITE GVEA AN ANNUAL CHECK FOR $500,000 (equal to GVEA's benefits)

and, STILL REALIZE A $485,000 GAIN OVER THE GVEA PROPOSAL.

This latter point implies that the State could realize additional revenues to the General Fund and still give the GVEA its benefits under the proposed contract. THE QUESTION IS WHETHER THIS CONTRACT IS THE BEST OPTION FOR THE STATE AS A WHOLE. MARKETING THE CRUDE ON THE OPEN MARKET MAY YIELD SIGNIFICANTLY LARGER REVENUES THAN THE GVEA PROPOSAL. ALASKANS FAMILIAR WITH MARKETING ANS CRUDE OIL COULD REALIZE EVEN HIGHER GAINS.

The State needs to develop a policy that determines the "weight" of the benefits of an individual proposal that benefits a special group against the maximum benefits that it could receive thru other options.

TRANS-ALASKA PIPELINE CARRIER TARRIFS, $/B

temporary rates from pump station #1 to

destination effective date	owner %	GVEA 6/14/78	VALDEZ 8/20/77	1/1/82	7/1/82	10/19/83	11/1/83	8/1/84
EXXON	.203378	3.76	6.27	5.30	5.30	6.27	6.27	6.27
BP	.166745	3.54	6.35	6.35	5.40	5.40	6.20	6.20
SOHIO	.333363	3.70	6.16	6.16	6.16	6.16	6.16	5.66
ARCO	.213547	3.63	6.04	6.04	6.04	6.04	6.04	6.04
UNION	.01356	3.66	6.09	6.09	6.09	6.09	6.09	6.09
MOBIL	.040845	3.67	6.31	6.31	6.31	6.31	6.31	6.31
AMERADA HESS	.015	3.78	6.44	6.44	6.44	6.44	6.44	6.44
PHILLIPS	.013561	3.86	6.22	6.22	6.22	6.22	6.22	6.22
sum/average	1.000000	3.67	6.20	6.00	5.84	6.04	6.17	6.01

[rates are subject to refund or true-up per AS 42.06.410(b)]

Table One

NORTH POLE REFINERY LANDED CRUDE COSTS, FUEL, QB COSTS

[$ per product barrel]

	crude exhib-B	crude ANS-ave	P/L tariffs	fuel costs	QB c/deg	QB cost	gross costs
JAN80	14.17	14.14	3.85	0.81	8.53	1.28	20.12
FEB	14.79	14.76	3.85	0.84	8.53	1.28	20.76
MAR	15.44	15.40	3.85	0.87	8.53	1.28	21.44
APR	16.06	15.86	3.85	0.90	8.53	1.28	22.09
MAY	16.65	16.11	3.85	0.92	8.53	1.28	22.70
JUN	17.21	16.59	3.85	0.95	8.53	1.28	23.29
JUL	17.03	16.64	3.85	0.94	8.53	1.28	23.10
AUG	17.39	17.02	3.85	0.96	8.53	1.28	23.48
SEPT	17.85	17.41	3.85	0.98	8.53	1.28	23.96
OCT	17.68	17.48	3.85	0.97	8.53	1.28	23.78
NOV	18.88	18.55	3.85	1.02	8.53	1.28	25.04
DEC80	20.21	19.98	3.83	1.08	8.53	1.28	26.40
JAN81	25.42	24.95	3.83	1.32	8.53	1.28	31.85
FEB	26.33	25.59	3.83	1.36	8.53	1.28	32.80
MAR	26.16	25.54	3.83	1.35	8.53	1.28	32.62
APR	25.18	24.73	3.83	1.31	8.53	1.28	31.60
MAY	24.29	23.88	3.83	1.27	8.53	1.28	30.67
JUN	23.93	23.37	3.83	1.25	8.53	1.28	30.29
JUL	23.38	22.70	3.83	1.22	8.53	1.28	29.71
AUG	23.05	22.65	3.83	1.21	8.53	1.28	29.37
SEPT	22.26	22.04	3.83	1.17	8.53	1.28	28.55
OCT	22.22	22.05	3.83	1.17	8.53	1.28	28.51
NOV	22.24	22.05	3.83	1.17	8.53	1.28	28.52
DEC81	21.93	21.80	3.83	1.16	8.53	1.28	28.20
JAN82	21.45	21.18	3.83	1.14	8.53	1.28	27.70
FEB	20.10	19.52	3.83	1.08	8.53	1.28	26.29
MAR	18.83	18.40	3.83	1.02	12.80	1.92	25.60
APR	19.00	18.72	3.83	1.03	12.80	1.92	25.78
MAY	19.03	18.93	3.83	1.03	12.80	1.92	25.81
JUN	20.94	20.36	3.83	1.11	12.80	1.92	27.80
JUL	21.03	20.38	3.83	1.12	12.80	1.92	27.91
AUG	21.01	20.42	3.83	1.12	12.80	1.92	27.88
SEPT	20.82	20.34	3.83	1.11	12.80	1.92	27.68
OCT	20.73	20.25	3.83	1.11	12.80	1.92	27.59
NOV	20.08	19.82	3.83	1.08	12.80	1.92	26.91
DEC82	19.43	19.23	3.83	1.05	12.80	1.92	26.23
JAN83	18.69	18.32	3.83	1.01	18.77	2.82	26.36
FEB	17.70	17.44	3.83	0.97	18.77	2.82	25.32
MAR	17.55	17.33	3.83	0.96	18.77	2.82	25.16
APR	17.49	17.27	3.83	0.96	18.77	2.82	25.10
MAY	17.56	17.33	3.83	0.96	18.77	2.82	25.17
JUN	17.60	17.36	3.83	0.96	18.77	2.82	25.22
JUL	17.77	17.52	3.83	0.97	18.77	2.82	25.39
AUG	18.25	17.80	3.83	0.99	18.77	2.82	25.89
SEPT	18.26	17.78	3.83	0.99	18.77	2.82	25.91
OCT	18.19	17.74	3.83	0.99	18.77	2.82	25.83
NOV	17.97	17.59	3.83	0.98	18.77	2.82	25.60
DEC83	18.03	17.67	3.83	0.98	18.77	2.82	25.67
JAN84	17.85	17.54	3.83	0.98	17.91	2.69	25.34
FEB	17.97	17.58	3.83	0.98	17.91	2.69	25.47
MAR	18.00	17.61	3.83	0.98	17.91	2.69	25.50
APR	18.08	17.70	3.83	0.99	17.91	2.69	25.59
MAY	18.15	17.69	3.83	0.99	17.91	2.69	25.66
JUN	18.12	17.68	3.83	0.99	17.91	2.69	25.62
JUL	18.22	17.84	3.83	0.99	17.50	2.63	25.67
AUG	18.21	17.78	3.83	0.99	17.50	2.63	25.66
SEPT	18.38	18.02	3.83	1.00	17.50	2.63	25.84
OCT	18.27	17.94	3.83	0.99	17.50	2.63	25.72
NOV	18.25	17.96	3.83	0.99	17.50	2.63	25.70
DEC84	17.62	17.45	3.83	0.97	17.50	2.63	25.04
JAN85	17.03	16.90	3.83	0.94	17.50	2.63	24.42

Table Two

NPR EX-REFINERY POSTINGS

cents/gal

	gross costs	HO#1	HO#2	JET A1	JET B	TURBINE
JAN80	47.90	67.98	64.23	85.40	NA	NA
FEB	49.43	70.28	66.53	90.68	NA	NA
MAR	51.06	72.15	68.40	91.06	NA	NA
APR	52.60	72.15	68.40	91.06	NA	NA
MAY	54.05	74.86	71.11	91.06	NA	NA
JUN	55.45	79.15	75.40	93.06	NA	NA
JUL	55.01	82.60	78.70	97.32	NA	NA
AUG	55.90	87.50	82.40	100.33	NA	NA
SEPT	57.05	90.50	84.60	99.43	NA	NA
OCT	56.62	90.50	84.60	101.07	NA	NA
NOV	59.62	93.50	86.70	101.36	NA	NA
DEC80	62.86	95.50	88.40	NA	NA	NA
JAN81	75.84	95.48	90.64	94.91	92.41	85.60
FEB	78.09	103.25	98.25	100.38	97.88	85.60
MAR	77.66	106.63	101.63	103.55	101.05	85.60
APR	75.23	107.40	102.40	108.00	105.50	85.60
MAY	73.03	104.40	102.40	108.00	105.50	85.60
JUN	72.11	104.40	102.40	108.00	105.50	85.60
JUL	70.75	104.40	102.40	108.00	105.50	85.60
AUG	69.93	104.40	102.40	108.00	105.50	85.60
SEPT	67.97	104.40	102.40	108.00	105.50	85.60
OCT	67.87	110.11	105.11	109.81	107.31	107.90
NOV	67.91	110.40	105.40	110.00	107.50	107.90
DEC81	67.14	110.40	105.40	110.00	107.50	107.90
JAN82	65.95	110.40	105.40	108.95	106.45	107.90
FEB	62.59	110.40	105.40	108.95	106.45	107.90
MAR	60.96	106.75	101.75	108.95	106.45	107.90
APR	61.39	105.40	100.40	106.92	104.42	107.90
MAY	61.46	103.00	98.00	102.75	100.25	100.65
JUN	66.20	103.00	98.00	102.75	100.25	92.93
JUL	66.44	97.50	92.50	102.75	100.25	86.50
AUG	66.39	97.50	92.50	102.75	100.25	86.50
SEPT	65.91	97.50	92.50	102.75	100.25	86.50
OCT	65.68	97.50	92.50	102.75	100.25	86.50
NOV	64.07	97.50	92.50	102.75	100.25	86.50
DEC82	62.45	97.50	92.50	102.75	100.25	86.50
JAN83	62.75	97.11	92.11	102.30	99.80	86.11
FEB	60.29	94.71	89.71	99.86	97.36	67.64
MAR	59.91	90.77	85.77	96.79	94.29	56.39
APR	59.75	90.00	85.00	95.50	93.00	56.00
MAY	59.93	90.00	85.00	95.50	93.00	56.00
JUN	60.04	90.00	85.00	95.50	93.00	56.00
JUL	60.46	90.00	85.00	95.50	93.00	56.00
AUG	61.65	90.00	85.00	95.50	93.00	56.00
SEPT	61.68	90.00	85.00	95.50	93.00	56.00
OCT	61.50	90.00	85.00	95.50	93.00	56.00
NOV	60.95	90.00	85.00	95.50	93.00	56.00
DEC83	61.11	90.00	85.00	95.50	93.00	56.26
JAN84	60.34	90.74	86.48	95.50	93.00	58.00
FEB	60.65	91.00	87.00	95.50	93.00	58.00
MAR	60.71	91.00	87.00	95.50	93.00	58.00
APR	60.93	91.00	87.00	95.50	93.00	58.00
MAY	61.09	91.00	87.00	95.50	93.00	58.00
JUN	61.01	91.00	87.00	95.50	97.00	59.80
JUL	61.13	91.00	87.00	95.50	97.00	59.80
AUG	61.10	91.37	87.37	95.50	97.00	61.80
SEPT	61.53	91.50	87.50	95.50	97.00	62.50
OCT	61.23	91.50	87.50	95.50	97.00	62.50
NOV	61.19	91.50	87.50	95.50	97.00	62.50
DEC84	59.63	91.50	87.50	95.50	97.00	62.50
JAN85	58.15	90.53	86.85	95.50	97.00	62.50

Table Three

GVEA TURBINE FUEL COSTS COMPARISION

	product fee	assign. fee	barrel reduct.	savings month	
JAN80	NA	NA	NA	NA	
FEB	NA	NA	NA	NA	
MAR	NA	NA	NA	NA	
APR	NA	NA	NA	NA	
MAY	3.31	1.25	2.06	39879	
JUN	3.33	1.26	2.07	38780	
JUL	3.35	1.27	2.08	40335	
AUG	3.37	1.28	2.09	40570	
SEP	3.37	1.28	2.10	39315	
OCT	3.42	1.30	2.12	41124	
NOV	3.43	1.30	2.13	39891	
DEC80	3.45	1.31	2.14	41497	
				sum =	321391
JAN81	3.50	1.33	2.17	41981	
FEB	3.51	1.34	2.18	38093	
MAR	3.53	1.34	2.19	42369	
APR	3.57	1.36	2.21	41430	
MAY	3.58	1.37	2.22	42963	
JUN	3.59	1.37	2.22	41658	
JUL	3.61	1.38	2.23	43254	
AUG	3.62	1.38	2.24	43406	
SEP	3.63	1.38	2.24	42046	
OCT	3.65	1.40	2.26	43766	
NOV	3.66	1.40	2.26	42394	
DEC81	3.66	1.40	2.26	43862	
				annual =	507222
JAN82	3.68	1.41	2.28	44098	
FEB	3.69	1.41	2.28	39880	
MAR	3.69	1.41	2.28	44181	
APR	3.70	1.41	2.28	42836	
MAY	3.71	1.42	2.29	44333	
JUN	3.70	1.42	2.29	42849	
JUL	3.70	1.42	2.29	44291	
AUG	3.70	1.42	2.29	44305	
SEP	3.70	1.42	2.29	42862	
OCT	3.73	1.43	2.30	44554	
NOV	3.73	1.43	2.30	43117	
DEC82	3.73	1.43	2.30	44623	
				annual =	521928
JAN83	3.74	1.43	2.31	44692	
FEB	3.76	1.44	2.32	40567	
MAR	3.76	1.44	2.32	44900	
APR	3.76	1.44	2.32	43545	
MAY	3.77	1.45	2.33	45080	
JUN	3.78	1.45	2.33	43692	
JUL	3.79	1.45	2.34	45301	
AUG	3.80	1.46	2.34	45384	
SEP	3.79	1.45	2.34	43866	
OCT	3.82	1.46	2.35	45578	
NOV	3.82	1.47	2.36	44161	
DEC83	3.83	1.47	2.36	45730	
				annual =	532496
JAN84	3.84	1.48	2.37	45886	
FEB	3.86	1.48	2.38	41629	
MAR	3.88	1.49	2.39	46255	
APR	3.89	1.50	2.40	44910	
MAY	3.89	1.50	2.40	46407	
JUN	3.89	1.50	2.40	44924	
JUL	3.90	1.50	2.40	46463	
AUG	3.89	1.50	2.40	46435	
SEP	3.89	1.49	2.39	44870	
OCT	3.90	1.50	2.40	46504	
NOV	3.90	1.50	2.40	45004	
DEC84	3.90	1.50	2.40	46560	
				annual =	545849

Table Four

GVEA TURBINE COST COMPARISON DATA

crude costs and Amerada Hess

	ave ANS crude	GVEA crude	exh-b crude	exh-B + GVEA	amerada hess	A-H sum month
JAN80	14.14	14.44	14.17	14.20	0.03	553
FEB	14.76	15.06	14.79	14.82	0.03	531
MAR	15.40	15.70	15.44	15.47	0.04	882
APR	15.86	16.16	16.06	16.07	0.18	3899
MAY	16.11	16.41	16.65	16.62	0.47	10294
JUN	16.59	16.89	17.21	17.17	0.55	11592
JUL	16.64	16.94	17.03	17.02	0.35	7674
AUG	17.02	17.32	17.39	17.38	0.33	7201
SEP	17.41	17.71	17.85	17.84	0.39	8306
OCT	17.48	17.78	17.68	17.69	0.18	3832
NOV	18.55	18.85	18.88	18.88	0.29	6167
DEC80	19.98	20.28	20.21	20.22	0.20	4386
					annual	65316
JAN81	24.95	25.25	25.42	25.40	0.42	9069
FEB	25.59	25.89	26.33	26.28	0.65	12830
MAR	25.54	25.84	26.16	26.12	0.54	11852
APR	24.73	25.03	25.18	25.16	0.40	8356
MAY	23.88	24.18	24.29	24.28	0.37	7996
JUN	23.37	23.67	23.93	23.90	0.50	10467
JUL	22.70	23.00	23.38	23.33	0.60	13167
AUG	22.65	22.95	23.05	23.04	0.35	7734
SEP	22.04	22.34	22.26	22.27	0.20	4185
OCT	22.05	22.35	22.22	22.23	0.16	3394
NOV	22.05	22.35	22.24	22.25	0.16	3411
DEC81	21.80	22.10	21.93	21.95	0.12	2554
					annual	95015
JAN82	21.18	21.48	21.45	21.45	0.24	5223
FEB	19.52	19.82	20.10	20.07	0.52	10154
MAR	18.40	18.70	18.83	18.82	0.38	8292
APR	18.72	19.02	19.00	19.01	0.25	5268
MAY	18.93	19.23	19.03	19.05	0.09	1933
JUN	20.36	20.66	20.94	20.91	0.51	10727
JUL	20.38	20.68	21.03	20.99	0.58	12636
AUG	20.42	20.72	21.01	20.98	0.52	11387
SEP	20.34	20.64	20.82	20.80	0.43	9008
OCT	20.25	20.55	20.73	20.71	0.43	9328
NOV	19.82	20.12	20.08	20.08	0.23	4844
DEC82	19.23	19.53	19.43	19.44	0.18	3848
					annual	92646
JAN83	18.32	18.62	18.69	18.68	0.33	7233
FEB	17.44	17.74	17.70	17.71	0.23	4554
MAR	17.33	17.63	17.55	17.56	0.19	4233
APR	17.27	17.57	17.49	17.50	0.20	4122
MAY	17.33	17.63	17.56	17.57	0.20	4372
JUN	17.36	17.66	17.60	17.61	0.22	4629
JUL	17.52	17.82	17.77	17.78	0.23	4994
AUG	17.80	18.10	18.25	18.23	0.40	8676
SEP	17.78	18.08	18.26	18.24	0.43	8992
OCT	17.74	18.04	18.19	18.17	0.40	8317
NOV	17.59	17.89	17.97	17.96	0.34	7126
DEC83	17.67	17.97	18.03	18.03	0.32	7033
					annual	74780
JAN84	17.54	17.84	17.85	17.85	0.28	6067
FEB	17.58	17.88	17.97	17.96	0.35	6878
MAR	17.61	17.91	18.00	17.99	0.34	7421
APR	17.70	18.00	18.08	18.07	0.34	7239
MAY	17.69	17.99	18.15	18.13	0.41	8919
JUN	17.68	17.98	18.12	18.10	0.39	8161
JUL	17.84	18.14	18.22	18.22	0.34	7461
AUG	17.78	18.08	18.21	18.20	0.39	8417
SEP	18.02	18.32	18.38	18.38	0.32	6825
OCT	17.94	18.24	18.27	18.26	0.29	6233
NOV	17.96	18.26	18.25	18.25	0.26	5391
DEC84	17.45	17.75	17.62	17.64	0.15	3322
					annual	82333
JAN85	16.90	17.20	17.03	17.05	0.11	2355

Table Five

NPR GROSS MARGINS PER BARREL PRODUCT

[ex-refinery postings less landed crude, fuel, and QB costs]

	HO#1	HO#2	JET A1	JET B	Turbine	gross margin
JAN80	8.44	6.86	15.75	NA	NA	NA
FEB	8.76	7.18	17.32	NA	NA	NA
MAR	8.86	7.28	16.80	NA	NA	NA
APR	8.21	6.64	16.15	NA	NA	NA
MAY	8.74	7.17	15.55	NA	NA	NA
JUN	9.96	8.38	15.80	NA	NA	NA
JUL	11.59	9.96	17.77	NA	NA	NA
AUG	13.27	11.13	18.66	NA	NA	NA
SEPT	14.06	11.57	17.80	NA	NA	NA
OCT	14.23	11.75	18.67	NA	NA	NA
NOV	14.23	11.37	17.53	NA	NA	NA
DEC80	13.71	10.73	NA	NA	NA	NA
JAN81	8.25	6.22	8.01	6.96	4.10	6.38
FEB	10.57	8.47	9.36	8.31	3.15	7.29
MAR	12.17	10.07	10.87	9.82	3.34	8.41
APR	13.51	11.41	13.76	12.71	4.36	10.23
MAY	13.18	12.34	14.69	13.64	5.28	10.92
JUN	13.56	12.72	15.07	14.02	5.67	11.30
JUL	14.13	13.29	15.65	14.60	6.24	11.88
AUG	14.48	13.64	15.99	14.94	6.58	12.22
SEPT	15.30	14.46	16.81	15.76	7.41	13.04
OCT	17.74	15.64	17.61	16.56	16.81	16.93
NOV	17.85	15.75	17.68	16.63	16.80	16.98
DEC81	18.17	16.07	18.00	16.95	17.12	17.30
JAN82	18.67	16.57	18.06	17.01	17.62	17.64
FEB	20.08	17.98	19.47	18.42	19.03	19.05
MAR	19.23	17.13	20.15	19.10	19.71	19.26
APR	18.48	16.38	19.12	18.07	19.53	18.59
MAY	17.45	15.35	17.34	16.29	16.46	16.63
JUN	15.46	13.36	15.35	14.30	11.23	13.60
JUL	13.04	10.94	15.25	14.20	8.42	11.92
AUG	13.07	10.97	15.27	14.22	8.45	11.95
SEPT	13.27	11.17	15.47	14.42	8.65	12.15
OCT	13.36	11.26	15.57	14.52	8.74	12.24
NOV	14.04	11.94	16.25	15.20	9.42	12.92
DEC82	14.72	12.62	16.93	15.88	10.10	13.60
JAN83	14.43	12.33	16.61	15.56	9.81	13.30
FEB	14.46	12.36	16.62	15.57	3.09	11.18
MAR	12.96	10.86	15.49	14.44	-1.48	8.84
APR	12.70	10.60	15.01	13.96	-1.58	8.55
MAY	12.63	10.53	14.94	13.89	-1.65	8.48
JUN	12.58	10.48	14.89	13.84	-1.70	8.43
JUL	12.41	10.31	14.72	13.67	-1.87	8.25
AUG	11.91	9.81	14.22	13.17	-2.37	7.75
SEPT	11.89	9.79	14.20	13.15	-2.39	7.74
OCT	11.97	9.87	14.28	13.23	-2.31	7.82
NOV	12.20	10.10	14.51	13.46	-2.08	8.05
DEC83	12.13	10.03	14.44	13.39	-2.04	8.01
JAN84	12.77	10.98	14.77	13.72	-0.98	8.71
FEB	12.75	11.07	14.64	13.59	-1.11	8.63
MAR	12.72	11.04	14.61	13.56	-1.14	8.60
APR	12.63	10.95	14.52	13.47	-1.23	8.51
MAY	12.56	10.88	14.45	13.40	-1.30	8.44
JUN	12.60	10.92	14.49	15.12	-0.51	9.03
JUL	12.55	10.87	14.44	15.07	-0.56	8.98
AUG	12.72	11.04	14.45	15.08	0.30	9.31
SEPT	12.59	10.91	14.27	14.90	0.41	9.24
OCT	12.71	11.03	14.39	15.02	0.53	9.36
NOV	12.73	11.05	14.41	15.04	0.55	9.38
DEC84	13.39	11.71	15.07	15.70	1.21	10.04
JAN85	13.60	12.06	15.69	16.32	1.83	10.55

Table Six

NPR TYPICAL GROSS MARGIN PER PRODUCT BARREL

[ex-refinery postings less landed crude, fuel, $ QB

month	* = $1	gross margin
JAN81	******	6.38
FEB	*******	7.29
MAR	********	8.4
APR	**********	10.22
MAY	**********	10.91
JUN	**********	11.3
JUL	**********	11.87
AUG	**********	12.21
SEP	**********	13.04
OCT	**********	16.92
NOV	**********	16.98
DEC81	**********	17.3
JAN82	**********	17.63
FEB	**********	19.05
MAR	**********	19.25
APR	**********	18.58
MAY	**********	16.62
JUN	**********	13.6
JUL	**********	11.92
AUG	**********	11.94
SEP	**********	12.14
OCT	**********	12.24
NOV	**********	12.92
DEC82	**********	13.59
JAN83	**********	13.3
FEB	**********	11.17
MAR	********	8.83
APR	********	8.55
MAY	********	8.47
JUN	********	8.42
JUL	********	8.25
AUG	*******	7.75
SEP	*******	7.73
OCT	*******	7.81
NOV	********	8.04
DEC83	********	8.01
JAN84	********	8.7
FEB	********	8.62
MAR	********	8.59
APR	********	8.5
MAY	********	8.44
JUN	*********	9.03
JUL	********	8.98
AUG	*********	9.31
SEP	*********	9.24
OCT	*********	9.36
NOV	*********	9.38
DEC84	**********	10.03
JAN85	**********	10.55

NORTH POLE REFINERY PRODUCT MARGINS
[using January 1985 markups]

	HO#1	HO#2	JET A1	JET B	HAGO	TOTAL
BPD	392	278	392	407	685	2154
MU, $/B	13.60	12.06	15.69	16.32	1.83	10.55
GMU,day	5331	3352	6149	6641	1251	22725
GMU,mon	162164	101944	187041	201998	38066	691212
GMU,yr	1945965	1223325	2244494	2423970	456793	8294548

Royalty Oil Production, annual

gross margin	5000 bpd	= $	8294548
gross margin	35000 bpd	= $	58061833
gross margin	40000 bpd	= $	66356380

Refinery Total Production, annual

gross margin	45000 bpd	= $	74650928

Table Eight

NPR #1 HEATING OIL MARKUP PER BARREL

[ex-refinery posting less landed crude, fuel, $ QB]

month	* = $ 1	$/B, mark-up
JAN80	********	8.44
FEB	********	8.76
MAR	********	8.86
APR	********	8.21
MAY	********	8.74
JUN	*********	9.95
JUL	**********	11.59
AUG	**********	13.27
SEP	**********	14.05
OCT	**********	14.23
NOV	**********	14.23
DEC80	**********	13.71
JAN81	********	8.25
FEB	*********	10.57
MAR	**********	12.17
APR	**********	13.51
MAY	**********	13.18
JUN	**********	13.56
JUL	**********	14.13
AUG	**********	14.48
SEP	**********	15.30
OCT	**********	17.74
NOV	**********	17.85
DEC81	**********	18.17
JAN82	**********	18.67
FEB	**********	20.08
MAR	**********	19.23
APR	**********	18.48
MAY	**********	17.45
JUN	**********	15.46
JUL	**********	13.04
AUG	**********	13.07
SEP	**********	13.27
OCT	**********	13.36
NOV	**********	14.04
DEC82	**********	14.72
JAN83	**********	14.43
FEB	**********	14.46
MAR	**********	12.96
APR	**********	12.70
MAY	**********	12.63
JUN	**********	12.58
JUL	**********	12.41
AUG	**********	11.91
SEP	**********	11.89
OCT	**********	11.97
NOV	**********	12.20
DEC83	**********	12.13
JAN84	**********	12.77
FEB	**********	12.75
MAR	**********	12.72
APR	**********	12.63
MAY	**********	12.56
JUN	**********	12.60
JUL	**********	12.55
AUG	**********	12.72
SEP	**********	12.59
OCT	**********	12.71
NOV	**********	12.73
DEC84	**********	13.39
JAN85	**********	13.60

FAIRBANKS #1 HEATING OIL

	c/gal			gross	npr
	gross costs	npr markup	retail price	costs % retail	markup % retail
JAN80	47.90	20.08	84.20	57	24
FEB	49.43	20.86	87.00	57	24
MAR	51.06	21.09	90.70	56	23
APR	52.60	19.55	90.90	58	22
MAY	54.05	20.81	98.20	55	21
JUN	55.45	23.70	98.30	56	24
JUL	55.01	27.59	101.90	54	27
AUG	55.90	31.60	106.80	52	30
SEPT	57.05	33.45	109.60	52	31
OCT	56.62	33.88	109.80	52	31
NOV	59.62	33.88	112.80	53	30
DEC80	62.86	32.64	114.30	55	29
JAN81	75.84	19.65	117.80	64	17
FEB	78.09	25.16	124.20	63	20
MAR	77.66	28.97	127.20	61	23
APR	75.23	32.17	127.10	59	25
MAY	73.03	31.37	127.10	57	25
JUN	72.11	32.29	127.10	57	25
JUL	70.75	33.65	127.10	56	26
AUG	69.93	34.47	127.20	55	27
SEPT	67.97	36.43	127.10	53	29
OCT	67.87	42.24	130.60	52	32
NOV	67.91	42.49	130.50	52	33
DEC81	67.14	43.26	130.50	51	33
JAN82	65.95	44.45	130.60	51	34
FEB	62.59	47.81	130.70	48	37
MAR	60.96	45.79	126.70	48	36
APR	61.39	44.01	125.70	49	35
MAY	61.46	41.54	123.80	50	34
JUN	66.20	36.80	123.30	54	30
JUL	66.44	31.06	121.90	55	25
AUG	66.39	31.11	121.90	54	26
SEPT	65.91	31.59	121.70	54	26
OCT	65.68	31.82	121.30	54	26
NOV	64.07	33.43	121.20	53	28
DEC82	62.45	35.05	121.20	52	29
JAN83	62.75	34.36	121.10	52	28
FEB	60.29	34.43	120.20	50	29
MAR	59.91	30.86	118.80	50	26
APR	59.75	30.25	115.00	52	26
MAY	59.93	30.07	115.00	52	26
JUN	60.04	29.96	114.90	52	26
JUL	60.46	29.54	NA	NA	NA
AUG	61.65	28.35	NA	NA	NA
SEPT	61.68	28.32	114.80	54	25
OCT	61.50	28.50	NA	NA	NA
NOV	60.95	29.05	NA	NA	NA
DEC83	61.11	28.89	114.50	53	25
JAN84	60.34	30.40	NA	NA	NA
FEB	60.65	30.35	NA	NA	NA
MAR	60.71	30.29	NA	NA	NA
APR	60.93	30.07	NA	NA	NA
MAY	61.09	29.91	NA	NA	NA
JUN	61.01	29.99	NA	NA	NA
JUL	61.13	29.87	NA	NA	NA
AUG	61.10	30.27	NA	NA	NA
SEPT	61.53	29.97	115.30	53	26
OCT	61.23	30.27	NA	NA	NA
NOV	61.19	30.31	NA	NA	NA
DEC84	59.63	31.87	NA	NA	NA
JAN85	58.15	32.38	NA	NA	NA

Table Ten

FAIRBANKS #2 HEATING OIL

	.....c/gal.....			gross	npr
	gross costs	npr markup	retail price	costs % retail	markup % retail
JAN80	47.90	16.33	79.10	60.55	21
FEB	49.43	17.11	81.70	60.50	21
MAR	51.06	17.34	85.10	60.00	20
APR	52.60	15.80	85.10	61.81	19
MAY	54.05	17.06	92.70	58.30	18
JUN	55.45	19.95	93.00	59.63	21
JUL	55.01	23.69	96.30	57.13	25
AUG	56.90	26.50	101.00	55.35	26
SEPT	57.05	27.55	103.10	55.34	27
OCT	56.62	27.98	103.50	54.70	27
NOV	59.62	27.08	105.60	56.46	26
DEC80	62.86	25.54	107.30	58.59	24
JAN81	75.84	14.81	111.00	68.32	13
FEB	78.09	20.16	117.40	66.52	17
MAR	77.66	23.97	120.60	64.39	20
APR	75.23	27.17	120.70	62.33	23
MAY	73.03	29.37	120.60	60.56	24
JUN	72.11	30.29	120.60	59.79	25
JUL	70.75	31.65	120.70	58.61	26
AUG	69.93	32.47	120.80	57.89	27
SEPT	67.97	34.43	120.40	56.45	29
OCT	67.87	37.24	124.20	54.65	30
NOV	67.91	37.49	123.20	55.12	30
DEC81	67.14	38.26	123.60	54.32	31
JAN82	65.95	39.45	123.60	53.36	32
FEB	62.59	42.81	123.80	50.55	35
MAR	60.96	40.79	120.10	50.76	34
APR	61.39	39.01	118.70	51.72	33
MAY	61.46	36.54	117.00	52.53	31
JUN	66.20	31.80	117.10	56.53	27
JUL	66.44	26.06	114.30	58.13	23
AUG	66.39	26.11	114.80	57.83	23
SEPT	65.91	26.59	114.60	57.51	23
OCT	65.68	26.82	114.40	57.41	23
NOV	64.07	28.43	113.90	56.25	25
DEC82	62.45	30.05	113.90	54.83	26
JAN83	62.75	29.36	114.00	55.04	26
FEB	60.29	29.43	113.40	53.16	26
MAR	59.91	25.86	111.70	53.63	23
APR	59.75	25.25	107.80	55.43	23
MAY	59.93	25.07	107.80	55.59	23
JUN	60.04	24.96	107.80	55.70	23
JUL	60.46	24.54	NA	NA	NA
AUG	61.65	23.35	NA	NA	NA
SEPT	61.68	23.32	107.80	57.22	22
OCT	61.50	23.50	NA	NA	NA
NOV	60.95	24.05	NA	NA	NA
DEC83	61.11	23.89	107.80	56.69	22
JAN84	60.34	26.14	NA	NA	NA
FEB	60.65	26.35	NA	NA	NA
MAR	60.71	26.29	NA	NA	NA
APR	60.93	26.07	NA	NA	NA
MAY	61.09	25.91	NA	NA	NA
JUN	61.01	25.99	NA	NA	NA
JUL	61.13	25.87	NA	NA	NA
AUG	61.10	26.27	NA	NA	NA
SEPT	61.53	25.97	109.20	56.34	24
OCT	61.23	26.27	NA	NA	NA
NOV	61.19	26.31	NA	NA	NA
DEC84	59.63	27.87	NA	NA	NA
JAN85	58.15	28.70	NA	NA	NA

Table Eleven

SCOMM

#46:18

Alaska State Legislature

COMMITTEES

Committee on Community and Regional Affairs
Committee on Transportation
Special Committee on Oil and Gas
Special Committee on Fisheries
Finance Sub-committee on Fish and Game

Andre Marrou
Representative

February 28, 1986

To: Mike Davis, Chairman House Oil & Gas
From: Andre Marrou, Representative

Subject: HB 339 Fiscal Note

Here is the fiscal note for work draft of HB 339 dated Feb. 7.

I would like to point out that the revenue projections here, in my opinion, are severely under valued.

The preparer of the fiscal note took the position that the only increased revenue realized from HB 339 would come from section 4 of the bill which would limit new debt and new debt service by the North Slope Borough. Absent from the note are the increased revenues that would go to the State as the North Slope Borough retires its huge debt burden. This would be a direct result of section 2 of the bill.

According to the preparer of the fiscal note, if the North Slope Borough did not have plans to issue any new debt, there wouldn't be any fiscal implication at all. This is simply not true. If HB 339 were in effect today, the State would take in one half of a $234,511,201 assessment --or $117,225,600-- instead of $19,112,663.[1] The rest --or$215,398,538-- went to pay for North Slope Borough debt service.

The preparer of the fiscal note also assumed the North Slope Borough's new debt issue forecast to be credible.[2] However, experience shows that, as far as the North Slope Borough is concerned, the sky is the limit.

The property tax payers plan to invest another $6,000,000,000 into Prudhoe Bay this summer. This should approximately increase the assessed value of Prudhoe Bay $12,000,000,000 to $18,000,000,000. That's 18 billion dollars of value that we are going to assess a 20 mill tax! This equals $360 million dollars of potential State revenue that the North Slope Borough can siphon off, as it has done in the past, by issuing new debt. Therefore, the modest new debt forecasts for the North Slope Borough, outlined in line 7 of the 3rd page of this fiscal note, do not seem credible.

This bill has the potential of bringing in HUNDREDS OF MILLIONS of dollars in increased State revenue as the North Slope Borough pays off its current debt sometime between 1991 and 1996. This will be done with no increase in taxes on the oil and gas industry

[1] Based upon 1984 assessments.
[2] From the North Slope Borough's Capital Improvement Program FY 1986-1991, Table 14

During Session: P. O. Box V, Juneau, Alaska 99811, (907) 465-2719 During Interim: Box 1572, Homer, Alaska 99603, (907) 235-8262

STATE OF ALASKA 1986 LEGISLATIVE SESSION
FISCAL NOTE

Revision Date: _____

REQUEST
Bill/Resolution No: CS SS HB 339
Title: Limitation of oil and gas municipal property taxes to pay for bonds
Sponsor: Marrou
Requestor: House Oil & Gas
Date of Request: February 17, 1986

FISCAL DETAIL
Agency Affected: _____
BRU: _____
Components: _____

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 86	FY 87	FY 88	FY 89	FY 90	FY 91
OPERATING						
PERSONAL SERVICES	-	-	-	-	-	-
TRAVEL	-	-	-	-	-	-
CONTRACTUAL	-	-	-	-	-	-
SUPPLIES	-	-	-	-	-	-
EQUIPMENT	-	-	-	-	-	-
LANDS & STRUCTURES	-	-	-	-	-	-
GRANTS, CLAIMS	-	-	-	-	-	-
MISCELLANEOUS	-	-	-	-	-	-
TOTAL OPERATING	-	-	-	-	-	-
CAPITAL	-	-	-	-	-	-
REVENUE	10,500	17,700	17,100	28,100	55,600	51,100

FUNDING: (Thousands of Dollars)

GENERAL FUND	10,500	17,700	17,100	28,100	55,600	51,100
FEDERAL FUNDS	-	-	-	-	-	-
OTHER	-	-	-	-	-	-
TOTAL	10,500	17,700	17,100	28,000	55,600	51,100

POSITIONS:

FULL-TIME	-	-	-	-	-	-
PART-TIME	-	-	-	-	-	-
TEMPORARY	-	-	-	-	-	-

ANALYSIS: See attached analysis.

Prepared By: Milt Barker MB
Division: Treasury
Phone: 465-2350
Date: February 20, 1986

Approved by Commissioner: Norm A. Sisdale
Date: 2/21/86
Agency: Department of Revenue

Distribution (by Agency preparing fiscal note):
Legislative Finance
Legislative Sponsor
Requestor
Office of Management and Budget
Impacted Agency(ies)

10/25/85

CS SS HB 339
Fiscal Note Analysis

The only municipality possibly affected by CS SS HB 339 is the North Slope Borough as detailed in the attached table. However, there are two major loopholes in the CS that could mean the State would receive no additional revenue from property in the North Slope Borough.

First, the exemption for refunding bonds means that potentially no levies for existing debt would count toward the limit and therefore the second sentence of section 4 of the bill would not operate to limit issuance of new debt. This is because refunded debt is paid from the proceeds of refunding debt, not tax levies, and tax levies for the refunding debt are exempt. Thus, a municipality could wipe the slate clean as far as the limit is concerned by refunding all its debt. Technically, this could be fixed in the bill by putting the refunding exemption in a separate section and amending section 4.

The second loophole, to the extent the bill is meant to control debt issuance, is school debt. Since the State may pay 80 percent, 90 percent, or 100 percent of school debt service the major portion of such debt can be exempt from the limit in this bill. However, passage of HB 520 would limit State payments in the future for school debt.

CS SS HB 339 should not affect Valdez since the only new debt planned for issuance by Valdez is $24 million of bonds to redeem bond anticipation notes maturing March 1, 1988. These bonds would be exempt from the 10 mill limit of SS HB 339 by virtue of the bill's exemption for refunding bonds.

The limit would not affect other communities with oil and gas property because 10 mills would support far more debt than is outstanding, or at least more than is outstanding excluding school debt.

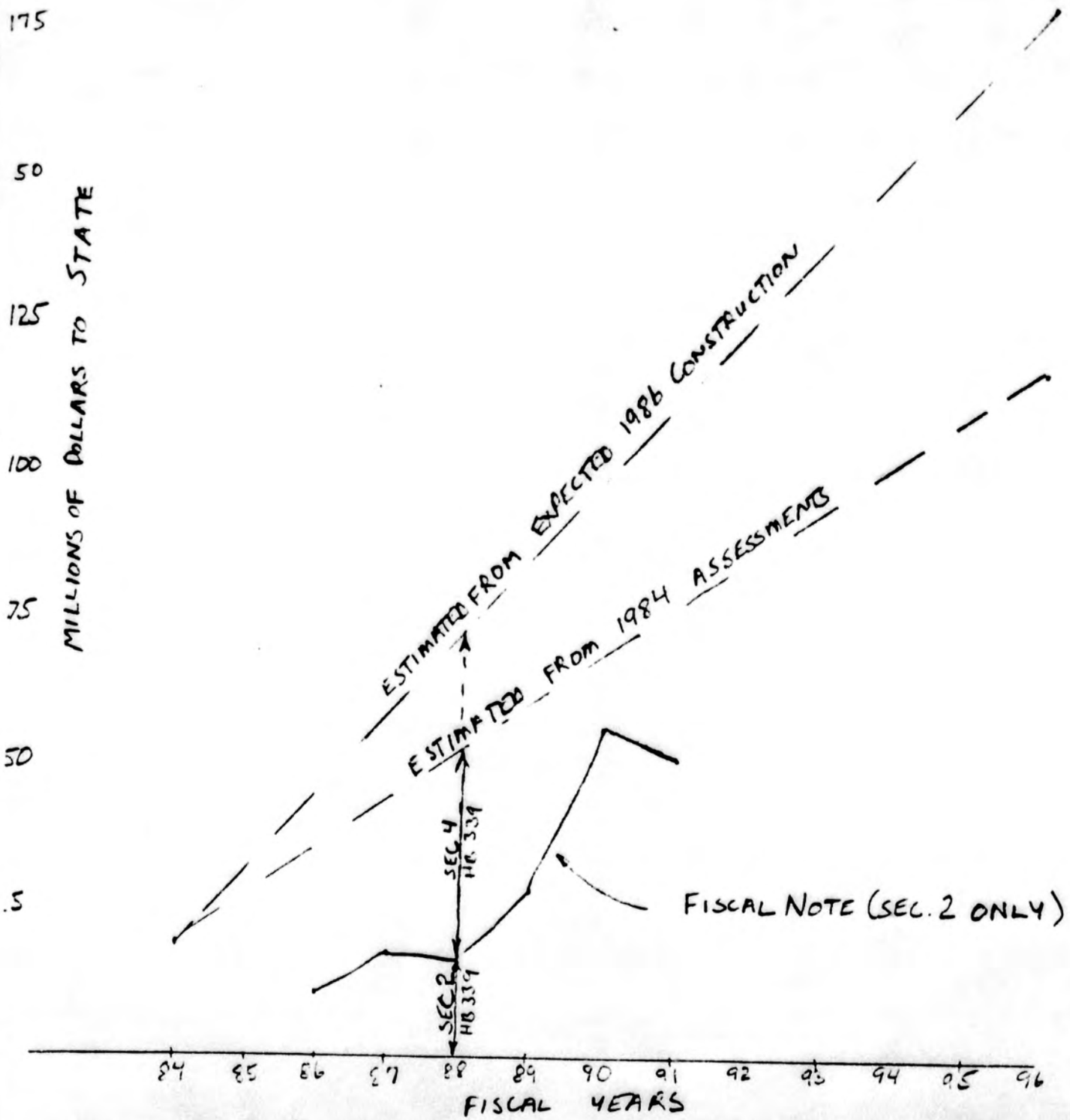
Additional State Revenue
Due to
Limitation of CS SS HB 339 on North Slope Borough
($ Millions)

		FY 86	FY 87	FY 88	FY 89	FY 90	FY 91
	Full Property Value						
(1)	State Assessed	12,563.3	13,000.0	13,500.0	13,500.0	13,500.0	13,500.0
(2)	Local Assessed	313.5	313.5	313.5	313.5	313.5	313.5
(3)	Total Full Value	12,876.8	13,313.5	13,813.5	13,813.5	13,813.5	13,813.5
(4)	Limit on Taxable Value	2,397.1	2,397.1	2,397.1	2,397.1	2,397.1	2,397.1
(5)	10 Mill Limit on Debt Service	23.4	23.4	23.4	23.4	23.4	23.4
(6)	Debt Service on Outstanding Debt (as to be partially refunded)	202.3	212.1	219.7	211.7	198.5	188.6
(7)	New Debt to be Issued	52.9	28.0	28.0	154.0	-	-
(8)	Debt Service on New Debt	10.5	17.7	17.1	28.1	55.6	51.1
(9)	Additional State Revenue	10.5	17.7	17.1	28.1	55.6	51.1

Notes:

(1 & 2) January 1, 1985 values from Alaska Taxable 1985, Department of Community and Regional Affairs
(3) Rows (1) and (2)
(4) 1985 statewide average full value of $86,322 multiplied by 225% multiplied by 12,342 1985 North Slope Borough population
(5) 1% of row ((4) ÷ Row (3)) x Row (1)
(6) From North Slope Borough Capital Improvements Program FY 1986 - FY 1991, Table 15, Column G minus Row 8 of this table.
(7 & 8) From North Slope Borough Capital Improvements Program FY 1986 - FY 1991, Table 14
(9) Row 8

EFFECTS OF HB 339 ON STATE REVENUES



Alaska State Legislature

COMMITTEES

Committee on Community and Regional Affairs
Committee on Transportation
Special Committee on Oil and Gas
Special Committee on Fisheries
Finance Sub-committee on Fish and Game

Andre Marrou
Representative

District 5

Kenai	Sterling
Soldotna	Anchor Point
Homer	Port Graham
Seldovia	English Bay
Kachemak	Nikolaevsk
Kasilof	Halibut Cove
Ninilchik	Clam Gulch

January 10, 1986

To: Mike Davis, Chairman, Oil & Gas Committee
From: Andre Marrou
Subject: SSHB 339, Limiting Municipal Oil & Gas Property Taxes

Thank you for your letter of December 18 requesting backup material for SSHB 339. Following is a brief synopsis of my intent and how the bill works.

Current State Law allows an oil and gas property tax payer to credit against their state obligation of 20 mills (AS 43.56.010a) all local taxes (AS 43.56.010d) on oil and gas property covered by AS 43.56. This has the effect of shifting a State-imposed property tax to municipal coffers.

The current property tax rate in the North Slope Borough is 18.4 mills, Valdez is 11.7 and the Kenai Peninsula Borough is 2.5 mills. The North Slope property tax appears excessive. Certainly, it is costing the State hundreds of millions of dollars (see attached chart). For example, the State's share of property tax has fallen drastically from 48% to 8% in five years. Meanwhile, the North Slope Borough's share has skyrocketed from 52% to 92%.

It would appear that the intent of the State's oil and gas property tax law was not to allow the North Slope Borough to finance an astronomical debt ($97,373 per capita) and possibly jeopardize the State's bond rating should they default in these times of decreasing oil revenues. Note that, of the 20 mill State imposed property tax on Prudhoe Bay property, 18.4 of it goes to the North Slope Borough.

The residents of the North Slope Borough appear indifferent to their high tax rate, perhaps because of a variety of exemptions that are available to them.[1]

SSHB 339 proposes to split the State's 20 mill property tax 50/50 between the State and the borough. This is accomplished in Sec. 1 of the bill.

Sec. 2 of the bill is necessary to bring the statutes into compliance with limits set in Section one.

Sec. 3 exempts this tax limitation from applying to general obligation refunding bonds. Example: a municipality wishes to sell new bonds at a more favorable interest rate to pay off old debts at higher rates.

All the citations in this memo and in HB 339 refer to the old Title 29. These need to be updated.

More opinions, facts and figures will be forthcoming. I suspect you will agree that the amount of money in question merits a hearing and passage of this legislation from your committee. If this bill were in effect in 1984, it would have resulted in $98,142,937 more in State revenues [($234,511,201 / 2) - $19,112,663].

[1] ANCSA sec. 21D; Indian Reorganization Act, 25 USC 465; Federal Supremacy Clause for Native Trust Lands; AS 18.55.250; $10,000 Exemption per Assement, AS 29.45.050(a).

During Session: Pouch V, Juneau, Alaska 99811, (907) 465-2719 During Interim: Box 1572, Homer, Alaska 99603, (907) 235-8200

Distribution of State Property Tax For the North Slope Borough

Year	State Assessed Value	Gross Revenue	Local Credit	Net to State	Percent Increase	Percent of Gross to State
1979	4,810,887,800	96,217,756	49,800,530	46,417,226		48.24
1980	5,450,597,290	109,011,946	55,974,326	53,037,620	14.26	48.65
1981	6,297,616,550	125,952,331	105,150,647	20,801,684	(60.78)	16.52
1982	7,722,388,820	154,447,776	126,781,999	27,665,777	33.00	17.91
1983	9,450,158,880	189,003,178	144,625,348	44,377,830	60.41	23.48
1984	11,725,560,030	234,511,201	215,398,538	19,112,663	(56.93)	8.15

SOURCE: DIVISION OF PETROLEUM REVENUE

Alaska State Legislature

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Committee on Community and Regional Affairs
Committee on Transportation
Special Committee on Oil and Gas
Special Committee on Fisheries
Finance Sub-committee on Fish and Game

Andre Marrou
Representative

District 5

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Homer	Port Graham
Seldovia	English Bay
Kachemak	Nikolaevsk
Kasilof	Halibut Cove
Ninilchik	Clam Gulch

February 13, 1986

To: Mike Davis, Chairman House Committee on Oil & Gas
From: Andre Marrou, Representative

Subject: HB 339, Oil & Gas Property Tax

The attached committee substitute dated February 7 has some technical improvements that further the original intent of this bill-- that intention is to split the revenues from the oil and gas property tax 50/50, municipality/State respectively. In 1984, the North Slope Borough assessed $215,398,538 against a $234,511,201 state tax bill. That is a 92/8 split of these revenues respectively.

The positive fiscal ramifications of this bill cannot be over-emphasized. We are are talking about hundreds of millions of dollars of increased State revenue ($$$) without any increase of oil taxes if we pass this bill!

The original intention of allowing the oil companies to deduct or credit their local tax against the State 20-mill property tax was to allow the municipalities to finance as necessary for providing local services to the oil and gas properties being taxed. However, the idea that Prudhoe Bay is receiving over $200,000,000 in local services is ludicrous.

Since AS 43.56, Oil and Gas Property Tax, is a State tax, it is clear that the revenues from this tax were meant for legislative distribution except for those allowed for reasonable local services. It is an unforseen result of the original legislation that this lopsided distribution of this tax should occur.

During Session: Pouch V, Juneau, Alaska 99811, (907) 465-2719 During Interim: Box 1572, Homer, Alaska 99603, (907) 235-8200

COOK
2/7/86

Original sponsor: Marrou

IN THE HOUSE

CS FOR SPONSOR SUBSTITUTE FOR HOUSE BILL NO. 339 ( )

IN THE LEGISLATURE OF THE STATE OF ALASKA

FOURTEENTH LEGISLATURE - SECOND SESSION

A BILL

For an Act entitled: "An Act relating to the limitation on municipal property taxation for the payment of bonds; and providing for an effective date."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

* Section 1. AS 29.10.200 is amended by adding a new paragraph to read:

(47) AS 29.47.200(a) - (general obligation bonds)

* Sec. 2. AS 29.45.100 is amended to read:

Sec. 29.45.100. [NO] LIMITATIONS ON TAXES TO PAY BONDS. The limitations provided for in AS 29.45.080 - 29.45.090 do not apply to taxes levied or pledged to pay or secure the payment of the principal and interest on bonds. However, taxes levied under AS 29.45.080 [TAXES] to pay or secure the payment of principal and interest on bonds may only be levied in an amount that does not exceed one percent of the assessed value of property within the municipality taxed under AS 29.45.080 [WITHOUT LIMITATION AS TO RATE OR AMOUNT], regardless of whether the bonds are in default or in danger of default. This limitation does not apply to taxes levied or pledged to pay or secure the payment of general obligation refunding bonds used to refund a general obligation bond issue.

* Sec. 3. AS 29.47.200(a) is amended to read:

(a) The full faith and credit of a municipality are pledged for the payment of principal and interest on general obligation bonds. Subject to AS 29.45.100, the [THE] municipality may levy ad valorem taxes for payment [WITHOUT LIMITATION OF RATE OR AMOUNT TO PAY OR

SECURE THE PAYMENT] of the principal and interest on the bonds. This subsection applies to home rule and general law municipalities [, REGARDLESS OF WHETHER THE BONDS ARE IN DEFAULT OR IN DANGER OF DEFAULT].

* Sec. 4. The amendments to AS 29.45.100 and AS 29.47.200(a) made by secs. 2 and 3 of this Act apply only to taxes levied or pledged to pay general obligation bonds sold by a municipality on or after the effective date of this Act. However, notwithstanding any other provision of law, a municipality may not sell general obligation bonds after the effective date of this Act until the municipality is in compliance with AS 29.45.100 and AS 29.47.200(a) as amended by secs. 2 and 3 of this Act with respect to taxes levied or pledged to pay all general obligation bonds without regard to the dates of sale.

* Sec. 5. This Act takes effect July 1, 1986.

SECTIONAL ANALYSIS CSSSHB 339 (Oil & Gas)

*Section 1.
This section makes this bill applicable to home rule municipalities.

*Section 2.
This section restricts a municipality's ability to tax to pay for bonds, only if it taxes oil and gas properties under AS 29.45.080. The 1% figure will allow municipalities to collect up to half of the 20 mill oil and gas property tax under AS 43.56.

*Section 3.
This section conforms the statutes to the limitation in section 2.

*Section 4.
This section clarifies that the taxing authority to pay off current existing debt will not be impaired.
This section is also a debt limiter that prevents municipalities from issuing more bonds after the effective date, if the taxes to pay those bonds exceed the limit in section 2.

DISTRIBUTION OF OIL & GAS PROPERTY TAX FOR NORTH SLOPE BORDUGH

NOTE: PROJECTION BASED UPON 1984 ASSESSMENTS

$ MILLIONS OF DOLLARS $

234
211
188
164
140
117
94
70
47
23

Alaska State Legislature

COMMITTEES:

Committee on Community and Regional Affairs
Committee on Transportation
Special Committee on Oil and Gas
Special Committee on Fisheries
Finance Sub-committee on Fish and Game

District 5

Homer — Sterling
Soldotna — Anchor Point
Seldovia — Fritz Creek
Kachemak — Nikolaevsk
Kasilof — Halibut Cove
Nanwalek — Clam Gulch

Andre Marrou
Representative

February 17, 1986

ALASKA CONSTITUTION SUPPORTS CSSSHB 339 (O&G)

Current State law allows for an inequitable share of the State's natural resources (about 58% of total oil & gas property taxes) to go to a relatively small number (about 2.2%) of our population. This is contrary to the intent of Alaska's Constitution.

From Article VIII of the Constitution, entitled "Natural Resources" (emphasis added):

Section 1, Statement of Policy
"It is the policy of the State to encourage... the developement of its resources... for maximum use consistent with the public interest".

Section 2, General Authority
"The Legislature shall provide for the utilization, development, and conservation of all natural resources belonging to the State...for the maximum benefit of its people".

Section 6, State Public Domain
"Lands and interests therein... possessed or acquired by the State...constitute the State public domain."

Section 17, Uniform Application
"Laws and regulations governing the use and disposal of natural resources shall apply equally to all persons..."

Therefore, it seems clear that the Constitution intended for the State's natural resources to accure to the benefit of all the State's citizens, not to a few privileged by sheer chance.

During Session: P. O. Box V, Juneau, Alaska 99811, (907) 465-2719 During Interim: Box 1572, Homer, Alaska 99603, (907) 235-8200

Alaska State Legislature

COMMITTEES:

Committee on Community and Regional Affairs
Committee on Transportation
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Special Committee on Fisheries
Finance Sub-committee on Fish and Game



District 5

Nenana — Sterling
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Kasilof — Halibut Cove
Nanwalek — Clam Gulch

Andre Marrou
Representative

February 17, 1986

SALIENT FACTS RE: CSSSHB339

°Of a $234,511,201 tax bill due the State on Prudhoe Bay oil and gas property in 1984, 92% of it was credited to the taxpayer because the local municipality siphoned it off.

°In 1984, 2.26% of the State's population took 58% of all oil and gas property tax revenue ($215,398,538), or, approximately 10% of <u>all</u> State revenue.

°The North Slope Borough is $1.2 billion(!) in debt, or, $97,373 per capita.

°The North Slope Borough leads the State with the highest debt to assessed valuation % ratio.

°The current situation encourages debt by municipalities.

°Inaction by the Legislature will result in continued reduction of State oil and gas property tax revenue and a higher local share.

°Oil prices will stabilize and increase eventually; hence, so will the assessed oil and gas property tax base..

During Session: P. O. Box V, Juneau, Alaska 99811, (907) 465-2719 During Interim: Box 1572, Homer, Alaska 99603, (907) 235-8200

STATE OF ALASKA

BILL SHEFFIELD, GOVERNOR

DEPT. OF COMMUNITY & REGIONAL AFFAIRS

OFFICE OF THE COMMISSIONER

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PHONE: (907) 465-4700

☐ 949 E. 36TH AVENUE, SUITE 400
ANCHORAGE, ALASKA 99508
PHONE: (907) 563-1073

March 5, 1985

POSITION PAPER

RE: SSHB 339

SPONSOR: Representative Andre Marrou

Program Effects of Bill

Comments

Sponsor Substitute for House Bill 339 provides for the State to be guaranteed at least 50 per cent of all property taxes levied against AS 43.56 property. Municipalities would be allowed a property tax levy against that property which would not exceed ten mills.

The Department understands and appreciates the concept that all the people of the State should be guaranteed an equal share of revenues derived from this resource, as compared with the current system of taxation which allows some municipalities to benefit in excess of 50 per cent. We do not necessarily oppose that concept.

We do however, have concerns regarding the effect of implementing that concept at the municipal level. At the present time, there is no limit on taxes to pay bonds. The language in SSHB 339 would allow taxes for the payment of bonds to be levied at any level against homes and local businesses, while limiting the levy against AS 43.56 property to ten mills. At the same time, AS 43.56 property would enjoy a full level of municipal services such as education, fire protection, police protection, etc. which would be provided through issuance of the bonds.

Although the Department does not necessarily oppose the concept proposed in the bill, we must recognize the implementation of that concept would allow unequal taxation at the municipal level. For that reason, we cannot support passage of SSHB 339.

Emil Notti, Commissioner

SCOMM

#46:19

Proposed amendment to HB 366

Delete lines 21 through 26, and replace with the following language:

* Sec. 2. AS 38.05.183(f) is amended to read:

(f) The commissioner may not enter into a contract for the sale of royalty oil unless the contract provides that

(1) any material amendment to the contract that appreciably reduces the consideration received by the state requires prior approval of the legislature;

(2) an assignment of unprocessed royalty oil may occur only under the following conditions:

(a) the assignee or assignor demonstrates to the satisfaction of the department and the Alaska Royalty Oil and Gas Development Advisory Board that the assignment of crude oil to be refined within Alaska will result in a significant increase in monetary benefits to Alaska's energy consumers; and

(b) the assignee or assignor demonstrates to the satisfaction of the department and the Alaska Royalty Oil and Gas Development Advisory Board that the Alaskan energy consumer receives the greatest proportion of monetary benefit from the assignment.

STATE OF ALASKA

POUCH V
JUNEAU, ALASKA 99811
(907) 465-4941

HOUSE SPECIAL COMMITTEE ON OIL AND GAS

CSHB 366

Sectional Analysis

CSHB 366 amends several aspects of Title 38 relating to the disposition of royalty oil and gas and the Alaska Royalty Oil and Gas Development Advisory Board. These changes are discussed in the sectional analysis below.

Section 1. This amendment requires the commissioner of the Department of Natural Resources to make a determination, prior to the export of royalty oil or gas, that such a sale is in the best interest of the state. This language eases statutory requirements regarding the foreign and domestic export of Alaskan crude oil and natural gas.

This section also repeals language requiring the commissioner to make a determination that such "royalty-in-kind oil or gas is surplus to the present and projected intrastate domestic and industrial needs (of the state)." This language, which was passed at the time of the 1974 oil shortage, presently influences the type of royalty sales that may be made despite the fact that 1.6 million barrels of oil is now produced on the North Slope daily. This language has further resulted in severe difficulties in allowing the department to conduct competitive bid sales.

Section 2. This section specifies that the assignment of unrefined royalty oil shall be premised on a significant increase of direct monetary benefits to energy consumers. This section further specifies that the total direct monetary benefit to these consumers shall outweigh the monetary benefits to the assignor and the assignee. Determination of monetary benefit will be made be either the assignee or the assignor, to the satisfaction of the department and the Alaska Royalty Oil and Gas Advisory Board.

Section 3. This section moves the Royalty Board from the Department of Commerce and Economic Development to the Department of Natural Resources. The Board was housed in DNR until 1980, at which time the Board lost its authority to advise the legislature and was also transferred to DCED. These actions ostensibly occurred because of the Board's history of rubber-stamping administration recommendations.

The Alaska Royalty Oil and Gas Development Advisory Board presently serves as a forum for holding public hearings on royalty issues, and the Board also makes formal recommendations on proposed royalty sales to the Department of Natural Resources. The Board does not have any paid staff, and members of the DNR's Division of Oil and Gas serve as Royalty Board staff while also attending to their other duties.

This transfer is supported by both the Department of Natural Resources and the Department of Commerce and Economic Development.

Proposed amendment to HB 366

Delete lines 21 through 26, and replace with the following language:

(g) An assignment or resale of royalty oil under AS 38.05 - 38.06 may occur under the following conditions:

(1) the assignee demonstrates to the department and the Alaska Royalty Oil and Gas Development Advisory Board that the assignment or resale of crude oil to be refined within Alaska will result in a significant increase in benefits to Alaska's energy consumers, and

(2) the assignee demonstrates to the department and the Alaska Royalty Oil and Gas Development Advisory Board that the Alaskan energy consumer receives the greatest proportion of benefit from the assignment or resale.

HB 366

Sec. 2

(g) An assignment or resale of royalty oil under AS 38.05 - 38.06 may occur under the following conditions:

1. the assignee demonstrates to the department and the royalty board that the assignment or resale of crude oil to be refined within Alaska will result in a significant increase in benefits to Alaska's energy consumers, and

2. the assignee demonstrates to the department and the royalty board that the Alaskan energy consumer receives the greatest proportion of benefit from the assignment or resale.

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Repealed, § 20

. (a) The direc-

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(4) prescribe application procedures and practices for the sale, lease or other disposition of available land, resources, property, or interest in them;

(5) prescribe fees or service charges, with the consent of the commissioner, for any public service rendered;

(6) under the conditions and limitations imposed by law and the commissioner, issue deeds, leases or other conveyances disposing of available land, resources, property or any interests in them;

(7) have jurisdiction over state land, except that land acquired by the Alaska World War II Veterans Board and the Agricultural Loan Board or the departments or agencies succeeding to their respective functions through foreclosure or default; to this end the director possesses the powers and, with the approval of the commissioner, shall perform the duties necessary to protect the state's rights and interest in state land, including the taking of all necessary action to protect and enforce the state's contractual or other property rights;

(8) *[Repealed, § 20 ch 182 SLA 1978.]*

(9) maintain such records as the commissioner considers necessary, administer oaths, and do all things incidental to the authority imposed; the following records and files shall be kept confidential upon request of the person supplying the information:

(A) the name of the person nominating or applying for the sale, lease, or other disposal of land by competitive bidding;

(B) before the announced time of opening, the names of the bidders and the amounts of the bids;

(C) all geological, geophysical and engineering data supplied, whether or not concerned with the extraction or development of natural resources;

(D) except as provided in AS 38.05.036, cost data and financial information submitted in support of applications, bonds, leases and similar items;

(E) applications for rights-of-way or easements;

(F) requests for information or applications by public agencies for land which is being considered for use for a public purpose;

(10) account for the fees, licenses, taxes or other money received in the administration of this chapter including the sale or leasing of land, identify their source, and promptly transmit them to the proper fiscal department after crediting them to the proper fund; receipts from land application filing fees and charges for copies of maps and records shall be deposited immediately in the general fund of the state by the director;

(11) select and employ or obtain at reasonable compensation cadastral, appraisal, or other professional personnel the director considers necessary for the proper operation of the division;

(12) be the certifying agent of the state to select, accept and secure by whatever action is necessary in the name of the state, by deed, sale,

ferred to the commissioner" for "returned to the jurisdiction of the division of lands" and "Transportation and Public Facilities" for "Highways" and made a series of technical changes; and repealed former subsection (a), relating to the sale, lease, or other disposal of university land.

Legislative history reports. — For report on ch. 267, SLA 1976 (FCCS SCSHB 139), see 1976 Senate Journal, p. 1461.

Opinions of attorney general. — The interaction of AS 38.05.030(b), 38.05.035(a)(7) and (12), AS 35.05.040(1), and AS 35.20.010 was examined to determine (1) which agency of the state had authority to accept title to land transferred by the federal government and (2) which agency had authority to manage the land, which was conveyed for airport and other purposes. The division of lands is the proper agency for acceptance of title. The division of aviation in the (former) Department of Public Works possesses the authority to manage the granted land for airport and directly related purposes while the division of lands possesses the authority to manage the land for other public purposes. April 14, 1977, Op. Att'y Gen.

NOTES TO DECISIONS

Scope of subsection (a). — Subsection (a) of this section only covers disposals of land by the commissioner of natural resources. State v. University of Alaska, Sup. Ct. Op. No. 2303 (File No. 4579), 624 P.2d 807 (1981).

Creation of state park including university lands. — Since creation of a state park which included university lands was a disposal by the legislature, not by administrative action, subsection (a) of this section was inapplicable. State v. University of Alaska, Sup. Ct. Op. No. 2303 (File No. 4579), 624 P.2d 807 (1981).

By enacting AS 41.20.210 (now see AS 41.21.121), creating Chugach State Park, the legislature did not impliedly repeal subsection (a) of this section, which prevents disposal of university lands by the commissioner of natural resources without the approval of the Board of Regents of the University of Alaska. AS 41.20.210 withdrew the particular university land involved from the operation of the management mechanism created by subsection (a) and AS 14.40.170(a)(4), which grants certain management powers to the Board of Regents. State v. University of Alaska, Sup. Ct. Op. No. 2303 (File No. 4579), 624 P.2d 807 (1981).

Construction of state lease provision reserving right to grant right-of-way. — Provision in a lease issued by the State of Alaska, Division of Lands, expressly reserving the right to grant an easement or right-of-way across the leased property was construed to include an interagency transfer of a right-of-way to the Department of Transportation and Public Facilities. Wessells v. State, Dep't of Hwys., Sup. Ct. Op. No. 1402 (File No. 2834), 562 P.2d 1042 (1977).

Sec. 38.05.032. School land disposition procedures. [Repealed, § 20 ch 182 SLA 1978.]

Sec. 38.05.035. Powers and duties of the director. (a) The director shall

(1) have general charge and supervision of the division and may exercise the powers specifically delegated to the director; may employ and fix the compensation of assistants and employees necessary for the operations of the division; and is the certifying officer of the division, with the consent of the commissioner, and may approve vouchers for disbursements of money appropriated to the division;

(2) manage, inspect and control state land and improvements on it belonging to the state and under the jurisdiction of the division;

(3) execute laws, rules, regulations and orders adopted by the commissioner;

State of Alaska

Department of Natural Resources

Supplemental Findings

Competitive Royalty Oil Sale

(Prudhoe Bay and Kuparuk River Units)

November 28, 1984

Supplemental Findings
Competitive Royalty Oil Sale
(Prudhoe Bay and Kuparuk River Units)

AS 38.05.183(d) states that oil and gas taken in-kind as the state's royalty share of production may not be sold or otherwise disposed of for export from the state until the Commissioner of Natural Resources determines that the royalty in-kind oil or gas is surplus to the present and projected intrastate domestic and industrial needs for oil and gas. I find that the 90,000 bpd scheduled for competitive sale on December 11, 1984 is surplus to present and projected intrastate domestic and industrial needs for oil.

AS 38.05.183 also requires the Commissioner to submit an annual report to the state legislature "showing the immediate and long-term domestic and industrial needs of the state for oil and gas and an analysis of how these needs are to be met." The Department of Natural Resources, Division of Oil & Gas (the Department) complies with that requirement by preparing a document, published each January, entitled Historical and Projected Oil and Gas Consumption (also called the Supply/Demand study). The January 1984 Supply/Demand study concluded, as it has in previous years, that in-state supplies of both oil and gas far exceeded the immediate and long-term domestic and industrial needs of the state for oil and gas.

Due to the absence of any new information concerning the immediate and long-term domestic and industrial needs of the state for oil and gas, the Department again concluded, both in the Preliminary Findings and Determination to Negotiate Backup Royalty Oil Contract(s) and Conduct a Competitive Royalty Oil Sale (July 12, 1984) and the Final Findings and Determination to Conduct a Competitive Royalty Oil Sale for In-Kind Oil from the Prudhoe Bay and Kuparuk River Units (October 10, 1984), that the 90,000 bpd of state royalty oil to be sold competitively on December 11, 1984 is surplus to in-state needs. Consequently, upon the publication of the Preliminary Finding and execution of contracts with backup purchasers, the state gave a six-month notice to the North Slope producers of its intent to take 90,000 bpd of royalty oil in-kind (as provided by procedures in the Prudhoe Bay and Kuparuk River Unit Agreements).

The Department's conclusion was and is based in part on the interpretation of AS 38.05.183 stated in each Supply/Demand study since 1982. In that year, the study first gave specific definitions to certain phrases in that statute. Since 1982, the first chapter of every Supply/Demand study has contained a list of possible definitions for some of the imprecise clauses of AS 38.05.183, such as "how these needs are to be met". The Supply/Demand study definition of that phrase specifies the Department's long-standing position that the state's present and projected intrastate domestic and industrial needs for oil and gas may be met from a variety of sources, including state royalty oil. See 1984 Supply/Demand study page 1.7.

The intent of the statute should not be regarded as complete state self-sufficiency in refined products from state royalty oil. Rather, the Department believes the legislature was aiming at ensuring adequate overall oil and gas supplies for the state. The 1984 Supply/Demand study states that, "Under reasonable assumptions about recoverable reserves and Alaskan consumption, the current inventory of both oil and gas is more than sufficient to meet the presently identifiable needs of Alaskans for the next 15 years." Presently, the Department of Revenue's most recent crude oil price forecasts remain conservative due to the continued surplus in world supplies. While unfavorable from a revenue standpoint, that surplus will likely translate into dampened crude oil prices for Alaska consumers and industrial users. Only if the cost of imported products were significantly above the cost of products which could be refined in Alaska (e.g. when oil is not available to local refiners at the market price), or if Alaska users were suffering from an absolute shortfall in petroleum products, would the Department not consider the royalty oil to be sold at the competitive sale as "surplus" to present and projected in-state needs. Neither of these was found to be the case.

The Department's view of the purpose of AS 38.05.183 stems first from the atmosphere of absolute shortage, particularly in motor fuels, which prevailed at the time the statute was written. The statute was adopted in 1974, when the worldwide oil crisis and the imposition of federal oil contract controls raised the spectre of product shortages in Alaska despite North Slope crude oil production. The Department's view stems second from the apparent paradox of continued imports into regions such as Southeast Alaska, where the landed cost of such imports from Puget Sound undercuts the cost of delivered refined products to Southeast from Railbelt refiners. Under the most constrained interpretation of the statute, the Department would be obliged to promote in-state refining with royalty oil for the sake of absolute self-sufficiency, even when this resulted in higher prices for Alaskans. Clearly, this was not the intent of the statute. Intrastate needs for oil and gas are presently being met from a variety of sources, including state royalty oil. As charged, the 1984 Supply/Demand study identifies those sources and discusses how in-state needs are to be met, given the total supply of hydrocarbons within the state. In terms of total present and projected demand vs. total present and projected supply, intrastate refined product needs can be met with ease by the unprecedented production of crude oil from the North Slope, which is available to any purchaser willing to meet the market clearing price for that oil. For these reasons, the Department determined in the 1984 Supply/Demand study that the state enjoys a surplus of hydrocarbons relative to present and foreseeable demand.

Even if AS 38.05.183(d) were interpreted to require all intrastate needs to be satisfied by royalty oil before export could occur, I would find that the competitive sale amounts are surplus to present and projected intrastate domestic and on industrial needs for two reasons. First, persons who have a demand for oil as a result of current in-state processing or supply activities are granted priority rights to purchase royalty oil at the competitive sale. Second, during the term of the competitive sale contracts, royalty oil will remain in-value and will be available for disposition in-state.

The Department has provided for satisfaction of demand for royalty oil on the part of in-state refiners and in-state suppliers by giving them priority rights to purchase oil at the competitive sale. A priority will be offered to bidders which have sold an average of at least 5,000 bpd of refined petroleum products to distributors or consumers within the State of Alaska during the twelve-month period beginning June 1, 1983 and ending May 31, 1984, and which possess the ability to process crude oil into refined petroleum products at a processing facility owned by the bidder. Priority status will enable the in-state supplier to meet the highest winning bid in each of the three categories of royalty oil to be competitively sold. That right extends to the number of lots remaining in each category after the first round award of lot(s) to the highest winning bidder(s) in each category and priority bidders who have been posted as apparent high bidders. Consequently, in the first round of awards, priority bidders enjoy the possibility of receiving oil at the lowest price posted in each category. In addition, in-state suppliers are reasonably assured of receiving the desired volume of oil in the second round of awards, provided they are willing to meet the competitively established price. 11 AAC 03.250(5) states that:

> "present or projected intrastate domestic and industrial needs" means in-state domestic and industrial demand at a competitive market price for the royalty oil, gas, or gas liquids. "Competitive market price" includes, but is not limited to, a price established by competitive bid.

Thus, in-state refiners and suppliers will have the first right to royalty crude at a competitive market price so that their supply is assured.

At the present time the state leaves approximately 104,735 bpd of royalty oil in-value with the North Slope lessees. The lessees export this oil from Alaska and tender the reported netback sale proceeds to the state. During the first six months of the term of the competitive sale contracts, April 1985 to September 1985, approximately 26,013 bpd of royalty oil will remain in-value. During the following six months of the term, October 1985 to March 1986, approximately 41,013 bpd of royalty oil will remain in-value. These amounts will remain available for disposition in-state if the Department finds the disposition(s) to be in the State's best interest. (If a contract currently being negotiated with Golden Valley Electric Association is approved, future amounts available for disposition would be reduced by 5,000 bpd.)

Several parties have recently expressed an interest in purchasing royalty oil from the State. Our conclusion that the competitive sale amounts are surplus to present and projected needs was drawn with the knowledge that all in-state refiners do not have 100% of their projected capacity supplied by state royalty oil. For example, as mentioned in the Preliminary Finding, the Department has conducted negotiations for the sale of royalty oil to MAPCO Inc. to fuel a proposed refinery expansion. The successful outcome of those negotiations is not, however, regarded by the Department as prerequisite to the possible export of the state's royalty oil in the planned competitive sale. First, MAPCO representatives indicated to the Department that the proposed refinery expansion may not be built, throwing the question of MAPCO's projected needs into doubt. Second, if MAPCO had a projected demand for royalty oil at a competitive price, it could have availed itself of its

opportunity to purchase oil at the competitive sale, as a priority bidder. Since it is a current in-state refiner, MAPCO would have been entitled to all the priority rights discussed above. Third, by virtue of its proximity to the Trans Alaska Pipeline (TAPS), MAPCO has unique opportunities to supply its refinery with North Slope oil. MAPCO currently receives 35,000 bpd of royalty oil directly from the State. MAPCO also receives 5,000 bpd of royalty oil through its agreement with another state royalty oil purchaser - the Golden Valley Electric Association. In addition, about 60% of the oil run through the MAPCO refinery is, with a minor quality penalty, reinjected into TAPS to re-emerge as whole oil at Valdez. That oil, which is the property of MAPCO, may be exchanged for more oil from the North Slope and again withdrawn from TAPS at Fairbanks. One of the several advantages that MAPCO enjoys with its state royalty oil contract, relative to other in-state refiners, is this absence of any state control over the return oil. MAPCO could also purchase oil directly from the North Slope lessees to satisfy any demand not met through the purchase and exchange of royalty oil. Finally, MAPCO's location on TAPS allows it to enter into "in-transit stop" arrangements in which MAPCO "borrows" oil from other TAPS shippers. The borrowed oil is processed in MAPCO's refinery with the full amount returned to the original shipper at Valdez through a combination of return oil and quality bank payments. This in-transit stop arrangement remains feasible so long as MAPCO's current contract which does not expire until 2003, remains in effect. The Department believes that any failure by MAPCO to secure oil through these possible sources of supply indicates that MAPCO's demand may exist only so long as it believes the State is willing to supply it with oil at a price below competitive prices. As explained above, 11 AAC 03.250(5) provides that projected needs means in-state demand at a competitive price.

Since the Department made its most recent finding of ample in-state hydrocarbon supplies, published in the Final Finding of October 10, 1984, several Alaskan parties in addition to MAPCO have expressed interest in purchasing royalty oil. Chevron has requested further volumes of royalty oil to meet a possible increase in "throughput" at its 18,000 bpd Nikiski Refinery. Chevron owns and exports 12,000 bpd of North Slope production in addition to the 18,000 bpd of royalty oil which it processes at Nikiski. New parties also propose to create additional new refineries in Alaska. Because these proposals were not known to the Department at the time of the most recent determination of an in-state hydrocarbon surplus, the state has decided to reduce the one-year term of those lots offered in the Kuparuk River oil category (category A) to six months. This will enable the state to have an additional 15,000 bpd of royalty oil available in the fall of 1985 for those who offer to purchase state royalty oil at terms which lead the Department to find that the disposition(s) would be in the state's best interest.

As stated, the impressive quantities of oil available within the state, which are the highest in the nation on a per-capita basis, diminish the likelihood of an actual "need" by these groups in the sense of supply availability. However, given the very recent nature of the new proposals received, the Department will further review their merits, as well as supply alternatives in addition to royalty oil. It has been the Division's experience that the term "need" is perceived differently by prospective in-state royalty oil

purchasers. Rather than the physical unavailability of oil due to world shortages or the unwillingness of North Slope producers to sell ANS crude at the market clearing price, prospective in-state royalty oil purchasers often view their feedstock needs in terms of the royalty oil price and terms they require for economic viability. While the Department recognizes that there are a host of oil-related economic activities which can be made viable should the state choose to undercut the market clearing price of Alaska North Slope oil for specific parties, this is not seen as the definition of "need" in AS 38.05.183, nor is it clearly in the State's best interest to do so.

Given the short-term nature of the proposed competitive sale, the consideration extended to in-state refiners and suppliers through the priority bidding system, the lack of demonstrated current need on the part of other potential in-state purchasers, and the amounts of oil remaining in-value available for disposition, I find pursuant to AS 38.05.183 that the royalty oil to be disposed of at the competitive sale is surplus to present and projected intrastate domestic and industrial needs.

Kay Brown

Kay Brown, Director
Division of Oil & Gas
Department of Natural Resources

11-28-84
Date

14-1044
Moen
4/9/85.

IN THE HOUSE

BY THE HOUSE SPECIAL COMMITTEE ON OIL AND GAS

HOUSE BILL NO.

IN THE LEGISLATURE OF THE STATE OF ALASKA

FOURTEENTH LEGISLATURE - FIRST SESSION

A BILL

For an Act entitled: "An Act relating to royalty oil and gas."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

* Section 1. AS 38.05.183(d) is amended to read:

(d) Oil or gas taken in kind by the state as its royalty share may not be sold or otherwise disposed of for export from the state until the commissioner determines that the sale is in the best interest of the state [ROYALTY-IN-KIND OIL OR GAS IS SURPLUS TO THE PRESENT AND PROJECTED INTRASTATE DOMESTIC AND INDUSTRIAL NEEDS]. The commissioner shall make public, in writing, the specific findings and reasons on which the determination is based and shall, within 10 days of the convening of a regular session of the legislature, submit a report showing the immediate and long-range domestic and industrial needs of the state for oil and gas and an analysis of how these needs are to be met.

* Sec. 2. AS 38.05.183 is amended by adding a new subsection to read:

(g) An assignment or resale of royalty oil or gas purchased from the state may not occur unless the commissioner determines that the [assignor or seller ~~is~~ resident Alaskan corporation] the primary beneficiary of the assignment or resale of the royalty oil or gas. The primary beneficiary is the party receiving the greatest savings or net profit from the assignment or resale of the royalty oil or gas.

* Sec. 3. AS 38.06.020 is amended to read:

Sec. 38.06.020. ESTABLISHMENT. There is established in the Department of Natural Resources [COMMERCE AND ECONOMIC DEVELOPMENT]

the Alaska Royalty Oil and Gas Development Advisory Board.

* Sec. 4. AS 38.06.025(a) is amended to read:

(a) The board consists of the commissioner of commerce and economic development; the commissioner of revenue; the commissioner of natural resources [, WHO IS A NONVOTING MEMBER]; and three public members.

STATE OF ALASKA 1985 LEGISLATIVE SESSION
FISCAL NOTE

Revision Date:

REQUEST
Bill/Resolution No.: HB 366
Title: Royalty Oil Statute Amendments
Sponsor: Oil and Gas Committee
Requestor:
Date of Request:

FISCAL DETAIL
Agency Affected: Natural Resources
Program Category Affected: NRMEC
BRU, Program or Subprogram(s) Affected: Minerals and Energy Management

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 85	FY 86	FY 87	FY 88	FY 89	FY 90
OPERATING						
100 PERSONAL SERVICES						
200 TRAVEL						
300 CONTRACTUAL						
400 SUPPLIES						
500 EQUIPMENT						
600 LAND & STRUCTURES						
700 GRANTS, CLAIMS						
800 MISCELLANEOUS						
TOTAL OPERATING		-0-	-0-	-0-	-0-	-0-
CAPITAL						
REVENUE						

FUNDING: (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER						
TOTAL		-0-	-0-	-0-	-0-	-0-

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS: Attach a separate page if necessary

No fiscal impact. There is a separate budget increment that will support the Royalty Board under the Division of Oil and Gas.

Prepared By: Ned Farquhar Phone: 465-2400
Division: Commissioner's Office Date: April 16, 1985

Approved by Commissioner: Esther C Wunnicke Date: April 16, 1985
Agency: Natural Resources

Distribution (by Agency preparing fiscal note):
- Legislative Finance
- Legislative Sponsor
- Requestor
- Office of Management and Budget
- Impacted Agency(ies)

7/1/84

SCOMM

#46:20

STATE OF ALASKA 1986 LEGISLATIVE SESSION
FISCAL NOTE

Revision Date :

REQUEST

Bill/Resolution No. : HB 403
Title : Natural Gas Valuation; Cook Inlet Basin

Sponsor : Rep. Pignalberi
Requestor : House Oil and Gas
Date of Request : 03-05-86

FISCAL DETAIL

Agency Affected : Natural Resources
BRU : Petroleum Management

Components :

EXPENDITURES/REVENUES : (Thousands of Dollars)

OPERATING	FY 86	FY 87	FY 88	FY 89	FY 90	FY 91
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	-0-	-0-	-0-	-0-	-0-	-0-
CAPITAL	-0-	-0-	-0-	-0-	-0-	-0-
REVENUE	(2,300)	(1,900)	(1,900)	(1,900)	(1,900)	(1,900)

FUNDING : (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER						
TOTAL	-0-	-0-	-0-	-0-	-0-	-0-

POSITIONS :

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS : Attach a separate page if necessary

FY 86 losses include obligations incurred by producers since March 1985 royalty enforcement notice. See attached explanation.

Prepared by : Kay Brown [signature] Phone : 762-4241
Division : Oil and Gas Date : March 20, 1986

Approved by Commissioner : [signature] Date : March 10, 1986
Agency : Natural Resources

Distribution (by Agency preparing fiscal note) :
- Legislative Finance
- Legislative Sponsor
- Requestor
- Office of Management and Budget
- Impacted Agency(ies)

10/25/85

Fiscal Note Background
for HB 403

Passage of HB 403 would prevent enforcement of existing royalty collection provisions in Beluga Field oil and gas leases, and enforcement of royalty gas provisions in other fields. This fiscal note represents the impact of the legislation only on the Beluga Field royalty collections, although there are likely to be impacts in other fields.

The State issued an enforcement order for the Beluga Field in March, 1985, effective April 15, 1985. While the notice is contested by producers, there have been no payments made; if the notice were implemented as written, the State would currently receive $2.8 million/year in increased royalty payments. The fiscal impact has been calculated using a current value of $1.50/MCF which would not be collected if HB 403 becomes law.

Some of the revenue loss will be felt by the Alaska Permanent Fund, which receives 25% of the revenues from state oil and gas leasing. The remainder of the impact will be the General Fund.

There will be other significant but currently incalculable fiscal impacts from passage of the bill. If the bill passes, the State will not collect full royalty value (as stipulated in existing oil and gas lease forms) prospectively on other state leases producing gas. Additionally, producers may seek retroactive compensation for what they may regard as past royalty overpayments, including several recent settlements on royalty gas pricing in Cook Inlet.

If the Legislature's action affects the State's position regarding valuation of other State royalty oil and gas (most notably North Slope oil) there could be revenue losses amounting to tens or hundreds of millions of dollars.

SCOMM

#46:21

PRELIMINARY SETTLEMENT AGREEMENT

The State of Alaska, Department of Natural Resources (DNR) and Chugach Electric Association, Inc. (Chugach) enter into the following conditional agreement concerning pending disputes and litigation concerning the valuation of the State's royalty share of gas:

(1) DNR and Chugach will vigorously support passage of the CS for SB 309 Resources (a copy of which is attached) (the Legislation), subject to mutually agreed-to amendments;

(2) DNR and Chugach agree to resolve the disputes at issue in ARCO Alaska, Inc. v. State of Alaska, Department of Natural Resources, and Chugach Electric Association, Inc., Case No. 3AN-85-6218 Civil, Chevron U.S.A. Inc. v. State of Alaska, Department of Natural Resources, and Chugach Electric Association, Inc., Case No. 3AN-85-7617 Civil, and Shell Western E&P, Inc. v. State of Alaska, Department of Natural Resources, Case No. 3AN-85-7633 Civil (collectively, the "Beluga River gas royalty litigation") concerning the royalty valuation of gas sold under Chugach's 1973 contracts with ARCO Alaska, Inc. (ARCO). Chevron U.S.A. Inc. (Chevron) and Shell Western E&P, Inc. (SWEPI) in accordance with the following terms:

(a) Supplemental gas for peak supply periods: the contract price, including all forms of consideration;

(b) Non-supplemental gas volumes for gas produced on or after April 15, 1985: 75 cents per mcf during 1985 and 1986, subject to annual adjustment on the first day of each January in

proportion to the amount of increase or decrease in the United States of America GNP price deflator over the previous year. Payments for royalties from April 15, 1985 until the date of final settlement will be paid over three years plus interest subject to APUC approval;

(c) The dispute concerning royalty liability on tax reimbursement amounts on gas for the period prior to April 15, 1985: will be resolved in good faith negotiations between the DNR, Chugach and the Beluga River lessees (ARCO, Chevron and SWEPI);

(3) These agreements concerning settlement of the Beluga River gas royalty litigation are conditioned upon the following events:

(a) Approval by the Chugach Board of Directors;

(b) Passage of the Legislation;

(c) Agreement with the Beluga River lessees (with regard to the post-April 15, 1985 royalty issues);

(d) Court approval of the settlement; and

(4) Any remaining issues or disputes not specifically identified will be resolved by good faith negotiations.

CHUGACH ELECTRIC ASSOCIATION, INC.

Dated: _____ _____

By: Joyce Murphy

President of the Board

ALASKA DEPARTMENT OF NATURAL RESOURCES

Dated: _____ _____

By: Esther C. Wunnicke

Commissioner

STATE OF ALASKA
THE LEGISLATURE

POUCH Y - STATE CAPITOL
JUNEAU, ALASKA 99811
907-465-3800

LEGISLATIVE AFFAIRS AGENCY

MEMORANDUM February 25, 1986

SUBJECT: Sectional analyses of CSSB 309(Res), SB 309, HB 403, SSHB 425 and HB 374

TO: Representative Marco Pignalberi

FROM: Theresa L. Bannister TB
Legislative Counsel

This memo contains the comparative sectional analysis that you requested for SB 309 and the statutes it amends, and the comparative sectional analyses that you requested for CSSB 309(Res), SB 309, HB 403, SSHB 425, and HB 374.

1. Comparative sectional analysis between SB 309 and the statutes it amends.

SB 309 adds a new section ((aa)) to the main oil and gas leasing section, AS 38.05.180, to deal with the valuation of natural gas taken in value by the state under an oil and gas lease issued under AS 38.05.180(f). There does not appear to be another section that deals with the criteria for such valuation. Section 2 of CSSB 309(Res) also adds a new section ((aa)) to the main oil and gas leasing section, AS 38.05.180, to allow the commissioner under specified conditions to amend existing an lease (at the request of a lessee) to value the state's in value royalty gas at the price paid for the gas by nonprofit electrical utilities to the lessee. Section 3 of CSSB 309(Res) allows the commissioner to sell in-kind royalty gas to a nonprofit electric utility at less than market value under certain conditions. AS 38.05.810(a) is the general provision for allowing sale of royalty resources under certain conditions at less than appraised value, and its valuation language is slightly different from that of CSSB 309(Res). Section 4 was added to CSSB 309(Res) to clarify that its language would govern state sales of royalty gas to nonprofit public electric utilities at less than market value.

2. Comparative sectional analyses of CSSB 309(Res), SB 309, HB 403, SSHB 425, and HB 374.

Section 1 of SB 309, HB 403, and SSHB 425 provide the legislative findings for the bills, are the same, and primarily state that the valuation of in value royalty gas must be based on the contract price of the gas rather than on the current market value of the gas. There are no findings in HB 374. The findings in CSSB 309(Res) deal primarily with the advisability of (1) allowing the commissioner to establish the value for in-value royalty gas sold to a nonprofit electric utility by using the contract price between the utility and the lessee, (2) giving the commissioner the authority to sell royalty gas to a nonprofit electric utility at less than market value, and (3) establishing a separate state policy for royalty gas being sold to nonprofit electric utilities for in-state generation of electricity.

Section 2 of SB 309, HB 403, and SSHB 425 are very similar, but do contain differences. Section 2 of SB 309 is not clear, but it appears to be attempting to state that royalty gas taken in value is to be valued by the state at the price of the lessee's long-term contract with a purchaser of the gas, unless clear and convincing evidence shows that the contract price was unreasonably low at the time the contract was entered into. Section 2 of HB 403 prohibits the commissioner from adjusting the valuation price for in-value royalty gas to the current market value if the royalty gas is measured by a long-term contract price and if the change would increase consumer prices, unless the commissioner determines in a writing supported by clear and convincing evidence that the long-term contract price is unreasonably low. Section 2 of SSHB 425 is not completely clear but appears to prohibit the state from valuing in-value royalty gas at a price greater than the price received for the gas under the long-term sales contract for the gas, unless clear and convincing evidence shows that the long-term contract price was unreasonably low at the time of contract. Section 2 of SB 309 and HB 403 apply to royalties from oil and gas leases entered into under (f) of AS 38.05.180; section 2 of HB 425 applies to royalties from oil and gas leases entered into under AS 38.05.180 generally. Section 2 of CSSB 309(Res) allows the commissioner, under certain conditions and upon the written request of an oil or gas lessee, to agree with the lessee to use the price contained in the lessee's sales contract to a nonprofit electrical utility as the valuation price for the royalty gas.

HB 374 is not comparable to section 2 of SB 309, HB 403, or SSHB 425, but is comparable to section 3 of CSSB 309(Res). HB 374 clarifies that a disposal of natural gas may be made to certain utilities for less than the appraised value determined under AS 38.05.810(a). Section 3 of CSSB 309(Res) allows the commissioner to sell in-kind royalty gas at less than the market value if the commissioner makes a written finding that the sale is in the best interest of the state. (See part 1 of this memo for the analysis of sec. 4 of CSSB 309(Res)).

Section 3 of SB 309 and HB 403 are identical applicability sections and apply the Act to leases issued before or after the effective date of the Act. Section 3 of SSHB 425 is nearly identical to SB 309 and HB 403, but makes the Act also apply to leases issued on the effective date of the Act. HB 374 has no provision comparable to sec. 3 of SB 309, HB 403, or SSHB 425. Sections 5 and 6 of CSSB 309(Res) are the applicability sections of CSSB 309; section 5 makes section 2 of the Act apply to royalty gas sales contracts by oil and gas lessees entered into on or after the effective date of the Act; section 6 makes the sales authority of the commissioner in section 4 apply to state contracts entered into on or after the effective date of the Act to sell new quantities of royalty gas to nonprofit electric utilities.

Section 4 of SB 309 gives the Act an immediate effective date. Section 4 of HB 403, section 4 of HB 425, and Section 7 of CSSB 309(Res) are the same. HB 374 has no effective date clause.

TLB:mkr
m3/077

Introduced: 5/4/85
Referred: Resources

IN THE SENATE BY FAIKS, KELLY AND V.FISCHER

SENATE BILL NO. 309

IN THE LEGISLATURE OF THE STATE OF ALASKA

FOURTEENTH LEGISLATURE - FIRST SESSION

A BILL

For an Act entitled: "An Act relating to the royalty value of a natural gas lease on state land; and providing for an effective date."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

* Section 1. FINDING. The legislature finds that to provide for the utilization, development and conservation of gas resources for the maximum benefit of the people of the state, the value of production of gas for purposes of computing the royalty reserved to the state must be based primarily on the contract price of gas rather than the current market value of the gas. This will encourage stable markets, promote investment, assure reasonable energy prices and provide the maximum benefit to the people of the state.

* Sec. 2. AS 38.05.180 is amended by adding a new subsection to read:

(aa) Notwithstanding other provisions of this section, if the royalty share of natural gas reserved to the state under a lease issued under (f) of this section is taken in value, the value of production sold under a long-term sales contract may not be greater than the price received for the production under the long-term sales contract unless it is shown by clear and convincing evidence that the long-term contract price was unreasonably low at the time of contract.

* Sec. 3. This Act applies to leases issued before or after the effective date of this Act.

* Sec. 4. This Act takes effect immediately in accordance with AS 01.-10.070(c).

Offered: 2/20/86
Referred: Rules

Original sponsors: Faiks, Kelly
and V.Fischer

IN THE SENATE BY THE RESOURCES COMMITTEE

CS FOR SENATE BILL NO. 309 (Resources)

IN THE LEGISLATURE OF THE STATE OF ALASKA

FOURTEENTH LEGISLATURE - SECOND SESSION

A BILL

For an Act entitled: "An Act relating to royalty gas contracts; and providing for an effective date."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

* Section 1. FINDINGS. (a) The legislature finds that the best interest of the state will be served if the commissioner of natural resources is authorized to establish the value for royalty gas taken in value by the state and sold to a nonprofit electric utility by using the contract price between the lessee of the state and the nonprofit electric utility, whether or not the royalty gas lease with the state establishes a different standard for the valuation and if the lessee and the nonprofit electric utility are not related to each other. The legislature finds that this authorization should apply prospectively and does not intend the authorization to apply to the valuation of royalty gas that is sold by a lessee of the state under a contract entered into before the effective date of this Act with a nonprofit electric utility.

(b) The legislature finds that it is also in the best interest of the state to give the commissioner explicit discretionary authority to sell royalty gas received in kind by the state to nonprofit electric utilities at a price that is below market value.

(c) The proper exercise of the discretion conferred by this Act on the commissioner would support and complement the other programs that assist the citizens of the state with their long-term electrical needs, including the power cost equalization program under AS 44.83.162 - 44.83.-165 and hydroelectric and other programs for the generation of electricity.

(d) The state should adopt a policy for the sale of royalty gas to nonprofit electric utilities for in-state generation of electricity that is fundamentally different from the policies of the state for the sale of royalty oil and for the sale of royalty gas for export from the state or for uses other than in-state generation of electricity.

* Sec. 2. AS 38.05.180 is amended by adding a new subsection to read:

(aa) Within 90 days after the written request of a lessee of a lease issued under this section, unless the commissioner makes a written finding based on clear and convincing evidence that the contract price is unreasonably low and that a prospective reduction in royalty receipts would not be balanced by increased benefits to electric consumers, the commissioner shall enter into an agreement with the lessee to use the price for the gas established in the contract between the lessee and a nonprofit electric utility, if the lessee and the utility are not related in management, ownership, or other aspect, as the value of the state's royalty share of gas production sold by a lessee of the state to a nonprofit electric utility. In this subsection

(1) "nonprofit electric utility" includes an electric cooperative organized under AS 10.25 and a municipal utility; and

(2) "price for the gas established in the contract" includes tax reimbursement amounts, deliverability and other charges, and other forms of consideration paid by the nonprofit electric utility under the contract.

* Sec. 3. AS 38.05.183(h) is amended by adding a new subsection to read:

(h) The commissioner may enter into a contract to sell royalty gas taken in kind by the state to a nonprofit electric utility at less than the market value of the royalty gas if the commissioner, after

considering the consumer benefits, other benefits, and detriments of the sale, makes a written finding that the sale is in the best interest of the state. In this subsection, "nonprofit electric utility" includes an electric cooperative organized under AS 10.25 and a municipal utility.

* Sec. 4. AS 38.05.810(a) is amended to read:

(a) Except as otherwise provided in AS 38.05.183(h), the [THE] lease, sale, or other disposal of state land or resources may be made to a state or federal agency or political subdivision, or the lease, sale, or disposal of coal deposits suitable for mining may be made to a utility owned and operated by a government agency or nonprofit cooperative association organized to participate under the Federal Rural Electrification Act for the purpose of generating electric power and energy or the production of process steam, or both, for less than the appraised value as determined by the director and approved by the commissioner to be fair and proper and in the best interests of the public, with due consideration given to the nature of the public services or function rendered by the agency, subdivision, or utility making application, and of the terms of the grant under which the land was acquired by the state.

* Sec. 5. Section 2 of this Act applies to contracts entered into on or after the effective date of this Act to sell to nonprofit electric utilities gas produced under a lease issued under AS 38.05.180.

* Sec. 6. Section 3 of this Act applies to contracts entered into by the state on or after the effective date of this Act to sell new quantities of royalty gas to nonprofit electric utilities.

* Sec. 7. This Act takes effect immediately in accordance with AS 01.-10.070(c).

Introduced: 4/26/85
Referred: House Special Committee
on Oil & Gas, Resources and Finance

IN THE HOUSE BY PIGNALBERI

HOUSE BILL NO. 403

IN THE LEGISLATURE OF THE STATE OF ALASKA

FOURTEENTH LEGISLATURE - FIRST SESSION

A BILL

For an Act entitled: "An Act relating to the royalty value of a natural gas lease on state land; and providing for an effective date."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

* Section 1. FINDING. The legislature finds that to provide for the utilization, development and conservation of gas resources for the maximum benefit of the people of the state, the value of production of gas for purposes of computing the royalty reserved to the state must be based primarily on the contract price of gas rather than the current market value of the gas. This will encourage stable markets, promote investment, assure reasonable energy prices and provide the maximum benefit to the people of the state.

* Sec. 2. AS 38.05.180 is amended by adding a new subsection to read:

(aa) Notwithstanding other provisions of this section, if the commissioner issues a gas lease under (f) of this section and the royalty value of the production of gas removed or sold from the lease is measured by a long-term contract price, the commissioner may not adjust the long-term contract price to reflect the current market value of gas if the commissioner determines the current market value price adjustment would result in an increase in the consumer price of the gas or unless the commissioner determines in a written finding supported by clear and convincing evidence that the long term contract price is unreasonably low.

* Sec. 3. This Act applies to leases issued before or after the

effective date of this Act.

* Sec. 4. This Act takes effect immediately in accordance with AS 01.-10.070(c).

Introduced: 2/11/86
Referred: House Special Committee on
Oil & Gas, Resources and Finance

IN THE HOUSE

BY PEARCE,HANLEY,JENKINS
PIGNALBERI AND COLLINS

SPONSOR SUBSTITUTE FOR HOUSE BILL NO. 425

IN THE LEGISLATURE OF THE STATE OF ALASKA

FOURTEENTH LEGISLATURE - SECOND SESSION

A BILL

For an Act entitled: "An Act relating to the royalty value of a natural gas lease on state land; and providing for an effective date."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

* Section 1. FINDING. The legislature finds that to provide for the utilization, development and conservation of gas resources for the maximum benefit of the people of the state, the value of production of gas for purposes of computing the royalty reserved to the state must be based primarily on the contract price of gas rather than the current market value of the gas. This will encourage stable markets, promote investment, assure reasonable energy prices and provide the maximum benefit to the people of the state.

* Sec. 2. AS 38.05.180 is amended by adding a new subsection to read:

(aa) Notwithstanding other provisions of this section, if the royalty share of natural gas reserved to the state under a lease issued by the state under this section is taken in value, the value of production sold under a long-term sales contract may not be greater than the price received for the production under the long-term sales contract unless it is shown by clear and convincing evidence that the long-term contract price was unreasonably low at the time of contract.

* Sec. 3. This Act applies to leases issued before, on, or after the effective date of this Act.

* Sec. 4. This Act takes effect immediately in accordance with AS 01.-10.070(c).

Introduced: 4/12/85
Referred: House Special Committee on
Oil & Gas, Resources and Finance

IN THE HOUSE BY COLLINS AND PIGNALBERI

HOUSE BILL NO. 374

IN THE LEGISLATURE OF THE STATE OF ALASKA

FOURTEENTH LEGISLATURE - FIRST SESSION

A BILL

For an Act entitled: "An Act relating to the lease, sale, or disposal of natural gas for a public use."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

* Section 1. AS 38.05.810(a) is amended to read:

(a) The lease, sale, or other disposal of state land or resources may be made to a state or federal agency or political subdivision, or the lease, sale, or disposal of coal deposits suitable for mining <u>or of natural gas</u> may be made to a utility owned and operated by a government agency or nonprofit cooperative association organized to participate under the Federal Rural Electrification Act for the purpose of generating electric power and energy or the production of process steam, or both, for less than the appraised value as determined by the director and approved by the commissioner to be fair and proper and in the best interests of the public, with due consideration given to the nature of the public services or function rendered by the agency, subdivision, or utility making application, and of the terms of the grant under which the land was acquired by the state.

STATE OF ALASKA
THE LEGISLATURE

LEGISLATIVE AFFAIRS AGENCY

POUCH V - STATE CAPITOL
JUNEAU ALASKA 99811
907-465-3800

MEMORANDUM February 3, 1986

SUBJECT: Sectional analysis of HB 425

TO: Representative Drue Pearce

FROM: Theresa L. Bannister TB
Legislative Counsel

This memorandum contains the sectional analysis that you requested for HB 425.

Section 1 establishes the criteria for valuing the production of royalty natural gas taken in value and sold by the state under an oil or gas property lease.

Section 2 applies section 1 to oil or natural gas property leases issued by the state before the effective date of the act.

Section 3 gives the act an immediate effective date.

TLB:ml
M2/128

IMPACTS OF STATE ROYALTY GAS INCREASE ON RAILBELT CONSUMERS

Alaskans from Fairbanks to Homer face utility bill increases as a result of the Alaska Department of Natural Resources' decision to drastically raise the price of royalty gas in Cook Inlet. For Chugach Electric Association consumers in the Anchorage area, the impacts will be nearly $3 million a year.

DNR's action was taken with virtually no advance notice to the parties involved, to the public or to the State Legislature. Litigation was initiated by the three producers against DNR on the revaluation in April 1985. Chugach is also involved in the litigation.

There are two major aspects of this issue: The additional costs to utility consumers of DNR's actions and, perhaps more important, the fundamental policy question of how royalty valuation is established.

On March 18, 1985, the Department of Natural Resources (DNR) issued a formal notice to the three Beluga River gas field producers -- ARCO, Shell and Chevron -- informing them that DNR would no longer accept royalty payments based on long-term contract price but would require payments based on the "prevailing market value."

This value was initially determined by DNR to be $2.05 per thousand cubic feet (mcf), based on a Shell-ENSTAR (APL II) contract signed in December 1982. By contrast, Chugach currently pays $.26/mcf for its Beluga gas, under long-term contracts on which the DNR had based its royalty price for the past 17 years.

Based on the $2.05/mcf figure, the annual increase to Chugach retail and wholesale consumers would be approximately $2.8 million -- the equivalent of a rate increase averaging about 3 percent. Even under a recent settlement offer by the state which would value the royalty gas at $1.50/mcf, the impact would be approximately $1.9 million annually -- an equivalent rate increase averaging about 2 percent.

Chugach negotiated its Beluga contracts in good faith and at arms length in 1965, and renegotiated with the producers in 1973. The contracts extend to 1998 or whenever 373 billion cubic feet (bcf) of gas is used, whichever comes first. That means the overall impact of the Beluga royalty revaluation alone could total more than $30 million to consumers.

Additional financial impacts on Chugach consumers have resulted or could result from actions similar to or related to the Beluga royalty revaluation. Those actions are:

- a possible revaluation, identical to the state's, by the other Beluga royalty gas owners (the federal government and Cook Inlet Region, Inc.);

- the recent $8.5 million settlement by ENSTAR relative to royalty gas from the Kenai field (raising ENSTAR's Kenai royalty price from $.66 to $1.95, and including retroactive payments);

- an increase in the cost of power purchased from Anchorage Municipal Light & Power, which was substantially impacted by the ENSTAR increase, and

- a possible increase in state gas severance taxes based on the Beluga royalty gas revaluation.

If all these actions occur, the impact on Chugach consumers would be approximately $6 million annually -- the equivalent of about a 6 percent rate increase. Attachment A details the impacts.

Financial impacts also will be felt in the Fairbanks area, because Chugach has been selling wholesale power to Golden Valley Electric Association and Fairbanks Municipal Utility System over the Anchorage-Fairbanks intertie. ML&P also is selling power to Golden Valley. Golden Valley has estimated that its consumers will save more than $600,000 this winter alone through purchases of power from Chugach and ML&P.

Copper Valley Electric Association also is concerned, because the Glenallen-based cooperative wants its consumers from Glenallen to Valdez to be intertied with the Railbelt utilities and reap the benefits of less expensive power.

Approximately three quarters of the state's estimated 560,000 residents live in the Railbelt between Fairbanks and Homer. Chugach serves nearly half the state's population through sales to its own retail consumers and those of Matanuska Electric Association, Homer Electric Association and the City of Seward. Thus, residents of the Matanuska and Susitna Valleys and on the Kenai Peninsula are directly affected.

In addition to the cost increases associated with the existing gas contracts, there is another major -- and perhaps even more important -- impact of DNR's royalty revaluation decision.

This is what could be called the uncertainty factor. If DNR is ultimately successful in setting royalty prices on what <u>it</u> determines to be the prevailing market value of a resource, utilities, producers and other purchasing parties will have no assurance of what future royalty gas components will be. This injects a real measure of insecurity into long-term gas contracts and, for Chugach at least, into power supply planning and ratemaking.

The uncertainty factor is an important public policy question for the state and is one that may well eclipse the cost-increase aspect of any given royalty lease revaluation. It could be argued that settling the price dispute over a specific revaluation without first resolving the underlying policy question is getting the horse before the cart.

It is important to note that although DNR's gas and oil lease form has given rise to dispute and litigation in many instances over the years, DNR has failed to propose regulations defining important lease terms. Proposed regulations would at least allow for a public discussion of the policy questions.

To resolve the problem raised by the state's royalty gas revaluation, Chugach is supporting passage of S.B. 309, or similar bills H.B. 403 and H.B. 425. Each of these bills would require DNR to tie royalty valuation to long-term contract price, thereby resolving the underlying policy question. A copy of each of the bills is attached.

Uncertainty in long-term price for royalty gas raises problems for Chugach and other utilities both in terms of long-term financing for generation projects and in efforts to ensure electric rate stability. Tying royalty price to long-term contract price allows DNR to continue to manage the state's resources for maximum value, while recognizing that these resources do not have a value independent of long-term contracts. DNR would still be permitted, on only six months' written notice, to take its royalty share in kind and sell it directly to a willing purchaser.

ATTACHMENT A

CHUGACH ELECTRIC ASSOCIATION, INC.
Rate Impacts Due to Market Valuation of Royalty Gas

January 10. 1986

	Retail: Dollars	Retail: Percent	Wholesale: Dollars	Wholesale: Percent	Total: Dollars	Total: Percent
Current revenues	$63,200,000		$35,800,000		$99,000,000	
Impacts:						
The state's Beluga royalty revaluation from $.26/mcf to $2.05/mcf	1,501,164	2.38	1,278,769	3.57	2,779,933	2.81
Possible federal/CIRI Beluga revaluation (based on state's $2.05/mcf figure)	1,000,776	1.58	852,513	2.38	1,853,289	1.87
ENSTAR settlement	420,853	0.67	358,505	1.00	779,358	0.79
ML&P rate increase (resulting from ENSTAR settlement)	337,500	0.53	287,500	0.80	625,000	0.63
Possible state gas severance tax increase (based on state's Beluga royalty revaluation)	87,100	0.14	74,196	0.21	161,296	0.16
	$3,347,393	5.30	$2,851,483	7.97	$6,198,876	6.26

STATE OF ALASKA 1986 LEGISLATIVE SESSION
FISCAL NOTE

Revision Date : 2-11-86

REQUEST

Bill/Resolution No. : HB 425
Title : ...Royalty Value of a Natural Gas Lease

Sponsor : Rep. Pearce
Requestor : Oil & Gas Res Comm
Date of Request : 02-11-85

FISCAL DETAIL

Agency Affected : Natural Resources
BRU : Petroleum Management

Components :

EXPENDITURES/REVENUES : (Thousands of Dollars)

OPERATING	FY 86	FY 87	FY 88	FY 89	FY 90	FY 91
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING						
CAPITAL						
REVENUE	(2,300)	(1,900)	(1,900)	(1,900)	(1,900)	(1,900)

FUNDING : (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER						
TOTAL						

POSITIONS :

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS : Attach a separate page if necessary

FY 86 revenue losses include obligations incurred by producers since March 1985 royalty enforcement notice. See attached explanation.

Prepared by Ned Farquhar NF
Division : Commissioner's Office
Phone : 465-2400
Date : 02-11-86

Approved by Commissioner : Mark D Arnold, Deputy
Date : 2/11/86
Agency : Natural Resources

Distribution (by Agency preparing fiscal note) :
- Legislative Finance
- Legislative Sponsor
- Requestor
- Office of Management and Budget
- Impacted Agency(ies)

10/25/85

Fiscal Note Background
for HB 425

Passage of HB 425 would prevent enforcement of existing royalty collection provisions in Beluga Field oil and gas leases, and enforcement of royalty gas provisions in other fields. This fiscal note represents the impact of the legislation only on the Beluga Field royalty collections, although there are likely to be impacts in other fields.

The State issued an enforcement order for the Beluga Field in March, 1985, effective April 15, 1985. While the notice is contested by producers, there have been no payments made; if the notice were implemented as written, the State would currently receive $2.8 million/year in increased royalty payments. Because the State has offered to settle the lawsuit at a lower value than embodied in the enforcement notice, however, the fiscal impact has been estimated at the proposed settlement value ($1.50/mcf) that would be lost if SB 309 passes rather than at the value that would be recovered under the original notice.

Some of the revenue loss will be felt by the Alaska Permanent Fund, which receives 25% of the revenues from state oil and gas leasing. The remainder of the impact will be on the General Fund.

There will be other significant but currently incalculable fiscal impacts from passage of the bill. If the bill passes, the State will not collect full royalty value (as stipulated in existing oil and gas lease forms) prospectively on other state leases producing gas. Additionally, producers may seek retroactive compensation for what they may regard as past royalty overpayments, including several recent settlements on royalty gas pricing in Cook Inlet.

If the Legislature's action affects the State's position regarding valuation of other State royalty oil and gas (most notably North Slope oil) there could be revenue losses amounting to tens or hundreds of millions of dollars.

14-1936
Bannister
2/27/86

IN THE HOUSE

BY THE HOUSE SPECIAL COMMITTEE ON OIL AND GAS

HOUSE BILL NO.

IN THE LEGISLATURE OF THE STATE OF ALASKA

FOURTEENTH LEGISLATURE - SECOND SESSION

A BILL

For an Act entitled: "An Act relating to royalty gas contracts; and providing for an effective date."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

* Section 1. FINDINGS. (a) The legislature finds that the best interest of the state will be served if the commissioner of natural resources is authorized to establish the in-value royalty for gas sold to a gas or electric utility by using the contract price between the lessee of the state and the utility, whether or not the gas lease establishes a different standard for the valuation and if the lessee and the utility are not related to each other. The legislature finds that this authorization should apply prospectively and does not intend the authorization to apply to the valuation for royalty purposes of gas sold by a lessee under a gas sales contract entered into before the effective date of this Act.

(b) The legislature finds that it is also in the best interest of the state to give the commissioner explicit discretionary authority to sell royalty gas received in kind by the state to gas or electric utilities at a price that is below market value.

(c) The legislature finds that the proper exercise of the discretion conferred on the commissioner by this Act would support and complement the other programs that assist the citizens of the state with their long-term gas and electrical needs, including the power cost equalization program under AS 44.83.162 - 44.83.165 and hydroelectric and other programs for the generation of electricity.

(d) The legislature finds that the state should adopt a policy for

the sale of royalty gas to gas or electric utilities for in-state consumer use and in-state generation of electricity that is fundamentally different from the policies of the state for the sale of royalty oil and for the sale of royalty gas for export from the state or for uses other than in-state consumer use and in-state generation of electricity.

* Sec. 2. AS 38.05.180 is amended by adding a new subsection to read:

(aa) Within 90 days after the written request of a lessee of a lease issued under this section, unless the commissioner makes a written finding based on clear and convincing evidence that the contract price is unreasonably low and that a prospective reduction in royalty receipts would not be balanced by increased benefits to in-state gas and electric consumers, the commissioner shall enter into an agreement with the lessee to use the price for the gas established in the contract between the lessee and a gas or electric utility, if the lessee and the utility are not related in management, ownership, or other aspect, as the value of the state's royalty share of gas production sold by the lessee under the contract to the utility. In this subsection

(1) "gas or electric utility" includes an electric cooperative organized under AS 10.25, a municipal utility, and a gas or electric utility regulated under AS 42.05; and

(2) "price for the gas established in the contract" includes tax reimbursement amounts, deliverability and other charges, and other forms of consideration paid by the gas or electric utility under the contract.

* Sec. 3. AS 38.05.183 is amended by adding a new subsection to read:

(h) The commissioner may enter into a contract to sell royalty gas taken in kind by the state to a gas or electric utility at less than the market value of the royalty gas if the commissioner, after

considering the residential consumer benefits, other benefits, and detriments of the sale, makes a written finding that the sale is in the best interest of the state. In this subsection, "gas or electric utility" includes an electric cooperative organized under AS 10.25, a municipal utility, and a gas or electric utility regulated under AS 42.05.

* Sec. 4. AS 38.05.810(a) is amended to read:

(a) <u>Except as otherwise provided in AS 38.05.183(h), the</u> [THE] lease, sale, or other disposal of state land or resources may be made to a state or federal agency or political subdivision, or the lease, sale, or disposal of coal deposits suitable for mining may be made to a utility owned and operated by a government agency or nonprofit cooperative association organized to participate under the Federal Rural Electrification Act for the purpose of generating electric power and energy or the production of process steam, or both, for less than the appraised value as determined by the director and approved by the commissioner to be fair and proper and in the best interests of the public, with due consideration given to the nature of the public services or function rendered by the agency, subdivision, or utility making application, and of the terms of the grant under which the land was acquired by the state.

* Sec. 5. Section 2 of this Act applies to agreements to establish for a lease issued under AS 38.05.180 the in-value royalties on gas production that is sold under a contract entered into on or after the effective date of this Act between the state's lessee and a gas or electric utility.

* Sec. 6. This Act takes effect immediately in accordance with AS 01.-10.070(c).

COOK INLET ROYALTY GAS VALUATION:
An Overview

A Presentation to the
Anchorage Caucus
by:

Esther C. Wunnicke, Commissioner
Alaska Department of Natural Resources

Kay Brown, Director
Division of Oil and Gas
Alaska Department of Natural Resources

Bill Van Dyke, Petroleum Manager
Division of Oil and Gas
Alaska Department of Natural Resources

February 6, 1986

ATTACHMENT 1

2/5/86

COOK INLET GAS SUMMARY

Lease interpretation: Under the terms of its oil and gas lease contracts with the oil companies, the state is entitled to royalty payments determined by the higher of the price received by an oil company under its sales contract, or the value of the gas at the time of production. This means that the price received under a long-term gas sales contract does not control royalty valuation in those instances where inflation and market forces have caused the current value of the gas to be higher than the contract price.

DNR policy:

(1) As land manager for the citizens of the entire state, it is DNR's responsibility to obtain fair value for the state's oil and gas resources by collecting the full royalties to which the state is entitled under its oil and gas leases.

(2) DNR should not selectively abdicate its responsibility to enforce the royalty terms of the Cook Inlet gas leases just because utility companies have agreed as part of their gas purchase contracts to reimburse the oil companies for royalty collections made by the state. Any consumer subsidy should be the result of an affirmative, direct subsidy by the legislature as part of a comprehensive energy policy.

(3) DNR should not divert from uniform enforcement of the oil and gas leases, since such action could, in addition to directly reducing revenues from any leases from which royalties are not fully collected, also indirectly cause a much larger reduction in state revenues by impairing the state's ability to enforce the royalty provisions of the North Slope leases.

The potential consumer impact result from actions by Chugach, not the state. The risk that gas values might escalate to values in excess of the long-term gas sales price was a circumstance foreseen by the parties to those sales contracts. This is demonstrated by the fact that the contracts between the oil company lessees and Chugach Electric Association, Inc. (Chugach) specifically assign to Chugach the risk of any rise in royalty obligations. The state was not a party to those sales contracts. The contract price, the absence of an adequate price escalator or price reopener, and the assignment to Chugach of the risk of increased royalty obligations were all conditions established by contract between Chugach and the lessees without state participation.

Existing law provides an adequate mechanism for long-term royalty certainty: DNR is sympathetic to the desirability of long-term certainty in royalty matters. However, new statutory authorities are not necessary in order to provide such certainty. Royalty certainty can be attained by negotiation of long-term in kind gas sales contracts which parallel the contracts between the state's

lessees and their gas purchasers. This would allow an opportunity for DNR, the royalty board, and the legislature to evaluate the adequacy of the royalty over the life of the contract. This is preferable to being locked into a long-term royalty value set by prices established by lessees without any notice to or participation from the state.

Litigation: Last March DNR notified the Cook Inlet lessees of its determination to enforce the leases. The notices asserted that the most recent (December 1982) major contracts from the Kenai and Beluga River fields (the "APL II contracts") established the current value. These contracts had a base contract price of $2.05 per mcf in 1985. The state subsequently indicated its readiness to accept a lower royalty value if presented with evidence that the current value of gas in Cook Inlet is less than the price established under the APL II contracts. Union, Marathon, ARCO, Chevron and Shell responded to the notices by suing the state.

Recent Cook Inlet Gas Sales Contracts:

Date of Contract	Purchaser	Field	Starting Base Price
1982	APL (Enstar)	Beluga	$2.32
1982	APL (Enstar)	Kenai, Beaver Creek or McArthur River	$2.32
1983	Chugach	Cannery Loop	$1.80
1984	APL (Enstar)	Lewis River	$1.80
1985	Tesoro	Kenai, Beaver Creek or McArthur River	$2.01

Settlements achieved: In the last two months of 1985 DNR's royalty enforcement actions achieved significant success. Settlements relating to gas royalties due on production from the Kenai Field, and involving Marathon, Union, Alaska Pipeline Company (Enstar), CIRI, the U.S. Department of the Interior and the state, yielded the state about $4 million in retroactive royalties, and will bring in excess of $6.5 million per year more than the amounts which would have been paid under the lessees' prior reporting practices (including those increases attributable to the state's 90% interest in federal onshore royalties). Under the lessees' theory, the royalties would have been variously between $0.21 and $0.61 per mcf; under the settlement, the lessees will pay $1.95 per mcf during 1986. The $1.95 is squarely within the gas values established by recent Cook Inlet gas sales contracts, as well as the values established by Enstar's pending rates ($2.1854 for Schedule C purchasers - "Large Commercial Service", and from $1.6480 to $2.0158 for sales to power plants). The settlements confirm the soundness of the royalty enforcement action taken last spring.

Remaining disputes: The major remaining dispute relates to the Beluga River field, the primary source of gas for Chugach.

Settlement negotiations during the last six months have failed to produce any resolution. Options explored have included underlifting the state's royalty share, thus delaying the royalty into the future; an in kind sale to Enstar or Chugach; and an in value settlement. The lessees (ARCO, Chevron and Shell) assert that they should not be required to contribute any monies to any settlement, since their sales contract with Chugach requires Chugach to reimburse the lessees for any additional royalty amount the state collects. Chugach, in turn, has been unwilling to agree to an acceptable value, and has indicated that it will seek legislative relief. Recently, the state made a formal offer to its lessees to settle the dispute for $1.50 per mcf. This offer was rejected, but settlement efforts and discussions continue.

Consumer impact. Chugach estimates that a royalty rate of $2.05 per mcf on state leases would increase retail consumer rates only about 2.38%, assuming the lessees were successful in asserting that their contracts with Chugach permitted them to pass the royalty burden on to Chugach, and further assuming that the APUC permitted Chugach to pass the burden on to its consumers. DNR estimates that a $2.05 royalty would increase state revenues by about $2.8 million per year. Under the $1.50 per mcf settlement offer, the increased royalty income would fall to about $2 million per year, and the magnitude of retail consumer impact would be correspondingly reduced to less than 2%. (A two per cent increase on a monthly bill of $30 would be only $0.60).

ATTACHMENT 2

2/5/86

COOK INLET GAS ROYALTY SETTLEMENTS

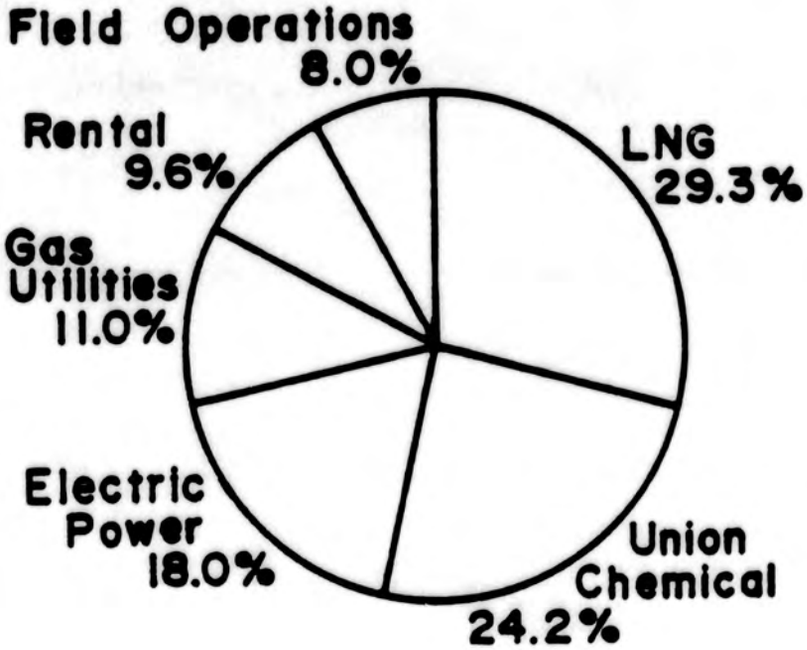
(State leases and State share of federal royalties)

Lessee	Scope of Settlement	Retro-active Payment (millions)	Current Monthly Value Under Settlement (per Mcf)	Estimated Additional Royalties per year (millions)
Phillips	North Cook Inlet Field gas sold as LNG in Japan	$36.3	$2.32	$12.00
Marathon	Kenai field gas sold as LNG in Japan	$ 4.3	$2.32	$ 0.75
Union and Marathon	All of Union's Kenai field gas disposition (including the following: urea/ammonia plant, rental gas, Enstar), plus Marathon's dispostions to Enstar under Enstar's 1975 contract	$ 4.1	$1.95	6.90
	Total	$44.7		$19.65

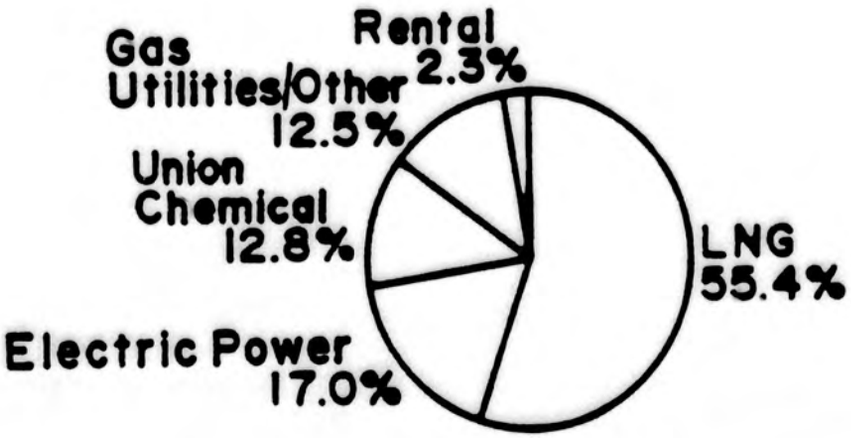
ATTACHMENT 3

COOK INLET

Total Sales



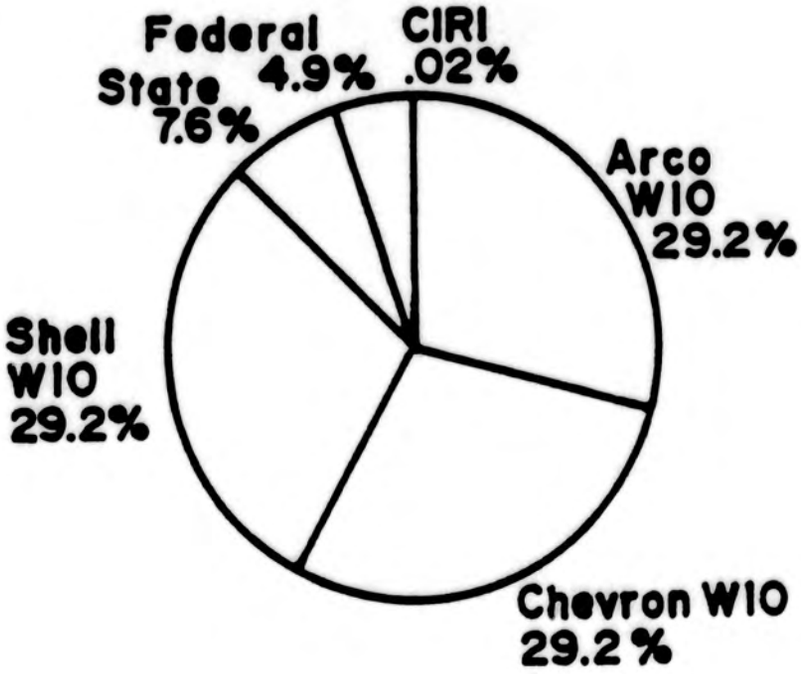
State Royalty Disposition



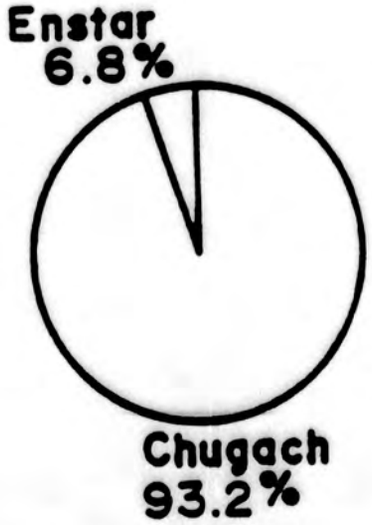
ATTACHMENT 4

BELUGA FIELD

Royalty And Working Interest Ownership

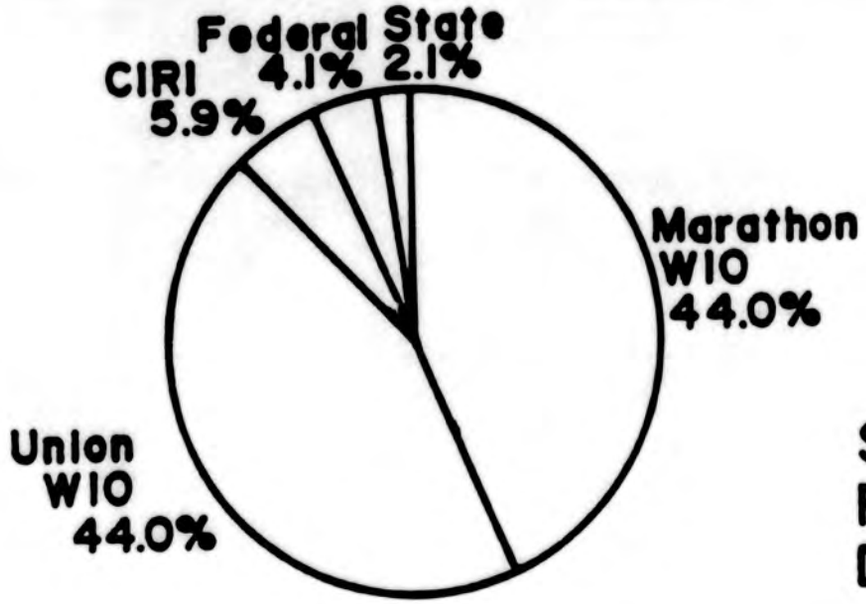


State Royalty Disposition

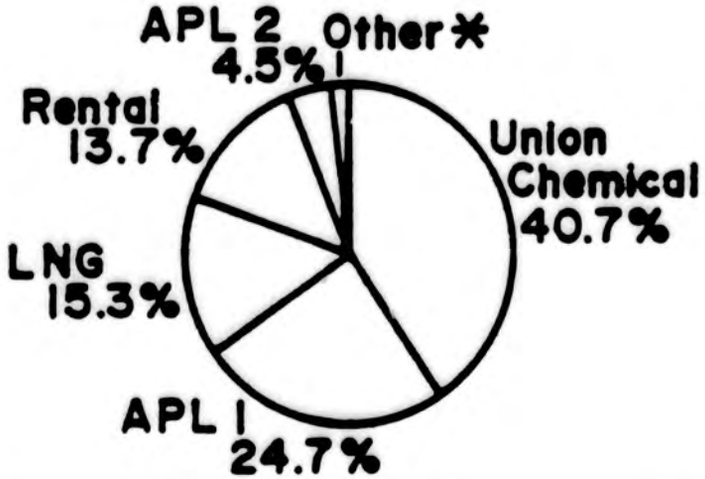


KENAI FIELD

Royalty And Working Interest Ownership



State Royalty Disposition



* APL-Nikiski 0.4%
Union-Chevron Exchange 0.2%
City Of Kenai 0.5%

COOK INLET GAS PRODUCTION
(For 1984)

	Total MMCF/Month	State Royalty MMCF/Month
Beluga River Field		
For: Chugach	1673	125
Enstar	121	9
Total	1794	134
Kenai Field		
For: APL 1	2029	42
APL 2	369	8
APL Nikiski	31	1
APL Kenai	41	1
Union Chevron Ex	16	1
Rental gas	741	15
Rental gas extra	389	8
Ammonia-Urea	3352	67
LNG	1261	25
Total	8229	168
McArthur River Field		
For: Rental gas and ammonia-urea	355	44
Beaver Creek Field		
For: APL 2	789	0
Lewis River Field		
For: APL 2	153	19
North Cook Inlet Field		
For: LNG	3932	491
GRAND TOTAL	15,250	856

ATTACHMENT 7

Excerpts from Lease Form DL-1
Pertaining to the Pricing of Royalty Products

11. ROYALTY ON PRODUCTION. Except for oil and gas used on said land for development and production or unavoidably lost, Lessee shall pay Lessor as royalty the following:

(a) On oil 12-1/2 percent in amount or value of the oil produced and saved and removed or sold from said land.

(b) On gas 12-1/2 percent in amount or value of the gas produced and saved and sold or used off said land or used for the extraction of natural gasoline or other products therefrom.

(c) On associated substances 12-1/2 percent in amount or value of such substances produced and saved and removed or sold from said lands.

15. ROYALTY IN VALUE. At the option of Lessor, which may be exercised from time to time upon not less than six months' notice to Lessee, and in lieu of royalty in kind, Lessee shall pay to Lessor the field market price or value at the well of all royalty oil and/or gas. All royalty that may become payable in money to Lessor shall be paid on or before the last day of the calendar month following the month in which the oil or gas is produced. The payments shall be accompanied by copies of run tickets or other satisfactory evidence of sales, shipments, and amounts or gross production.

16. PRICE. The field market price or value of royalty oil or gas shall not be less than the highest of: (1) The price actually paid or agreed to be paid to Lessee at the well by the purchaser thereof, if any; or (2) The posted price of Lessee in the field for such oil or gas at the well, if any; or, (3) The prevailing price received by other producers in the field at the well for oil of like grade and gravity or gas of like kind and quality at the time such oil or gas is removed from said land or run into storage, or such gas is delivered to an extraction plant.

RECENT CONTRACTS AND PURCHASE AGREEMENTS

	Purchaser	Field or Seller	Starting Base Price
1977	Pac Alaska	Cook Inlet	$1.46 per mcf
1982	Enstar	Beluga River	$2.32
1982	Enstar	Beaver Creek Field	$2.32
1982-83	Chugach (Peaking Gas)	Beluga River	$1.40-1.60
1983	Chugach	Cannery Loop	$1.80
1984	Enstar	Lewis River	$1.80
1985	Tesoro	Marathon	$2.01
1985	AEG&T (Homer Electric)	Enstar	$2.04
1985	ML&P (Anchorage)	Enstar	$1.60

ALLOCATION OF GAS SOLD FOR CONSUMER USE
(Assuming the State Prevails in the Pricing Dispute)

	TOTAL MMCF/MONTH	STATE ROYALTY SHARE MMCF/MONTH
Beluga River Field		
Chugach - low priced	1548	0
- high priced	125	125
Enstar - high priced	121	9
Kenai Field		
Enstar (APL 1) - low priced	1776	0
- high priced	254	42
Enstar (APL 2) - high priced	368	8
Enstar (Nikiski) - low priced	32	1
Enstar (City of Kenai) - low priced	41	1
Beaver Creek Field		
Enstar - high priced	789	0
Lewis River Field		
Enstar - high priced	153	19
Subtotal - low priced	3397	2
Subtotal - high priced	1810	203
GRAND TOTAL - all prices	5207	205

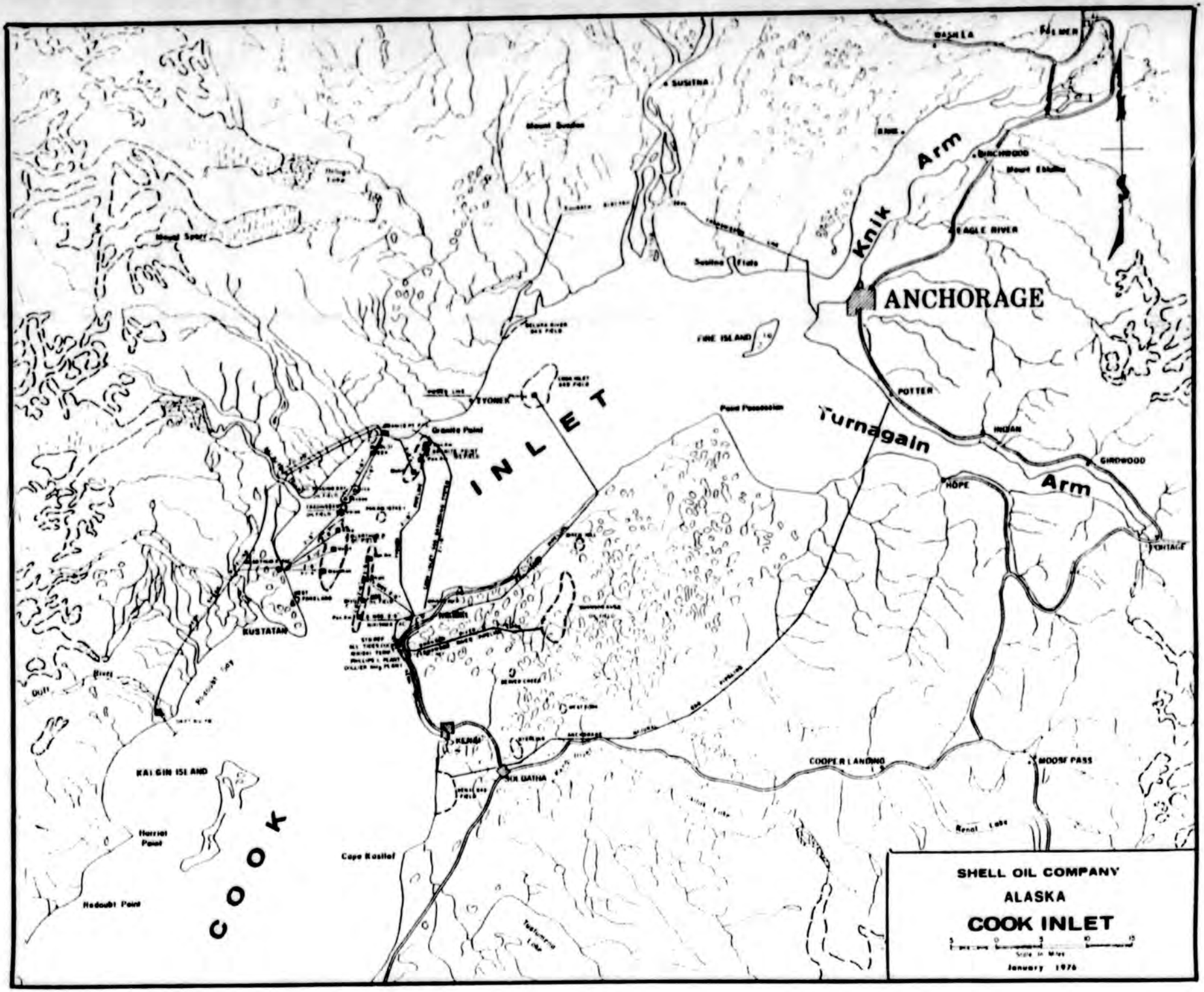
ATTACHMENT 10

2/5/86

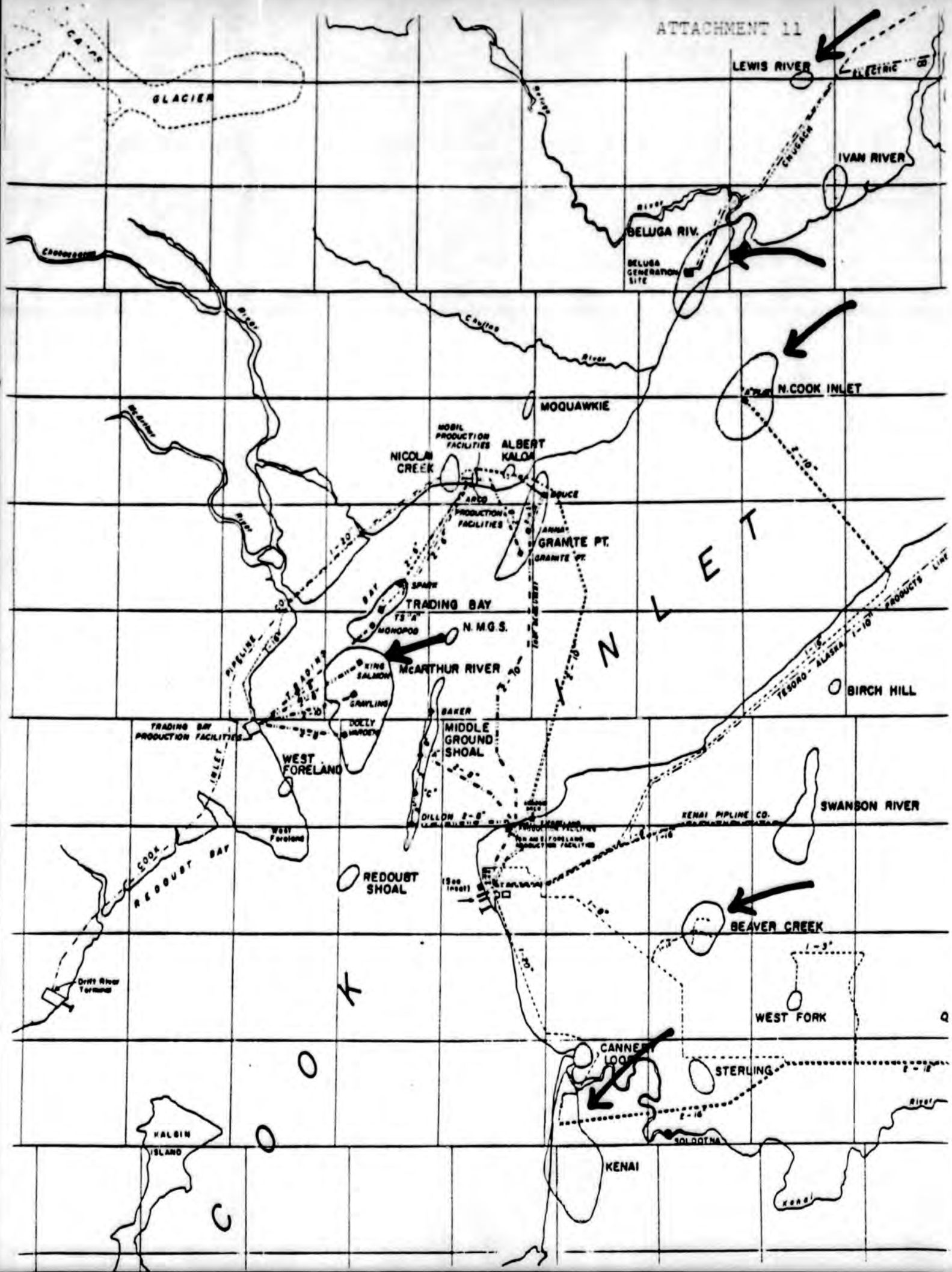
COOK INLET GAS ROYALTY CHRONOLOGY

Month	Year	Description of Event
March	1964	Foster v. Atlantic Refining Company, 329 F.2d 485 (5th Cir. 1964) holds that long-term contract price does not control royalty valuation when market value rises, even if this is burdensome on the lessee.
May	1965	Chugach Electric Association, Inc. enters into 20 year contracts with ARCO, Chevron and Shell for Beluga River gas, with an initial price of 15.2 cents per mcf, subject to a volume limit.
January	1973	Chugach renegotiates its 1965 contracts, extending the term to 1998 (unless the new, higher volume limit is reached earlier). The 1986 base price under those contracts is about 21 cents per mcf.
November	1982	Chugach obtains supplemental gas deliveries under the 1973 contract at a base price of $1.48 per Mmbtu (approximately equivalent to $1.48 per mcf).
December	1982	Alaska Pipeline Company (Enstar) signs contracts for gas deliveries from Beluga River (with Shell) and Kenai (with Marathon) at a price of $2.32 per mcf, with annual adjustments based upon fuel price fluctuations (the "APL-II" contracts). This is the first totally new contract for Beluga River gas subsequent to the 1973 Chugach contract under which there were any deliveries.
March	1984	Piney Woods County Life School v. Shell Oil Company, 726 F.2d 225 (5th Cir. 1984), reh. den. 750 F.2d 69, cert. den. 105 S.Ct. 1868 (1985) reaffirms the soundness and continued validity of the rule in Foster, above.
May	1984	The state and Phillips settle their dispute concerning the valuation of Cook Inlet gas from state leases which is sold as LNG in Japan, using a formula which initially yields a royalty of $2.40 per mcf.
May	1984	The federal government informs Union that virtually all gas royalties from the Kenai field, including gas sold under below-current-market, long-term contracts with Enstar, must be valued in accordance with the price under the APL-II contracts.
November	1984	DNR determines, in consultation with the Department of Law, to enforce the Cook Inlet lease terms requiring payment of gas royalty on the basis of current value.

February	1985	U.S. District Judge Fitzgerald rules that Marathon must pay royalties on Kenai Field gas sold as LNG in Japan based upon the Japan sales price, less costs of transportation. Marathon calculates the netback value under the order to be about $3.00 per mcf, while the federal government calculates the value to be about $3.60 per mcf. The accounting remains in dispute in District Court, while the District Court's February 1985 decision is under appeal to the Ninth Circuit.
March	1985	By written notice, DNR informs its Cook Inlet lessees of its determination to enforce the royalty requirements of the leases.
May/June	1985	All Cook Inlet gas producers file separate lawsuits seeking judicial declaration of their royalty obligations under the leases.
July	1985	The state and Marathon settle their dispute concerning the royalty value of Kenai Field gas sold as LNG in Japan in accordance with the terms of the May 1984 Phillips settlement.
November	1985	The state, federal government and CIRI (all royalty owners in the Kenai field) settle most royalty issues for production from the Kenai field. Most significantly, royalty on gas used in Union's urea and ammonia plant and used to promote greater oil production from the Swanson River oil field, is set at $1.85 per mcf for 1985 and $1.95 per mcf for 1986, with annual adjustments thereafter based upon fluctuations in fuel oil prices.
November	1985	The Secretary of the Interior issues a definitive order holding that Cook Inlet gas sold by Union and Marathon to Enstar must be valued for royalty purposes according to current market values.
December	1985	The state, federal government and CIRI enter into a settlement agreement on the value of the royalty on Kenai gas sold to Enstar under long-term contracts. Under this settlement, the royalty owners receive $1.85 per mcf for the part of 1985 at issue, and will receive $1.95 per mcf for 1986 production, with annual adjustment thereafter based upon fluctuations in the oil prices.
January	1986	The state offers to the producers to settle the dispute concerning the royalty value of gas sold to Chugach. This $1.50 per mcf offer is rejected by the producers, but settlement discussions continue.


SHELL OIL COMPANY
ALASKA
COOK INLET
January 1976
ANCHORAGE
Knik Arm
Turnagain Arm
COOK INLET
WASILLA
PALMER
SUSITNA
BIRCHWOOD
EAGLE RIVER
POTTER
INDIAN
GIRDWOOD
HOPE
PORTAGE
FIRE ISLAND
Point Possession
Susitna Flats
Mount Sudden
Mount Sparr
TYONEK
Granite Point
KUSTATAN
KENAI
SOLDATNA
COOPER LANDING
MOOSE PASS
KALGIN ISLAND
Harriet Point
Redoubt Point
Cape Kasilof
Renal Lake

ATTACHMENT 11



SCOMM

#46:22

Department of Commerce & Economic Development / POSITION PAPER

Department of Commerce and Economic Development Position Paper on HB 445, entitled "An Act relating to information on royalty oil and gas."

The Department of Commerce and Economic Development (DCED) does not oppose this bill but raises some questions on the appropriateness of the task's placement under its purview.

The department currently does not engage in an activity related to the oil and refining industries similar in nature to the one proposed by HB 445. Hence, an appropriate amount of start-up costs will have to be incurred to get the system going. Meanwhile, the Department of Natural Resources (DNR) already collects the information on the sale volume and prices of royalty oil and gas.

In addition, DNR is required to perform projections of future oil and gas consumption in the State. Such projections could be made more reliably by demand and supply market analysis of refined products. Retail prices collected as a requirement of HB 445 would be an inseparable part of demand projections of refined products.

However, a certain amount of duplication of effort may be acceptable in exchange for other benefits derived by holding DCED responsible with the execution of the Act's requirements. The following suggestions for the program are made with this in mind.

The Department suggests that the ammendment to AS 38.05.183, Section 1, paragraph j, be extended to require reporting of refinery product prices, not just volumes. As it stands, item 2 of that paragraph is ambiguous.

Because there are few crude oil and gas producers and few refiners in the state, information collected from these sources should become a routine after the first year. A more difficult task would be tracking the wholesalers' and retailers' prices on a regional basis. The distribution component of products rapidly multiplies the number of contacts to be made in order to collect the required information. Consequently, a surveying approach is proposed for this component of the program. Surveys will be conducted only quarterly and some regions will be consolidated to keep costs down. If the number of wholesalers and retailers are large, a statistical sample will be used, again for cost containment reasons.

A major concern of the Act would be to conduct analyses based on the information collected, in order to answer policy questions. These questions may involve supply of cheap oil and gas to refiners to keep final product prices low, determination of the reasons for regional higher product prices or the maximization of state revenues received from royalty oil and gas. For this reason, we request an Economist II position, who will respond to analysis requests from the Legislature.

Loren H. Lounsbury
Commissioner

2/12/86
Date

LHL/ss00560
021286a

STATE OF ALASKA 1986 LEGISLATIVE SESSION
FISCAL NOTE

Revision Date : _____

REQUEST

Bill/Resolution No. : CS HB 445
Title : An Act relating to information on royalty oil and gas.

Sponsor : Marco A. Pignalberi
Requestor : _____
Date of Request : _____

FISCAL DETAIL

Agency Affected : Commerce & Econ. Dev.
BRU : Economic Development Advocates

Components : Research Analysis and Support

EXPENDITURES/REVENUES : (Thousands of Dollars)

OPERATING	FY 86	FY 87	FY 88	FY 89	FY 90	FY 91
PERSONAL SERVICES	-0-	98.2	101.1	104.1	107.2	110.4
TRAVEL	-0-	6.3	3.2	3.3	3.4	3.5
CONTRACTUAL	-0-	39.4	38.4	39.6	40.8	42.0
SUPPLIES	-0-	3.1	2.0	2.1	2.2	2.3
EQUIPMENT	-0-	9.3	1.0	1.0	1.1	1.1
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	-0-	156.3	145.7	150.1	154.7	159.3
CAPITAL						
REVENUE						

FUNDING : (Thousands of Dollars)

GENERAL FUND	-0-	156.3	145.7	150.1	154.7	159.3
FEDERAL FUNDS						
OTHER						
TOTAL	-0-	156.3	145.7	150.1	154.7	159.3

POSITIONS :

FULL-TIME	-0-	2	2	2	2	2
PART-TIME	-0-					
TEMPORARY	-0-					

ANALYSIS : Attach a separate page if necessary

Note: A 37% inflation rate is used from FY 88 through FY 91.

Prepared by : Orhan Yildiz
Phone : 465-2017
Division : Research Analysis and Support
Date : 2/12/86

Approved by Commissioner : _____
Date : 2/12/86
Agency : Commerce and Economic Development

Distribution (by Agency preparing fiscal note) :
Legislative Finance
Legislative Sponsor
Requestor
Office of Management and Budget
Impacted Agency(ies)

10/25/85

1596M

CONTINUATION of FISCAL NOTE ANALYSIS

For Bill/Resolution No. CS HB 445

Assumptions: This fiscal note is prepared with the assumption that the mandates of the proposed HB445 will be an addition to the existing tasks of the Economic Analysis Section, which is part of the Economic Development Advocates BRU. In preparing an estimate of personal services the FY 86 salary schedule and the FY 87 benefit schedule (Appendix C of FY87 budget instructions) were used.

Additionally, it is assumed that the royalty oil and gas related volume and price statistics will be obtained directly from the Department of Natural Resources, which currently compiles this information. Hence, the estimates of personal services and travel expenditures reflect this assumption.

Part of the data will be collected through reports of refiners. It is assumed that refiners will be required to report not only the volume and price of royalty oil purchased, but also the prices and volume of the slate they produce. The wholesale and retail prices for refined products will require periodic regional surveys. Here we propose a quarterly survey to be done by a subcontractor.

Program Summary: Collect and compile information on the price and volume of royalty oil and gas, and refinery products from the royalty fuels. Produce a monthly report of average regional production and prices. Prepare an annual summary report, with a brief description of the regional market conditions for various refined products and the impact of possible alternatives in allocating the royalty fuels among in-state refiners.

1. Positions: Two new positions, an Economist II and a Research Analyst II, will be added to the existing staff of the Economic Analysis Section. They will be supervised by an existing Economist III to assure timely production of reports and analysis. See the attached position descriptions.

2. Other Expenditures: A survey of wholesale and retail prices will be subcontracted. There will also be travel expenditures to initially establish the reporting format and requirements of the refiners and subsequently to perform occasional audits to establish reliability of information. Equipment purchases (personal computers) will be made to facilitate compilation and analysis of data. Other contractual expenditures will be mostly the cost of preparing monthly reports. The cost breakdown of expenditures, other than personal services, is given on the following page.

CONTINUATION of FISCAL NOTE ANALYSIS

For Bill/Resolution No. CS HB 445

Travel:	
5 trips to refineries (@ $352 each)	$1,760
5 trips to oil and gas producers (@ $422)	2,110
Per diem expenditures (30 days)	2,400
TOTAL	$6,270
Contractual:	
Survey of wholesalers and retailers	$28,000
Publications (printing)	7,000
Mailing	1,000
Telephone Communications	2,400
Computer Softwares	1,000
Maintenance	800
TOTAL	$40,200
Supplies:	
Stationary & copier supplies	$ 400
Forms	400
Desk Supplies	800
Data Processing supplies	1,500
TOTAL	$3,100
Equipment:	
Chairs and bookcases	$ 600
Electronic calculators	300
Two wang workstations (@ 3.5 each)	7,000
Wang installation	600
TOTAL	$8,500

Position Title	No. of Positions	Range/Step	Barg. Unit	Gov.	Approv.	Disapp.
Research Analyst II	1	16	6			

Time Status	Staff Months	RP Number	Location	Election District	Lab.		
FTP	12		Juneau				

Type of Expenditure		Amount
1	2	3
Salary	32.4	
Benefits	10.3	
Premium Pay		
Other		
Total Personal Services		42.7
Travel		3.2
Contractual		19.7
Commodities		1.6
Equipment		4.7
Other		
Total Cost		29.2

Receipt Code	Funding Source		
	Federal Receipts	1002	
	G. F. Match	1003	
	General Funds	1004	71.9
	I-A Receipts	1005	
	Program Receipts	1028	
	CIP Receipts	1061	
	Other		

For B&M Use Only
Key Number __ __ - __ __ - __ __ - __ __ - __ __

Justification

Research Analyst II will contact the Department of Natural Resources, crude oil and gas producers, refiners and the subcontractor to receive volume and price data on products in a timely manner. He will enter this information on the computer and perform necessary computations to produce the monthly report. RA II will train the suppliers of information on how to fill forms and check the consistency of provided data.

Request For New Position

Agency: Commerce & Economic Development
BRU: Economic Development Advocates
Component: Research, Analysis & Support

Page of
Revised Date

FY 87

Position Title	No. of Positions	Range/Step	Barg. Unit	Gov.	Approv.	Disapp.
Economist II	1	20A	G			

Time Status	Staff Months	RP Number	Location	Election District	Leg.		
FTP	12		Juneau				

Type of Expenditure		Amount
1	2	3
Salary	42.8	
Benefits	12.7	
Premium Pay		
Other		
Total Personal Services		55.5
Travel		3.1
Contractual		15.7
Commodities		1.5
Equipment		4.7
Other		
Total Cost		29.0

Receipt Code	Funding Source		
	Federal Receipts	1002	
	G. F. Match	1003	
	General Funds	1004	84.5
	I-A Receipts	1005	
	Program Receipts	1028	
	CIP Receipts	1061	
	Other		

For B&M Use Only
Key Number ___ - ___ - ___ - ___ - ___

Justification

The Economist II in FY 87 will draft a reporting form for the refiners and a survey questionnaire for refined product retailers and wholesalers; write a request for proposal to subcontract four quarterly surveys of retail and wholesale prices of refined products; design the data compilation and analysis of collected information; and write up the monthly and annual summary reports. The Economist II will supervise the Research Analyst II, who will be responsible for day-to-day contact with sources and collection of information.

Request For New Position

Agency: Commerce & Economic Development
BRU: Economic Development Advocates
Component: Research, Analysis & Support

Page of
Revised Date

FY 87

Bannister
2/20/86

Original sponsor: Pignalberi

IN THE HOUSE BY THE HOUSE SPECIAL COMMITTEE ON OIL AND GAS

CS FOR HOUSE BILL NO. 445 (Oil & Gas)

IN THE LEGISLATURE OF THE STATE OF ALASKA

FOURTEENTH LEGISLATURE - SECOND SESSION

A BILL

For an Act entitled: "An Act relating to information on royalty oil and gas."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

* Section 1. AS 38.05.183 is amended by adding new subsections to read:

(h) The department shall collect and compile information necessary to determine on a monthly basis a representative

(1) price paid for state royalty oil and gas by in-state refiners;

(2) refinery gate sales price of in-state refined fuel products;

(3) wholesale or market exchange sales price of in-state refined fuel products; and

(4) retail price of in-state refined fuel products.

(i) The commissioner may not enter into a noncompetitively-bid contract of more than one yea- for the sale of state royalty oil or gas to an in-state refiner unless the refiner agrees to provide information to, and assist or allow the collection of information by, the department on a monthly basis to determine the representative monthly wholesale price, market exchange sales price, and refinery gate sales price of the in-state refined fuel products of the refiner.

(j) A person who contracts to purchase royalty oil from the state under this section under a noncompetitively-bid contract of more than one year for in-state use shall provide to the commissioner, during the period that the purchaser takes, refines, transports, or

otherwise deals with the purchased royalty oil, a report for the preceding month that indicates for the purchased royalty oil

(1) the volume of oil taken;

(2) the products, including residual oil, produced from the oil;

(3) the volume of oil sold in the state; and

(4) the volume of oil exported from the state.

* Sec. 2. AS 38.05.965 is amended by adding a new paragraph to read:

(24) "fuel products" means all oil and gas refined products produced at an in-state refinery from state royalty oil and gas.

* Sec. 3. AS 38.05.183(j) enacted by sec. 1 of this Act applies to noncompetitively-bid contracts of more than one year for the purchase of royalty oil for in-state use from the state that are entered into on or after the effective date of this Act.

STATE OF ALASKA 1986 LEGISLATIVE SESSION
FISCAL NOTE

Revision Date : 2/19/86

REQUEST

Bill/Resolution No. : CSHB 445
Title : An Act Requiring Refiners TO Submit...

Sponsor : Pignalberi
Requestor : Pignalberi
Date of Request : 2/17/86

FISCAL DETAIL

Agency Affected : Natural Resources
BRU : Oil & Gas

Components :

EXPENDITURES/REVENUES : (Thousands of Dollars)

OPERATING	FY 86	FY 87	FY 88	FY 89	FY 90	FY 91
PERSONAL SERVICES	3900	3900	3900	3900	3900	3900
TRAVEL	.500	.500	.500	.500	.500	.500
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	4400	4400	4400	4400	4400	4400
CAPITAL						
REVENUE						

FUNDING : (Thousands of Dollars)

GENERAL FUND	4400	4400	4400	4400	4400	4400
FEDERAL FUNDS						
OTHER						
TOTAL						

POSITIONS :

FULL-TIME						
PART-TIME	1/12	1/12	1/12	1/12	1/12	1/12
TEMPORARY						

ANALYSIS : Attach a separate page if necessary

Prepared by : Ned Farquhar
Division : Commissioner's Office
Phone : 465-2400
Date : 465-2400

Approved by Commissioner : Esther C. Wunnicke
Date : 2-19-86
Agency : Department of Natural Resources

Distribution (by Agency preparing fiscal note) :
- Legislative Finance
- Legislative Sponsor
- Requestor
- Office of Management and Budget
- Impacted Agency(ies)

10/25/85

STATE OF ALASKA 1986 LEGISLATIVE SESSION
FISCAL NOTE

Revision Date : _____

REQUEST

Bill/Resolution No. : CSHB 445
Title : An Act relating to information on royalty oil and gas.

Sponsor : Marco A. Pignalberi
Requestor :
Date of Request :

FISCAL DETAIL

Agency Affected : Commerce & Economic Development
BRU : Economic Development Advocates

Components : Research and Support

EXPENDITURES/REVENUES : (Thousands of Dollars)

OPERATING	FY 86	FY 87	FY 88	FY 89	FY 90	FY 91
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL	-0-	55.0	58.0	60.6	63.0	65.5
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	-0-	55.0	58.0	60.6	63.0	65.5
CAPITAL						
REVENUE						

FUNDING : (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER						
TOTAL						

POSITIONS :

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS : Attach a separate page if necessary

DCED plans to subcontract the task in the form of a telephone survey and report the results of this survey on a monthly basis. It is assumed that transactions of royalty oil and refined products, as well as transaction prices, will be reported to DCED by oil producers and refiners.

Prepared by : Orhan Yildiz, Chief Economist Phone : 465-2079
Division : Research and Support Date : February 13, 1986

Approved by Commissioner : _____ Date : 2/13/86
Agency : Commerce & Economic Development

Distribution (by Agency preparing fiscal note) :
- Legislative Finance
- Legislative Sponsor
- Requestor
- Office of Management and Budget
- Impacted Agency(ies)

10/25/85

3365m21386a

Bannister
2/19/86

Original sponsor: Pignalberi

IN THE HOUSE

BY THE HOUSE SPECIAL COMMITTEE ON OIL AND GAS

CS FOR HOUSE BILL NO. 445 (Oil & Gas)

IN THE LEGISLATURE OF THE STATE OF ALASKA

FOURTEENTH LEGISLATURE - SECOND SESSION

A BILL

For an Act entitled: "An Act relating to information on royalty oil and gas."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

* Section 1. AS 38.05.183 is amended by adding new subsections to read:

(h) The department shall collect and compile information necessary to determine on a monthly basis a representative monthly

(1) price paid for state royalty oil and gas by in-state refiners;

(2) retail price of in-state refined fuel products;

(3) refinery gate sales price of in-state refined fuel products; and

(4) wholesale or market exchange sales price of in-state refined fuel products.

(i) The commissioner may not enter into a contract for the sale of state royalty oil or gas to an in-state refiner unless the refiner agrees to provide information to, and assist or allow the collection of information by, the department on a monthly basis to determine the representative monthly wholesale price, market exchange sales price, and refinery gate sales price of its in-state refined fuel products.

(j) A person who contracts to purchase royalty oil from the state under this section shall provide to the commissioner, during the period that the purchaser takes, refines, transports, or otherwise deals with the purchased royalty oil, a report for the preceding month that indicates for the purchased royalty oil

(1) the volume of oil taken;

(2) the products, including residual oil, produced from the oil;

(3) the volume of oil sold in the state; and

(4) the volume of oil exported from the state.

* Sec. 2. AS 38.05.965 is amended by adding a new paragraph to read:

(24) "fuel products" means all oil and gas refined products produced at an in-state refinery from state royalty oil and gas.

* Sec. 3. AS 38.05.183(j) enacted by sec. 1 of this Act applies to contracts for the purchase of royalty oil from the state that are entered into on or after the effective date of this Act.

Bannister
1/30/86

Original sponsor: Pignalberi

IN THE HOUSE BY THE HOUSE SPECIAL COMMITTEE ON OIL AND GAS

CS FOR HOUSE BILL NO. 445 (Oil & Gas)

IN THE LEGISLATURE OF THE STATE OF ALASKA

FOURTEENTH LEGISLATURE - SECOND SESSION

A BILL

For an Act entitled: "An Act relating to information on royalty oil and gas."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

* Section 1. AS 38.05.183 is amended by adding new subsections to read:

(h) The Department of Commerce and Economic Development shall collect and compile information necessary to determine on a monthly basis the representative ^ monthly

(1) price paid for state royalty oil and gas by in-state refiners;

(2) retail price of in-state refined fuel products;

(3) refinery gate sales price of in-state refined fuel products; and

(4) wholesale or market exchange sales price of in-state refined fuel products.

(i) The commissioner may not enter into a contract for the sale of state royalty oil or gas to an in-state refiner unless the refiner agrees to provide information to, and assist or allow the collection of information by, the Department of Commerce and Economic Development on a monthly basis to determine the average monthly wholesale price, market exchange sales price, and refinery gate sales price of its in-state refined fuel products.

(j) A person who ^ contracts to purchase royalty oil from the state ^ after the effective date of this act under this section shall provide to the commissioner, during the period that the

purchased royalty oil, a report for the preceding month that indicates for the purchased royalty oil

(1) the volume of oil taken;

(2) the products, including residual oil, produced from the oil;

(3) the volume of oil sold in the state; and

(4) the volume of oil exported from the state.

* Sec. 2. AS 38.05.965 is amended by adding a new paragraph to read:

(24) "fuel products" means all oil and gas refined products produced at an in-state refinery from state royalty oil and gas.

* Sec. 3. AS 44.33.020 is amended by adding a new paragraph to read:

(28) collect and compile information necessary to determine on a monthly basis the representative monthly prices of

(A) royalty oil and gas purchased from the state; and

(B) fuel products sold by in-state refiners and made from royalty oil or gas purchased from the state.

STATE OF ALASKA

BILL SHEFFIELD, GOVERNOR

DEPARTMENT OF NATURAL RESOURCES

POUCH M
JUNEAU, ALASKA 99811
PHONE: 907-465-2400

OFFICE OF THE COMMISSIONER

February 7, 1986

The Honorable Marco Pignalberi
Alaska State Legislature
P.O. Box V
Juneau, AK 99811

Dear Representative Pignalberi:

As you requested, the Department has examined House Bill 445, which is entitled "An Act relating to information on royalty oil and gas." The bill calls for the submission and gathering of a variety of data to enable precise estimates of the consumer benefits attributable to in-state royalty oil contracts. The availability of such data would enhance considerably the department's ability to address this very complex and recurring question.

The department annually gathers the data mentioned in this bill that pertain to the regional and intrastate movement of refined products. That task represents a large share of the staff time embodied in the Historical and Projected Oil and Gas Consumption report. As was mentioned in my letter to you of February 4, 1986, some reporting requirements are also contained in the royalty contracts held by Tesorc and Chevron. A similar clause appears in the Petro Star/Chevron royalty contract presently before the Legislature.

With some exceptions, the new data sought under House Bill 445 relates to wholesale and retail product prices. The implementation of the reporting and data gathering system for those prices is the department's main area of concern with this bill. The foremost difficulty with obtaining such data stems from the language of the royalty oil contracts presently in force or before the Legislature. MAPCO, Tesoro, and Chevron, which together nearly constitute the State's refining industry, did not negotiate their long-term royalty oil contracts with price reporting provisions. Such a provision would doubtless be regarded as a material item by those refiners.

The absence of direct wholesale information from those refiners severely undermines the ability of this or any other department to gather such data. Of the first set of four data items listed in this legislation, the refinery

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gate sales price (3) and the wholesale and market exchange sales price (4) would be affected by this limitation. As presently written, a number of areas would also be left to the interpretation of the agency charged with this task. For example, the distinction between refinery gate, wholesale, and market exchange prices is not clear.

The interpretation of the term "regional" as it corresponds to "average" may also prove troublesome. For instance, the second data item shown in the bill refers to the retail price of refined products. While such prices would be relatively easy to gather, they vary substantially within the State according to region. Further, considerable price variation can be expected within any region selected since transportation costs, even over small distances, account for much of that variation. A hypothetical region such as Western Alaska, where retail prices in Dutch Harbor are markedly less than those of Bethel, is a case in point. The retail price differentials between Fairbanks and remote locations in the Interior region provide a further example. Since there are nearly as many "retail price regions" as there are remote settlements in Alaska, the attempt to produce average retail prices on a regional basis, if this is intended, would not yield meaningful figures.

The apparent utility of the data requested is to learn the price effects of state royalty oil contracts. However, the task of relating retail prices to refinery gate prices, even when available, is much complicated by the interim activities of transportation and distribution. In that process, the ownership of refined products may change several times before reaching the final consumer. These factors are a prime obstacle to a satisfactory measurement of the price effects of royalty oil contracts to in-state refiners. The measurement of those price effects must entail a comparison to some base case. That base case would be the price of Alaska refined products in the absence of state royalty oil contracts. This in turn depends on the actual cost of refining, including the amortization of refinery capital stock at present value. Such sensitive cost data would not likely be made available to the State. Generally, the price advantages traceable to a royalty oil contract could not exceed the difference between the cost of royalty oil and the cost of alternative feedstocks, plus what value the purchasers may place on the advantages of a long-term contract.

The cost to the department of implementing this bill is very dependent on which agency is given the task of compiling the information, the bill's interpretation, and the degree of cooperation from in-state refiners. As now written, the

fiscal impact in DNR is negligible since the Department of Commerce and Economic Development is responsible for compiling the information. If it is decided to give DNR this responsibility and under the most demanding interpretation with no cooperation from in-state refiners beyond their present contractual obligations, the department conservatively estimates that the equivalent of one staff member would be permanently assigned to this task. This preliminary estimate is based on a discussion with staff from the University's Institute of Social and Economic Research and the department's previous experience with the annual Historical and Projected Oil and Gas Consumption report.

I hope this is helpful. Please contact Kay Brown if you would like additional information.

Sincerely,

Esther C. Wunnicke
Commissioner

cc: Kay Brown, Director
Division of Oil and Gas

STATE OF ALASKA

DEPARTMENT OF NATURAL RESOURCES

OFFICE OF THE COMMISSIONER

BILL SHEFFIELD, GOVERNOR

POUCH M
JUNEAU, ALASKA 99811
PHONE: 907-465-2400

February 4, 1986

The Honorable Marco Pignalberi
Alaska State Legislature
P.O. Box V
Juneau, AK 99811

Dear Representative Pignalberi:

I am writing in response to your recent information requests of the department regarding mental health lands and royalty oil.

It would be costly and take a great deal of staff time to reproduce a complete set of maps, status plats, and reports on state mental health lands. Instead, we have provided your office a copy of the Alaska-wide map indicating townships containing mental health lands. I also would be willing to meet with you to describe the programs and would gladly put our microfiche records and hard-copy reports at your disposal if you or your staff wish to do research in Juneau or Anchorage. Please let me know if you need anything more on this topic.

The department does not keep a royalty oil chart of the kind that you requested, and it would be expensive and time consuming to undertake the preparation of one. Similar information is available in the historic oil and gas supply/demand report submitted annually to the Legislature. The House Research Agency might be able to prepare a chart like the one you have requested.

In response to your inquiries of January 16 and January 30, 1986, on royalty oil management, I would like to raise several points helpful to your consideration of a bill calling for specific reporting requirements of in-state royalty oil purchasers. Presently, two of the state's four in-state refiners are contractually obligated to report on a * monthly basis most of the data listed in your letter. The long-term negotiated royalty contract for Petro Star/Chevron presently before the Legislature also contains those reporting obligations, but on a quarterly basis. The earlier

10-JBLH

Mapco contract contains no regular reporting obligation, however, the contract calls for Mapco to consult with the state prior to exporting refined products from Alaska. (See Sec. 3.3 and 3.3.1 of the contract.)

Section 2.12 of the Tesoro, Chevron, and Petro Star/Chevron royalty oil contracts states in part that the purchaser shall report "the quantity of refined petroleum products produced and marketed in the State of Alaska...." While this section does not explicitly call for the product slate of the purchaser, the purchasers have, as a matter of practice, included their product slate with the monthly report. Petro Star, which has a very narrow product slate, is expected to follow suit. To avoid prospective competitive disadvantages, Chevron has requested that its monthly report be held confidential.

In addition to a more explicit requirement with respect to product slate, the department believes there may be merit to * your suggestion for an export report requirement. However, this information may be roughly deduced by comparing the volume of products marketed in Alaska to the volume of refined products produced in Alaska. The volume of residual oil may be obtained in a similar manner.

As your letter acknowledges, it probably would be difficult at this point to tighten the reporting requirements of Mapco, Tesoro and Chevron. We are also precluded against taking such action with the Petro Star/Chevron contract for two reasons: 1) Petro Star has virtually no capacity for export, and 2) Petrostar's limited product slate may be ascertained by examining its report of the volume of refined products produced in Alaska, as the product ratios of this simple distillation refinery are relatively inflexible. Nevertheless, I believe the reporting requirements you are considering may be of some aid to the department's data * gathering efforts in the future. Naturally, the degree of resistance to these requirements on the part of a potential purchaser is an offsetting factor.

With respect to the additional price related data mentioned in your correspondence of January 30, 1986, the royalty * contracts presently in force or before the Legislature do not call for the reporting of such price information. As for the last two items of that correspondence regarding the volume of oil sold in and exported from the state, I believe you are referring to refined products and perhaps residual oil, all of which is either directly or indirectly attainable from Tesoro, Chevron, and Petro Star.

We are preparing a response to your most recent information request regarding HB 445 and will be in touch with you as soon as our work is complete. If you have any further questions, please contact me or Kay Brown, Director of the Division of Oil and Gas.

Sincerely,

Esther C. Wunnicke
Commissioner

cc: Tom Koester, Department of Law
Kay Brown, Division of Oil and Gas
Tom Hawkins, Division of Land and Water Management
Jim Ayers, Governor's Office

SCOMM

#46:23

Bannister
4/2/86

IN THE HOUSE BY ADAMS BY REQUEST

SPONSOR SUBSTITUTE FOR HOUSE BILL NO. 491

IN THE LEGISLATURE OF THE STATE OF ALASKA

FOURTEENTH LEGISLATURE - SECOND SESSION

A BILL

For an Act entitled: "An Act relating to the disposition of federal funds received by the state from competitive leasing of oil and gas in the National Petroleum Reserve - Alaska; and providing for an effective date."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

* Section 1. FINDINGS. The legislature finds that:

(1) the United States Congress by P.L. 96-514 (42 U.S.C. 6508) provided that the state receives 50 percent of the funds received from competitive leasing of oil and gas in the National Petroleum Reserve - Alaska;

(2) 42 U.S.C. 6508 further provides that in the allocation of the funds received by the state, the state shall give priority to those subdivisions of the state most directly or severely impacted by the development of oil and gas leased under 42 U.S.C. 6508;

(3) since 1982 the state has received approximately $47,360,000 from the federal government under the terms of 42 U.S.C. 6508; of that amount, approximately $18,000,000 has been placed in the general fund and spent by the state for various state programs; approximately $23,680,000 has been placed in the permanent fund and $182,000 in the public school fund; the remainder, approximately $5,450,000, has been placed in the National Petroleum Reserve - Alaska, special revenue fund established by ch. 94, SLA 1984; of that amount, $3,700,000 has been appropriated for grants to local governments or for state projects; approximately $1,750,000 still remains in the fund;

(4) in a decision dated March 18, 1986, a superior court of the state ruled in City of Barrow, et al. v. State, et al., 1JU-85-2634 Civil, that the state violated the terms of 42 U.S.C. 6508 by failing to establish a rational system by which political subdivisions impacted by oil and gas development in the National Petroleum Reserve - Alaska could apply for and receive funds on a priority basis; the court has required the state to segregate and account for all funds received under 42 U.S.C. 6508 before 1984, including money received under 42 U.S.C. 6508 that has been deposited in the permanent fund under AS 37.13.010 or appropriated to the National Petroleum Reserve - Alaska, special revenue fund under ch. 94, SLA 1984, but excluding funds previously expended for purposes other than compliance with 42 U.S.C. 6508; it also appears from the decision that the court would make the National Petroleum Reserve - Alaska money that was deposited in the public school fund (AS 37.14.110 - 37.14.150) subject to the same segregation and accounting requirements as the money deposited in the permanent fund; and

(5) because of the continuing nature of congressional appropriations under 42 U.S.C. 6508, and in order to rectify the state's past failure to establish a system by which claims of local governments to 42 U.S.C. 6508 funds could be determined and dealt with on a priority basis, it is necessary to change the National Petroleum Reserve - Alaska, special revenue fund regarding segregation and allocation of the money received under 42 U.S.C. 6508 and to establish criteria by which grants may be made from the fund to impacted municipalities.

* Sec. 2. AS 37.13.010(a) is amended to read:

(a) Under art. IX, sec. 15 of the state constitution, there is established as a separate fund the Alaska permanent fund. <u>Except as otherwise provided by AS 37.25.040, the</u> [THE] Alaska permanent fund consists of

(1) 25 percent of all mineral lease rentals, royalties, royalty sale proceeds, net profit shares under AS 38.05.180(f) and (g), and federal mineral revenue sharing payments received by the state from mineral leases issued on or before December 1, 1979, and 25 percent of all bonuses received by the state from mineral leases issued on or before February 15, 1980;

(2) 50 percent of all mineral lease rentals, royalties, royalty sale proceeds, net profit shares under AS 38.05.180(f) and (g), and federal mineral revenue sharing payments received by the state from mineral leases issued after December 1, 1979, and 50 percent of all bonuses received by the state from mineral leases issued after February 15, 1980;

(3) [ANY] other money appropriated to or otherwise allocated by law to the Alaska permanent fund.

* Sec. 3. AS 37.25 is amended by adding a new section to read:

Sec. 37.25.040. NATIONAL PETROLEUM RESERVE - ALASKA, SPECIAL REVENUE FUND. (a) The National Petroleum Reserve - Alaska special revenue fund is established. The fund consists of all money disbursed to the state by the federal government under 42 U.S.C. 6508 (P.L. 96-514) since December 12, 1980, less the amount deposited in the general fund and expended by the state by general fund appropriations before the establishment of the National Petroleum Reserve - Alaska special revenue fund under ch. 94, SLA 1984.

(b) The commissioner of revenue shall manage the National Petroleum Reserve - Alaska special revenue fund.

(c) The Department of Community and Regional Affairs shall adopt regulations under which municipalities impacted by National Petroleum Reserve - Alaska development may apply for and receive grants to alleviate the impact. The department shall give priority in the

allocation of grants to municipalities that are experiencing or will experience the most direct or severe impact from oil and gas leasing activities within the National Petroleum Reserve - Alaska. A municipality may use grant funds received under this subsection only for the following activities and services to alleviate the impact of the oil and gas leasing activities under 42 U.S.C. 6508 within the National Petroleum Reserve - Alaska:

(1) planning;

(2) construction, maintenance, and operation of essential public facilities by the municipalities; and

(3) other necessary public services provided by the municipalities.

(d) Funds disbursed under (c) of this section may not be used for the retirement of municipal debt.

(e) It is the intent of the legislature that each year the balance in the National Petroleum Reserve - Alaska special revenue fund be appropriated to the Department of Community and Regional Affairs for subsequent allocation to municipalities that demonstrate present impact, or the need to determine or plan for future impact, from development under 42 U.S.C. 6508.

(f) Amounts received by the state under (a) of this section and not required for grants to municipalities under (c) of this section shall lapse to the general fund at the end of each fiscal year and be available for use by the state for the following facilities and services:

(1) planning;

(2) construction, maintenance, and operation of essential public facilities; and

(3) other necessary public services.

* Sec. 4. Chapter 94, SLA 1984 is repealed.

* Sec. 5. The National Petroleum Reserve - Alaska special revenue fund established by sec. 3 of this Act is a continuation of the fund established by sec. 2, ch. 94, SLA 1984, repealed by sec. 4 of this Act, and the balance of the ch. 94, SLA 1984 fund shall be transferred accordingly.

* Sec. 6. This Act takes effect immediately in accordance with AS 01.-10.070(c).

Bannister
4/16/86

Original sponsor: Adams by request

IN THE HOUSE BY THE HOUSE SPECIAL COMMITTEE ON OIL AND GAS

CS FOR HOUSE BILL NO. 491 (Oil and Gas)

IN THE LEGISLATURE OF THE STATE OF ALASKA

FOURTEENTH LEGISLATURE - SECOND SESSION

A BILL

For an Act entitled: "An Act relating to the disposition of federal funds received by the state from competitive leasing of oil and gas in the National Petroleum Reserve - Alaska; and providing for an effective date."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

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(1) the United States Congress by P.L. 96-514 (42 U.S.C. 6508) provided that the state receives 50 percent of the funds received from competitive leasing of oil and gas in the National Petroleum Reserve - Alaska;

(2) 42 U.S.C. 6508 further provides that in the allocation of the funds received by the state, the state shall give priority to those subdivisions of the state most directly or severely impacted by the development of oil and gas leased under 42 U.S.C. 6508;

(3) since 1982 the state has received approximately $47,360,000 from the federal government under the terms of 42 U.S.C. 6508; of that amount, approximately $18,000,000 has been placed in the general fund and spent by the state for various state programs; approximately $23,680,000 has been placed in the permanent fund and $182,000 in the public school fund; the remainder, approximately $5,450,000, has been placed in the National Petroleum Reserve - Alaska special revenue fund established by ch. 94, SLA 1984; of that amount, $3,700,000 has been appropriated for grants to local governments or for state projects; approximately $1,750,000 still remains in the fund;

(4) in a decision dated March 18, 1986, a superior court of the state ruled in City of Barrow, et al. v. State, et al., 1JU-85-2634 Civil, that the state violated the terms of 42 U.S.C. 6508 by failing to establish a rational system by which political subdivisions impacted by oil and gas development in the National Petroleum Reserve - Alaska could apply for and receive funds on a priority basis; the court has required the state to segregate and account for all funds received under 42 U.S.C. 6508 before 1984, including money received under 42 U.S.C. 6508 that has been deposited in the permanent fund under AS 37.13.010 or appropriated to the National Petroleum Reserve - Alaska special revenue fund under ch. 94, SLA 1984, but excluding funds expended before 1984 by general fund appropriations; it also appears from the decision that the court would make the National Petroleum Reserve - Alaska money that was deposited in the public school fund (AS 37.14.110 - 37.14.150) subject to the same segregation and accounting requirements as the money deposited in the permanent fund; and

(5) because of the continuing nature of congressional appropriations under 42 U.S.C. 6508, and in order to rectify the state's past failure to establish a system by which claims of local governments to 42 U.S.C. 6508 funds could be determined and dealt with on a priority basis, it is necessary to change the National Petroleum Reserve - Alaska special revenue fund regarding segregation and allocation of the money received under 42 U.S.C. 6508 and to establish criteria by which grants may be made from the fund to impacted municipalities.

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royalty sale proceeds, net profit shares under AS 38.05.180(f) and (g), and federal mineral revenue sharing payments received by the state from mineral leases issued on or before December 1, 1979, and 25 percent of all bonuses received by the state from mineral leases issued on or before February 15, 1980;

(2) 50 percent of all mineral lease rentals, royalties, royalty sale proceeds, net profit shares under AS 38.05.180(f) and (g), and federal mineral revenue sharing payments received by the state from mineral leases issued after December 1, 1979, and 50 percent of all bonuses received by the state from mineral leases issued after February 15, 1980;

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* Sec. 3. AS 37.25 is amended by adding a new section to read:

Sec. 37.25.040. NATIONAL PETROLEUM RESERVE - ALASKA SPECIAL REVENUE FUND. (a) The National Petroleum Reserve - Alaska special revenue fund is established. The fund consists of all money disbursed to the state by the federal government under 42 U.S.C. 6508 (P.L. 96-514) since December 12, 1980, less the amount deposited in the general fund and expended by the state by general fund appropriations before the establishment of the National Petroleum Reserve - Alaska special revenue fund under ch. 94, SLA 1984.

(b) The commissioner of revenue shall manage the National Petroleum Reserve - Alaska special revenue fund.

(c) The Department of Community and Regional Affairs shall adopt regulations under which municipalities impacted by National Petroleum Reserve - Alaska oil and gas development under 42 U.S.C. 6508 may apply for and receive grants to alleviate the impact. The department shall give priority in the allocation of grants to municipalities that

are experiencing or will experience the most direct or severe impact from oil and gas development under 42 U.S.C. 6508 within the National Petroleum Reserve - Alaska. A municipality may use grant funds received under this subsection only for the following activities and services to alleviate the impact of the oil and gas development under 42 U.S.C. 6508 within the National Petroleum Reserve - Alaska:

(1) planning;

(2) construction, maintenance, and operation of essential public facilities by the municipalities; and

(3) other necessary public services provided by the municipalities.

(d) Funds disbursed under (c) of this section may not be used for the retirement of municipal debt.

(e) It is the intent of the legislature that each year all of the money in the National Petroleum Reserve - Alaska special revenue fund be appropriated to the Department of Community and Regional Affairs for subsequent allocation to municipalities that demonstrate present impact, or the need to determine or plan for future impact, from oil and gas development under 42 U.S.C. 6508.

(f) Amounts received by the state under 42 U.S.C. 6508 and not required for grants to municipalities under (c) of this section shall lapse at the end of each fiscal year as follows:

(1) 50 percent to the principal of the Alaska permanent fund;

(2) .5 percent to the public school fund (AS 37.14.110 - 37.14.150); and

(3) the remainder to the general fund for use by the state for the following facilities and services:

(A) planning;

(B) construction, maintenance, and operation of essential public facilities; and

(C) other necessary public services.

* Sec. 4. Chapter 94, SLA 1984 is repealed.

* Sec. 5. The National Petroleum Reserve - Alaska special revenue fund established by sec. 3 of this Act is a continuation of the fund established by sec. 2, ch. 94, SLA 1984, repealed by sec. 4 of this Act, and the balance of the ch. 94, SLA 1984 fund shall be transferred accordingly.

* Sec. 6. This Act takes effect immediately in accordance with AS 01.-10.070(c).

IN THE SUPERIOR COURT FOR THE STATE OF ALASKA

FIRST JUDICIAL DISTRICT AT JUNEAU

CITY OF BARROW, CITY OF WAINWRIGHT, and NORTH SLOPE BOROUGH,

Plaintiffs,

v.

STATE OF ALASKA, WILLIAM SHEFFIELD, Governor of Alaska, MARY NORDALE, Commissioner, Department of Revenue, State of Alaska,

Defendants.

FILED IN THE TRIAL COURTS
STATE OF ALASKA, FIRST DISTRICT
AT JUNEAU

MAR 18 1986

Clerk of Court

By PB Deputy

No. 1JU-85-2634 Civil

SUMMARY ORDER

Plaintiffs move for summary judgment on their complaint for declaratory relief. Specifically, they seek a judicial declaration that the defendants (hereinafter, the State) have violated the terms of P.L. 96-514 (42 U.S.C. 6508) by (a) failing to segregate funds received from the federal government, (b) failing to establish a system by which political subdivisions impacted by oil and gas development in the National Petroleum Reserve - Alaska (hereinafter, NPR-A) could apply for or receive funds to impacted subdivisions on a priority basis as required by the federal law and (c) appropriating those funds to the general use of the State of Alaska. (Plaintiffs alternatively seek parallel declaratory relief on the basis of breach of fiduciary duty to administer a trust created by P.L. 96-514.) Plaintiffs additionally seek a declaration that ch. 94, SLA 1984, requires all funds (past or future) received by the State from the federal government under P.L. 96-514 to be placed in a special revenue fund and made available for appropriation by the legislature under a system which complies with the requirements of P.L. 96-514. Lastly, plaintiffs seek injunctive relief (a) requiring the State to segregate and account for all funds received under P.L. 96-514 and to administer those funds in

accordance with law and (b) prohibiting the State from expending any P.L. 96-514 revenues (past or future) until a system is established for lawful administration and disposition of such funds.

The State has filed a cross-motion for summary judgment, arguing first that the plaintiffs' complaint does not state a cause of action. The State argues to this result from its conclusion that P.L. 96-514 imposes no judicially enforceable conditions on Alaska's receipt of NPR-A revenues. Additionally, the State argues (a) that the plaintiff municipalities have no right to share in NPR-A revenues in advance of actual commercial production from NPR-A; (b) that the State is entitled to deposit a portion of NPR-A revenues directly into the Alaska Permanent Fund upon receipt; (c) that the State is under no obligation to adopt specific procedures whereby political subdivisions may apply for and receive NPR-A funds; (d) that plaintiffs' delay in bringing this action bars their claims for relief as to moneys already expended by the State; (e) that any State obligation with respect to NPR-A funds should be deemed satisfied through the sharing of state revenues with the plaintiff municipalities under other programs; and (f) that ch. 94, SLA 1984, does not affect NPR-A revenues which were received and spent by the State prior to the date on which that law became effective.

The parties have both requested expedited handling of this motion. Oral argument was heard one week after the briefing was completed. In order to avoid further delay[1] in

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1. The six-week period during which this case has been held under advisement coincides almost exactly with the period during which the undersigned has been the only superior court judge present in Juneau.

announcing the court's decision, the court's conclusions on the above issues are set out below in summary fashion.

1. Mandatory Duty Regarding Allocation of NPR-A Revenues.

A. P.L. 96-415 provides that half of all receipts from sales, rentals, bonuses and royalties on leases pertaining to lands in the National Petroleum Reserve - Alaska shall be paid by the federal government to the State of Alaska "for (a) planning, (b) construction, maintenance and operation of essential public facilities, and (c) other necessary provisions of public service." In the allocation of such funds, the federal act establishes a mandatory duty on the State of Alaska to "give priority to use [of NPR-A funds] by subdivisions of the state most directly or severely impacted by development of oil and gas leased under [P.L. 96-514]."

B. The duty imposed by P.L. 96-514 ultimately falls upon the Alaska Legislature (because it has the spending power), and it includes the duties to examine the claimed needs of subdivisions arising from oil and gas development impacts, to evaluate them and, if the claimed needs are found to exist, to rank them in order of priority, and to meet or satisfy them out of NPR-A revenues.

C. The duty set out above may be met through existing entities and the budget review process; it is not necessary that a new apparatus be created to receive NPR-A claims.

2. When the Duty Arises.

The duty arises upon the commencement of any "development" of the subject tracts. Because "development" includes "any step taken in the search for . . . hydrocarbons" (as well as capture, production and marketing of same), it is clear that the duty arises well before actual commercial production and exists at least as early as when test wells are being drilled. Of course, in evaluating claimed impact needs, and in

determining whether they truly exist, the legislature certainly may take into account the likely pace of exploration, the likelihood of further exploration, the likelihood of actual commercial production which may result and its likely pace, etc.

3. Automatic Deposit into Permanent Fund.

The State cannot, consistent with its obligations under P.L. 96-514, automatically deposit 50% (or any amount) of all NPR-A revenues into the Alaska Permanent Fund. Such action clearly contravenes the mandatory duty placed on the State by the very law which authorizes payments to the State (since such payments are made on the condition that the State "give priority to use [of such funds] by subdivisions of the state most directly or severely impacted" by the developments of leased lands). Rather than a direct deposit to the permanent fund, the State must first resort to the process referred to in Parts 1-B and 1-C above to examine the claimed needs of impacted subdivisions and to rank any found to exist. Because the language of the federal act is so broad concerning the allowable objects of state expenditure of NPR-A funds ("other necessary provisions of public service"), it is conceivable that an allocation of NPR-A revenues to the permanent fund might be allowable after the State complies with the mandatory duty imposed on it to evaluate needs and establish priorities. But this difficult question need not be resolved now, for on the undisputed facts before the court the State has made no effort at all to meet the duty imposed upon it. The automatic deposits into the permanent fund clearly violate the federal law.

4. Plaintiffs' Delay in Filing Lawsuit.

By virtue of their delay in bringing this action, plaintiffs are barred from obtaining relief as to any moneys already expended by the State. Because the State is under a duty under federal law to undertake an evaluative process to

prioritize claims, and because it would be impossible to recreate the conditions under which that process would have taken place in 1982 and 1983 (for example), the State would be prejudiced by an order now requiring it to place into a special fund monies which have been expended for other purposes and an order requiring it to make allocations based on a system of priorities which cannot be recreated. There is no bar, however, as to those funds which have been placed in the NPR-A reserve account since 1984, and there is no bar as to those funds deposited directly into the Permanent Fund.

5. Satisfaction.

Summary judgment on this defense is denied. Even assuming that the amount of development-related impact needs of the plaintiffs for the period 1981 - 1985 could somehow be known by this court without formal legislative determination under the process mandated by the federal act, there would remain factual matters in dispute. The court, however, adopts the position of the State that it may show satisfaction to the extent that it shows that a given appropriation to plaintiffs was for needs arising out of oil and gas development-related impacts.

6. Ch. 94, SLA 1984.

Having determined that federal law imposes a mandatory duty upon the State as set out above, it is unnecessary to consider whether state law too forbids the practices complained of here by plaintiffs. Under the supremacy clause of the federal constitution, federal law controls. Whether ch. 94, SLA 1984, also requires, as a matter of state law, that which P.L. 96-514 requires therefore need not be decided.

CONCLUSION

Having reached the above conclusions, the court declares the rights of the parties and orders as follows:

//

(1) The State has violated P.L. 96-514 by failing to establish a system by which political subdivisions impacted by oil and gas development in the NPR-A could apply for and receive funds on a priority basis.

(2) The State has violated P.L. 96-514 by appropriating NPR-A funds to the general use of the State of Alaska without giving priority to those uses specified in P.L. 96-514.

(3) The State is required to segregate and account for all funds received under P.L. 96-514, other than those already expended.

(4) The State is required to administer funds received under P.L. 96-514 in such a way that it gives priority to the use of such funds by subdivisions most directly or severely impacted by development of oil and gas leased under P.L. 96-514.

(5) As to the defense of satisfaction, that matter must be reserved for trial on the factual issue whether any appropriations to plaintiffs during the years in question were for needs arising from impacts related to oil and gas development.

The matter will be scheduled for trial at counsel's request upon the filing of a proposed scheduling order signed by all parties, or a scheduling conference will be set if counsel are unable to agree upon a schedule for trial.

IT IS SO ORDERED.

DONE at Juneau, Alaska, this 18th day of March, 1986.

Walter L. Carpeneti

Walter L. Carpeneti
Superior Court Judge

North Slope communities win court victory

By CHUCK KLEESCHULTE 3/19/86
THE JUNEAU EMPIRE

Several North Slope communities and the North Slope Borough Tuesday won a suit protesting how state government has allocated federal oil leasing grant funds. What their victory is going to be worth to them, if anything, however, is unclear.

It could, however, cost the state's $7.1 billion permanent fund over $20 million in lost revenues.

The North Slope Borough and the towns of Barrow and Wainwright last November sued the state, arguing that since 1980, Alaska has violated federal law. They claimed the state had not been dispensing specifically to local communities part of some $47.4 million the state received as a result of federal bonuses, leases and royalties stemming from oil exploration in the National Petroleum Reserve-Alaska.

The North Slope communities argued that Congress required that the state should give priority to subdivisions directly affected by oil and gas leasing in allocating the funds. The suit argued the state never set up a system for accounting for or dispensing the funds to North Slope communities on the basis of their need for capital improvements and, in fact, illegally appropriated part of the money for the state's permanent fund.

The state in its defense argued the federal law did not require it to set up a specific procedure to allocate the funds for capital improvements. It argued it needed to place part of the money into the permanent fund to comply with state constitutional requirements, and even if it did need to give North Slope communities funds, it had done so through the state's normal revenue sharing and municipal grant programs.

The communities, however, claimed that of the millions the state received from oil leasing, only $2.4 million of the money had been specifically earmarked for North Slope capital improvements.

Juneau Superior Court Judge Walter Carpeneti ruled in the slope communities' favor on the merits, saying federal law made it clear that some system had to be established by the state to make sure that political subdivisions "most directly or severely impacted" received priority treatment in spending of the funds.

Carpeneti also ruled that the state's automatic deposit of part of the money into the permanent fund was improper until the needs of the communities had been assessed. Carpeneti's ruling, however, said the state specifically does not have to make good for any funds the state should have given the communities for capital needs prior to 1983.

The ruling does say the communities can return to court and argue for receipt of a part of the $23.7 million that was deposited into the permanent fund.

The ruling pleased attorneys for the North Slope, but left both sides studying their next moves.

Susan Burke, a partner in the local law firm of Gross and Burke that represented the North Slope and its communities, said she was pleased by the outcome. "We didn't get as much as we asked for, but it's much more than a hollow victory to get a court to agree the state didn't follow the federal law and has been misappropriating the funds," said Burke.

Assistant Attorney General Tom Koester said the state believes the fact that Carpeneti didn't require it to pay for past violations showed that any violations were inadvertent. Koester said he did not know what would happen now, as far as the state setting up a specific formula for allocating future grant revenues, or concerning the future for funds already placed in the permanent fund.

"It opens up the interesting possibility that the court might order some money taken from the fund. Its appropriation, however, is clearly still up to the legislature, so what happens now is unclear," Koester said.

Given that the oil industry has had no success in finding oil in the NPRA and given current prices, it's unclear whether any near-term exploration will be occurring in the reserve, meaning little new money may be turned over to the state. The last funds came in 1983 from $16.7 million paid by oil companies to lease 18 tracts south of Barrow.

Carpeneti in his ruling invited attorneys to schedule a trial on the permanent fund allocation issue. Burke, however, said her clients might wish to talk with legislators about a possible out-of-court settlement prior to scheduling further court arguments.

STATE OF ALASKA
THE LEGISLATURE
LEGISLATIVE AFFAIRS AGENCY

POUCH Y · STATE CAPITOL
JUNEAU, ALASKA 99811
907·465·3800

MEMORANDUM April 2, 1986

SUBJECT: SSHB 491

TO: Representative Al Adams

FROM: Theresa L. Bannister TB
Legislative Counsel

This memo accompanies the revised sponsor substitute that you requested for HB 491.

I believe that Susan Burke and I have worked out most of the concerns stated in my April 1, 1986 memo. However, please note the following comments about the bill.

(1) It appears that Judge Carpeneti would treat the NPR-A funds deposited in the public school fund the same as the funds deposited in the permanent fund, so I have not excluded them from the funds that are to be included in the NPR-A special revenue fund in Sec. 37.25.040(a); however, please be aware that the court has not stated this explicitly in the opinion.

(2) Ms. Burke indicates that the legislative history of 42 U.S.C. 6508 is clear that the term, "subdivision of the state" was meant to mean municipalities; therefore, the word "municipality" is used throughout Sec. 37.25.040; however, please be aware that since "subdivision of the state" is not defined in the federal statute, it is possible that the term could still be interpreted otherwise by a court.

If I can be of further assistance, please advise.

TLB:csh
c6/058

Alaska State Legislature

House of Representatives

Al Adams
Chairman
Committee on Finance

Official Business

WHILE IN SESSION
Pouch V
State Capitol
Juneau, Alaska 99811
(907) 465-3706

OUT OF SESSION
P.O. Box 333
Kotzebue, Alaska 99752
(907) 442-3320

1024 W. 6th
Anchorage, Alaska 99501
(907) 274-0615

April 1, 1986

TO: Members of the House Oil and Gas Committee

FROM: Representative Al Adams
District 22

RE: PROPOSED SSHB 491

P.L. 96-514/ 42 U.S.C. 6508

P.L. 96-514 provides that the state shall receive 50% of receipts derived from competitive leasing of oil and gas in the National Petroleum Reserve-Alaska. It also provides that in the allocation of funds received by the state, priority shall be given to political subdivisions of the state most severely or directly impacted by the development of oil and gas leased under P.L. 96-514. The funds can be used for the following: planning; construction, maintenance, and operation of essential public facilities; and other necessary public services.

Funds Received by the State

Since 1982 the state has received approximately $47.4 million from the federal government under the terms of P.L. 96-514. The attached table from the Department of Revenue shows the disposition of funds received by the state.

March 18, 1986 State Superior Court Ruling

In a decision on March 18, 1986, the State Superior Court ruled that the State has violated the terms of P.L. 96-514 by 1) failing to establish a process by which political subdivisions can apply for and receive funds on a priority basis, and 2) appropriating NPR-A funds to the general use of the State of Alaska without giving priority to those uses specified under P.L. 96-514.

The state is required to segregate and account for funds received under P.L. 96-514 prior to 1984, other than those already expended. (Those that went to the general fund..... see Dept. of Rev. memo.) The State is also required to administer the funds received in a manner which gives priority to impacted communities.

Proposed CS for HB 491

This bill sets up a fund based on the court order, and establishes a system by which claims of local governments may be dealt with on a priority basis.

The fund will consist of all money from the federal government pursuant to P.L. 96-514 since the effective date of the act, less the roughly 18 million that was expended by the state from the general fund prior to the establishment of the NPRA Special Revenue Fund under CH. 94, SLA 84.

The fund will be managed by the Commissioner of Revenue. However, each year the balance of the NPR-A will be appropriated to Community and Regional Affairs for allocation to communities. Funds received by the state but not required for grants to municipalities will lapse to the general fund at the end of each fiscal year.

The Department of Community and Regional Affairs will adopt regulations under which communities can apply for funding and receive grants to alleviate impact. Priority will be given to those communities which are most directly or severely impacted.

STATE OF ALASKA
DEPARTMENT OF REVENUE

M E M O R A N D U M

TO: Milt Barker
Deputy Commissioner

FROM: Brian C. Andrews
Comptroller

DATE: April 1, 1986

RE: National Petroleum Reserve - Alaska (NPRA) Revenues

To date, the State has received five payments constituting the 50% disbursed obligation of the Federal Government of NPRA revenues pursuant to P.L. 96-514. The receipts were deposited in the General Fund, Permanent Fund (AS 37.13.010), Public School Fund (AS 37.14.110), and NPRA Special Revenue Fund (Ch. 94, SLA 1984) in the following amounts:

Date	General Fund	Permanent Fund	Public School Fund	NPRA Special Revenue Fund	Total
12-03-82	$17,227,054.25	$17,401,064.91	$174,010.65	$ -	$34,802,129.81
11-08-83	816,490.18	824,737.55	8,247.37	-	1,649,475.10
01-03-85	-	3,784,368.48	-	3,784,368.47	7,568,726.95
06-19-85	-	1,671,217.79	-	1,671,217.79	3,342,435.58
01-29-86		635,779.75		635,778.75	1,271,557.50
Total	$18,043,544.43	$24,317,067.48	$182,258.02	$6,100,457.05	$47,362,777.44

The contact at the Department of Natural Resources is Myrtle Paulk. The AKSAS collation code and account number are 1044119 and 6306.

BCA/mem

STATE OF ALASKA 1986 LEGISLATIVE SESSION
FISCAL NOTE

Revision Date : _____

REQUEST

Bill/Resolution No. : SSSB 352/HB 491
Title : An Act establishing a National Petroleum-Alaska Special Reserve Fund.

Sponsor : Ferguson / Adams by Request
Requestor : _____
Date of Request : _____

FISCAL DETAIL

Agency Affected : Community & Regional Affairs
BRU : Local Government Assistance

Components : Training & Development, Grants Administration

EXPENDITURES/REVENUES : (Thousands of Dollars)

OPERATING	FY 86	FY 87	FY 88	FY 89	FY 90	FY 91
PERSONAL SERVICES						
TRAVEL		3.5	2.1	2.2	2.3	2.4
CONTRACTUAL		5.8	6.1	6.4	6.7	7.1
SUPPLIES		.3	.3	.3	.4	.4
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING		9.6	8.5	8.9	9.4	9.9
CAPITAL						
REVENUE						

FUNDING : (Thousands of Dollars)

GENERAL FUND		9.6	8.5	8.9	9.4	9.9
FEDERAL FUNDS						
OTHER						
TOTAL						

POSITIONS :

FULL-TIME		-0-	-0-	-0-	-0-	-0-
PART-TIME						
TEMPORARY						

ANALYSIS : Attach a separate page if necessary

See page two, attached.

Prepared by : Doug Griffin, Deputy Director — Phone : 465-4750
Division : Municipal & Regional Assistance — Date : 04/01/86

Approved by Commissioner : Emil Notti — Date : 4/1/86
Agency : Community & Regional Affairs

Distribution (by Agency preparing fiscal note) :
- Legislative Finance
- Legislative Sponsor
- Requestor
- Office of Management and Budget
- Impacted Agency(ies)

10/25/85

CONTINUATION of FISCAL NOTE ANALYSIS

For Bill/Resolution No. SSSB 352/HB 491

ASSUMPTIONS

It is difficult to predict the level of funding in the National Petroleum Reserve-Alaska (NPRA) Special Revenue Fund for any given year. The level of funding will, of course, have some bearing on the degree of activity required to administer this program. For purposes of this fiscal note, we are assuming grant funding of approximately $4 million. While the administration costs for the pass-through grants is budgeted as general funds, the Department believes that a small portion of the NPRA Special Fund could be directed for pass-through administration and would, therefore, appear as an interagency receipts under the other funds category.

It is also assumed that the municipal pass-through portion of this program will be patterned after the existing Rural Development Assistance Program. Therefore, regulation drafting and implementation will be relatively easy and can be accomplished with existing staff.

Annual inflation increases are factored in at 5%.

FISCAL BREAKDOWN

Travel		3,500
Travel (to conduct public hearings on regulations and to assist small municipalities in availing themselves of these grant funds)		
FY 87:		
5 trips @ $700 per (includes per diem)	3,500	
FY 88-91:		
3 trips (exclude trips for regulation hearings) @ $700 per	2,100	
Contractual		5,800
Communications (toll calls, postage)	2,000	
Printing (applications, regulations, etc.)	2,000	
Advertising (regulations & availability of program)	1,500	
Photocopying	300	
Supplies		300
Office Supplies	300	

Alaska State Legislature

COMMITTEES:

Committee on Community and Regional Affairs
Committee on Transportation
Special Committee on Oil and Gas
Special Committee on Fisheries
Finance Sub-committee on Fish and Game

Andre Marrou
Representative

District 5

Kenai	Sterling
Soldotna	Anchor Point
Homer	Port Graham
Seldovia	English Bay
Kachemak	Nikolaevsk
Kasilof	Halibut Cove
Ninilchik	Clam Gulch

January 10, 1986

To: Mike Davis, Chairman, Oil & Gas Committee
From: Andre Marrou
Subject: SSHB 339, Limiting Municipal Oil & Gas Property Taxes

Thank you for your letter of December 18 requesting backup material for SSHB 339. Following is a brief synopsis of my intent and how the bill works.

Current State Law allows an oil and gas property tax payer to credit against their state obligation of 20 mills (AS 43.56.010a) all local taxes (AS 43.56.010d) on oil and gas property covered by AS 43.56. This has the effect of shifting a State-imposed property tax to municipal coffers.

The current property tax rate in the North Slope Borough is 18.4 mills, Valdez is 11.7 and the Kenai Peninsula Borough is 2.5 mills. The North Slope property tax appears excessive. Certainly, it is costing the State hundreds of millions of dollars (see attached chart). For example, the State's share of property tax has fallen drastically from 48% to 8% in five years. Meanwhile, the North Slope Borough's share has skyrocketed from 52% to 92%.

It would appear that the intent of the State's oil and gas property tax law was not to allow the North Slope Borough to finance an astronomical debt ($97,373 per capita) and possibly jeopardize the State's bond rating should they default in these times of decreasing oil revenues. Note that, of the 20 mill State imposed property tax on Prudhoe Bay property, 18.4 of it goes to the North Slope Borough.

The residents of the North Slope Borough appear indifferent to their high tax rate, perhaps because of a variety of exemptions that are available to them.[1]

SSHB 339 proposes to split the State's 20 mill property tax 50/50 between the State and the borough. This is accomplished in Sec. 1 of the bill.

Sec. 2 of the bill is necessary to bring the statutes into compliance with limits set in Section one.

Sec. 3 exempts this tax limitation from applying to general obligation refunding bonds. Example: a municipality wishes to sell new bonds at a more favorable interest rate to pay off old debts at higher rates.

All the citations in this memo and in HB 339 refer to the old Title 29. These need to be updated.

More opinions, facts and figures will be forthcoming. I suspect you will agree that the amount of money in question merits a hearing and passage of this legislation from your committee. If this bill were in effect in 1984, it would have resulted in $98,142,937 more in State revenues [($234,511,201 / 2) - $19,112,663].

[1] ANCSA sec. 21D; Indian Reorganization Act, 25 USC 465; Federal Supremacy Clause for Native Trust Lands; AS 18.55.250; $10,000 Exemption per Assessment, AS 29.45.050(a).

During Session: Pouch V, Juneau, Alaska 99811, (907) 465-2719 During Interim: Box 1572, Homer, Alaska 99603, (907) 235-8200

Distribution of State Property Tax For the North Slope Borough

Year	State Assessed Value	Gross Revenue	Local Credit	Net to State	Percent Increase	Percent of Gross to State
1979	4,810,887,800	96,217,756	49,800,530	46,417,226		48.24
1980	5,450,597,290	109,011,946	55,974,326	53,037,620	14.26	48.65
1981	6,297,616,550	125,952,331	105,150,647	20,801,684	(60.78)	16.52
1982	7,722,388,820	154,447,776	126,781,999	27,665,777	33.00	17.91
1983	9,450,158,880	189,003,178	144,625,348	44,377,830	60.41	23.48
1984	11,725,560,030	234,511,201	215,398,538	19,112,663	(56.93)	8.15

SOURCE: DIVISION OF PETROLEUM REVENUE

Alaska State Legislature

COMMITTEES

Committee on Community and Regional Affairs
Committee on Transportation
Special Committee on Oil and Gas
Special Committee on Executive
Finance Sub-committee on Fish and Game



Andre Marrou
Representative

February 28, 1986

To: Mike Davis, Chairman House Oil & Gas
From: Andre Marrou, Representative

Subject: HB 339 Fiscal Note

Here is the fiscal note for work draft of HB 339 dated Feb. 7.

I would like to point out that the revenue projections here, in my opinion, are severely under valued.

The preparer of the fiscal note took the position that the only increased revenue realized from HB 339 would come from section 4 of the bill which would limit new debt and new debt service by the North Slope Borough. Absent from the note are the increased revenues that would go to the State as the North Slope Borough retires its huge debt burden. This would be a direct result of section 2 of the bill.

According to the preparer of the fiscal note, if the North Slope Borough did not have plans to issue any new debt, there wouldn't be any fiscal implication at all. This is simply not true. If HB 339 were in effect today, the State would take in one half of a $234,511,201 assessment --or $117,225,600-- instead of $19,112,663.[1] The rest --or$215,398,538-- went to pay for North Slope Borough debt service.

The preparer of the fiscal note also assumed the North Slope Borough's new debt issue forecast to be credible.[2] However, experience shows that, as far as the North Slope Borough is concerned, the sky is the limit.

The property tax payers plan to invest another $6,000,000,000 into Prudhoe Bay this summer. This should approximately increase the assessed value of Prudhoe Bay $12,000,000,000 to $18,000,000,000. That's 18 billion dollars of value that we are going to assess a 20 mill tax! This equals $360 million dollars of potential State revenue that the North Slope Borough can siphon off, as it has done in the past, by issuing new debt. Therefore, the modest new debt forecasts for the North Slope Borough, outlined in line 7 of the 3rd page of this fiscal note, do not seem credible.

This bill has the potential of bringing in HUNDREDS OF MILLIONS of dollars in increased State revenue as the North Slope Borough pays off its current debt sometime between 1991 and 1996. This will be done with no increase in taxes on the oil and gas industry

[1] Based upon 1984 assessments.
[2] From the North Slope Borough's Capital Improvement Program FY 1986-1991, Table 14

During Session: P. O. Box V, Juneau, Alaska 99811, (907) 465-2719 During Interim: Box 1572, Homer, Alaska 99603, (907) 235-[illegible]

STATE OF ALASKA 1986 LEGISLATIVE SESSION
FISCAL NOTE

Revision Date: _____

REQUEST
Bill/Resolution No: CS SS HB 339
Title: Limitation of oil and gas municipal property taxes to pay for bonds
Sponsor: Marrou
Requestor: House Oil & Gas
Date of Request: February 17, 1986

FISCAL DETAIL
Agency Affected: _____
BRU: _____
Components: _____

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 86	FY 87	FY 88	FY 89	FY 90	FY 91
OPERATING						
PERSONAL SERVICES	-	-	-	-	-	-
TRAVEL	-	-	-	-	-	-
CONTRACTUAL	-	-	-	-	-	-
SUPPLIES	-	-	-	-	-	-
EQUIPMENT	-	-	-	-	-	-
LANDS & STRUCTURES	-	-	-	-	-	-
GRANTS, CLAIMS	-	-	-	-	-	-
MISCELLANEOUS	-	-	-	-	-	-
TOTAL OPERATING	-	-	-	-	-	-
CAPITAL	-	-	-	-	-	-
REVENUE	10,500	17,700	17,100	28,100	55,600	51,100

FUNDING: (Thousands of Dollars)

GENERAL FUND	10,500	17,700	17,100	28,100	55,600	51,100
FEDERAL FUNDS	-	-	-	-	-	-
OTHER	-	-	-	-	-	-
TOTAL	10,500	17,700	17,100	28,000	55,600	51,100

POSITIONS:

FULL-TIME	-	-	-	-	-	-
PART-TIME	-	-	-	-	-	-
TEMPORARY	-	-	-	-	-	-

ANALYSIS: See attached analysis.

Prepared By: Milt Barker MB
Division: Treasury
Phone: 465-2350
Date: February 20, 1986

Approved by Commissioner: Tony A. Knowles
Date: 2/21/86
Agency: Department of Revenue

Distribution (by Agency preparing fiscal note):
Legislative Finance
Legislative Sponsor
Requestor
Office of Management and Budget
Impacted Agency(ies)

10/25/85

CS SS HB 339
Fiscal Note Analysis

The only municipality possibly affected by CS SS HB 339 is the North Slope Borough as detailed in the attached table. However, there are two major loopholes in the CS that could mean the State would receive no additional revenue from property in the North Slope Borough.

First, the exemption for refunding bonds means that potentially no levies for existing debt would count toward the limit and therefore the second sentence of section 4 of the bill would not operate to limit issuance of new debt. This is because refunded debt is paid from the proceeds of refunding debt, not tax levies, and tax levies for the refunding debt are exempt. Thus, a municipality could wipe the slate clean as far as the limit is concerned by refunding all its debt. Technically, this could be fixed in the bill by putting the refunding exemption in a separate section and amending section 4.

The second loophole, to the extent the bill is meant to control debt issuance, is school debt. Since the State may pay 80 percent, 90 percent, or 100 percent of school debt service the major portion of such debt can be exempt from the limit in this bill. However, passage of HB 520 would limit State payments in the future for school debt.

CS SS HB 339 should not affect Valdez since the only new debt planned for issuance by Valdez is $24 million of bonds to redeem bond anticipation notes maturing March 1, 1988. These bonds would be exempt from the 10 mill limit of SS HB 339 by virtue of the bill's exemption for refunding bonds.

The limit would not affect other communities with oil and gas property because 10 mills would support far more debt than is outstanding, or at least more than is outstanding excluding school debt.

Additional State Revenue
Due to
Limitation of CS SS HB 339 on North Slope Borough
($ Millions)

		FY 86	FY 87	FY 88	FY 89	FY 90	FY 91
	Full Property Value						
(1)	State Assessed	12,563.3	13,000.0	13,500.0	13,500.0	13,500.0	13,500.0
(2)	Local Assessed	313.5	313.5	313.5	313.5	313.5	313.5
(3)	Total Full Value	12,876.8	13,313.5	13,813.5	13,813.5	13,813.5	13,813.5
(4)	Limit on Taxable Value	2,397.1	2,397.1	2,397.1	2,397.1	2,397.1	2,397.1
(5)	10 Mill Limit on Debt Service	23.4	23.4	23.4	23.4	23.4	23.4
(6)	Debt Service on Outstanding Debt (as to be partially refunded)	202.3	212.1	219.7	211.7	198.5	188.6
(7)	New Debt to be Issued	52.9	28.0	28.0	154.0	-	-
(8)	Debt Service on New Debt	10.5	17.7	17.1	28.1	55.6	51.1
(9)	Additional State Revenue	10.5	17.7	17.1	28.1	55.6	51.1

Notes:

(1 & 2) January 1, 1985 values from Alaska Taxable 1985, Department of Community and Regional Affairs

(3) Rows (1) and (2)

(4) 1985 statewide average full value of $86,322 multiplied by 225% multiplied by 12,342 1985 North Slope Borough population

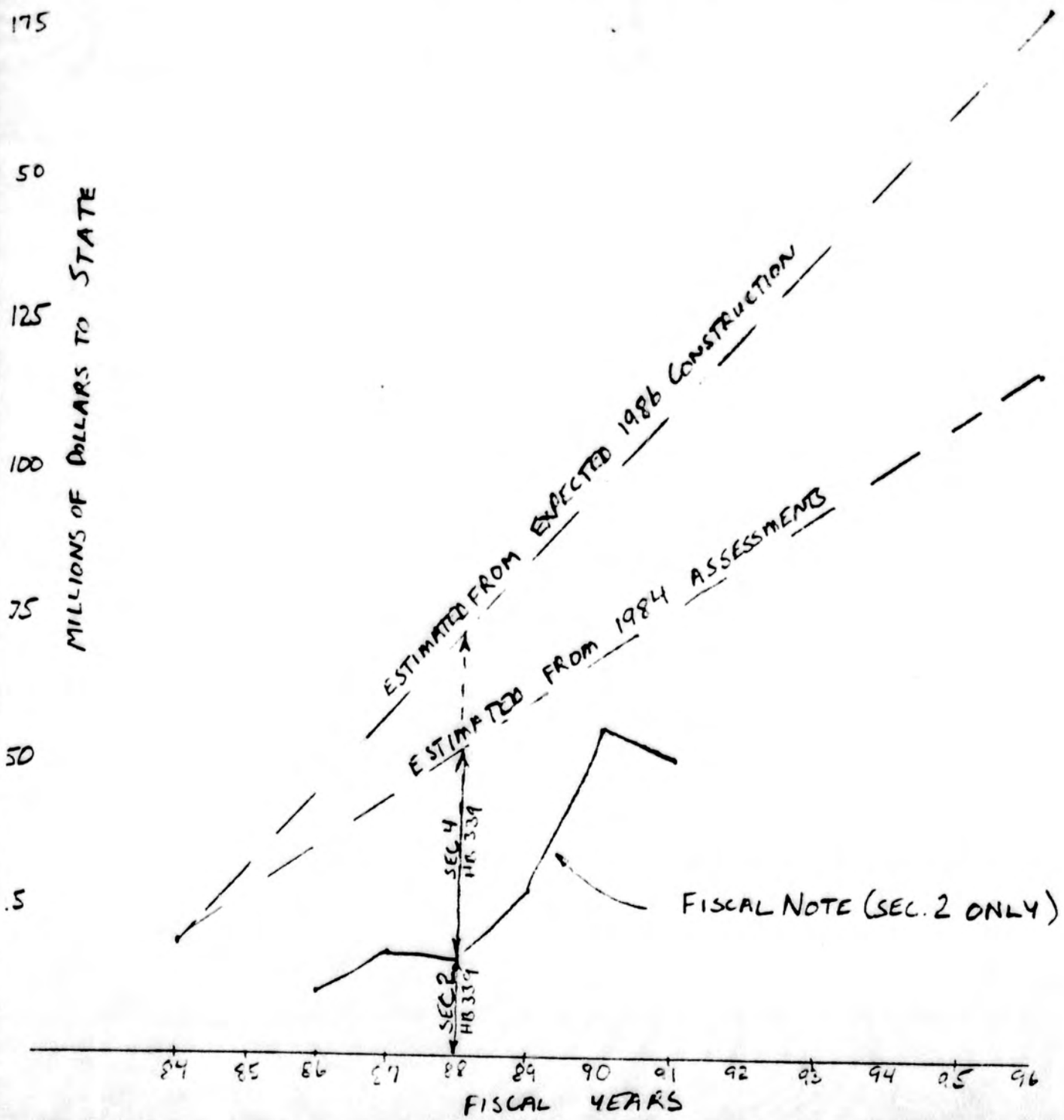
(5) 1% of row ((4) + Row (3)) x Row (1)

(6) From North Slope Borough Capital Improvements Program FY 1986 - FY 1991, Table 15, Column G minus Row 8 of this table.

(7 & 8) From North Slope Borough Capital Improvements Program FY 1986 - FY 1991, Table 14

(9) Row 8

EFFECTS OF HB 339
ON STATE REVENUES



Alaska State Legislature

COMMITTEES:

Committee on Community and Regional Affairs
Committee on Transportation
Special Committee on Oil and Gas
Special Committee on Fisheries
Finance Sub-committee on Fish and Game

District 5

Kenai — Sterling
Soldotna — Anchor Point
Homer — Port Graham
Seldovia — English Bay
Kachemak — Nikolaevsk
Kasilof — Halibut Cove
Nanilchik — Clam Gulch

Andre Marrou
Representative

February 13, 1986

To: Mike Davis, Chairman House Committee on Oil & Gas
From: Andre Marrou, Representative

Subject: HB 339, Oil & Gas Property Tax

The attached committee substitute dated February 7 has some technical improvements that further the original intent of this bill-- that intention is to split the revenues from the oil and gas property tax 50/50, municipality/State respectively. In 1984, the North Slope Borough assessed $215,398,538 against a $234,511,201 state tax bill. That is a 92/8 split of these revenues respectively.

The positive fiscal ramifications of this bill cannot be over-emphasized. We are are talking about hundreds of millions of dollars of increased State revenue ($$$) without any increase of oil taxes if we pass this bill!

The original intention of allowing the oil companies to deduct or credit their local tax against the State 20-mill property tax was to allow the municipalities to finance as necessary for providing local services to the oil and gas properties being taxed. However, the idea that Prudhoe Bay is receiving over $200,000,000 in local services is ludicrous.

Since AS 43.56, Oil and Gas Property Tax, is a State tax, it is clear that the revenues from this tax were meant for legislative distribution except for those allowed for reasonable local services. It is an unforseen result of the original legislation that this lopsided distribution of this tax should occur.

During Session: Pouch V, Juneau, Alaska 99811, (907) 465-2719 During Interim: Box 1572, Homer, Alaska 99603, (907) 235-8200

2/7/86

Original sponsor: Marrou

IN THE HOUSE

CS FOR SPONSOR SUBSTITUTE FOR HOUSE BILL NO. 339 ( )

IN THE LEGISLATURE OF THE STATE OF ALASKA

FOURTEENTH LEGISLATURE - SECOND SESSION

A BILL

For an Act entitled: "An Act relating to the limitation on municipal property taxation for the payment of bonds; and providing for an effective date."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

* Section 1. AS 29.10.200 is amended by adding a new paragraph to read:

(47) AS 29.47.200(a) - (general obligation bonds)

* Sec. 2. AS 29.45.100 is amended to read:

Sec. 29.45.100. [NO] LIMITATIONS ON TAXES TO PAY BONDS. The limitations provided for in AS 29.45.080 - 29.45.090 do not apply to taxes levied or pledged to pay or secure the payment of the principal and interest on bonds. However, taxes levied under AS 29.45.080 [TAXES] to pay or secure the payment of principal and interest on bonds may only be levied in an amount that does not exceed one percent of the assessed value of property within the municipality taxed under AS 29.45.080 [WITHOUT LIMITATION AS TO RATE OR AMOUNT], regardless of whether the bonds are in default or in danger of default. This limitation does not apply to taxes levied or pledged to pay or secure the payment of general obligation refunding bonds used to refund a general obligation bond issue.

* Sec. 3. AS 29.47.200(a) is amended to read:

(a) The full faith and credit of a municipality are pledged for the payment of principal and interest on general obligation bonds. Subject to AS 29.45.100, the [THE] municipality may levy ad valorem taxes for payment [WITHOUT LIMITATION OF RATE OR AMOUNT TO PAY OR

SECURE THE PAYMENT] of the principal and interest on the bonds. This subsection applies to home rule and general law municipalities [, REGARDLESS OF WHETHER THE BONDS ARE IN DEFAULT OR IN DANGER OF DEFAULT].

* Sec. 4. The amendments to AS 29.45.100 and AS 29.47.200(a) made by secs. 2 and 3 of this Act apply only to taxes levied or pledged to pay general obligation bonds sold by a municipality on or after the effective date of this Act. However, notwithstanding any other provision of law, a municipality may not sell general obligation bonds after the effective date of this Act until the municipality is in compliance with AS 29.45.100 and AS 29.47.200(a) as amended by secs. 2 and 3 of this Act with respect to taxes levied or pledged to pay all general obligation bonds without regard to the dates of sale.

* Sec. 5. This Act takes effect July 1, 1986.

SECTIONAL ANALYSIS CSSSHB 339 (Oil & Gas)

*Section 1.
This section makes this bill applicable to home rule municipalities.

*Section 2.
This section restricts a municipality's ability to tax to pay for bonds, only if it taxes oil and gas properties under AS 29.45.080. The 1% figure will allow municipalities to collect up to half of the 20 mill oil and gas property tax under AS 43.56.

*Section 3.
This section conforms the statutes to the limitation in section 2.

*Section 4.
This section clarifies that the taxing authority to pay off current existing debt will not be impaired.
This section is also a debt limiter that prevents municipalities from issuing more bonds after the effective date, if the taxes to pay those bonds exceed the limit in section 2.

234

211

DISTRIBUTION OF OIL & GAS PROPERTY TAX FOR NORTH SLOPE BOROUGH

188

NOTE: PROJECTION BASED UPON 1984 ASSESSMENTS

164

$ MILLIONS OF DOLLARS $

140

117

94

70

47

23

Alaska State Legislature

COMMITTEES:

Committee on Community and Regional Affairs
Committee on Transportation
Special Committee on Oil and Gas
Special Committee on Fisheries
Finance Sub-committee on Fish and Game

Andre Marrou
Representative

District 5

Kenai — Sterling
Soldotna — Anchor Point
Homer — Port Graham
Seldovia — English Bay
Kachemak — Nikolaevsk
Kasilof — Halibut Cove
Nanwalek — Clam Gulch

February 17, 1986

ALASKA CONSTITUTION SUPPORTS CSSSHB 339 (O&G)

Current State law allows for an inequitable share of the State's natural resources (about 58% of total oil & gas property taxes) to go to a relatively small number (about 2.2%) of our population. This is contrary to the intent of Alaska's Constitution.

From Article VIII of the Constitution, entitled "Natural Resources" (emphasis added):

Section 1, Statement of Policy
"It is the policy of the State to encourage... the developement of its resources... for maximum use consistent with the public interest".

Section 2, General Authority
"The Legislature shall provide for the utilization, development, and conservation of all natural resources belonging to the State...for the maximum benefit of its people".

Section 6, State Public Domain
"Lands and interests therein... possessed or acquired by the State...constitute the State public domain."

Section 17, Uniform Application
"Laws and regulations governing the use and disposal of natural resources shall apply equally to all persons..."

Therefore, it seems clear that the Constitution intended for the State's natural resources to accure to the benefit of all the State's citizens, not to a few privileged by sheer chance.

During Session: P. O. Box V, Juneau, Alaska 99811, (907) 465-2719 During Interim: Box 1572, Homer, Alaska 99603, (907) 235-8200

Alaska State Legislature

COMMITTEES:

Committee on Community and Regional Affairs
Committee on Transportation
Special Committee on Oil and Gas
Special Committee on Fisheries
Finance Sub-committee on Fish and Game



District 5

Kenai	Sterling
Soldotna	Anchor Point
Homer	Port Graham
Seldovia	English Bay
Kachemak	Nikolaevsk
Kasilof	Halibut Cove
Ninilchik	Clam Gulch

Andre Marrou
Representative

February 17, 1986

SALIENT FACTS RE: CSSSHB339

°Of a $234,511,201 tax bill due the State on Prudhoe Bay oil and gas property in 1984, 92% of it was credited to the taxpayer because the local municipality siphoned it off.

°In 1984, 2.26% of the State's population took 58% of all oil and gas property tax revenue ($215,398,538), or, approximately 10% of all State revenue.

°The North Slope Borough is $1.2 billion(!) in debt, or, $97,373 per capita.

°The North Slope Borough leads the State with the highest debt to assessed valuation % ratio.

°The current situation encourages debt by municipalities.

°Inaction by the Legislature will result in continued reduction of State oil and gas property tax revenue and a higher local share.

°Oil prices will stabilize and increase eventually; hence, so will the assessed oil and gas property tax base..

During Session: P. O. Box V, Juneau, Alaska 99811, (907) 465-2719 During Interim: Box 1572, Homer, Alaska 99603, (907) 235-8200

SCOMM

#46:24

BILL SHEFFIELD, GOVERNOR

DEPARTMENT OF NATURAL RESOURCES

OFFICE OF THE COMMISSIONER

POUCH M
JUNEAU, ALASKA 99811
PHONE: (907) 465-2400

January 30, 1986

The Honorable Mike Davis, Chairman
House Special Committee on Oil & Gas
Alaska State Legislature
P.O. Box V
Juneau, AK 99811

Subject: Comments on HB 495

Dear Representative Mike Davis:

This letter summarizes the department's comments on HB 495, an Act relating to state oil and gas interests, which is scheduled for a hearing today before the House Special Committee on Oil and Gas.

Generally, we commend your efforts to streamline and clarify royalty oil and gas policy and procedures.

We believe the following suggestions would help further clarify the provisions of these statutes. Our comments are organized on a section by section basis.

I. Section 1.

A. The new section 38.16.020 would require that royalty oil be taken in kind unless the commissioner determined that taking in value would be in the best interest of the state. We recommend that this section be modified by substituting "makes a written determination" for the word "determines" on page 1, line 29 of the Bill.

B. Section 38.16.040 would consolidate and revise the criteria for making noncompetitive dispositions. In order to make this section consistent with the primary objective of maximizing state revenue, we suggest that the "or" on page 2, line 23 be changed to an "and".

Section 38.16.040 would require in item (7) that the commissioner consider "the ability, intent and degree of certainty of the prospective purchaser to provide refined products or by products for distribution and sale in the state with significant price and supply benefits for the

citizens of the state." This language is problematical since it will be difficult to assess "the intent and degree of certainty" with regard to future actions by long-term contract purchasers.

C. Section 38.16.050(a) requires legislative approval for amendments to contracts that appreciably reduce the consideration received by the state. This provision could be clarified with respect to prices negotiated under price reopeners by inserting the following after the word "state" on line 23, page 3: ", including a reduction in price negotiated under a price reopener provision,".

Section 38.16.050(b) would restrict assignments of unrefined royalty oil. We believe this subsection appropriately should apply only to sales to instate refiners. We suggest insertion of the words "to an instate refiner" after the word "disposition" on line 25, page 3.

Section 38.16.050(b)(1)(A) would require the commissioner to be satisfied that an assignment of a royalty oil contract "will result in a significant increase of direct monetary benefit to energy consumers of the state." It is not clear whether the commissioner must be satisfied that the assignment will result in an increase of benefit compared to no royalty oil contract at all, or compared to a royalty contract without the assignment being made. This language would be particularly problematical in a situation like the one encountered in the GVEA contract approved last year, where the assignment and the contract are contemporaneous.

D. Section 38.16.060 would add a needed clarification to the export restriction. We strongly support this change.

E. Section 38.16.070 would require legislative approval of long-term contracts. The Department of Law has frequently has asserted the unconstitutionality of this type of provision under the principles of separation of powers.

Section 38.16.070(d) refers to dispositions under (c)(2), requiring that they not be continued after the end of one year. Since subsection (c)(2) provides for two-year competitive sales, the words "or (c)(2)" on line 7, page 5 should be deleted.

F. Section 38.16.080 requires a royalty oil and gas status report to be submitted to the legislature. With regard to item (1), we suggest that the reporting of royalty status

should be either by unit or by lease. We suggest the Bill be amended on lines 16 and 17, page 5 to read "(1) the royalty status of all producing oil and gas units or leases;".

In item (3), the commissioner would have to provide the "findings of the commissioner" for each noncompetitive sale. It is not clear if these findings must be provided only for contracts entered into in the previous year, only for contracts proposed for consideration by the legislature that year, or for every existing noncompetitive contract. It is also unclear whether the commissioner can just restate the findings made at the time the contract was entered into, or whether a new finding must be prepared indicating the current status of compliance with applicable disposal criteria. If the intent is that we submit findings only for new proposals, this could be accomplished by inserting the word "proposed" after the word "each" on line 19, page 5. We also suggest that the phrase "noncompetitively bid disposition" be replaced by "noncompetive disposition."

Item (4) of this section would require "an evaluation of the economic consumer benefits resulting from in-state refiners and processors currently receiving royalty oil or gas." This evaluation will entail a number of interpretative and cost considerations. This requirement is the basis for the department's estimated fiscal impact of HB 495.

Assuming that "consumer benefits" refers to price benefits and does not include benefit categories such as employment or revenue, it would be the department's task to estimate the difference between current product prices and the hypothetical product prices which would prevail in the absence of royalty oil contracts for the state's four local refineries. However, the pricing behavior of these refineries in the absence of royalty oil contracts would be difficult to ascertain.

Given the difficulty of the task and the staff resources available, the department is certain that this requirement would require the services of professional consultants. Preliminary disscussions with the university's Institute of Social and Economic Research, which is a representative candidate for this undertaking, indicate an initial cost of $50,000 and $25,000 each year thereafter. This cost is based on the above described methodology, which the department believes necessary to a meaningful examination of consumer benefits. The department also believes that a imprecise

treatment of this issue could lead to legal objections from affected instate refiners and utilities. Needless to say, these estimates would increase somewhat if any subsequent royalty oil contracts were awarded to instate refiners.

Section 38.16.080(5)(D) refers to oil and gas sold on a "competitive and noncompetitive bid basis." We suggest that the word "bid" on line 1, page 6 be deleted.

Section 38.16.080(5)(E) refers to purchases "by foreign nations." As we are seeing in the Cook Inlet export situation, it is unlikely that a foreign nation itself would purchase oil. More appropriate language is "purchased for export to foreign nations."

II. Section 3.

A. Section 38.05.035 would be amended to provide that subsection (e) of that section does not apply to "royalty on oil or gas." We suggest that this provision be modified by substituting "to dispositions of royalty oil or gas" for the words "to royalty on oil or gas" on lines 1 and 2, page 8.

III. Section 9.

A. AS 38.05.180(1) would be amended to require the commissioner to make a written finding that the state "receives back" its stored or traded royalty share. Since the underlift recovery would occur in the future, the language could more appropriately require that the state "will receive back" its stored or traded royalty share (line 29, page 9).

IV. Section 11 and Section 13.

A. The new language added as subsection (aa) in Section 13 of the Bill could logically be placed at the beginning of the existing subsection (r). If this change were adopted, corresponding changes would be needed in sections 10 and 12 of the Bill (lines 12 and 27, page 10).

V. Section 20.

A. In order to make section 38.06.010 consistent with the proposed sections 38.16.010 and 38.16.040, we suggest that the words "maximize revenue, to" be inserted after the words "calculated to" on line 26, page 12.

VI. Section 22.

A. Section 38.06.040(a)(1) would still require the royalty board to "develop a plan for the wise development of the state's royalty oil and gas interests." The royalty board lacks the resources to prepare this type of plan.

B. Section 38.06.040(a)(2) would require the royalty board to hold hearings to determine whether a disposition complies with the criteria in "AS 38.16.040." The current statute, AS 38.06.040(a)(2), references the criteria in AS 38.06.070. Since section .070 states the criteria for sales requiring legislative approval, we believe that the royalty board now need hold hearings only on sales requiring legislative approval. The proposed language would refer to the criteria in the new section 38.16.040, which are the criteria the commissioner must consider in any negotiated disposal; thus, the new language would seem to require royalty board hearings on any negotiated disposal, whether or not legislative approval was required.

VII. Section 24.

A. The items in this revised section 38.06.070, criteria, could appropriately be combined with the powers and duties of the board listed in the new section 38.06.040. The items listed here technically are not criteria but rather possible recommendations that the board may make to the commissioner and a report that the board must make for proposed sales requiring legislative approval. It would seem to be consistent with the intent of the bill to consolidate all "criteria" in a single section. Adoption of this change would require corresponding changes in other sections.

B. Section 38.06.070(2) would require the board to "report fully" for dispositions requiring legislative approval. The royalty board lacks the resources to prepare a full report on proposed dispositions.

VIII. Section 27.

A. This section would amend AS 44.62.175(a) to include additional items that must be published in the Alaska Administrative Journal. It is apparently an oversight that all proposed disposals under AS 38.05 were not previously

included. We suggest that the changes proposed on lines 2, 19, 20 and 21 of page 16 be deleted and replaced with a provision that reads: "(10) a notice of disposal required by AS 38.05.945 or AS 38.16."

Thank you for the opportunity to comment.

Sincerely,

Esther C. Wunnicke
Commissioner

1935K

STATE OF ALASKA 1986 LEGISLATIVE SESSION
FISCAL NOTE

Revision Date : _____

REQUEST

Bill/Resolution No. : HB 495
Title : An Act relating to State Oil and Gas interests and providing for effective date
Sponsor : Oil and Gas Committee
Requestor : Governor
Date of Request : 1-24-86

FISCAL DETAIL

Agency Affected : Natural Resources
BRU : Petroleum Management

Components : Petroleum Management

EXPENDITURES/REVENUES : (Thousands of Dollars)

OPERATING	FY 86	FY 87	FY 88	FY 89	FY 90	FY 91
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL	50.0	25.0	25.0	25.0	25.0	25.0
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	50.0	25.0	25.0	25.0	25.0	25.0
CAPITAL						
REVENUE						

FUNDING : (Thousands of Dollars)

GENERAL FUND	50.0	25.0	25.0	25.0	25.0	25.0
FEDERAL FUNDS						
OTHER						
TOTAL	50.0	25.0	25.0	25.0	25.0	25.0

POSITIONS :

FULL-TIME	0	0	0	0	0	0
PART-TIME						
TEMPORARY						

ANALYSIS : Attach a separate page if necessary

See attached analysis.

Prepared by : Jim Eason
Phone : 762-4246
Division : Division of Oil and Gas
Date : 1-30-86

Approved by Commissioner : Mark D Agnew, Deputy
Date : 1-30-86
Agency : Natural Resources

Distribution (by Agency preparing fiscal note) :
Legislative Finance
Legislative Sponsor
Requestor
Office of Management and Budget
Impacted Agency(ies)

10/25/85

The department believes that the implementation of item 4 of Section 38.16.080 will entail a number of interpretive and cost considerations. This subsection calls for "an evaluation of the economic consumer benefits resulting from in-state refiners and processors currently receiving royalty oil and gas...". Assuming that "consumer benefits" refers to price benefits and does not include benefit categories such as employment or revenue, it would be the department's task to estimate the difference between current product prices and the hypothetical product prices which would prevail in the absence of royalty oil contracts for the State's four local refineries. However, the pricing behavior of these refineries in the absence of royalty oil contracts would be difficult to ascertain.

Given the difficulty of the task and the staff resources available, the department is certain that this requirement will entail the services of professional consultants. Preliminary discussions with ISER, which is a representative candidate for this undertaking, indicate an initial cost of $50,000 and $25,000 each year thereafter. This cost is based on the above described methodology, which the department believes necessary to a meaningful examination of consumer benefits. The department also feels that an imprecise treatment of this issue could lead to legal objections from affected in-state refiners and utilities. Needless to say, these estimates would increase somewhat if any subsequent royalty oil contracts were awarded to in-state refiners.

HB 495
Question and Answer Overview

What does HB 495 seek to accomplish?

HB 495 attempts to clarify state policy and administrative procedures regarding the taking and disposition of royalty oil and gas. This clarification is intended to facilitate the procurement of royalty oil and gas by eligible purchasers, while also improving the working relationship between industry, the legislature, and the administration.

In order to effect these changes, HB 495 isolates oil and gas royalties from other royalty resources in AS 38. A new chapter comprised in part of sections of AS 38.05 and AS 38.06 would deal exclusively with the taking and disposition of royalty oil and gas. This new chapter, AS 38.16, would also consolidate criteria regarding the sale of royalty oil and gas into a single section.

The revisor of statutes has also been asked to consider rearranging certain sections of AS 38.05 in order to further clarify the requirements and procedures set forth in this chapter.

What are the major policy and procedural issues addressed in the bill?

HB 495 focuses on several issues of consequence to the state. Following is a brief outline of the policy changes proposed in the bill.

1. Clear direction is given to the commissioner of DNR regarding the taking and disposition of royalty oil and gas. Central to this policy is the maximization of state revenues, with secondary goals being to expand foreign markets and to supply existing and new in-state refineries and utilities with royalty oil at current market value.

2. The commissioner of DNR must submit an annual report to the legislature delineating the status of all state-owned royalty oil and gas production and disposition. The report must be submitted no later than the 15th day of each regular session.

3. The state reserves the right to purchase residual oil from in-state refiners.

4. Language is deleted that allowed royalty oil or gas taken in kind to be exported from the state only after the commissioner made a determination that "the royalty-in-kind oil or gas is surplus to the present and projected intrastate domestic and industrial needs" of the state.

5. The term of a competitively-bid disposition of royalty oil or gas which may take place without legislative approval is extended to two years from the current one year limitation.

6. The commissioner of DNR must make public written findings and conclusions relating to non-competitive dispositions of royalty oil and gas.

7. The Alaska Royalty Oil and Gas Development Advisory Board is transferred to the Department of Natural Resources from the Department of Commerce and Economic Development.

8. All oil and gas exploration incentives are retained, with the exception that royalties on oil and gas cannot be reduced below 12.5 percent.

9. An assignment of unrefined royalty oil purchased from the state is prohibited unless certain minimum benefits to citizens of the state are met.

10. Prior to disposing of royalty oil or gas, consideration must be given not only to a prospective purchaser's ability to provide significant price and supply benefits to citizens of the state, but also to the degree of certainty and intent of the prospective purchaser that these benefits will be provided.

11. Prior to disposing of royalty oil or gas, consideration must also be given to the local or regional desirability of the disposition.

12. DNR may provide by regulation for the confidentiality of documents and records in the same manner that this is presently done by the royalty board. In neither case should these confidentiality provisions preclude proper legislative review of proposed sales of royalty oil or gas.

HB 495
Sectional Analysis

* Section 1.

Chapter 16. Taking and Disposition of Royalty Oil and Gas.

HB 495 isolates oil and gas royalties from other royalties in AS 38, and clarifies state policy for the taking and disposition of royalty oil and gas. Chapter 16 is a new chapter comprised, in part, of sections of AS 38.05 and AS 38.06.

Sec. 38.16.010. Directs the state to maximize revenues related to the taking and disposition of royalty oil and gas. Secondary goals are to supply existing in-state refineries and utilities with royalty oil or gas at current market value, supply new in-state refineries and utilities with royalty oil at current market value, and expand foreign markets for royalty resources.

Sec. 38.16.020. Rewording, without substantive change, of the provision that the state give preference to taking its royalty in kind. [AS 38.05.182(a)]

Sec. 38.16.030. (a) Rewording, without substantive change, of the provision that the state give preference to disposing of its royalty by competitive bid to the highest bidder. [AS 38.05.183(a)]

(b) Rewording to clarify that a single competitive bid may be rejected. [AS 38.05.183(b)]

(c) The commissioner must make public written findings and conclusions relating to dispositions of oil or gas which are to be made other than by competitive bid.

Sec. 38.16.040. This section consolidates criteria for the commissioner and the board to consider when reviewing propsals to dispose of royalty oil or gas non-competitively. Changes to these criteria are:

(1) Cash value for the oil or gas shall not be below current market value. [AS 38.05.183(e)]

(2) No substantive change. [AS 38.05.183(e) and AS 38.06.070(a)]

(3) Consideration of projected local and regional economic benefits of refining or processing oil or gas in state. [AS 38.05.183(e) and AS 38.06.070(a)]

Sec. 38.16.040. (Continued)

(4) No substantive change. [AS 38.06.070(a)]

(5) No substantive change. [AS 38.06.070(a)]

(6) No substantive change. [AS 38.06.070(a)]

(7) Consideration must be given not only to a prospective purchaser's ability to provide significant price and supply benefits to citizens of the state, but also to the intent and degree of certainty that these benefits will be provided.

Sec. 38.16.050. (a) No substantive change. [AS38.05.183(f)]

(b)(1) Prohibits an assignment of unrefined royalty oil purchased from the state unless certain minimum benefits to citizens of the state are met.

(b)(2) Reserves to the state the right to purchase residual oil from in-state refiners.

Sec. 38.16.060. Deletes language allowing royalty oil or gas taken in kind to be exported from the state only after the commissioner has made a determination that "the royalty-in-kind oil or gas is surplus to the present and projected intrastate domestic and industrial needs" of the state. [AS 38.05.183(d)]

Sec. 38.16.070. Subsection (c)(2) of this section extends the term of a competitively-bid disposition of royalty oil or gas which may take place without legislative approval to two years from one year. [AS 38.06.055]

Sec. 38.16.080. Requires the commissioner to submit a royalty oil and gas report to the legislature no later than the 15th day of each regular legislative session.

Sec. 38.16.090. The department may provide by regulation for the confidentiality of documents and records. Similar provisions remain in effect for the board under AS 38.06. [AS 38.06.060]

Sec. 38.16.900. Definitions.

* Section 2.

Sec. 38.05.020. (b) Technical change, referencing AS 38.16.

* Section 3.

Sec. 38.05.035. Technical change, reflecting Ch. 64 SLA 85 (HB 103).

* Section 4.

Sec. 38.05.036. (a) Technical change, referencing AS 38.16.

* Section 5.

Sec. 38.05.036. (b) Technical change, referencing AS 38.06.060 and AS 38.16.090.

* Section 6.

Sec. 38.05.069. (f) Technical change, referencing AS 38.16.

* Section 7.

Sec. 38.05.135. (a) Retains all exploration incentives, with the exception that royalties on oil and gas cannot be reduced below 12.5 percent.

* Section 8.

Sec. 38.05.140. (c) Technical change, deleting language relating to oil and gas lease acreage. This language is transferred to the new subsection AS 38.05.180(aa).

* Section 9.

Sec. 38.05.180. (l) Technical changes regarding the state's ability to store or trade its royalty share. Also adds a provision requiring the commissioner to make written findings prior to storing or trading the state's royalty share.

* Section 10.

Sec. 38.05.180. (q) Technical change, referencing the new subsection AS 38.05.180(aa).

* Section 11.

Sec. 38.05.180. (r) Technical change, referencing the new subsection AS 38.05.180(aa).

* Section 12.

Sec. 38.05.180. (t) Technical change, referencing the new subsection AS 38.05.180(aa).

* Section 13.

Sec. 38.05.180. Technical change, adding the new subsection (aa).

* Section 14.

Sec. 38.05.182. (a) References to oil and gas are deleted from this subsection relating to the taking of royalty.

* Section 15.

Sec. 38.05.182. The new subsection (c) is added, stating this this section does not apply to royalty oil or gas.

* Section 16.

Sec. 38.05.183. (a) The commissioner is not required to provide written notice to the royalty board regarding the non-competitive sale of non-oil or -gas royalty.

* Section 17.

Sec. 38.05.183. (b) The commissioner is not required to provide written notice to the royalty board regarding the rejection of a competitive bid for non-oil or -gas royalty. Language is changed to clarify that a single bid may be rejected without necessitating the rejection of all bids involved in the sale.

* Section 18.

Sec. 38.05.183. (c) The commission is not required to provide written notice to the royalty board regarding the determination upon which the decision was based to sell non-oil or -gas royalty non-competitively.

* Section 19.

Sec. 38.05.183. A new subsection (h) is added, stating this this section does not apply to royalty oil or gas. Disposition of royalty oil and gas, including requirements that the commissioner provide written notice to the royalty board, is addressed in AS 38.16.030 and AS 38.16.040.

* Section 20.

Sec. 38.06.010. The purpose of AS 38.06 is expanded to include local or regional desirability as a major consideration for the disposition of royalty oil or gas. Also included is a technical change referencing AS 38.16.

* Section 21.

Sec. 38.06.020. The Alaska Royalty Oil and Gas Development Advisory Board is transferred to the Department of Natural Resources from the Department of Commerce and Economic Development.

* Section 22.

Sec. 38.06.040. Technical changes, referencing AS 38.16.

* Section 23.

Sec. 38.06.050. Technical changes, referencing AS 38.16.

* Section 24.

Sec. 38.06.070. Subsection (a) is deleted, and the substance of this subsection is transferred to AS 38.16.040. The board may recommend that refiners proposing to distribute and sell refined products and by-products in-state provide significant price and supply benefits to the citizens of the state.

* Section 25.

Sec. 38.06.080. Definitions.

* Section 26.

Sec. 43.05.010. (16) Technical change referencing AS 38.16.

* Section 27.

Sec. 44.62.175. (a) Technical change referencing AS 38.16.030. Also requires that notice of findings required to be made public by the commissioner be published in the Alaska Administrative Journal.

* Section 28.

Sec. 38.05.183. Subsections (d), (e), (f) and (g) are repealed in order that this section exclusively address the sale of non-oil and -gas royalty. The sale of oil and gas royalty is addressed in AS 38.16.030 and AS 38.16.040.

Sec. 38.06.055. This section is repealed, and provisions regarding legislative approval of royalty oil and gas contracts are transferred to AS 38.16.070.

* Section 29.

Sec. 01.10.070. (c) Provides for an immediate effective date.

2/21/86

CSHB 495
Sectional Analysis

* Section 1.

Chapter 16. Taking and Disposition of Royalty Oil and Gas.

HB 495 isolates oil and gas royalties from other royalties in AS 38, and clarifies state policy for the taking and disposition of royalty oil and gas. Chapter 16 is a new chapter comprised, in part, of sections of AS 38.05 and AS 38.06.

Sec. 38.16.010. Directs the state to maximize citizen benefits related to the taking and disposition of royalty oil and gas. Secondary goals are to supply existing in-state refineries and utilities with royalty oil or gas at current market value, supply new in-state refineries and utilities with royalty oil at current market value, and expand foreign markets for royalty resources.

Sec. 38.16.020. Rewording of the provision that the state give preference to taking its royalty in kind. The commissioner may take royalty oil or gas in value upon making a written determination that this action would be in the best interest of the state. [AS 38.05.182(a)]

Sec. 38.16.030. (a) Rewording, without substantive change, of the provision that the state give preference to disposing of its royalty by competitive bid to the highest bidder. [AS 38.05.183(a)]

(b) Rewording to clarify that a single competitive bid may be rejected. [AS 38.05.183(b)]

(c) The commissioner must make public written findings and conclusions relating to dispositions of oil or gas which are to be made other than by competitive bid.

Sec. 38.16.040. This section consolidates criteria for the commissioner and the board to consider when reviewing propsals to dispose of royalty oil or gas non-competitively. Changes to these criteria are:

(1) Cash value for the oil or gas shall not be below current market value. [AS 38.05.183(e)]

(2) No substantive change. [AS 38.05.183(e) and AS 38.06.070(a)]

Sec. 38.16.040. (Continued)

(3) Consideration of projected local and regional economic benefits of refining or processing oil or gas in state. [AS 38.05.183(e) and AS 38.06.070(a)]

(4) No substantive change. [AS 38.06.070(a)]

(5) No substantive change. [AS 38.06.070(a)]

(6) No substantive change. [AS 38.06.070(a)]

(7) No substantive change. [AS 38.05.183(e)]

Sec. 38.16.050. (a) Clarification that an amendment of a contract that appreciably reduces the consideration received by the state includes a reduction in price negotiated under a reopener clause. [AS38.05.183(f)]

(b)(1) Prohibits an assignment of unrefined royalty oil purchased from the state to an in-state refiner unless certain minimum benefits to citizens of the state are met.

(b)(2) Reserves to the state the right to purchase residual oil from in-state refiners.

Sec. 38.16.060. Deletes language allowing royalty oil or gas taken in kind to be exported from the state only after the commissioner has made a determination that "the royalty-in-kind oil or gas is surplus to the present and projected intrastate domestic and industrial needs" of the state. [AS 38.05.183(d)]

Sec. 38.16.070. No substantive change. [AS 38.06.055]

Sec. 38.16.080. Requires the commissioner to submit a royalty oil and gas report to the legislature no later than the 15th day of each regular legislative session.

Sec. 38.16.090. The department may provide by regulation for the confidentiality of documents and records. Similar provisions remain in effect for the board under AS 38.06. [AS 38.06.060]

Sec. 38.16.900. Definitions.

* Section 2.

Sec. 38.05.020. (b) Technical change, referencing AS 38.16.

* Section 3.

Sec. 38.05.035. Technical change, reflecting Ch. 64 SLA 85 (HB 103).

* Section 4.

Sec. 38.05.036. (a) Technical change, referencing AS 38.16.

* Section 5.

Sec. 38.05.036. (b) Technical change, referencing AS 38.06.060 and AS 38.16.090.

* Section 6.

Sec. 38.05.069. (f) Technical change, referencing AS 38.16.

* Section 7.

Sec. 38.05.135. (a) Retains all exploration incentives, with the exception that royalties on oil and gas cannot be reduced below 12.5 percent.

* Section 8.

Sec. 38.05.140. (c) Technical change, deleting language relating to oil and gas lease acreage. This language is transferred to AS 38.05.180(r).

* Section 9.

Sec. 38.05.180. (l) Technical changes regarding the state's ability to store or trade its royalty share. Also adds a provision requiring the commissioner to make written findings prior to storing or trading the state's royalty share.

* Section 10.

Sec. 38.05.180. (q) Technical change, referencing AS 38.05.180(r).

* Section 11.

Sec. 38.05.180. (r) This subsection is repealed and reenacted to reflect the transfer of language to this subsection from AS 38.05.140(c).

* Section 12.

Sec. 38.05.180. (t) Technical change, referencing AS 38.05.180(r).

* Section 13.

Sec. 38.05.182. (a) References to oil and gas are deleted from this subsection relating to the taking of royalty.

* Section 14.

Sec. 38.05.182. The new subsection (c) is added, stating this this section does not apply to royalty oil or gas.

* Section 15.

Sec. 38.05.183. (a) The commissioner is not required to provide written notice to the royalty board regarding the non-competitive sale of non-oil or -gas royalty.

* Section 16.

Sec. 38.05.183. (b) The commissioner is not required to provide written notice to the royalty board regarding the rejection of a competitive bid for non-oil or -gas royalty. Language is changed to clarify that a single bid may be rejected without necessitating the rejection of all bids involved in the sale.

* Section 17.

Sec. 38.05.183. (c) The commission is not required to provide written notice to the royalty board regarding the determination upon which the decision was based to sell non-oil or -gas royalty non-competitively.

* Section 18.

Sec. 38.05.183. A new subsection (h) is added, stating this this section does not apply to royalty oil or gas. Disposition of royalty oil and gas, including requirements that the commissioner provide written notice to the royalty board, is addressed in AS 38.16.030 and AS 38.16.040.

* Section 19.

Sec. 38.06.010. The purpose of AS 38.06 is expanded to include providing maximum benefits for the citizens of the state as a major consideration for the disposition of royalty oil or gas. Also included is a technical change referencing AS 38.16.

* Section 20.

Sec. 38.06.020. The Alaska Royalty Oil and Gas Development Advisory Board is transferred to the Department of Natural Resources from the Department of Commerce and Economic Development.

* Section 21.

Sec. 38.06.040. This section is repealed and reenacted in order to incorporate language regarding powers and duties of the board in AS 38.06.070. The board may recommend that refiners proposing to distribute and sell refined products and by-products in-state provide significant price and supply benefits to the citizens of the state. Technical changes, referencing AS 38.16.

* Section 22.

Sec. 38.06.050. Technical changes, referencing AS 38.16.

* Section 23.

Sec. 38.06.080. Definitions.

* Section 24.

Sec. 43.05.010. (16) Technical change referencing AS 38.16.

* Section 25.

Sec. 44.62.175. (a) Requires that notice of disposal required by AS 38.16 be published in the Alaska Administrative Journal.

* Section 26.

Sec. 38.05.183. Subsections (d), (e), (f) and (g) are repealed in order that this section exclusively address the sale of non-oil and -gas royalty. The sale of oil and gas royalty is addressed in AS 38.16.030 and AS 38.16.040.

Sec. 38.06.055. This section is repealed, and provisions regarding legislative approval of royalty oil and gas contracts are transferred to AS 38.16.070.

Sec. 38.06.070. This section is repealed, and the substance of subsection (a) is transferred to AS 38.16.040. The remainder of the section is transferred to AS 38.06.040.

* Section 27.

Sec. 01.10.070. (c) Provides for an immediate effective date.

Bannister
2/13/86

Original sponsor: House Special Committee on Oil and Gas

IN THE HOUSE BY THE HOUSE SPECIAL COMMITTEE ON OIL AND GAS

CS FOR HOUSE BILL NO. 495 (Oil and Gas)

IN THE LEGISLATURE OF THE STATE OF ALASKA

FOURTEENTH LEGISLATURE - SECOND SESSION

A BILL

For an Act entitled: "An Act relating to state oil and gas interests; and providing for an effective date."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

* Section 1. AS 38 is amended by adding a new chapter to read:

CHAPTER 16. TAKING AND DISPOSITION OF ROYALTY OIL AND GAS.

Sec. 38.16.010. LEGISLATIVE FINDINGS RELATING TO ROYALTY OIL AND GAS. (a) The legislature finds that it is in the best interest of the state to take and dispose of royalty oil and gas in a manner that provides the maximum benefits for the citizens of the state.

(b) To the extent consistent with the primary goal of providing the maximum benefits for the citizens of the state, the secondary goals of the state in the taking and disposition of royalty oil and gas are to

(1) supply existing in-state refineries and oil- or gas-based utilities with oil or gas at the current market value for the oil or gas;

(2) promote new in-state refineries and oil- or gas-based utilities that are economically feasible at the current market value for oil or gas without the new refineries or utilities relying on royalty oil or gas contracts;

(3) expand the foreign market for the resources of the state.

Sec. 38.16.020. TAKING OF ROYALTY IN KIND. The state shall take an oil or gas royalty in kind unless the commissioner makes a written

determination that taking the royalty in value would be in the best interest of the state.

Sec. 38.16.030. METHOD OF DISPOSITION OF ROYALTY. (a) The commissioner shall make a disposition of royalty oil or gas by competitive bid to the highest responsible bidder, unless the commissioner determines, after prior written notice to the board, that competitive bidding is not in the best interest of the state or that no competition exists.

(b) When competitive bids are required, the commissioner may, after prior written notice to the board, reject a bid if the commissioner determines that acceptance of a bid would not be in the best interest of the state due to the amount of the bid, the lack of responsibility of the bidder, or other reasons consistent with the criteria set out in AS 38.16.040.

(c) If the commissioner determines that a disposition of oil or gas is to be made other than by competitive bid, the commissioner shall make public in writing the specific findings and conclusions that are the basis for the determination.

Sec. 38.16.040. CRITERIA FOR DISPOSITION OF NONCOMPETITIVELY BID ROYALTY OIL OR GAS TAKEN IN KIND. When the state does not use competitive bidding to dispose of royalty oil or gas taken in kind, the commissioner shall make the disposition of royalty oil or gas to the prospective purchaser whose proposal offers the maximum revenue or other benefits to citizens of the state. When making an award under this subsection, the commissioner shall consider the following criteria:

(1) the cash value offered, which, notwithstanding AS 38.-05.810(a), may not be less than the current market value of the royalty oil or gas;

(2) the projected effects of the disposition of royalty oil or gas on the revenue needs and projected fiscal condition of the state;

(3) the projected benefits to local and regional economies of the state of refining or processing the oil or gas in the state;

(4) the projected additional costs and responsibilities that the state and affected political subdivisions of the state may suffer due to the development related to the disposition of royalty oil or gas;

(5) the projected social effects of the disposition of royalty oil or gas;

(6) the projected environmental effects of the disposition of royalty oil or gas;

(7) the ability of the prospective purchaser to provide refined products or by-products for distribution and sale in the state with significant price and supply benefits for the citizens of the state.

Sec. 38.16.050. CONTRACT PROVISIONS. (a) The commissioner may not enter into a contract for a disposition of royalty oil or gas unless the contract provides that an amendment of the contract that appreciably reduces the consideration received by the state requires the prior approval of the legislature. In this subsection, an "amendment" includes a reduction in price negotiated under a contractual provision allowing price to be changed during the contract.

(b) A disposition of royalty oil to an in-state refiner must

(1) prohibit an assignment of unrefined royalty oil purchased from the state unless the assignor or assignee demonstrates to the satisfaction of the commissioner that

(A) the assignment will result in a significant increase of direct monetary benefit to energy consumers in the state; and

(B) the total direct monetary benefit to energy consumers in the state from the assignment will outweigh the monetary benefit to the assignor and assignee; and

(2) reserve to the state the right to purchase residual oil from the in-state refiner when the residual oil is a by-product of a disposition of royalty oil by the state.

Sec. 38.16.060. DISPOSITION OF ROYALTY OIL OR GAS FOR EXPORT. A disposition of royalty oil or gas taken in kind by the state under AS 38.16.020 may not be made for export from the state unless the commissioner determines that the disposition of royalty oil or gas is in the best interest of the state and makes public in writing the specific findings and reasons that are the basis for the determination.

Sec. 38.16.070. LEGISLATIVE APPROVAL. (a) In addition to the recommendation by the board required under AS 38.06.050, the commissioner may not enter into a disposition of royalty oil or gas without the prior approval of the legislature by enactment of legislation.

(b) The commissioner shall notify the board in writing of a determination by the commissioner that a disposition of royalty oil or gas requires legislative approval.

(c) The provisions of (a) of this section do not apply to

(1) the disposition of royalty oil or gas for one year or less if the disposition is entered into to relieve storage or market conditions;

(2) the disposition of royalty oil or gas for one year or less if the disposition is bid competitively; or

(3) contracts for the disposition of royalty oil or gas that specify the sale and delivery of not more than

(A) 400 barrels of crude oil per day;

(B) 460 barrels of natural gas liquids per day; or

(C) 2,400 Mcf of natural gas per day.

(d) A disposition of royalty oil or gas under (c)(1) or (c)(2) of this section may not be continued after the end of one year or renewed with the same party without the prior approval of the legislature under (a) of this section. This subsection does not apply to a sequential competitively bid disposition of royalty oil or gas made with the same party under (c)(1) of this section.

Sec. 38.16.080. REPORT BY COMMISSIONER. The commissioner shall submit to the legislature between the first and the 15th day of each regular legislative session a royalty oil and gas report that includes

(1) the royalty status of all producing royalty oil and gas units or leases;

(2) proposed dispositions of royalty oil and gas;

(3) for each proposed noncompetitive disposition of royalty oil or gas the findings of the commissioner on the criteria in AS 38.-16.040;

(4) an evaluation of the consumer price benefits resulting from in-state refiners and processors currently receiving royalty oil or gas; and

(5) the volume, percentage, and reported value of royalty oil and gas

(A) being taken in kind and in value;

(B) purchased by in-state refiners and processors;

(C) actually refined or processed in the state;

(D) sold on a competitive and noncompetitive basis;

and

(E) purchased for export to foreign nations.

Sec. 38.16.090. CONFIDENTIALITY. Notwithstanding AS 09.25.-110 - 09.25.120, the department may provide by regulation for the confidentiality of those documents and records in the possession or control of the department that contain confidential business or marketing information when the protection of the information is essential to the person who has submitted the information to the department, or when the department determines that protection of the information is essential to the best interest of the state. Confidentiality under this section does not preclude proper review by the legislature.

Sec. 38.16.900. DEFINITIONS. In this chapter

(1) "board" means the Alaska Royalty Oil and Gas Development Advisory Board;

(2) "commissioner" means the commissioner of natural resources;

(3) "department" means the Department of Natural Resources;

(4) "dispose of" or "disposition of" royalty oil or gas means the sale, exchange, or other alienation by the state of royalty oil or gas or of an interest in royalty oil or gas, and includes the waiver of a present or future right to take future production of oil or gas as a royalty; and

(5) "interest" in oil or gas includes the right to take future production of the oil or gas;

(6) "royalty gas" means gas, or an interest in gas, obtained by the state under a lease issued under AS 38.05.180;

(7) "royalty oil" means oil, or an interest in oil, obtained by the state under a lease issued under AS 38.05.180.

* Sec. 2. AS 38.05.020(b) is amended to read:

(b) The commissioner may

(1) establish reasonable procedures and adopt reasonable regulations necessary to carry out this chapter and AS 38.16 and, whenever necessary, issue directives or orders to the director to carry out specific functions and duties; regulations adopted by the commissioner shall be adopted under the Administrative Procedure Act (AS 44.62); orders by the commissioner classifying land, issued after January 3, 1959, are not required to be adopted under the Administrative Procedure Act (AS 44.62);

(2) enter into agreements considered necessary to carry out the purposes of this chapter and AS 38.16, including agreements with federal and state agencies;

(3) review an [ANY] order or action of the director;

(4) exercise the powers and do the acts necessary to carry out the provisions and objectives of this chapter and AS 38.16;

(5) notwithstanding the provisions of another [ANY OTHER] section of this chapter, grant an extension of the time within which payments due on a [ANY] lease or sale of state land, minerals, or materials may be made, including payment of rental and royalties, on a finding that compliance with the requirements is or was prevented by reason of war, riots, or acts of God;

(6) classify tracts for agricultural uses and require the prequalification, including the submission of conservation plans, development plans, or other plans, schedules, or programs, of persons who apply to participate in an agricultural development project under AS 44.33.475;

(7) waive, postpone, or otherwise modify the development requirements of a contract for the sale of agricultural land if

(A) the land is inaccessible by road; and

(B) transportation, marketing, and development costs render the required development uneconomic.

* Sec. 3. AS 38.05.035 is amended by adding a new subsection to read:

(g) The provisions of (e) of this section do not apply to a disposition of royalty oil or gas obtained by the state under AS 38.-05.180.

* Sec. 4. AS 38.05.036(a) is amended to read:

(a) The Department of Revenue shall audit reports, payments, and payments due relating to royalty and net profits under oil and gas contracts, agreements, or leases under this chapter and AS 38.16.

* Sec. 5. AS 38.05.036(b) is amended to read:

(b) The Department of Revenue may inspect all reports and other information filed in support of or relating to royalty and net profits payments, whether or not the [THAT] information is confidential, and shall hold the [THAT] information confidential to the extent required under oil and gas agreements, contracts, or leases, or by this chapter, AS 38.06.060, AS 38.16.090, or AS 43.05.230.

* Sec. 6. AS 38.05.069(f) is amended to read:

(f) Nothing in (c) of this section affects the disposal of minerals under AS 38.05.135 - 38.05.183 or AS 38.16.

* Sec. 7. AS 38.05.135(a) is amended to read:

(a) Except as otherwise provided, valuable mineral deposits in land belonging to the state are [SHALL BE] open to exploration, development, and the extraction of minerals. All land, together with tide, submerged, or shoreland, to which the state holds title [TO] or to which the state may become entitled, may be obtained by permit or lease for the purpose of exploration, development, and the extraction of minerals. Except as specifically limited by AS 38.05.135 - 38.05.-181, land may be withheld from lease application on a first-come,

first-served basis, and offered only on a competitive bid basis when determined by the commissioner to be in the best interests of the state. In unproven areas the commissioner may offer additional incentives [, INCLUDING A REDUCTION OF ROYALTY TO A MINIMUM OF FIVE PERCENT IN THE CASE OF OIL AND GAS,] and other terms in and granting a permit or lease for exploration and development whenever it appears to be in the best interests of the state to do so.

* Sec. 8. AS 38.05.140(c) is amended to read:

(c) A person may not take or hold at one time phosphate leases on state land exceeding in the aggregate 10,240 acres. A person may not take or hold sodium leases or permits during the life of sodium leases on state land exceeding in the aggregate acreage 5,120 acres, except that the commissioner may, where it is necessary in order to secure the economic mining of sodium compounds, permit a person to take or hold sodium leases or permits for up to 15,360 acres. [A PERSON MAY NOT TAKE OR HOLD AT ANY ONE TIME OIL OR GAS LEASES EXCEEDING IN THE AGGREGATE 500,000 ACRES GRANTED ON TIDE AND SUBMERGED LAND AND 500,000 ACRES ON ALL LAND OTHER THAN TIDE AND SUBMERGED LAND, INCLUDING LEASES HELD BOTH AS LESSEE AND UNDER OPTION OR OPERATING AGREEMENT FROM OTHERS. WHERE MORE THAN A SINGLE PERSON HOLDS AN INTEREST IN AN OIL OR GAS LEASE, EACH PERSON SHALL BE CHARGED ONLY WITH THAT PERCENTAGE OF THE TOTAL ACREAGE WHICH CORRESPONDS TO ITS PERCENTAGE SHARE OF THE TOTAL BENEFICIAL INTEREST IN THE LEASE.]

* Sec. 9. AS 38.05.180(1) is amended to read:

(1) Subject to the provisions of AS 31.05, the commissioner has discretion to enter into an agreement whereby, with the consent of the lessee, all or part of the state's royalty share of oil and gas production may be stored or retained in storage by the lessee, or the commissioner may enter into an agreement with one or more of the

affected field lease holders to trade all or part of the current royalty production from a field for a like amount, kind, and quality of future production, if the commissioner makes a written finding [ON THE CONDITION] that the state will receive [RECEIVES] back its stored or traded royalty share before 80 percent of the estimated life of the field is depleted, considering the engineering constraints and other relevant factors [DURING THE FIRST HALF OF THE ESTIMATED FIELD LIFE OR NO LATER THAN 15 YEARS AFTER START OF PRODUCTION, WHICHEVER IS SOONER].

* Sec. 10. AS 38.05.180(q) is amended to read:

(q) A plan authorized by (p) of this section that [, WHICH] includes land owned by the state, may contain a provision vesting the commissioner, or a person, committee, or state agency, with authority to modify from time to time the rate of prospecting and development and the quantity and rate of production under the plan. All leases operated under a plan approved or prescribed by the commissioner are excepted in determining holdings or control under (r) of this section [AS 38.05.140]. The provisions of this section concerning cooperative or unit plans are in addition to and do not affect AS 31.05.

* Sec. 11. AS 38.05.180(r) is repealed and reenacted to read:

(r) A person may not take or hold at one time oil or gas leases exceeding in the aggregate 500,000 acres granted on tide and submerged land and 500,000 acres on all land other than tide and submerged land, including leases held both as lessee and under option or operating agreement from others. Where more than one person holds an interest in an oil or gas lease, each person shall be charged only with that percentage of the acreage that corresponds to the person's share of the total beneficial interest in the lease. Producing acreage on a known geologic structure of a producing oil or gas field is excluded

from chargeability against the acreage limitation provisions of this subsection.

* Sec. 12. AS 38.05.180(t) is amended to read:

(t) The commissioner may prescribe conditions and approve, on conditions, drilling, or development contracts made by one or more lessees of oil or gas leases, with one or more persons, when, in the discretion of the commissioner, the conservation of natural resources or the public convenience or necessity requires it or the interests of the state are best served. All leases operated under approved drilling or development contracts and interests under them, are excepted in determining holding or control under (r) of this section [AS 38.05.140].

* Sec. 13. AS 38.05.182(a) is amended to read:

(a) A [ANY] royalty provided for in AS 38.05.135 - 38.05.181 may be taken in kind rather than in money if the commissioner determines that the taking in kind would be in the best interest of the state. [HOWEVER, ROYALTIES ON OIL AND GAS SHALL BE TAKEN IN KIND UNLESS THE COMMISSIONER DETERMINES THAT THE TAKING IN MONEY WOULD BE IN THE BEST INTEREST OF THE STATE.]

* Sec. 14. AS 38.05.182 is amended by adding a new subsection to read:

(c) This section does not apply to a royalty on oil or gas obtained by the state under AS 38.05.180.

* Sec. 15. AS 38.05.183(a) is amended to read:

(a) The sale, exchange, or other disposal of a mineral obtained by the state as a royalty under this chapter [AS 38.05.182], or the sale, exchange or other disposal in whole or in part of a right to receive future mineral production under a state lease under this chapter, shall be by competitive bid and the sale, exchange or other disposal made to the highest responsible bidder, except that

competitive bidding is not required when the commissioner [, AFTER PRIOR WRITTEN NOTICE TO THE ALASKA ROYALTY OIL AND GAS DEVELOPMENT ADVISORY BOARD UNDER AS 38.06.050,] determines that the best interest of the state does not require it or that no competition exists.

* Sec. 16. AS 38.05.183(b) is amended to read:

(b) When competitive bids are required, the commissioner [, AFTER PRIOR WRITTEN NOTICE TO THE ALASKA ROYALTY OIL AND GAS DEVELOPMENT ADVISORY BOARD,] may reject a bid [ALL BIDS] on a determination that because of the amount of the bid or [BIDS,] the lack of responsibility on the part of the bidder, [BIDDERS, OR FOR REASONS CONSISTENT WITH THE CRITERIA SET OUT IN AS 38.06.070,] the acceptance of the bid [BIDS] would not be in the best interest of the state.

* Sec. 17. AS 38.05.183(c) is amended to read:

(c) If the commissioner determines that a sale, exchange, or other disposal of a mineral obtained by the state as a royalty under this chapter [AS 38.05.182] or of a right to receive future mineral production under a state lease under this chapter shall be made other [OTHERWISE] than by competitive bid, [AND THE ALASKA ROYALTY OIL AND GAS DEVELOPMENT ADVISORY BOARD HAS BEEN NOTIFIED IN WRITING OF THAT DETERMINATION,] the commissioner shall make public in writing the specific findings and conclusions on [UPON] which the [THAT] determination is based.

* Sec. 18. AS 38.05.183 is amended by adding a new subsection to read:

(h) This section does not apply to a royalty on oil or gas obtained by the state under AS 38.05.180.

* Sec. 19. AS 38.06.010 is amended to read:

Sec. 38.06.010. PURPOSE. It is the purpose of this chapter to facilitate the wise development of Alaska's oil and gas royalty interests by providing means and procedures for [SALES, EXCHANGES OR OTHER]

disposition of those interests in ways calculated <u>to maximize the benefits for the citizens of the state and</u> to promote private economic growth consistent with applicable environmental standards and public fiscal stability, and in accordance with <u>AS 38.16</u> [AS 38.05.183].

* Sec. 20. AS 38.06.020 is amended to read:

Sec. 38.06.020. ESTABLISHMENT. There is established in the Department of <u>Natural Resources</u> [COMMERCE AND ECONOMIC DEVELOPMENT] the Alaska Royalty Oil and Gas Development Advisory Board.

* Sec. 21. AS 38.06.040 is repealed and reenacted to read:

Sec. 38.06.040. POWERS AND DUTIES OF THE BOARD. (a) The board shall

(1) in accordance with the criteria set out in (c) of this section and AS 38.16.040, develop a plan for the wise development of the state's royalty oil and gas interests; the plan of development must be consistent with

(A) growth of the private sector of the economy;

(B) environmental standards required by law; and

(C) public fiscal stability;

(2) hold public hearings to determine whether a proposed disposition of royalty oil or gas complies with the criteria in AS 38.16.040;

(3) examine a proposed disposition of royalty oil or gas and recommend that the legislature approve or disapprove the proposed disposition of royalty oil or gas; and

(4) recommend to the commissioner conditions for the disposition, delivery, transportation, refining, or processing of the royalty oil or gas.

(b) The board may

(1) direct the commissioner to solicit development plans or

bids consistent with the criteria set out in (c) of this section and AS 38.16.040 for the disposition of royalty oil or gas obtained by the state under AS 38.05.180;

(2) employ an executive director, and contract for the services of professionals, persons with knowledge of economics and other disciplines, and persons with technical skills who may be necessary to assist the board in the exercise of its powers and duties; and

(3) adopt regulations under the Administrative Procedure Act (AS 44.62) that are necessary to exercise its powers and duties.

(c) In the exercise of the powers of the board under (a) of this section and AS 38.06.050, the board

(1) may, when it is economically feasible and in the public interest, recommend to the commissioner as a condition of the disposition of royalty oil or gas that

(A) the oil or gas be refined or processed in the state;

(B) the purchaser be a refiner who provides refined products or by-products for distribution and sale in the state with significant price and supply benefits to the citizens of the state; or

(C) the purchaser construct a processing or refining facility in the state;

(2) shall report fully to the department on each criterion in AS 38.16.040 and in (1) of this subsection for each disposition of royalty oil or gas that requires legislative approval under AS 38.16.070; the report shall be submitted to the legislature for review when the legislation approving the proposed disposition of royalty oil or gas is introduced in the legislature.

* Sec. 22. AS 38.06.050 is repealed and reenacted to read:

Sec. 38.06.050. BOARD REVIEW AND RECOMMENDATION REQUIRED. If legislative approval is required by AS 38.16.070, the commissioner may not dispose of royalty oil or gas without prior review of the proposed disposition of royalty oil or gas by the board. The written recommendation of the board on the proposed disposition of royalty oil or gas shall be submitted to the legislature at the time the legislation approving the proposed disposition of royalty oil or gas is introduced in the legislature.

* Sec. 23. AS 38.06.080 is amended by adding new paragraphs to read:

(3) "commissioner" means the commissioner of natural resources;

(4) "department" means the Department of Natural Resources;

(5) "dispose of" or "disposition of" royalty oil or gas means the sale, exchange, or other alienation by the state of royalty oil or gas or of an interest in royalty oil or gas, and includes the waiver of a present or future right to take future production of oil or gas as a royalty;

(6) "interest" in royalty oil or gas includes the right to take future production of oil or gas as a royalty.

* Sec. 24. AS 43.05.010(16) is amended to read:

(16) audit reports, payments, and payments due relating to royalty and net profits under oil and gas contracts, agreements, or leases under AS 38.05 <u>and AS 38.16</u>;

* Sec. 25. AS 44.62.175(a) is amended to read:

(a) The lieutenant governor shall publish or contract for the publication of the Alaska Administrative Journal. The journal shall be published weekly. The journal must include

(1) notices of proposed actions given under AS 44.62.190(a);

(2) notices of state agency meetings required under AS 44.-62.310(e), even if the meeting has been held;

(3) notices of solicitations to bid issued under AS 37.-05.230;

(4) notices of state agency requests for proposals issued under AS 18.55.255, 18.55.320; AS 19.10.190; AS 19.40.020; AS 35.15.-030; AS 36.98.030; AS 37.05.230, 37.05.315(d); AS 38.05.120; and AS 43.40.010;

(5) executive orders and administrative orders issued by the governor;

(6) written delegations of authority made by the governor or the head of a principal department under AS 44.17.010;

(7) the text or a summary of the text of a regulation or order of repeal of a regulation for which notice is given under AS 44.62.190(a), including an emergency regulation or repeal whether or not it has taken effect;

(8) a summary of the text of recently issued formal opinions and memoranda of advice of the attorney general; [AND]

(9) a list of vacancies on boards, commissions, and other bodies whose members are appointed by the governor;

(10) a notice of disposal required by AS 38.16.

* Sec. 26. AS 38.05.183(d), (e), (f), and (g); AS 38.06.055 and 38.06.-070 are repealed.

* Sec. 27. This Act takes effect immediately in accordance with AS 01.-10.070(c).

Side by Side Analysis

HB 495

CHAPTER 16. TAKING AND DISPOSITION OF ROYALTY OIL AND GAS.

Sec. 38.16.010. LEGISLATIVE FINDINGS RELATING TO ROYALTY OIL AND GAS. (a) The legislature finds that it is in the best interest of the state and the citizens of the state that the state take and dispose of royalty oil and gas in a manner that maximizes state revenue.

(b) To the extent consistent with the primary goal of maximizing state revenue, the secondary goals for the state in the taking and disposition of royalty oil and gas are to

(1) supply existing in-state refineries and oil- or gas-based utilities with oil or gas at the current market value for the oil or gas;

(2) promote new in-state refineries and oil- or gas-based utilities that are economically feasible at the current market value for oil or gas without the new refineries or utilities relying on royalty oil or gas contracts;

(3) expand the foreign market for the resources of the state.

Sec. 38.16.020. TAKING OF ROYALTY IN KIND. The state shall take in kind an oil or gas royalty provided for in AS 38.05.180, unless the commissioner determines that taking the royalty in value would be in the best interest of the state.

Statute

No equivalent

Sec. 38.05.182. Royalty on natural resources. (a) Any royalty provided for in AS 38.05.135 — 38.05.181 may be taken in kind rather than in money if the commissioner determines that the taking in kind would be in the best interest of the state. However, royalties on oil and gas shall be taken in kind unless the commissioner determines that the taking in money would be in the best interest of the state.

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Sec. 38.16.030. METHOD OF DISPOSITION OF ROYALTY. (a) The commissioner shall make a disposition of royalty oil or gas obtained by the state under AS 38.05.180 by competitive bid to the highest responsible bidder, unless the commissioner determines, after prior written notice to the board, that competitive bidding is not in the best interest of the state or that no competition exists.

(b) When competitive bids are required, the commissioner may, after prior written notice to the board, reject a bid if the commissioner determines that acceptance of a bid would not be in the best interest of the state due to the amount of the bid, the lack of responsibility of the bidder, or other reasons consistent with the criteria set out in AS 38.16.040.

(c) If the commissioner determines that a disposition of oil or gas is to be made other than by competitive bid, the commissioner shall make public in writing the specific findings and conclusions that are the basis for the determination.

Statute

Sec. 38.05.183. Sale of royalty. (a) The sale, exchange or other disposal of a mineral obtained by the state as a royalty under AS 38.05.182, or the sale, exchange or other disposal in whole or in part of a right to receive future mineral production under a state lease under this chapter, shall be by competitive bid and the sale, exchange or other disposal made to the highest responsible bidder, except that competitive bidding is not required when the commissioner, after prior written notice to the Alaska Royalty Oil and Gas Development Advisory Board under AS 38.06.050, determines that the best interest of the state does not require it or that no competition exists.

(b) When competitive bids are required, the commissioner, after prior written notice to the Alaska Royalty Oil and Gas Development Advisory Board, may reject all bids on a determination that because of the amount of the bids, the lack of responsibility on the part of the bidders, or for reasons consistent with the criteria set out in AS 38.06.070, the acceptance of the bids would not be in the best interest of the state.

(c) If the commissioner determines that a sale, exchange or other disposal of a mineral obtained by the state as a royalty under AS 38.05.182 or of a right to receive future mineral production under a state lease under this chapter shall be made otherwise than by competitive bid, and the Alaska Royalty Oil and Gas Development Advisory Board has been notified in writing of that determination, the commissioner shall make public in writing the specific findings and conclusions upon which that determination is based.

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Sec. 38.16.040. CRITERIA FOR DISPOSITION OF NONCOMPETITIVELY BID ROYALTY OIL OR GAS TAKEN IN KIND. When the state does not use competitive bidding to dispose of royalty oil or gas taken in kind by the state under AS 38.16.020, the commissioner shall make the disposition of royalty oil or gas to the prospective purchaser whose proposal offers the maximum revenue or other benefits to citizens of the state. When making an award under this subsection, the commissioner shall consider the following criteria:

(1) the cash value offered, which, notwithstanding AS 38.-05.810(a), may not be less than the current market value of the royalty oil or gas;

(2) the projected effects of the disposition of royalty oil or gas on the revenue needs and projected fiscal condition of the state;

Statute

Sec. 38.05.183

(e) When a sale, exchange or other disposal of oil or gas taken in kind by the state as its royalty share, or a sale, exchange or other disposal in whole or in part of a right to receive future royalty oil or gas, under a state lease under this chapter is made other than by competitive bid, the sale, exchange or other disposal shall be awarded by the commissioner to the prospective buyer whose proposal offers the maximum benefits to citizens of the state. The commissioner shall consider

Sec. 38.05.183(e)

(1) the cash value offered;

Sec. 38.05.183(e)

(2) the projected effects of the sale, exchange or other disposal on the economy of the state;

Sec. 38.06.070(a)

(1) the revenue needs and projected fiscal condition of the state;

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Sec. 38.16.040

(3) the projected benefits to local and regional economies of the state of refining or processing the oil or gas in the state;

(4) the projected additional costs and responsibilities that the state and affected political subdivisions of the state may suffer due to the development related to the disposition of royalty oil or gas;

Statute

Sec. 38.06.070 (a)

(2) the existence and extent of present and projected local and regional needs for oil and gas products and by-products, the effect of state or federal commodity allocation requirements which might be applicable to those products and by-products, and the priorities among competing needs;

(3) the desirability of localized capital investment, increased payroll, secondary development and other possible effects of the sale, exchange or other disposition of oil and gas or both;

(6) the existence of specific local or regional labor or consumption markets or both which should be met by the transaction;

Sec. 38.05.183 (e)

(3) the projected benefits of refining or processing the oil or gas in the state;

Sec. 38.06.070 (a)

(5) the projected additional costs and responsibilities which could be imposed upon the state and affected political subdivisions by development related to the transaction;

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Sec. 38.16.040

(5) the projected social effects of the disposition of royalty oil or gas;

(6) the projected environmental effects of the disposition of royalty oil or gas;

(7) the ability, intent and degree of certainty of the prospective purchaser to provide refined products or by-products for distribution and sale in the state with significant price and supply benefits for the citizens of the state;

(8) the local or regional desirability of the disposition of royalty oil or gas.

No equivalent

Statute

Sec. 38.06.070 (a)

(4) the projected social impacts of the transaction;

(7) the projected positive and negative environmental effects related to the transaction;

Sec. 38.05.183 (e)

(4) the ability of the prospective buyer to provide refined products or by-products for distribution and sale in the state with price or supply benefits to the citizens of the state;

No equivalent.

Sec. 38.06.070 (a)

(8) the projected effects of the proposed transaction upon existing private commercial enterprise and patterns of investments.

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Sec. 38.16.050. CONTRACT PROVISIONS. (a) The commissioner may not enter into a contract for a disposition of royalty oil or gas obtained by the state under AS 38.05.180 unless the contract provides that an amendment of the contract that appreciably reduces the consideration received by the state requires the prior approval of the legislature.

(b) A disposition of royalty oil obtained by the state under AS 38.05.180 must

(1) prohibit an assignment of unrefined royalty oil purchased from the state unless the assignor or assignee demonstrates to the satisfaction of the commissioner that

(A) the assignment will result in a significant increase of direct monetary benefit to energy consumers in the state; and

(B) the total direct monetary benefit to energy consumers in the state from the assignment will outweigh the monetary benefit to the assignor and assignee; and

(2) reserve to the state the right to purchase residual oil from in-state refiners when the residual oil is a by-product of a disposition of royalty oil by the state.

Statute

Sec. 38.05.183 (e)

(f) The commissioner may not enter into a contract for the sale of royalty oil unless the contract provides that any material amendment to the contract that appreciably reduces the consideration received by the state requires prior approval of the legislature.

No equivalent

No equivalent

Side by Side Analysis

HB 495

Sec. 38.16.060. DISPOSITION OF ROYALTY OIL OR GAS FOR EXPORT. A disposition of royalty oil or gas taken in kind by the state under AS 38.16.020 may not be made for export from the state unless the commissioner determines that the disposition of royalty oil or gas is in the best interest of the state and makes public in writing the specific findings and reasons that are the basis for the determination.

Sec. 38.16.070. LEGISLATIVE APPROVAL. (a) In addition to the recommendation by the board required under AS 38.06.050, the commissioner may not enter into a disposition of royalty oil or gas obtained by the state under AS 38.05.180 without the prior approval of the legislature by enactment of legislation.

(b) The commissioner shall notify the board in writing of a determination by the commissioner that a disposition of royalty oil or gas requires legislative approval.

Statute

Sec. 38.05.183

(d) Oil or gas taken in kind by the state as its royalty share may not be sold or otherwise disposed of for export from the state until the commissioner determines that the royalty-in-kind oil or gas is surplus to the present and projected intrastate domestic and industrial needs. The commissioner shall make public, in writing, the specific findings and reasons on which the determination is based and shall, within 10 days of the convening of a regular session of the legislature, submit a report showing the immediate and long-range domestic and industrial needs of the state for oil and gas and an analysis of how these needs are to be met.

Sec. 38.06.055. Legislative approval. (a) In addition to the recommendation by the board required under AS 38.06.050, the commissioner of natural resources may not enter into a sale, exchange, or other disposition of oil or gas or of the rights or waiver of the rights to receive future production of royalty oil or gas under AS 38.05.183 without the prior approval of the legislature. The legislature may approve a sale, exchange, or other disposition of oil or gas or of the rights or of a waiver of the rights to receive future production of royalty oil or gas only by enacting legislation.

No equivalent

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HB 495

Sec. 38.16.070

(c) The provisions of (a) of this section do not apply to

(1) the disposition of royalty oil or gas for one year or less if the disposition is entered into to relieve storage or market conditions;

(2) the disposition of royalty oil or gas for two years or less if the disposition is bid competitively; or

(3) contracts for the disposition of royalty oil or gas that specify the sale and delivery of not more than

(A) 400 barrels of crude oil per day;

(B) 460 barrels of natural gas liquids per day; or

(C) 2,400 Mcf of natural gas per day.

(d) A disposition of royalty oil or gas under (c)(1) or (c)(2) of this section may not be continued after the end of one year or renewed with the same party without the prior approval of the legislature under (a) of this section. This subsection does not apply to a sequential competitively bid disposition of royalty oil or gas made with the same party under (c)(1) of this section.

Statute

Sec 38.06.055

(b) The provisions of (a) of this section do not apply to

(1) the sale, exchange, or other disposition of oil or gas for one year or less if the sale, exchange, or other disposition is entered into to relieve storage or market conditions;

No equivalent

(2) contracts for the sale of state-owned royalty gas or oil that specify the sale and delivery of not more than

(A) 400 barrels of crude oil per day;

(B) 460 barrels of natural gas liquids per day; and

(C) 2,400 Mcf of natural gas per day.

(c) A sale, exchange, or other disposition of oil or gas [MADE] under (b)(1) of this section may not be continued after the end of one year or renewed with the same party [TO PROVIDE RELIEF FOR MARKET OR STORAGE CONDITIONS] without the prior approval of the legislature under (a) of this section. This subsection does not apply to a sequential competitively bid sale of oil or gas made with the same party under (b)(1) of this section.

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Sec. 38.16.080. REPORT BY COMMISSIONER. The commissioner shall submit to the legislature between the first and the 15th day of each regular legislative session a royalty oil and gas report that includes

(1) the royalty status of all producing royalty oil and gas leases;

(2) proposed dispositions of royalty oil and gas;

(3) for each noncompetitively bid disposition of royalty oil or gas the findings of the commissioner on the criteria in AS 38.-16.040;

(4) an evaluation of the economic consumer benefits resulting from in-state refiners and processors currently receiving royalty oil or gas; and

(5) the volume, percentage, and reported value of royalty oil and gas

(A) being taken in kind and in value;

(B) purchased by in-state refiners and processors;

(C) actually refined or processed in the state;

(D) sold on a competitive and noncompetitive bid basis; and

(E) purchased by foreign nations.

Statute

No equivalent

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Sec. 38.16.090. CONFIDENTIALITY. Notwithstanding AS 09.25.-110 - 09.25.120, the department may provide by regulation for the confidentiality of those documents and records in the possession or control of the department that contain confidential business or marketing information when the protection of the information is essential to the person who has submitted the information to the department, or when the department determines that protection of the information is essential to the best interest of the state. Confidentiality under this section does not preclude proper review by the legislature.

Sec. 38.16.900. DEFINITIONS. In this chapter

(1) "board" means the Alaska Royalty Oil and Gas Development Advisory Board;

(2) "commissioner" means the commissioner of natural resources;

(3) "department" means the Department of Natural Resources;

(4) "dispose of" or "disposition of" royalty oil or gas means the sale, exchange, or other alienation by the state of royalty oil or gas or of an interest in royalty oil or gas, and includes the waiver of a present or future right to take future production of oil or gas as a royalty; and

(5) "interest" in royalty oil or gas includes the right to take future production of oil or gas as a royalty.

Statute

No equivalent

Sec. 38.05.965. Definitions. In this chapter, unless the context otherwise requires,

(3) "commissioner" means the commissioner of natural resources;
(4) "department" means the Department of Natural Resources;

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Sec. 38.05.135

(a) Except as otherwise provided, valuable mineral deposits in land belonging to the state are [SHALL BE] open to exploration, development, and the extraction of minerals. All land, together with tide, submerged, or shoreland, to which the state holds title [TO] or to which the state may become entitled, may be obtained by permit or lease for the purpose of exploration, development, and the extraction of minerals. Except as specifically limited by AS 38.05.135 - 38.05.-181, land may be withheld from lease application on a first-come, first-served basis, and offered only on a competitive bid basis when determined by the commissioner to be in the best interests of the state. In unproven areas the commissioner may offer additional incentives [, INCLUDING A REDUCTION OF ROYALTY TO A MINIMUM OF FIVE PERCENT IN THE CASE OF OIL AND GAS,] and other terms in and granting a permit or lease for exploration and development whenever it appears to be in the best interests of the state to do so.

Sec. 38.05.140

(c) A person may not take or hold at one time phosphate leases on state land exceeding in the aggregate 10,240 acres. A person may not take or hold sodium leases or permits during the life of sodium leases on state land exceeding in the aggregate acreage 5,120 acres, except that the commissioner may, where it is necessary in order to secure the economic mining of sodium compounds, permit a person to take or hold sodium leases or permits for up to 15,360 acres. [A PERSON MAY NOT TAKE OR HOLD AT ANY ONE TIME OIL OR GAS LEASES EXCEEDING IN THE AGGREGATE 500,000 ACRES GRANTED ON TIDE AND SUBMERGED LAND AND 500,000 ACRES ON ALL LAND OTHER THAN TIDE AND SUBMERGED LAND, INCLUDING LEASES HELD BOTH AS LESSEE AND UNDER OPTION OR OPERATING AGREEMENT FROM OTHERS. WHERE MORE THAN A SINGLE PERSON HOLDS AN INTEREST IN AN OIL OR GAS LEASE, EACH PERSON SHALL BE CHARGED ONLY WITH THAT PERCENTAGE OF THE TOTAL ACREAGE WHICH CORRESPONDS TO ITS

Statute

Note: Bracketed language is transferred to Sec. 38.05.180(aa)

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HB 495

Sec. 38.05.180

(1) Subject to the provisions of AS 31.05, the commissioner has discretion to enter into an agreement whereby, with the consent of the lessee, all or part of the state's royalty share of oil and gas production may be stored or retained in storage by the lessee, or the commissioner may enter into an agreement with one or more of the affected field lease holders to trade all or part of the current royalty production from a field for a like amount, kind, and quality of future production, if the commissioner makes a written finding [ON THE CONDITION] that the state receives back its stored or traded royalty share before 80 percent of the estimated life of the field is depleted, considering the engineering constraints and other relevant factors [DURING THE FIRST HALF OF THE ESTIMATED FIELD LIFE OR NO LATER THAN 15 YEARS AFTER START OF PRODUCTION, WHICHEVER IS SOONER].

Sec. 38.05.182

(c) This section does not apply to a royalty on oil or gas obtained by the state under AS 38.05.180.

Sec. 38.05.183

(h) This section does not apply to a royalty on oil or gas obtained by the state under AS 38.05.180.

Statute

Note: References to oil and gas and the royalty board are deleted from this section.

Note: References to oil and gas and the royalty board are deleted from this section.

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Sec. 38.06.010. PURPOSE. It is the purpose of this chapter to facilitate the wise development of Alaska's oil and gas royalty interests by providing means and procedures for [SALES, EXCHANGES OR OTHER] disposition of those interests in ways calculated to promote private economic growth consistent with applicable environmental standards, local or regional desirability, and public fiscal stability, and in accordance with AS 38.16 [AS 38.05.183].

Sec. 38.06.020. ESTABLISHMENT. There is established in the Department of Natural Resources [COMMERCE AND ECONOMIC DEVELOPMENT] the Alaska Royalty Oil and Gas Development Advisory Board.

Sec. 38.06.040. POWERS AND DUTIES OF THE BOARD. (a) The board shall

(1) in accordance with the criteria set out in AS 38.06.070 and AS 38.16.040, develop a plan for the wise development of the state's royalty oil and gas interests; the plan of development must be consistent with

(A) growth of the private sector of the economy;

(B) environmental standards required by law; and

(C) public fiscal stability;

(2) hold public hearings to determine whether a proposed disposition of royalty oil or gas complies with the criteria in AS 38.16.040;

(3) examine a proposed disposition of royalty oil or gas and recommend that the legislature approve or disapprove the proposed disposition of royalty oil or gas; and

Statute

Sec. 38.06.040. Powers and duties of the board. (a) The board shall

(1) in accordance with the criteria set out in AS 38.06.070, develop a plan for the wise development of the state's oil and gas royalty interests; the plan of development shall be consistent with

(A) growth of the private sector of the economy;

(B) environmental standards required by law; and

(C) public fiscal stability;

(2) hold public hearings on proposed sales, exchanges, or other disposals of royalty oil or gas to determine whether the proposals comply with AS 38.06.070;

(3) examine proposed sales, exchanges or other disposal of, and recommend to the legislature that it approve or disapprove a proposed sale, exchange or other disposal of

(A) the oil or gas that is obtained by the state as royalty under AS 38.05.182; or

(B) the rights to receive future oil or gas production under state leases; and

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Sec. 38.06.040

(4) recommend to the commissioner conditions for the disposition, delivery, transportation, refining, or processing of the royalty oil or gas.

(b) The board may

(1) direct the commissioner to solicit development plans or bids consistent with the criteria set out in AS 38.06.070 and AS 38.16.040 for the disposition of royalty oil or gas obtained by the state under AS 38.05.180;

(2) employ an executive director, and contract for the services of professionals, persons with knowledge of economics and other disciplines, and persons with technical skills who may be necessary to assist the board in the exercise of its powers and duties; and

(3) adopt regulations under the Administrative Procedure Act (AS 44.62) that are necessary to exercise its powers and duties.

Sec. 38.06.050. BOARD REVIEW AND RECOMMENDATION REQUIRED. If legislative approval is required by AS 38.16.070, the commissioner may not dispose of royalty oil or gas without prior review of the proposed disposition of royalty oil or gas by the board. The written recommendation of the board on the proposed disposition of royalty oil or gas shall be submitted to the legislature at the time the legislation approving the proposed disposition of royalty oil or gas is introduced in the legislature.

Statute

Sec. 38.06.040

(4) recommend to the commissioner of natural resources the conditions relating to the sale, delivery, transportation, refining or processing of oil or gas which the commissioner may include in the offer and sale of oil or gas obtained by the state as royalty under AS 38.05.182.

(b) The board may

(1) direct the commissioner of natural resources to solicit development plans or bids consistent with the criteria set out in AS 38.06.070 for

(A) the sale, exchange or other disposal of oil or gas obtained by the state as royalty under AS 38.05.182; or

(B) the sale, exchange or other disposal of all or a portion of the rights to receive future oil or gas production under a state lease;

(2) employ an executive director, and contract for the services of professionals, persons with knowledge of economics and other disciplines, and persons with technical skills who may be necessary to assist the board in the exercise of its powers and duties; and

(3) adopt regulations under the Administrative Procedure Act (AS 44.62) that are necessary for the exercise of its powers and duties. (§ 2 ch 9 SSSLA 1974; am § 4 ch 112 SLA 1980)

Sec. 38.06.050. Board review and recommendation required. (a) If legislative approval is required by AS 38.06.055, a sale, exchange, encumbrance, or other disposition of oil or gas or of the rights or waiver of the rights to receive future production of royalty oil or gas may not be made by the commissioner of natural resources under AS 38.05.183 without prior review of the proposed sale, exchange, encumbrance or other disposition by the board. A written recommendation of the board on the proposed sale, exchange, encumbrance or other disposition of oil or gas or of the rights or waiver of the rights to receive future production of royalty oil or gas shall be submitted to the legislature at the time a resolution approving the proposed sale, exchange, encumbrance or other disposition is introduced in the legislature.

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HB 495

Sec. 38.16.030

(b) When competitive bids are required, the commissioner may, after prior written notice to the board, reject a bid if the commissioner determines that acceptance of a bid would not be in the best interest of the state due to the amount of the bid, the lack of responsibility of the bidder, or other reasons consistent with the criteria set out in AS 38.16.040.

(c) If the commissioner determines that a disposition of oil or gas is to be made other than by competitive bid, the commissioner shall make public in writing the specific findings and conclusions that are the basis for the determination.

Sec. 38.06.070. CRITERIA. In the exercise of the powers of the board under AS 38.06.040(a) and 38.06.050, the board

(1) may, when it is economically feasible and in the public interest, recommend to the commissioner as a condition of the disposition of royalty oil or gas that

(A) the oil or gas be refined or processed in the state;

(B) the purchaser be a refiner who provides refined products or by-products for distribution and sale in the state with significant price and supply benefits to the citizens of the state; or

(C) the purchaser construct a processing or refining

Statute

Sec. 38.06.050

(b) Bids or applications for the purchase of royalty oil or gas may be rejected by the commissioner of natural resources if prior written notice of the proposed disapproval is given to the board.

(c) Competitive bidding in a sale, exchange or other disposition described in (a) of this section may not be waived by the commissioner of natural resources under AS 38.05.183 unless prior written notice of proposed waiver is given to the board.

Sec. 38.06.070. Criteria. (a) In the exercise of its powers under AS 38.06.040(a) and 38.06.050 the board shall consider

Note: Criteria listed under (a) of this section have been transferred To Sec. 38.16.040.

(b) When it is economically feasible and in the public interest, the board may recommend to the commissioner of natural resources, as a condition of the sale of oil or gas obtained by the state as royalty, that

(1) the oil or gas be refined or processed in the state;
(2) the purchaser be a refiner who supplies products to the Alaska market with price or supply benefits to state citizens; or
(3) the purchaser construct a processing or refining facility in the state.

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Sec. 38.06.070

(2) shall report fully to the department on each criterion in AS 38.16.040 and in (1) of this section for each disposition of royalty oil or gas that requires legislative approval under AS 38.16.-070; the report shall be submitted to the legislature for review when the legislation approving the proposed disposition of royalty oil or gas is introduced in the legislature.

AS 38.06.080 is amended by adding new paragraphs to read:

(3) "commissioner" means the commissioner of natural resources;

(4) "department" means the Department of Natural Resources;

(5) "dispose of" or "disposition of" royalty oil or gas means the sale, exchange, or other alienation by the state of royalty oil or gas or of an interest in royalty oil or gas, and includes the waiver of a present or future right to take future production of oil or gas as a royalty;

(6) "interest" in royalty oil or gas includes the right to take future production of oil or gas as a royalty.

Sec. 44.62.175

(a) The lieutenant governor shall publish or contract for the publication of the Alaska Administrative Journal. The journal shall be published weekly. The journal must include

(10) a notice of the findings required to be made public by the commissioner of natural resources under AS 38.16.030 and 38.16.-060.

Statute

Sec. 38.06.070

(c) The board shall make a full report to the legislature on each criterion specified in (a) or (b) of this section for any disposition of royalty oil or gas which requires legislative approval. The board's report shall be submitted for legislative review at the time a resolution for legislative approval of a proposed disposition of royalty oil or gas is introduced in the legislature. (§ 2 ch 9 SSSLA 1974; am § 2 ch 131 SLA 1978; am § 7 ch 112 SLA 1980; am § 103 ch 6 SLA 1984)

2/5/96

Rep. Mike Davis

Proposed amendments to HB 495

Page 1, Line 12

Sec. 38.16.010(a) is amended to read:

(a) The legislature finds that it is in the best interest of the state [and the citizens of the state] that the state take and dispose of royalty oil and gas in a manner that [maximizes state revenue] provides maximum benefit to its people.

Page 1, Line 15

Sec. 38.16.010(b) is amended to read:

(b) To the extent consistent with the primary goal of [maximizing state revenue] providing maximum citizen benefits, the secondary goals for the state in the taking and disposition of royalty oil and gas are to

Page 1, Line 27

Sec. 38.16.020 is amended to read:

Sec. 38.16.020. TAKING OF ROYALTY IN KIND. The state shall take in kind an oil or gas royalty [provided for in AS 38.05.180], unless the commissioner [determines] makes a written determination that taking the royalty in value would be in the best interest of the state.

Page 2, Line 2

Sec. 38.16.030(a) is amended to read:

(a) The commissioner shall make a disposition of royalty oil or gas [obtained by the state under AS 38.05.180] by competitive bid to the highest responsible bidder, unless the commissioner determines, after prior written notice to the board, that competitive bidding is not in the best interest of the state or that no competition exists.

Page 2, Line 18

Sec. 38.16.040 is amended to read:

Sec. 38.16.040. CRITERIA FOR DISPOSITION OF NONCOMPETITIVELY BID ROYALTY OIL OR GAS TAKEN IN KIND. When the state does not use competitive bidding to dispose of royalty oil or gas taken in kind [by the state under AS 38.16.020], the commissioner shall make the disposition of royalty oil or gas to the prospective purchaser whose proposal offers the maximum [revenue or other] benefits to citizens of the state. When making an award under this subsection, the commissioner shall consider the following criteria:

Page 2, Line 26

Sec. 38.16.040(1) is amended to read:

(1) the cash value offered, which [,notwithstanding AS 38.05.810(a),] may not be less than the current market value of the royalty oil or gas;

Page 3, Line 13

Sec. 38.16.040(7) is amended to read:

(7) the ability [, intent and degree of certainty] of the prospective purchaser to provide refined products or by-products for distribution and sale in the state with significant price and supply benefits for the citizens of the state;

Page 3, Line 19

Sec. 38.16.050(a) is amended to read:

(a) The commissioner may not enter into a contract for a disposition of royalty oil or gas [obtained by the state under AS 38.05.180] unless the contract provides that an amendment of the contract that appreciably reduces the consideration received by the state, including a reduction in price negotiated under a price reopener provision, requires the prior approval of the legislature.

Page 3, Line 25

Sec. 38.16.050(b) is amended to read:

(b) A disposition to an in-state refiner of royalty oil [obtained by the state under AS 38.05.180] must

Page 4, Line 17

Sec. 38.16.070(a) is amended to read:

(a) In addition to the recommendation by the board required under AS 38.06.050, the commissioner may not enter into a disposition of royalty oil or gas [obtained by the state under AS 38.05.180] without the prior approval of the legislature by enactment of legislation.

Page 4, Line 29

Sec. 38.16.070(c)(2) is amended to read:

(2) the disposition of royalty oil or gas for [two] one year[s] or less if the disposition is bid competitively; or

Page 5, Line 4

Sec. 38.16.080(4) is amended to read:

(4) an evaluation of the [economic] consumer price benefits resulting from in-state refiners and processors currently receiving royalty oil or gas; and

Page 5, Line 16

Sec. 38.16.080(1) is amended to read:

(1) the royalty status of all producing [royalty] oil and gas units or leases;

Page 5, Line 19

Sec. 38.16.080(3) is amended to read:

(3) for each [noncompetitively bid] proposed noncompetitive disposition of royalty oil or gas the findings of the commissioner on the criteria in AS 38.16.040;

Page 6, Line 1

Sec. 38.16.080(5)(D) is amended to read:

(D) sold on a competitive and noncompetitive [bid] basis; and

Page 6, Line 3

Sec. 38.16.080(5)(E) is amended to read:

(E) purchased [by] for export to foreign nations.

Page 6, Line 4

Delete Sec. 38.16.090.

Page 6, Line 26

Sec. 38.16.900 is amended by adding paragraphs (6) and (7) to read:

(6) "royalty gas" means the state's interest in gas obtained under AS 38.05.180.

(7) "royalty oil" means the state's interest in oil obtained under AS 38.05.180.

Page 8, Line 1

Sec. 38.05.035(g) is amended to read:

(g) The provisions of (e) of this section do not apply to dispositions of royalty [on] oil or gas obtained by the state under AS 38.05.180.

Page 9, Line 20

Sec. 38.05.180 (1) is amended to read:

(1) Subject to the provisions of AS 31.05, the commissioner had discretion to enter into an agreement whereby, with the consent of the lessee, all or part of the state's royalty share of oil and gas production may be stored or retained in storage by the lessee, or the commissioner may enter into an agreement with one or more of the affected field lease holders to trade all or part of the current royalty production from a field for a like amount, kind, and quality of future production, if the commissioner makes a written finding [on the condition] that the state will receive[s] back its stored or traded royalty share before 80 percent of the estimated life of the field is depleted, considering the engineering constraints and other relevant factors [during the first half of the estimated field life or no later than 15 years after start of production, whichever is sooner].

Page 10, Line 29

Transfer Sec. 38.05.180(aa) to Sec. 38.05.180(r), and make corresponding changes.

Page 12, Line 22

Sec. 38.06.010 is amended to read:

Sec. 38.06.010. PURPOSE. It is the purpose of this chapter to facilitate the wise development of Alaska's oil and gas royalty interests by providing means and procedures for [sales, exchanges or other] disposition of those interests in ways calculated to maximize citizen benefits, and to promote private economic growth consistent with applicable environmental standards [, local or regional desirability,] and public fiscal stability, and in accordance with AS 38.16 [AS 38.05.183].

Page 14, Line 16

Incorporate Sec. 38.06.070 as the section appears in HB 495 to Sec. 38.06.040, and make corresponding changes.

Page 16, Line 1

Sec. 44.62.175(a)(3) is amended to read:

(3) notices of solicitations to bid issued under AS 37.05.230 [and AS 38.16.030];

Page 16, Line 19

Sec. 44.62.175(a)(10) is amended to read:

(10) a notice of [the findings] disposal required [to be made public] by [the commissioner of natural resources under AS 38.16.030 and 38.16.060] AS 38.05.945 or AS 38.16.

Representative Pignalberi
February 6, 1986

Proposed Amendments to HB 495

Page 1, Line 15:

Sec. 38.16.010(b) is amended to read:

(b) To the extent consistent with [the primary goal of maximizing state revenue] (a) of this section, the secondary goals for the state in the taking and disposition of royalty oil and gas are [to] , in order of priority, the promotion of in-state utilization and the maximization of state revenue.

OMIT (1), (2), (3), and their respective texts

Page 2, Line 2:

Sec. 38.16.030(a) is amended to read:

Sec. 38.16.030. METHOD OF DISPOSITION OF ROYALTY. (a) The commissioner shall make a disposition of royalty oil or gas obtained by the state under AS 38.05.180 by competitive bid to the highest responsible bidder, unless the commissioner determines, after prior written notice to the board, that competitive bidding is not [in the best interest of the state or that no competition exists] consistent with providing maximum benefit to the people of the state.

Page 2, Line 18:

Sec. 38.16.030(d) is added to this section:

(d) When the commissioner has competitively bid a disposition of royalty oil or gas for one year or less, the commissioner shall, before awarding the contract to an out-of-state refiner who submitted the highest competitive bid, allow in-state refiners to submit bids to match or exceed the bid of the out-of-state refiner. The commissioner shall award the contract in the following order of priority:

(1) to the in-state refiner whose bid exceeds the bid of each other bidding in-state refiner and the bid of the out-of-state refiner;

(2) to the in-state refiner whose bid exceeds the bid of each other bidding in-state refiner and matches the bid of the out-of-state refiner;

(3) to the in-state refiner whose bid

(A) matches the bid of the other bidding in-state refiners and the bid of the out-of-state refiner; and

(B) is received before the other matching bids of the in-state refiners;

(4) to the out-of-state refiner, if the bid of an in-state refiner does not match or exceed the bid of the out-of-state refiner.

Page 2, Line 18:

Sec. 38.16.040 is amended to read:

Sec. 38.16.040. CRITERIA FOR DISPOSITION OF NONCOMPETITIVELY BID ROYALTY OIL OR GAS TAKEN IN KIND. When the state does not use competitive bidding to dispose of royalty oil or gas taken in kind by the state [under AS 38.16.020], the [commissioner] board shall make the disposition of royalty oil or gas to the prospective purchaser whose proposal offers the maximum [revenue or other] consumer benefits through lower product prices or other benefits to the citizens of the state. When making an award under this subsection, the [commissioner] board shall consider the following criteria:

Page 2, Line 26:

Sec. 38.16.040(1) is amended to read:

(1) the cash value offered [, which, notwithstanding AS 38.05.810(a), may not be less than the current market value of the royalty oil or gas];

Page 3, Line 3:

Sec. 38.16.040(3) is amended to read:

(3) the projected benefits to local and regional economies of the state of refining, or processing the oil or gas in the state , including the projected effects of the sale upon existing and perspective private, commercial investment ;

Page 3, Line 13:

Sec. 38.16.020(7) is amended to read:

(7) the ability, [intent and degree of certainty] of the prospective purchaser to provide refined products or by-products for distribution and sale in the state with [significant] competitive price and supply benefits for the citizens of the state;

Page 3, Line 17:

Sec. 38.16.020(8) is omitted.

[(8) the local or regional desirability of the disposition of royalty oil or gas.]

Page 3, Line 19:

Sec. 38.16.050 is amended to read:

Sec. 38.16.050. CONTRACT PROVISIONS. (a) The commissioner may not enter into a contract for a disposition of royalty oil or gas obtained by the state under AS 38.05.180 unless the contract provides that an amendment of the contract that appreciably reduces the consideration received by the state requires the prior approval , in the following order of the board, the governor, and the legislature.

Page 4, Line 1:

Sec. 38.16.050(b)(1)(A) is amended to read:

(A) the assignment will result in a [significant] verifiable increase of direct monetary benefit to energy consumers in the state; and

Page 4, Line 4:

Sec. 38.16.050(b)(1)(B) is omitted.

[(B) the total direct monetary benefit to energy consumers in the state from the assignment will outweigh the monetary benefit to the assignor and assignee; and]

Page 4, Line 7:

Sec. 38.16.050(b)(2) is amended to read:

(2) reserve to the state the right to purchase residual oil from in-state refiners when the residual oil is a by-product of a disposition of royalty oil by the state , only when the residual oil is reinjected into the Trans-Alaska Pipeline; and at the alternate market price.

(c) The commissioner may not enter into a contract for the sale of state royalty oil or gas to an in-state refiner unless the refiner agrees to provide information to, and assist or allow the collection of information by, the Department of Commerce and Economic Development on a monthly regional basis to determine the average monthly wholesale

price, market exchange sales price, and refinery gate sales price of its in-state refined fuel products.

(d) A person who purchases royalty oil from the state under this section shall provide to the commissioner, during the period that the purchaser takes, refines, transports, or otherwise deals with the purchased royalty oil, a report for the preceding month that indicates for the purchased royalty oil

(1) the volume of oil taken;

(2) the products, including residual oil, produced from the oil;

(3) the volume of each product sold in the state; and

(4) the volume of each product exported from the state.

Page 4, Line 17:

Sec. 38.16.070 is amended to read:

Sec. 38.16.070 APPROVAL BY THE GOVERNOR AND THE LEGISLATURE. [LEGISLATIVE APPROVAL.] In addition to the recommendation by the board required under AS 38.06.050, the commissioner may not enter into a disposition of royalty oil or gas obtained by the state under As 38.05.180 without [the prior approval of the] first obtaining the approval of the governor and then the approval of the legislature by enactment of legislation.

Page 5, Line 7:

Sec. 38.16.070(d) is amended to read:

(d) A disposition of royalty oil or gas under (c)(1) or (a)(2) of this section may not be continued after the end of one year or renewed with the same party without first obtaining the [prior] approval of the governor and then the approval of the legislature under (a) of this section. This subsection does not apply to a sequential competitively bid disposition of royalty oil or gas made with the same party under (c)(1) of this section.

Page 5, Line 13:

Sec. 38.16.080 is amended to read:

Sec. 38.16.080 REPORT BY THE COMMISSIONER. The commissioner shall submit to the legislature between the first and the 15th day of each regular legislative session a royalty oil and gas report that includes a monthly analysis of:

Page 5, Line 22:

Sec. 38.16.080(4) is amended to read:

(4) an evaluation of the economic consumer benefits resulting from in-state refiners and processors currently receiving royalty oil or gas, which must include

(A) price paid for state royalty oil and gas by the purchaser;
(B) retail price of in-state refined fuel products;
(C) refinery gate sales price of in-state refined fuel products; and
(D) wholesale or market exchange sales price of in-state refined fuel products ;and

Page 6, Line 25:

The following section is added to HB 495:

AS 31.05.030 is amended by adding a new subsection to read:
(i) The commission shall provide research assistance to the Alaska Royalty Oil and Gas Development Advisory Board on request.

Page 11, Line 26:

As 38.05.183(a) is amended to keep:

, after prior written notice to the Alaska Royalty Oil and Gas Advisory Board under AS 38. 06.050,

Page 11, Line 21:

AS 38. 05.183(b) is amended to keep:

, after prior written notice to the Alaska Royalty Oil and Gas Development Advisory Board,

Page 13, Line 1:

A new section is added to HB 495 to read:

AS 38.06.025(a) is amended to read:

(a) The board consists of the commissioner of commerce and economic development; the commissioner of revenue; the commissioner of natural resources, who is a nonvoting member; one legislator, who is a nonvoting member appointed by the

governor, the chair of the Alaska Oil and Gas Conservation Commission, who is a nonvoting member; and five [three] public members.

Page 13, Line 2:

A new section is added to HB 495 to read:

AS 38.06.035(a) is amended to read;

(a) The board shall prescribe its own rules of procedure. It shall meet at a time and place determined by the chair [chairman], and at other times and places as the chair [chairman], or a majority of the board members, considers necessary. [A quorum is a majority of the voting members of the board.] The votes of the board members shall be recorded. Effective action to carry out the powers granted under this chapter requires the affirmative vote of a majority of the board members. A board member may not, with respect to a matter before the board, vote for or on behalf of another member of the board.

Page 13, Line 18:

Sec. 38.06.040 (a)(3) is amended to read:

(3) examine a proposed disposition of royalty oil or gas and recommend that the [legislature] governor approve or disapprove the proposed disposition of royalty oil or gas; and

Page 13, Line 24:

Sec. 38.06.040 (a) is amended to add sections (5) and (6):

(5) employ an executive director, and a full-time staff of persons experienced in international crude oil refining, trading, and marketing;

(6) adopt regulations under the Administrative Procedure Act (AS 44.62) that are necessary to exercise its powers and duties.

Page 13, Line 29:

Sec. 38.06.040(b)(2) is amended to read:

(2) [employ an executive director, and] contract for the services of professionals, persons with knowledge of economics and other disciplines, and persons with technical skills who

may be necessary to assist the board in the exercise of its powers and duties; and

Page 14, Line 5:

Sec. 38.06.040(b)(3) is amended to read:

(3) [adopt regulations under the Administrative Procedure Act (AS 44. 62) that are necessary to exercise its powers and duties] obtain research assistance from the department and the Alaska Oil and Gas Conservation Commission.

Chugach Electric Association, Inc.

Proposed amendments to H.B. 495

Page 1, Line 12

Sec. 38.16.010(a) is amended to read:

(a) The legislature finds that it is in the best interest of the state and the citizens of the state that the state take and dispose of royalty oil and gas in a manner that maximizes [state revenue] benefits for Alaska's residents.

Page 1, Line 15

Sec. 38.16.010(b) is amended to read:

(b) To the extent consistent with the primary goal of maximizing [state revenue] benefits, the secondary goals for the state in the taking and disposition of royalty oil and gas are to

Page 2, Line 26

Sec. 38.16.040(1) is amended to read:

(1) the cash value offer, which[, notwithstanding AS 38.05.810(a),] may not be less than the current market value of the royalty oil or gas, except that sales at less than market value may be made to utilities owned and operated by a government agency or organized as a cooperative under AS 10.25 providing service within the state;

Page 3, Line 9

Sec. 38.16.040(5) is amended to read:

(5) the projected social effects, including consumer benefits, of the disposition of royalty oil or gas;

Page 4, Line 10

Sec. 38.16.060 is amended to read:

DISPOSITION OF ROYALTY OIL OR GAS FOR EXPORT. A disposition of royalty oil or gas taken in kind by the state under AS 38.16.020 may not be made for export from the state unless the commissioner determines that the disposition of royalty oil or gas is surplus to the present and projected intra-state, domestic and industrial needs and is in the best interest of the state [and makes]. The commissioner shall make public in writing the specific findings and reasons that are the basis for the determination.

Page 5, Line 22

Sec. 38.16.080(4) is amended to read:

(4) an evaluation of the economic consumer benefits resulting from in-state refiners and processors currently receiving royalty oil or gas; [and]

Page 5, Line 25

Sec. 38.16.080(5) is amended by inserting a new paragraph (5) to read:

(5) an evaluation of the economic consumer benefits resulting from oil- and gas-based utilities providing service within the state currently receiving royalty oil or gas; and

Page 5, Line 25

Sec. 38.16.080(5) is renumbered as paragraph (6) and amended to read:

(6) the volume, percentage, and reported value of royalty oil and gas

(A) being taken in kind and in value;

(B) purchased by in-state refiners and processors;

(C) purchased by oil- and gas-based utilities providing service within the state;

[(C)] (D) actually refined or processed in state;

[(D)] (E) sold on a competitive and noncompetitive bid basis; and

[(E)] (F) purchased by foreign nations.

Page 6, Line 19

Sec. 38.16.900(4) is amended to read:

(4) "dispose of" or "disposition of" royalty oil or gas means the sale, exchange, or other alienation by the state of royalty oil or gas or of an interest in royalty oil or gas, and includes the waiver of a present or future right to take future production of oil or gas as a royalty; [and]

Page 6, Line 24

Sec. 38.16.900(5) is amended to read:

(5) "interest" in royalty oil or gas includes the right to take future production of oil or gas as a royalty[.]; and

Page 6, Line 26

Sec. 38.16.900 is amended by adding paragraph (6) to read:

(6) "current market value" for royalty gas taken in value and sold pursuant to a long-term contract means that contract price unless the commissioner determines, by clear and convincing evidence, that the contract price was unreasonably low at the time the contract was entered into.

Page 14, Line 24

Sec. 38.06.070(B) is amended to read:

(B) the purchaser be a refiner who provides refined products or by-products for distribution and sale in the state with significant price and supply benefits to the citizens of the state; [or]

Page 14, Line 28

Sec. 38.06.070(C) is amended to read:

(C) the purchaser construct a processing or refining facility in the state; or

Page 15, Line 1

Sec. 38.06.070 is amended by adding paragraph (D) to read:

(D) the purchaser be an oil- or gas-based utility providing benefits to the citizens of the state;

Page 16, Line 19

Sec. 44.62.175(a)(10) is amended to read:

(10) a notice of the findings required to be made public by the commissioner of natural resources under AS 38.16.030 and 38.16.060[.]; and

Page 16, Line 22

Sec. 44.62.175(a) is amended by adding paragraph (11) to read:

(11) all Notice to Lessees issued by the state.

:hb495
cb

CASES ON ROYALTY VALUATION

(These cases are interpreting a variety of royalty valuation clauses. Both the actual lease terms and the facts of the particular case have an impact on the court's rulings.)

1. Tara Petroleum Corp. v. Hughey, 630 P.2d 1269 (Okla. 1981)

   The courts following Tara have reasoned that since the lessee has an obligation to develop the lease and market the gas, long-term contracts are essential to resource development. Establishing a royalty value higher than an arms-length contract price penalizes the parties to those contracts. States following Tara:

   a. Oklahoma: Tara (1981)

   b. Louisiana: Henry v. Ballard & Cordell Corp.
      418 So.2d 1334 (La. 1982)

   c. Arkansas: Hillard v. Stephens
      637 S.W.2d 581 (Ark. 1982)

2. Texas Oil & Gas Corp. v. Vela, 429 S.W.2d 866 (Tex. 1968)

   In this line of cases, courts have held that the market value of royalty gas is to be established by reference to comparable sales of gas. States following Vela:

   a. Texas: Vela (1968)

   b. Montana: Montana Power Co. v. Kravik
      586 P.2d 298 (Mont. 1978)

   c. North Dakota: West v. Alpar Resources, Inc.
      298 N.W.2d 484 (N.D. 1980)

   d. Kansas: Lightcap v. Mobil Oil
      562 P.2d 1 (Kan. 1977)

3. Does an NGPA ceiling price establish "market value?"

   The question addressed here is whether or not market value can exceed a price ceiling established by government regulation.

   NGPA sets ceiling price: Texas: First National Bank v. Exxon Corp.
   622 S.W.2d 80 (Tex. 1981)
   Bowers v. Phillips Petroleum
   692 F.2d 1015 (5th Cir. 1982)

   NGPA does not set ceiling price: Kansas: Lightcap v. Mobil Oil
   586 P.2d 1 (Kan. 1977)

ALASKA DEPARTMENT OF NATURAL RESOURCES - DIVISION OF OIL AND GAS
SUMMARY STATISTICS
COOK INLET GAS PRICE DISPUTE
AVERAGE MONTHLY SALES VOLUMES - JULY 1984 THROUGH JUNE 1985

Date:1/14/86

FIELD Producers (% of field owned)	PURCHASER	% of FIELD on sale by sale basis	SALES VOLUMES (MCF) 1/	EFFECTIVE ROYALTY INTEREST	ROYALTY VOLUME (MCF)	VALUE REPORTED FOR ROYALTIES 2/	PRODUCER/ PURCHASER BASE CONTRACT VALUE 2/ 7/	EFFECTIVE DATE	EXPIRATION DATE	
BELUGA RIVER FIELD										
CHEVRON (33.33%)	ENSTAR	2.11%	37,790	0.07555	2,855	$1.8000	$2.0300 9/	12/20/82	10/1999	
ARCO (33.33%)	ENSTAR	2.11%	37,790	0.07555	2,855	$1.8000	$2.0300 9/	12/20/82	10/1999	
SHELL (33.33%)	ENSTAR	2.11%	37,790	0.07555	2,855	$1.8000	$2.0300 9/	12/20/82	10/1999	
AGEA (100.00%)M-214-35	ENSTAR	0.45%	8,122	0.07555	614	$1.8000	$2.0300 9/	12/20/82	10/1999	
SUB TOTAL		6.77%	121,492		9,179					
CHEVRON (33.33%)	CHUGACH	28.70%	515,065	0.07555	38,913	$0.2103	$0.2103	5/14/65	1/1998	3/
ARCO (33.33%)	CHUGACH	28.70%	515,065	0.07555	38,913	$0.2103	$0.2103			
SHELL (33.33%)	CHUGACH	28.70%	515,065	0.07555	38,913	$0.2103	$0.2103			
AGEA (100.00%)M-214-35	CHUGACH	7.13%	127,863	0.07555	9,660	$0.2103	$0.2103			
SUB TOTAL		93.23%	1,673,058		126,400					
TOTAL BELUGA RIVER FIELD		100.00%	1,794,550		135,578					
KENAI FIELD										
UNION (50%)	APL-ANCHORAGE	10.28%	845,622	0.020688	17,494	$1.9500 8/	$0.6220 6/	5/13/60	12/92	3/
UNION (50%)	APL-CHEV NIK	0.19%	15,888	0.020688	329	$1.9500 8/	$0.6220			
UNION (50%)	UNION-CHEV	0.19%	15,518	0.020688	321	$1.9500 8/	$0.6220	2/5/81	INDEFINITE	
UNION (50%)	CITY OF KENAI	0.25%	20,590	0.020688	426	$0.3000	$0.3000	5/17/66	6/1986	
UNION (50%)	RENTAL GAS	4.50%	370,334	0.020688	7,661	$1.9500 8/	$0.0700	1/17/66	1/1995	3/
UNION (50%)	ADDITIONAL RENTAL	2.37%	194,981	0.020688	4,034	$1.9500 8/	$0.3800			
UNION (50%)	UNION CHEMICAL	40.73%	3,352,041	0.020688	69,347	$1.9500 8/	$0.6130	11/1/77	1998	
TOTAL UNION SHARE		58.51%	4,814,973		99,612					
MARATHON (50%)	APL-I	14.38%	1,183,535	0.020688	24,485	$1.9500 8/	$0.6220 6/		12/1992	3/
MARATHON (50%)	APL-II	4.48%	368,603	0.020688	7,626	$2.0550	→ $2.0800 9/	12/16/82	12/1997	3/
MARATHON (50%)	APL-NIKISKI	0.19%	15,888	0.020688	329	$2.0550 4/	$0.6220			
MARATHON (50%)	CITY OF KENAI	0.25%	20,599	0.020688	426	$2.0550 4/	$0.3000		6/1986	
MARATHON (50%)	RENTAL GAS	4.50%	370,242	0.020688	7,660	$0.2100	$0.2100		1/1995	3/
MARATHON (50%)	ADDITIONAL RENTAL	2.36%	194,450	0.020688	4,023	$0.3800	$0.3800			
MARATHON (50%)	TOKYO UTILITIES	15.32%	1,261,073	0.020688	26,089	$2.2795	$4.7590 5/		6/1/89	
TOTAL MARATHON SHARE		41.49%	3,414,390		70,637					
TOTAL KENAI FIELD		100.00%	8,229,363		170,249					
STERLING FIELD										
UNION (50%)	PENINSULA GREENHOUSE	50.00%	736	0.015546	11	$0.4000	$0.4000	10/27/61		
MARATHON (50%)	PENINSULA GREENHOUSE	50.00%	736	0.015546	11	$2.0550 4/	$0.4000			
TOTAL STERLING FIELD		100.00%	1,472		23					
MCARTHUR RIVER FIELD										
UNION/MARATHON (50% each)		0.47%	1,671	0.125	209	0.000	0.000			
UNION/MARATHON (50% each)	RENTAL GAS	1.48%	5,260	0.125	658	0.000	0.210			
UNION/MARATHON (50% each)	UNION CHEMICAL	87.56%	311,215	0.125	38,902	0.000	0.613			
UNION/MARATHON (50% each)		9.39%	33,375	0.125	4,172	0.000	0.000			
UNION/MARATHON (50% each)		1.10%	3,910	0.125	489	0.000	0.000			
TOTAL MCARTHUR RIVER FIELD		100.00%	355,431		44,429					
TRADING BAY FIELD										
Marathon 48.66%		48.66%	580	0.125	73	0.000	0.000			
Union 48.66%		48.66%	580	0.125	73	0.000	0.000			
Superior 1.34%		1.34%	16	0.125	2	0.000	0.000			
Texaco 1.34%		1.34%	16	0.125	2	0.000	0.000			
TOTAL TRADING BAY FIELD		100.00%	1,192		149					

$1.95 settlement

1/ ANNUAL VOLUME DIVIDED BY 12 MONTHS EQUAL AVERAGE MONTHLY VOLUME.
2/ ROYALTY AND CONTRACT VALUES ARE THE MOST CURRENT IN EFFECT AS OF JANUARY 1986. PRODUCTION AND HAVE NOT BEEN ADJUSTED FOR BTU CONTENT.
3/ QUANTITY TERM COULD OPERATE TO EXTEND OR SHORTEN THE CONTRACT PERIOD.
4/ PRICE REPORTED BY MARATHON IS BEING PAID UNDER PROTEST.
5/ CONTRACT PRICE IS A GROSS PRICE BEFORE TRANSPORTATION COSTS.
6/ CONTRACT PRICE TO GO TO $0.27 MCF DURING 1986.
7/ BASE CONTRACT PRICE DOES NOT INCLUDE LESSEE TAX OBLIGATIONS PAID BY THE PURCHASER.
8/ VALUE AGREED TO BY SETTLEMENT.
9/ SPECIAL DELIVERABILITY CHARGE OF $0.35/MCF MAY ALSO BE EFFECTIVE.

TESTIMONY OF

CHUGACH ELECTRIC ASSOCIATION, INC.

BEFORE THE HOUSE SPECIAL COMMITTEE ON OIL & GAS

JANUARY 30, 1986

GOOD AFTERNOON MR. CHAIRMAN AND MEMBERS OF THE COMMITTEE. MY NAME IS LARRY MARKLEY. I AM THE DIRECTOR OF GOVERNMENT AND MEMBER AFFAIRS FOR CHUGACH ELECTRIC ASSOCIATION. I APPRECIATE THE OPPORTUNITY TO BE HERE TODAY AND TO SHARE THESE VERY BRIEF COMMENTS WITH YOU. BECAUSE WE BECAME AWARE OF H.B. 495 ONLY LATE YESTERDAY, WE OR OTHER UTILITIES MAY HAVE FURTHER COMMENTS ONCE WE HAVE HAD THE TIME TO FULLY ANALYZE THE DETAILS OF THE BILL.

WE WANTED TO TAKE THE OPPORTUNITY TO TESTIFY HERE TODAY, BECAUSE CHUGACH AND OTHER RAILBELT UTILITIES ARE VERY INVOLVED THIS SESSION WITH ISSUES RELATED TO ROYALTY VALUATION. WE WILL ALSO BE TESTIFYING AT THE HEARING ON FEBRUARY 10 BEFORE THIS COMMITTEE AND THE HOUSE AND SENATE NATURAL RESOURCES COMMITTEES IN SUPPORT OF S.B. 309, WHICH WOULD TIE THE VALUE OF ROYALTY GAS TO LONG-TERM CONTRACT PRICES. WE SIMILARLY SUPPORT TWO HOUSE BILLS, H.B. 403 AND H.B. 425, WHOSE INTENTS ARE THE SAME.

OUR CONCERN WITH H.B. 495 FOCUSES ON SECTION 38.16.010(a). ALTHOUGH WE SUPPORT THE STATE MAXIMIZING OUR NATURAL RESOURCES FOR THE BENEFIT OF ALL OUR CITIZENS, ACTIONS SUCH AS THE DNR's REVALUATION LAST SPRING OF THE ROYALTY PRICE FOR BELUGA GAS HAS A SIGNIFICANT IMPACT ON THE COST OF ELECTRICITY FOR CONSUMERS FROM HOMER TO FAIRBANKS. THESE ARE THREE-QUARTERS OF ALASKA'S POPULATION. I HAVE PROVIDED EACH OF YOU WITH AN INFORMATION PACKET THAT DETAILS THIS ISSUE FURTHER.

WHILE OUR INITIAL REVIEW INDICATES THAT SECTION 38.16.010(a) OF H.B. 495 IS NOT INCONSISTENT WITH THE INTENT OF S.B. 309,

H.B. 403 OR H.B. 425, WE BELIEVE IT WOULD BE CLEARER IF THE ABOVE SECTION WERE MODIFIED TO REFLECT THIS. WE WOULD BE HAPPY TO WORK WITH THE COMMITTEE IN THIS REGARD.

EQUALLY IF NOT MORE IMPORTANT THAN THE IMMEDIATE PRICE INCREASE TO RAILBELT CONSUMERS FROM THE BELUGA ROYALTY GAS REVALUATION, IS THE FACT THAT DNR's ACTION INTRODUCES A REAL ELEMENT OF UNCERTAINTY, FOR UTILITIES AND OTHERS. THIS UNCERTAINTY CREATES PROBLEMS BOTH IN LONG-TERM FINANCING OF POWER SUPPLY PROJECTS AND IN OUR EFFORTS TO ENSURE RATE STABILITY. THERE IS AN UNRESOLVED POLICY QUESTION REGARDING VALUATION OF STATE RESOURCES, AND IT NEEDS A THOROUGH PUBLIC REVIEW AND MEANINGFUL INVOLVEMENT OF THE LEGISLATURE.

ROYALTY VALUE IS ESTABLISHED BY LONG-TERM CONTRACT PRICE. THIS APPROACH IS FOLLOWED IN OTHER STATES, SUCH AS OKLAHOMA AND LOUISIANA, WHICH RECOGNIZE THAT ROYALTY RESOURCES OFTEN HAVE LITTLE OR NO VALUE INDEPENDENT OF LONG-TERM CONTRACTS.

IN FACT, IT WAS CHUGACH'S SUCCESS IN NEGOTIATING STABLE LONG-TERM CONTRACTS FOR BELUGA GAS THAT ALLOWED US TO MAKE THE COMMITMENT TO BUILD OUR MAJOR GENERATION PLANT THERE IN THE MID-1960's. WITHOUT THESE CONTRACTS, THAT GAS FIELD MIGHT STILL LIE UNDEVELOPED. ADDITIONALLY, IT IS IMPORTANT TO NOTE THAT UNDER THE EXISTING OIL AND GAS LEASES, DNR IS PERMITTED, ON ONLY SIX MONTHS' WRITTEN NOTICE, TO TAKE ITS ROYALTY SHARE IN-KIND AND SELL IT DIRECTLY TO A WILLING PURCHASER. NOTHING WE SUPPORT WOULD CHANGE THAT.

I THANK YOU AGAIN FOR THE OPPORTUNITY TO TESTIFY HERE TODAY, AND I URGE YOU TO CONSIDER THE IMPORTANT PROBLEMS RAISED BY DNR's ACTION LAST SPRING AND TO SUPPORT LEGISLATION TYING ROYALTY VALUE TO LONG-TERM CONTRACT PRICE. CHUGACH AND OTHER RAILBELT UTILITIES WILL BE HAPPY TO SUPPLEMENT THESE COMMENTS AND OUR INFORMATION PACKET AS YOU WISH. WE WILL BE TESTIFYING IN GREATER DETAIL ON FEBRUARY 10.

:test.86

IMPACTS OF STATE ROYALTY GAS INCREASE ON RAILBELT CONSUMERS

Alaskans from Fairbanks to Homer face utility bill increases as a result of the Alaska Department of Natural Resources' decision to drastically raise the price of royalty gas in Cook Inlet. For Chugach Electric Association consumers in the Anchorage area, the impacts will be nearly $3 million a year.

DNR's action was taken with virtually no advance notice to the parties involved, to the public or to the State Legislature. Litigation was initiated by the three producers against DNR on the revaluation in April 1985. Chugach is also involved in the litigation.

There are two major aspects of this issue: The additional costs to utility consumers of DNR's actions and, perhaps more important, the fundamental policy question of how royalty valuation is established.

On March 18, 1985, the Department of Natural Resources (DNR) issued a formal notice to the three Beluga River gas field producers -- ARCO, Shell and Chevron -- informing them that DNR would no longer accept royalty payments based on long-term contract price but would require payments based on the "prevailing market value."

This value was initially determined by DNR to be $2.05 per thousand cubic feet (mcf), based on a Shell-ENSTAR (APL II) contract signed in December 1982. By contrast, Chugach currently pays $.26/mcf for its Beluga gas, under long-term contracts on which the DNR had based its royalty price for the past 17 years.

Based on the $2.05/mcf figure, the annual increase to Chugach retail and wholesale consumers would be approximately $2.8 million. Even under a recent settlement offer by the state which would value the royalty gas at $1.50/mcf, the impact would be approximately $1.9 million annually.

Chugach negotiated its Beluga contracts in good faith and at arms length in 1965, and renegotiated with the producers in 1973. The contracts extend to 1998 or whenever 373 billion cubic feet (bcf) of gas is used, whichever comes first. That means the overall impact of the Beluga royalty revaluation alone could total more than $30 million to consumers.

Additional financial impacts on Chugach consumers have resulted or could result from actions similar to or related to the Beluga royalty revaluation. Those actions are:

- a possible revaluation, identical to the state's, by the other Beluga royalty gas owners (the federal government and Cook Inlet Region, Inc.);

- the recent $8.5 million settlement by ENSTAR relative to royalty gas from the Kenai field (raising ENSTAR's Kenai royalty price from $.66 to $1.95, and including retroactive payments);

- an increase in the cost of power purchased from Anchorage Municipal Light & Power, which was substantially impacted by the ENSTAR increase, and

- a possible increase in state gas severance taxes based on the Beluga royalty gas revaluation.

If all these actions occur, the impact on Chugach consumers would be approximately $6 million annually -- the equivalent of about a 6 percent rate increase. Attachment A details the impacts.

Financial impacts also will be felt in the Fairbanks area, because Chugach has been selling wholesale power to Golden Valley Electric Association and Fairbanks Municipal Utility System over the Anchorage-Fairbanks intertie. ML&P also is selling power to Golden Valley. Golden Valley has estimated that its consumers will save more than $600,000 this winter alone through purchases of power from Chugach and ML&P.

Copper Valley Electric Association also is concerned, because the Glennallen-based cooperative wants its consumers from Glennallen to Valdez to be intertied with the Railbelt utilities and reap the benefits of less expensive power.

Approximately three quarters of the state's estimated 560,000 residents live in the Railbelt between Fairbanks and Homer. Chugach serves nearly half the state's population through sales to its own retail consumers and those of Matanuska Electric Association, Homer Electric Association and the City of Seward. Thus, residents of the Matanuska and Susitna Valleys and on the Kenai Peninsula are directly affected.

In addition to the cost increases associated with the existing gas contracts, there is another major -- and perhaps even more important -- impact of DNR's royalty revaluation decision.

This is what could be called the uncertainty factor. If DNR is ultimately successful in setting royalty prices on what <u>it</u> determines to be the prevailing market value of a resource, utilities, producers and other purchasing parties will have no assurance of what future royalty gas components will be. This injects a real measure of insecurity into long-term gas contracts and, for Chugach at least, into power supply planning and ratemaking.

The uncertainty factor is an important public policy question for the state and is one that may well eclipse the cost-increase aspect of any given royalty lease revaluation. It could be argued that settling the price dispute over a specific revaluation without first resolving the underlying policy question is getting the horse before the cart.

It is important to note that although DNR's gas and oil lease form has given rise to dispute and litigation in many instances over the years, DNR has failed to propose regulations defining important lease terms. Proposed regulations would at least allow for a public discussion of the policy questions.

To resolve the problem raised by the state's royalty gas revaluation, Chugach is supporting passage of S.B. 309, or similar bills H.B. 403 and H.B. 425. Each of these bills would require DNR to tie royalty valuation to long-term contract price, thereby resolving the underlying policy question. A copy of each of the bills is attached.

Uncertainty in long-term price for royalty gas raises problems for Chugach and other utilities both in terms of long-term financing for generation projects and in efforts to ensure electric rate stability. Tying royalty price to long-term contract price allows DNR to continue to manage the state's resources for maximum value, while recognizing that these resources do not have a value independent of long-term contracts. DNR would still be permitted, on only six months' written notice, to take its royalty share in kind and sell it directly to a willing purchaser.

ATTACHMENT A

CHUGACH ELECTRIC ASSOCIATION, INC.
Rate Impacts Due to Market Valuation of Royalty Gas

January 10. 1986

	Retail: Dollars	Retail: Percent	Wholesale: Dollars	Wholesale: Percent	Total: Dollars	Total: Percent
Current revenues	$63,200,000		$35,800,000		$99,000,000	
Impacts:						
The state's Beluga royalty revaluation from $.26/mcf to $2.05/mcf	1,501,164	2.38	1,278,769	3.57	2,779,933	2.81
Possible federal/CIRI Beluga revaluation (based on state's $2.05/mcf figure)	1,000,776	1.58	852,513	2.38	1,853,289	1.87
ENSTAR settlement	420,853	0.67	358,505	1.00	779,358	0.79
ML&P rate increase (resulting from ENSTAR settlement)	337,500	0.53	287,500	0.80	625,000	0.63
Possible state gas severance tax increase (based on state's Beluga royalty revaluation)	87,100	0.14	74,196	0.21	161,296	0.16
	$3,347,393	5.30	$2,851,483	7.97	$6,198,876	6.26

Introduced: 3/4/85
Referred: Resources

IN THE SENATE BY FAIKS, KELLY AND V.FISCHER

SENATE BILL NO. 309

IN THE LEGISLATURE OF THE STATE OF ALASKA

FOURTEENTH LEGISLATURE - FIRST SESSION

A BILL

For an Act entitled: "An Act relating to the royalty value of a natural gas lease on state land; and providing for an effective date."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

* Section 1. FINDING. The legislature finds that to provide for the utilization, development and conservation of gas resources for the maximum benefit of the people of the state, the value of production of gas for purposes of computing the royalty reserved to the state must be based primarily on the contract price of gas rather than the current market value of the gas. This will encourage stable markets, promote investment, assure reasonable energy prices and provide the maximum benefit to the people of the state.

* Sec. 2. AS 38.05.180 is amended by adding a new subsection to read:

(aa) Notwithstanding other provisions of this section, if the royalty share of natural gas reserved to the state under a lease issued under (f) of this section is taken in value, the value of production sold under a long-term sales contract may not be greater than the price received for the production under the long-term sales contract unless it is shown by clear and convincing evidence that the long-term contract price was unreasonably low at the time of contract.

* Sec. 3. This Act applies to leases issued before or after the effective date of this Act.

* Sec. 4. This Act takes effect immediately in accordance with AS 01.-10.070(c).

Introduced: 4/26/85
Referred: House Special Committee
on Oil & Gas, Resources and Finance

IN THE HOUSE BY PIGNALBERI

HOUSE BILL NO. 403

IN THE LEGISLATURE OF THE STATE OF ALASKA

FOURTEENTH LEGISLATURE - FIRST SESSION

A BILL

For an Act entitled: "An Act relating to the royalty value of a natural gas lease on state land; and providing for an effective date."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

* Section 1. FINDING. The legislature finds that to provide for the utilization, development and conservation of gas resources for the maximum benefit of the people of the state, the value of production of gas for purposes of computing the royalty reserved to the state must be based primarily on the contract price of gas rather than the current market value of the gas. This will encourage stable markets, promote investment, assure reasonable energy prices and provide the maximum benefit to the people of the state.

* Sec. 2. AS 38.05.180 is amended by adding a new subsection to read:

(aa) Notwithstanding other provisions of this section, if the commissioner issues a gas lease under (f) of this section and the royalty value of the production of gas removed or sold from the lease is measured by a long-term contract price, the commissioner may not adjust the long-term contract price to reflect the current market value of gas if the commissioner determines the current market value price adjustment would result in an increase in the consumer price of the gas or unless the commissioner determines in a written finding supported by clear and convincing evidence that the long term contract price is unreasonably low.

* Sec. 3. This Act applies to leases issued before or after the

effective date of this Act.

* Sec. 4. This Act takes effect immediately in accordance with AS 01.-10.070(c).

Introduced: 5/4/85
Referred: House Special Committee
on Oil & Gas and Resources

IN THE HOUSE BY PEARCE

HOUSE BILL NO. 425

IN THE LEGISLATURE OF THE STATE OF ALASKA

FOURTEENTH LEGISLATURE - FIRST SESSION

A BILL

For an Act entitled: "An Act relating to the royalty value of a natural gas lease on state land; and providing for an effective date."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

* Section 1. AS 38.05.180 is amended by adding a new subsection to read:

(aa) Notwithstanding other provisions of this section, the value of the production of natural gas taken in value and sold under a lease issued under (f) of this section may not exceed the long-term contract price for the natural gas unless it is established by clear and convincing evidence that the long-term contract price was unreasonably low at the time of contract.

* Sec. 2. This Act applies retroactively to leases issued before the effective date of this Act.

* Sec. 3. This Act takes effect immediately in accordance with AS 01.-10.070(c).

ALASKA PUBLIC UTILITIES COMMISSION

The primary areas of concern regarding the Alaska Public Utilities Commission (APUC) for Chugach and other cooperatives are (1) the impacts of APUC action on the financing options of cooperatives, (2) the scope of the APUC's authority, (3) the delay in APUC decision making and (4) composition of the Commission itself.

Following is a synopsis of each of the four areas.

It should be stressed that Chugach is opposed to any elimination of the APUC, has articulated this position on numerous occasions and is moderate among electric cooperatives as to the degree of changes which should occur. Chugach does join most other utilities in Alaska in the belief that the APUC should focus its role and resources on the basic areas for regulation, and not on the details of day-to-day utility management. In the cooperatives' case, the APUC should not function as a "super" board of directors.

1. Financing Impacts

   Chugach expects that funding from or access to the Rural Electrification Administration (REA) will be sharply reduced in the near future. Steps must be taken to make electric cooperatives more acceptable credit recipients from commercial lending sources. If a banker is going to make loans to any business, especially in the large amounts needed by electric utilities for generation and distribution expansion, the banker must be certain that the business has stable and reliable revenues. It is common for the financial community to do a careful analysis of the regulatory environment before making loans to regulated utilities.

   As Chugach and other cooperatives increase their dependency on the private financial market, it is important that the regulatory environment not be one which limits access to financing or adversely impacts on the cost of that financing. In recent years, the APUC has abrogated the price component of Chugach's wholesale contracts and ordered the refund of other utilities' permanent rates. Actions of this type can cause great concern within the financial community.

2. Scope of APUC Authority

   The APUC serves as a regulatory body for about half the public utilities operating in Alaska. In recent years, the APUC has broadened the scope of its oversight and regulatory

practices, and is becoming increasingly involved in details of day-to-day management.

The authors of the APUC enabling legislation granted the Commission far-reaching powers, ones that often exceed other regulatory agencies in Alaska, and then mandated that these powers be "liberally construed." No such broad grants of power were given to other commissions.

The APUC has drafted voluminous proposed service and safety regulations with far-reaching implications for day-to-day operations of the electric utilities. Many of these proposed regulations contradict existing utility tariff and would override policy decisions made by utilities regarding their own operations. APUC involvement in utility functions has a cost impact to utilities, both in responding to APUC requests and in the delays these increasing wide-reaching inquiries create.

3. Regulatory Delay

Regulatory delay can be a costly and serious problem for all utilities. Last year a review of the open and pending APUC dockets revealed that approximately 100 cases opened between 1982 and 1983 remain open. Many other state agencies operate under very tight time limits, and Alaska's judges and justices have their pay withheld if they fail to rule on pending cases in a timely manner. Although there are many reasons for delay, the APUC currently has no mandate to act expeditiously.

4. Composition of the Commission

Because of their number and the complexity of their operations, electric utilities are of a strong mind that at least one seat on the commission ought to be designated for an electrical engineer. This is currently not the case, nor has it been so in recent years. Proposed language would mandate that two of the five Commission seats be held by graduate engineers, one an electrical engineer and the other an engineer (not necessarily electrical) with public utility experience.

RIGHT-OF-WAY RELOCATION COSTS

Chugach Electric Association supports the House Transportation Committee Substitutes for House Bill 159 and House Bill 160, which deal with relocation of utility facilities from airports, other public facilities and highways.

The two bills originally would have made affected utilities responsible for all relocation costs, but were favorably amended on April 11, 1985, by the Transportation Committee at the request of the Alaska Rural Electric Cooperative Association and other utilities.

The amendments require the Department of Transportation to pay relocation costs if (1) utility facilities existed before the date of enactment of (2) if utility permits or regulations so specified for facilities constructed after the date of enactment. Utilities would pay relocation costs in all other cases. Currently, relocation costs are borne by the state unless otherwise agreed to by utilities.

The bills were referred to the House Finance Committee, where they await action at the 1986 session.

Offered: 4/11/85
Referred: Finance

Original sponsor: Rules/Governor

IN THE HOUSE BY THE TRANSPORTATION COMMITTEE

CS FOR HOUSE BILL NO. 159 (Transportation)

IN THE LEGISLATURE OF THE STATE OF ALASKA

FOURTEENTH LEGISLATURE - FIRST SESSION

A BILL

For an Act entitled: "An Act relating to utilities and encroachments in state airports, public facilities, and highways; and providing for an effective date."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

* Section 1. AS 02.15 is amended by adding new sections to article 2 to read:

Sec. 02.15.102. USE OF AIRPORTS FOR UTILITIES. A utility facility may be constructed, placed, or maintained across, along, over, under, or within a state airport only in accordance with regulations adopted or procedures prescribed by the department and only if authorized by a written permit issued by the department.

Sec. 02.15.104. RELOCATION OF UTILITY FACILITIES INCIDENT TO AIRPORT PROJECTS. (a) If, incident to the construction of an airport project, the department determines and orders that a utility facility located across, along, over, under, or within a state airport must be changed, relocated, or removed, the utility owning or maintaining the facility shall change, relocate, or remove it in accordance with the order, within a reasonable time set by the department in the order.

(b) If the utility facility is not changed, relocated, or removed in accordance with the order, any permit authorizing the facility issued by the department under AS 02.15.102 becomes invalid and the facility will be considered an unauthorized encroachment subject to the provisions of AS 02.15.114.

(c) The cost of change, relocation, or removal, as defined in

AS 02.15.260, ordered under (a) of this section is to be paid as follows:

(1) by the department as a cost of airport construction, if the utility facility is installed or authorized under a utility permit, or a regulation after the effective date of this Act;

(2) by the department as a cost of highway construction if the facility is installed before the effective date of this Act;

(3) by the utility in all other cases unless the commissioner finds it is in the public interest for the cost to be paid by the department.

Sec. 02.15.106. ENCROACHMENT PERMITS. An encroachment may be constructed, placed, changed, or maintained across or within an airport, but only in accordance with regulations or procedures adopted by the department. An encroachment may not be constructed, placed, maintained, or changed until it is authorized by a written permit issued by the department, unless the department provides otherwise by regulation.

Sec. 02.15.108. RELOCATION OR REMOVAL OF ENCROACHMENT. If, incidental to the construction or maintenance of a state airport the department determines and orders that an encroachment previously authorized by written permit must be changed, relocated, or removed, the owner of the encroachment shall change, relocate, or remove it within a reasonable time set by the department in the order. The cost of the change, relocation, or removal shall be paid as provided in AS 02.15.104(c). If the owner does not change, relocate, or remove an encroachment within the time set by the department, the encroachment will be considered an unauthorized encroachment subject to the provisions of AS 02.15.114.

Sec. 02.15.110. UNAUTHORIZED ENCROACHMENTS. If an unauthorized

encroachment exists in, on, under, or over a state airport the department may require the removal of the encroachment, at the expense of the owner, in the manner provided in AS 02.15.112 - 02.15.114.

Sec. 02.15.112. NOTICE OF REMOVAL OF UNAUTHORIZED ENCROACHMENT. Notice shall be given the owner, occupant, or person in possession of an unauthorized encroachment, or to another person causing or permitting the encroachment to exist, by serving upon any of them a notice demanding the removal of the encroachment within a time limit set by the department. The notice shall describe the encroachment with reasonable certainty as to its character and location. Service of the notice may be made by certified mail.

Sec. 02.15.114. REMOVAL AT OWNER'S EXPENSE AFTER NONCOMPLIANCE; REMOVAL EXPENSE. After a failure of the owner of an unauthorized encroachment to comply with a notice or order of the department under AS 02.15.104, 02.15.108, or 02.15.112, the department may remove the encroachment, or cause it to be removed. The owner of the unauthorized encroachment shall pay to the department

(1) the expense of the removal of the encroachment;

(2) all costs and expenses paid by the state as a result of a claim or claims filed against the state by third parties for damages due to delays because the encroachment was not changed, removed, or relocated according to the order of the department; and

(3) costs and expense of suit.

* Sec. 2. AS 02.15.260 is amended by adding new paragraphs to read:

(15) "cost of change, relocation, or removal" means the entire cost incurred by the utility properly attributed to the change, relocation, or removal of a facility, less the costs for improvements or upgrading over and above the cost of a functionally equal facility; if a facility is to be relocated and replaced with new equipment,

there shall also be subtracted from the entire cost the salvage value derived from the old facility;

(16) "encroachment" includes a tower, pole, poleline, pipe, pipeline, driveway, private road, fence, billboard, stand or building, or structure or object of any kind that is or has been placed in, on, under, or over a portion of an airport;

(17) "utility" includes a corporation, company, individual, or association of individuals, or a lessee, trustee, or court-appointed receiver, that owns, operates, manages, or controls a line, plant, pipeline, or system for furnishing, producing, generating, transmitting, or distributing power, electricity, communications, telecommunications, water, gas, oil, petroleum products, coal or other mineral slurry, steam, heat, light, chemicals, air, sewage, drainage not connected with airport drainage, irrigation, or similar products including publicly owned fire and police signal systems and street lighting systems that directly or indirectly serve the public or a segment of the public; "utility" also includes a corporation, company, individual, or association of individuals, or a lessee, trustee, or court-appointed receiver that owns, operates, manages, or controls a system for furnishing transportation of goods or persons by means of a railway, tramway, cableway, conveyor, flume, canal, tunnel, pipeline, or a similar means;

(18) "utility facility" includes poles, plants, lines, trenches, bridges, utilidors, tunnels, pipelines, and any other system for furnishing, producing, generating, transmitting, or distributing power, electricity, communications, telecommunications, water, gas, oil, petroleum products, coal or other mineral slurry, steam, heat, light, chemicals, air, sewage, drainage not connected with an airport drainage system, irrigation, or another substance; "utility facility"

also includes a system for furnishing transportation of goods or persons by means of a railway, tramway, cableway, conveyor, flume, canal, tunnel, pipeline, or a similar means.

* Sec. 3. AS 19.25.200 is amended to read:

Sec. 19.25.200. ENCROACHMENT PERMITS. (a) An encroachment may be constructed, placed, changed, or maintained across or along a highway, but only in accordance with regulations adopted by the department. An [NO] encroachment may not be constructed, placed, maintained, or changed until it is [DULY] authorized by a written permit issued by the department, unless the department provides otherwise by regulation.

(b) The provisions under (a) of this section do not apply to a mailbox or a newspaper box attached to a mailbox.

* Sec. 4. AS 19.45.001(12) is repealed and reenacted to read:

(12) "utility" includes a corporation, company, individual, or association of individuals, or a lessee, trustee, or court-appointed receiver, that owns, operates, manages, or controls a line, plant, pipeline, or system for furnishing, producing, generating, transmitting, or distributing power, electricity, communications, telecommunications, water, gas, oil, petroleum products, coal or other mineral slurry, steam, heat, light, chemicals, air, sewage, drainage not connected with highway drainage, irrigation, or similar products including publicly owned fire and police signal systems and street lighting systems that directly or indirectly serve the public or a segment of the public; "utility" also includes a corporation, company, individual, or association of individuals, or a lessee, trustee, or court-appointed receiver that owns, operates, manages, or controls a system for furnishing transportation of goods or persons by means of a railway, tramway, cableway, conveyor, flume, canal, tunnel, pipeline,

or a similar means;

* Sec. 5. AS 19.45.001 is amended by adding a new paragraph to read:

(14) "utility facility" includes poles, plants, lines, trenches, bridges, utilidors, tunnels, pipelines, and any other system for furnishing, producing, generating, transmitting, or distributing power, electricity, communications, telecommunications, water, gas, oil, petroleum products, coal or other mineral slurry, steam, heat, light, chemicals, air, sewage, drainage not connected with a highway drainage system, irrigation, or another substance; "utility facility" also includes a system for furnishing transportation of goods or persons by means of railway, tramway, cableway, conveyor, flume, canal, tunnel, pipeline, or a similar means.

* Sec. 6. AS 35.10 is amended by adding new sections to read:

ARTICLE 6. UTILITIES AND ENCROACHMENTS IN PUBLIC FACILITIES.

Sec. 35.10.210. USE OF PUBLIC FACILITIES FOR UTILITIES. A utility facility may be constructed, placed, or maintained across, along, over, under, or within a state public facility only in accordance with regulations adopted or procedures prescribed by the department and only if authorized by a written permit issued by the department.

Sec. 35.10.220. RELOCATION OF UTILITY FACILITIES INCIDENT TO PUBLIC FACILITY PROJECTS. (a) If, incident to the construction of a public facility project, the department determines and orders that a utility facility located across, along, over, under, or within a state public facility must be changed, relocated, or removed, the utility owning or maintaining the facility shall change, relocate, or remove it in accordance with the order, within a reasonable time set by the department in the order.

(b) If the utility facility is not changed, relocated, or

removed in accordance with the order, a permit authorizing the utility issued by the department under AS 35.10.210 becomes invalid and the facility will be considered an unauthorized encroachment subject to the provisions of AS 35.10.270.

(c) The cost of change, relocation, or removal, as defined in AS 35.25.020, ordered under (a) of this section is to be paid as follows:

(1) by the department as a cost of public facility construction, if the utility facility is installed or authorized under a utility permit or a regulation after the effective date of this Act;

(2) by the department as a cost of highway construction if the facility is installed before the effective date of this Act;

(3) by the utility in all other cases unless the commissioner finds it is in the public interest for the cost to be paid by the department.

Sec. 35.10.230. ENCROACHMENT PERMITS. An encroachment may be constructed, placed, changed, or maintained across or within a public facility, but only in accordance with regulations or procedures adopted by the department. An encroachment may not be constructed, placed, maintained, or changed until it is authorized by a written permit issued by the department, unless the department provides otherwise by regulation.

Sec. 35.10.240. RELOCATION OR REMOVAL OF ENCROACHMENT. If, incidental to the construction or maintenance of a state public facility, the department determines and orders that an encroachment previously authorized by written permit must be changed, relocated, or removed, the owner of the encroachment shall change, relocate, or remove it within a reasonable time set by the department in the order. The cost of the change, relocation, or removal shall be paid as

provided in AS 35.10.220(c). If the owner does not change, relocate, or remove an encroachment within the time set by the department, the encroachment will be considered an unauthorized encroachment and subject to the provisions of AS 35.10.270.

Sec. 35.10.250. UNAUTHORIZED ENCROACHMENTS. If an unauthorized encroachment exists in, on, under, or over a state public facility, the department may require the removal of the encroachment, at the expense of the owner, in the manner provided in AS 35.10.260 - 35.10.-270.

Sec. 35.10.260. NOTICE OF REMOVAL OF UNAUTHORIZED ENCROACHMENT. Notice shall be given the owner, occupant, or person in possession of an unauthorized encroachment, or to another person causing or permitting the encroachment to exist, by serving upon any of them a notice demanding the removal of the encroachment within a time limit set by the department. The notice shall describe the encroachment with reasonable certainty as to its character and location. Service of the notice may be made by certified mail.

Sec. 35.10.270. REMOVAL AFTER NONCOMPLIANCE; REMOVAL EXPENSE. After a failure of the owner of an unauthorized encroachment to comply with the notice or order of the department under AS 35.10.220, 35.10.-240, or 35.10.260, the department may remove the encroachment, or cause it to be removed. The owner of the unauthorized encroachment shall pay to the department

(1) the expense of the removal of the encroachment;

(2) all costs and expenses paid by the state as a result of a claim or claims filed against the state by third parties for damages due to delays because the encroachment was not changed, removed, or relocated according to the order of the department; and

(3) costs and expense of suit.

* Sec. 7. AS 35.25.020 is repealed and reenacted to read:

Sec. 35.25.020. DEFINITIONS. In this title, unless the context requires otherwise,

(1) "construction" or a derivative of the term "construction" means construction, reconstruction, alteration, improvement, or major repair;

(2) "cost of change, relocation, or removal" means the entire cost incurred by the utility properly attributed to the change, relocation, or removal of a facility, less any costs for improvements or upgrading over and above the cost of a functionally equal facility; if a facility is to be relocated and replaced with new equipment, there shall also be subtracted from the entire cost any salvage value derived from the old facility;

(3) "department" means the Department of Transportation and Public Facilities;

(4) "encroachment" includes a tower, pole, poleline, pipe, pipeline, driveway, private road, fence, billboard, stand or building, or a structure or object of any kind that is or has been placed in, on, under, or over a portion of a public facility;

(5) "maintenance" means the preservation of each type of facility as nearly as possible in its original condition as constructed, or as improved;

(6) "public building" means a building owned or controlled and held by the state for government or public use;

(7) "public facility" or "public work" means a structure or project constructed or maintained by the department except airports and highways, and includes public buildings, boat harbors, port facilities, dikes, jetties, and breakwaters;

(8) "utility" includes a corporation, company, individual,

or association of individuals, or a lessee, trustee, or court-appointed receiver, that owns, operates, manages, or controls a line, plant, pipeline, or system for furnishing, producing, generating, transmitting, or distributing power, electricity, communications, telecommunications, water, gas, oil, petroleum products, coal or other mineral slurry, steam, heat, light, chemicals, air, sewage, drainage not connected with public facility drainage, irrigation, or similar products including publicly owned fire and police signal systems and street lighting systems that directly or indirectly serve the public or a segment of the public; "utility" also includes a corporation, company, individual, or association of individuals, or a lessee, trustee, or court-appointed receiver that owns, operates, manages, or controls any system for furnishing transportation of goods or persons by means of a railway, tramway, cableway, conveyor, flume, canal, tunnel, pipeline, or a similar means;

(9) "utility facility" includes poles, plants, lines, trenches, bridges, utilidors, tunnels, pipelines, and any other system for furnishing, producing, generating, transmitting, or distributing power, electricity, communications, telecommunications, water, gas, oil, petroleum products, coal or other mineral slurry, steam, heat, light, chemicals, air, sewage, drainage not connected with a public facility drainage system, irrigation, or another substance; "utility facility" also includes a system for furnishing transportation of goods or persons by means of a railway, tramway, cableway, conveyor, flume, canal, tunnel, pipeline, or a similar means.

* Sec. 8. This Act takes effect immediately in accordance with AS 01.-10.070(c).

Offered: 4/11/85
Referred: Rinance

Original sponsor: Rules/Governor

IN THE HOUSE BY THE TRANSPORTATION COMMITTEE

CS FOR HOUSE BILL NO. 160 (Transportation)

IN THE LEGISLATURE OF THE STATE OF ALASKA

FOURTEENTH LEGISLATURE - FIRST SESSION

A BILL

For an Act entitled: "An Act relating to relocation of utilities; and providing for an effective date."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

* Section 1. AS 19.25.020(c) is amended to read:

(c) The cost of change, relocation, or removal necessitated by highway construction is a cost of highway construction to be paid [BY THE STATE] in accordance with AS 19.45.001(4) as follows:

(1) by the department as a cost of highway construction, if the utility facility is installed or authorized under a utility permit or a regulation after the effective date of this Act;

(2) by the department as a cost of highway construction if the facility is installed before the effective date of this Act;

(3) by the utility in all other cases unless the commissioner finds it is in the public interest for the cost to be paid by the department [, NOTWITHSTANDING THE TERMS OR PROVISIONS OF ANY EXISTING PERMIT, AGREEMENT, REGULATION OR STATUTE TO THE CONTRARY].

* Sec. 2. This Act takes effect immediately in accordance with AS 01.-10.070(c).

KENAI PENINSULA-ANCHORAGE INTERTIE

Chugach Electric Association supports construction of a new transmission circuit between the Kenai Peninsula and Anchorage.

Specifically, Chugach joins other Railbelt utilities in supporting immediate funding for a feasibility study for the intertie. The feasibility study should begin this year, to ensure that the new circuit is ready when the Bradley Lake project becomes operational. To facilitate the feasibility study for the intertie, Chugach has budgeted $75,000 this year as part of a $150,000 contribution by Railbelt utilities. The remaining cost of the feasibility study is to come from the Alaska Power Authority (APA).

The APA has estimated the cost of the feasibility study at $625,000, although that figure could probably be reduced substantially. The $625,000 was included in the APA's proposed Fiscal 1986 budget, but was deleted entirely by the State Office of Budget and Management in the final budget.

Despite a contrary conclusion in the Bradley Lake feasibility study, the 90-megawatt capacity of that hydroelectric project cannot all be used on the Kenai Peninsula. Hence, a new Kenai-Anchorage intertie will be needed. A fact sheet on Kenai Peninsula generation capacity in 1990 is attached. The Bradley Lake feasibility study underestimated the generation capacity on the Kenai Peninsula by approximately 55 megawatts, by not including the 40-megawatt Soldotna Unit No. 1 (soon to begin operation) and by underestimating existing capacity by 15 megawatts.

The only existing transmission link between Anchorage and the Kenai Peninsula is a 115-kilovolt Chugach line, which would not be adequate to serve the Bradley Lake project. The existing Chugach line is 25 years old, undersized and vulnerable to the elements. Nearly every year, the line is affected by avalanches, mudslides or high winds in the mountains near Turnagain Arm. Because of the terrain, repair work can be very difficult and time-consuming during severe weather. It is likely a new, higher-voltage circuit would bypass the high-risk areas by including a submarine cable crossing of Turnagain Arm.

Anchorage Municipal Light & Power, Matanuska Electric Association, Homer Electric Association and the Fairbanks electric utilities as well as Chugach will directly benefit from a new intertie. All the utilities support immediate state participation in a feasibility study for the intertie. State funding should be a priority item for the APA and the 1986 legislature.

NEED FOR NEW KENAI PENINSULA-ANCHORAGE TRANSMISSION CIRCUIT

GENERATION CAPACITY ON THE KENAI PENINSULA -- 1990:

Owner	Capacity (megawatts)	
Chugach Electric Association	100	
Alaska Electric G&T Cooperative *	40	
Bradley Lake Project **	90	
TOTAL:		230
Projected Kenai Peninsula Demand -- 1990		
Homer Electric Association	85	
Chugach Electric Association (including the City of Seward)	30	
	115	
Capacity of existing Chugach 115-kV transmission line between Kenai Peninsula and Anchorage ***	55	
Kenai Peninsula generation capacity that can be used on the peninsula or transmitted to Anchorage		(170)
Excess Kenai Peninsula capacity (that cannot be used on the peninsula)		60

* Scheduled for service in early 1986 (Soldotna Unit No. 1)
** Scheduled for service in 1990
*** Assuming entire capacity of the line is available

SCOMM

#46:25

5-Feb-86

Royalty-In-Kind Contract Terms
For Current Contracts
AS OF FEBRUARY 1, 1986

Filename: C:Contract dwj

COMPETITIVE SALE CONTRACTS

Company	Unit	Quantity(1) (% & Bbls)	PURCHASE PRICE (Base Price Plus Bid Premium)	Price Re-opener	Letter of Credit	Length of Contract	Provision for retroactive Amerada Hess adjustment	State option to purchase residual oil or return oil
Chevron	Prudhoe Bay	8.0001% 15,000 BPD	(1)$17.95	No	60 Days	4/1/85-3/31/86	no	no
Texaco	Prudhoe Bay	13.3334% 25,000 BPD	(1)$17.56	No	60 Days	4/1/85-3/31/86	no	no
U.S. Oil	Prudhoe Bay	5.3332% 10,000 BPD	(1)$17.96	No	60 Days	4/1/85-3/31/86	no	no
U.S. Oil	Kuparuk River	8.8888% 2,778 BPD	(1)$17.10865	No	90 Days	10/1/85-3/31/86	no	no
U.S. Oil	Kuparuk River	13.3332% 4,167 BPD	(1)$17.10865	No	90 Days	10/1/85-3/31/86	no	no
U.S. Oil	Kuparuk River	13.3332% 4,167 BPD	(1)$17.10865	No	90 Days	10/1/85-3/31/86	no	no
Union	Kuparuk River	13.3332% 4,167 BPD	(1)$17.10865	No	90 Days	10/1/85-3/31/86	no	no
Chevron	Kuparuk River	17.7776% 5,556 BPD	(1)$17.10865	No	90 Days	10/1/85-3/31/86	no	no

(1) Price per barrel billed in January 1986. Price is adjusted monthly to reflect changes in posted prices of West Texas sour crude, with a floor price of the volume weighted average of the producers' reported netback prices.

Royalty-In-Kind Contract Terms
For Current Contracts
AS OF FEBRUARY 1, 1986

Filename: C:Contract dwj

NEGOTIATED CONTRACTS

Company	Unit	Quantity(1) (% & Bbls)	Price Plus Applicable Premium	Price Re-opener	Letter of Credit	Length of Contract	Provision for retroactive Amerada Hess adjustment	State option to purchase residual oil or return oil
MAPCO	Prudhoe Bay	18.6667% 35,000 BPD	(2)Exhibit B + field costs (3)($17.61921)	No	No	11/1979-12/2003	yes(4) (6)	no
Tesoro	Prudhoe Bay	24.533% 46,000 BPD	(2)In-value + field costs (3)($17.41648)	No	Yes 60 days	1/1/1983-1/1/1995	yes (7)	yes
Tesoro	Prudhoe Bay	13.867% 26,000 BPD	(2)In-value + $.35 Bbl + field costs (3)($17.76648)	Yes-six years after date of 1st delivery, every two years thereafter	Yes 60 days	10/1/1985-1/1/1995	yes (7)	yes
Chevron	Prudhoe Bay	9.6% 18,000 BPD	(2)In-value + $.30 Bbl + field costs (3)($17.71648)	Yes-every two years	Yes 60 days	5/30/1984-1/1/1995	yes (7)	yes
GVEA	Prudhoe Bay	2.667% 5,000 BPD	(2)In-value + $.30 Bbl + field costs (3)($17.71648)	no	Yes 60 days	7/1/1985 - 6/30/1995	yes (7)	no
PetroStar/ Chevron (pending Legislative approval)	Kuparuk River	19.198% 6,000 BPD (2,000 P/S, 4,000 Chv) with option for 500/b Petro Star increase to 6,500 BPD total	(2)PBU in value + $.35 premium for P/S; $.50 premium for Chv + Kuparuk field costs - (Kuparuk P/L tariff and TAPS quality bank adjustment)	Yes-every two years	P/S 60 days; Chv 90 days	12/1/1986-9/30/1996	yes(5) (8)	no

(1) Due to field fluctuations and decline, all quantities for the purchase of royalty oil are expressed as a percentage of daily royalty oil production. However, Mapco receives 35,000 bpd regardless of fluctuating production.

(2) Prudhoe producers' prices as initially reported for royalty purposes. These prices will be subsequently adjusted to reflect the outcome of Amerada Hess litigation. In-value was $17.41648 in December 1985, Exhibit B was $17.61921. Prudhoe field costs were $0.70.

(3) Price per barrel billed in January, 1986.

(4) Mapco's Exhibit B is a pre-payment towards the final resolution of Amerada Hess.

(5) Petro Star agrees to escrow $1.12 per barrel of royalty oil purchased, as a pre-payment towards the final resolution of Amerada Hess.

(6) Interest on retroactive payment is prime rate then charged by Chemical Bank of NY + 1 1/4%.

(7) Interest on retroactive payment is higher of: 1) prime rate at Bank of America, SFO + 3%; or (2) rate of return as is realized from time to time in the investment of the State of Alaska's general fund.

(8) Interest as specified in Amerada Hess settlement or judicial resolution.

STATE OF ALASKA 1986 LEGISLATIVE SESSION
FISCAL NOTE

Revision Date : 2-26-86

REQUEST

Bill/Resolution No. : HB 559
Title : Kuparuk Royalty Oil Sale to Petrostar/Chevron

Sponsor : Governor
Requestor : Oil & Gas
Date of Request : 02-25-86

FISCAL DETAIL

Agency Affected : Natural Resources
BRU : Petroleum Management

Components :

EXPENDITURES/REVENUES : (Thousands of Dollars)

OPERATING	FY 86	FY 87	FY 88	FY 89	FY 90	FY 91
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	0	0	0	0	0	0
CAPITAL	0	0	0	0	0	0
REVENUE	0	1,151.1	1,067.4	1,067.4	907.3	771.5

FUNDING : (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER						
TOTAL	0	0	0	0	0	0

POSITIONS :

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS : Attach a separate page if necessary

Note: Revenue computations by calendar year instead of fiscal year.

See attached

Prepared by : Jim Eason
Division : Oil & Gas
Phone : 762-4246
Date : 2-26-86

Approved by Commissioner : Mark D Arnold, Deputy
Agency : Natural Resources
Date :

Distribution (by Agency preparing fiscal note) :
Legislative Finance
Legislative Sponsor
Requestor
Office of Management and Budget
Impacted Agency(ies)

10/25/85

ANALYSIS
Fiscal Note HB 559

Approval of the proposed Petrostar/Chevron will result in the state's receipt of approximately $7.5 million in premium payments over the term of the contract. Approximately 16,756,670 barrels of oil will be delivered under the contract, with Chevron's respective share being 11,171,002 barrels, and Petrostar's share being 5,585,668 barrels. Chevron will pay a premium above the "in value" amount of $.50 per barrel, while Petrostar's premium will be $.35 per barrel for its net barrels. Chevron's share of this premium will total $5,585,501 over the life of the contract (contract ends September 30, 1996), and Petrostar's respective contribution will be $1,954,984. All amounts calculated are expressed in "nominal"dollars, and the analysis assumes contract deliveries commence December 1, 1986 and ends September 30, 1996.

Revenue Projects

Calendar Year	
92	655.5
93	592.0
94	528.8
95	475.4
96	323.0
Total	7,539.4

Shell Western discovers oil, gas in Beaufort Sea

Story page A-10

Today's New York Stocks
Final

The Anchorage Times

72nd year/58 pages | TUESDAY EVENING, FEBRUARY 25, 1986 | 25¢



Young authors make their own books

ALASKA LIFE — page C-1



Marco resigns, flees

Alaskans hail new regime

by Richard Pyle
Associated Press

MANILA, Philippines — A defeated Marco resigned as president of the Philippines today, slipping away in the Manila night and setting off an explosion of joyous celebration among his countrymen.

U.S. involvement — page A-10

"Cory! Cory!" Filipinos chanted in tribute to new President Corazon Aquino as they demonstrated by the thousands across the capital. A mob rampaged through Malacanang Palace, from which Marco governed for 20 years.

Marco who fled aboard American helicopters to the U.S. Air Force's nearby Clark Air Base, was brought down by a combination of a "people's power" uprising, military revolt and U.S. pressure.

First official word of his resig-



RESIDENCY STATUS
OF PETRO STAR INC. EMPLOYEES

AS OF JANUARY 1, 1986

Walter Alexander	10 years
Fred Ambuehl	3 years
Alan Armbruster	12 years
Karen Boswood	10 years
Earl Burgess	23 years
Robert Burgess	23 years
Douglas Chapados	Lifetime Resident
Greg Davis	Lifetime Resident
Sandra Davis	Lifetime Resident
Jo Ann Ford	Lifetime Resident
Walter Gore	2 years
Andy Greenblatt	10 years
Kent Herman	9 years
Stephen Lewis	17 years
Ken Lincoln	28 years
Kristi Linse	5 years
Patricia Marcopulos	5 years
Steve Moeller	15 years
Jim Morris	12 years
Dawn Mullin	2 years
Shawn Mullin	2 years
John Peep	9 years
Lars Peterson	2 years
Loretta Porter	Lifetime Resident
Kathy Rogers	23 years
Dee Roberts	22 years
Mark Stack	Lifetime Resident
Julie Wright	Lifetime Resident

MAJOR CONTRACTORS USED BY PETRO STAR INC.
SINCE FORMATION

AAA Communications	Fairbanks
Acme Electric	Fairbanks
Airtite Insulation	Fairbanks
Aerolaska	Fairbanks
Alaska Aerofuel	Fairbanks
Alaska Contracting	Fairbanks
Alaska Controls	Anchorage
Alaska Freighters	Fairbanks
Alaska West Express	Fairbanks
Aurora Drilling	Fairbanks
Aurora North Fuels	Fairbanks
C&S Mechanical	Fairbanks
CATCO	Anchorage
Chase Arctic Pumping & Thawing	Fairbanks
City Electric	Fairbanks
D-8 Construction	Fairbanks
Daniel Construction Co.	Anchorage
Dycon, Inc.	Fairbanks
Earth Movers	Fairbanks
Fairbanks Machine & Steel	Fairbanks
Fairbanks Pumping & Thawing	Fairbanks
Filco Oil & Gas	Fairbanks
Forward Alaska Joint Venture	Anchorage
Frontier Transportation	Fairbanks
Hector's Welding	Fairbanks
Industrial & Commercial Const.	Fairbanks
Jackovich	Fairbanks
Kittrell Plumbing	Fairbanks
Lynden Transport	Fairbanks
Na-Con Services	Redmond, Wa.
NC Machinery	Fairbanks
OceanTech	Anchorage
Rampart Floors	Fairbanks
Ray's Electric	Fairbanks
Schuchart & Associates	Seattle
Seattle Boiler Works	Seattle
Sims Mechanical	Fairbanks
Steel Fabricators	Anchorage

STATE OF ALASKA

POUCH V
JUNEAU, ALASKA 99811
(907) 465-4941

HOUSE SPECIAL COMMITTEE ON OIL AND GAS

HB 559

Agreement for the sale and purchase of state royalty oil between the State of Alaska and Petro Star, Inc. and Chevron U.S.A., Inc., dated December 9, 1985

Relationship between Petro Star and Chevron. Chevron will sell the royalty oil it purchases under the contract to Petro Star at TAPS Pump Station #1, and will repurchase the oil at the TAPS terminus at Valdez.

Petro Star will use as refinery charge Chevron's volume of royalty oil sold under the contract. After Petro Star processes the oil there will remain a portion of oil or oil products which will be shipped through TAPS, and sold by Petro Star to Chevron at Valdez. The quantity will approximate Chevron's purchase volume under the royalty oil contract.

Volume. Approximately 6,500 barrels per day (bpd) of Kuparuk River Unit royalty oil, of which a maximum of 2,500 bpd will be sold to Petro Star and about 4,000 bpd will be sold to Chevron. Petro Star initially will take approximately 2,000 bpd, and will have the option to increase its take by Nov. 1, 1987 to the maximum quantity of approximately 2,500 bpd.

Price. The total price to be received by the state consists of the following:

1. The Prudhoe Bay in value price.
2. A 35 cent per barrel premium for Petro Star.
3. A 50 cent per barrel premium for Chevron.

Petro Star matched the highest premium offered by any existing in-state refiner, and Chevron offered the highest premium for export purchase.

Price Adjustments. Petro Star has agreed to escrow $1.12 per barrel in an interest-bearing account to be credited against future Amerada Hess adjustments. The department has agreed to a ceiling retroactive Amerada Hess price adjustment of $2.50 per barrel of royalty oil purchased.

Price Adjustments (Continued). The tariff charge for the Kuparuk Pipeline and the applicable TAPS quality bank adjustment are deducted from the sale price of the oil.

Price Reopener. Any time after two years from the date of first delivery of royalty oil to Petro Star and Chevron, the state or either of the purchasers may exercise the price reopener clause upon giving a one month written notice. Two years after a new purchase price becomes effective, that price will be subject to renegotiation under the price reopener provision of the contract.

Term. Delivery of oil will commence the first day of the first month seven months after the contract is approved by the legislature and the governor. The contract terminates Sept. 30, 1996.

In-State Processing and Best Efforts. Petro Star will process not less than 85% of the total royalty oil sold under the agreement. Petro Star also agrees to use its "best efforts" to produce and market in Alaska an amount of refined petroleum products from its refinery near North Pole, not less in volume than 23% of the total royalty oil sold under the agreement.

Reporting. Petro Star will be required to provide the department a quarterly statement showing the quantity of refined products it produced and marketed in Alaska over that period.

Security. Petro Star will provide a letter of credit worth 60 days of oil, and Chevron will provide a letter of credit worth 90 days of oil. In the event of default by Petro Star, Chevron agrees to purchase Petro Star's volume on five days notice.

Default. Should Chevron default in its share of the agreement, Petro Star could continue to receive its portion of oil under the agreement. Petro Star could also increase its take of oil to include all or part of the Chevron volume upon agreement with the commissioner to meet specified requirements.

Should Petro Star default, continuation of the disposal to Chevron would be at the commissioner's discretion, and would be contingent on Chevron's agreement to process the oil at its Nikiski refinery.

In-State Benefit Analysis. Petro Star is its own distributor of refined products, having purchased North Pole Fuel. Petro Star has also received financial backing from the Arctic Slope Regional Corporation in exchange for an ownership interest of 30 percent in the company.

In-State Benefit Analysis (Continued). Petro Star officials say the company is marketing much of its present refinery production at prices lower than those charged by MAPCO. Refinery production, based on crude oil purchased under contract from Sohio, is about 1,000 bpd. Examples of lower market prices include heating oil sales to five rural villages and to construction companies operating on the North Slope. Petro Star officials also believe that recent favorable changes in MAPCO's product prices, which are said to be at a three-year low, were influenced by their company's prospective and present operations.

While the price discounts mentioned by Petro Star are only on the order of pennies per gallon, a one cent decrease in the price of a gallon of refined product that could be made from 1,000 bpd translates to an annual consumer savings of about $153,000.

However, the extent to which a royalty oil disposal to Petro Star may maintain or extend these price reductions cannot be readily determined. DNR anticipates no more than modest favorable impacts on the price of refined products as a result of the sale to Petro Star.

The department's decision to proceed with this contract is largely based on the need to foster regional competition among in-state refiners and provide additional in-state benefits that result from in-state refining, and to provide equity of access to royalty oil among existing refiners.

BILL SHEFFIELD
GOVERNOR

STATE OF ALASKA
OFFICE OF THE GOVERNOR
JUNEAU

The Honorable Ben Grussendorf
Speaker of the House
Alaska State Legislature
P.O. Box V
Juneau, AK 99811

Dear Representative Grussendorf:

Under the authority of art. III, sec. 18, of the Alaska Constitution, I am transmitting a bill that provides for legislative approval of a royalty oil contract between the state, Petro Star, Inc. and Chevron U.S.A., Inc. for the sale of Kuparuk River royalty oil. Also transmitted with this bill is a copy of the resolution of the Alaska Royalty Oil and Gas Development Advisory Board recommending approval of that contract, along with a letter from the Department of Law forwarding the resolution to you. This resolution is being transmitted in accordance with AS 38.06.040(a)(3) and AS 38.06.070(c).

The contract is also described in the findings issued by the Department of Natural Resources on December 9, 1985. Copies of these findings have been made available to the legislature and the public for review.

A bill approving the contract is being introduced for legislative approval for two reasons. First, as a matter of comity, I respect the legislature's desire to have a direct voice in major disposals of royalty oil. Therefore, although this and the previous administration have consistently taken the position that the statutory requirement of legislative approval of royalty oil contracts (AS 38.06.055) is unconstitutional, the contract itself contains provisions requiring approval by the legislature before it takes effect.

Second, this legislation would ratify the royalty oil contract. This ratification would cure any procedural defect

that may have occurred in the process of entering into this contract. Although we believe that all necessary steps have been taken, the statutes and regulations governing the disposal of royalty oil represent often-conflicting desires and goals -- both procedural and substantive. For example, the statutes provide that the legislature is to approve a royalty oil contract only by "enacting legislation" (AS 38.06.055(a)), but also refer to a Royalty Board recommendation to be submitted to the legislature at the time a "resolution approving the proposed sale ... is introduced in the legislature" (AS 38.06.070(c)). Since legislative approval by enactment of legislation is required as a matter of contract, I believe that it is prudent to present this contract for legislative approval and ratification.

Sincerely,

Bill Sheffield
Governor

HB 559

BILL SHEFFIELD, GOVERNOR

REPLY TO:

☑ 1031 W 4th AVENUE
SUITE 200
ANCHORAGE, ALASKA 99501
PHONE: (907) 276-3550

☐ 1st NATIONAL CENTER
100 CUSHMAN ST.
SUITE 400
FAIRBANKS, ALASKA 99701
PHONE: (907) 452-1568

☐ POUCH K · STATE CAPITOL
JUNEAU, ALASKA 99811
PHONE: (907) 465-3600

DEPARTMENT OF LAW

OFFICE OF THE ATTORNEY GENERAL

January 14, 1986

The Honorable Ben F. Grussendorf
Speaker of the House of Representatives
Alaska State Legislature
Pouch V
Juneau, Alaska 99811

Reference: "An Act Relating to the Sale and Purchase of Royalty Oil from the Kuparuk Unit between the State of Alaska and Petro Star, Inc. and Chevron U.S.A. Inc.

Dear Mr. Speaker:

In accordance with AS 38.06.040(a)(3), I am forwarding for your consideration the resolution of the Alaska Royalty Oil and Gas Development Advisory Board which recommends that the legislature approve the referenced sale of royalty oil to Petro Star and Chevron U.S.A.

If we can be of further service, please do not hesitate to call.

Sincerely,

HAROLD M. BROWN
ATTORNEY GENERAL

By: Stan R Porter for
Ann E. Prezyna
Assistant Attorney General

AEP/ma

03-C5LH

RECEIVED
Department of Law
JAN - 3 1986
Office of the Attorney Gen
Anchorage Branch
Anchorage, Alaska

C. 748559 C.

The Alaska Royalty Oil and Gas Development Advisory Board

Resolution 85-2

On or about October 23, 1985, the director of the division of oil and gas ("director") provided the Alaska Royalty Oil and Gas Development Advisory Board with the preliminary notice of sale, preliminary findings, and proposed contract for a long-term sale of up to about 6500 barrels per day of Kuparuk River Unit royalty oil to Petrostar, Inc. and Chevron U.S.A. Inc.

This proposed sale has been discussed at several public meetings held by the board during 1985. At the February 20 meeting, Petrostar representatives testified in support of a royalty oil sale. On March 26, staff of the Alaska Department of Natural Resources (DNR) reported to the board on the status of a solicitation for purchasers of state royalty oil. At the April 12 meeting, DNR presented a status report on the solicitation, which was released April 1. On July 25, DNR presented to the board a recapitulation of the responses to the solicitation. At the meetings of the board held September 26-27 and October 7, the board received public testimony on a proposed sale of Kuparuk royalty oil to Petrostar and Chevron. On October 30, the director made a presentation to the board on the Petrostar-Chevron contract proposed in DNR's October 23 preliminary findings; the board also received public testimony on the proposed contract. The last two meetings were held by teleconference in Anchorage, Fairbanks, Valdez, and Juneau.

DNR's final findings on the proposed sale and the contract were sent to the board on December 9, 1985. On December 19, the board met to develop and vote on its recommendations to the legislature on the proposed sale.

Based on the board's review of the agreement for the sale and purchase of royalty oil between the State of Alaska and Petrostar and Chevron, DNR's findings and determinations regarding the proposed sale, and the testimony received at public meetings of the board, the board is of the opinion that the proposed disposition of Kuparuk River Unit royalty oil to Petrostar and Chevron meets the requirements of AS 38.06 and 3 AAC 56. The board recommends that the Fifteenth Alaska Legislature approve the agreement for the sale and purchase of royalty oil from the Kuparuk River Unit to Petrostar and Chevron, dated December 9, 1985.

Dated: December 19, 1985

Laurie D. Cunningham

HB559

IN THE HOUSE

BY THE RULES COMMITTEE BY REQUEST OF THE GOVERNOR

HOUSE BILL NO.

IN THE LEGISLATURE OF THE STATE OF ALASKA

FOURTEENTH LEGISLATURE - SECOND SESSION

A BILL

For an Act entitled: "An Act approving the sale of Kuparuk River Unit royalty oil by the State of Alaska to Petro Star, Inc. and Chevron U.S.A., Inc.; and providing for an effective date."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

* Section 1. The "Agreement for the Sale and Purchase of State Royalty Oil" between the State of Alaska and Petro Star, Inc. and Chevron U.S.A., Inc., dated December 9, 1985, is approved and ratified.

* Sec. 2. This Act takes effect immediately in accordance with AS 01.-10.070(c).

Dept Memo

HB 559

BILL SHEFFIELD, GOVERNOR

DEPARTMENT OF LAW

POUCH K – STATE CAPITOL
JUNEAU, ALASKA 99811
PHONE: (907) 465-3600

OFFICE OF THE ATTORNEY GENERAL

January 22, 1986

M E M O R A N D U M

TO: Honorable Bill Sheffield
Governor

FROM: Harold M. Brown
Attorney General

RE: Attached bill on Petro Star/
Chevron royalty oil contract
Our file: 377-094-86

Attached is a bill (prepared for both House and Senate introduction), requested by the Department of Natural Resources (DNR), which provides for legislative approval and ratification of a royalty oil contract between the state and both Petro Star Inc. and Chevron U.S.A. Inc. for the sale of Kuparuk River royalty oil. This contract is the result of negotiations with the companies over the past year. If you prefer not to introduce this bill in both houses, DNR would prefer that it be introduced in the Senate.

Also attached are copies of the resolution of the Alaska Royalty Oil and Gas Development Advisory Board recommending that the legislature approve this sale of royalty oil. These copies are attached to original letters forwarding the Royalty Board's resolution to the Speaker of the House and the President of the Senate. In accordance with AS 38.06.040(a)(3) and AS 38.06.070(c), this resolution and the appropriate letter should be transmitted with each bill at the time of introduction.

If you only introduce the bill in the Senate, it should not be necessary to send the separate Department of Law letter and copy of the board's resolution to the Speaker of the House. However, it might be wise to do so as a courtesy.

A draft transmittal letter, explaining the bill in more detail, is also attached.

HMB:SRP:ma

cc w/enc.: Hon. Esther Wunnicke, Commissioner
Department of Natural Resources

HB 559

DRAFT

Under the authority of art. III, sec. 18, of the Alaska Constitution, I am transmitting a bill that provides for legislative approval of a royalty oil contract between the state, Petro Star, Inc. and Chevron U.S.A., Inc. for the sale of Kuparuk River royalty oil. Also transmitted with this bill is a copy of the resolution of the Alaska Royalty Oil and Gas Development Advisory Board recommending approval of that contract, along with a letter from the Department of Law forwarding the resolution to you. This resolution is being transmitted in accordance with AS 38.-06.040(a)(3) and AS 38.06.070(c).

The contract is also described in the findings issued by the Department of Natural Resources on December 9, 1985. Copies of these findings have been made available to the legislature and the public for review.

A bill approving the contract is being introduced for legislative approval for two reasons. First, as a matter of comity, I respect the legislature's desire to have a direct voice in major disposals of royalty oil. Therefore, although this and the previous administration have consistently taken the position that the statutory requirement of legislative approval of royalty oil contracts (AS 38.-06.055) is unconstitutional, the contract itself contains provisions requiring approval by the legislature before it

takes effect. HB559

Second, this legislation would ratify the royalty oil contract. This ratification would cure any procedural defect that may have occurred in the process of entering into this contract. Although we believe that all necessary steps have been taken, the statutes and regulations governing the disposal of royalty oil represent often-conflicting desires and goals -- both procedural and substantive. For example, the statutes provide that the legislature is to approve a royalty oil contract only by "enacting legislation" (AS 38.06.055(a)), but also refer to a Royalty Board recommendation to be submitted to the legislature at the time a "resolution approving the proposed sale ... is introduced in the legislature" (AS 38.06.-070(c)). Since legislative approval by enactment of legislation is required as a matter of contract, I believe that it is prudent to present this contract for legislative approval and ratification.

Sincerely,

Bill Sheffield
Governor

C 2/10

STATE OF ALASKA 1986 LEGISLATIVE SESSION
FISCAL NOTE

Revision Date : 1-31-86

REQUEST HB559 #1

Bill/Resolution No. : 377-094-86
Title : An act approving the sale of royalty oil to Petro Star

Sponsor : Governor
Requestor : Governor
Date of Request : 1/29/86

FISCAL DETAIL

Agency Affected : Natural Resources
BRU : Petroleum Management

Components : Petroleum Management

EXPENDITURES/REVENUES : (Thousands of Dollars)

OPERATING	FY 86	FY 87	FY 88	FY 89	FY 90	FY 91
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	0	0	0	0	0	0
CAPITAL						
REVENUE						

FUNDING : (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER						
TOTAL	0	0	0	0	0	0

POSITIONS :

FULL-TIME	0	0	0	0	0	0
PART-TIME						
TEMPORARY						

ANALYSIS : Attach a separate page if necessary

The contract will result in routine billing and accounting functions which can be absorbed in the existing operation.

Prepared by : Rod Mourant
Division : Management
Phone : 465-2424
Date : 1-31-86

Approved by Commissioner : Norm D Smith, Deputy
Date : 1/31/86
Agency : Natural Resources

Distribution (by Agency preparing fiscal note) :
- Legislative Finance
- Legislative Sponsor
- Requestor
- Office of Management and Budget
- Impacted Agency(ies)

10/25/85

STATE OF ALASKA 1986 LEGISLATIVE SESSION
FISCAL NOTE

Revision Date : _____

REQUEST HB 559 #2

Bill/Resolution No. : _____

Title : An Act approving the sale of royalty oil to Petro Star and Chevron U.S.A.

Sponsor : Rules Committee at the request

Requestor : of the Governor

Date of Request : 1/28/86

FISCAL DETAIL

Agency Affected : Revenue

BRU : _____

Components : operating

EXPENDITURES/REVENUES : (Thousands of Dollars)

OPERATING	FY 86	FY 87	FY 88	FY 89	FY 90	FY 91
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING		-0-	-0-	-0-	-0-	-0-
CAPITAL						
REVENUE						

FUNDING : (Thousands of Dollars)

GENERAL FUND		-0-	-0-	-0-	-0-	-0-
FEDERAL FUNDS						
OTHER						
TOTAL		-0-	-0-	-0-	-0-	-0-

POSITIONS :

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS : Attach a separate page if necessary

Prepared by : _____ Phone : _____

Division : _____ Date : _____

Approved by Commissioner : [signature] Date : 1/28/86

Agency : Dept. of Revenue

Distribution (by Agency preparing fiscal note) :

- Legislative Finance
- Legislative Sponsor
- Requestor
- Office of Management and Budget
- Impacted Agency(ies)

page ____ of ____

10/25/85

FINAL FINDINGS AND DETERMINATION

TO SELL KUPARUK RIVER UNIT ROYALTY OIL

TO PETRO STAR, INC. AND CHEVRON U.S.A., INC.

December 9, 1985

INTRODUCTION

On September 16, 1985 the Department of Natural Resources issued a document entitled Analysis and Recommendations for Disposition of State Royalty Oil (Analysis). The Analysis reviewed the state's competitive royalty oil sale of December 11, 1984 (1984 Competitive Sale) and evaluated negotiated royalty oil disposal options resulting from the department's Solicitation for Proposals(s) to Purchase Prudhoe Bay and/or Kuparuk River Unit Royalty Oil of April 1, 1985 (Solicitation). After considering comments from the Alaska Royalty Oil and Gas Development Advisory Board (Royalty Board), legislators and many members of the public, the Commissioner of Natural Resources determined that the state's interests would be best served by a negotiated long-term sale to Petro Star, Inc. (Petro Star) and Chevron U.S.A., Inc. (Chevron), and additional short-term competitive sales.

A preliminary finding and public notice for a competitive sale of Prudhoe Bay Unit Royalty Oil was published October 17, 1985. The document entitled Preliminary Findings and Determination to sell Kuparuk River Unit Royalty Oil to Petro Star, Inc. and Chevron U.S.A., Inc. (Preliminary Findings) was published with a preliminary notice on October 23, 1985.

The department proposes to sell approximately 6,500 barrels per day (bpd) of royalty oil from the Kuparuk River Unit. A maximum of 2,500 bpd will be sold to Petro Star and about 4,000 bpd will be sold to Chevron, with both sales occurring under a single long-term, noncompetitive contract. In accordance with AS 38, the Department of Natural Resources must determine whether this disposal serves the state's best interest and make other findings before the sale may take place. This final finding describes the proposed sale and analyzes its potential effects.

BACKGROUND

A long-term royalty oil disposal to Petro Star (an in-state refiner located in North Pole) has been discussed at several public meetings held by the Royalty Board during 1985. At the February 20 meeting, Petro Star representatives testified in support of a royalty oil sale. On March 26, the department reported to the Royalty Board on the status of the state's planned Solicitation. At the April 12 meeting, the department presented a status report on the Solicitation, which was released April 1. A recapitulation of the responses to the Solicitation was presented at the Royalty Board meeting of July 25.

In its response to the department's Solicitation, Petro Star originally requested an 11-year contract for 4.266% of Prudhoe Bay Unit royalty oil production, or about 8,000 bpd. At the time the department's Analysis was released (September 13, 1985), tentative agreement had been reached for a long-term contract with Petro Star on terms similar to Petro Star's original proposal. However, that tentative agreement was subject to Petro Star making a satisfactory disposition of the return oil barrels.

Oil which has been processed through a refinery, but is not retained as refined product, is known as residual oil. Residual oil can be injected into the Trans Alaska Pipeline System (TAPS), where it becomes commingled with TAPS crude stream. Residual oil added to the TAPS crude stream is called "return oil". The department was aware that a substantial volume of return oil would result from a long-term disposal to Petro Star.

At a September 16, 1985 meeting of the House Special Committee on Oil and Gas, several legislators encouraged the department to pursue a "net sale" to Petro Star that would relieve it of the obligations related to the return oil barrels. The department investigated this possibility, and concluded that it would be feasible to make a "net sale" to Petro Star if satisfactory arrangements could be made by the department for the return oil barrels.

It was suggested that Petro Star's return oil could be offered in future short-term competitive sales. The department determined that it was preferable to dispose of the return oil barrels in a long-term contract running in tandem with the Petro Star contract, rather than leaving those barrels uncommitted. There is presently too much uncertainty regarding future competitive sales to ensure satisfactory disposal through that mechanism.

The department then asked Chevron whether it would be willing to purchase Petro Star's return oil barrels under the same terms that Chevron had offered in response to the department's Solicitation. Chevron was selected because it offered the highest premium (50¢/barrel) of any company responding to the Solicitation and was willing to meet the standard financial and security terms requested by the department in the Solicitation. Chevron indicated its tentative agreement with this proposal, and the royalty board was advised of this development at its meeting September 26.

At the Royalty Board meetings of September 26-27 and October 7, the Royalty Board received public testimony on the proposed sale of royalty oil to Petro Star and Chevron. On October 30, the Director of the department's Division of Oil and Gas made a presentation to the Royalty Board on the Petro Star-Chevron contract proposed in the Preliminary Findings; the Royalty Board also received public testimony on the proposed contract.

Under the contract, a maximum of approximately 6,500 bpd of Kuparuk River Unit royalty oil will be sold to Petro Star and Chevron. Chevron will have a maximum quantity of approximately 4,000 bpd, and Petro Star a maximum quantity of approximately 2,500 bpd. These volumes will be expressed and sold as a percentage of unit production. The exact percentages will be determined after approval of the contract next year since production from the Kuparuk River Unit is fluctuating at this time. Petro Star initially will take approximately 2,000 bpd, and will have the option to increase its take by November 1, 1987 to the maximum quantity of approximately 2,500 bpd. Chevron

will sell its royalty oil volume from this contract to Petro Star at Pump Station 1, and Petro Star will sell its return oil to Chevron at Valdez.

The differences between the contract form which accompanies this finding and the proposed contract form presented with the Preliminary Findings reflect a consideration of the comments received and the issues raised both by the department and board members at the Royalty Board meeting of October 30, 1985.

SUMMARY OF PROPOSED CONTRACT TERMS

1. Price: The total price per barrel to be received by the state in this negotiated disposal is the sum of the following components:

   (a) The amount the state would have received for a barrel of Prudhoe Bay royalty oil taken at that time in value (in money);

   (b) a premium of 35¢ per barrel for Petro Star and 50¢ per barrel for Chevron;

   (c) Kuparuk field costs;

   (d) additional sums upon the resolution of State of Alaska, et al v. Amerada Hess Corp., et al (Superior Court for the State of Alaska, First Judicial District at Juneau) (Amerada Hess);

   (e) less, the tariff charge for the Kuparuk Pipeline and the applicable TAPS quality bank adjustment.

2. Term: Delivery of oil will commence the first day of the first month seven (7) months after the contract is approved by the Legislature and the Governor. The contract terminates September 30, 1996.

3. Quantity and Source: The contract allows for a maximum volume of approximately 6,500 barrels per day (bpd), expressed as a percentage of daily royalty oil from the Kuparuk River Unit. Petro Star will purchase a maximum of approximately 2,500 bpd and Chevron will purchase approximately 4,000 bpd.

4. Point of Delivery: Purchasers will take delivery at the Central Production Facility meter into the Kuparuk Pipeline.

5. In-State Processing and Best Efforts: Petro Star will process not less than 85% of the total royalty oil sold under the agreement. Petro Star also agrees to use its "best efforts" to produce and market in Alaska an amount of refined petroleum products from its refinery near North Pole, Alaska not less in volume than 23% of the total royalty oil sold under the agreement.

6. Security: Petro Star will provide a letter of credit worth sixty (60) days of oil, and Chevron will provide a letter of credit worth ninety (90) days of oil. In the event of default by Petro Star, Chevron agrees to purchase Petro Star's volume on five days notice. In addition, Petro Star will execute an escrow agreement to cover future payments of additional amounts that may be owed upon final resolution of the Amerada Hess litigation. Petro Star has agreed to escrow $1.12 per barrel to be credited against future Amerada Hess adjustments.

7. Relationship between Petro Star and Chevron: Petro Star will use as refinery charge Chevron's volume of royalty oil sold under the contract. After Petro Star processes the oil there will remain a portion of oil or oil products which will be shipped through TAPS, and sold by Petro Star to Chevron at Valdez. The quantity will approximate Chevron's purchase volume under the royalty oil contract.

IN-STATE BENEFIT ANALYSIS

Petro Star was incorporated during October of 1984 by a group of private Alaska investors. The company was formed to produce refined petroleum products for marketing within the Interior and on the North Slope of Alaska. Since incorporation, Petro Star has received additional financial backing from the Arctic Slope Regional Corporation in exchange for an ownership interest of 30 percent in the company.

At the time of Petro Star's response to the department's Solicitation, Petro Star had exercised an option to purchase a 6,000 bpd topping plant and two 1,000 bpd topping plants. The 6,000 bpd plant is located adjacent to TAPS at North Pole, and commenced refining heating oils on September 5, 1985 using North Slope crude purchased from Sohio. Eventually, aviation gasoline is also to be refined. Petro Star is its own distributor of refined products, and plans to emphasize rural markets.

On October 20, 1985, a fire at the Petro Star refinery idled the plant. The refinery commenced operations again on November 23, 1985. The department does not anticipate any impact on the proposed disposal as a result of that event.

The primary bases for this long-term negotiated sale are: 1) to receive a market price for royalty oil; and 2) to encourage in-state processing of royalty oil and the attendant benefits (primarily jobs, increased tax base, and competition from refined product suppliers that may lead to lower product prices for consumers). An in-state benefit analysis of the Petro Star proposal (and of the other responses to the Solicitation which proposed to process royalty oil in-state) was provided in the Analysis, and is updated here.

The prospective in-state benefits of the disposal to Petro Star arise from reduced refined product prices and the primary and secondary economic effects of the refinery operation. Since the publication of the Analysis, Petro Star

and others have made the department aware of MAPCO's substantial shipments of jet fuels to Anchorage in recent years, and the department acknowledges that a new Fairbanks refinery need not lead to excess capacity in the region. However, the conclusion of the Analysis with respect to price impacts remains valid. For the reasons discussed in the Analysis, the Department anticipates no more than modest favorable impacts on the price of refined products as a result of a sale to Petro Star.

However, Mr. Steve Lewis of Petro Star indicated at the Royalty Board meeting of October 7, 1985 that significant price competition has occurred since the construction of the Petro Star refinery. Petro Star officials say the company is marketing much of its present refinery production (about 1,000 bpd) at prices lower than those charged by MAPCO. Examples cited include heating oil sales to five rural villages and to construction companies operating on the North Slope. According to Mr. Lewis, Petro Star currently serves the total fuel needs of the Anaktuvuk Pass area at favorable prices. Petro Star officials also believe that recent favorable changes in MAPCO's product prices, which are said to be at a three-year low, were influenced by their company's prospective and present operations. While the price discounts mentioned by Petro Star are only on the order of pennies per gallon, a one cent decrease in the price of a gallon of refined product that could be made from 1,000 bpd translates to an annual consumer savings of about $153,000. However, the extent to which a royalty oil disposal to Petro Star may maintain or extend these price reductions cannot be readily determined.

The second area of prospective in-state benefits resulting from a disposal of royalty oil to Petro Star relates to the spinoff effects of the refinery operation. The direct benefits would stem from payroll, property taxes, state corporate taxes, and profits if held in-state. All Petro Star profits are expected to be held in state. These cash infusions in turn lead to multiplier effects. Actual project-specific multiplier estimates for other projects, such as Beluga coal development or the Dow-Shell petrochemical proposal examined in 1981, vary from 0.6 to 3.0. Actual project-specific multiplier effects can only be ascertained by extensive surveys or actual development.

The Analysis indicates that the in-state benefits presented there are overstated because of the displacement effects of excess capacity. However this statement may not be applicable in light of the earlier mentioned acknowledgement that a new Fairbanks refinery need not lead to excess capacity in the region. The table below provides some in-state benefit measures for the Petro Star refinery. The table reflects clarifications provided by Petro Star since the publication of the Analysis. A 1.5 capital investment multiplier is used for discussion purposes, as it falls within the expected range for this type of project.

CONSTRUCTION BENEFITS

Capital Investment	Capital Investment in Alaska	Capital Investment Multiplier at 1.5	Total Construction Benefits
initially $6.9 million	$5.7 million	$8.5 million	$14.2 million

ANNUAL POST-CONSTRUCTION BENEFITS

Payroll	Property Taxes	Profits	State Corporate Profits Tax	Known Total	1.5 Multiplier	Total Known Benefit
$600,000 (11 persons)	$36,000	Unknown but in-state	undetermined	$636,000	$954,000	$990,000

The benefits estimated above for the construction of the refinery itself, which cannot be ascribed to a prospective long-term royalty oil contract, are shown for information purposes only. The annual post-construction benefits reflect the effect of the refinery's continued operation. These benefits are not entirely traceable to a long-term royalty oil contract with Petro Star, since continued operation of the refinery does not depend on royalty oil. Nevertheless, this sale to Petro Star would help ensure the continuation of spinoff benefits resulting from operation of the Petro Star refinery. Those benefits would include the 15-member work force of the distribution company

North Pole Fuel, which has been purchased by Petro Star.Further, refinery projects offering more substantial in-state benefits frequently depend on royalty oil for construction as well as operation. All of the spinoff benefits identified above could have been attributable to a long-term disposal had Petro Star been dependent on royalty oil to begin construction and operations. The department's preference for new refinery proposals which are not dependent on royalty oil was made known to Petro Star prior to the construction of the Petro Star refinery. Consequently, the qualifiers to the spinoff benefits shown above are largely a result of that preference. Petro Star is the only proposal for new in-state refining that has proven by actually building and operating a refinery that is not dependent on royalty oil. The department regards this evidence of economic viability more highly than the tentative nature of spinoff benefits arising from speculative projects which are dependent on royalty oil.

COMMENTS RECEIVED

The department received only one written comment in response to the Preliminary Notice and Findings. In a letter dated November 8, 1985, the Tesoro Alaska Petroleum Company (Tesoro) expressed concern to the Commissioner about the effect of this long-term disposal on the future availability of royalty oil to meet the needs of in-state refiners. Tesoro said that in eight years, the state's total volume of royalty oil will be less than its current sales to in-state refiners. Consequently, Tesoro stated that "any additional long term-commitments by the state will mean deeper cutbacks in future crude supply to present Alaska refineries" and that "there is already refining capacity in Alaska which exceeds the state-wide demand for petroleum products." Tesoro also believed that the disposal could set a precedent that would make it difficult for the state to deny similar awards to "anyone who can secure a simple, inexpensive plant, buy a few barrels of crude, and declare himself an in-state refiner." Tesoro concluded that regularly scheduled competitive royalty oil sales would serve the best interests of Alaskans while maximizing state oil revenues. While the department

appreciates and shares Tesoro's concern about the future availability of royalty oil to meet the needs of in-state refiners, and has addressed this topic in the Analysis, the Commissioner has nonetheless concluded that the disposal will best serve the state's interests. That conclusion is based on the need to foster regional competition among in-state refiners and provide additional in-state benefits that result from in-state refining, and to provide equity of access to royalty oil among existing refiners.

DISCUSSION OF SPECIFIC CONTRACT PROVISIONS

Because the contract entails the sale of state royalty oil to two parties it contains several provisions different from other long-term state contracts. Those provisions and other changes are discussed below.

QUANTITY OPTIONS

The quantity of oil to be sold under the long-term contract is expressed as a percentage of daily Kuparuk River Unit royalty oil production. The sales quantity will initially be about 6,000 bpd. Chevron will purchase about 4,000 bpd and Petro Star will purchase about 2,000 bpd.

The royalty oil contract gives Petro Star the option to increase its purchase amount from about 2,000 bpd to 2,500 bpd. The total quantity sold under the contract will be about 6,500 bpd if Petro Star purchases its maximum. Should Petro Star not exercise this option by November 1, 1987, the total quantity could be reduced to either the maximum daily quantity purchased by Petro Star prior to November 1, 1987 or the Petro Star refinery's maximum thruput capacity at that time, provided it does not exceed 6,500 bpd.

Petro Star and Chevron may each accept less than their contractual maximum quantities by giving a nine-month notice to the state. Petro Star and Chevron may also permanently reduce their contractual maximum quantities by giving a similar nine-month notice to the state. If either Petro Star or Chevron give notice that it wishes to accept delivery of less than its maximum quantity without permanently reducing its maximum quantity, a penalty will be assessed against it based on the difference between the maximum quantity and the actual volume it accepts. Also, if either of the purchasers permanently decreases its maximum quantity by 50 percent or more, the department may, subject to certain conditions, terminate the sale of royalty oil to the other purchaser.

Several circumstances, including the standard provisions covering default, could lead to the termination of royalty oil sales to one of the purchasers. The royalty oil agreement, as it relates to the remaining purchaser, may continue under specific conditions. Petro Star could continue its portion of the agreement or increase its take to include all or part of the Chevron volume upon agreement with the Commissioner to meet specified requirements. Continuation of the disposal to Chevron would be in the Commissioner's discretion and would be contingent on Chevron's agreement to process the oil at its Nikiski refinery. The contract provisions for these eventualities are more fully described in a following section entitled "Price Reopener".

PETRO STAR/CHEVRON AGREEMENT

Chevron has agreed to sell the royalty oil it purchases under the contract to Petro Star at TAPS Pump Station #1, and to repurchase the oil at the TAPS terminus in Valdez. This will enable Petro Star to run its refinery at full capacity and retain its purchase volume in the form of refined products. Once processed, the oil not retained by Petro Star (return oil) is expected to equal the approximately 4,000 bpd initially purchased by Chevron. That volume will be reinjected into TAPS at the Petro Star refinery site. Return oil shipped through TAPS becomes intermingled with unprocessed crude oil so that when the return oil emerges at Valdez it is identical to the TAPS common

stream crude oil. Petro Star, as the shipper, will be liable for the payment of the TAPS quality bank differential based on the resulting degradation of the common-stream crude oil.

Chevron and Petro Star have entered into a separate contract between themselves which covers the details of their buy-sell agreement. That contract has been added as an attachment to the state royalty oil contract (Exhibit A).

Return oil, on which the state might otherwise retain an option, would not result from the proposed disposal due to the arrangements contemplated under the contract. Should there be any change in the arrangement between Petro Star and Chevron, all affected parties will negotiate toward agreement upon a market price option for the state on whatever return oil may exist under any new arrangement. The state may terminate the royalty oil agreement if a material change in the terms of the arrangement between Petro Star and Chevron precludes Petro Star from economically using Chevron's volume as refinery charge.

At the Royalty Board meeting of October 30, 1985, the fact that residual oil rather than return oil would result from a termination of Petro Star's portion of the agreement was raised. This would occur since Chevron's Nikiski refinery is not positioned to inject residual oil into TAPS. Consequently, the section of the contract form which addresses the state's market price option over return oil (2.13) has been amended to include residual oil. This alteration includes the insertion of a phrase in section 2.14 which explicitly grants the state a market price option over Chevron's residual oil should Petro Star's portion of the agreement be terminated.

IN-STATE PROCESSING REQUIREMENTS

The contract contains a number of in state processing requirements for Petro Star. Petro Star agrees to process not less than 85 percent of the total

volume of royalty oil sold under the contract. Petro Star also agrees to retain at least 20 percent of that volume in the form of refined products. These percentage requirements are less stringent than those contained in royalty contracts held by other in-state refiners. The lower percentages are necessary to accommodate Petro Star's small refinery and its recent commencement of operations and marketing.

In addition, Petro Star agrees under the contract to use its "best efforts" to produce and market a volume of refined products in Alaska equal to not less than 23 percent of the total volume of royalty oil sold. To monitor that effort, Petro Star will be required to provide the department a quarterly statement showing the quantity of refined products it produced and marketed in Alaska over that period.

These provisions are similar to the in-state processing requirements contained in the long-term royalty oil contracts with Tesoro Alaska Petroleum Company and Chevron.

PRICE

The contract contains a unique price term. Although the contract will sell Kuparuk River Unit royalty oil, the price term will be based on Prudhoe Bay Unit oil as adjusted for the differences between the two fields. This price term is possible since Kuparuk River Unit and Prudhoe Bay Unit oil are intermingled in TAPS, creating a single royalty crude stream available for disposal by the state. The TAPS quality bank adjustment compensates for the difference in quality between Prudhoe Bay and Kuparuk River crude oils. The Kuparuk pipeline tariff compensates for the locational differences between the sources of these crude oils.

The price of the Kuparuk royalty oil to be sold under the contract will be equal to the amount that the state would receive from its Prudhoe Bay lessees for a like volume of Prudhoe Bay royalty oil taken in value at that time, plus

the Kuparuk River Unit field cost allowance which the state is billed when taking Kuparuk royalty oil in kind, plus a per barrel premium of 35¢ from Petro Star and 50¢ from Chevron. To properly compensate the purchasers for the quality and transportation cost differential between Kuparuk royalty oil and the Prudhoe Bay-based price, two deductions will be made to that price. These are the Kuparuk Pipeline tariff and the TAPS quality bank adjustment charge for injecting Kuparuk oil into the TAPS crude oil stream.

In addition, Petro Star and Chevron will be liable to the state for retroactive adjustments to the Prudhoe Bay in value price resulting from resolution of the Amerada Hess litigation. Those retroactive price adjustments will apply to all royalty oil purchased under the agreement. To assure the purchasers a limit to their liability for Amerada Hess retroactive price adjustments, the department has agreed to a ceiling retroactive price adjustment of $2.50 per barrel of royalty oil purchased. This sum represents a negotiated ceiling, and is not any party's estimate of litigation results.

At the Royalty Board meeting of October 30, 1985, the department announced a possible alteration to the interest rates specified in the Amerada Hess provision of the proposed long-term royalty contract with Petro Star and Chevron. This issue arose from Chevron's desire to renegotiate the provision which specifies the interest rate that would be applied to additional amounts that may be owed by the purchaser upon final resolution of the Amerada Hess litigation. Originally this term specified that the applicable interest rate would be the higher of the prime rate plus 3 percent or the rate of return realized on the State general fund. Under the alteration proposed by Chevron and agreed to by the department, the purchaser would pay the interest rate which will be explicitly or implicitly included in the resolution of the Amerada Hess litigation.

This alteration was found acceptable to the department in light of Chevron's concerns, which arose from the fact that the interest rates expected to emerge from a settlement of the Amerada Hess litigation will likely differ from the interest rate originally specified in the proposed long-term contract. Depending on when a resolution to the Amerada Hess litigation occurs, this

situation could lead to settlement amounts which are substantially different than the settlement amount arising from a resolution of that litigation. This amendment appears in section 2.3 (Price of the Royalty Oil) of the contract.

SECURITY

The department ordinarily requires from royalty oil purchasers an irrevocable letter of credit equal to 90 days' worth of oil. This requirement has been a feature of all royalty oil disposals since the competitive sale of December 11, 1984, with the exception of the Prudhoe Bay royalty oil offered at that sale. The exception occurred because the department devised a "put call" option which enabled the letter of credit requirement for that oil to be reduced to 60 days. The Findings and Determination to Conduct a Competitive Sale of Prudhoe Bay and Kuparuk River Unit Royalty Oil, of October 17, 1984 discusses both the put call option and the eventualities which necessitate the requirement for a letter of credit.

The contract requires the standard 90-day letter of credit from Chevron for the quantity to be purchased by the company. Chevron also has agreed to a "backup" arrangement with the state under the contract. Under that provision, Chevron will accept delivery of any volume of royalty oil upon which Petro Star may default, with only a five day notice required from the state. The purchase price for that volume would be the Petro Star purchase price. The backup sale would continue only until the Commissioner returned the oil to in value.

The additional security provided by the backup arrangement with Chevron has allowed for the letter of credit requirement for Petro Star to be reduced to 60 days. The Petro Star letter of credit will provide financial protection for the state beyond the date the department may become aware of any possible performance failure on the part of Petro Star. The backup arrangement with Chevron, which would be activated in that event, replaces the additional 30 days of coverage ordinarily required by the department.

AMERADA HESS ESCROW ACCOUNT

Upon a review of the responses to the department's Solicitation, the department became concerned with the ability of some respondents to pay the state retroactive price adjustments stemming from resolution of the Amerada Hess litigation. The amounts which may be entailed by those retroactive price adjustments (to be determined at an unknown time) over a long-term royalty oil disposal could be substantial. Consequently, the department suggested escrow arrangements with some respondents, including Petro Star, during the first review of the responses to the Solicitation. During the later negotiations with Petro Star, an escrow amount of $1.12 per royalty oil barrel purchased was found acceptable by the department. Under the contract, Petro Star will establish an interest-bearing escrow account in that amount for the purpose of making payments to the state for any retroactive price adjustments resulting from a resolution of the Amerada Hess litigation.

PRICE REOPENER

Any time after two years from the date of first delivery of royalty oil to Petro Star and Chevron, the state or either of the purchasers may exercise the price reopener clause contained in the contract by giving a one month written notice. If a new purchase price is agreed to by the state and the affected purchaser within three months of the notice to reopen, the new purchase price will become effective one month after that agreement. Two years after a new purchase price becomes effective, that price will be subject to renegotiation under the price reopener provision of the contract. If a new purchase price is not agreed to by the state and the affected purchaser within three months of the notice to reopen, that purchasers' portion of the agreement may be terminated by either the state or the purchaser upon nine months written notice.

The requirements to continue the remaining purchaser's portion of the agreement differ for Petro Star or Chevron. Were the agreement to be

terminated with respect to Petro Star, the state may, upon nine months written notice, terminate the agreement with Chevron. Should the department elect to continue the sale of royalty oil to Chevron under the proposed contract, the volume sold, which would not exceed approximately 4,000 bpd, must be processed at the Chevron refinery in Nikiski.

If Chevron's portion of the agreement were terminated, the sale of royalty oil to Petro Star could continue under the contract only under the following conditions. The sales volume could remain the same or could be expanded to include all or part of the quantity formerly purchased by Chevron. The price to Petro Star for any expanded quantity of oil will be Chevron's purchase price, including the per barrel premium of 50¢. Petro Star must also agree to expand its security and in-state processing obligations to correspond to the new total daily volume to be purchased. This would include an increased letter of credit, equal to 90 days' worth of the new daily volume to be purchased, and Amerada Hess escrow account payments corresponding to that volume. Further, Petro Star and the department must successfully complete negotiations for an amendment to the contract which provides the state an option to repurchase Petro Star's return oil at a market-based price.

Should the exercise of any of the options described in this section result in an appreciable reduction of the consideration received by the state for the continued sale of royalty oil, the approval of the Alaska State Legislature will be required.

For more information, see Article VII (Default or Termination) of the proposed contract.

LOCAL HIRE

Like the state's other long-term royalty oil contracts with in-state refiners, the contract contains a provision concerning local hire. The preferential hiring clause states in part, "Purchaser agrees to hire and employ Alaska

residents and Alaska companies to the extent they are available, willing and qualified for all work performed in Alaska under or in connection with this Agreement, including but not limited to construction and operation of facilities to refine or otherwise use the Royalty Oil." "Alaska resident" is defined as an individual who has lived in the state for one year at the time of hiring. It is understood under the arrangements initially comtemplated, that Chevron will not be performing work in Alaska in connection with this contract. If this provision is determined to be unconstitutional, then, by signing the contract Petro Star agrees to hire and employ Alaskan residents and Alaska companies to the extent such preferential hiring is determined to be constitutional.

The issue of local hire with respect to Petro Star was raised at the Royalty Board meeting of September 26, 1985 by Mr. Kevin Dougherty, who represented the Alaska AFL-CIO and the Alaska State District Council of Laborers. Mr. Dougherty remarked that approximately one half of the employees contracted to construct the Petro Star refinery were from out of state. Mr. Dougherty also noted that the annual employee salary indicated in the Analysis for Petro Star was much lower than the corresponding figures shown for the proposed Arctic Energy refinery.

Mr. Steve Lewis of Petro Star did not agree to the payroll figures implied in the Analysis. Mr. Lewis further stated that the issue of local hire should not be confused with union hire and that all Petro Star employees were Alaska residents. Mr. Lewis also disputed the assertion that only one half of the refinery's construction work force was comprised of Alaska residents.

In a letter to the Royalty Board dated September 27, 1985, Mr. Dougherty stated that his comment with respect to Petro Star's construction work force was based on information provided by the workers on that project. Mr. Dougherty also added that his payroll figures were taken directly from the Analysis. The latter discrepancy was traced to the number of employees shown for Petro Star in the Analysis, which has been corrected in this document.

PRELIMINARY FINDINGS AND DETERMINATIONS

1. Competitive bidding is waived.

I have determined in accordance with AS 38.05.183(a) and 11 AAC 03.030 that the best interest of the state does not require competitive bidding for this disposal. Petro Star is the only existing in-state refiner which does not purchase state royalty oil under negotiated, long-term contract(s). In order to realize the objectives implied by many of the considerations listed in AS 38.05.182-183 and AS 38.06.070 and to obtain the benefits for Alaska consumers that accrue from in-state refining, the department has waived competitive bidding for this disposal, which is partially based on factors other than the cash value offered. The contract for a long-term royalty oil sale to Petro Star and Chevron follows a formal "Solicitation for Proposals", to which eleven firms responded, and a six-month public review and comment process.

2. The sale to Petro Star and Chevron is in the best interest of the State.

Under AS 38.05.183(e), a noncompetitive sale, exchange, or other disposal of royalty oil or gas taken in kind by the state may be awarded by the commissioner to the prospective buyer whose proposal offers maximum benefits to the citizens of the state.

In accordance with AS 38.05.183(a),(c) and (e), and 11 AAC 03.010(b) and (d), I find that taking royalty oil in kind and selling that oil to Petro Star and Chevron for use in-state is in the best interests of the state and that it will maximize benefits to state citizens. Applicable statutory criteria are discussed below.

(a) The state is now highly dependent on oil revenues and will continue to depend on oil revenues in the future. The price term of the sale protects the state's interest by ensuring that revenues from this sale will exceed the in value alternative. AS 38.05.183(e)(1) and AS 38.06.070(a)(1).

(b) The projected effects of this sale are brought about by the continued assurance of supply under a long-term existing contract. Petro Star has made an initial investment of more than $6.9 million in its Alaska operations. The company has created 11 new jobs. The benefits related to local payrolls and to the purchase of local goods, services and supplies is more than $1.6 million annually. AS 38.05.183(e)(2)-(3).

(c) The local and regional needs of the Fairbanks area for petroleum products will be satisfied and local competition among refineries will be created. A one cent decrease in the price of each gallon of refined product that could be made from 1,000 bpd translates to an annual consumer saving of about $153,000. On the conservative assumption that Petro Star would reduce its per gallon product price by one penny, the annual savings to the consumer would exceed $380,000 at the refinery's expected capacity. AS 38.05.183(e)(4) and AS 38.06.070(a)(2).

(d) The continued operation of Petro Star, with the attendant payroll and secondary benefits, will have a positive and desired effect on the citizens of the state. While this disposal likely will not result in new capital investment or development, it will enable the efficient use of existing investment and development. AS 38.06.070(a)(3).

(e) The projected social impacts of a disposal to Petro Star are anticipated to be favorable. The benefits presently received from the operation of the Petro Star Refinery plus the supply of products through Petro Star's distribution system would continue. AS 38.06.070(a)(4).

(f) Since most of the essential provisions of the proposed disposal to Petro Star relate to operation of its existing facilities and systems, the additional costs and responsibilities which could be imposed upon the state and affected subdivisions are likely to be minimal. AS 38.06.070(a)(5).

(g) Local and regional consumption of refined petroleum products will be directly and favorably affected by the Petro Star/ Chevron disposal. Local labor markets will continue to benefit through employment opportunities at the Petro Star refinery. AS 38.06.070(a)(6).

(h) Environmental effects resulting from the disposal will be negligible, if any, since the facility is already in existence. AS 38.06.070(a)(7).

(i) The sale will help existing commercial private enterprise and patterns of investments by assisting in the continued operation of Petro Star. Further, Petro Star is the sole in-state refinery owned by Alaskans and Alaska companies. AS 38.06.070(a)(8).

In accordance with 11 AAC 03.060(b), the weight given to the applicable criteria in determining the maximum benefit to Alaska citizens must be addressed. In making this finding the Department first assured itself that the state would not lose money by making a disposal to Petro Star/Chevron. Once so assured, other benefits attendant to the disposal were examined. If the price offered did not assure the state at least what it would have received had it left the

oil in value then the sale would not, in the Department's view, serve the state's best interests. Petro Star matched the highest premium offered by any existing in-state refiner, and Chevron offered the highest premium for export purchase. Therefore great weight in this disposal was placed on AS 38.05.183(e)(1), the cash value offered. In addition to the cash value offered, great weight was given to the projected benefits of Petro Star using the oil in the state to directly benefit Alaska citizens.

3. The contract prices are acceptable.

Under 11 AAC 03.091(b) I find that in establishing the price of this royalty oil contract, the department has obtained a price at least equal to the volume weighted average of the current reported netback prices filed by the lessees for royalty purposes for those filing periods applicable to the term of the disposition, plus field costs incurred by the royalty share.

Petro Star will pay a $.35 premium over the amount the state would receive from its Prudhoe Bay lessees for that amount of Prudhoe Bay royalty oil taken at that time in money (in value), plus Kuparuk field costs, less the Kuparuk Pipeline tariff charge and less the applicable TAPS quality bank adjustment. Chevron will purchase what would otherwise be Petro Star's return oil and will pay the state a $.50 premium over the amount the state will receive from its Prudhoe Bay lessees for that amount of Prudhoe Bay royalty oil taken at that time in money (in value), plus Kuparuk field costs, less the Kuparuk Pipeline tariff charge and less the applicable TAPS quality bank adjustment. The in value component of the in value price bases for both Petro Star and Chevron will be retroactively adjusted upon resolution of the Amerada Hess litigation.

4. The Royalty Oil to be sold to Chevron is available for export.

In view of the department's most recent annual (1985) Historical and Projected Oil and Gas Consumption report, and the department's Findings and Determination documents for recent short-term royalty oil disposals, including the Supplemental Findings for the Competitive Royalty Oil Sale (November 28, 1984), I find under AS 38.05.183(d) and 11 AAC 03.010(e) that the volume of royalty oil to be sold to Chevron is surplus to the present and projected intrastate domestic and industrial needs for oil and is available for disposal and possible export from the state.

CONCLUSION

Under the terms of the proposed contract, the state would receive a market (litigation-adjusted) price for the royalty oil, while fostering in-state processing and attendant benefits. The satisfactory price terms, coupled with associated direct and secondary benefits for Alaska citizens, supports the decision to waive competitive bidding.

The foregoing facts and analysis support my preliminary finding that this disposal is in the best interests of the state and that it maximizes benefits to Alaska citizens.

Kay Brown

Kay Brown, Director
for Esther C. Wunnicke
Commissioner

December 6, 1985
Date

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DIVISION OF OIL & GAS
ANCHORAGE, ALASKA

AGREEMENT FOR THE SALE AND PURCHASE

OF

STATE ROYALTY OIL

PETRO STAR, INC.

CHEVRON U.S.A.

THE STATE OF ALASKA
Department of Natural Resources

December 9, 1985

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DOG 9-85
(PETRO STAR & CHEVRON/KUPARUK)
(Revised 11-85)
(DNR # 10-4017)

AGREEMENT FOR THE SALE AND PURCHASE OF ROYALTY OIL

THIS AGREEMENT, entered into as of December 9, 1985 by and between THE STATE OF ALASKA ("Seller") PETRO STAR, INC., an Alaska corporation, ("Purchaser Petro Star"), and CHEVRON U.S.A. INC., a Pennsylvania corporation, ("Purchaser Chevron").

ARTICLE I
DEFINITIONS

As used in this Agreement, the following terms shall have the following respective meanings:

1.1 "Commissioner" means the Commissioner of the Alaska Department of Natural Resources or her designee.

1.2 "Day" means a period of twenty-four (24) consecutive hours, beginning at 12:01 a.m., Alaska Standard Time.

1.3 "Leases" means the oil and gas leases which are subject to the terms of the Unit Agreement.

1.4 "Lessee" means any person owning a working interest in any of the Leases.

1.5 "Month" means the period beginning at 12:01 a.m., Alaska Standard Time, on the first day of the calendar month and ending at the same time on the first day of the next succeeding calendar month.

1.6 "Oil" or "crude oil" shall have the same meaning as the word "oil" under the Unit Agreement.

1.7 "Point of Delivery" shall have the meaning set out in Section 2.5.

1.8 "Purchaser" means either Petro Star, Inc., or Chevron U.S.A. Inc., or both, unless one particular Purchaser is designated.

1.9 "Prudhoe Bay Lessees" means the lessees of the oil and gas leases subject to the Prudhoe Bay Unit Agreement effective April 1, 1977, as amended from time to time.

1.10 "Prudhoe Bay Royalty Oil" means Royalty Oil received from the Prudhoe Bay Lessees.

1.11 "Royalty Oil" means the oil which Seller may take in kind (amount) as its royalty under the Leases whether or not Seller has elected to take or is taking that royalty in kind.

1.12 "Daily Royalty Oil" means the quantity of Royalty Oil produced by the Lessees each day.

1.13 "Settlement Agreement" means the Agreement for Settlement of Cleaning, Dehydration and Transporation Charges Applicable to Royalty Oil Taken From the Kuparuk River Unit, effective as of December 13, 1981, and attached to the Unit Agreement as Appendix I.

1.14 "TAPS" means the Trans Alaska Pipeline System.

1.15 "Unit Agreement" means the Kuparuk River Unit Agreement effective as of December 1, 1981, by and between Seller and the Lessees, as amended from time to time.

ARTICLE II
SALE OF ROYALTY OIL

2.1 Quantity. Seller agrees to sell to Purchaser Petro Star, and Purchaser Petro Star agrees to buy from Seller, that amount of oil equal to _____ % of the Daily Royalty Oil ("Maximum Quantity"). Seller agrees to sell to Purchaser Chevron, and Purchaser Chevron agrees to buy from Seller, that amount of oil equal to _____ % of the Daily Royalty Oil ("Maximum Quantity"). Promptly after the effective date of this Agreement, Seller will determine the actual percentages, which will be the percentages that on the date of initial nomination would result in a Maximum Quantity for Purchaser Petro Star that on the Date of First Delivery would approximate 2500 bpd and a Maximum Quantity for Purchaser Chevron that on the Date of First Delivery will approximate 4000 bpd. However, unless Purchaser Petro Star notifies Seller in writing within five (5) days after the effective date of this Agreement, Seller will initially nominate for Purchaser Petro Star the percentage that Seller estimates will on the Date of First Delivery approximate 2000 bpd.

Upon at least nine (9) months' written notice to Seller, Purchaser may increase or decrease the amount of Daily Royalty Oil to be tendered by Seller at the Point of Delivery, provided that the amount tendered by Seller under this Agreement shall not exceed the Maximum Quantity. If by November 1, 1987 Purchaser Petro Star has not begun to take the Maximum Quantity of oil, Seller, at its option and discretion, may permanently decrease the Purchaser Petro Star's Maximum Quantity to either (1) the greatest percentage of Daily Royalty Oil tendered by Seller to it before that time or, (2) the maximum amount of oil that can be processed at Purchaser Petro Star's refinery, located at North Pole, Alaska. Purchaser may permanently decrease its Maximum Quantity under this Agreement upon nine (9) months' written notice to Seller.

It is understood and agreed that the volume of Daily Royalty Oil available to Seller will vary and may be interrupted from time to time, and depends upon a variety of factors, including the rate of production from the Leases. Seller disclaims and Purchaser waives any representation, covenant or warranty, express or implied, as to the specific quantity, or the total or daily, monthly, average, or aggregate volume of Oil to be sold or tendered under this Agreement. Seller shall hold Purchaser harmless from all liens, encumbrances and valid adverse claims that may affect the Oil at the time the Oil is tendered to Purchaser.

If Seller stores Royalty Oil pursuant to the Kuparuk River Unit Emergency Storage Agreement dated December 15, 1981, and attached as Appendix II to the Unit Agreement, (the "Storage Agreement"), or otherwise, or if Seller recovers stored Royalty Oil, the quantity of Oil to be sold and purchased under this Agreement shall be calculated as if no Royalty Oil was stored or recovered.

2.2 Quality. The Oil sold shall be the same quality as the Royalty Oil delivered by the Lessees to Seller at the Point of Delivery. It is understood and agreed that the quality of the Oil sold may vary from time to time. Seller disclaims, and Purchaser waives, any guarantee, representation, or warranty, either express or implied, of the merchantability, fitness for use, or suitability for any particular use or purpose, or otherwise, of any of the Oil delivered under this Agreement or as to any specific, average or overall quality or characteristic of Oil to be sold or tendered under this Agreement.

2.3 Price of the Royalty Oil. The price payable by Purchaser Petro Star for Oil tendered under this Agreement ("Petro Star Purchase Price") shall be equal to the amount that Seller actually would receive from its Prudhoe Bay Lessees for that amount of Prudhoe Bay Royalty Oil taken at that time in money (in value), plus 35¢ per barrel and plus the Kuparuk Field Cost Allowance incurred by the Oil as determined under the Settlement Agreement, less the tariff charge for the Kuparuk Pipeline and less the applicable TAPS quality bank adjustment.

The price payable by Purchaser Chevron for Oil tendered under this Agreement ("Chevron Purchase Price") shall be equal to the amount that Seller actually would receive from its Prudhoe Bay Lessees for that amount of Prudhoe Bay Royalty Oil taken at that time in money (in value), plus 50¢ per barrel and plus the Kuparuk Field Cost Allowance incurred by the oil as determined under the Settlement Agreement, less the tariff charge for the Kuparuk Pipeline and less the applicable TAPS quality bank adjustment.

The in value component of each Purchase Price shall be determined by Seller based upon the reports submitted by the Prudhoe Bay Lessees for royalty purposes or, when those reports are unavailable, incomplete or inaccurate, upon information submitted by the Prudhoe Bay Lessees for production tax or other tax purposes as may be adjusted from time to time as provided in this Agreement. Purchaser shall be entitled only to review or request such material or information which is not confidential under state law or regulation.

The method, basis and amount of royalty due Seller when it takes its Prudhoe Bay Royalty Oil in value from its Prudhoe Bay Lessees is presently the subject of litigation in State of Alaska, et al v. Amerada Hess Corp., et al., (Superior Court for the State of Alaska, First Judicial District at Juneau) ("Amerada Hess"). One of the issues involved is the proper method to be used by the Lessees in calculating the state's royalty when the royalty is payable in money (in value). Until there is a resolution of that dispute through judicial resolution or settlement, the Purchase Price will be based upon the calculation of an amount per barrel equal to the per barrel volume weighted average of the in value prices reported by the Prudhoe Bay Lessees to Seller for royalty purposes or, when the royalty reports are unavailable, incomplete, or inaccurate, upon information submitted by the Prudhoe Bay Lessees for production tax or other tax purposes, plus $0.35 per barrel for Purchaser Petro Star and $0.50 for Purchaser Chevron, and plus the Kuparuk Field Cost Allowance as determined under the Settlement Agreement, less the Kuparuk Pipeline tariff and less the applicable TAPS quality bank adjustment. Upon resolution of each of the various issues that are or will be involved in

Amerada Hess, adjustments will be made to previous payments in accordance with each resolution. However, Seller and Purchaser agree that any Amerada Hess adjustments in excess of $2.50 per barrel will not be made. This sum represents a negotiated ceiling, and is not any party's estimate of litigation results.

If additional amounts are owed by Purchaser to Seller or by Seller to Purchaser under a final judgement or settlement resolving all or part of the issues in Amerada Hess which separately specifies principal and interest, interest will be paid on the principal component of the additional amounts in the manner and at the interest rate or rates specified in the judgement or settlement resolving each issue. If no interest rate is specified in the judgement or settlement or if interest is expressly included within a lump sum amount in the judgement or settlement, an interest component will be presumed to already comprise a portion of the additional amounts, and no separate interest will be paid.

Purchaser Petro Star will not voluntarily intervene or otherwise participate in Amerada Hess unless Seller expressly consents to that participation in writing. A settlement of Amerada Hess will be binding upon Purchaser whether or not Purchaser agrees with or consents to the terms of that settlement.

If any applicable law of the United States of America or any rule or regulation promulgated by a federal agency will, in the judgment of Seller, operate to prohibit or prevent Seller from receiving the full amount due under the above provisions, Purchaser's obligation to pay the amount of the Purchase Price in excess of the amount permitted will be suspended or adjusted to the minimum extent required for Seller to comply with that law, rule or regulation.

2.4 Purchase Price Reopener. Seller and each Purchaser shall have the right to reopen this Agreement with respect to each Purchaser's own volume, as to purchase price only. At any time after Purchaser receives Oil for two (2) years from the Date of First Delivery (as defined in Section 2.10), Seller or Purchaser may exercise the right to reopen by giving to the other party one (1) month prior written notice. Upon issuance and receipt of a notice to reopen, that Purchaser and Seller will promptly commence good faith negotiations in an attempt to establish a new purchase price. In the event that a new purchase price is not agreed to by that Purchaser and Seller within three (3) months after giving the notice to reopen, that Purchaser or Seller may terminate that Purchaser's portion of this Agreement upon nine (9) months written notice to the other. The purchase price for Oil tendered during any period pending termination shall be the price in effect immediately prior to giving the notice of intent to reopen. If a new purchase price is agreed to by that Purchaser and Seller, the new purchase price shall become effective for Oil tendered in the month following the Agreement on the new purchase price. Not less than two (2) years after the conclusion of the purchase price reopener process described above, that Purchaser or Seller may reopen that Purchaser's portion of this Agreement, as to purchase price only, by giving notice of intent to exercise the right to reopen. At that time, the purchase price reopener process described above will again be applicable.

2.5 Point and Time of Delivery. Simultaneously with receipt of its Royalty Oil from its Lessees, Seller shall tender the Oil to Purchaser at the point at which Seller receives the Royalty Oil from its Lessees. That point as presently agreed to by Seller and its Lessees in Section 2.3 of the Settlement Agreement is the Central Production Facility Meter into the Kuparuk Pipeline.

2.6 Passage of Title and Risk of Loss. Title and risk of loss to the Oil sold under this Agreement shall pass from Seller to Purchaser for all purposes when Seller tenders the Oil at the Point of Delivery.

2.7 Purchaser's Responsibility. Purchaser shall be responsible for the Oil after passage of title. Purchaser will indemnify and hold Seller harmless from and against any and all claims, costs, damages (including reasonably foreseeable consequential damages), expenses or causes of action arising from or in connection with any transaction or event which relates to the crude oil after title has passed to Purchaser.

2.8 Transportation Arrangements. Purchaser shall make all necessary arrangements for transporting the Oil sold under this Agreement from the Point of Delivery, including satisfaction of line fill obligations and storage tank bottom requirements of the Kuparuk Pipeline and Trans Alaska Pipeline System, if any. If and as requested by Seller, and at the time or times requested by Seller, Purchaser shall submit specific information concerning the arrangements it has made for transportation of the Oil sold under this Agreement through and away from Kuparuk Pipeline and the Trans Alaska Pipeline System and for the resale or other disposal of the Oil. Such information may include the specific tenders of Oil made to the Kuparuk Pipeline and Trans Alaska Pipeline System and identification of tankers which will transport the Oil. In addition, Purchaser will provide Seller, if and as requested by Seller, with satisfactory evidence or reasonable assurances of the existence and continuing validity of adequate arrangements for the transportation or disposal of the Oil subject to this Agreement. Failure to provide information, evidence or assurances requested will, at Seller's election by notice to Purchaser, be a material default under this Agreement.

2.9 Absolute Obligations. The obligations of Purchaser to accept, pay for, and arrange for the transportation of the Oil tendered or sold under this Agreement are absolute and will not be excused or discharged by the operation of any disability of Purchaser, event of force majeure, impracticability of performance, change in conditions, or any other reason or cause.

2.10 Date of First Delivery. The Date of First Delivery will be on the first day of the first month seven (7) months after the effective date specified in Article VI, unless Seller, in its sole discretion at the request of both Purchasers, sets an earlier date.

2.11 In-State Processing. Purchaser Petro Star agrees that not less than 85% of the Royalty Oil sold under this Agreement, averaged on a quarterly basis, shall be processed through Purchaser Petro Star's refinery near North Pole, Alaska, except as provided below. "Process" means producing refined petroleum products from the crude oil in significant quantities, but which quantities may not be less than 20% of the volume of Royalty Oil run through Purchaser Petro Star's refinery pursuant to this Agreement.

Purchaser Petro Star's obligation to process Royalty Oil in-state may only be suspended or excused under (1) the provisions of Articles VIII and XI, or (2) during refinery maintenance.

Seller may, at its option, waive the in-state processing requirement in whole or in part, if Seller is satisfied that Purchaser Petro Star is using its best efforts to process the Royalty Oil sold under this Agreement at Purchaser Petro Star's refinery and that the waiver would not be contrary to the underlying intent of the other provisions of this Agreement.

2.12 Best Efforts. (1) Purchaser Petro Star agrees to use its "best efforts" to produce and market in Alaska an amount of refined petroleum products from its refinery near North Pole, Alaska not less in volume than 23% of the Royalty Oil sold under this Agreement. Those refined petroleum products shall be comprised of at least LAGO and Kerosene. After each three (3) months of deliveries under this Agreement, Purchaser Petro Star shall promptly provide to the Seller an affidavit certified by Purchaser Petro Star stating the quantity of refined petroleum products produced and marketed in the State of Alaska from in-state processing of the Daily Royalty Oil sold under this Agreement for that period.

A determination of "best efforts" under this Article shall include consideration of Purchaser Petro Star's capabilities and the surrounding business circumstances. Purchaser Petro Star's obligation to use its best efforts includes reasonable, diligent, and good faith efforts, but shall not require Purchaser Petro Star to produce and market refined petroleum products in Alaska at a loss. "Best efforts" would, however, require Purchaser Petro Star to produce and market products in Alaska even though Purchaser Petro Star could make a greater profit by another disposition of the Royalty Oil or the products refined from that oil.

2.13 Option to Purchase Return Oil. After Purchaser Petro Star processes Royalty Oil, there will remain a portion of Oil or Oil products which may be shipped through TAPS ("Return Oil"). Return Oil shipped through TAPS becomes intermingled with unprocessed crude oil so that when the Return Oil is picked up in Valdez it is identical to the common stream crude oil shipped through TAPS. A shipper of Return Oil presently is, and may continue to be, liable for the payment of a quality bank adjustment differential based upon the resulting degradation of TAPS common-stream crude ("quality bank adjustment").

The total daily volume of Royalty Oil sold under this Agreement approximates Purchaser Petro Star's daily refinery throughput. Purchaser Petro Star's daily Maximum Quantity approximates its maximum retained product and Purchaser Chevron's daily Maximum Quantity approximates what would otherwise be Purchaser Petro Star's return oil. Thus, under the arrangements contemplated under this Agreement, no return oil would exist upon which the state could retain an option. Should the arrangements contemplated under this Agreement cease to exist, Purchaser and Seller agree to negotiate in good faith towards agreement upon a market price option for Seller on whatever return oil or residual oil may exist under the new arrangements.

2.14 Arrangements between Purchasers. Purchaser Chevron and Purchaser Petro Star have entered into an arrangement under which Purchaser Petro Star will use as refinery charge Purchaser Chevron's volume of Royalty Oil under this Agreement. The arrangement includes the purchase of Royalty Oil taken by Purchaser Chevron under this Agreement by Purchaser Petro Star at TAPS Pump Station No. 1, and resale of the Royalty Oil to Purchaser Chevron at Valdez. A copy of the document which specifies the terms of the arrangement is attached as Exhibit A. Should the terms of the arrangement change materially so that Purchaser Petro Star is precluded from economically using Purchaser Chevron's volume as refinery charge, Seller shall have the right at the Commissioner's discretion to terminate this Agreement on nine (9) months notice.

Should Purchaser materially reduce its Maximum Quantity under Section 2.1 or terminate its portion of this Agreement under Section 2.4, or should termination occur due to an Event of Default under Article VII, either Seller or the other Purchaser may terminate the remaining portion of this Agreement by giving nine (9) months written notice, except as provided below. In this section a material reduction means a reduction of 50% or more from the original Maximum Quantity.

Upon termination of Purchaser Petro Star's portion of this Agreement for any reason or material reduction of Purchaser Petro Star's Maximum Quantity under Section 2.1, Seller shall exercise its right to terminate Purchaser Chevron's portion of this Agreement. However, if Purchaser Chevron agrees to process in its refinery at Nikiski, Alaska the Royalty Oil to be sold under this Agreement after that time, and if Purchaser Chevron successfully completes negotiations with the commissioner for an amendment to this Agreement which grants Seller a market price option on Purchaser Chevron's residual oil resulting from the processing of that oil, the Commissioner shall have the discretion to not terminate Purchaser Chevron's portion of this Agreement.

Upon termination of Purchaser Chevron's portion of this Agreement for any reason or material reduction of Purchaser Chevron's Maximum Quantity under Section 2.1, Purchaser Petro Star shall have the option to continue purchasing up to its Maximum Quantity, or to increase its Maximum Quantity to include all or part of the volume formerly purchased by Purchaser Chevron under this Agreement. Purchaser Petro Star shall exercise this option in writing within one month of the termination of Purchaser Chevron's portion of this Agreement. Purchaser Petro Star's option shall be conditioned on Purchaser Petro Star (1) agreeing for any increased quantity to pay the Purchase Price that Purchaser Chevron would pay under this Agreement, (2) agreeing to increase its Section 15.2 letter of credit to ninety (90) days for all volumes it would purchase under this Agreement, (3) agreeing to pay its Section 15.3 Amerada Hess escrow amount for all volumes it would purchase under this Agreement, (4) agreeing to increase its Section 2.11 and Section 2.12 in-state processing and best efforts obligations to include all volumes it would purchase under this Agreement, and (5) successfully completing negotiations with the Commissioner for an amendment to this Agreement which grants Seller a market price option on Purchaser Petro Star's return oil from all volumes it would purchase under this Agreement. The Commissioner shall have the discretion to accept other or additional security arrangements as part of Purchaser Petro Star's option as she, in her sole discretion, considers adequate to protect Seller. In accordance with Article XIX of this Agreement, the exercise of any option described in this section that would appreciably reduce the consideration received by Seller requires prior approval of the Alaska Legislature.

2.15. Performance Guaranty and Reservation Fee. If Purchaser does not take the Maximum Quantity on the Date of First Delivery, Purchaser shall pay to Seller, in addition to the Purchaser Price, an amount equal to 1.25% of the Purchase Price per barrel per day on the difference between the Maximum Quantity and the actual quantity tendered to and accepted by Purchaser ("Actual Quantity") for each day Purchaser does not take the Maximum Quantity on and after the Date of First Delivery. The payment of this fee shall end on the day that Purchaser accepts delivery of the Maximum Quantity. When

Purchaser accepts the Maximum Quantity, all of tne amounts paid under this Section 2.15 will be allowed to be credited against future payments for oil tendered under this Agreement except for an amount to be retained by Seller equal to .75% of the Purchase Price per barrel per day on the difference between the Maximum Quantity and the Actual Quantity for each day Purchaser did not take the Maximum Quantity on and after the Date of First Delivery. If Purchaser should thereafter decrease the amount of Royalty Oil to be tendered under this Agreement, Purchaser shall pay to Seller, in addition to the Purchase Price, an amount equal to .75% of the Purchase Price per barrel per day after the date that the decrease in the amount of Royalty Oil to be tendered by Seller takes effect on the difference between the Maximum Quantity and the Actual Quantity.

ARTICLE III
REPRESENTATIONS AND OBLIGATIONS OF PURCHASER

Purchaser warrants, represents, and agrees:

3.1 Good Standing and Due Authorization. Purchaser is, and at all times during the operation of this Agreement shall remain, (a) a natural person who has reached the age of majority and who is a citizen of the United States; or (b) a corporation organized and existing under and by virtue of the laws of the United States or of any state, territory or the District of Columbia and qualified to do business in Alaska; or (c) any association of the foregoing. If a corporation, Purchaser has all necessary corporate power to enter into this Agreement and to perform its covenants and obligations under this Agreement, and all necessary corporate action has been taken to authorize Purchaser's entering into this Agreement and performing its covenants and obligations under this Agreement.

3.2 Financial Condition. The financial information submitted to Seller is complete and correct and fairly presents Purchaser's financial condition at the time the information was submitted to Seller. The financial information was prepared in accordance with generally accepted accounting principles consistently applied. Since the date the information was submitted, the condition, business and properties of Purchaser have not been materially adversely affected in any way. Purchaser agrees to inform Seller immediately if during the term of this Agreement there is any material adverse change in the condition, business, or properties of Purchaser which would have an appreciable adverse effect on Purchaser's ability to perform under this Agreement. Purchaser, in addition, will immediately inform Seller of any significant change in ownership of either Purchaser or any of its affiliates or parent company, and of any change in Purchaser's operations or agreements, which would appreciably affect Purchaser's performance under this Agreement.

3.3 Financial Statements. As soon as possible after the end of each fiscal year of Purchaser, and in any event within one hundred twenty (120) days thereafter, Purchaser will furnish to Seller, at Purchaser's sole cost and expense, a report or a complete copy of a report in a form to be prescribed from time to time by Seller which will include Purchaser's balance sheet as of the close of the fiscal year and the income statement for that year prepared in each case in accordance with generally accepted accounting principles consistently applied by certified public accountants of recognized standing. For purposes of complying with this section, Purchaser Chevron may submit, and Seller will accept, the annual report and supplement of Chevron Corporation.

ARTICLE IV
MEASUREMENTS AND TESTS

The quantity and quality of the oil sold under this Agreement shall be determined at the Point of Delivery. Procedures and methods for measuring and metering the oil sold under this Agreement shall be in accordance with the practices then in effect at the Point of Delivery specified under Section 2.5.

ARTICLE V

PAYMENTS AND ACCOUNTING

5.1 Billing. Seller will send to Purchaser, on or before the 10th (tenth) business day of each Month after the month of delivery of Oil, an invoice statement of account of all Oil estimated to have been measured at the Central Production Facility Meter into the Kuparuk Pipeline and tendered to Purchaser under this Agreement during the immediately preceding Month according to the best information available to Seller, the estimated Purchase Price(s) applicable to those deliveries, and the total amount due ("initial billing"). The estimates will be made by Seller according to the best information reasonably available to Seller. Seller shall thereafter adjust its initial billing under this section as soon as more accurate information concerning the quantity and Purchase Price(s) of Oil delivered each Month is available. Seller, however, shall not be required to adjust the initial billing prior to the sending of the next Month's invoice statement of account.

5.2 Initial Adjustment. After the first monthly invoice under Section 5.1, each subsequent monthly invoice will also state Seller's initial adjustments to be made, if any, to the invoice rendered in the immediately preceding Month, in accordance with any additional or more accurate information which may have become available to Seller. Whether or not initial adjustments are made, however, subsequent adjustments may be made under Section 5.5.

5.3 Payment. Purchaser will make payment of each amount billed under this section within ten (10) Days after receipt of the invoice statement of account. Payment shall be made without any deduction, set off, or withholding by wire transfer of immediately available funds to Seller's account at the following address:

First Pennsylvania Bank Philadelphia
ABA No. 031000024
For Credit to State of Alaska
Account No. 07/089250/00
Attn: Catherine Hess

Payment may be made in such other manner or to such other address as Seller may specify in the invoice statement of account or by other written notice. All other payments to be made under this Agreement shall be paid in the same manner. If payment is due on a Saturday, Sunday, or legal holiday of the place where payment is to be received, payment shall be made on the next following business day. It is recognized that Seller may bill, and that Purchaser will pay, amounts that are based upon confidential information held or received by Seller. If confidential information is used as the basis for a billing, then upon request Seller will furnish Purchaser with the certified statement of the Commissioner that the amounts billed are correct based upon the best information available to Seller. Buyer will only be permitted to review material or information that is not confidential. If a dispute concerning a bill arises, Purchaser agrees to pay the full amount billed by Seller, except for obvious clerical mistakes, pending final resolution of the dispute.

5.4 Payment to Lessee(s). Purchaser, at the request of Seller in the invoice statement of account or otherwise in writing, shall pay all or any portion designated by Seller of the amount due to Seller to one or more of the Lessees at an address or addresses and in the manner designated by Seller. The payment will be made within the time limit specified in Section 5.3. Seller may authorize and designate a third party to make the request and designate the amount, manner and place of payment under this provision. Unless otherwise specified, the balance of the payment due, if any, and payments for subsequent months, shall be made in accordance with Section 5.3.

5.5 Subsequent Adjustments. Purchaser acknowledges that more accurate information concerning the quantity of or Purchase Price for Oil tendered may subsequently become available to Seller. In the event that any such information should subsequently become available to Seller, Seller shall promptly furnish a corrected invoice statement of account to Purchaser and the parties will adjust the amount billed and pay or refund the amount of those adjustments.

In the event that Seller should render a corrected invoice to Purchaser, any amount to be refunded from Seller to Purchaser or paid from Purchaser to Seller will be paid within fifteen (15) Days after the date of the corrected invoice, unless the adjustment concerns an amount last invoiced more than sixty (60) Days before the corrected invoice. In that case, the amount will be paid by Purchaser or refunded by Seller, as the case may be, in equal monthly installments over the same period of time as that over which the adjustment accrued or six (6) Months, whichever is the shorter period. No adjustment will be made more than twelve (12) Months after the date of the last original invoice to which the adjustment relates, except for adjustments resulting from regulatory or court proceedings (including appeals) commenced or pending during that twelve (12) month period, whether or not Seller or Purchaser is a party to the proceeding. Adjustments due to regulatory or court proceedings may be made at any time and shall bear interest at the rate stated in Section 5.6 from the date of payment of the invoice upon which an adjustment is subsequently made pursuant to this section. The provisions of this Section 5.5 will survive any termination of this Agreement.

5.6 Interest. Except for adjustments made upon resolution of Amerada Hess under Section 2.3, all sums which are not paid when due under this Agreement or which are subsequently determined to be due under an adjustment under Section 5.5, shall bear interest from the date accrued until paid in full at a variable rate per annum equal to the prime rate as announced from time to time by the Bank of America, San Francisco, California, plus one and one-quarter percent (1.25%) per annum.

5.7 Late Payment Penalty. Except for unintentional failures to pay, including clerical mistakes or occurrences not within the reasonable control of Purchaser, or insignificant underpayments, if Purchaser fails to make payment within one (1) Day of the date that payment is due, then in addition to the amount due plus interest from the date that payment was due until the date of payment, Purchaser will pay an amount equal to one percent (1%) of the amount owed.

5.8 Payment to Third Parties. Seller may direct that Purchaser pay any amount due to Seller or which may become due directly to a third party in the manner and time as may be directed by Seller in written notice to Purchaser if, in Seller's sole discretion, the payment to the third party will assist Seller in monitoring or enforcing this Agreement.

ARTICLE VI
TERM

This Agreement shall become effective upon execution by the parties and enactment of legislation by the State of Alaska (including approval by the Governor) approving this Agreement. This Agreement shall be null and void if it is not so approved by September 30, 1986. Subject to the other provisions contained in this Agreement, Seller's obligation to sell and Purchaser's obligation to buy Royalty Oil shall begin as specified in Section 2.10, and shall end September 30, 1996. As used in this section, "enactment of legislation" is as defined in AS 01.10.070(f)(4).

ARTICLE VII
DEFAULT OR TERMINATION

7.1 Default. If any one or more of the following events ("Events of Default") occur, then at Seller's option, Seller may terminate or suspend its obligation to tender and sell Oil and proceed to exercise any one or more of the rights and remedies provided in this Agreement:

(i) Except for obvious clerical errors, Purchaser does not pay in full any sum invoiced under this Agreement at the time when payment is due; or

(ii) Purchaser fails to observe or perform any of its other covenants and obligations under Article or

(iii) Purchaser does not perform any act required or contemplated under this Agreement and either: (a) the nonperformance continues for more than thirty (30) days after Seller has notified Purchaser of Purchaser's nonperformance; or (b) Purchaser had failed to perform the same or any other act required or contemplated under this Agreement during the immediately preceding twelve (12) month period; or

(iv) There is a material adverse change in Purchaser's condition, business or property which appreciably affects the ability of Purchaser to perform any of its obligations under this Agreement, and Purchaser is unable to give Seller adequate assurance of continued performance either within fourteen (14) days of a request for such an assurance or within such other shorter time period as Seller may reasonably request under the circumstances; or

(v) Any representation or warranty made by Purchaser in this Agreement proves to have been false or incorrect in any material respect at the time that the representation or warranty was made.

7.2 Failure to Pay Debts. If at any time Purchaser becomes unable to pay any of its debts when those debts are due, or should otherwise become insolvent (without regard to how that insolvency may be evidenced), Purchaser will immediately give notice of that fact to Seller. Whether or not that notice is given, if Purchaser becomes unable to pay any of its debts when those debts are due or should otherwise become insolvent, Seller's obligation to tender and sell Oil under this Agreement will automatically and immediately terminate without any requirement of notice or other action by Seller; however, Purchaser will nevertheless be and remain liable for payment and performance of all of its obligations and covenants under this Agreement with respect to Oil actually tendered by Seller to and after any such termination. Within thirty (30) days after receipt of Purchaser's notice or, if no notice

is given, after Seller otherwise becomes aware (as determined in Seller's sole discretion) of Purchaser's insolvency, Seller will have the right, upon written notice to Purchaser, to reinstate all of Seller's and Purchaser's obligations under this Agreement retroactively to the date of termination.

7.3 Seller's Remedies. Upon the occurrence of any Event of Default or if Seller's obligation to tender and sell Oil under this Agreement is terminated or suspended under Sections 7.1 and 7.2, all obligations of Purchaser accrued but not otherwise due and payable under this Agreement will immediately be due and payable in full. In addition, Purchaser will indemnify and hold Seller harmless from and against all other liability, damages (including reasonably foreseeable consequential damages), costs, losses and expenses (including reasonable attorneys' fees and disbursements) incurred by Seller and arising out of the Event of Default, termination, or suspension. Seller shall have the right cumulatively to exercise any and all other rights and remedies and to obtain all other relief available under applicable law or at equity, including mandatory injunction and specific performance. Seller, upon occurrence of any Event of Default, in its sole discretion, may arrange for any disposition to third parties of Oil to be tendered and sold under this Agreement. Upon the occurrence of any Event of Default, Purchaser is released from the obligations set forth in Sections 2.11 (In-State Processing) and 2.12 (Best Efforts) until the Event of Default no longer exists or the obligation of Purchaser to take Royalty Oil under this Agreement expires. If upon occurrence of any Event of Default Seller makes arrangement for disposition to third parties of Oil whether or not this Agreement is terminated, Purchaser will nevertheless be and remain liable to Seller for the full amount of the Purchase Price for that Oil in excess over any amount or amounts received by Seller on account of that disposition, net of the expenses of that disposition and for all other costs, losses and expenses (including reasonable attorneys fees and disbursements) incurred by Seller and arising out of the Event of Default or disposition.

7.4 Purchaser's Exclusive Remedies. Upon any breach of, or default in, the due and timely observance or performance of any of Seller's covenants or obligations under this Agreement, Purchaser acknowledges and agrees that Purchaser's remedies will not include a temporary restraining order or preliminary injunction preventing Seller from taking any action with regard to the Oil which is the subject of this Agreement.

ARTICLE VIII
DISPOSITION OF OIL

8.1 Inability to Receive Oil. Purchaser acknowledges and agrees that under the Unit Agreement and Leases, Seller's election to take Royalty Oil in kind can be revoked or reversed only upon the satisfaction of various conditions, including the giving of thirty (30) days advance written notice to return up to 2500 barrels of Seller's then current nominations. Purchaser acknowledges and agrees that Seller's election to invoke its rights to return to taking its Royalty Oil in value on less than six (6) months' prior notice, or to attempt to secure a waiver of any condition or requirement, is at Seller's sole and complete discretion. If for any reason Purchaser is unable or refuses to accept or receive any Oil tendered under this Agreement, Purchaser shall nevertheless be and remain responsible for the disposal of that Oil and for paying Seller for the Oil as though it had been received and accepted by Purchaser unless Seller, in its sole discretion elects to waive this requirement. In order to secure the obligations of Purchaser under this Section 8.1 and under Section 2.8, Purchaser shall, if and as Seller may request from time to time, assign to Seller all right, title and interest of Purchaser under any nominations, leases, agreements, contracts, charter parties and other arrangements for the transportation of the Oil sold under this Agreement through and away from the Kuparuk Pipeline and the Trans Alaska Pipeline System; provided, that Seller shall not have any liability or obligations under any such nominations, leases, agreements, contracts, charter parties or other arrangements unless, and to the extent that, Seller shall actually exercise its rights to succeed to Purchaser's interest thereunder and shall obtain the benefits thereof.

8.2 No Right to Storage or Underlift. Purchaser waives and disclaims any interest or right that it may assert to storage of Royalty Oil, including by underlift or other means, to which Seller is or may come to be entitled under the Leases, Storage Agreement, or any other agreement. However, Purchaser shall use due diligence and make its best efforts to act in a manner that enables Seller to adhere to the notice requirements and other obligations provided in the Storage Agreement. Purchaser agrees that when it executes this Agreement, it will also immediately execute the release attached as Exhibit B to this Agreement.

ARTICLE IX
WAIVER

The failure of either party to insist upon strict performance of any provision of this Agreement shall not constitute a waiver of, or estoppel against, asserting the right to require that performance in the future. A waiver or estoppel in any one instance shall not constitute a waiver or estoppel with respect to a later breach of a similar nature or otherwise. A course of performance established by a party shall also not stop the other party from complaining of a later breach similar in nature.

ARTICLE X
SEVERABILITY

If any provision or clause of this Agreement or application of this Agreement to any person or circumstance is held invalid, that invalidity shall not affect other provisions or applications of this Agreement which can be given effect without the invalid provision or application. If, however, an invalidity should operate to impair any material right or remedy of a party to this Agreement, that party may terminate this Agreement by notice to the other.

ARTICLE XI

FORCE MAJEURE AND CHANGE IN CONDITION

11.1 Effect of Force Majeure. Except for Purchaser's obligations to make payment of money for Oil tendered under this Agreement and except for Purchaser's obligations to accept and dispose of Royalty Oil, neither party shall be liable for any failure to perform the terms of this Agreement when the failure is due in whole or in substantial part to force majeure. The term "force majeure" as applied to this Agreement shall mean Acts of God, strikes, lockouts and industrial disputes or disturbances, civil disturbances, arrests and restraints from rulers or people, interruptions by government or court orders or by present or future orders of any regulatory body having or asserting jurisdiction, acts of the public enemy, wars, riots, blockades, insurrections, inability to secure materials by reasons of allocations promulgated by authorized governmental agencies, epidemics, landslides, lightning, earthquakes, fires, storms, floods, washouts, explosions, breakage or accident to machinery or lines of pipe, freezing of wells or pipelines, or any other event or condition, whether of the kind herein enumerated or otherwise, not within the reasonable control of the party claiming the benefit of this excuse. If however, any material obligation of Purchaser is excused or suspended because of a claim of force majeure for a period of three hundred sixty five (365) successive days or more, Seller will have the right to terminate this Agreement. Prior to Seller exercising its right to terminate this Agreement Seller and Purchaser shall enter into good faith negotiations to restore, to the fullest extent possible, Seller and Purchaser to the benefits and obligations that existed under this Agreement before the occurrence of the force majeure condition.

11.2 Responsibility. Upon the occurrence and discovery of an event providing the basis for a claim of force majeure, the party making a claim shall notify the other party to this Agreement of its claim of force majeure. Upon the occurrence of an event constituting force majeure that event shall, so far as possible, be remedied with all reasonable diligence and dispatch. Except for Purchaser's obligations to make payment of money for Oil tendered

under this Agreement and except for Purchaser's obligation to dispose of Oil, the obligations of the disabled party to perform under this Agreement, insofar as they are affected by that force majeure, shall be suspended from the time that force majeure occurs and for so long as the disability caused should have continued had the party claiming the existence of the force majeure remedied the event providing the basis of the claim of force majeure with reasonable diligence and dispatch, and for no longer. The settlement of strikes or lockouts or industrial disputes or disturbances will be entirely within the discretion of the party having the difficulty, and the above requirement that any force majeure shall be remedied with diligence and dispatch shall not require the settlement of strikes, lockouts, or industrial disturbances by acceding to the demands of any opposing party therein when such course is inadvisable in the sole discretion of the disabled party.

ARTICLE XII
NOTICES

12.1 Method. All notices, requests, demands or statements shall be in writing, and may be delivered personally to the party to be notified or may be sent to the party by registered or certified United States mail, postage prepaid, with a return receipt requested of the party. Notice deposited in the mail in this manner shall be effective upon the expiration of seven (7) days after it is so deposited. Notice given in any other manner shall be effective only if and when received by the addressee. For the purposes of notice, the addresses of the parties to this Agreement shall be as follows:

If to Seller:

State of Alaska
Commissioner of Natural Resources
Pouch "M"
Juneau, Alaska 99811

and

Commissioner of Revenue
Pouch "S"
Juneau, Alaska 99811

and

Director, Division of Oil and Gas
Pouch 7-034
Anchorage, Alaska 99510

Telephone:

Telex:

If to Purchaser Petro Star:

Telephone:

Telex:

If to Purchaser Chevron:

Telephone:

Telex:

12.2 Change of Address. Each party may change its address for notice by giving notice of the change.

ARTICLE XIII
RULES AND REGULATIONS

This Agreement is subject to all present and future valid laws, orders, rules and regulations of the United States, the State of Alaska, and any duly constituted agency thereof.

ARTICLE XIV
SOVEREIGN POWER OF THE STATE

This Agreement and its covenants shall not be interpreted as a limit on the exercise by the State of Alaska of any of its sovereign or regulatory powers, whether conferred on the State by constitution, statute or regulation, including but not limited to, its regulatory power over the Leases. The exercise by the State of Alaska of any sovereign or regulatory power will not operate or be deemed to enlarge any rights of Purchaser or to limit or impair any obligations or liability of Purchaser under this Agreement, except for state statutes enacted after the effective date of this Agreement which have a direct and significant adverse effect on the ability of Purchaser to perform an obligation under this Agreement other than the obligations to accept, dispose of, and pay for Oil tendered under this Agreement.

ARTICLE XV
SECURITY

15.1 Purchaser Chevron Letter of Credit. Sixty (60) days prior to Date of First Delivery, Purchaser Chevron shall cause to be issued and delivered to Seller an irrevocable stand-by letter of credit, with an effective date no later than the Date of First Delivery, issued for the benefit of Seller by a state or national banking institution of the United States ("Issuer"), which is insured by the Federal Deposit Insurance Corporation and has an aggregate capital and surplus of not less than One Hundred Million Dollars ($100,000,000), or other banking institution acceptable to Seller in its sole discretion. The principal face amount of such letter of credit shall be a sum estimated by the Commissioner to be equal to the aggregate Purchase Price for the approximate total amount of Oil to be tendered by Seller to Purchaser Chevron during the first ninety (90) days following the Date of First Delivery, calculated at the Purchase Price. The letter of credit shall be substantially in a form satisfactory to the Commissioner, but in any event shall not require any documents to be submitted

in support of drafts drawn against this letter of credit other than the certified statement of the Commissioner or her designee and the Attorney General of the State of Alaska or his designee that Purchaser Chevron is liable to Seller for a sum equal to the amount of such draft, and that that sum is due and payable in full and has not been timely paid.

In the event that Seller should have reasonable grounds for asserting any claims against Purchaser Chevron under this Agreement and does assert those claims in an aggregate amount in excess of the aggregate principal face amount of the letter of credit then in effect, Purchaser Chevron shall upon Seller's request (whether or not Purchaser Chevron may deny, reject or otherwise resist such claims) cause the principal face amount of the letter of credit to be increased by an amount equal to the excess. The principal face amount of the letter of credit shall also be automatically increased by Purchaser Chevron without request from Seller whenever the face amount is less than the expected Purchase Price of ninety (90) days of Oil tenders to Purchaser Chevron under this Agreement, to an amount equal to the expected Purchase Price of ninety (90) days of Oil tenders to Purchaser Chevron. The principal face amount of the letter of credit may be decreased by Purchaser Chevron upon approval of Seller if the face amount is more than the expected Purchase Price of ninety (90) days of Oil tenders to Purchaser Chevron under this Agreement, to an amount equal to the expected Purchase Price of ninety (90) days of Oil tenders to Purchaser Chevron.

The letter of credit must allow drafts to be drawn and presented to the Issuer up to and including the 90th day after the last delivery of Royalty Oil to Purchaser Chevron under this contract. The Commissioner may accept such other or additional security as she, in her sole discretion, considers adequate to protect Seller.

15.2 Purchaser Petro Star Letter of Credit. Sixty (60) days prior to the Date of First Delivery, Purchaser Petro Star shall cause to be issued and delivered to Seller an irrevocable stand-by letter of credit, with an effective date no later than the Date of First Delivery, issued for the benefit of Seller by a state or national banking institution of the United States ("Issuer"), which is insured by the Federal Deposit Insurance Corporation and has an aggregate capital and surplus of not less than One Hundred Million Dollars ($100,000,000), or other banking institution acceptable to Seller in its sole discretion. The principal face amount of such letter of credit shall be a sum estimated by the Commissioner to be equal to the aggregate Purchase Price for the approximate total amount of Oil to be tendered by Seller to Purchaser Petro Star during the first sixty (60) days following the Date of First Delivery, calculated at the Purchase Price. The letter of credit shall be substantially in a form satisfactory to the Commissioner, but in any event shall not require any documents to be submitted in support of drafts drawn against this letter of credit other than the certified statement of the Commissioner or her designee and the Attorney General of the State of Alaska or his designee that Purchaser Petro Star is liable to Seller for a sum equal to the amount of such draft, and that that sum is due and payable in full and has not been timely paid.

In the event that Seller should have reasonable grounds for asserting any claims against Purchaser Petro Star under this Agreement and does assert those claims in an aggregate amount in excess of the aggregate principal face amount of the letter of credit then in effect, Purchaser Petro Star shall upon Seller's request (whether or not Purchaser Petro Star may deny, reject or otherwise resist such claims) cause the principal face amount of the letter of credit to be increased by an amount equal to the excess. The principal face amount of the letter of credit shall also be automatically increased by Purchaser Petro Star without request from Seller whenever the face amount is less than the expected Purchase Price of sixty (60) days of Oil tenders to Purchaser Petro Star under this Agreement, to an amount equal to the expected Purchase Price of sixty (60) days of Oil tenders to Purchaser Petro Star. The principal face amount of the letter of credit may be decreased by Purchaser

Petro Star upon approval of Seller if the face amount is more than the expected Purchase Price of sixty (60) days of Oil tenders to Purchaser Petro Star under this Agreement, to an amount equal to the expected Purchase Price of sixty (60) days of Oil tenders to Purchaser Petro Star.

The letter of credit must allow drafts to be drawn and presented to the Issuer up to and including the 60th day after the last delivery of Royalty Oil to Purchaser Petro Star under this contract. The Commissioner may accept such other or additional security as she, in her sole discretion, considers adequate to protect Seller;

15.3 Purchaser Petro Star Amerada Hess Escrow. Sixty (60) days prior to the Date of First Delivery, Purchaser Petro Star shall cause to be executed and delivered to Seller an executed escrow agreement with a state or national banking institution of the United States ("Escrow Bank"), which is insured by the Federal Deposit Insurance Corporation, and which has a aggregate capital and surplus of not less than One Hundred Million Dollars ($100,000,000), or other banking institution acceptable to the Seller in its sole discretion. The escrow agreement shall be in a form satisfactory to the Commissioner. The escrow agreement shall provide for payment of escrowed amounts only after final resolution of the Amerada Hess litigation, including any appeals, and upon tender of a certified statement, signed by the Commissioner of Natural Resources and the Attorney General of the State of Alaska. The certified statement shall specify the disposition of the principal and accrued interest of the escrow as calculated under the provisions of Articles II and V of this Agreement, with the full adjusted Purchase Price and interest payable to Seller, and any escrow balance payable to Purchaser Petro Star. Before requesting escrow payment, Seller will give Purchaser Petro Star at least twenty (20) days written notice of its calculations for the escrow disposition.

Purchaser Petro Star agrees to make monthly deposits into the escrow of the sum equal to $1.12 per barrel of Royalty Oil purchased by Purchaser Petro Star from Seller under this Agreement during the previous month. This sum represents a negotiated escrow amount, and is not any party's estimate of litigation results. The amount of this escrow shall be an element of the "Purchase Price" under this Agreement, and shall be subject to periodic renegotiation as specified in the purchase price reopener provision of Section 2.4.

Purchaser Petro Star shall make payments to the escrow at the same time as it pays Seller under Article V of this Agreement, including increased payments necessitated by quantity adjustments under that Article. Purchaser Petro Star shall bear all expenses of the escrow, and shall arrange for the Escrow Bank to send to Seller monthly statements showing the escrow balance.

15.4 Chevron Backup. Purchaser Chevron agrees that, after receiving at least five (5) days notice from Seller, it will accept delivery of any volumes of Royalty Oil upon which Purchaser Petro Star has defaulted under this Agreement. The notice referenced above shall be given by telephone and by telex to the telephone number and address provided in Section 12.1. Purchaser Chevron agrees to take those volumes subject to all the terms of this Agreement, except that the price for those volumes shall be the Petro Star Purchase Price. Purchaser Chevron will promptly increase its letter of credit to include the increased volume. The Commissioner will return the defaulted volumes to in value as soon as possible, and will promptly notify Purchaser Chevron of the date on which deliveries to it under this section will cease.

ARTICLE XVI
PREFERENTIAL HIRING

Purchaser agrees to hire and employ Alaska residents and Alaska companies to the extent they are available, willing and qualified for all work performed in Alaska under or in connection with this Agreement, including but not limited to construction and operation of facilities to refine or otherwise use the Royalty Oil. As used in this Agreement "Alaska resident" means an individual who has resided in the State for one year at the time of hiring or employment and "Alaska companies" means those companies who are incorporated in the State of Alaska or whose principal place of business is in Alaska. Seller acknowledges that under the arrangements initially contemplated under this Agreement, Purchaser Chevron will not be performing work in Alaska under or in connection with this Agreement.

If this provision is determined to be unconstitutional by a court of competent jurisdiction, then Purchaser agrees to hire and employ Alaska residents and Alaska companies to the extent such preferential hiring is determined to be constitutional.

ARTICLE XVII
APPLICABLE LAW

17.1 Alaska Law. This Agreement shall be governed by and construed in accordance with the laws of the State of Alaska, excluding any conflict-of-law rule or principle which might refer such construction to the laws of another state or country.

17.2 Submission to Jurisdiction. Any legal action or proceeding arising out of or relating to this Agreement or for the enforcement of the covenants or obligation of either party must be instituted in a State court of general jurisdiction sitting in the State of Alaska, and Purchaser hereby irrevocably submits to the jurisdiction of that court in any such action or proceeding.

ARTICLE XVIII
NO WARRANTIES

The purchase and sale of Royalty Oil under this Agreement is subject only to the warranties of Seller expressly set forth in this Agreement and Seller disclaims and Purchaser waives all other warranties, express or implied in law, whatsoever.

ARTICLE XIX
AMENDMENT

This Agreement may be supplemented, amended or modified at any time, but only by written instrument duly executed by the parties to this Agreement. Any material amendment to this contract that appreciably reduces the consideration received by the state requires prior approval of the legislature.

ARTICLE XX
SUCCESSORS AND ASSIGNS

No assignment, pledge or encumbrance of this Agreement shall be made by either Purchaser without first obtaining the written consent of Seller, or by Seller without obtaining the written consent of both Purchasers. The Commissioner may grant such consent on behalf of Seller. The Commissioner shall have sole and complete discretion in granting or denying a proposed assignment, pledge or encumbrance. Subject to the above requirements in this Article, this Agreement will be binding upon and inure to the benefit of each of the parties and its successors and permitted assigns. In addition, if Purchaser gains or acquires a controlling interest in an entity which has an agreement with Seller for the sale of Oil ("Other Agreement"), then Seller, at its option and on thirty Days' prior notice, may require Purchaser to terminate either this Agreement or the Other Agreement. The choice of which

Agreement to terminate will be Seller's. Purchaser may request that Seller waive this provision in advance of Purchaser gaining a controlling interest in an entity which has an agreement with Seller for the sale of Oil. The Commissioner has sole and complete discretion in granting or denying the requested waiver.

ARTICLE XXI
HEADINGS

Headings used in this Agreement are for convenience only and shall not affect the construction of this Agreement.

ARTICLE XXII
RECORDS

22.1 Preservation of Records. Purchaser will preserve and maintain all books, accounts, and records directly relating to the performance of this Agreement, including but not limited to the purchase or sale of Oil and its refined products, for a period of six (6) years. Purchaser will also maintain and preserve all similar books, accounts, and records of which it has possession belonging to those third parties with whom it contracts for the performance of various parts of this Agreement. Neither Purchaser nor Seller shall be required to retain any records for more than six (6) years unless retention of such records is specifically required by applicable law or regulation. Purchaser shall either maintain its records within the State of Alaska or make such records available to Seller at Purchaser's principal office in the State of Alaska within thirty (30) days after written request by Seller.

22.2 Inspection of Records of Parties. Purchaser and Seller will accord to each other and to their authorized agents, attorneys, and auditors during reasonable business hours access to any and all property, records, books, documents, and indexes directly relating to Purchaser's or Seller's performance of this Agreement and which are under the control of the party from which access is desired, so that the other party may inspect, photograph and make copies of that property, records, books, documents and indexes. In no event, however, shall Seller be required to disclose any information, data, or records which are required to be held confidential by state law or regulation. If the information obtained by Seller may be held confidential under state or federal law or regulation, Purchaser may request that that information be held confidential by Seller.

ARTICLE XXIII
INTERPRETATION OF TERMS AND CONDITIONS

In the event that there is a disagreement about the meaning or application of a word, term, or condition in this Agreement, Purchaser will present the arguments supporting its view in writing to the Commissioner for her consideration. The Commissioner will subsequently, within a reasonable time, issue a finding on the meaning or application of the disputed word, term, or condition, setting forth the basis for her conclusions. Purchaser agrees to accept findings by the Commissioner under this Article as long as there is substantial evidence supporting the Commissioner's findings.

DATED this 9th day of December, 1985

SELLER: THE STATE OF ALASKA

by Ray Brown, Director
Commissioner
Department of Natural Resources

PURCHASER PETRO STAR, INC.: PETRO STAR, INC.

By _____
President

PURCHASER CHEVRON: CHEVRON U.S.A. INC.

By A M Caccamo

3928s

EXHIBIT B

RELEASE

For a valuable consideration, the receipt and adequacy of which are acknowledged, the undersigned does hereby release and forever discharge ARCO Alaska, Inc., BP Alaska Exploration Inc., Chevron U.S.A. Inc., Exxon Corporation, Mobil Oil Corporation, Phillips Petroleum Company, Sohio Alaska Petroleum Company, Union Oil Company of California, Amoco Production Company, individually and collectively, and each of their predecessors, successors, assigns, and all persons acting by, through, under or in concert with them, or any of them (the "Releasees"), of and from any and all claims, demands or causes of action of any nature whatsoever, known or unknown, fixed or contingent, hereinafter made against the Releasees, or any of them arising out of, based upon, or relating to the purported storage rights of the State of Alaska with respect to royalty oil produced from the land as to which the Kuparuk River Unit Agreement is now effective on to which it may be extended.

The undersigned represents and warrants that there has been no assignment or other transfer of any interest in any claim which agrees to indemnify and hold Releasees, and each of them, harmless from any liability, claims, demands, damages, costs, expenses and attorney's fees incurred by Releasees, or any of them, as a result of any person asserting assignment or transfer or any rights or claims under that assignment or transfer. It is the intention of the parties that this indemnity does not require payment as a condition precedent to recovery by the Releasees against the undersigned under this indemnity.

The undersigned agrees that if after execution of this Release the undersigned commences, joins in, or in any manner seeks relief through any suit arising out of, based upon, or relating to any of the claims released under this Release or in any manner asserts against Releasees, or any of them, any of the claims released under this Release, then the undersigned will pay to Releasees, and each of them, in addition to any other damages caused to Releasees by that action or claim all attorney's fees incurred by Releasees in defending or otherwise responding to the action or claim.

The undersigned further understands and agrees that the execution of this Release shall neither consitute nor be construed as an admission by the Releasees, or any of them, that they have any storage obligation with respect to the State's royalty oil.

Stephen F. Lewis — 6 December 1985

PETRO STAR, INC. — DATE

A M Cascante — 6 December 1985

CHEVRON U.S.A. — DATE

STATE OF ALASKA
DEPARTMENT OF NATURAL RESOURCES
DIVISION OF OIL AND GAS

ESTIMATED PRODUCTION AND SALES FOR NORTH SLOPE ROYALTY OIL (9)

	ESTIMATED TOTAL PRODUCTION (BARRELS PER DAY)						ESTIMATED ROYALTY (BARRELS PER DAY)						ESTIMATED SALES OF ROYALTY OIL (BARRELS PER DAY)								
YEAR	(1) TOTAL PRUDHOE	(1) TOTAL KUPARUK	(1) TOTAL LISBURNE	(1) TOTAL ENDICOTT	(1) TOTAL MILNE PT.	TOTAL	PRUDHOE ROYALTY	KUPARUK ROYALTY	LISBURNE ROYALTY	ENDICOTT ROYALTY	MILNE PT. ROYALTY	TOTAL ROYALTY	MAPCO	(2) OPEA	(3) TESORO (OLD)	(4) TESORO (NEW)	(5) CHEVRON	(6) COMPETITIVE SALE 12-11-84	(7) PETRO/CHEVRON (PROPOSED)	(8) COMPETITIVE SALE 2-4-86 (PROPOSED)	ROYALTY IN VALUE
1985	1,206,000	180,000			3,000	1,733,000	193,750	22,500			375	216,625	35,000	5,167	47,533	26,867	18,600	63,000			
1986	1,200,000	220,000			30,000	1,800,000	193,750	27,500			5,400	226,650	35,000	5,167	47,533	26,867	18,600	63,000	6,000	10,000	
1987	1,200,000	220,000	30,000		30,000	1,950,000	193,750	27,500	6,750		5,400	232,900	35,000	5,167	47,533	26,867	18,600		6,000		
1988	1,176,000	220,000	60,000	50,000	30,000	1,736,000	172,000	27,500	7,500	7,000	5,400	219,400	35,000	4,587	42,197	23,851	16,512		6,000		
1989	1,103,000	220,000	70,000	100,000	25,000	1,598,000	147,875	27,500	8,750	14,000	4,500	202,625	35,000	3,993	34,278	20,506	14,196		6,000		
1990	1,032,000	187,000	80,000	100,000	20,000	1,495,000	127,750	23,375	10,000	14,000	3,600	178,225	35,000	3,393	31,218	17,646	12,216		5,523		
1991	970,000	159,000	90,000	100,000	15,000	1,397,000	111,000	19,875	11,250	14,000	2,700	163,825	35,000	3,093	28,458	16,086	11,136		4,690		
1992	844,000	135,000	100,000	100,000	13,000	1,196,000	105,750	16,875	12,500	14,000	2,700	151,825	35,000	2,820	25,944	14,664	10,152		3,989		
1993	772,000	122,000	100,000	85,000	10,000	1,089,000	96,500	15,250	12,500	11,900	1,800	137,950	35,000	2,573	23,674	13,382	9,264		3,605		
1994	706,000	109,000	100,000	75,000	10,000	1,000,000	88,250	13,625	12,500	10,500	1,800	126,675	35,000	2,353	21,656	12,238	8,472		3,220		
1995	646,000	99,000	90,000	70,000	10,000	916,000	80,750	12,250	11,250	9,800	1,800	115,850	35,000						2,895		
1996	591,000	89,000	80,000	65,000	0	825,000	73,875	11,125	10,000	9,100	0	104,100	35,000						2,630		
1997	561,000	80,000	72,000	60,000	0	753,000	67,625	10,000	9,000	8,400	0	95,025	35,000								
1998	498,000	72,000	65,000	55,000	0	690,000	62,250	9,000	8,125	7,700	0	87,075	35,000								
1999	450,000	65,000	58,000	50,000	0	631,000	57,250	8,125	7,250	7,000	0	79,625	35,000								
2000	421,000	58,000	52,000	45,000	0	576,000	52,625	7,250	6,500	6,300	0	72,675	35,000								
2001	387,000	52,000	47,000	40,000	0	526,000	48,375	6,500	5,875	5,600	0	66,350	35,000								
2002	357,000	47,000	42,000	20,000	0	466,000	44,625	5,875	5,250	2,800	0	58,550	35,000								
2003	329,000	42,000	38,000	10,000	0	418,000	41,000	5,250	4,750	1,400	0	52,400	35,000								
2004	302,000	38,000	34,000	0	0	374,000	37,750	4,750	4,250	0	0	46,750									
2005	278,000	34,000	31,000	0	0	343,000	34,750	4,250	3,875	0	0	42,875									
2006	255,000	31,000	28,000	0	0	314,000	31,875	3,875	3,500	0	0	39,250									
2007	235,000	28,000	25,000	0	0	288,000	29,375	3,500	3,125	0	0	36,000									
2008	216,000	25,000	20,000	0	0	261,000	27,000	3,125	2,500	0	0	32,625									
2009	199,000	20,000	15,000	0	0	234,000	24,875	2,500	1,875	0	0	29,250									
2010	183,000	15,000	10,000	0	0	208,000	22,875	1,875	1,250	0	0	26,000									
2011	168,000	10,000	0	0	0	178,000	21,000	1,250	0	0	0	22,250									
2012	155,000	0	0	0	0	155,000	19,375	0	0	0	0	19,375									

(1) DOE ESTIMATE OF FIELD PERFORMANCE, DECEMBER 1985.

(2) OPEA'S TEN-YEAR CONTRACT COMMENCED JULY 1, 1985. QUANTITY IS 2.667% OF DAILY PRUDHOE ROYALTY OIL.

(3) TESORO'S CONTRACT IS CURRENTLY AT ITS MAXIMUM QUANTITY OF 24.533% OF DAILY PRUDHOE ROYALTY OIL. THE CONTRACT EXPIRES JANUARY 1995.

(4) ON OCTOBER 1, 1985 TESORO COMMENCED DELIVERIES UNDER 12/9/83 PRUDHOE CONTRACT WHICH HAS A MAXIMUM QUANTITY OF 15.86% OF DAILY PRUDHOE ROYALTY OIL AND EXPIRES JAN. 1, 1995.

(5) CHEV OIL'S CONTRACT CALLS FOR A MAXIMUM QUANTITY OF 9.6% OF DAILY PRUDHOE ROYALTY OIL. THE CONTRACT EXPIRES JANUARY 1, 1995.

daj

(6) DELIVERIES COMMENCED APRIL, 1985 FOR 30,000 BPD OF PRUDHOE BAY UNIT ROYALTY OIL AND 15,000 BPD OF KUPARUK RIVER UNIT ROYALTY OIL, AND WILL CONTINUE FOR ONE YEAR AS A RESULT OF THE DEC. 11, 1984 COMPETITIVE SALE AND THE SUBSEQUENT KUPARUK SOLICITATION. PRIOR TO THAT TIME THIS OIL REMAINED "IN VALUE."

(7) A PROPOSED PETRO STAR/CHEVRON CONTRACT WILL BE SUBMITTED TO THE LEGISLATURE FOR APPROVAL OF A SALE OF 6,500 BPD ROYALTY OIL FROM THE KUPARUK RIVER UNIT. PETRO STAR/CHEVRON INITIALLY WOULD PURCHASE 6,000 BPD. THE CONTRACT IS EXPECTED TO COMMENCE IN LATE 1986 AND EXPIRE SEPTEMBER 30, 1996.

(8) ON FEBRUARY 4, 1986 THE STATE WILL SELL BY COMPETITIVE BID APPROXIMATELY 10,000 BPD FOR A SIX-MONTH TERM COMMENCING JUNE 1, 1986.

(9) Includes only fields in, or planned for production in the near future.

SCOMM

#46:26

STATE OF ALASKA 1986 LEGISLATIVE SESSION
FISCAL NOTE

Revision Date : _____

REQUEST HB 572

Bill/Resolution No. : Law File #377-023-86
Title : Dealing with the State's underground injection well program.
Sponsor : Governor
Requestor Governor
Date of Request : 1-21-86

FISCAL DETAIL

Agency Affected : Natural Resources
BRU : Petroleum Management

Components : _____

EXPENDITURES/REVENUES : (Thousands of Dollars)

OPERATING	FY 86	FY 87	FY 88	FY 89	FY 90	FY 91
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	-0-	-0-	-0-	-0-	-0-	-0-
CAPITAL						
REVENUE						

FUNDING : (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER						
TOTAL	-0-	-0-	-0-	-0-	-0-	-0-

POSITIONS :

FULL-TIME	-0-	-0-	-0-	-0-	-0-	-0-
PART-TIME						
TEMPORARY						

ANALYSIS : Attach a separate page if necessary

Prepared by : Rod Mourant
Division : Management
Phone : 465-2424
Date : 1-22-86

Approved by Commissioner : _____
Agency : Natural Resources
Date : _____

Distribution (by Agency preparing fiscal note) :
- Legislative Finance
- Legislative Sponsor
- Requestor
- Office of Management and Budget
- Impacted Agency(ies)

10/25/85

BILL SHEFFIELD
GOVERNOR

STATE OF ALASKA
OFFICE OF THE GOVERNOR
JUNEAU

February 12, 1986

The Honorable Ben Grussendorf
Speaker of the House
Alaska State Legislature
P.O. Box V
Juneau, AK 99811

Dear Representative Grussendorf:

Under the authority of art. III, sec. 18, of the Alaska Constitution, I am transmitting a bill relating to the Alaska Oil and Gas Conservation Commission (commission). This bill offers revisions to improve the state's proposed underground injection control (UIC) program for injection wells related to the recovery and production of oil and natural gas (Class II wells). It also reinstates statutory authority for affiliation with the Interstate Oil Compact Commission, and conforms certain sections of AS 31.05 to the revised criminal code.

In 1984, CSHB 680 (L&C) was enacted (ch. 91, SLA 1984), which authorized the commission to "take all actions necessary to allow the state to acquire primary enforcement responsibility under 42 U.S.C. 300h-4 (Safe Drinking Water Act of 1974, as amended, 42 U.S.C. 300f-300j), for the control of underground injection related to the recovery and production of oil and natural gas." AS 31.05.030(h). Under this authority, the commission prepared an application for a state UIC program for Class II wells, which has been submitted to the U.S. Environmental Protection Agency (EPA) for approval.

In the context of their review, EPA staff identified certain provisions in AS 31.05 which could be amended to improve the state's proposed program. The amendments were proposed under the terms of a memorandum of agreement between the commission and EPA, Region 10.

Amendment of the criminal provisions of AS 31.05 is recommended by the criminal division of the Department of Law. When the comprehensive rewrite of AS 11 and AS 12 was undertaken in 1981-82, it was determined to be too great a task to attempt amendment of the state's other criminal provisions, scattered throughout the Alaska statutes, at the same time. As this bill amends AS 31.05 for other reasons, I believe it appropriate to take advantage of this opportunity to "clean up" the criminal provisions of AS 31.05 as well, in order to make them consistent with AS 11 and AS 12, as revised.

The amendments to AS 31.05 in the bill are as follows:

Section 1. AS 31.05.027 is amended to eliminate state statutory limitations on the commission's jurisdiction over land of the United States.

Federal law requires that state UIC programs apply to underground injection occurring on property leased or owned by the United States. 42 U.S.C. 300h(b)(1)(D) and 300j-6. However, AS 31.05.027 presently provides in part:

> The authority of the commission. . . applies to land of the United States or to land subject to the jurisdiction of the United States only to the extent that control and supervision of conservation of oil and gas and prevention of waste by the United States on its land fails to carry out the intent and purposes of AS 31.05.005 -- 31.05.170, and otherwise applies to federal land so far as an officer of the United States having jurisdiction, or an authorized representative, shall approve any of the provisions of AS 31.05.005 -- 31.05.170 or orders of the commission which affect land.

The jurisdictional limitations of AS 31.05.027 first appeared as territorial legislation enacted in 1955, when Alaska's relationship to the federal government was far more subservient than after Alaska's acceptance into the Union. As a state, Alaska's potential jurisdiction over oil and gas activities on federal land is limited only by constitutional restrictions on the exercise of state police powers. See Myers, The Law of Pooling and Unitization, sec. 11.04 (2d Ed. 1984). AS 31.05.027 asserts less jurisdiction than is now constitutionally permissible, and would be amended by the bill to remove this potential impediment to the commission's regulation of oil and gas activities on federal land.

Section 2. AS 31.05.070(a) is amended to eliminate the transactional immunity provided as a result of a person

being compelled to testify or produce documents before the commission or a court, and to make its provisions consistent with the revised criminal code.

As it now reads, AS 31.05.070(a) affords a person transactional immunity if compelled to appear as a witness under that statute. This provision could preclude effective enforcement of the state's UIC requirements if it were to be applied to compel testimony of a witness, and consequently foreclosed subsequent prosecution of that witness for violating a requirement of the state's UIC program. The provision is also inconsistent with the immunity provision of AS 12.50.101. The amendments eliminate the immunity provision. Under new language added to AS 31.05.070(a), a witness who asserts his or her privilege against self-incrimination may be granted immunity under AS 12.50.101 -- that is, immunity from the use of his or her testimony and any evidence derived from it. Language that disallows self-incrimination as a ground for excusing attendance, testimony, or production of books and records, is also deleted. That language is potentially unconstitutional, and is unnecessary.

AS 31.05.070(a) also provides that a compelled witness is not exempt from prosecution and punishment for perjury committed while testifying. This provision would also be repealed because it duplicates provisions of the criminal code.

Section 3. New AS 31.05.141 would be placed in a "miscellaneous provisions" article in AS 31.05, to reinstate express authority to affiliate with the Interstate Oil Compact Commission (IOCC). The new statute is patterned after Vt. Stat. Ann., tit. 29, sec. 565 (1983). Section 15, ch. 40, SLA 1955, which created the Oil and Gas Conservation Commission, authorized affiliation with the IOCC. After statehood, sec. 15 became AS 31.05.130 and 31.05.140. Section 2, ch. 247, SLA 1970, repealed AS 31.05.130 and 31.05.140, purging AS 31.05 of that authorization. Of note is the fact that the state is still a dues-paying member of the IOCC.

Sections 4 and 5. AS 31.05.150(a) and (b) are amended to eliminate the "wilful" standard from consideration in the imposition and recovery of civil penalties; to increase imposable civil penalties; to make its provisions consistent with the provisions of the revised criminal code; and to institute criminal liability for violations of the commission's regulations and orders.

AS 31.05.150(a) imposes civil penalties for wilful violations of AS 31.05 or regulations or orders of the commission. However, there is no indication of the type of wilfulness required.

Use of the term "wilfully" in criminal statutes has traditionally required a showing of bad intent. Although evidence of bad intent is generally not required to impose civil penalties, amendment of the statute to eliminate the term would remove any doubt as to the ability of the state to impose civil penalties in the absence of evidence of bad intent.

The amendments would increase the amount of civil penalties imposable under AS 31.05.150(a) from "not more than $1,000" to "no more than $5,000 per day for each day of violation." The $1,000 amount, which was first established in 1955, is now inadequate to deter violations. The increased penalty would more effectively accomplish that.

The bill would amend AS 31.05.150(b), which imposes criminal liability for falsifying records and committing similar offenses, to make the description of those offenses consistent with AS 11.46.630(a)(1)--(4). The class A misdemeanor penalty classification raises the possible maximum term of imprisonment to one year but the amount of the fine is unaffected.

Section 6. AS 31.05.150 is amended by adding a new subsection (f), imposing criminal liability on a person who knowingly violates a regulation or order of the commission.

I urge your prompt action on this measure to strengthen the state's UIC program, to reinstate authority to affiliate with the IOCC, and to update AS 31.05.

Sincerely,

Bill Sheffield
Governor

SCOMM

#46:27

Introduced: 2/17/86
Referred: House Special Committee on
Oil & Gas and Resources

IN THE HOUSE BY HERRMANN AND ADAMS

HOUSE BILL NO. 628

IN THE LEGISLATURE OF THE STATE OF ALASKA

FOURTEENTH LEGISLATURE - SECOND SESSION

A BILL

For an Act entitled: "An Act relating to certain oil terminal operators."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

* Section 1. AS 46.04.050 is amended by adding a new subsection to read:

(b) AS 46.04.040 does not apply to an electric cooperative incorporated under AS 10.25 that operates an oil terminal facility under this chapter.

Oil Spill Financial Responsibility Requirements

1. Who must prove financial responsibility for potential oil spills.

   AS 46.04.040(a) - Everyone who operates an oil terminal facility.

   AS 46.04.120(11) defines oil terminal facility as anyone who transfers, processes, refines or stores oil on or near water.

   AS 46.04.050 exempts facilities with less than 10,000 barrels of storage capacity.

2. Liabilities for which financial responsibility must be proved.

   18 AAC 20.035 requires proof of financial ability to respond to damage for each pollution incident covered by AS 46.04.040(i)

   AS 46.04.040(i) simply refers to the following:

   AS 46.03.760(e) - Liability to the state for full amount of direct and indirect cleanup costs.

   AS 46.03.822 - Strict liability (without regard to fault) for damages to persons or property (public or private) resulting from an oil spill unless the operator can prove the spill resulted from an act of war, intentional or negligent act of an unrelated third party, negligence by the U.S. Government or State of Alaska, or an Act of God.

   AS 46.03.258 - Liability to the state for penalties of:

   $10.00 per gallon of oil in fresh water;

   $2.50 per gallon of oil in an estuary;

   $1.00 per gallon of oil in unconfined saltwater.

   Penalties can be multiplied by 5 as punitive damages.

   AS 46.03.760(a) - Liability to the state for civil penalties of $500 to $100,000 for a violation and $5,000 per day for each day the violation continues.

3. Amount of financial responsibility which must be proved.

AS 46.04.040(a) requires $10 per barrel of storage capacity or $1 million, whichever is greater.

4. How an operator can prove financial responsibility.

18 AAC 20.045 - Possession of Federal Maritime Commission certificate. Not applicable to utilities.

18 AAC 20.055 - Self-insurance. To qualify, an operator must maintain "working capital and net worth" in the amount required in AS 46.04.040(a)-(c)--($1 million). In the Statute, AS 46.04.040(a), the term "working capital and net worth" are not used. The Statute speaks of "ability to respond."

18 AAC 20.065 - Insurance. Underwriter must be an admitted carrier or approved by the Division of Insurance. The policy must be written on an occurrence policy form.

18 AAC 20.075 - Surety Bond. The surety must be registered to do business in Alaska, possess a current U.S. certificate and have sufficient underwriting capacity.

18 AAC 20.085 - Guaranty. This permits some other entity to qualify as a self-insurer and then guarantee the operator's financial responsibility.

5. Criminal penalties for violations.

AS 46.03.790

(a) Violation is a Class B misdemeanor.

(b) Wilfull violation is a Class A misdemeanor.

(c) Each day of violation is a separate violation.

ALASKA RURAL ELECTRIC COOPERATIVE ASSOCIATION, INC.

237 E. FIREWEED LANE • SUITE 301
ANCHORAGE, ALASKA 99503 • (907) 276-3235

February 21, 1986

Representative Mike Davis, Chairman
House Special Committee on Oil & Gas
Alaska State Legislature
Pouch V (MS 3100)
Juneau, Alaska 99811

Dear Mike:

As I indicated in our brief conversation yesterday afternoon, we would really like to get HB 628 moving and hope you will schedule it at the earliest opportunity. This letter is in response to a request from Jonathan for additional information.

Enclosed is a copy of my letter to Representative Herrmann asking that this kind of legislation be introduced. It gives the background to the problem, specifically for Naknek Electric and Nushagak Electric. Both are cooperatives and members of our organization.

Also enclosed is a copy of correspondence from Glen Adams, of the Department of Environmental Conservation, suggesting some other places to look for means of complying with the statute. When I received the letter from Glen, I gave a copy to our insurance consultant and broker, Corroon & Black, Dawson and Company. After they checked out each suggestion, Joe Piccione wrote me a letter detailing their findings. A copy of this letter is enclosed. It indicates conclusively that in today's insurance market, compliance is simply impossible.

Jonathan also asked which utilities have this problem, what are their tank capacities, and how often do they fill their tanks.

At present, Nushagak Electric and Naknek Electric are the only utilities which have had dealings with DEC on this issue. Kotzebue Electric also has new tank capacity sufficient to bring them into the same problem, but DEC has not yet made an issue of it with them. Nome Joint Utilities, a municipal utility, is negotiating to lease tank space to use in 1986. If their negotiations are successful, they will have sufficient capacity to face the same problem. (I hope that my responding fully to Jonathan's questions will not cause problems for Kotzebue or Nome.)

The tank capacities for these four utilities will vary from approximately 20,000 to 35,000 barrels. They typically fill their tanks only once a year. That is why they need so much tank capacity in these ice-bound communities.

We understand that DEC has offered to "look the other way," but even a non-willful violation of this statute is a Class B Misdemeanor. Each day of non-compliance is a separate violation. this is a serious business that simply must be resolved legislatively.

Thank you for your interest. If you have additional information, please let me know.

Sincerely,

Dave Hutchens
Executive Director

Enclosures

DH:ph

ALASKA RURAL ELECTRIC COOPERATIVE ASSOCIATION, INC.

237 E. FIREWEED LANE • SUITE 301
ANCHORAGE, ALASKA 99503 • (907) 276-3235

January 15, 1986

Representative Adelheid Herrmann
Alaska State Legislature
Pouch V (MS 3100)
Juneau, Alaska 99811

Dear Representative Herrmann:

Last November, Claude Franke and Dave Bouker wrote you about a problem they were having -- and expecting to get worse -- caused by a statutory requirement that they buy strict liability insurance for oil spills. Both NEC and NEA have increased their fuel storage capacity in recent years in order to buy competitively priced oil and store it themselves. It was increasing their tank capacity above 10,000 barrels that makes this statute apply to them.

For 1985 we went through great difficulty to find a way to help these two small coops comply with the law. Their regular policy for general liability insurance issued by the ARECA Insurance Exchange provided $500,000 of oil spill insurance. There was no other oil spill liability insurance available for them to buy at any price.

To get the additional $500,000 in coverage for them, what we had to do was to get them to indemnify the Exchange and post an irrevocable letter of credit payable to the Exchange to cover costs of oil spills between $500,000 and $1 million, and the Exchange then issued the insurance policy. This insurance policy met the DEC requirements, but the coops were fully responsible for any losses exceeding $500,000 which might have occurred. This arrangement cost them the fee for the letter of credit and the expenses incurred by the Exchange for setting it up. Much more importantly, this approach tied up a major part of their credit capacity which then could not be used for normal business requirements.

For 1986, even the ARECA Insurance Exchange is completely unable to provide oil spill insurance because it is not possible for us to buy reinsurance covering oil spills. This means that the only way for NEC and NEA to comply with the law is go through the cumbersome and expensive process of retaining the

entire risk of the $1 million policy limit, and have the Exchange issue the $1 million policy. But this would use nearly their entire line of credit! They might not even be able to borrow the money to buy the fuel which they would have sole responsibility to clean up if they spilled some of it.

This is an absurd situation which requires a legislative solution this session. Claude and Dave sent you a draft providing an easy way of resolving the problem. Our idea is that a certificate of public convenience and necessity for a utility should be proof in itself of financial responsibility. A utility isn't going anywhere. If a spill occurs, they will still be there and have the financial ability to pay for the clean up.

After consulting with the attorney who drafted it, I have slightly reorganized the proposed statutory amendment. We hope you will introduce a bill to resolve the problem being experienced by NEC and NEA and push it through to passage.

Sincerely,

David Hutchens
Executive Director

DH/CF

cc: Claude Franke, NEA
Dave Bouker, NEC

Bcc: Ken Johnson

STATE OF ALASKA

DEPT. OF ENVIRONMENTAL CONSERVATION

BILL SHEFFIELD, GOVERNOR

Telephone:(907) 465-2653
Address: Box 0
Juneau, Alaska 99811

January 27, 1986

JAN 29 1986

Mr. Dave Hutchens
ARECA Insurance Exchange
237 East Fireweed Lane, Suite 301
Anchorage, AK 99503

Dear Dave:

During your phone call last week to myself and Paul O'Brien, Manager of the Oil Pollution Program, problems of obtaining adequate insurance coverage for oil pollution damages were discussed. Paul agreed that I would review our files and send you the names of insurance underwriters that have current policies in force. I reviewed the files and came up with four underwriters and information on what other fuel handling companies are doing (enclosed). I am also sending a copy of the report from the Task Force on Insurance Availability and Pricing.

The Department of Commerce and Economic Development, Division of Insurance said they can provide "special market assistance" to the broker, their address is on the Task Force report. We will continue to work with the industry in every way that we can.

Sincerely,

Glenn Adams

Glenn Adams
Oil Pollution Control
Division of Environmental Quality

cc: Keith Kelton, Director
Bill Ross, Commissioner
Representative Adelheid Herrmann
Representative Rich Yehling
Senator Fred F. Zharoff

January 23, 1986

INSURANCE INFORMATION FOR FUEL STORAGE FACILITIES

The following information is taken from current files that require proof of financial responsibility for oil pollution for "fuel storage facilities." This information is not an endorsement or recommendation but is provided in an attempt to help locate insurance coverage that will comply with Sec. 46.04.040(e) and 18 AAC 20.065.

Insurance underwriters and brokers that have currently active policies:

1. Lloyd's London and various companies
   Broker - Pacific International Brokers, Ltd.

2. Employers Mutual Casualty Company
   Broker - Mutual Marine Office, Inc.

3. National Union Fire Insurance Company of Pittsburgh, Pa.
   Broker - Alaska 100 Insurance

4. Midlands Insurance Company, Inc.
   by West Coast Marine Managers, Inc.
   Broker - Nasman and Associates, Inc.

The 34 files (representing 67 facilities) are broken down to show how many are using other means of providing proof of financial responsibility.

Surety Bonds	4
Guaranty	3
*Self-Insurance	12
Government	3
Insurance	8
Other	7

* Some use this means to cover deductible or financial records requirements for guaranty.

Of the eight showing insurance as their preference, five have policies that expired this December and January and are trying to renew their policies. There are seven new owners/operators that have not returned their application forms or shown what means of proof they intend to use.

Glenn Adams
Oil Pollution Control

CORROON & BLACK, INC.

4220 "B" Street
Anchorage, Alaska 99503
907-562-2266 Telex: 25-109

February 6, 1986

David Hutchens
Chairman
ARECA Insurance Exchange
237 East Fireweed Lane, Suite 301
Anchorage, AK 99503

RE: Pollution Liability

Dear Dave,

Pursuant to your request for current information on the availability of Pollution Liability coverage for Alaska risks required to provide proof of financial responsibility for oil pollution for "Fuel Storage Facilities", in compliance with Alaska Statute Sec. 46.04.040(e) and 18AAC 20.065, here are my findings after contacting various carriers and brokers, including those insurance underwriters and brokers who have current active policies.

(1) Lloyds of London & various companies - This market does not offer on-shore Pollution coverage and has not done so since 1983.

(2) Employers Mutual Casualty Co. - This market does not write monoline Pollution Liability coverage. They are a member of the Pollution Liability Insurance Association (PLIA) and only offer Pollution Liability coverage in conjunction with other lines of coverage (Property, General Liability, and Business Auto.) Further information revealed that they do not write this coverage in Alaska although they are an admitted carrier in the state of Alaska.

(3) National Union Fire Insurance Company of Pittsburgh, Pa. - This is the only insurance carrier that I was able to confirm is still affording monoline Pollution Liability coverage for on-shore storage facilities. Their form does not comply with Alaska Statute unless endorsed to provide Defense Costs for plaintiff's attorneys as a supplemental limit. Basic form includes Defense Costs within the Aggregate Limits of Liability. Further, their form does not

comply with Alaska Statute unless amended to remove the exclusions pertaining to resultant Property Damage to: (a) Property owned or occupied or rented to the Insured, (b) Property used by Insured, or (c) Property in the Care Custody or Control of the Insured or as to which the Insured is for any purpose exercising physical control.

It is extremely unlikely that this carrier would remove these standard exclusions pertaining to damage occurring to and on the Insured's premises, including the cost of clean-up.

(4) Midlands Insurance Company, Inc. - This particular insuror has an A. M. Best's "Omitted" rating. The financial security of this market is questionable. In contacting this carrier, I was advised that they are no longer a Pollution Liability coverage market.

In summary, 97% of the capacity previously available has disappeared during the last 12 months. The premiums for Pollution Liability coverage have sky rocketed up to 1000%. There is only one available monoline Pollution Liability market writing in Alaska. This carrier is National Union Fire Insurance Company of Pittsburgh, Pa. with an A. M. Best rating of A+ XV. They have recently announced that as of December 1985 they do not want to write risks that are primarily tank oriented. Therefore, availability is questionable since their recent announcement. If even available, the terms offerred are subject to $250,000 minimum deductible at a cost indication of between $40,000 - $250,000. Limits available, if offerred, are up to $10,000,000.

Further checking found that there is a Pollution Liability Insurance Association, referred to as PLIA, with approximately 18 member insurors, including but not limited to, Employers Mutual Casualty Company, Chubb Insurance Group, U. S. Fire, Crum & Forestor, Ranger, Century, and Industrial Indemnity. Unfortunately, a lot of these insurors do not write in Alaska and all member companies require the supporting lines of coverage (Property, General Liability, and Business Auto) be written with them to consider entertaining Pollution placement.

We have also explored the possibility of purchasing a Surety Bond or Financial Guaranty as another means of providing proof of financial responsibility. Neither of these two means are true insurance, but rather an immediate remedy to a demand for payment should a loss occur. The ultimate responsibility for

the loss is still born by the individual utility, since this is really a pass-through coverage via the indemnity requirement of the Bond or Guaranty.

The premium for such coverage is very expensive and at times equal to the Bond limit or Guaranty required, plus the cost of the Bond. With the deteriorating experience on this type of bonding, the number of carriers willing to write are limited, and those who write the coverage are very expensive.

I hope that my findings will be helpful to you in presenting the Pollution Liability coverage options available, or the lack thereof, for your member utilities.

Sincerely,

Joe Piccione, CPCU
Marketing Manager

JP:sd

Attachment

cc: Wayne Brown
Nancy Jo Brown

Sec. 46.04.040. Proof of financial responsibility. (a) A person may not cause or permit the operation of an oil terminal facility in the state unless he has furnished proof of financial ability to respond in damages which has been accepted by the department. Ability to respond in damages need not exceed $50,000,000 but must be in an amount (1) not less than $10, per incident, for each barrel of storage capacity at the oil terminal facility; or (2) $1,000,000, whichever is greater.

(b) After July 1, 1981, a person may not cause or permit the operation of an offshore exploration or production facility in the state unless proof of financial ability to respond in damages has been accepted by the department. Proof of financial responsibility may not be less than $35,000,000 per incident.

(c) A person may not cause or permit the transfer of oil to or from a tank vessel, or, after January 1, 1981, to or from an oil barge, unless proof of financial responsibility for the tank vessel or barge has been accepted by the department. Financial responsibility under this subsection shall be in the following amounts:

(1) for a tank vessel or oil barge involved in the transportation of trans-Alaska pipeline oil, the amount required by the Federal Maritime Commission under sec. 204(c)(3) of the Trans-Alaska Pipeline Authorization Act (43 U.S.C. sec. 1653(c)(3));

(2) for any other oil barge, the amount required by sec. 311(p)(1) of the Clean Water Act, or $1,000,000, whichever is greater;

(3) for any other tank vessels, the amount required by sec. 311(p)(1) of the Clean Water Act, or $20,000,000, whichever is greater.

(d) Except for prosecutions under AS 46.03.790(b), it is not a defense to an action brought for violation of (c) of this section that the person charged believed in good faith that the vessel operator possessed proof of financial responsibility accepted by the department.

(e) Financial responsibility may be demonstrated by self-insurance, insurance, surety, or guarantee, under terms the department may prescribe. An action brought under AS 46.03.758, 46.03.760(a) or (e), or 46.03.822 may be brought in a state court directly against the insurer or another person providing evidence of financial responsibility. The applicant, and an insurer, surety, or guarantor shall appoint an agent for service of process in the state. An insurer must either be authorized by the Department of Commerce and Economic Development to sell insurance in the state or be an unauthorized insurer listed by the Department of Commerce and Economic Development as not disapproved for use in the state.

(f) Acceptance of proof of financial responsibility expires

(1) one year from its issuance for self-insurance;

(2) on the effective date of a change in the surety bond, guarantee, or insurance agreement; or

(3) on the expiration or cancellation of the surety bond, guarantee, or insurance agreement.

(g) The person whose proof of financial responsibility is accepted by the department under this section shall notify the department at least 30 days before the effective date of a change, expiration or cancellation in the surety bond, guarantee, or insurance agreement. Application for renewal of acceptance of proof of financial responsibility under this section must be filed at least 30 days before the date of expiration

(h) The department, after notice and hearing, may revoke acceptance of proof of financial responsibility if it determines that

(1) acceptance was procured by fraud or misrepresentation; or

(2) a change of circumstance has occurred other than a change specified in (f)(1) — (3) of this section, which would have warranted denial of the application.

(i) Financial responsibility under this section extends to a loss compensable under AS 46.03.760(e) or 46.03.822 and an assessment under AS 46.03.758 or 46.03.760(a). (§ 2 ch 116 SLA 1980; §§ 117, 118 ch 59 SLA 1982)

Sec. 46.04.050. Exemptions. Because of the restricted nature of the operations and the minimal danger to the environment posed by the activities, AS 46.04.030, 46.04.040 and 46.04.060 do not apply to an oil terminal facility that has an effective storage capacity of less than 10,000 barrels of oil. (§ 2 ch 116 SLA 1980)

Sec. 46.04.060. Inspections. Oil terminal facilities, offshore exploration and production facilities, tank vessels, and oil barges are subject to inspection by the department to ensure compliance with the provisions of this chapter. (§ 2 ch 116 SLA 1980)

Sec. 46.04.070. Scope of regulations. The department shall adopt regulations which are necessary to carry out the purposes of this chapter and which do not conflict with and are not preempted by federal law or regulations. (§ 2 ch 116 SLA 1980)

SCOMM

#46:28

Proposed CS for HR 9

Title Change: Relating to energy resources.

WHEREAS effective April 15, 1985, the Department of Natural Resources assessed royalties on Cook Inlet Basin natural gas at current market rates instead of contracted rates, thereby raising the price of royalty gas the state sells to producers; and

WHEREAS the increase in the price of royalty gas has increased electric rates by no more than 4 percent to Southcentral energy consumers; and

WHEREAS Southcentral energy consumers enjoy the lowest electric rates in Alaska and some of the lowest electric rates in the United States; and

WHEREAS Southcentral energy consumers will continue to enjoy the lowest electric rates in Alaska and some of the lowest electric rates in the United States, notwithstanding this rate increase; and

WHEREAS the state is presently experiencing a $436,000,000 decline in FY 86 revenues due to a decrease in the value of crude oil; and

WHEREAS selling the royalty share of Cook Inlet Basin natural gas to producers at below-market contracted rates will decrease general fund revenues by an additional $7,000,000 per year; and

WHEREAS conflicting policies exist regarding the value and best use of the state's royalty share of energy resources;

WHEREAS these policy conflicts have led to regional disputes regarding energy costs;

BE IT RESOLVED that the House of Representatives urges the Governor to direct the administration to develop a comprehensive and equitable statewide energy policy that encourages the efficient use of energy; and

BE IT FURTHER RESOLVED that existing and proposed state energy subsidy programs be reviewed and that, where possible, these programs be made consistent with this policy.

MEMORANDUM State of Alaska

TO: Esther C. Wunnicke, Commissioner
Department of Natural Resources
and Kay Brown, Director
Division of Oil and Gas
Department of Natural Resources

DATE: April 26, 1985

FILE NO:

TELEPHONE NO:

FROM: NORMAN C. GORSUCH
ATTORNEY GENERAL

By: Mark P. Worcester
Assistant Attorney General
Oil, Gas and Mining-Anchorage

SUBJECT: Dale Teel "Letter to the Editor" in the Anchorage Daily News.

On April 24, 1985 the Anchorage Daily News published a "Letter to the Editor" from Dale Teel, President of Enstar Natural Gas Company. A copy of that letter is attached. If any response is made, the following comments would appear to be appropriate.

1. Mr. Teel states that the royalty enforcement action would be "with no established legal basis -- with no public hearings, no regulations, and no Alaska court decisions to support that decision ...." Of course, the "legal basis" for the action is found in the terms of the leases issued many years ago to the oil companies. Apparently, Mr. Teel will justify his position that there is no "established" legal basis for the state's action upon the proposition that no regulation and no Alaska court decision has interpreted the oil and gas leases to require current market valuation of the state's royalty shares. If this is Mr. Teel's argument, it is fatally flawed, because there is also no Alaskan court decision and no regulation which supports the position he would advocate. Alaskan case law is silent on the issue. In the absence of court decision and regulations, the only basis for construing the obligations of the gas producers must be found in the lease forms themselves. The lease forms are precisely what the state's enforcement action is based upon.

2. Mr. Teel asserts that the long-term contracts were the result of "tough arm's-length negotiations in 1971 and in 1974 ...." However, Mr. Teel does not explain to the readers that those "tough" negotiations resulted in Enstar's commitment to purchase the one-eighth royalty share of gas at the values required by the leases between the state and the oil companies. This contract term demonstrates that the oil companies and Enstar both fully recognized that the one-eighth royalty share could be valued at a level higher than the contract price. Accordingly, the action by the state does not frustrate any of the purposes of

the "tough" long-term contracts negotiated by Enstar in 1971 and 1974. Instead the contracts specifically anticipated and provided for the eventuality of this royalty enforcement action.

3. Mr. Teel states that the state's action means the royalty share of gas which Enstar buys under its 1974 contract with the oil companies "will be priced" according the new 1982 contracts rather than the 1974 contract. This is incorrect. The state is not party to the Enstar-oil company contract and hence has not set a "price" for it. Rather, the state is merely enforcing its lease (contract) with the oil companies that the one-eighth royalty share be value and paid according to its current market price or value. As stated above, Enstar's own 1974 contract sets Enstar's "price." In that contract Enstar agreed to be responsible for any additional royalty amounts.

4. Lastly, Mr. Teel claims that the state's action constitutes a departure from a "25 year standard." There is no "25 year standard." Historically, long-term contract prices fairly reflected the then-current market value. It was not until December 1982, when Enstar negotiated new contracts at rates between three and ten times higher than the long-term contracts that objective evidence of a disparity between old long-term contract prices and current market prices and values was available. Thus, if anything, there is a "two year standard." However, there really was no "standard" at all, even between December 1982 and the recent notices. In that period the state never agreed to the propriety of the oil company royalty payments, and the six year statute of limitations for challenging the adequacy of the payments had not run for any of the additional royalties due after December 1982.

I have also enclosed a "synopsis" of Peter Ginder's testimony before the Legislature on April 11, 1985. Mr. Ginder is counsel for Enstar. The synopsis appears to be a rewrite, rather than a true synopsis. I have not prepared any rebuttal to this statement (which Enstar is apparently planning on circulating widely). If a rebuttal is desired, please let me know.

MPW/ma

enclosure

cc: Norman C. Gorsuch
Attorney General

Alaska State Legislature
House

Official Business

Pouch V
State Capitol
Juneau, Alaska 99811

MEMORANDUM

3/28/85

TO: ALL REPRESENTATIVES

FROM: REPRESENTATIVE VIRGINIA COLLINS

RE: HOUSE RESOLUTION 9

On March 19, 1985, Esther Wannicke, Commissioner of the Alaska Department of Natural Resources announced a far-reaching policy decision which will affect the rates consumers pay for gas-fired power for, literally, hundreds of thousands of citizens residing throughout South Central, Fairbanks and interior regions of our State. The policy decision assesses royalties on national gas at current market rates instead of contracted rates, thereby raising the price of royalty gas that the State sells to producers, which in turn is passed on to consumers.

This policy, which is scheduled to take effect April 1, 1985, will increase electric rates for South Central consumers by as much as 20%. Further, this policy will increase the cost of natural gas-fired electrical energy to be transmitted to the Fairbanks/Interior Region over the Anchorage-Fairbanks transmission intertie.

It is for these reasons that I ask you to join me in supporting a House Resolution which calls upon the Governor to direct the Department of Natural Resources to suspend its decision pending legislative review of its impact upon the utility consumers of our State.

Thank-you for your assistance and valued support.

Chugach Electric Association
1984 Annual Report

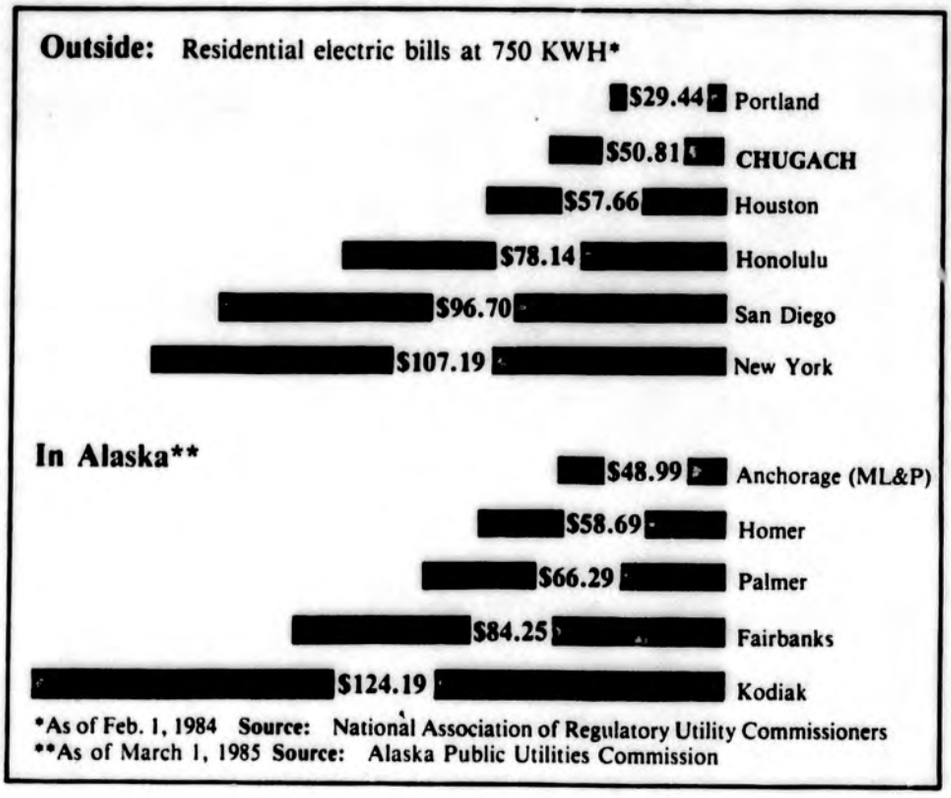
How our rates compare

Chugach consumers enjoy some of the lowest electric rates in the nation, thanks in part to a long-term supply of inexpensive natural gas used to generate power.

Statistics compiled by the National Association of Regulatory Utility Commissioners show that consumers in New York City pay $107.19 for 750 kilowatt hours (kWh) of electricity, more than double the $50.81 charged by Chugach.

Residents of Tampa Fla., pay $60.74 for 750 kilowatt hours while those who live in Philadelphia pay $73.08.

Chugach's rates have remained suprisingly constant over the past 30 years, although electrical usage has soared. The average residential usage in 1984 was 805.4 kWh per month.



*As of Feb. 1, 1984 **Source:** National Association of Regulatory Utility Commissioners
As of March 1, 1985 **Source: Alaska Public Utilities Commission

Electricity's Surging Cost

Average residential electric bills climbed 7.9 percent in 1984, nearly twice as fast as the 4.0 percent inflation rate.

A national survey by utility regulators found power costs varied widely, with consumers in the Northeast paying the most and those in the Northwest the least. New York City's rate was the highest in the nation.

The 25 most expensive and 25 least expensive cities by kilowatt hour in 1984:

25 Most Expensive

	Average KWH Cost	1-Year Change
New York City	16.17¢	+ 4.1%
Kahului, Hawaii	14.33¢	+ 8.3%
Nantucket, Mass.	14.31¢	+ 7.6%
Hilo, Hawaii	13.92¢	+10.7%
Middletown, N.Y.	13.78¢	+ 0.3%
Long Beach, N.Y.	13.05¢	+10.5%
Boston, Mass.	12.77¢	+30.8%
Poughkeepsie, N.Y.	12.14¢	+11.5%
Dover Township, N.J.	12.01¢	− 5.8%
San Diego, Calif.	11.79¢	− 6.1%
Fitchburg, Mass.	11.55¢	+20.1%
Bergen County, N.J.	11.43¢	−14.6%
Newark, N.J.	11.31¢	− 1.1%
Honolulu	11.30¢	+ 9.4%
Exmore, Va.	11.23¢	+ 1.5%
Gary, Ind.	11.20¢	+22.3%
Bridgeport, Conn.	11.14¢	+11.6%
Bridgeton, N.J.	11.07¢	− 2.0%
Chicago, Ill.	10.80¢	+ 4.6%
Philadelphia, Pa.	10.80¢	+20.9%
Pawtucket, R.I.	10.78¢	+21.8%
Wilmington, Del.	10.75¢	− 2.8%
Elkton, Md.	10.65¢	+21.0%
Fall River, Mass.	10.60¢	+12.2%
Davenport, Iowa	10.57¢	—

25 Least Expensive

Billings, Mont.	3.55¢	−15.5%
Spokane, Wash.	3.61¢	+23.0%
Boise, Idaho	3.85¢	+ 8.5%
Ontario, Oreg.	3.85¢	+11.0%
Portland, Oreg.	3.91¢	+10.8%
La Grande, Oreg.	4.37¢	+21.1%
Casper, Wyo.	4.92¢	+ 7.4%
Bellevue, Wash.	4.96¢	+35.2%
Ashland, Ky.	5.20¢	+ 1.6%
Duluth, Minn.	5.45¢	+ 1.5%
Franklin, N.C.	5.46¢	+35.5%
Marietta, Ohio	5.48¢	− 0.1%
Cheyenne, Wyo.	5.55¢	+21.7%
Washington, Pa.	5.56¢	+ 3.3%
Las Vegas, Nev.	5.67¢	−27.4%
Rutland, Vt.	5.74¢	+ 5.7%
Kingsport, Tenn.	5.75¢	+ 2.2%
Flint, Mich.	5.82¢	+ 2.4%
Juneau, Alaska	5.85¢	+ 3.2%
Lexington, Ky.	5.85¢	0%
La Crosse, Wis.	5.89¢	+ 7.9%
South Beloit, Ill.	5.91¢	− 1.1%
Fargo, N.D.	5.95¢	− 3.8%
Burlington, Vt.	5.98¢	− 4.6%
Parkersburg, W.Va.	6.08¢	− 1.8%

Resource policies not always popular

By ESTHER WUNNICKE

No decision is more difficult for a public official than one that may hit people in their pocketbooks. Such is the case with the Cook Inlet royalty gas decision you've been reading about recently.

There's more than money at stake here. There's also a fundamental question of fairness for Alaskans everywhere, including the people of Anchorage and the Southcentral area.

Alaskans living on the shores of Cook Inlet enjoy plentiful, inexpensive natural gas for home heating and power generation. A good share of that gas is produced from fields owned by all of the people of Alaska and leased to private industry for development, just as the giant Prudhoe Bay field is.

For years, the price local public and private utilities paid for this gas has remained very low, under long-term contracts between the utilities and the gas producers. And except for the share due the state as landowner, those prices will continue to stay low until the contracts expire in 1986, 1992 and 1994. We're all thankful for that.

While industry is producing Cook Inlet gas used by thousands of Alaskans in the Southcentral area, a portion of that gas is owned by all Alaskans. That smaller ownership share, called a royalty, equals 12.5 percent of the gas from these fields. The state reserved this 12.5 percent as the public's share when the leases were awarded.

It's this royalty gas — less than 5 percent of all gas used for home heating or power in the Anchorage area — that is at issue in a pricing decision I announced in mid-March. That decision which took effect April 1, seeks to capture the prevailing market value for this publicly owned gas, a value established by sales contracts for other gas produced in Cook Inlet.

That prevailing market value is $2.05 per thousand cubic feet, compared to the 21 to 61 cents the public has been earning on its gas under the long-term contracts. The result of the March pricing decision could bring an extra $7 million a year to the public treasury.

On the other hand, what does this decision mean to your utility bill?

The increase in monthly rates would be between 2 percent and 4 percent, according to estimates from Enstar and Chugach Electric. For the average home serviced by Chugach using approximately 800 kilowatt-hours a month — a total monthly bill of about $57 that translates into an increase of about $2.30 per month. For an Enstar customer who consumes a monthly average of 16,000 cubic feet of gas, the average monthly bill of $44 would increase by about 90 cents.

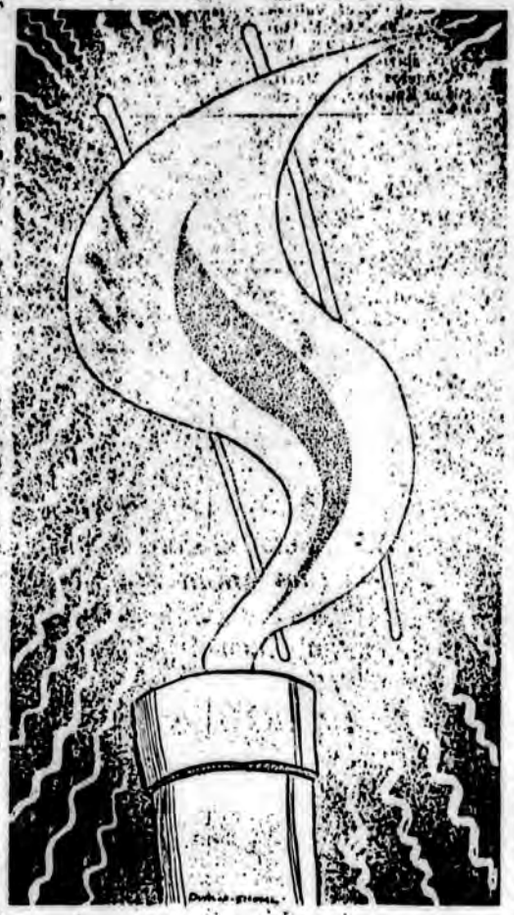
No public official, elected or appointed, wants to take money out of people's pockets unless a greater public good is served. That's the case here.

The principle underlying the Cook Inlet gas decision is the same being pursued on the public's behalf on a wide variety of fronts, both in court and out. Last year, for example, the Phillips Petroleum Co. paid the state $36 million in additional royalties for publicly owned gas from five Cook Inlet leases, following an agreement between the company and the state on how to value royalty gas. That agreement did not result in higher Anchorage area utility bills because the gas is not used by local consumers, but the principle is the same.

Likewise, the state is involved in several lawsuits seeking to establish accurate values for oil and gas on the North Slope. Billions of dollars are at stake in this ongoing effort to obtain for the people what is their due — a maximum benefit for their resources.

I fully appreciate the desire to keep consumer gas and electricity prices as low as possible. This cannot be done, however, by hidden subsidies to Southcentral consumers through a disregard of the state's oil and gas leasing laws and contracts.

The state currently is investing hundreds of millions of dollars to ensure the energy needs of all Alaskans are met, including those in the Railbelt. Some of that investment has been directed first to the rural areas of Alaska, where residents often pay a quarter of their annual incomes for home heating and electricity. The state also is nearing completion of the $150 million electrical intertie between Anchorage and Fairbanks, plans to begin construction next year to the Bradley Lake hydro project near Homer, and is continuing to pursue the Susitna hydro project. Toward those ends and more, Gov. Sheffield has worked with the legislature to appropriate $250 million during this session to a power development fund.



As the governor told a statewide conference on alternative energy last month, Alaska may or may not build Susitna, depending on the future price of oil, agreement on power sales contracts, and the securing of financing.

"But I believe we're going to have to build something that will fulfill the growing demand for affordable, dependable power in Anchorage, the Kenai Peninsula and the Railbelt," the governor said. "It may be a series of coal-fired plants, the Susitna and Bradley Lake dams, or alternative energy facilities. More likely, it will be some combination of methods, including better conservation."

To help finance that affordable, dependable energy future for Alaska, as well as take care of all our other needs, the department of Natural Resources is required by law to maximize the people's return on natural resource development. That requirement may not always be popular, but it is a wise one for our state and our future.

□ Esther Wunnicke is Alaska Commissioner of Natural Resources.

Energy decisions hurting Anchorage

BY VIRGINIA COLLINS

If there is equity in our statewide energy program, you won't find it in Anchorage.

From 1977 through 1985 the Anchorage area received only one-fifth of the $1.65 billion appropriated for state energy projects and subsidy programs, including Susitna, yet Anchorage metropolitan area residents make up over one-half of the state's population! In other words, for every energy dollar appropriated over the last nine years, 20 cents was earmarked for Anchorage and 80 cents for the remainder of the state.

Now the state has implemented a new policy which will have the effect of a hidden state tax on Anchorage and Southcentral area utility customers. The cumulative impact of this policy will increase electric utility and gas bills by more than $3 million annually or more than $30 million over the next 10 years.

On April 15, 1985, the Department of Natural Resources began assessing higher royalty values on Cook Inlet natural gas it sells to producers. The royalty price increase will be passed on to Chugach Electric and Enstar customers comprising approximately 250,000 residents throughout the Mat-Su Valley, Anchorage and Kenai Peninsula.

In defense of its decision, the department of Natural Resources would have us believe that it is statutorily obligated to implement this new policy on the grounds that this action would "assure full and proper royalty collection for the benefit of all the citizens of Alaska."

In a nutshell, this new state policy implies that the citizens of Anchorage and Southcentral Alaska do not qualify to participate fully in the benefits accorded to other citizens of the state — namely, lower utility rates than would be possible without state assistance.

The state has clearly established its commitment to energy subsidies throughout most other areas of the state in a effort to reduce the escalating costs of power; examples include the $500 million Four-Dam Pool for Southeast, Kodiak, Valdez and Glennallen; a much-needed $21 million annual appropriation for power cost assistance in rural Alaska and a $150 million Railbelt transmission line intertie that will enable the Fairbanks/Interior area to avail itself of low cost, natural gas-generated power from Anchorage.

It is true that Anchorage area residents currently enjoy reasonable power rates relative to rural communities; nonetheless these rates are due to increase dramatically within a few short years. The state's decision to assess higher royalty taxes which will be passed on to Anchorage area utility consumers raises fundamental questions about the fairness of subsidizing energy costs for one-half of the state's population while simultaneously taxing the other half; in effect creating two classes of citizens, the subsidized and the de-subsidized.

This issue is greater in scope than the question of whether or not the state should assess higher royalties on Cook Inlet natural gas.

The Alaska Constitution requires that "The legislature shall provide for the utilization, development and conservation of all natural resources belong to the state . . . *for the maximum benefit of its people.*" It is, therefore, the legislature's constitutional responsibility to determine if the state's policy to assess higher royalties for Cook Inlet gas meets the test of providing for the "maximum benefit" of all Alaskan citizens, rural and urban alike.

Clearly, that is not the case for the 250,000 people who live in our state's largest urban area — Anchorage.

The issue of "fairness" in the implementation of our state's energy policy will not fade away. If we fail to address it now, it will come back to haunt us another day and will galvanize public opinion of every utility ratepayer in Alaska.

□ Virginia Collins, a Republican, represents Midtown Anchorage in the Alaska House of Representatives.

STATE OF ALASKA

BILL SHEFFIELD, GOVERNOR

DEPARTMENT OF NATURAL RESOURCES

OFFICE OF THE COMMISSIONER

POUCH M
JUNEAU, ALASKA 99811
PHONE:

March 11, 1985

The Honorable Ben Grussendorf, Speaker
Alaska State House of Representatives
Pouch V
Juneau, Alaska 99811

Dear Speaker Grussendorf:

Attached for your information is a recently completed update of Cook Inlet Oil and Gas data prepared by the Division of Oil and Gas. This information updates figures in the Historical and Projected Oil and Gas Consumption report, which was submitted to you in January, 1985.

Total remaining Cook Inlet gas reserves were previously estimated to be 3.26 trillion cubic feet (Tcf) as of January 1, 1984. The revised estimate of Cook Inlet reserves is 4.46 Tcf as of January 1, 1985.

Inclusion of additional gas reserves from the Grayling gas sands (Trading Bay Unit) and incorporation of gas reserves from the Stump Lake Units, Cannery Loop Unit, and Pretty Creek Unit were primarily responsible for the increase in gas reserves.

Assuming current use patterns are maintained, we estimate that cumulative use of natural gas from Cook Inlet fields will be 3.3 Tcf between 1985 and 1999. Thus, it appears that there are sufficient gas reserves to meet projected needs in the railbelt for more than 15 years.

An estimate of state royalty oil available from Cook Inlet fields is also attached.

If you have questions about this information please do not hesitate to contact me.

Sincerely,

Esther C Wunnicke

Esther C. Wunnicke
Commissioner

Attachments as stated

cc: Members of the House of Representatives

10-J9 LH

AVAILABILITY OF
COOK INLET ROYALTY OIL

Year (1)	Barrels Per Day
1985	5935
1986	5032
1987	4290
1988	3645
1989	3097
1990	2645
1991	2226
1992	1903
1993	1613
1994	1387
1995	1181

(1) As of January 1 of each year

Department of Natural Resources
Division of Oil and Gas
March, 1985

COOK INLET GAS RESERVES *
(Billions of Cubic Feet)

FIELD	REMAINING RECOVERABLE GAS (as of Jan. 1, 1985)	STATE ROYALTY SHARE (as of Jan. 1, 1985)
Kenai	850	17
North Cook Inlet	650	81
Beluga River	800	60
Swanson River	260	0
Cannery Loop	300	9
McArthur River & Trading Bay	650	81
Beaver Creek	230	0
Cook Inlet Associated Gas	60	7
Ivan River - Lewis River - Pretty Creek - Stump Lake	600	75
Other	63	8
Totals	4463	338

* Department of Natural Resources
Division of Oil and Gas
Updated March 1985

STATE OF ALASKA

BILL SHEFFIELD, GOVERNOR

DEPARTMENT OF NATURAL RESOURCES

POUCH M
JUNEAU, ALASKA 99811
PHONE: 907-465-2400

OFFICE OF THE COMMISSIONER

April 2, 1985

The Honorable Mike Davis
Alaska State House
Pouch V
Juneau, AK 99811

Dear Mike Representative Davis:

On March 18, 1985, the Department of Natural Resources (DNR) notified certain Cook Inlet gas producers that effective April 1, 1985, the state would no longer accept long-term contract prices as determinative of value of the state's royalty share of gas from the Kenai, Sterling, Beluga River, Trading Bay, and McArthur River Fields. The effective date of this notice has since been modified to April 15, 1985.

The mandate of DNR is to administer the state's leases in accordance with their terms and applicable law, and thereby to collect full and proper royalties for the extraction and use of the state's natural resources. DNR determined that royalties should be based on the current value of the gas which may or may not be reflected by long-term contract prices. The Department of Law has advised DNR that its action is supported by decisions in courts outside Alaska which have addressed this issue. It is also consistent with the position that the federal government and Cook Inlet Region, Inc. (CIRI) have expressed in current litigation with Union Oil Company under federal and CIRI leases in Cook Inlet.

As you can see from the enclosed exhibits, this decision affects only 4.4 percent of the gas stream allocated to consumer use. Chugach, the utility likely to be most affected by the Notice, testified before the Anchorage Caucus today that rates to their customers would increase approximately 4 percent as a result of the decision. The department estimates that the increase to Enstar consumers would be approximately 1/2 of 1 percent. The exhibits also explain the location of the fields, contract prices, current prices, producers, and how state royalty gas is allocated. I also believe my testimony before the Anchorage Caucus today will enable you to better understand both the Administration's efforts to enforce the provisions of the state leases and the fundamental issues of contract enforcement which are at stake. A copy of that testimony is enclosed.

10-J9LH

We understand the concerns raised by our decision. My staff and I stand prepared to work with the Legislature to address these concerns.

Sincerely,

Esther

Esther C. Wunnicke
Commissioner

Enclosures:
- Testimony
- Charts (2)
- Pie Charts (2)
- Map

STATEMENT

BY

ESTHER C. WUNNICKE, COMMISSIONER

DEPARTMENT OF NATURAL RESOURCES

TO

ANCHORAGE CAUCUS

April 2, 1985

Thank you. You've asked that I provide the Anchorage Caucus with information about our recent decision regarding the valuation of state royalty gas.

It has been the consistent policy of the Department of Natural Resources in managing resources to obtain maximum benefit - in this case revenues - for the people of Alaska.

The department recently notified Cook Inlet lessees that the state will no longer accept royalty valuation based on long-term contract prices that are significantly below market value. This action will increase income to the state treasury by more than $8 million dollars a year.

Although this is not a popular decision since it may increase the price of electricity and gas in the southcentral area, I nonetheless determined that the best interests of the state required us to take this action. But because of the impact this may have on consumers, Governor Sheffield has asked me

to postpone the effective date of the decision, which was to be April 1, for two weeks to April 15 in order to give the Legislature, the public and the producers more time to consider their responses to the decision.

I'm going to explain the legal basis for the decision and briefly address some of the issues we considered.

The Cook Inlet gas situation is complex, involving multiple owners and uses. Cook Inlet gas goes to Japan as LNG, and is used locally to make ammonia and urea, pressurize an oil field, heat greenhouses, make electricity and heat homes and businesses. Staff from the Division of Oil and Gas will be covering this background material in more detail in a few minutes.

This action results from our obligation to enforce the provisions of the state's oil and gas leases, which are contracts between the producers and the state, and which entitle the state to receive current market value for royalty gas taken in-value. at the time of production.

Our position is grounded upon the principle of the sanctity of contracts. The state's leases explicitly obligate the producers to pay the state royalty payments based upon the price <u>or value</u> of the gas, whichever is higher. In this case, we are merely invoking the state's rights to royalty

payments based on the value of the gas, which is higher than the price under the long-term sales contracts. Our policy is totally consistent with the producer utility sales contracts. Those contracts explicitly anticipated that the royalty payment rate to the state might exceed the contract price, and provide that the burden of the higher royalties is to be passed through and borne by gas purchasers.

We advised the gas producers that effective April 1 - now April 15 - they should pay royalties based on a price of $2.05 per mcf. We did not arbitrarily pick the minimum $2.05 per mcf value. Rather, Enstar established this value in its recent negotiated contracts.

I decided not to seek retroactive royalty payments based on current market values. For both the retroactive and prospective periods, the gas sales contracts between the producers and the utilities provide that royalty adjustments will be passed through to Enstar and Chugach Electric. Prospective collection can be implemented in an orderly fashion. However, retroactive collection would create significant legal and financial risks for the state's utility companies, including Chugach - a consumer cooperative. In particular, it is uncertain how, and to what extent, retroactive royalty collections could be passed through to consumers. Since the main benefits of the royalty collection are prospective (the basis for the $2.05/mcf price was not established until

December 1982), I believe that the financial risks to the utilities and legal uncertainty far outweigh the desirability of seeking retroactive collection.

✓ This is a lease enforcement action and it is not optional. The Department of Natural Resources is the agency designated by statute to enforce the provisions of oil and gas leases. (AS 38.05.036)

The Legislature has required the department to obtain as royalty a minimum of 12 1/2 percent of the amount or value of oil and gas production from state leases. (AS 38.05.180(f)). The only exception is when the net profit share is used as the bid variable. Any lease form which is inconsistent with this directive would be void. Thus, "value" is the guiding standard. The "price" of the gas is acceptable for royalty valuation purposes only if that price fairly represents its value <u>at the time of production</u>.

Several statutes mandate or infer our obligation to obtain full value for oil and gas resources:

- AS 38.05.180(a) states that the people of Alaska have an interest in maximizing the economic and physical recovery of oil and gas resources;

- AS 38.05.180(f) requires that leases be awarded to the highest bidder and established bidding methods with a minimum royalty requirement of 12 1/2 percent of the amount or value of production;

- AS 38.05.183(a) provides that as a general rule, royalty gas or oil must be sold to the highest bidder.

There is thus a statutory mandate to obtain a minimum of 12 1/2 percent of the value or amount of production. There are some statutes which allow some discretion to relax a standard or to forgive strict compliance with a term of the lease. However, each of these exceptions to the general rule is specifically limited, and none of the exceptions would allow DNR to relax its lease enforcement practices solely for the purpose of benefitting southcentral consumers. Absent such statutory direction and authority, the department perceives its obligation as being to enforce the terms of the leases equally for all lessees.

Some of the statutes which allow relaxation include the following:

- AS 38.05.020(b)(5), states that the commissioner may extend the time for rental or royalty payments due whenever acts of God, war or riots prevent timely payment.

- AS 38.05.035(b)(8) states that the director may extend the rental payment deadline for up to 90 days upon a showing of good cause.

- AS 38.05.135(a) says that royalty may be reduced to a minimum of 5 percent, and other incentives provided, in unproven areas in order to encourage exploration. (This section does not appear to apply to existing leases, only to the lease issuance stage).

- AS 38.05.180(j) allows reduction of royalty to compensate for increasing costs of production after two years of initial production.

- AS 38.05.180(h) allows the commissioner to forgive work commitment stipulations upon certain showings.

- AS 38.05.180(i) allows the commissioner to give exploration incentive credits in certain circumstances.

- AS 38.05.180(p) allows the commissioner to change, establish or revoke drilling, producing and royalty obligations of the lease at the time of unitization with the consent of the holders of the leases.

° AS 38.05.810 authorizes disposal of state resources at below market value under certain circumstances. Specifically, it allows disposals at below market value to a state or federal agency or political subdivision, or disposal of coal to non-profit utility cooperatives for electrical generation. It does not mention disposal of state gas to utilities at below market value.

Many other statutes expressly grant limited discretion for DNR to treat some group of citizens in a preferential manner. However, none apply in this context.

I'd like now to briefly discuss the applicable provisions of the oil and gas lease form DL-1.

Paragraph 11 provides that the producers owe to the state 12 1/2 percent of the amount or value of production.

Paragraph 15 provides that royalty may be taken in-value, or in money, in lieu of royalty in-kind. Royalty owed is based upon the "field market price or value at the well."

Paragraph 16 establishes three alternative, independent floors for in-value royalty valuation. It says that the field market price or value "shall not be less than the highest of": 1) the actual price paid; 2) the posted price; and 3) the prevailing price.

The state is thus entitled to royalties based upon the "value" of the gas. The actual price at which the royalty share is sold by the producer is an acceptable basis for royalty valuation under Paragraph 16(1) only if it fairly represents "value" when compared against the other methods of valuation.

In this case, it is clear that the present value of gas being produced is not reflected in the 21¢ and 61¢ long-term contracts. Objective evidence of current value is provided by the December 1982 contracts between Enstar-Marathon, and Enstar and Beluga producers (Shell, Chevron, Arco). In both instances the contract price is currently about $2.05 per mcf.

Madam Chairman, the department cannot be arbitrary in the administration of oil and gas leases. All leases must be treated the same, and must be administered in accordance with their terms, the regulations and statutes.

Accepting less than current value for in-value royalty gas is not an appropriate mechanism for providing energy subsidies to southcentral Alaska. This would require the department - whose obligation is to all Alaskans - to relax our lease enforcement practices solely in order to benefit some Alaskans at the expense of the general treasury.

If we hope to prevail in the North Slope royalty litigation, it is our view that we must act across the board to collect full value for the state's resources. It would be improper to have one standard of enforcement where oil companies bear the burden and a different more lenient standard where some of that burden is passed on to Alaska consumers.

I'd like to talk for a moment about the specific impacts on consumers. I believe those impacts have been somewhat overstated in the press accounts of our decision. About two-thirds of the $8 million dollars we expect to collect annually from the producers as a result of the decision could be passed through to Chugach and Enstar. The royalty enforcement policy affects only the royalty share (one-eighth) of the volume of gas sold from state leases to the utilities. The policy has no effect upon the other seven-eighths of the gas sold under these contracts. South-central consumers will continue to enjoy seven-eights of the bargain prices contained in the long-term contracts.

Gas purchase costs are only a part - about 30 percent - of a utility's expenses, which also include operating and maintenance costs and debt service. By far, the greatest impact falls on the customers of Chugach Electric Association, which is a non-profit cooperative utility. We estimate that Chugach's gas purchase costs will increase by 47 1/2 percent above current rates as a result of our action. However,

residential electric bills are expected to increase by no more than 10 percent for Chugach customers.

As a 60.44 percent owner of the Beluga River gas field, the state's royalty share equals 7.5 percent of total Beluga River gas production. That is the share of production affected by the decision. The decision translates into an overall Beluga gas stream price increase of about 13.3¢ per mcf for Chugach.

Chugach will still be paying a weighted average price of only about 41.3¢ per mcf overall for Beluga gas, compared to their 21¢ and 28¢ contract prices. Forty-one cent gas is still a real bargain.

In the Kenai field, the state owns 16.68 percent of the land and that results in a state royalty share of about 2 percent of total field production. Consequently, the result for Enstar is a price increase of about 2.5¢ per mcf on its overall gas stream out of the Kenai field. With this increase, Enstar still pays a weighted average price of only about 96¢ per mcf for Kenai gas.

We estimate that Enstar's system-wide gas purchase costs will increase by only 1 percent as a result of our action, since that company consumes much less state royalty gas compared to Chugach. According to our calculations,

residential gas bills of Enstar customers should rise less than one-half of 1 percent as a result of the state action.

And, this is not to say that Cook Inlet gas and electric rates will not continue to rise. Chugach and Enstar will eventually pay more for natural gas than they do today, regardless of this action by the state.

Enstar is already paying $2.05 per mcf for about 30 percent of the gas it purchases for resale to the consumer. By about 1991, Enstar's cheap gas supplies will have been totally consumed.

Chugach will completely exhaust its cheap gas supplies by 1995. If, how and when Chugach blends in higher priced gas will determine consumer prices. But, we have no doubt that the new gas supplies will cost more and that consumer bills will reflect this additional expense.

I fully appreciate the desire to keep consumer gas and electric prices as low as possible statewide. However, if we embrace the notion of trying to maintain the status quo of currently low energy prices, then we are looking at a situation that is going to require an ever-increasing level of subsidy. The market value of gas is without doubt higher today than the long-term contract prices reflect.

If the status quo is desired, there are solutions other than not enforcing the leases. An in-kind, long-term sale of royalty gas could be considered, or the Legislature could include Anchorage in the current subsidy programs. Or, it possibly could authorize royalty reductions for gas or oil royalty shares devoted to domestic utility purposes.

The department stands ready to work with the Legislature in devising and implementing appropriate solutions. It appears to me that this question is best addressed in the context of the state's overall energy subsidy programs.

Several questions have arisen about on-going litigation over Cook Inlet gas values and about the impacts of the decision on rural areas of the state.

Briefly, there are three lawsuits presently pending that involve Cook Inlet gas issues. The first, Marathon v. U.S.A., Cook Inlet Region, Inc. and the State, is pending in U.S. District Court in Anchorage. The only issue in that suit is the value of gas that is sold as LNG in Japan. It does not involve gas sold under long-term contracts at below market rates, nor does it involve gas sold to local utilities. Further, the lawsuit does not involve state-owned leases. It has direct impact only on leases owned by the United States and CIRI.

However, the recent decision by Judge Fitzgerald in that suit is favorable to the state because the state receives 90 percent of federal royalties. Judge Fitzgerald recently held that Marathon must pay royalties based upon the price in Japan, less liquification and transportation cost. The state was named as a party to the Marathon lawsuit, but Judge Fitzgerald ruled that the royalty valuation issues for state leases should be determined by a state court. That suit, State v. Marathon, is pending in Alaska Superior Court in Juneau. This is a parallel case with the federal case I just mentioned and involves leases owned by the State. Again, no issue is involved relating to local utility contracts. The department is currently pursuing settlement negotiations with Marathon.

The final case is Union v. CIRI and United States, which is pending in U.S. District Court also before Judge Fitzgerald. This case involves only leases owned by CIRI and the United States. It involves all of Union's production, including production allocated to the so-called "APL-1" contract (Enstar's long-term 61¢ contract). The main issue is the valuation of gas committed to the urea ammonia plant at Nikiski.

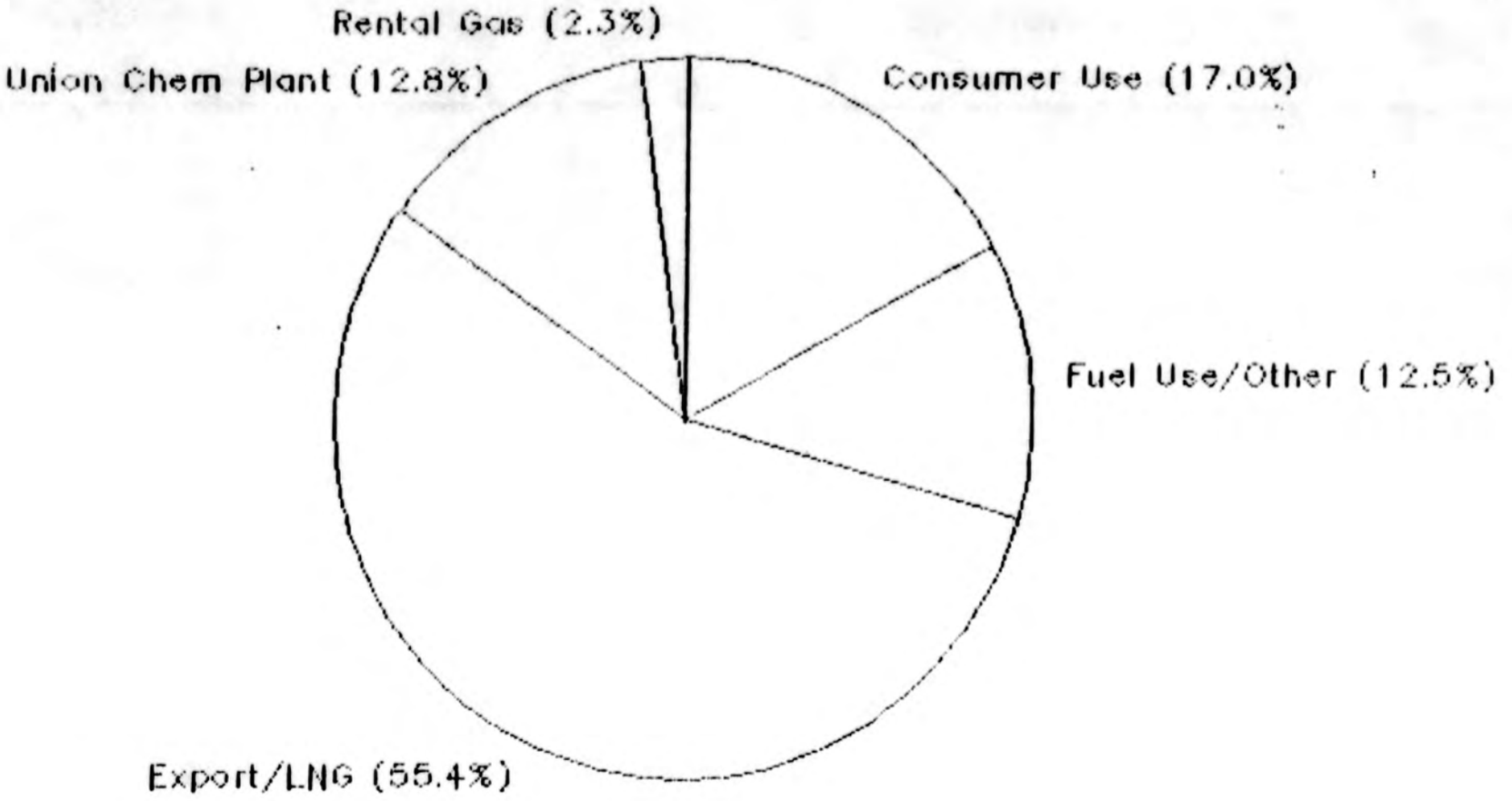
The position of the federal government and CIRI in that case parallels the notice issued by the state to Union this month. The federal government and CIRI are seeking a price

from Union of approximately $2.05 per mcf for both the plant volumes and the APL-1 contract.

With respect to the question raised about the impacts of our decision on rural areas, it appears from our analysis there will be no impact. We assume this question arises due to the relationship between urban rates and rural rates under the power cost equalization program. Our analysis indicates that the marker for rural subsidies is set by statute at 8.5¢ per kilowatt hour, and that this rate is unaffected by changes that might occur in urban power rates.

Thank you for the opportunity to discuss these issues with you. Kay Brown and members of her staff are with me today to assist in answering any questions the caucus may have. I'd now like to ask Bill Van Dyke to give you an overview of Cook Inlet gas reserves.

Uses of Cook Inlet State Royalty Gas

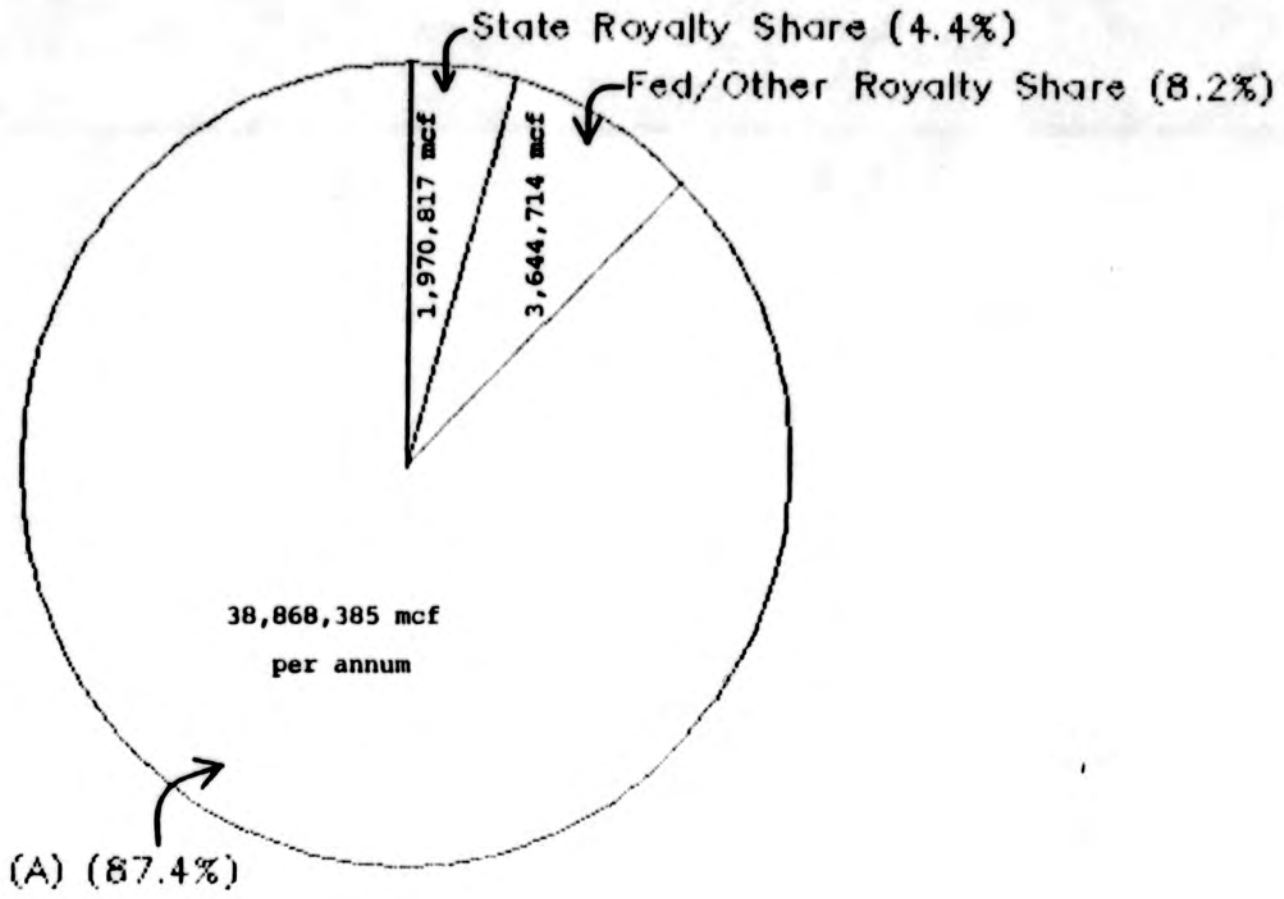


Note: See attached worksheet for an analysis of this chart.

3/30/85

Consumer Utility Use of Cook Inlet Gas

(Est. projections based on 1983 volume)



(A) Share of production by the working interest owners.

Estimated Total Annual Production allocated to consumer use = 44,483,916 mcf.

ALASKA DEPARTMENT OF NATURAL RESOURCES - DIVISION OF OIL AND GAS

File:C:Cookgas2
Date:03/30/85

COOK INLET GAS DISPOSITION REPORT 1984

FIELD Producers (% of working interest)	PURCHASER OF GAS FROM THE PRODUCER	% of FIELD on sale by sale basis	ROYALTY VOLUME 12.5% sale by sale	PRODUCER/ PURCHASER CONTRACT VALUE	HIGHEST VALUE IN THE FIELD	DIFFERENCE BETWEEN REPORTED ROYALTIES/ HIGHEST FIELD VALUE	EFFECTIVE DATE	EXPIRATION DATE
NORTH COOK INLET								
Phillips (100%)	TOKYO UTILITIES	100.00%	555,702	2.343	2.343	0.00	6/1/69	1989 ***
BELUGA RIVER								
Chevron, ARCO, Shell	ENSTAR	3.53%	7,801	2.055	2.055	0.00	10/84	10/1999
Chevron, ARCO, Shell	CHUGACH	96.47%	212,858	0.210	2.055	392,727.00	5/14/65	1992 *
TOTAL	TOTAL	[illegible]	220,659			[illegible]		
KENAI FIELD								
UNION (50%)	APL-ANCHORAGE	6.95%	10,780	0.617	2.055	15,580.92	5/13/60	12/31/94 *
	APL-CHEV NIK	0.19%	288	0.617	2.055	413.48		
	UNION-CHEV	0.20%	305	0.617	2.055	438.18	2/5/81	INDEFINITE
	CITY OF KENAI	0.31%	486	0.300	2.055	852.86	5/17/66	6/1986
	RENTAL GAS	5.91%	9,164	0.070	2.055	16,908.28	1/17/66	UNTIL
	ADDITIONAL RENTAL	2.92%	4,525	0.360	2.055	7,579.72		BLOWDOWN
	UNION CHEMICAL	37.11%	57,541	0.602	2.055	83,606.39	11/1/77	1998
TOTAL UNION SHARE		53.59%	83,089					
MARATHON (50%)	APL-I	14.47%	22,436	0.617	2.055	32,262.46		1992 *
	APL-II	5.73%	8,889	2.055	2.055	0.00	12/16/82	12/1997 *
	APL-NIKISKI	0.19%	288	0.617	2.055	413.48		
	CITY OF KENAI	0.31%	486	0.300	2.055	852.82		
	RENTAL GAS	5.91%	9,164	0.210	2.055	16,908.24		
	ADDITIONAL RENTAL	2.92%	4,525	0.300	2.055	7,579.72		
	TOKYO UTILITIES	16.88%	26,167	2.343	2.343	45,159.81		
TOTAL MARATHON SHARE		46.41%	71,955					
TOTAL		100.00%	155,044			228,476.36		
LEWIS RIVER								
CITIES SERVICE (100%)	APL & PAC AK	100.00%	30,420	1.930	1.930	0.00	5/1/84	1999 *
MCARTHUR RIVER								
UNION/MARATHON (50% each)		0.47%	221	0.000	0.000	0.00		
	RENTAL GAS	1.48%	697	0.210	2.055	1,432.85		
	UNION CHEMICAL	87.56%	41,265	0.617	2.055	84,799.32		
		9.39%	4,427	0.000	0.000	0.00		
		1.10%	519	0.000	0.000	0.00		
TOTAL		100.00%	47,129			86,232.17		
GRAND TOTALS			1,008,953			707,431.53		

* QUANTITY TERM COULD OPERATE TO EXTEND AND/OR SHORTEN THE CONTRACT PERIOD.
** FIELD NOT EFFECTED BY THE NOTICE AS PRODUCER IS NOW PAYING AT THE HIGHEST PRICE IN THE FIELD
*** ROYALTY VALUATION DETERMINED BY SETTLEMENT AGREEMENT

State of Alaska
Department of Natural Resources
Royalty Accounting Section
Cook Inlet Gas Disposition - 1983
From OECC Production Figures
(MCF)

Field	TOTAL PRODUCTION: Casinghead Gas	TOTAL PRODUCTION: Dry Gas	TOTAL PRODUCTION: Total	State Share Of Field	Total Production State Land	Royalty Volume	DISPOSITION OF ROYALTY VOLUME: Consumer Use	Fuel Use/Other	Export/LNG	Union Chem Plant	Rental Gas
Deluga		18,083,916	18,083,916	60.44%	10,929,919	1,366,240	1,366,240				
Kenai											
Sterling 3		18,978,832	18,978,832								
Sterling 4		24,200,436	24,200,436								
Sterling 5		27,572,442	27,572,442								
Sterling 6		24,900,852	24,900,852								
Undefined		10,221,687	10,221,687								
Tyonek		7,452,030	7,452,030								
		113,326,279	113,326,279	16.68%	18,982,823	2,362,853	604,577	27,717	416,190	1,049,557	264,804
McArthur River											
Hemlock	4,496,054		4,496,054								
Mid Kenai G	619,622		619,622								
W. Foreland	203,661		203,661								
Mid Kenai		4,235,750	4,235,750								
Undefined		3,695,563	3,695,563								
Field Totals	5,319,337	7,931,313	13,250,650	100.00%	13,250,650	1,656,331		1,221,910		434,421	
North Cook Inlet		47,877,215	47,877,215	100.00%	47,877,215	5,984,652			5,984,652		
Trading Bay											
Hemlock	242,855		242,855								
Undefined	7,382		7,382								
Mid Kenai D	132,067		132,067								
Mid Kenai C	100,010		100,010								
Mid Kenai D	249,101		249,101								
Mid Kenai E	132,730		132,730								
G-M/Hemlock	28,848		28,848								
West Foreland		631,024	631,024								
Field Totals	892,993	631,024	1,524,017	100.00%	1,524,017	190,502		190,502			
Totals	12,424,660	309,738,363	322,163,023		92,484,624	11,560,578	1,970,817	1,440,129	6,400,850	1,483,978	264,804

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dmj
C:REVSTATS

FORM NO. DL-1

STATE OF ALASKA
DEPARTMENT OF NATURAL RESOURCES
Division of Lands

LEASE NO. ADL_____

Competitive Oil and Gas Lease

11. ROYALTY ON PRODUCTION. Except for oil and gas used on said land for development and production or unavoidably lost, Lessee shall pay Lessor as royalty the following:

(a) On oil.....per cent in amount or value of the oil produced and saved and removed or sold from said land.

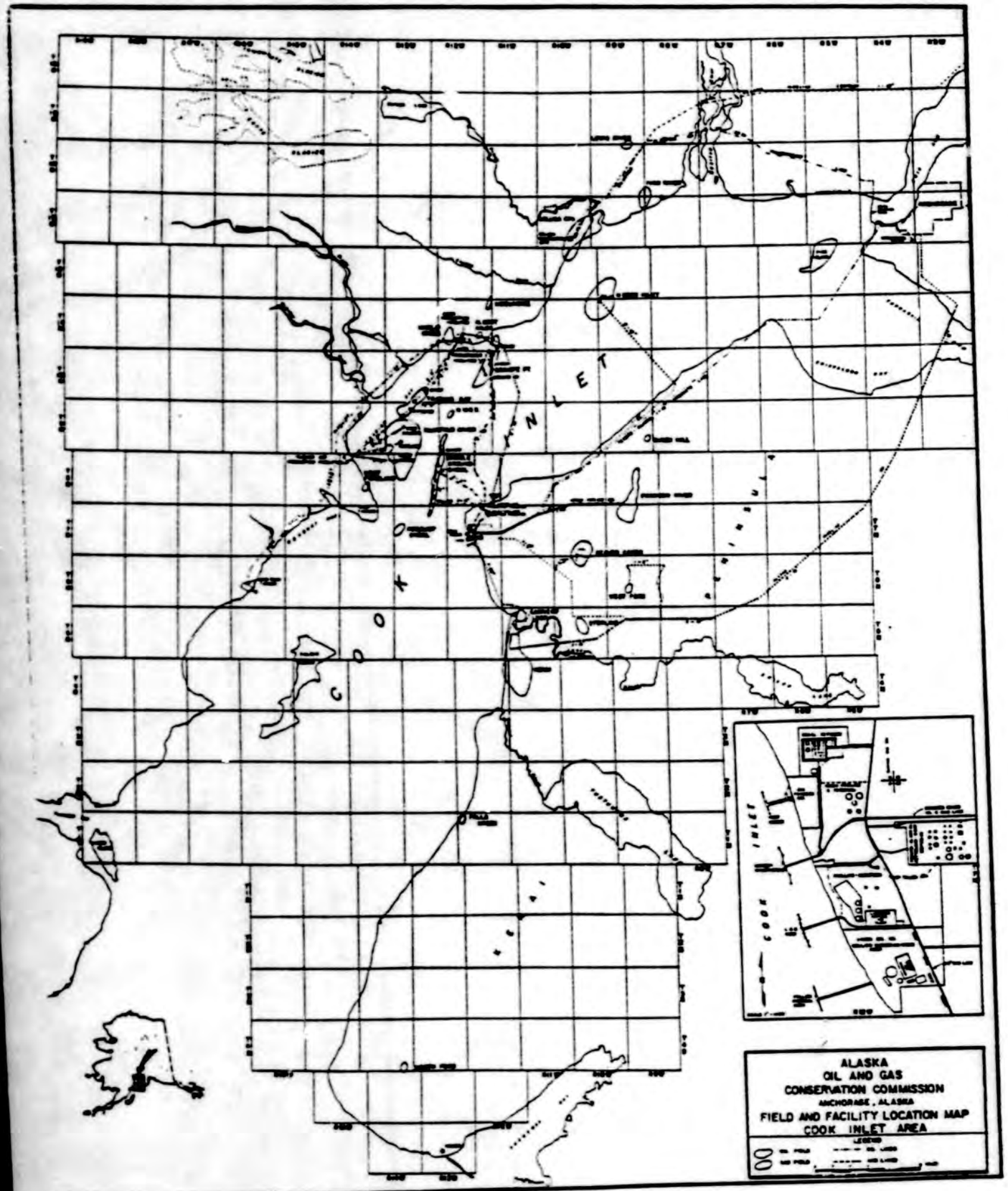
(b) On gas.....per cent in amount or value of the gas produced and saved and sold or used off said land or used for the extraction of natural gasoline or other products therefrom.

(c) On associated substances.....percent in amount or value of such substances produced and saved and

14. ROYALTY IN KIND. Whenever, at the option of Lessor, which may be exercised from time to time upon not less than six months notice to Lessee, Lessor elects to take its royalty in kind, Lessee shall deliver free of charge (on said land or at such place as Lessor and Lessee mutually agree upon) to Lessor or to such individual, firm, or corporation as Lessor may designate all royalty oil and/or gas produced and saved from said land. Such oil and/or gas shall be in good and merchantable condition. Lessee shall, if necessary, furnish storage for royalty oil free of charge for thirty days after the end of the calendar month in which the oil is produced from said land; provided, that Lessee shall not be held liable for loss or destruction of royalty oil and/or gas from causes beyond Lessee's reasonable control. Should Lessee dehydrate or clean the oil or gas produced from said land, Lessee shall be entitled to an allowance of the actual cost of dehydrating or cleaning said royalty oil or gas.

15. ROYALTY IN VALUE. At the option of Lessor, which may be exercised from time to time upon not less than six months' notice to Lessee, and in lieu of royalty in kind, Lessee shall pay to Lessor the field market price or value at the well of all royalty oil and/or gas. All royalty that may become payable in money to Lessor shall be paid on or before the last day of the calendar month following the month in which the oil or gas is produced. The payments shall be accompanied by copies of run tickets or other satisfactory evidence of sales, shipments, and amounts of gross production.

16. PRICE. The field market price or value of royalty oil or gas shall not be less than the highest of: (1) The price actually paid or agreed to be paid to Lessee at the well by the purchaser thereof, if any; or (2) The posted price of Lessee in the field for such oil or gas at the well, if any; or, (3) The prevailing price received by other producers in the field at the well for oil of like grade and gravity or gas of like kind and quality at the time such oil or gas is removed from said land or run into storage, or such gas is delivered to an extraction plant.


COOK INLET
COOK INLET
ALASKA
OIL AND GAS
CONSERVATION COMMISSION
ANCHORAGE, ALASKA
FIELD AND FACILITY LOCATION MAP
COOK INLET AREA
LEGEND

MEMORANDUM
DEPARTMENT OF NATURAL RESOURCES
DIVISION OF OIL AND GAS

State of Alaska

TO: Esther C. Wunnicke
Commissioner

DATE: November 6, 1984

FILE NO:

TELEPHONE NO: 265-4241

FROM: Kay Brown, Director
Division of Oil and Gas

SUBJECT: Decision Memo No. 25
Royalty Gas Valuation -- Cook Inlet

Statement of the issue: Should the state accept long-term gas contract prices as being determinative of royalty value where those prices have become significantly below current market prices because of escalating gas values?

Background: As a general matter, producers have calculated and paid their royalty as to each volume of gas based upon the contract price applicable to that volume of gas. As gas prices have escalated, the issue has arisen here, as it has in other jurisdictions, whether an older long-term contract price may control the royalty amount for gas produced and sold under that contract, even after the market value has escalated well above the contract price. Depending upon the particular jurisdiction and the governing language of particular leases, court cases have split on the issue. The issue has not been addressed by any court in the State of Alaska.

Considerations:

- Legal analysis. Although court cases interpreting various other lease forms have gone each way in other jurisdictions, the Department of Law advises us that the proper construction of state oil and gas lease form DL-1 is that a long-term contract price should not control royalty valuation when current market price or value is higher.

- Impact on oil and gas companies. Oil and gas companies have an obligation to diligently produce and market oil and gas. The companies believe it is unfair to have their royalty payments based upon high current market price values where (they argue) the only available means of marketing the gas in the past was by means of long-term contracts with either a fixed price or a defined escalation clause. Apparently in recognition of the possibility that the royalty value might be construed to be higher than the long-term contract price, however, the producers have mitigated, in large part, the impacts of escalating

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DIVISION OF OIL & GAS
ANCHORAGE ALASKA

values by means of pass-through provisions in their sales contracts. These provisions make the gas purchaser liable for any additional royalty. Also, producers increasingly are insisting upon price re-openers for their long-term contracts. Such price re-openers allow the producers to benefit from escalating values on their share of the gas, while also protecting the producers against an increased royalty burden. Thus, as a general matter, the producers can protect themselves against the possibility of higher royalty obligations. However, there are possible exceptions. For instance, Union Oil Company has committed a large volume of gas for use in its own major urea processing plant. Union's royalty obligation will be higher on the gas committed to that plant if long-term contracts are considered inappropriate references in the computation of market price or value. Union may not be able to pass any increased cost through to its urea customers. However, if the application of the royalty term as written becomes too onerous, the lease provides a mechanism for seeking royalty reduction. See DL-1, ¶ 13. Thus, even those producers which cannot pass higher royalty obligations on to their customers have a limited remedy under the lease.

- Impacts on gas purchasers. The principal long-term gas contracts in Cook Inlet which would be affected by this decision are between Chugach Electric and Chevron, ARCO and Shell (Beluga River Field), and between Enstar/Alaska Pipeline Company and Marathon and Union (Kenai Field). The long-term Chugach contract price is 21¢/Mcf, and the long-term Enstar/APC contract price is 61¢/Mcf. By contrast, prevailing current prices exceed $2.00/Mcf. For instance, the recent long-term contracts for Cook Inlet gas have fluctuated between a high of $2.32/Mcf and the present $2.055/Mcf. Although seven-eighths of the gas sold under the 21¢/Mcf and 61¢/Mcf contracts would continue to be bound by those contract prices, the governing contracts permit the producers to pass on through to Enstar/APC and Chugach the burden of higher royalty rates on the one-eighth of the flow attributable to the state's royalty. It is uncertain whether Enstar and Chugach could, in turn, legally pass the charges through to their customers if the state collects additional royalties retroactively. Moreover, even if the

royalties were collected at the higher valuation rate only prospectively, the ability of the companies to pass the costs through to their consumers would be subject to Alaska Public Utilities Commission rate proceedings. Thus, the imposition of royalty valuation based upon current market prices or values could have adverse impacts upon Anchorage area utility companies.

- Impacts on consumers of gas and gas-generated electricity. Ultimately, it is anticipated that the brunt of higher valuation on royalties attributable to long-term contract volumes will be borne by consumers of gas and electricity in the Anchorage area. It is estimated that this impact would probably be an increase over current rates of more than 10 percent but less than 20 percent.

- Impacts on state revenue. Obviously, the consequences of higher royalty valuation include increased royalty revenue to the state. It is estimated that eschewing long-term contract prices for current values would, under present conditions, result in additional royalty collections of approximately $8.5 million per year from the state's Cook Inlet area leases. The impact upon North Slope gas royalty revenue is relatively insignificant at this time.

- Uncertainty. The fluctuation of royalty value independently of the contract price under which gas is sold injects uncertainty into the long-term planning by oil companies and utilities. This uncertainty (and higher royalty rates) may reduce incentives to invest capital in oil and gas and utility enterprises, or affect the timing or structuring of such enterprises. For instance, the state's royalty treatment of long-term gas contracts might affect North Slope gas marketing.

- Impacts on royalty collection by the United States and CIRI. The United States and CIRI are also lessors of oil and gas leases in the Cook Inlet area. The United States distributes 90 percent of the onshore royalties it collects to the state. CIRI shares its royalties with other ANCSA corporations under section 7(i) of ANCSA. Alaska has previously joined other states in encouraging the United States to ensure full royalty

collection through, among other things, using current prices or values in calculating the royalties due for gas sold under long-term sales contracts. By requiring royalty valuation according to current market values for state leases, the state would further its relations with the ANCSA corporations and other states, and would lend support to current federal royalty litigation, which, if successful, will result in greater distributions to the state under its 90 percent share.

Options:

(1) Accept long-term contract prices as determinative of market value for royalty purposes, even when those prices have been eclipsed by market transactions at higher values.

(2) Reject long-term contract prices as determinative of royalty valuation where they are below current market value. In implementing this option, the state could also:

(a) Give consideration to electing to take royalty gas attributable to long-term contracts in-kind, rather than in-value. A host of practical difficulties exist with this suboption. In particular, taking gas in-kind is difficult because of the limited and inflexible transportation and storage capacities for gas (the "deliverability" factor). Nonetheless, the state could explore the possibilities, including possible sales to Enstar, Chugach, and the proposed CIRI LNG plant; and

(b) Apply the decision only to prospective royalty valuations. This would ease a number of problems, including the difficulties attendant to retroactive pass-through charges to utility consumers.

Recommendation:

Option 2, with suboptions 2(a) and 2(b).

Decision:

I concur with the recommendations:

Esther C Wunnicke — Nov 14, 1984

Esther C. Wunnicke
Commissioner

Date

Recommend Concurrence:

Bob Arnold
Deputy Commissioner

11/15/84
Date

James K. Barnett
Deputy Commissioner

11-19-84
Date

May 21, 1984

To: Sharon Barton
Commissioner's Office

From: Jim Eason
Oil and Gas

Subject: Cook Inlet Gas Contracts

As you requested this morning, I have reviewed the division's files on the contracts for gas sales to Anchorage Municipal Light and Power and Chugach Electric Association. It is my understanding that your request for this review is related to a determination of whether the department has subsidized local energy costs through its past gas sales contracts. My review indicates that there was no subsidy of costs in the only contract which the department negotiated for the sale of royalty oil from the Kenai Feild to ML&P. The sale of gas from the Beluga Field is controlled by the terms of a long term contract negotiated between the producers, Standard Oil, Richfield Oil and Shell, and Chugach Electric. The department was not a party to the negotiation of this contract. Specific comments on the two contracts follow.

--- The ML&P contract was signed May 5, 1980. It provided for a sale of the state's royalty gas from the Kenai Field for a term of 20 years.
--- The price which ML&P was obligated to pay was the in-value price which the state would have received, plus any costs incurred by the state attributable to preparation and transportation of the gas to the buyer, ML&P.
--- On July 2, 1980, ML&P notified the state of its intent not to take delivery of any royalty gas under the terms of the contract because "of the uncertainty regarding the gas price."
--- Consequently, no royalty gas was delivered to ML&P.

--- The Chugach contract for purchase of gas from the Beluga Field was signed May 14, 1963.
--- Term of the contract was for 20 contract years with the first contract year commencing on January 1st following the initial delivery of gas under the terms of the contract or January 1, 1968 whichever was earliest.
--- Production from the Beluga Field comes from a mixture of lease ownership including the State of Alaska, the federal government and C.I.R.I.
--- Approximately 60% of the royalty production belongs to the State of Alaska with the remaining 40% split between the federal government and C.I.R.I.
--- The producers sale the state's royalty gas to Chugach and pay the state its royalty in-value, as determined by the terms of the contract.
--- The price received by the producers for Beluga gas was

established by the negotiated contract. The price for the first through the fifth contract year was 15.2 cents per Mcf. The price for the sixth through the tenth year was 16.2 cents per Mcf. For the eleventh through the fifteenth year, the price was 17.2 cents per Mcf, and the price for the final five years of the contract was established at 18.2 cents per Mcf. However, the contract also provided for an adjustment of the price depending upon the gross heating value of the gas. As a result of this adjustment, the price received currently by the producers is approximately 21 cents per Mcf.

--- This price represents what all parties to the contract agreed to be the "fair market value" of the gas in 1965.

If you have any additional questions, please call.

STATEMENT OF ENSTAR NATURAL GAS COMPANY

BEFORE LEGISLATIVE OIL AND GAS COMMITTEE

April 11, 1985

We appreciate your invitation to ENSTAR to comme t on the State's recently proposed change in the method of determining royalty values of gas subject to long-term contracts. Our knowledge of information previou ly provided the legislature is limited to press reports and a statement by Commissioner Wunnicke dated April 2, 1985.

ENSTAR provides gas service to approximately 70,000 businesses, households and electric utilities. An increase in royalty price will affect over half the State's population, both through our gas bills and the electric bills of utilities we serve.

We readily admit our bias in this matter and we do not suggest that the legislature should accept our analysis of the issues without independent confirmation. On the other hand, we believe the Administration has presented an extremely biased analysis and it should be subjected to equally critical scrutiny.

DNR has made a number of representations to members of the Legislature, apparently to explain the Administration's hasty action, that we believe to be misleading. Our comments will address certain of those representations.

DNR STATES THIS IS A LEASE ENFORCEMENT ACTION AND IS NOT OPTIONAL

The validity of this statement is based on a presumption that the term "value", as used in the lease, is intended to be a determination made on the date the gas is produced rather than on the date the gas is committed to an arms-length long-term contract.

ENSTAR believes the prevailing and equitable view contradicts DNR. It is a complex legal question and we believe this committee should obtain a legal analysis independent of the Administration.

DNR POSTPONED THE EFFECTIVE DATE TWO WEEKS FOR RESPONSE BY INTERESTED PARTIES

What's the rush? These contracts have been in effect for years. Why is a major change being undertaken without the usual procedural safeguards we expect. Why have there not been proposed regulations defining the terms of the leases? Why have there been no public hearings in the Anchorage area? Whose interests are served by acting in haste?

ENSTAR doesn't know the answers to these questions. ENSTAR believes the Administration does know them. ENSTAR believes the Legislature should know them.

DNR REPRESENTS THIS ACTION IS NECESSARY TO PROTECT THE STATE'S POSITION IN NORTH SLOPE ROYALTY LITIGATION

Legal counsel advises ENSTAR that this is simply incorrect. It is common to accept arms-length negotiated contract prices as a basis for royalty valuation of the production subject to the contract. Where no

arms-length contract is involved, it is necessary to develop alternate methods. The issues are simply not the same.

We urge the Legislature to obtain independent legal analysis of this issue.

DNR REPRESENTS THIS ACTION HAS MINIMAL IMPACT ON ENSTAR'S CUSTOMERS

In an internal memorandum dated November 6, 1984, DNR asserts that this action"would lend support to current federal royalty litigation". In the April 2 memo to the Anchorage caucus DNR does not mention the impact that Federal repricing may have on consumers.

Without regulations defining value, the State in the future will be free to assert values based on delivery prices in Japan, prices paid under small industrial contracts (both positions are asserted in the Federal legislation referred to), or perhaps on the prices of alternative fuels.

We urge the Legislature to seek independent advice regarding the potential impact of the Administration's action, in the absence of protective regulations.

DNR ALLEGES THE PRESENT CONTRACT PRICES REPRESENT A "SUBSIDY" TO OUR CUSTOMERS

When we enter into a long-term contract for gas, at determinable pricing, and with take-or-pay provisions, we (our customers) are guaranteeing the State protection against market declines. Our customers pay a high price for the security of a known supply with known

pricing terms. Our customers, having paid for the risk taken, have seen the value of gas increase and now the State proposes to confiscate that value.

To add insult to injury, the State maintains the "value" of its gas is equal to the price we pay for a secure 15 year contract with known pricing terms. Yet the State reserves its right not to sell us the royalty gas and to reprice it at will on an undefined "value" basis.

UNDER THE ADMINISTRATION'S PROPOSAL OUR CUSTOMERS WOULD SUBSIDIZE THE STATE

The State is purchasing about as much gas from us in Anchorage as the amount of State royalty coming to us under the contract to be repriced. The prices we charge to the State are fully reduced by its "share" of the low priced gas. The State now proposes to reprice its share of production and pass the extra cost on to all our consumers, but to continue to share the benefits of the low priced gas. This would be a subsidy to the State.

If the State really believes it is not receiving fair value for its gas, why doesn't it elect to take it in kind and sell it to the highest bidder (like North Slope oil)? If that price is still considered inadequate, then we can probably arrange through the regulatory process to deliver the State's own gas to it in Anchorage. What could be more fair?

OUR CUSTOMERS ARE NOT TREATED EQUALLY WITH OTHER PURCHASERS OF STATE RESOURCES

Using hindsight, DNR says we paid less than "value" for gas in the Kenai field. They say they can maximize values to the State by collecting an additional $8 million per year. Using the same hindsight, couldn't DNR also say that its failure to negotiate long-term contracts with the North Slope producers five years ago has cost the State billions?

The State is entitled to receive the maximum value the market will allow for Slope oil because the State, not the producers, has elected to assume the risk of value declines. A very expensive decision.

On the other hand, we and our customers have assumed those risks as to our gas purchases. It is absolutely unfair for the State to present the consumers this "heads-I-win, tails-you-lose" proposal.

THE STATE IS USING MONOPOLY POWER TO EXACT AN EXCESSIVE PRICE FROM THE CONSUMERS

Alaska is unique in that the Federal and State governments control substantially all royalty. The governments have a monopoly and it is not possible to negotiate royalty valuation terms of lease agreements. Terms are dictated, not negotiated. This is effectively a monopoly action at work, not a free market. DNR admitted in an internal memorandum that its present pricing proposal would "further its relations with the ANCSA corporations... and lend support to current federal royalty litigation...". If business corporations made pricing deci-

sions in concert with or to accommodate other suppliers, they probably would be subject to prosecution.

When we, as purchasers, enter into a long-term contract with a producer, we are not assured of the royalty share since the State retains the right to take its gas in kind. Yet we cannot refuse to take the royalty share, no matter what price may be exacted. Obviously, if a free market prevailed, we simply would not purchase State royalty on such terms. The concept of the State receiving fair value for its resources does not mean using its monopoly power to squeeze the last bit of revenue from the consumer. It does mean receiving the value that would be arrived at in a free market system. That is exactly what arms-length negotiations do.

We believe the Administration is misleading the legislators and the public when it alleges that a subsidy to our customers has resulted from our arms-length gas contracts. We believe that since we do not have the option not to accept royalty gas, while the State has the option not to deliver it to us, arbitrary pricing of the royalty by the State at any price higher than we negotiated, on the working interest gas which produces the royalty gas, is confiscatory to our customers.

The Administration knows full well that where we have had an option to buy royalty gas, we have done our utmost to avoid unreasonable pricing of that gas and in fact have refused to accept it. I refer to the North Cook Inlet gas produced by Phillips. We paid, under protest, as much as $3.74 per Mcf; we stopped taking this gas; and we

replaced that supply with gas from the Lewis River field priced at only $1.80 in a contract negotiated in 1984. This contract is for our peaking purposes only, with essentially no take or pay. Royalty gas from any source is truly not worth as much to us as working interest gas from that same source, in our opinion, because the State is free to take the royalty gas in kind and we have to be prepared to do without it. In a free market we would never pay more for royalty gas than for the working interest gas except if we could take it at our own option. We have demonstrated this fact to DNR, on the North Cook Inlet royalty.

We regard the repricing of royalty gas, as proposed by the State, to be in effect a discriminatory and unlawful tax, which a majority of Alaskans would reject if given the awareness and opportunity to do so.

CONCLUSION

Royalty pricing as it relates to arms-length negotiated contracts involves complex economic, social and legal issues. These have not been addressed in the information we have seen. We urge the Legislature obtain the appropriate information from experts independent of the Administration and the utility industry. We expect it will take more than two weeks.

A grace period

THE RAW DEAL in natural gas prices is scheduled to hit Anchorage and the rest of Southcentral Alaska on April 15, a week from Monday. Only special action by the governor or the legislature can stave it off.

The change in price is necessary to bring it in line with the price on the open market. A discrepancy came about because the price remained stationary as market conditions changed. The boost was to become effective April 1, but the governor ordered a 15-day delay.

In discussing this official action that discriminates against Southcentral Alaska, an editorial in this newspaper appeared to blame the Department of Natural Resources. It should be noted that the department is complying with the law in ordering the higher prices. It cannot change the law.

If the governor has the power to order a 15-day delay, he should be able to order another delay to allow time for the legislature to consider changing the law.

THE CHANGE COULD be a simple amendment to an existing law that provides exceptions in pricing. It allows the sale of coal to nonprofit utility cooperatives. The amendment could authorize the same treatment for natural gas destined for the generators of Chugach Electric and the Municipality of Anchorage.

In all other areas Alaskans are subsidized by the state so as to enjoy lower power and fuel costs. If the proposed higher prices become effective here, the state will be discriminating against Southcentral Alaska.

That's a raw deal.

ANC TIMES 4/6/85

A raw deal

THE PROPOSAL by the state to raise the price of natural gas in Southcentral Alaska deserves unanimous disapproval.

It would, in effect, penalize Alaskans here while the state is helping Alaskans almost everywhere else. This would be in the form of higher electric power and fuel bills for Southcentral. The extra money would go into the general fund.

At this moment, the state is using general fund money to subsidize cities and rural areas in Southeastern, Western and some areas of Southcentral Alaska. These subsidies include more than $21 million for Interior villages and more than $200 million for certain Southeastern and Southwestern cities and villages.

It is astonishing that the same state officials who administer those special favors to selected villages and cities propose to raise the cost of natural gas to residents of Anchorage and Southcentral Alaska. They would raise the price of the state's natural gas in the Cook Inlet area so as to take $8 million extra away from local residents each year. This money would go into the fund that helps the other areas.

EVEN THOUGH the basis for the proposed raise may be legal, it is not justified. The state's oil and gas leases provide for the prevailing market price to be paid and that is higher than the price actually being collected.

But by applying that clause blindly and without consideration of other circumstances, the state would be grossly unfair. It would penalize the Alaskans who have done well for themselves through their business contracts signed years ago with the natural gas suppliers.

The Anchorage area has low power and fuel costs because its utility agencies have done well. It was because of the favored position here that the state officials sought to subsidize others to bring their costs down.

The governor went so far as to propose a power-cost equalization program that inevitably would have raised power rates here. His scheme ran into such opposition that he dropped it like a hot potato.

Since then, the Department of Natural Resources took the intiative to enforce the fine print in the oil and gas leases looking toward an extra $8 million for the general fund. It hasn't dropped the idea yet, but it ought to.

THANKS TO the Anchorage caucus in the legislature, this inequitable position has been brought to the attention of all in Juneau. The chiefs of the Natural Resource Department have had to explain the terms of the oil leases and why the higher costs are proposed.

But there is no hint that there has been any satisfactory explanation. Nobody has said why Anchorage residents should have to pay more while the state is helping others to pay less.

Instead, the state should continue to honor the long-term contracts that have a stated price. The market value of the gas may have increased since those constracts were signed, but that doesn't justify inflicting punishment on the Alaskans here.

Gov. Sheffield ordered a postponement of the department's first announcement of the higher prices in order for the legislature, the public and the producers to have time to consider their responses.

The response should be immediate and it should be without equivocation. It won't be fair to Southcentral Alaska unless and until other Alaskans are paying their own power and fuel costs without state subsidy.

Anchorage Times
4/4/85

ANC TIMES 4/3/95

Utility bills will increase only 4 percent

Juneau — Utility bills will increase about 4 percent — not 10 to 20 percent — if the state boosts its price for Cook Inlet royalty gas, a Chugach Electric Association official said Tuesday.

When the Department of Natural Resources last month announced its decision to increase the price of state royalty gas, it estimated utility bills would go up by 10 to 20 percent. This brought criticism from legislators and the introduction of a House resolution last week for the administration to rescind its decision.

However, Larry Markley, director of governmental and environmental affairs for Chugach Electric, told the Anchorage caucus Tuesday that any increase in consumer bills would average about 4 percent.

He said Chugach retail customers' bills would increase slightly under 4 percent, while wholesale customers, including Matanuska Electric Association, Homer Electric Association and the city of Seward, would find their bills going up slightly higher than 4 percent.

Markley said Chugach Electric, the largest electric utility in the state, had delayed releasing any possible rate figures until it had time to review the state's actions and its effect on the utility's gas bills.

"Virtually all of our power comes from gas," he said.

"We don't know yet whether we will legally oppose it," Markley said of the state's action to boost Cook Inlet royalty gas prices.

The utility could not pass along the higher gas prices to its customers without approval by the Alaska Public Utilities Commission, Markley said, adding that any protest, either by the utility or by the oil and gas companies involved in Cook Inlet production, could delay any cost increase to consumers, he added.

Enstar Natural Gas Co., which serves 70,000 customers in the Southcentral area, has said the proposed price increase would mean a 2 percent increase to its retail customers.

Department of Natural Resources Commissioner Esther Wunnicke said a state statute requires the department to get current market value for state royalty gas, which results in higher prices.

The price increase, projected to earn an additional $8 million a year in state revenue, was to take effect Monday. But Gov. Bill Sheffield delayed the increase for two weeks.

Anchorage Times
4/3/95

Sheffield delays gas price increase

ANC TIMES 4/2/85

by Larry Persily

Juneau — The Sheffield administration has postponed for two weeks an increase in the royalty price of Cook Inlet natural gas, stalling — but not halting — a move that will raise area electric rates.

The gas price hike's new effective date of April 15 will cost the state $500,000 in lost royalty revenue, according to Department of Natural Resources Commissioner Esther Wunnicke. The commissioner discussed royalty gas prices Monday before the Senate Resources Committee. Wunnicke had said March 19 that the state would boost its royalty gas price from current rates based on long-term contracts between oil companies and utilities to higher rates based on market value. The increase was to have become effective Monday.

"This is a lease enforcement action," Wunnicke told the committee. "It is not optional."

Gov. Bill Sheffield Monday requested that Wunnicke delay the gas price increase "to give us a chance to explain it to the residents who will be impacted by the [illegible]," said Molly McCammon, the governor's deputy press secretary.

"It's still going into effect," McCammon said, and the two-week reprieve is intended only to allow time to explain the price increase to the public.

The increase in the price the state charges for its share of Cook Inlet natural gas is expected to produce an additional $8 million a year for the state treasury, Wunnicke told the Senate committee.

In making the decision to boost the gas prices, she explained, the department moved "to obtain the maximum benefit for the people of Alaska." She added, "Though it may be an unpopular decision," the price increase "merely involves the state's rights to set royalty payments equal to the value of the gas."

An increase in the state royalty gas price will drive South-central gas and electricity rates higher, though Wunnicke said, "I do believe the press accounts have overstated some of these impacts."

In a letter to Wunnicke, Sen. Arliss Sturgulewski, R-Anchorage and chair of the resources committee, stated, "Anchorage consumers are faced with the possibility of sudden and dramatic increases in their utility bills due to recent decisions regarding rates charged for Cook Inlet royalty natural gas."

Enstar Natural Gas Co. spokesman Don Dieckgraeff said Monday the state's decision would mean about a 2 percent price increase to its 70,000 customers in Southcentral Alaska.

"The effect of the state increase to us is not that substantial," he said, because most of Enstar's gas is covered by long-term contract prices unaffected by the state's action.

Dieckgraeff did note that Enstar is having its attorneys review the state's action.

Lana Johnson, spokesperson for Chugach Electric Association, said state royalty gas provides a small portion of its supply for natural gas-generated electricity.

Though Chugach has yet to figure exactly how much the state's decision would cost its customers, Johnson said reports of a 20 percent boost in electric bills probably are too high.

The Department of Natural Resources estimates that electric utility rates will increase between 10 and 20 percent.

Anchorage Times
4/2/85

Local gas bills could increase

by John Knowlton
Times Business Writer

Nearly 100,000 businesses and residences in Southcentral Alaska could see their natural gas bills rise by up to 20 percent, as the result of a decision by the state to raise the price of royalty gas it sells five oil companies operating in Cook Inlet.

The state on Thursday announced that effective April 1, it will value Cook Inlet gas at current market rates instead of at long-term contracted rates.

Current market value of Cook Inlet gas is about $2.05 per thousand cubic feet (mcf) while contracted rates range from 21 cents to 65 cents per mcf, officials said Thursday. The market value was $2.32 per mcf but fluctuates depending on demand.

The oil companies, which purchase the gas from five Cook Inlet fields, will pass on the increase in gas price to Enstar Natural Gas Company and Chugach Electric Association, officials said. Enstar and CEA will pass those costs on to consumers if permitted to by the Alaska Public Utilities Commission.

Larry Markley of CEA today said the price increase could mean consumers would pay up to 20 percent more for natural gas but he stressed that no firm figures have yet been arrived at. CEA serves about 100,000 homes and businesses in the southcentral part of the state.

Chugach gets most of its natural gas from Beluga, paying 21 cents per mcf under terms of a 1973 state contract. The state owns 98 percent of the Beluga gas field with Cook Inlet Region Inc. owning the rest.

Bill Hickman, executive vice president of Enstar Natural Gas, said its residential customers initially will see rates rise only about 2 percent because the state owns a small portion of the Kenai gas field, where Enstar gets most of its gas.

But rates will rise significantly if Enstar's suppliers, Marathon Oil Company and Union Oil Company, pass on gas price increases being sought by CIRI and the federal government, which own most of the Kenai gas field, Hickman said. Enstar is paying about 65 cents per mcf for the 26 million mcf of natural gas it buys annually from the Kenai field. It is already paying the $2.05 price for 4 to 5 million mcf of Beluga gas it will purchase this year.

Even though the higher price charged the oil companies goes into effect April 1, it's unknown when any rate increases might be passed on to consumers.

In a release issued this morning, Enstar called the state's action "fundamentally unfair" and said their attorneys are looking into the matter.

Kay Brown, head of the state's division of oil and gas, said the state was basing royalty payments on current market value because it "has an obligation to get the maximum value of its resources for all the people."

But she acknowledged that the state could have asked for back royalty payments totalling millions of dollars from the oil companies. That "policy decision" not to ask for back payments was made by Department of Natural Resources Commissioner Esther Wunnicke, Brown said. Wunnicke was unavailable for comment. The state expects to collect $8 million a year in additional income as a result of the higher prices.

Brown said one of the reasons back royalty payments weren't sought was because the oil companies could pass those costs on to utilities, but utilities wouldn't be allowed to recoup those costs from consumers. The oil companies involved include Marathon Oil Company, Union Oil Company of California, Atlantic Richfield Company, Shell Oil Company and Chevron U.S.A.

The state's action comes after a federal court last month ruled that the federal government acted properly when it raised to current market rates the price it charges Marathon for natural gas it collects from federal lands the Kenai gas field. That ruling could cost Marathon $20 million in back royalty payments. Union Oil, which also sued the federal government over the issue, may have to pay up to $40 million in back royalties if it loses its lawsuit, officials said.

ANC TIMES 3/22/85

Cook Inlet royalty plan defended

By ANN CONY
Daily News reporter

JUNEAU — The Sheffield administration Monday defended its plan to collect higher royalty payments from Cook Inlet natural gas producers, a move that could spark rate increases of 10 to 20 percent for 100,000 Chugach Electric Association customers.

But Natural Resources Commissioner Esther Wunnicke told the Senate Resources Committee that her department has postponed the plan, which was supposed to begin Monday, until April 15. However, it will not be posptoned further, she said.

She said the state has subsidized Southcentral Alaska utility rates for nearly two decades by allowing natural gas producers to calculate the state's one-eighth royalty share on the basis of long-term contract prices that have fallen far below real market value.

If the legislature wants to continue to subsidize Anchorage electric rates, which are the lowest in the state, it can do so directly. But the state has an obligation to enforce its land leases and collect the full market value of its royalty gas, which would increase revenues by more than $8 million a year, Wunnicke said.

"We feel that accepting less than current value for royalty gas is not an appropriate mechanism for providing energy subsidies to Southcentral Alaska. This would require the department — whose obligation is to all Alaskans — to relax our lease enforcement practices solely in order to benefit some Alaskans at the expense of the general treasury."

The state has to be consistent, Wunnicke said.

"It would be improper to have one standard of enforcement where oil companies bear the burden and a different, more lenient standard where some of that burden is passed on to Alaska consumers."

Wunnicke said she decided in November, after consultations with Sheffield, to press for higher payments on state royalty gas. The decision was announced two weeks ago.

Sen. Joe Josephson, D-Anchorage, said low natural gas prices in Southcentral Alaska figured into his vote last year for higher electric rate subsidies in the Bush.

He also said he wondered how collection of the maximum value of the state's royalty gas, to the detriment of local utility customers, squares with state subsidy of the propoed Susitna River hydrolectric project.

"It might be better to make the subsidy here (on Cook Inlet gas) instead of in the form of a much larger subsidy," he said.

Wunnicke said lawmakers could choose to subsidize electric rates in Southcentral Alaska by:

- Authorizing reduced royalty payments on state oil and gas devoted to in-state utilities.
- Including the Anchorage area in existing subsidy programs.
- Selling state royalty gas to utilities under long-term contracts.

"It appears to me that this question is best addressed in the context of the state's overall energy subsidy programs," Wunnicke said.

The Department of Natural Resources has estimated that Chugach Electric customers may face rate increases of 10 to 20 percent. Chugach uses natural gas to generate power, which it distributes to customers in the Anchorage area and to bther utilities serving the Matanuska-Susitna Valley and Homer.

The impact on Enstar Natural Gas rates will be negligible, according to DNR calculations.

Wunnicke said the new policy on royalty gas payments will increase rates for Enstar customers by less than one-half of 1 percent, because Enstar consumes far less state royalty gas than Chugach.

Enstar supplies gas for heating to 70,000 customers in the Anchorage area, the Matanuska-Susitna Valley and Kenai.

Three House members from Anchorage introduced a resolution on Friday calling for Gov. Bill Sheffield to suspend the decision on state royalty gas.

Kay Brown, director of the department's Division of Oil and Gas, is scheduled to meet with the Anchorage caucus today to answer more questions about the new policy and its effect on utility customers.

ADN 4/2/85

Days of cheap natural gas may be running low

Goodbye cheap gas. Hello higher energy bills.

That's the meaning of the state's cision to raise the price of state-owned Cook let natural gas. The days of cheap natural gas for uthcentral residential and business consumers e all but over.

On Thursday, the state announced it will charge e oil companies the going market rate for valty natural gas they buy from five Cook Inlet lds. The action affects Marathon Oil, Union Oil, evron U.S.A., Atlantic Richfield and Shell Oil Co.

The action will increase by nearly tenfold the e Chugach Electric Association pays for most its gas. Prices of the Beluga River gas will rise m 21 cents per thousand cubic feet (mcf) to $2.05 r mcf.

Though Chugach doesn't have firm figures yet, price increase of its feedstock could raise local bills to consumers by 20 percent or more.

Enstar Natural Gas Co. customers likewise will their rates increase but not as quickly as ugach. Eventually, though, the price increase



Alaska's Business

John Knowlton

will cost Enstar, which gets most of its gas from the Kenai fields, millions of dollars as well.

The price increase was anything but a surprise to Enstar or Chugach. Officials with those utilities have known for two years that the days of cheap gas are running out.

That prospect became abundantly clear in 1983 when the federal government and the native regional corporation, Cook Inlet Region Inc., which combined own 83.5 percent of the Kenai gas field, raised to current market rates the price it charged Marathon Oil and Union Oil for royalty gas. In August of that year, Marathon sued the federal government and CIRI, charging they didn't have authority to raise the value of their gas. The state, which owns 16.5 percent of the Kenai gas field, joined CIRI and the federal government in defense.

Ever since then, Enstar and Chugach officials knew the cost of the gas they buy could go up dramatically if the courts ruled in favor of CIRI and the federal and state governments, and against Marathon. That's just what U.S. District Court Judge James Fitzgerald did recently. His ruling also calls for Marathon to pay $20 million in royalties to the gas owners dating back to when the 1983 lawsuit was filed. No judge's order has been filed in that suit yet but when it is, Marathon likely will have only 10 days to make the $20 million payment, officials said last week.

Union Oil, meanwhile, faces potential liability of up to $40 million in back royalties if it loses its lawsuit against CIRI and the state and federal governments, those same officials said.

All of that raises an interesting question about the state action raising its price for Cook Inlet natural gas. Why didn't the state insist that the oil companies pay retroactive royalties? The ma value of Cook Inlet gas has been well above t long-term rates contracted 10 and 12 years ag

It is curious to me why the state, which is preaching austerity through paring its budget restricting travel, would pass up the opportun collect millions of dollars in back royalties fro oil companies.

Kay Brown, head of the division of oil and g said not asking for back royalties was a "polic decision" made by her supervisor, Esther Wunnicke, commissioner of the Department o Natural Resources. Wunnicke was unavailabl comment.

If the state had sought back royalties from t oil companies, those costs would have been pa on to Enstar and Chugach. Even though the utilities knew an increase in price was coming, they didn't get hit as hard as they might have. state went easy on them and easy on the oil companies as well.

John Knowlton is The Times business editor

TIMES 3/24/85

SCOMM

#46:29

Bradley
3/5/85

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IN THE HOUSE

BY THE HOUSE SPECIAL COMMITTEE ON OIL AND GAS

CS FOR HOUSE CONCURRENT RESOLUTION NO. 8 (Oil and Gas)

IN THE LEGISLATURE OF THE STATE OF ALASKA

FOURTEENTH LEGISLATURE - FIRST SESSION

Relating to a natural gas pipeline.

BE IT RESOLVED BY THE LEGISLATURE OF THE STATE OF ALASKA:

WHEREAS the strength and well being of the state's economy will depend on long-term energy sources; and

WHEREAS declining revenue is requiring that the state execute its long-term energy planning with a minimum amount of speculation and preconstruction expenditures; and

WHEREAS in-state uses of the state's resources will directly benefit citizens with increased employment and lower energy costs; and

WHEREAS in-state use of resources will decrease dependence on products and pricing of domestic and foreign suppliers, thus helping to end vulnerability to world resource market depressions; and

WHEREAS one of the state's most abundant, usable, long-term, environmentally efficient energy sources is natural gas; and

WHEREAS the residents of the Interior and Railbelt need an energy source for home heating and electrical generation; and

WHEREAS a major generating source is needed at each end of the Fairbanks - Anchorage intertie; and

WHEREAS a natural gas pipeline will eventually pass near Fairbanks when North Slope gas is transported either to tidewater or through Canada to the continental United States; and

WHEREAS both in-state uses and foreign (and domestic) marketing will depend on the construction of such a line;

BE IT RESOLVED that the Alaska State Legislature encourages the Governor to consider, as an alternative to other energy proposals, the long-term

benefits to residents of the state from a natural gas pipeline from the North Slope to Fairbanks, with spurs to other Interior communities; and be it

FURTHER RESOLVED that the legislature will cooperate with the administration to remove any barriers that may have delayed progress in building a natural gas pipeline.

STATE OF ALASKA

POUCH V
JUNEAU, ALASKA 99811
(907) 465-4941

HOUSE SPECIAL COMMITTEE ON OIL AND GAS

To: Rep. Dick Shultz
Co-Chairman, Resources Committee

From: Rep. Mike Davis
Chairman, House Special Committee on Oil and Gas

Date: March 5, 1985

Re: HCR 8

House Concurrent Resolution No. 8 was recently heard in the House Special Committee on Oil and Gas, and this legislation will again be heard tomorrow. I am writing to you at this time in regard to a committee substitute for HCR 8 that will be brought before the committee at tomorrow's meeting.

As shown in the attached draft committee substitute, the one major substantive change is that reference is now made to the ANGTS gas line as well as to the TAGS gas line. The purpose of HCR 8 is not to promote one gas line alternative over another, but rather to encourage the use of alternative energy sources for the benefit of Interior consumers. I support this measure, but I believe it would be inappropriate to use this resolution as a means of expressing favor with the TAGS gas line or, by omission, expressing disfavor with the congressionally-approved ANGTS gas line.

Alaska State Legislature

COMMITTEES

Co-Chairman — House Resources Committee
Member — House Transportation Committee

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Juneau, Alaska 99811
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House of Representatives

Dick Shultz

HCR 8 SUMMARY

TO: Rep. Mike Davis / Chairman, Special Committee on Oil and Gas

FROM: Rep. Dick Shultz / Co-Chairman, Resources

DATE: February 21, 1985

RE: House Concurrent Resolution #8

********** ********** ********** ********** **********

The purpose of this resolution is twofold.

The first and most obvious purpose is to encourage the Governor to pursue a more active course in bringing natural gas to Fairbanks and the Interior with an eye toward eventual completion of a line to tidewater.

The second purpose is to stimulate members of the Legislature and the Governor to consider a new approach in developing our non-renewable resources, and bringing the benefits to Alaskan residents on a more direct basis.

It seems that whenever we, in the legislature, discuss the highest and best use of our gas reserves the idea of getting the highest price possible dominates the conversation. That being the goal, Pacific Rim markets and the various "economic windows of opportunity" are considered to be the key elements in developing our gas reserves. The one "Catch 22" that continues to impede our progress is the time frame and costs involved in building the pipeline, and risks involved in committing the necessary money to start a project that if delayed may miss a "market window" critical to the payback.

I encourage members to take the time to review the Booze, Allen, Hamilton 1983 Summary Report on Gasline Alternatives. Within that document there are possibilities for building a gas line that may have been overlooked. I

believe that it will become clear after careful review that it is not absolutely necessary to build a pipeline from the North Slope to tidewater initially.

We need to also consider the multiple benefits of using our gas in state to the greatest degree possible and factor all the socio-economic effects into a complete model before deciding what constitutes highest and best use. I base that suggestion on the premise that the number of dollars coming into state government on a per capita basis greatly exceeds the returns in benefits received by the average Alaskan resident via the present system of wealth dispersal. Consider for instance that gas to heat ones home may be more beneficial to an interior resident than a new reservoir in devils canyon on which to sail his dinghy.

This new approach may not be a popular with those in government who prefer to exercise control of the distribution of our state's resources wealth. I would ask that we consider the arguement that residents of the state could more efficiently benefit from gas heat in their homes, low cost, long term electrical generation for their communities, and hundreds of permanent jobs than from dollars in the general fund. It may simply be a matter of where we want to stimulate growth as a result of gasline development; in government as it absorbs dollars in an effort to provide benefits or within our Alaskan communities.

Gas to our local communities would provide stimulation to the private sector as low cost energy is distributed from a gas fired electrical generation source in Fairbanks along the Intertie and through other future power networks to outlying areas. The Booze, Allen, Hamilton report also suggests the production of methanol in the Fairbanks area with transportation to tide water being provided via the Alaska Railroad as a source of additional economic stimulation.

As markets develop on the Pacific Rim, demands in the short term could possibly be handled by rail transported gas while the rest of the gas line to tidewater is completed. Another advantage is that the critical problem of construction time vs. the proper Pacific Rim "economic window" is easier to solve with half the gasline already constructed. The economic logic suggested by Susitna proponents to build half of that project can be applied to an intra-state pipeline as well.

There is one critical question, which in light of the economic projections we are receiving should not be ignored. Will we as a state be able to afford the support necessary for a gasline in the future if we continue to commit our revenue to mega-energy projects such as Susitna? The other key question is what will the Susitna project provide that the gasline wouldn't also provide? The fact is that the gasline spin offs in terms of permanent jobs and a stable growing interior economy far exceeds those available as a result of Susitna. Finally we need not be reminded that it appears the Federal Government may be reluctant to provide the necessary FERC licensing to eventually build the Susitna project.

Prioritizing our resource development dollars will be the most difficult task that we and future legislators face over the next few decades. I believe that diversified economic projects may be found to be in many

instances cost prohibitive when the plan dictates that resources be converted to dollars which in turn are filtered through the government digestive system. The bottom line is that what goes in rarely resembles what comes out in either quantity or quality.

Lets take the time to look at a wider variety of solutions as we make our resource development decisions on behalf of our constituents. I have faith in Alaska's economic potential, not because we have a multitude of raw resources to develop, but because we have people with ambition, pride, and skill who could give government a lesson when it comes to making things happen. It may, heaven forbid, be necessary to change state policy on some of these issues to give our people the chance to more directly benefit from our resources, and if thats what it takes, then lets get after it.

I urge your support on this resolution and offer it as a opportunity to explore a new direction as we consider policy decisions affecting development of our resources for the maximum benefit of our citizens.

SCOMM

#46:30

It's time to develop state energy policy

By MIKE DAVIS

Guest opinion

Local hire and use of the state's royalty share of oil and gas are major policy issues that were dealt with during the last legislative session, and that will continue to be a point of focus during the interim and the next session as well.

The state of Alaska receives one/eighth of the oil and gas produced on state-owned lands and waters as its royalty share of the resources. About half of the state's oil and gas revenues, $1 billion annually, are earned as royalties. This figure will drop sharply, though, as the volume of royalty oil begins to decline. Ten years from now, the state's royalty share will be less than half of what it is today. In 20 years, the royalty share will be only 15 percent of today's volume.

Another effect of having less royalty oil and gas is that there is increased competition for these resources. Forty percent of the Prudhoe Bay and Kuparuk royalty oil is already committed through long-term contracts with MAPCO, GVEA, Tesoro, and Chevron, and demand for the remaining royalty oil far exceeds available supply.

Recognizing both the relative scarcity of these commodities and the state's role as resource manager and owner, the state has three options for utilizing its oil and gas. These options include selling these resources by competitive bid, through long-term negotiated contracts, or allowing the oil and gas producers to sell the state's royalty share for them.

The purpose of negotiated contracts, through which the state receives less than the maximum value of the oil and gas, is to benefit Alaskan residents through lower fuel costs or other consumer benefits. Unfortunately, the latest long-term royalty oil contract awarded to GVEA will result in marginal consumer benefits, while also resulting in less state revenue than possible.

With almost half of the North Slope oil reserves already depleted, the Legislature is belatedly beginning to recognize the need for a statewide fiscal policy. It is time we develop a statewide energy policy as well.

We have been made painfully aware in recent months of the state's dependence on energy-based revenues, and of the pivotal nature of energy prices on Alaska's economy. A statewide energy policy would be invaluable in lending direction toward using energy resources and energy-program expenditures for the best interest of the people of the state.

Alaska has an extensive array of energy programs, though these programs are often in conflict with one another due to lack of an overriding energy policy. This lack of policy has resulted in regional disputes toward energy costs and the development of energy projects, disincentives toward energy conservation, conflicting direction being given to the administration, and cutbacks in programs providing subsidies on a needs, rather than community, basis.

For this reason, I introduced HCR 29 during the last session, which directs the administration to develop an energy policy and reevaluate existing energy programs in the state.

I am also evaluating the possibility of making North Slope natural gas available to Alaskan consumers, and drafting criteria regarding the disposition of royalty oil and gas. These criteria, which will be introduced as legislation in January, will provide direction to the legislature so that future long-term negotiated sales will result in greater consumer benefits than will be received under the most recent GVEA contract.



REP. MIKE DAVIS
Energy policy needed

A related policy issue is that of local hire. One of the greatest benefits of resource development should be employment for local residents. As long as many of these jobs continue to go to people from out of state, though, we will continue to lose many of the gains associated with development.

Legislation was recently signed by the governor that strengthens the local hire statutes relating to public works construction, though much still needs to be done for Alaska to have an effective local hire law. Among these needs are funding for additional enforcement officers, and provisions written into all projects involving state lands, grants, or loans that all work done on state projects utilize the local work force.

Without a comprehensive effort being made to maximize revenues, increase consumer benefits, and provide jobs for Alaskans, we risk losing many of the gains realized from the one-time development of our non-renewable resources.

Democrat Mike Davis is serving his second term in the state House of Representatives, representing District 19.

STATE OF ALASKA

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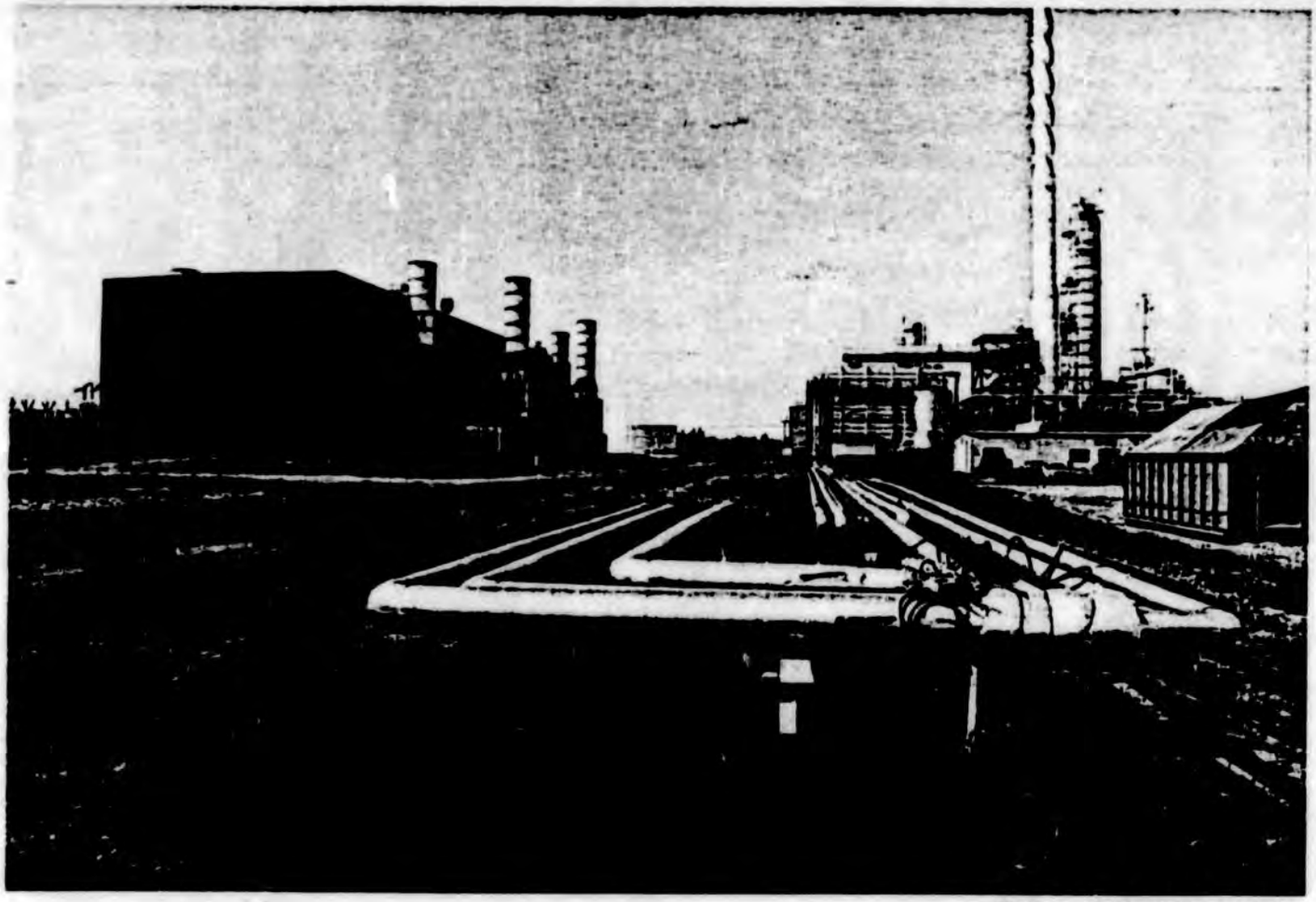
HOUSE SPECIAL COMMITTEE ON OIL AND GAS

HCR 29

Alaska has an extensive array of energy programs, though these programs are often in conflict with one another due to lack of an overriding energy policy. This lack of policy has resulted in regional disputes toward energy costs and the development of energy projects, disincentives toward energy conservation, conflicting direction being given to the administration, and cutbacks in programs providing subsidies on a needs basis.

Recognizing that the implementation of specific energy programs is not a substitute for an energy policy, HCR 29 is designed to provide for the development of a policy that will address energy issues on a broad, statewide basis. Only through such a policy will it be possible for the state to maximize development of its thermal resources, maximize revenues based on these resources, promote lower energy costs to individuals and the state, and allow for the proper planning of major energy projects.

HCR 29 is not directed toward the expansion or curtailment of specific energy programs, but toward development of a policy that will allow all present and proposed programs to be viewed within an overall context. We have been made painfully aware in recent months of the state's dependence on energy-based revenues, and of the pivotal nature of energy prices on Alaska's economy. HCR 29 would lend direction toward utilizing energy resources and energy-program expenditures for the best interests of the people of the state of Alaska.



Refinery at North Pole, Alaska.

Alaska's Energy Policy: Power to the People at Any Cost

by Neil Davis

INTRODUCTION

The State of Alaska is in the energy business in a big way. More than 90 percent of state government's income is from petroleum resources—possessions owned collectively by the people of Alaska. This income is large, especially for a state having a population of only half a million people, and it allows the state government to spend heavily. The fiscal year 1985 state budget plans for an expenditure of $3.89 billion, the equivalent of $18,600 per average Alaskan household.[1]

In 1985 Alaska will spend roughly $600 million for transportation and public facilities and another $550 million for education. The next largest expenditure—ranking above government administration itself and above health and social services—is for providing energy and energy subsidies to Alaskans. Alaska will spend approximately $480 million on energy-related matters in fiscal year 1985. This is because Alaska's state government has established itself as the key provider for the state's energy needs.

An examination of the FY 1985 budget indicates a planned expenditure for the state's energy business as shown in Table 1. Striking features of this table are the high expenditure for hydropower and the low expenditure for research. No for-profit enterprise with operating and capital budgets the size of Alaska's would consider spending such a small portion of its total outlay for research. Exxon, for example, spent 6 percent of its total $11 billion budget in 1981 for research, and a tenth of that was for "basic" research.[2] Yet, in 1985 Alaska will spend only about two-

Neil Davis, *Professor Emeritus of Geophysics at the University of Alaska-Fairbanks, received B.S. and Ph.D. degrees in geophysics from the UAF and an M.S. degree from the California Institute of Technology. His latest book is* **Energy/Alaska** *(University of Alaska Press, 1984) from which the above photo is taken.*

One important component of the energy policy . . . is the concept that all Alaskans should share equally in the cost of energy and that all should have plenty of energy to use.

tenths of a percent of its energy-related outlay on what might be considered research.

Even if one includes the entire budget allocated to the Alaska Department of Natural Resources for "resource inventory/geological investigations"[1] as if it were intended for research on energy resources—which of course it is not—then the portion for research is still less than 1.5 percent. Alaska's energy policy does not include more than token investment for research directed toward developing the state's vast energy resources[3] or toward analyzing state government's self-chosen role of providing energy to the people of the state.

ALASKA'S ENERGY POLICY

If Alaska's energy policy has little room for the generation of new knowledge and for technical innovation, what is the policy, and what does it include? Does Alaska even have an explicit energy policy? The evidence is that it does have an *evolving* energy policy, although one might not be able to locate a statement of what that policy consists of at any moment in its evolution.

Something that sounds like the makings of a policy is the legislation that requires the Alaska Department of Commerce and Economic Development, with the assistance of the Alaska Power Authority, to prepare annually a new report on the "Long Term Energy Plan for Alaska."[4] The various authors of the reports on the Long Term Energy Plan do not claim that the plan is a statement of policy or that it is even a tool for developing policy.[5] Yet the reports contain statements giving implicit indications of the state's energy policy. Such statements, in addition to the body of enacted law, do suggest what the state's energy policy is.

Table 1. Alaska FY 1985 Budget for Energy

Item	Amount (in millions of dollars)
Hydropower	396.621
Energy Subsidies	25.653
Interties: Anchorage - Fairbanks plus Seward	25.082
Rural Electrification	14.295
Administration	13.766
Energy Conservation	2.434
Alternative Energy	1.195
Research (0.2%)	
Fisheries impacts of hydropower	0.415
Coal resources	0.400
Geothermal resources	0.100
(University of Alaska Coal Lab: 0.180)	
Total	$480 million (12.3% of state budget)

The record of legislative actions over the past six years, as outlined in Table 2, hints at the nature of Alaska's energy policy and its fast evolution. The state's actions over the years do express an evolving policy, even if that policy is not explicitly stated.

The starting point for development of Alaska's energy policy was the major increase in worldwide petroleum costs that occurred during the 1970s. High petroleum prices and Alaska's status as a major petroleum exporter together gave the state money to spend. Those high prices also caused the state's political leaders to have genuine concern over the cost of energy to Alaskans, particularly those in rural areas.

The flurry of energy legislation in 1978 established a policy that said, in essence: Alaska will use its energy resources and the money derived from them to attempt to hold down or even reduce energy costs for urban Alaskans, and also to elevate rural standards of living by providing lower-cost energy there. The policy included components based upon a faith in the concept of increasingly greater petroleum prices in the future, faith in technology (i.e., creation of the Division of Energy and Power Development and the Alaska Council on Science and Technology), and faith in the idea that anything can be accomplished by showering it with money (establishment of the Alaska Gas Pipeline Authority).

Most important, the policy stated that it shall be the role of Alaska's state government to enter the business of providing electrical energy to the state's citizens (establishment of the Alaska Power Authority). Why not? The federal government did the same thing many years ago with its Rural Electrification Administration and Tennessee Valley Authority.

An element of the state leadership rec-

Alaska's energy policy does not include more than token investment for research directed toward developing the state's vast energy resources. . . .

ognized that perhaps the centralization epresented by the major role awarded to he Alaska Power Authority might not be a satisfactory answer for everyone. One result was legislation forming the Alaska Energy Center, a public corporation intended to do everything for everyone, but which resulted—because of its quick termination—only in an embarrassing waste of time and money.

The years 1979 through 1983 saw changes that honed Alaska's energy policy into its present form. The recognizable forces affecting the evolution of policy include one that politicians find difficult to resist: the demand for jobs that large energy projects promise.[5]

Another strong force is the persistent faith in rising energy costs, an almost blind trust that inflated costs of fossil fuels will level all apparent fiscal mountains into highly negotiable foothills that future Alaskans can tread across with ease. Best to put out of mind the possibility that petroleum prices may stay constant or even decline further. If that happens, a typical Alaskan fall sets in: the money tree sheds its fruit and leaves quickly; a hard winter follows soon behind.

Another strong, growing force is state government itself. The fiscal year 1985 budget adds 1772 new positions to augment the approximately 17,000 people already employed by the state.[1] Even if they are not employed by the state, most Alaskans expect the state to provide benefits that go beyond the basic services government had provided a few decades ago. Alaskans now expect state government to provide jobs, housing loans, welfare payments, economic assistance to farmers and businessmen, and subsidies of all sorts. That state government should also provide energy only seems natural in an era when the public expects so much of government.

These and other forces influenced the refinements of Alaska's energy policy from 1979 to 1983. If one thinks that state government's actions during this period indicate an evolving policy rather than merely a battling between different political elements of the leadership, then the nature of the evolution is clear.

The elimination of such bodies as the Division of Energy and Power Development and the Alaska Council on Science and Technology indicates a trend toward centralization of authority and decision making and also a move away from the belief that technical innovation and the development of new knowledge should be important components of Alaska's energy policy.

Along with a trend toward centralization, the evolving policy has focussed on the development of large power projects, primarily hydropower. The policy looks away from small, local energy projects that collectively might depend upon a variety of energy sources and that might

Table 2. Energy Legislation Implying an Energy Policy

1978 – *Alaska Power Authority* established.
– *Division of Energy and Power Development* created.
– *Alaska Gas Pipeline Authority* established.
– *Alaska Council on Science and Technology* established.
1980 – *Alaska Energy Center* established.
1981 – *Alaska Energy Center* abolished.
– *Energy Program for Alaska* enacted.
1982 – *Alaska Power Authority* powers broadened.
1983 – *Alaska Council on Science and Technology* abolished.
– *Division of Energy and Power Development* abolished.
– *Susitna blackmail clause (consumer balloon payments)* postponed until July 1991.
1984 – *Susitna blackmail clause* repealed.
Fiscal restraints removed from Alaska Power Authority, *so that its projects no longer need be economical* or return full investment to the state.
Power Development Revolving Fund established in the Department of Commerce and Economic Development to pay differences between actual costs and income from Alaska Power Authority projects.
– *Intertie appropriations* made for $25 million (Seward; Anchorage-Fairbanks).
– *Lake Tyee, Swan Lake, Solomon Gulch, and Terror Lake* hydro projects combined for purpose of rate determinations.
– *Bradley Lake* hydro project authorized for construction at a cost of $300 million in July 1983 dollars.
– *Susitna-Watana* hydro project authorized for construction at a cost of $3.75 billion in January 1983 dollars.
– *Unconstitutional forward appropriations* for
1. *"power cost equalization"* – $21.7 million annually,
2. *Bradley Lake* "rate stabilization," etc. – $50 million annually, and
3. *Susitna-Watana* "rate stabilization," etc. – $200 million annually.

require application of new or improved technologies.

One important component of the energy policy that has not changed is the concept that all Alaskans should share equally in the cost of energy and that all should have plenty of energy to use. The Energy Program for Alaska is accomplishing these goals by means of direct subsidies to consumers outside the Anchorage and Fairbanks areas and by means of the required sharing of power project costs expressed in the "Susitna blackmail clause" —primarily intended to force future legislatures to invest in large power projects. The repeal of this clause in 1984 and its replacement legislation actually did not signal a change in the policy that all Alaskans should share equally in the costs of power projects administered by the Alaska Power Authority. However, the new legislation did remove from the power authority the previous requirement that its projects should pay for themselves.

Prior to 1984, the Alaska Statutes required the Alaska Power Authority to set rate structures that would return the state's investment in total. But now, if the authority builds a project that produces power at a cost higher than an alternative source of energy, the authority is allowed to set rates equal to that dictated by the cheaper alternate source. All Alaskans will share equally in the cost of the resulting shortfalls through the Power Development Revolving Fund—which is to be filled with money owned equally by all citizens.

SUMMARY

In summary, Alaska certainly does have an energy policy. It has some fixed elements and some that are evolving. Based upon the actions that express it, Alaska's energy policy seems to be composed of the following elements:

- Derive all possible income from export of energy. Foster, if necessary, new exports by providing financial assistance using money owned by the state's citizens. Assume an increase in fossil fuel prices of a few percent each year.
- Provide electrical and thermal energy to the state's citizens, since it is assumed that such a task is a proper function of state government. Also, subsidize fossil fuel costs in rural areas.
- Centralize decision making within state government and emphasize large power projects together with an interconnected intertie network. Use power projects to promote employment and regional growth. Assume that all technical problems can be solved during construction phases, using a base of pre-existing knowledge.
- Do not require that power projects in themselves be the cheapest means of power generation in each area of the state.



Use a common pool of money owned by the state's citizens, now and in the future, to make up cost differences.

- Do not emphasize use of the variety of energy resources available in Alaska or of technical innovation and development of new knowledge—to do so has no current fiscal advantage.

I submit that the state's current energy policy is not in the long-term best interests of Alaska. Regardless of whether one approves of rapid growth, the policy probably is quite successful in promoting growth—as long as excess funds are available from energy exports. However, the policy makes too much use of subsidy and minimizes technological development that will be needed in future years. We are, in fact, already wasting money that would be better spent trying to diversify our use of Alaska's copious energy resources.

Our policy places too much emphasis on centralization, both in energy supply and decision-making authority. The issues are complex and difficult to comprehend, at best. Partly for that reason, and partly because of the centralization within government, Alaska's energy policy can be conducted by too few people with too little scrutiny.

Perhaps the most serious defect is the lack of fiscal restraint in the policy that now exists in 1984. Previously, the Alaska statutes required that energy sold from projects be priced to match their costs, year by year. The removal of that stringent requirement decreases the pressure on planners to make energy projects cost-effective—as long as the oil money holds out, we have no immediate sanction to punish poor planning or costly mistakes. We are, in effect, putting our problems off to the future. As rich as Alaska is now, one would think that we ought to be able to solve our problems as we encounter them, instead of foisting them off on our children.

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NAKNEK ELECTRIC ASSOCIATION, INC.

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April 8, 1985

Rep. Davis
Labor and Commerce
Pouch V
State Capitol
Juneau, AK 99811

RE: ENERGY EQUALIZATION PERPETUATION CONCERNS

Everyone reads, listens, observes and interprets differently. The best of intentions can be construed to make "black white."

This I may be doing by the following comments. However, I should like to set forth and offer comments and suggestions relating to "power cost equalization."

Recognition of high electric energy costs in given areas of Alaska is acknowledged and should be addressed.

Too, it is realized people "by and large" live where they do, because of a willingness and awareness that it may cost more, and accept such as a way of life.

Consequently, considerable disparity exists, but Alaskans do have a good buy in their base electrical requirements with the application of energy equalization. As an example, from the March 25 addition of U.S. News and World Report (copy attached), average residential cost per KWH in New York City was listed as 16.174¢. Here in Naknek, Alaska our average residential consumption is 454 KWH per month at a tariff rate of $120.59, or 26.56¢ per KWH, and a credit for power cost equalization of 15.73¢ per KWH, or net of 10.83¢ per KWH "out-of-pocket expense," a lesser cost than New York City by 5.34¢ and near the same as Chicago costs per KWH. My chief concern of equalization is threefold; the state of Alaska capital budget, perpetuation of the fund, and placing equalization in the hands of legislative intent.

The seeding of the fund will dwindle, and at some point in time exhaust itself. This will cause considerable unrest among rural people that have become accustomed to the stipend, thereby causing hardship in some cases, questions of the utilities, legislators and Board of Directors. It will be hard to explain the removal and decline of the equalization fund, once established for their benefit.

The following observations might well serve as thought for revision possibilities of PCE legislation and law.

At 1984's year end, the Alaska Power Authority disbursed in excess of 8.5 million dollars for some 77.5 million KWH at an average 11.15¢ per KWH. After scanning the rural electric borrowers national statistical report of Alaskan systems, a ratio of 50% appears reasonable for distribution of residential against all consumer classifications. **It appears assumable that fifty percent of equalization could be eliminated by making only residential consumers eligible for energy equalization.**

I do not know the capital budget for PCE, however, it appears that about five million dollars will be required to satisfy only residential consumers while the inclusion of all other classes could possibly bring the figure to ten million dollars. Therefore, let us assume the program would be funded with ten million dollars each year as long as possible; thus leaving a surplus of five million after satisfying the residential requirements to be trusted until such time the trust would generate in earnings that amount needed for PCE payments of the future, and require no further funding.

Taking the position that only residential consumers be eligible for PCE is based upon the nature of business today. Take the commerical account for example. Each are entitled to take from their income the expense of doing business; therefore, in reality, electrical costs are a deduction for the commercial account. Too, the commercial account will add the cost of electrical costs to the retail item or items for sale; or in the case of a service, it will be included in the service fee indirectly. Therefore, no need is truly generated for PCE in the commerical class of consumer. Let us look now upon the governmental usage of electricity. By funding such accounts, it is merely pushing funds from one tax pocket to the other, and providing a budget surplus for the agency, whether it be federal, state or local governmental entities.

Only the residental consumer has no means of regaining excessive energy costs and truly should be the only recipients of PCE funding.

It probably is not politically wise to remove commercial accounts from PCE, however, every justification necessary lies in the fact that expense is a tax deductible item, and therefore, should be eliminated from allocation.

These thoughts have been in mind for sometime, and I hope might light the spark for some revision of PCE.

Thank you for your time and considerations.

Sincerely,

C. E. Franke
General Manager

As an Ex-President Prunes His Perks—

Richard Nixon's plan to give up his Secret Service bodyguards lent impetus to a drive in Congress to trim the costly perks enjoyed by former Presidents.

Senator Lawton Chiles (D-Fla.) announced that he would introduce a bill to rein in what some critics call the "imperial ex-Presidency," curtailing the 28 million dollars spent each year to commemorate, protect and otherwise take care of former Chief Executives.

With that tab exceeding the 24.9 million dollars it costs to run the White House itself, critics protest that something is amiss.

Nixon, who became in mid-March the first ex-President to decide to give up lifetime protection, would save the government more than 2 million dollars a year by hiring his own guards. Others shielded by the Secret Service: Gerald Ford and his wife Betty, Jimmy Carter and his wife Rosalynn and Lyndon Johnson's widow Lady Bird. Jacqueline Kennedy lost her protection when she remarried in 1968.

The agents accompany the former First Families on their travels and camp on their doorsteps when at home, operating out of nearby leased quarters.

The Secret Service last year stopped providing protection for Nixon's wife



Nixon and his Secret Service agents.

Pat, at her request. After Nixon's announcement, Ford said he would keep his Secret Service detail for now but gradually eliminate it later. Carter declined to comment.

Before Dwight Eisenhower retired, Presidents had to fend for themselves. Then, in 1955, Congress voted a modest $64,000 for care and keeping of presidential libraries. Pensions and office expenses were added in 1958, and Secret Service protection in 1965.

By this year, outlays had exploded to 15.5 million dollars for the libraries, 11.2 million for Secret Service protection, 1.2 million for office allowances and 827,800 for pensions.

Chiles's bill would limit benefits for presidential libraries, require annual audits and require annual reviews of the need for protection after ex-presidents

Electricity's Surging Cost

Average residential electric bills climbed 7.9 percent in 1984, nearly twice as fast as the 4.0 percent inflation rate.

A national survey by utility regulators found power costs varied widely, with consumers in the Northeast paying the most and those in the Northwest the least. New York City's rate was the highest in the nation.

The 25 most expensive and 25 least expensive cities by kilowatt hour in 1984:

25 Most Expensive

	Average KWH Cost	1-Year Change
New York City	16.17¢	— 4.1%
Kahului, Hawaii	14.33¢	8.3%
Nantucket, Mass.	14.31¢	– 7.6%
Hilo, Hawaii	13.82¢	+10.7%
Middletown, N.Y.	13.78¢	– 0.3%
[illegible]	13.05¢	+10.5%
Boston, Mass.	12.77¢	– 30.9%
[illegible]	12.14¢	+11.5%
[illegible]	12.01¢	– 5.8%
San Diego, Calif.	11.79¢	– 6.1%
Fitchburg, Mass.	11.60¢	+20.1%
Bergen County, N.J.	11.40¢	+14.6%
Newark, N.J.	11.21¢	– 1.1%
[illegible]	11.20¢	– 9.4%
[illegible]	11.20¢	– 1.2%
[illegible]	11.20¢	+22.3%
Bridgeport, Conn.	11.14¢	+11.6%
[illegible]	11.07¢	– 2.0%
Chicago, Ill.	10.60¢	+ 4.8%
Philadelphia, Pa.	10.30¢	+20.9%
Pawtucket, R.I.	10.78¢	+21.8%
Wilmington, Del.	10.75¢	– 2.8%
Elkton, Md.	10.65¢	+21.0%
Fall River, Mass.	10.60¢	+12.2%
Davenport, Iowa	10.57¢	—

25 Least Expensive

Billings, Mont.	3.56¢	– 15.5%
Spokane, Wash.	3.61¢	– 23.0%
Boise, Idaho	3.86¢	– 8.5%
Ontario, Oreg.	3.85¢	+11.0%
Portland, Oreg.	3.31¢	– 10.8%
La Grande, Oreg.	4.37¢	+21.1%
Casper, Wyo.	4.92¢	– 7.4%
Bellevue, Wash.	4.96¢	– 35.2%
Ashland, Ky.	5.20¢	– 1.6%
Duluth, Minn.	5.46¢	– 1.5%
Franklin, N.C.	5.48¢	– 35.5%
Marietta, Ohio	5.48¢	– 0.1%
Cheyenne, Wyo.	5.55¢	– 21.7%
Kingsport, Tenn.	5.58¢	– 3.3%
Las Vegas, Nev.	5.62¢	– 27.4%
Rutland, Vt.	5.74¢	– 5.7%
Kingsport, Tenn.	5.78¢	– 2.2%
[illegible], Mich.	5.82¢	– 0.4%
Juneau, Alaska	5.86¢	– 3.2%
[illegible], Ky.	5.85¢	0%
La Crosse, Wis.	5.94¢	– 7.9%
South Bend, Ind.	5.91¢	1.1%
[illegible], N.C.	5.97¢	– 3.6%
[illegible]	5.99¢	4.6%
Parkersburg, W.Va.	6.06¢	1.8%

30 Current Quotes

"The first thing one has to remember is that you don't get to the head of the Politburo by being a choirboy."
Former Secretary of State Henry Kissinger, stressing the need for caution in sizing up new Soviet leader Mikhail Gorbachev.

"If the United States wants to continue to play a role in the Third World, it must attack terrorism at its source."
Former President Richard Nixon, calling for tough action against terrorists in a newly released book *No More Vietnams*.

The IRS has sunk so low in public opinion that a responsible accountant honestly believes he needs a hood to protect himself from IRS retaliation."
Ronald Nolt of the Pennsylvania Society of Public Accountants, telling a House subcommittee that accountants fear the IRS so much they have discussed hiding their identity for future appearances.

"The fact is we might be handing out psychological thalidomide."
Dr. Edward Zigler of Yale, warning that Americans who put very young infants in day-care centers may traumatize them and do serious psychological harm.

"We should not have let him out of there alive."
Former Israeli Defense Minister Ariel Sharon, saying his government "committed an error" when it allowed P.L.O. leader Yassir Arafat to escape from Lebanon in 1982.

"We have drawn a very fine line in the sand against raising taxes."
Budget Director David Stockman describing the Reagan administration's position against tax increases in a group of magazine editors and publishers.

"Go ahead—make my day."
President Reagan, answering a line from Clint Eastwood in a letter to Congress to send him tax bills so he can have the pleasure of vetoing them.

Chugach Electric Association
1984 Annual Report

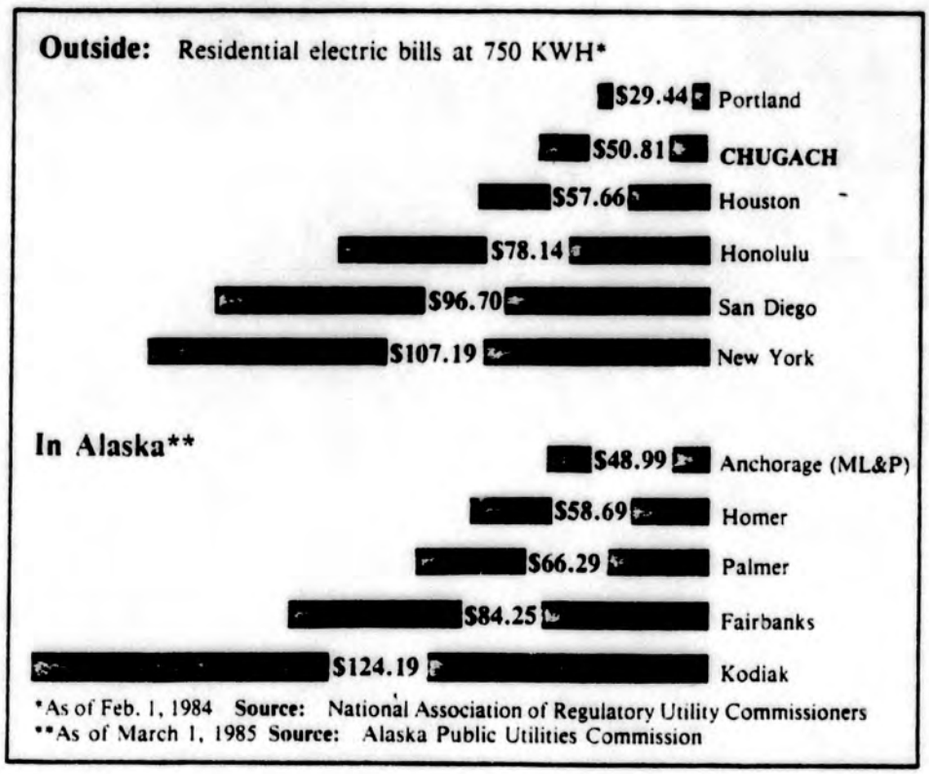
How our rates compare

Chugach consumers enjoy some of the lowest electric rates in the nation, thanks in part to a long-term supply of inexpensive natural gas used to generate power.

Statistics compiled by the National Association of Regulatory Utility Commissioners show that consumers in New York City pay $107.19 for 750 kilowatt hours (kWh) of electricity, more than double the $50.81 charged by Chugach.

Residents of Tampa Fla., pay $60.74 for 750 kilowatt hours while those who live in Philadelphia pay $73.08.

Chugach's rates have remained suprisingly constant over the past 30 years, although electrical usage has soared. The average residential usage in 1984 was 805.4 kWh per month.



Alaska's Energy Policy in a Global Context

An Informal Tour of a Modern Maze



by Arlon Tussing

WORLD ENERGY FUTURES

How one looks at Alaska's energy policy choices depends mainly on one's perceptions of what world energy markets will look like over the next 10 to 20 years. Some of the perceptions that stood behind the State's policies during the late 1970s and the early 1980s now need to be reassessed. Specifically, we should look again at the notion that we face a long-term tightening of energy markets worldwide, and that oil prices (and, hence, the value of Alaska's fossil fuel resources) will continue to increase without letup. It is time to reexamine the belief that Alaska can look forward to brightening prospects for energy-related export ventures which could, in turn, sustain economic growth in the state.

Arlon R. Tussing *is professor of economics at the University of Alaska's Institute of Social and Economic Research, Anchorage, and president of ARTA, Inc., Seattle. Tussing is well known for his impressive record in the past few years for controversial but accurate forecasts in the energy pricing market. He is co-author of* **"The Natural Gas Industry: Evolution, Structure, and Economics."**

This belief rests on a fundamentally flawed picture of the world energy outlook and Alaska's energy-related opportunities. It reflects, at best, a myopic view of the events of the 1970s. The last few years showed that lasting and worsening energy traumas are not inevitable, at least in the short term. And a look at the cycles and trends of energy prices over the preceding hundred years calls into question doomsday rhetoric for the long term, as well.

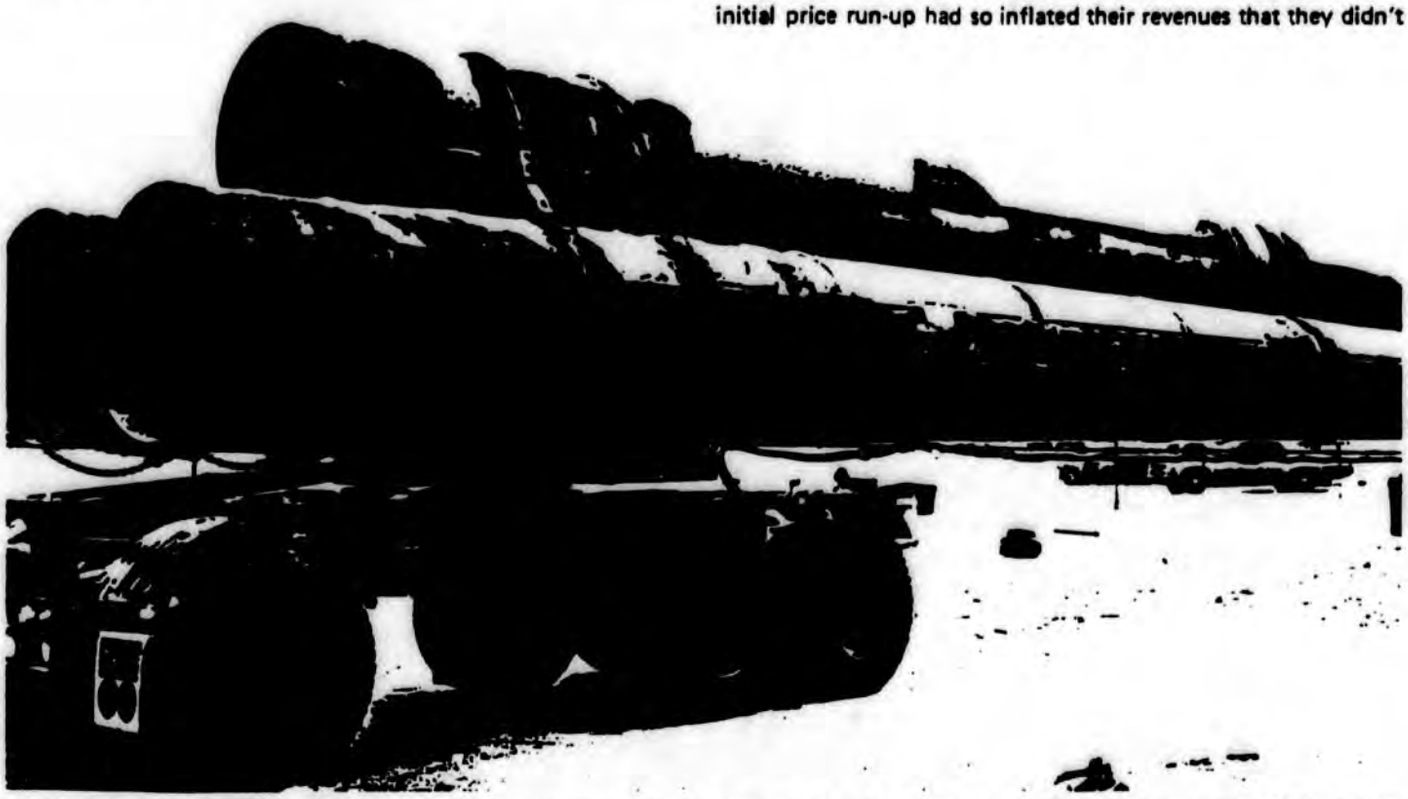
History shows us that oil prices, in particular, are violently cyclical, at least without an overwhelming regulatory presence like that of the Texas Railroad Commission between 1935 and 1972. Oil is a commodity and, like soybeans or copper, its price fluctuates annually and over longer periods. If we look at 130 years of crude-oil prices in the United States, we find no long-term trend; that is, the overall pattern is pretty flat – with an average somewhere on the order of $14 a barrel in today's prices. But we also find dramatic short-term fluctuations: prices have moved up or down an average of about 20 percent per year.

Perhaps the most important lesson to be gleaned from these historical statistics is that there is no confident basis upon which to forecast oil prices in the year 1990, 1995, or 2000. It is not inconceivable that prices will again reach down to the levels prevailing before 1972 – less than $10 per barrel in today's dollars – or that spot prices could for a nonce reach $50 or more. The important point is that even if, as I suspect, $15 is about the "right" price for the long run, $15 is not a stable "equilibrium" that provides a basis for long-term business or public planning.

In the years before 1973, the energy establishment assumed, perhaps unconsciously, that there was such an equilibrium because the Texas Railroad Commission had been stabilizing domestic (and, with the help of the Seven Sisters, global) oil prices for decades. From 1935 to 1972, the average annual change, up or down, in U.S. constant-dollar crude-oil prices was only about 4 percent. The Commission wielded such power because Texas producers controlled and contained the bulk of the world's discretionary oil-producing capacity. Texas authorities could increase production enough to cover any surge in demand resulting from a world-wide economic boom; they could also slow down production to prevent a petroleum glut and consequent price crashes.

As a result, we were blessed with 35 to 40 years of stable oil prices. In a sense, it was a fool's paradise that gave rise to the conviction that there was indeed a long-term equilibrium price of oil. Stability led to complacency, and the world shifted almost totally to dependence on oil for its industrial, electrical-generation, and transportation fuels. During the 1960s, for example, Japan's oil consumption expanded at a compound rate of 18 percent per year. Even in Europe, a 7 percent compound growth rate prevailed.

Reality obtruded in the early 1970s, however, when Texas (and Louisiana) ran out of the spare producing capacity that allowed state conservation authorities to use their power over production rates to prevent the Middle Eastern crises of 1954, 1957, and 1967 from causing more than a ripple in prices. The disturbances of 1973-74 touched off a consumer panic which produced a run-up of spot-market prices. The oil-producing nations of the Middle East then voluntarily and individually reduced their production (without any urging or direction from OPEC) and reduced their exports to a degree that sustained prices at the spot-market levels reached at the peak of the panic. The initial price run-up had so inflated their revenues that they didn't



These sections of pipe were being moved from storage yards at Fairbanks, Valdez and Prudhoe Bay to intermediate storage sites along the 800-mile trans-Alaska pipeline route. (All pipeline photographs courtesy of Alyeska Pipeline Service Company.)

know what to do with it all. During this period, even Alaska's government leaders suspected that the era of rising oil prices meant that oil left in the ground would yield a higher and more secure return than any conceivable investment founded on today's cash proceeds from oil production.

A similar progression of events unfolded in 1979. This time, however, the market panic that arose from the Iranian Revolution was not even a response to an actual cutoff in supplies. The supply shrinkage happened only *after* prices went up, and the cutback was engineered in Saudi Arabia – not in Iran. This second oil-price shock pushed prices to a level that was self-defeating. The oil states had now largely priced oil out of the world's industrial fuel markets.

At any price above $20 in today's dollars, there is no market for oil as an industrial bulk fuel or for the generation of electricity, wherever coal or natural gas is available. Coal from new mines in North America shipped through new terminals in new ships can be burned in new plants with scrubbers or other technology sufficient to meet the tightest environmental standards, at any tidewater site in the world, and still undercut $20 oil. The nearly unlimited availability of coal in the long run therefore ultimately sets a price cap on oil somewhere below $20 a barrel.

By the same token, as long as oil is priced anywhere above $20 per barrel, industries throughout the world will continue to reduce their consumption of oil in favor of coal (or natural gas, or other energy resources with favorable local economics). The world, after all, has no need for any *specific* energy commodity. All that civilization requires are the calories for light heat, and motive power, and simple hydrocarbon molecules to serve as the building blocks for making more complex organic chemicals. For each of these used, established technology offers several candidates, and liquid petroleum will remain the fuel or feedstock of choice in each one of them only where and for so long as it is the cheapest.

The price run-ups of the 1970s were thus not the product of terminal resource depletion, but only artifacts of a too-long suppressed commodity cycle. Such cycles are inevitable, however, because fuel-use decisions are incorporated in long-lived capital goods, like transportation equipment, buildings, industrial processes, and appliances. Periods of short supply give way to buyers' markets and *vice versa* because neither production nor demand can react instantaneously to changed circumstances, but they do unfailingly react and, because of the delay and uncertainty of the reaction, they tend to overreact.

The reactions and overreactions to the market conditions of the 1970s still have plenty of momentum. Even today's economic recovery does not bode well for oil producers and other energy purveyors struggling with a glutted market. Revival carries with it some short-term consumption gains, but it means mainly a more rapid replacement of fuel-inefficient vehicles, buildings, industrial machinery, and appliances by durables designed in a high-price, energy-conscious environment.

WPPSS AND OTHER PUBLIC ENERGY PROBLEMS

A number of public power agencies that made long-term investments based on the faulty wisdom of the immediate past now find themselves in deep trouble. The public power agencies of western North America, for example, embarked on a very large construction program because they anticipated higher and higher alternative fuel prices and because they assumed that electricity demand was largely insensitive to price. The Washington Public Power Supply System (WPPSS) invested in a nuclear future. Private utilities and public power agencies in several Western states invested in expensive coal-fired plants, while British Columbia's public power agency pushed forward a massive scheme for hydropower development.

These agencies are now finding, however, that the power simply is not needed in their own districts. Worse yet, nobody else needs it either, at least at prices proportional to the debt service they incurred in construction. High prices have depressed demand, and even higher prices for incomplete and abandoned plants could provoke a dangerous "death spiral," in which utilities attempt to charge higher per-unit prices as demand falls, which exacerbates their sales losses.

A nuclear plant, for example, has an enormous embedded fixed cost. But once it is built, its operating costs are trivial. What this means is that in a supply surplus, the utility and its regular consumers benefit from sales to marginal and off-system customers, so long as they pay anything at all in excess of variable operating costs. The same is true – even more so – with a hydro project like Susitna whose fixed costs per kilowatt of capacity are greater, and its operating costs per kilowatt-hour of sales even less, than is the case for nuclear generating stations.

Consider these events: British Columbia Hydro, facing a huge surplus of power it cannot sell within the province at a price that will recover its costs, has executed a long-term sales contract with the Los Angeles Department of Water and Power. The city will use the imported power to displace oil- or gas-fired generation. Meanwhile, Bonneville Power Administration has been offering its surplus hydropower to California utilities for what it perceives to be their "avoided cost" for fossil-fuel generation – about 4.5 cents per kilowatt-hour – even though fixed-cost amortization for the WPPSS plants may run about 12 cents. BC Hydro offers its hydro surplus for less than 3 cents, however, whereupon the administrator of Bonneville (sounding like one of the villainous private-power magnates of yore) says: "Our transmission lines are not common carriers and we have no obligation to carry power for others to the detriment of our own marketing program."

Now what does BC Hydro do? It goes shopping around the State of Washington, reminding those utilities who are tied to the Bonneville system that Bonneville is going to jack up their rates to cover the costs of the recently completed and soon-to-be abandoned nuclear plants. BC Hydro then offers to sell power to these utilities in the future for a substantial discount off whatever price Bonneville charges. Ironically, BC could sell to some of Bonneville's regular customers in the Northwest without obtaining access to Bonneville's lines. Seattle City Light, for example, has transmission lines extending to the Canadian border; this utility would probably be delighted, moreover, to "wheel" British Columbia Power for the Snohomish PUD, various aluminum companies, and other customers that are now captives of Bonneville. Bonneville's latest attempt to avoid a cutthroat battle over the California market has been to propose itself as leader of a cartel of potential suppliers.

This situation arises because Northwest utilities and public power agencies are all troubled by excess capacity bearing high fixed costs. But at least they do have options for wooing export sales. Susitna wouldn't even have this safety valve.

The parable of today's Northwest power surplus also illustrates the general state of world energy markets. Everywhere we turn, inter- and intra-fuel competition is more intense than at any other time in living memory, and the potential for price-cutting wars exists in many quarters. Oil markets have yet to succumb to panic and disorder on the way down (as they twice did during the 1970s on the way up), but every OPEC country without exception has a growing budget deficit. Some of them are very poor, and their leaders have to cope with tremendous domestic problems and unrest. Once a price war breaks out, they will exhibit little discipline in cleaving to the production and price mandates that OPEC may issue.

OUTLOOK FOR THE YUKON-PACIFIC PLAN

The present and continuing surplus in world oil markets has implications for Alaska's export energy dreams. The Yukon-Pacific plan for exporting North Slope gas is based on the notion that the Japanese and Koreans will surely wish to purchase Alaska's gas (transported through a high-cost pipeline) even though utilities in the Lower 48 do not. Project promoters point to the quest in the Orient for energy diversity and for reduced dependence on Middle Eastern energy sources. Even if this remains a major goal, Japan and Korea are still looking for diversity at the lowest possible price relative to Persian Gulf oil.

And therein lies the glitch. Future oil prices are wholly uncertain and, as I mentioned earlier, a price rout is not inconceivable sometime in the near future. Investors today, whether they be North American or East Asian, will not touch any *new* oil-displacement project that could not survive a continued downward drift in oil prices for maybe another ten years. *No one* is going to risk $20 to $30 billion on an LNG export project whose cost recovery demands stable or even upward-trending oil prices.

Worse yet, Middle Eastern oil is no longer the strategic competitor to international LNG schemes. Huge surpluses of flared or shut-in gas are available to Pacific Rim markets from tidewater locations that do not need an all-Alaska pipeline, or its counterpart in Canada. It is gas-to-gas competition that will henceforward determine the export value of North American LNG. The value to Japan of a new LNG supply may in some sense be worth the price of the crude-oil imports it displaces, but the huge global inventory of undeveloped gas reserves means that a Japanese company would be foolish to promise that much. Is it reasonable, in other words, to expect Japanese or Koreans to offer a price for Alaska gas sufficient to cover a $30 billion pipeline when gas is still being flared in the *coastal* oil fields of Mexico, Saudi Arabia, and Indonesia, and while the USSR, Malaysia, China, and a host of other countries have discovered but unexploited *coastal* reserves of "non-associated" gas?

CHOICES FOR ALASKA

What is going on outside of Alaska does indeed affect energy choices in this state. Anyone who thinks that a very expensive,



capital-intensive hydropower project is justified by the expectation of further increases in the price of fossil fuels, and that Alaska's natural gas and coal are more valuable as exports than as domestic fuels, is taking the risk of replacing the lowest-price thermal energy in North America with about the highest-cost large-scale electrical generation anywhere in the world.

Alaska's economic prospects are already shaky because of the state's utter dependence on its oil exports. There is risk of further crippling the state with huge capital investments, like Susitna, that may not be able to pay for themselves. Repeating on a larger scale the hydro project problems in southeast Alaska is really asking for trouble. If oil prices five years from now are inherently unpredictable, however, and long-lived megaprojects like Susitna unacceptably risky, how can a community plan its own energy future?

Foremost, the choice of energy alternatives must be tied to the life cycle of the equipment in question. Diesel generators and combustion turbines have an advantage over highly capital-intensive projects like most hydro or nuclear power plants because a utility can write off the equipment in a relatively short time. The bulk of the cost of power generation with such initially low-priced installations is fuel. Thus, if demand is less than anticipated, the utility can shut down the generators (thereby saving fuel costs) without suffering high recurring fixed costs for debt service. If oil proves to be an unattractive fuel source in some future year, diesel generators or turbines can be mothballed or even retired with comparatively little financial trauma. Conversely, if power demand grows faster than expected, the utility can buy such oil- or gas-fired equipment practically "off the shelf" and have it installed in a matter of months.

The argument for many high-cost energy-supply ventures rests on the proposition that they will pay for themselves in 20, 30, or 50 years, even if they are uneconomic at the beginning. It should be obvious, however, that projections of energy "needs," fuel costs, and technical options extending more than 20 years are merely convenient fictions, and they should have little credibility as the basis for today's investment decisions. A utility or a public entity considering laying out a lot of money on a big central-station generating plant on the basis of a 20 to 50 year cost-benefit calculus should, at minimum, look at the "downside" risks. It should not, for example, launch big hydro or nuclear programs unless facility construction is justified by the *lowest* reasonable power-demand and oil-price forecasts. One element continually missing from the Power Authority's Susitna assessments is, however, a clear explanation of the consequences for Railbelt ratepayers, the State's fiscal position, and Alaska's economy if the demand and fuel-price projections of its carefully selected forecasters turn out to be wrong.

One effective way around the dangers of backing the wrong horse in power generation is to have a variety of generating technologies. Ideally, utilities should use a different technology for their base-load generation from the ones they use for peaking or reserve capacity. Small communities, obviously, have fewer opportunities for diversification. In the Railbelt, nevertheless, a mix of technologies is certainly attainable – although the likely price and availability of natural gas in the region may well argue for a concentration in gas power over the planning horizon.



NATURAL GAS AND ALASKA ENERGY DEMAND

Not everybody agrees with the Acres, Battelle, and Kentco reports that rejected natural gas as a fuel for the Railbelt on the theory that its price in Alaska will be tied to a rising oil-import price in Japan. The export market is probably not the decisive element, whether or not that market for gas grows. Right now, the proved reserves of gas in Cook Inlet are equal to something on the order of 70 years of Anchorage-based demand at today's level, and at least 20 years if the gas-consuming industrial plants on the Kenai and the present LNG export facility are included. That's a lot of energy security by anyone's standards. Nevertheless, there is little likelihood that today's proved reserves contain all that will ever become accessible to Southcentral Alaska. As long as reserves represent more than 10 or 15 years of future production, it just doesn't pay the oil companies to search for gas or to drill up known prospects that are not yet considered proved reserves.



Aerial view of Devil Canyon. (Photograph by Eric Yould.)

In any case, enough gas has already been discovered to serve Anchorage basin gas-utility demand and Railbelt electrical demand at lower cost than Susitna power, at least through the rest of the century. In a sense, this outlook enables Railbelt citizens and their utilities to put off the need to choose among high-capital cost options. Cook Inlet gas will be there at an acceptable cost for as long as it's worth thinking about.

Years ahead, when and if Cook Inlet gas is truly nearing depletion, there will be plenty of time to look at alternatives, including coal, medium-size hydro projects like Bradley Lake and perhaps even megaprojects like Susitna, Cook Inlet tidal power or a new, less troublesome generation of nuclear plants. But now is not the time to consider them as realistic planning alternatives or to spend tens of millions of dollars each year in the engineering, promotional, or research and development efforts on options that may not even be in the running when something new is really needed. When the gas begins to run short, the Railbelt will have plenty of warning, and you can bet that technological options are going to be a lot more varied and sophisticated 10 or 15 years in the future than they are today.

COST OVERRUNS

In addition to the danger of long-lasting supply and price commitments attendant to high-cost, capital-intensive energy projects, these ventures pose notorious dangers of cost overruns during the construction period. Cost overruns can triple or quadruple project costs. They are, of course, a management problem and they are subject to the swings of inflation and interest rates. But there is a far more insidious problem; the forces and rationales within the community that press for these megaprojects are indifferent to costs. More precisely, the demand within Southeastern Alaska for state-funded hydro projects was based more on the short-term payroll effects than on future energy needs. And because of this, there is a tendency for the boomer factions in Alaska's public life to act as if the bigger and more expensive the project, the better it will be for the state.

The big thrust for Susitna indeed arises not so much because there is a respectable case for it as an investment in Alaska's distant future, but rather because it involves enormous spending in the near term. The more costly it is, the more jobs it would "create," and the more popular it becomes with everyone who perceives it will be built with somebody else's money. Susitna is the most popular project in the neighborhood precisely because it is the biggest. In this context, the forces that select these projects can be expected to undermine any will on the part of a community's political system to control costs. It would be inconceivable, in light of the principal motivation for building the project, that the Power Authority would be allowed to hold costs down by hiring Korean construction firms to build Susitna with Pakistani (or even non-union American) labor.

Consider the Four-Dam Power Pool in Southeast Alaska. Every stupid disaster connected with that project was warned against by outside consultants, by skeptical legislators, and even by Power Authority staff. The projects were too big, they were goldplated, they were incompetently managed, and they were built without power-sales commitments or long-term financing.

Even those legislators from the affected communities, who understood the problems, nevertheless voted to approve them, because it was clear that the communities to be served by the dams would bear none of the costs of overbuilding. Anyone who looked thoughtfully at those programs (and there were many) knew that they were overbuilt and that the cost of power, if it was marketable, would exceed what a smaller project could have yielded, and would in fact exceed the costs of diesel alternatives. The Power Authority went ahead anyway with the explicit or tacit consent of both branches of state government because the true thrust of the program was to spend construction dollars. The Power Authority thus let itself get into the position of trying to do well what shouldn't have been done in the first place.

Alaskans will naturally regard construction as a "basic" industry as long as it is sustained largely by federal appropriations, big oil companies, or a seemingly bottomless state treasury, and wherever the members of the impacted community are not clearly responsible (through taxes, utility rates, or bonded indebtedness) for the costs of overcapacity, gold plating or pyramid building. In Alaska's present political mood, checks and balances are both weak and unpopular. It would be too bad, however, if the only effective check on construction boondoggles turns out to be a deep economic slump, accompanied by a wave of defaults on state-sponsored ventures.

Let me conclude with a half-upbeat note. No longer are huge costs overruns inevitable or even likely on every big project.

In the 1970s, macroeconomic conditions doomed large construction projects everywhere to cost overruns. General inflation was accelerating, and interest rates were moving in track. During that period, labor rates for construction ran ahead of inflation. Environmental, safety, and other technical regulation was becoming more complex and demanding. Everybody, therefore, chronically underestimated "as-built" costs, construction times, and interim financing costs.

Now, tight money, surplus capacity, and the collapse of unrealistic expectations about future energy prices have given us a global and national construction-services market (outside Alaska anyway), bids are coming in under the owner's engineering estimates and projects are coming in under budget and on time. The era of inevitable massive cost overruns and delays is over, along with the energy crisis and the boom and shortage periods of the 1970s. But this outlook may not carry much hope for unneeded or ill-timed projects. Cost overruns can be expected to continue for public projects in Alaska as long as there is no *will* to control costs, as long as state funds are treated as if they belong to nobody, and as long as those who make the go-ahead decision don't bear the responsibility for ultimate costs. Cost overruns will be the norm as long as state-funded projects, and particularly hydro projects, are advocated largely as public works programs to keep the construction industry in business and growing. ♦



THE VOICE OF THE CONFERENCE:

A REPORT FROM ENERGY OPTIONS 85

from

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INTRODUCTION

Energy Options 85 was a three day conference held on March 8-11, 1985 at the Egan Convention Center in Anchorage. The conference consisted of a two day general conference for the public, followed by a single professional day. Its energy trade show received 2000 visitors over the three day period to the substantial satisfaction of 40 exhibitors. Over 400 participants attended 94 sessions on the technical, program and policy aspects of conservation and renewable energy. Sixty speakers from Alaska, Canada, and the lower 48 shed light on the major accomplishments in this field that can contribute to Alaska's energy picture.

For example, Jan Hamrin of the Independent Power Producers Association reported that California now has 1,050 MW of independently produced energy on line and generating electricity in the California grid. That's a 525% increase since 1981. A total of 6,000 MW are on contract, with 60% of these in co-generation, waste-to-energy and biomass.

Canada and Scandinavia have demonstrated that climatically appropriate research and development have produced impressive results in arctic energy technologies. The Swedes have produced quality housing that typically consumes 50% of the energy of Alaskan homes. Our neighbors, the Canadians, have researched, demonstrated and commercialized superinsulated homes in a period of 7 years. Confidence in this technology is so high that the Canadian government now offers a $3,000 rebate toward the construction of a superinsulated home. As a result of these research efforts, superinsulation is now being demonstrated in Montana and in an aggressive 500 unit program by Bonneville Power Authority. Denmark, at the same latitude as Ketchikan, has invested profitably in producing the best marine quality wind generator in the world.

By identifying conservation and energy management as a supply option, utilities nationwide have moderated growth, reduced load or stabalized rates as needed. The City of Tacoma has recently adopted a stringent building code for their climate, (R 19 walls, R 38 ceilings and triple pane windows) because its cost at 1.9c per KwH is substantially less than the cost to produce new electrical resources. Pacific Gas and Electric (PGE) has a better buy in its residential audit program at 3.1c per kwh, commercial energy investment rebates at .7c per KwH and appliance efficiency rebates at 2.5c per KwH, than their marginal cost of electricity at 8.7c per KwH. Fully 40% of PGE's 10 year load forcast is projected to be met through conservation and load management. Closer to home, a recent reevaluation of Chugach Electric Association's

residential load forcast found that a 30% shortfall in projected demand could be largely attributed to increases in appliance efficiency.

Energy management has emerged as a important economic development strategy. The California Energy Commission reports that the corporate energy tax credit in that state is responsible for creating 21,000 jobs and $1.1 billion in economic development. The cost to the state was $120 million in reduced taxes. Private sector interest in Alaskan energy production was clearly in evidence at Energy Options 85.

THE ECONOMIC CLIMATE FOR CONSERVATION AND RENEWABLES

Conference participants recognized that the advances in Northern technology achieved by Sweden, Denmark, Canada, and California can be equalled in Alaska. They noted that in spite of high energy costs and abundant energy resources, the positive atmosphere that has made for significant development of those technologies in other countries seems to be absent in Alaska. Three examples illustrate the point:

- It is ironic that the Railbelt, which has the largest load center in the state, has not explored load management, cogeneration, conservation or supply alternatives similar to the California experience. The costs for investing in these technologies is typically less than Southcentral marginal energy costs.

- The longest term benefit to Southcentral Alaska would be in managing Cook Inlet gas reserves to achieve its maximum fuel potential, yet combustion efficiency for Southcentral electric utilities is commonly under 30%.

- Investment tax credits, energy tax credits, and other state incentives could attract investors to take an interest in bush waste heat recovery, yet the state has assumed virtually 100% of the funding of this activity.

Several elements must be present to foster a positive atmosphere for a diversified energy supply based on local resources. They are:

- positive government programs that focus on resource assessment, research and development and financial incentives for investment.

- certainty in the economic climate based on stable, positive regulatory and administrative environment.

- a highly competative and technically competent and diversified energy industry.

- a utility system or grid that has not overbuilt its electrical generation capacity.

The majority of participants at Energy Options 85 support a realignment of state enregy policy that would attempt to balance equity with long term sustainability. This integrated approach to energy programming would be based on restoration of incentives for energy investment, well-planned research and development, and efficient housing. Rural Alaskans still face high energy costs and the larger context of the cash poor rural economy. They can best be served by an effort to move conservation and renewable technologies into the market place or supply system while the state still has money to bridge high costs with subsidies. The following sections outline program elements to achieve this goal.

THE ENERGY PROGRAM FOR ALASKA: A REALIGNMENT

Energy Efficient Housing

Building construction efficiency was a major focus of Energy Options 85. Emphasis continued on presenting to over 2000 builders and homeowners current and available energy efficient technology. In a panel discussion on efficient construction, builders noted that although the heating season in Alaska is two to four times as severe as as the lower 48, the majority of homes built in Alaska are built to lower 48 standards. The consensus among builders was that the general public still is unaware of the cost benefit of energy conservation in comfort and dollar savings. Although most people are familiar with conservation techniques, they do not have the tools to quanitfy the costs of installation and the benefits of reduced fuel bills. Scores of privately built energy efficient Alaskan houses have not been monitored for performance.

Documentation of household energy use reveals that the cost of home heating exceeds electrical cost in rural Alaska by as much as a factor of five. The quality of new construction is largely dependent upon HUD, an agency that has difficulty in responding to local priorities. While funding seriously curtails the possible investment by HUD in energy efficiency, the shortfall is often paid many times over in Low Income Energy Assistance payments. Furthermore, rural homes are reknown for cold floors and drafts that jeopardize the health of children and elders. Sweden, on the other hand, has defined energy as a housing

problem and initiated a series of incentives that have achieved a comfortable housing stock that is fully 50% more efficient than its Alaskan counterpart. It is in housing that the most significant gains in energy savings and health benefits can be made. Two promising new developments within the housing industry took shape this year.

- The Energy Morgage Valuation Program, gives an energy rating to homes to inform the purchaser of the energy efficiency of the structure. Home buyers are able to qualify at a higher debt to income ratio to purchase energy efficient homes because their higher monthly morgage payment will be offset by lower fuel bills. This program, developed by the Western Resources Institute, has been approved by both Fannie Mae and the Freddie Mac. The Morgage Valuation program can stimulate the market for energy efficient homes by increasing the number of income qualified homebuyers and by covering the higher cost needed for many energy efficient features. An Ad Hoc committee of the building industry, partially funded by DCRA Office of Energy Programs, has gained support from the building and financial communities. The support expressed by Governor Sheffield for Morgage Valuation during Energy Options 85 will strengthen the program and help to secure the capital necessary to implement the program.

- Lighting and Thermal Efficiency Standards: after a four year delay, the DCRA has and made notable progress toward developing Lighting and Thermal Standards for Alaska. A 17 member statewide advisory board has met to review existing standards from other states. It has developed up-to-date costs for the construction of energy measures and fuel for 15 regions of the state. The committee expects to have regional residential standards in place by the end of 1985.. The quality of the Efficiency Standards effort has left the conference participants optimistic about its outcome.

To compliment these two initiatives, additional actions are suggested:

- evaluate existing Alaskan energy efficient housing for thermal performance, air quality, construction techniques, cost of construction, ect.

- set up a committee like the Lighting and Thermal Standards Committee to specifically investigate the real costs and benefits of superinsulation and energy efficient design. Benefits go beyond simple fuel savings to include comfort, daylighting, etc.. One large commercial facility reported a 15% decline in absenteeism upon moving its employees into a structure designed for energy efficiency and daylighting.

The increase in productivity more than compensated for the increased cost for the energy features.

- incorporate the findings of the Superinsulation Committee into a carefully planned research and development program. (see below)

- Disseminate findings to lay and professional communities.

Restoring the Economic Climate for Conservation and Renewal Energy

In session after session conference participants stressed that the continuing energy subsidies in Alaska provide no long range solution to high energy costs;and that our current energy technology is inappropriate to the actic and sub-arctic climate. They noted that state projects and budgets are electricity centered, sidestepping the larger problems and opportunities of space heating and transportation. Energy businessmen and women substantiated that the current subsidies have dramatically depressed the market for conservation and renewable energy technologies. Rural utilities, who have found their most reliable customer in the State of Alaska, have no incentive to reduce operating costs. Rather, there are indications that subsidies are actually encouraging consumption, increasing dependence, and, therefore, the requirement for state subsidies.

Beyond these fundemental problems is the recognition that the system of subsidies probably cannot survive the reality of declining revenues and will have to change. The result of the change is unknown and somewhat secondary to the reality that private investors can not responsibly consider business ventures in a climate of such economic uncertainty.

With these parameters in mind, Alaska's Energy Program could be realigned in the following ways:

- Develop a standard for evaluating the cumulative costs and benefits of energy subsidies. Set up long term strategies to achieve increased efficiency and the lowest cost, unsubsidized energy option. (The 1985 Energy Plan takes a first step in this direction, but even this accomplishment becomes valueless, unless the Plan becomes the basis for state energy budgeting.)

- Give greater funding and planning authority to regions and

communities to achieve a better match for climate and program delivery. Concentrate on communities and regions that are motivated and have demonstrated sufficient planning and administrative support to succeed. Let these first efforts serve as a demonstration for communities and regions currently dealing with non-energy priorities. Build success!

- Require that utilities participating in the power cost equalization program maintain or increase operating efficiency. Assist PCE utilities to accurately record costs and improve plant efficiency.

- Provide incentives for utilities to reduce production costs and for consumers to increase end-use efficiency.

- Encourage utilities to provide information and load management programs for their ratepayers.

- Establish a corporate energy tax credit for private sector investments in wind, geothermal, coal, solar, biomass, waste-heat recovery and building energy management.

Research and Development

Equally important to a positive economic climate is confidence in the technology and resource evaluation. Past State efforts in renewable energy have typically been demonstration projects that had never undergone applied research or modification for Alaska. Siting was sometimes based more on political reasons than than on the quality of the energy resource. Compounded by understaffed project management and a systematic lack of monitoring, many projects have yielded disappointing results. Consequently, the value of renewable energy technologies has come into question.

As a young state, much of the available energy resource data is too tentative for resource development. Alaska needs to assess and perform a production quality inventory on all its energy resources from high efficiency housing to completion of the peat inventory. A production quality inventory would allow communities and private investors to evaluate their energy options with greater confidence.

The resource assessment should be complemented with a planned, systematic research and development program to determine the best energy technologies for Alaska. Projects should build on one another and rigorously promote only successful technologies. In 1985, the State of

Alaska will spend $480 million on energy related matters, ranking above state administation and health and social services in expenditures. This makes Alaska the sixth largest energy corporation in the U.S. Exxon and other energy corporations allocate 6% of their budgets for research and development. Yet Alaska's 1985 energy R and D budget was .2% of the total. Moreover, the state can better utilize research talent on hand. The energy expertise that the university and in private industry is substantial.

Energy costs continue to undermine Alaska's competative position in producing goods and services, thereby effecting the strength and diversity of the Alaska economy. Political leadership and vision is required to develop viable options. By improving its energy and investment efficiency, Alaska stands to benefit from innovations that increase the value of its royalty resources, or diminish the demand for General Fund transfers. Therefore, the State should embark on an incentive research program which addresses real problems directed toward controlling and conserving energy use. Such a program would:

* adequately fund the Division of Geological and Geophysical Survey, and other agencies as appropriate, to assess and inventory energy resources to include wind, geothermal, peat, biomass, and coal.

* plan an integrated and targeted R and D program. Standardize reporting procedures for data from research.

* Track research activities in other Northern countries. Where possible cooperate on research projects to maximize funding and reduce redundancy. Coordinate with the federal Arctic Research program.

* Target a allocation of 2% of energy related funds to research and development.

Information Dissemination

A problem that is voiced year after year at the energy conference is the lack of specific technical information on Alaskan applications of energy technologies. This year builders and designers agreed that the general public is still unaware of what energy conservation can mean to them in terms of comfort and dollar savings. Utilities can provide for the information needs of many of their ratepayers. Professional groups, community leaders, and industry associations need well organized, targeted energy information to perform their jobs. The energy resource

and demand issue is easily as complex as the land issue has been for Alaska. Substantial progress was made in land issues only after a determined effort was made to coordinate the players and comprehensively record and disseminate information. Therefore:

- Make a primary objective of disseminating information in the most usable and consistant forms possible.

- Coordiate with utilities, professional organizations, and local governments for dissemination.

SOURCEBOOK

The Energy Options 85 Sourcebook and Proceedings chronicals in depth the technical accomplishments and policy perspectives presented at this year's conference. Copies can be ordered from CARE, Inc., P.O. Box 4-1464, Anchorage, AK 99509 for $ 15.

COMPASS NORTH
Five Challenges For Alaska

AN ACTION REPORT
BY
COMMONWEALTH NORTH

Edited by
Judith M. Brady
Executive Director

February, 1985

EXECUTIVE SUMMARY

COMPASS NORTH:
Setting a direction for the future

Alaska is "unique" in so many ways that Alaskans take the word for granted. In this state "unique" is a cliche; unique in size, unique in beauty, unique in resources.

What is only beginning to be understood is that Alaska is also unique in its economic structure. It is this uniqueness that will decide its future.

Alaska is an "owner state". It owns 28% of its land base, which includes the largest discovered oil field in North America. The revenues from this field give the state government control over the largest pool of capital in the economy.

Land and capital are ingredients of ownership. They are the basis of power. The State of Alaska, as the owner of more than 100 million acres of land and billions of dollars in resource wealth, has power.

In a democratic society, all governments have obligations to the people. In Alaska the government has an obligation of ownership that is above and beyond that of a traditional state government. It has an obligation as an owner to help sustain the economy - to use its land and capital to preserve and enhance the private enterprise system.

This is a new frontier in public obligation. Never before has a state government been so wealthy in relation to its citizens. Never before has a state government controlled so much of its land and capital assets.

This new frontier means Alaskans must pioneer a new concept of state government, a government that uses its power in partnership with the private sector to create new opportunity and new wealth.

Alaska's obligation of ownership is more than an interesting hypothesis: the state is on a time line. Every available public and private forecast depicts a rapid decline in Prudhoe Bay oil revenues in the 1990's. The state's economy is almost totally dependent on these revenues.

If Alaska is not a responsible owner, if th state government does not stop dissipating its capital base on current operations, the result may be similar to that of a failed company: unemployment, bankruptcy, and social hardship.

There will be many Alaskans who do not believe the state has any obligations as an owner. They will believe that all state revenues should be treated alike and "spent" on public services. They will believe that all state land should be preserved from further development.

The irony and tragedy for Alaska, should this thinking prevail, is that without a strong, growing economy, the government will not be able to provide public services or protect the environment. The private sector will not be able to generate jobs and income.

What must be done to meet the obligations of ownership?

Alaskans and our leaders must begin to think like owners - to make our ownership work for us.

Alaskans must begin to think about revenue as owners:

Traditional government leaders ask: How much do we have to spend?

Leaders of Alaska as an owner state must ask: What is our income? What are our assets? Can we sustain the current level of spending into the future? Where should we invest to get the greatest return on our money?

- THE STATE'S OWNERSHIP REVENUES ARE CAPITAL ASSETS THAT MUST BE MANAGED TO CREATE NEW WEALTH.

As an owner the state receives revenues that are separate from taxes. These are royalties, rentals, and bonuses from the lease and sale of its resources. This capital should be treated as a powerful renewable resource, a means of creating new wealth.

But right now only 25% of these ownership revenues must be invested in the Permanent Fund. The rest are being spent on the current operation of government. The state must stop dissipating this capital base.

- ALASKA'S OWNERSHIP REVENUES SHOULD BE DIVIDED EQUALLY BETWEEN THE PERMANENT FUND AND A NEW CAPITAL INVESTMENT FUND.

It is likely that the Permanent Fund will be a "safety net", a means of sustaining government service as Prudhoe Bay revenues decline. The Capital Investment Fund would be the means of encouraging new development. It could finance revenue producing, regionally important projects that add to the long term economic health of the state.

- THE FUTURE OF THE PERMANENT FUND IS TOO IMPORTANT AN ASSET TO BE LEFT TO "DECISION BY DEFAULT". THE LEGISLATURE SHOULD ENACT LEGISLATION WHICH ESTABLISHES LONG TERM GOALS FOR THE FUND.

- TO ENSURE A "SOFT LANDING" FROM THE DECLINE OF PRUDHOE BAY REVENUES, CURRENT SPENDING MUST BE REDUCED TO LEVELS THAT CAN BE SUSTAINED IN THE FUTURE.

- MISUSE OF WEALTH IS A GREAT DANGER IN AN OWNER STATE. THE STATE GOVERNMENT MUST REFRAIN FROM USING ITS WEALTH TO USURP LOCAL DECISIONS OR DISPLACE LOCAL RESPONSIBILITY.

The legislature has taken over the role of local government by direct appropriation and other political distribution practices that bypass or dictate to local communities.

Revenue sharing must follow the Constitutional mandate of "maximum local self government".

State revenue sharing should be accomplished through a single formula based on equitable distribution. Except for emergencies, no funds should be allocated outside such formula. The emphasis must be on local decision making and local responsibility.

Alaskans must begin to think about land as owners:

Traditional government leaders ask: Are we doing a balanced job regulating between private land owners?

Leaders of an owner state must ask: What are our resource assets worth? Is there enough development underway to maintain our economy and continue growth? Are we helping the private sector promote responsible development?

- ALASKA'S STATEHOOD LANDS AND RESOURCES SHOULD BE MANAGED AS CAPITAL ASSETS. PUBLIC POLICY MUST BE REFOCUSED, AS A MATTER OF HIGHEST PRIORITY, TO REFLECT THE STATE'S DEPENDENCE ON NATURAL RESOURCE DEVELOPMENT.

Resource development is Alaska's only option for a continued economic base.

The plain fact is, if there is no further natural resource development, the state will be bankrupt.

Public leadership must distinguish between ritualistic environmentalism and areas of true ecological concern. After years of government decisions weighted in favor of "no development" today's leadership must redirect public policy toward action consistent with the mandate of Alaska's Constitution: "to encourage the settlement of its land and the development of its resources by making them available for maximum use consistent with the public interest."

- THE LEGISLATURE, AS CUSTODIAN FOR STATE LANDS, SHOULD DEVELOP A COMPREHENSIVE POLICY THAT RECOGNIZES THE STATE'S RELIANCE ON RESOURCE DEVELOPMENT AND DIRECTS MANAGEMENT OF THESE RESOURCES AS CAPITAL ASSETS.

- THE GOVERNOR SHOULD FORGE THE RESOURCE DEVELOPMENT STRATEGY NECESSARY TO ENACT LEGISLATIVE POLICY.

The leadership must work together to meld Alaska's need for development with concern for the environment by formulating an overall state resource development strategy. The

emphasis should be on technically sound, efficient permitting; stable tax policies; and balanced multiple use management by state agencies.

- THE OBLIGATION OF OWNERSHIP INCLUDES ENCOURAGING NEW REVENUE SOURCES. THE STATE SHOULD DETERMINE ITS ROLE AS AN INVESTOR IN THE DEVELOPMENT OF ALASKA'S RESOURCES.

It can be good public policy to invest state funds in resource development projects, but the state must decide the limits and goals of its investment role. At a minimum, project investment should be economically feasible and be able to return to the state a cash flow having a present value greater than the state's investment.

To meet these obligations of ownership Alaska's elected leaders must use the full power of their Constitutional authority and responsibility.

Public policy will decide the future of the owner state, and it is Alaska's elected leaders who decide public policy. Alaska needs decisive leadership now, leadership that understands the obligations of ownership and has the courage to make the politically hard decisions necessary to meet that obligation.

No other state constitution grants more authority to the governor than does Alaska's. No other state constitution implies more public trust in its legislative representatives than does Alaska's.

It is these elected leaders who must meet the obligation of ownership by preserving Alaska's capital assets.

It is these elected leaders who must meet the obligation of ownership by advocating responsible resource development.

If our leadership fails in this pioneering effort we could well end up with socialism - a government that uses its land and capital to feed its own growth.

The challenge for Alaskans is to develop economic and social strategies that use public ownership as a catalyst to develop a strong free enterprise system.

Executive Summary

Alaska's Energy Plan 1985

Governor Bill Sheffield

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State of Alaska

Department of Commerce
& Economic Development

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Director

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Energy Assessment

Alaska's production of energy far exceeds in-State needs due to the massive crude oil and natural gas resources available in the State. Limited refinery capacity necessitates the import of some refined petroleum products despite the excess production. Alaskans have the nation's largest average energy consumption level and this consumption occurs through a variety of commercially proven and alternative energy technologies. (How consumption and production balance in Alaska is the subject of this section.)

Consumption

Alaskans consumed 411 trillion Btu's of energy in 1982, continuing an increasing consumption trend that has prevailed since statehood in 1959. In 1982, Alaska consumed 1.15 billion gallons of petroleum, 238 billion cubic feet of natural gas, 672 million pounds of coal, 2.3 billion kilowatt hours of electricity. In total, Alaska ranked first in consumption compared to all other states in the nation, and per capita consumption of 926 million Btu's was three times the national per capita average of 305 million Btu's. Alaska's increasing consumption of 5 percent per year since statehood closely parallels the overall economic growth of 3 to 5 percent.

Fossil fuels are the main source of energy in Alaska today. Diesel engines are the principal source of electric generation for most of Alaska's rural villages and many of its smaller cities, having a nameplate capacity of 265.5 MW. Alaskan coal-fired steam plants have a nameplate capacity of 87.0 MW with all of this capacity located in the Fairbanks area. Combustion turbines using natural gas are another source of power in Alaska, with total nameplate capacity of 901.6 MW. Peat, also considered a fossil fuel, has potential as a heat source.

Renewable energy resources are gaining greater usage in Alaska. Both utility sized and smaller privately owned microhydroelectric projects are on line. (Combined with fossil fuel production, a total of 2.4 billion kilowatt hours of electricity was produced for consumption in 1982.) Wind generators are becoming more popular and there are presently more than 150 wind generators statewide. Photovoltaic systems are being used in low wattage, remote uses such as fish-counting equipment, communication equipment and railroad crossings as well as to supplement other sources of intermittent power such as wind generators. Wood consumption and the use of biomass products to supplement heat and power sources are also used. Biomass consumption is unquantified for Alaska, but wood consumption for heating exceeds 50,000 cords annually. Geothermal energy generation is becoming more important, but like biomass, is not clearly documented in Alaska.

Production

Alaskan energy production continued to expand in 1984. On a daily basis, in-State refineries produced approximately 4.4 million gallons of refined liquid petroleum products and over 1.6 million barrels of crude oil flowed from the North Slope to Valdez. On the Kenai Peninsula, 1984 saw 1.0 million tons of ammonia and urea and 1.0 million tons of liquified natural gas produced from Cook Inlet natural gas. Coal production from the railbelt was 800,000 short tons. Renewable energy sources also provided power for Alaska in 1984, as hydroelectric capacity reached 217 MW and alternative energy projects in the form of wind and geothermal began approaching a point of commercialization at select Alaskan sites.

Chart 4

Consumption of Energy by Sector and Fuel Type for Alaska

(Trillions of Btu's)

		Statehood 1960	1982	1981	1980
Residential	**Total**	**8.1**	**34.3**	**33.1**	**38.8**
Coal		0.4	0.0	0.0	0.0
Natural Gas		0.2	8.1	8.1	10.8
Petroleum[2]		5.2	7.0	5.4	6.8
Electricity[3]		2.3	19.2	19.6	21.2
Commercial	**Total**	**7.5**	**34.5**	**31.9**	**41.2**
Coal		0.8	0.0	0.0	0.0
Natural Gas		0.0	16.9	16.6	24.9
Petroleum[2]		5.2	4.8	4.4	4.8
Electricity[3]		1.5	12.8	10.9	11.5
Industrial	**Total**	**17.2**	**138.7**	**109.2**	**266.9**
Coal		5.0	0.0	0.0	5.9
Natural Gas		1.9	102.4	70.1	208.4
Petroleum[2]		9.5	22.9	23.2	36.3
Electricity[3]		0.8	13.4	15.9	16.3
Transportation	**Total**	**27.6**	**89.4**	**101.1**	**102.4**
Coal		0.1	0.0	0.0	0.0
Natural Gas		*	0.1	0.3	0.3
Petroleum[2]		27.5	89.3	100.7	102.0
Electricity[3]		*	*	0.1	0.1
All Sectors Combined	**Total**	**60.3**	**297.1**	**275.2**	**411.4**
Coal		6.3	4.7	5.6	5.9
Natural Gas		2.0	157.3	125.1	244.4
Petroleum[2]		47.4	129.4	138.4	155.2
Electricity[3]		4.6	5.7	6.1	5.9

[1] Information from U.S. Department of Energy, State Energy Data Report, Consumption Estimates 1960-1982.
[2] Includes Distillate Fuel, Kerosene, and LPG.
[3] Electric sales and electric energy losses due to transmission generation.
* Less than 0.1

Chart 5

Alaska's 23 Energy Regions



Oil & Gas

Oil and gas are Alaska's primary energy resources. Total petroleum production in Alaska since the turn of the century has been over 4.3 billion barrels of oil (one barrel equals approximately 42 gallons), and over 7.9 trillion cubic feet of natural gas. Estimated reserves of 9 billion barrels of oil and 39.9 trillion cubic feet of natural gas are known.

Competitive leasing is the method used to provide temporary access to below-ground petroleum reserves, with leased tracts spread from the Gulf of Alaska to the Beaufort Sea on federal and State lands. The story of oil exploration and subsequent leasing have formed Alaska's present oil and gas picture.

The State has held 43 competitive lease sales since 1959, leasing 7.7 million acres of State-owned land. A total of 1,479 leases covering 4.6 million acres are currently active. The State of Alaska plans to hold an additional 16 sales through the year 1989. In addition, the Federal Government will conduct 11 lease sales on the Outer Continental Shelf (OCS) through 1987, including areas in Cook Inlet, the Gulf of Alaska, St. George Basin, the Diapir Field (Beaufort Sea), areas near Kodiak Island and in areas near the Shumagin Islands.

Exploratory activities are occurring in Cook Inlet, the Beaufort Sea, St. George Basin, Navarin Basin and on the North Slope. Marginally economic fields, such as the Kuparuk and Lisburne formations, are beginning to be produced due to their close proximity to the super-giant field,

Prudhoe Bay. Additionally, development plans are being formulated for the Endicott formation located east of Prudhoe Bay, and a at Seal Island in the Beaufort Sea west of Prudhoe Bay.

Alaskan petroleum supplies come largely from oil flowing through the Trans-Alaska pipeline (TAPS) from Prudhoe Bay and from oil and gas production in Cook Inlet. Crude oil and natural gas are refined for in-State consumption and export. TAPS provides 1.6 million barrels of crude oil per day. Alaskan refineries process 124,100 barrels of refined petroleum products and 230 million cublic feet of natural gas per day. Annually, 1.1 million tons of ammonia and 1.0 million tons of urea are also produced from natural gas.

Chart 6

Alaska's Known Oil and Gas Provinces



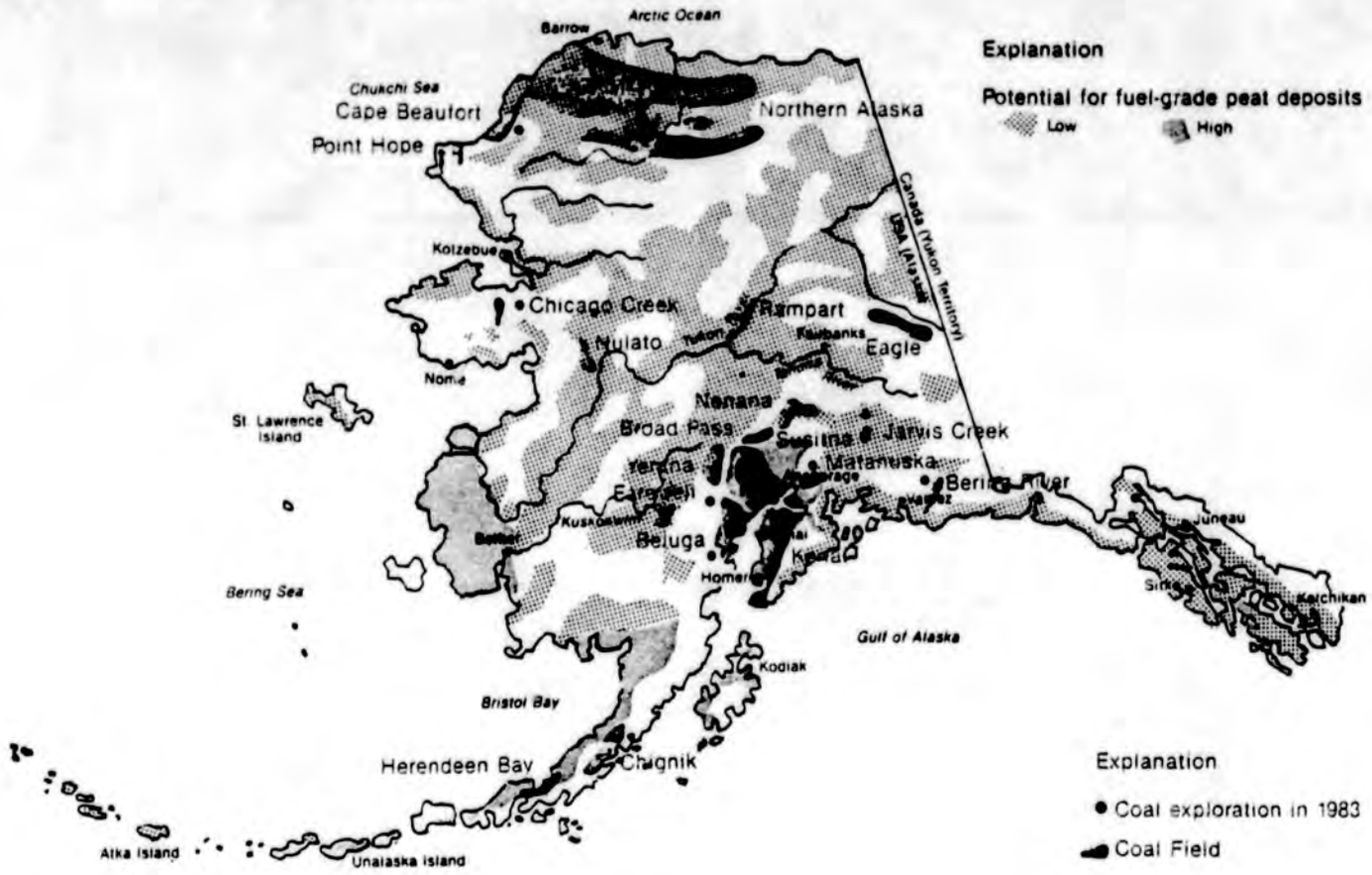
Coal

Alaska's coal resources are plentiful and widespread, providing long-term development potential for export and in-State use. Coal deposits range from Cook Inlet to the North Slope and offer a vast exploitable resource. Alaska produced 336,000 short tons of coal in 1982. Alaska's measured coal reserves are approximately 6.3 billion short tons (one short ton equals 2,000 pounds) with hypothetical reserves of 5.6 billion short tons. (See Chart 7 for location of Alaska's known coal resources.)

Only one coal mine was active in 1983-84 and there was a low level of exploratory drilling. In 1985, this activity will increase. Potentially, Diamond Shamrock will develop a 12-million-ton per year coal production facility in the Beluga area, the Usibelli mine at Healy will increase production, Usibelli coal will be shipped via the Alaska railroad to Seward for export to South Korea. Recently

Chart 7

Alaska's Known Coal and Peat Resources



leased acreage in the Matanuska area will be developed, and a $2 million appropriation by the Alaska State Legislature will fund a feasibility study of a Cape Beaufort coal mining facility.

Peat

Alaska has only a small portion of the known world supplies of usable peat. Peatlands with fuel grade potential cover 4.4 million acres of Alaska. With a minimum deposit thickness of five feet, these peat deposits will yield approximately 880 million tons of moisture-free, fuel grade peat.

Peat assessment is now focused at Dillingham as part of the Bristol Bay Native Association Peat Harvesting Project at Roger's Creek and Houston areas in the Susitna Valley and on the Kenai Peninsula. Horticultural peat is mined from four pits in the Fairbanks area and at two locations in Willow. Production during 1983 is estimated at 15,000 cubic yards (See Chart 7 for location of Alaska's known peat resources.)

Hydroelectric Power

Alaska has more undeveloped hydroelectric potential than any other state in the U.S. In the 1960's, the U.S. Bureau of Reclamation investigated thousands of potential hydroelectric sites throughout Alaska; 252 sites have been identified with a potential for a hydroelectric project of 2,500 KW or more. Alaskan hydroelectric projects on line today have a nameplate capacity of 197.7 MW, with an additional 20.0 MW just coming on line with the completion of the Terror Lake project. These projects will generate 1.04 million MWh of electricity annually (See Chart 8 for Alaska's Major Hydro Installations.)

The State of Alaska has conducted three geothermal drilling programs since 1979. These were at Pilgrim Hot Springs on the Seward Peninsula, Summer Bay on Unalaska Island, and Makushin Volcano on Unalaska Island. These each had reservoir temperatures ranging from 122° to 380°F.

In addition to the State projects, the U.S. Department of Navy has been investigating the possibility of developing geothermal resources for electrical generation on Adak Island. The Navy is planning a geothermal exploration program for 1985. (See Chart 8 for Geothermal Resources of Alaska.)

Solar

Solar energy has good potential for use as an additional source of energy in Alaska. Varying levels of daylight experienced in Alaska actually permit 230 hours more sunlight in Alaska than at the equator each year. Solar energy can be used in one of four forms: passive heating, active heating, photovoltaics, and daylighting; and although the actual experience with solar energy in Alaska is limited, solar may be a valuable energy resource. The amount of solar use is not well documented.

Tidal

The ebb and flow of the tide produces kinetic energy which can be harnessed to produce electricity if there is sufficient tidal range. The principal tidal resource in Alaska is Cook Inlet which has the second highest tides in the world. Cook Inlet is a major tidal estuary which is approximately 180 miles long and ranges in width from approximately 80 miles near its mouth to approximately 20 miles at the confluence of the Knik and Turnagain Arms. Some 16 sites have potential for a tidal power plant. However, the density of the kinetic energy in tidal currents is relatively low and harnessing this energy source is capital intensive. To date, no substantial contribution to power generation has come from this resource.

Biomass · Wood

Alaska has tremendous biomass potential, particularly from forestry product waste material. In 1983, 262 million board feet of logs were harvested, resulting in production of 146 million board feet of lumber, 240,000 short tons of pulp, and 7,000 short tons of chips. (Additionally, Native corporations exported 233 million board feet of logs.) This production of lumber and pulp comes from Alaska's 240 sawmills which have a total production capacity of 532 million board feet. This production could provide a sizable amount of biomass for power generation.

Wood is used for space heating in many parts of Alaska. Firewood removal from National Forest Service lands in Alaska from October 1982 to September 1983 totalled 11,226 cords of wood and State lands provided an additional 38,890 cords of wood; for a total energy equivalent of 860 billion Btu's. About 40 percent of that consumption was in Fairbanks, 40 percent in all Southeast, and the balance spread statewide (see Chart 9 for Alaska's Timber Resources).

Conservation

Energy saved through conservation is one method to provide more energy service from a given level of power, and represents one of the more accessible energy resources available in Alaska. Conservation includes improvements brought about through increasing thermal efficiencies in buildings, power generation efficiencies for electrical production, increased miles per gallon in transportation, and changes in consumer attitudes on energy use. Thus, conservation offers potential benefits through more comfortable living accommodations with lower life-cycle costs and reduced levels of energy spending. Like many energy resources used in the home or extracted for personal consumption, the exact levels of energy saved are not quantified.

In Alaska, conservation reaches all aspects of the consuming public. Building insulation leads the list in providing maximum energy savings for minimum investment. Other simple forms include insulation of hot water heaters, installation of flow restrictors in hot water faucets, and elimination

Wind

Wind power, suitable for generation of energy in the form of electricity, heat or mechanical power, occurs mainly in Alaskan coastal areas and mountain passes. Favorable wind conditions tend to prevail in the winter months when most communities experience their peak electrical demand and, of course, peak heating demand.

There are over 150 wind generators erected in Alaska today. They are distributed across all regions of Alaska, and have peak power capacities ranging in size from less than 0.5 kW to over 10 kW. Several potential sites with expected good wind potential are being monitored today in select Alaskan locations.

Geothermal

Alaska's geothermal resources occur in over 100 surface manifestations including hot springs, fumaroles, mud pots and wells. Over 11 million acres in the State have significant geologic evidence for geothermal energy development. To date, the quantity of power produced from geothermal has been limited.

The use of hot springs in Alaska for health and recreational purposes is well documented in the historic record. Commercial baths and spas have been developed at numerous sites in southeast and northcentral Alaska. At least six of these establishments have also used low-temperature geothermal fluids for other direct uses such as space heating in lodges, cabins, and greenhouses.

Chart 8

Alaska's Major Hydroelectric Installations and Geothermal Resources

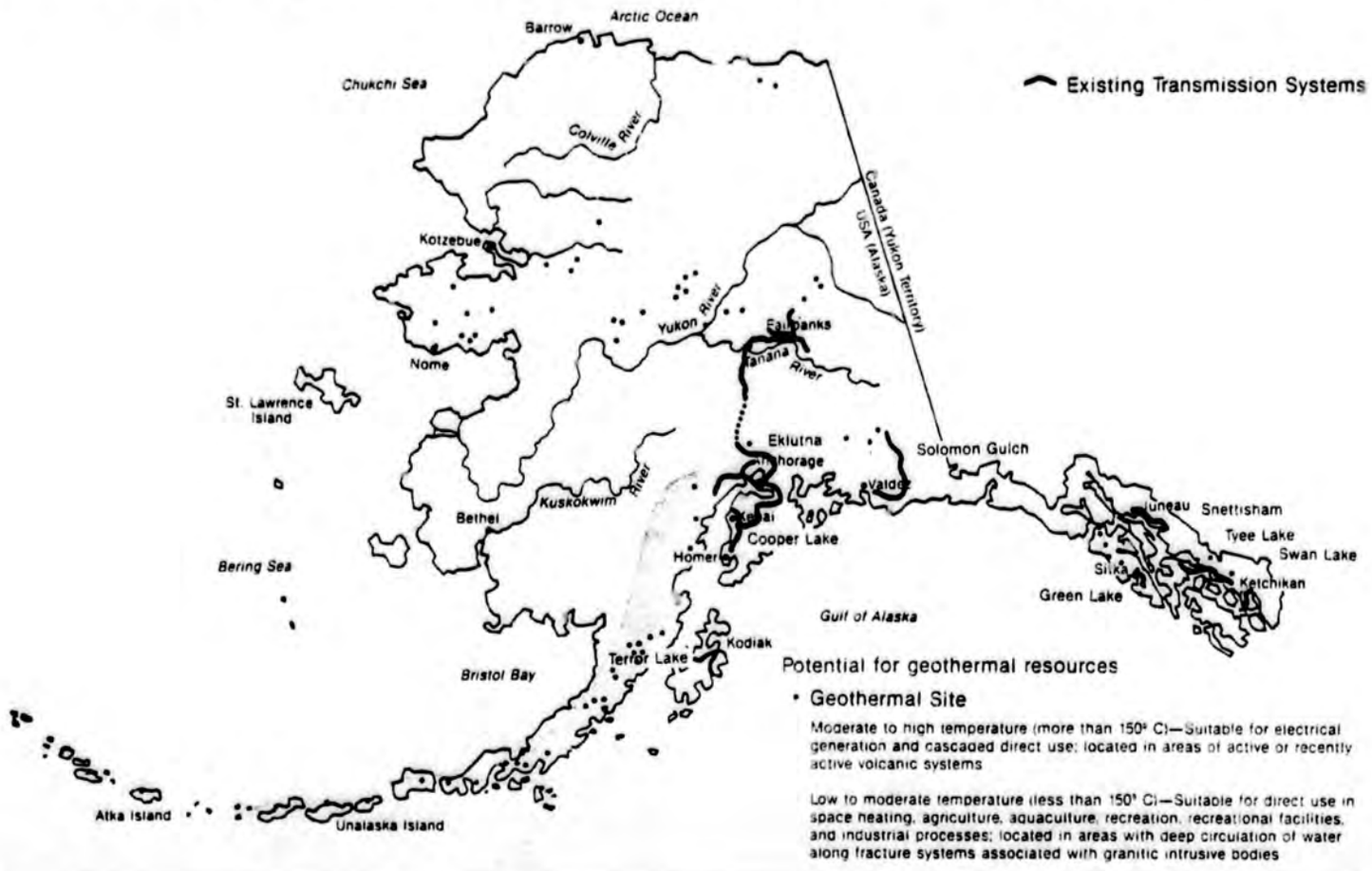
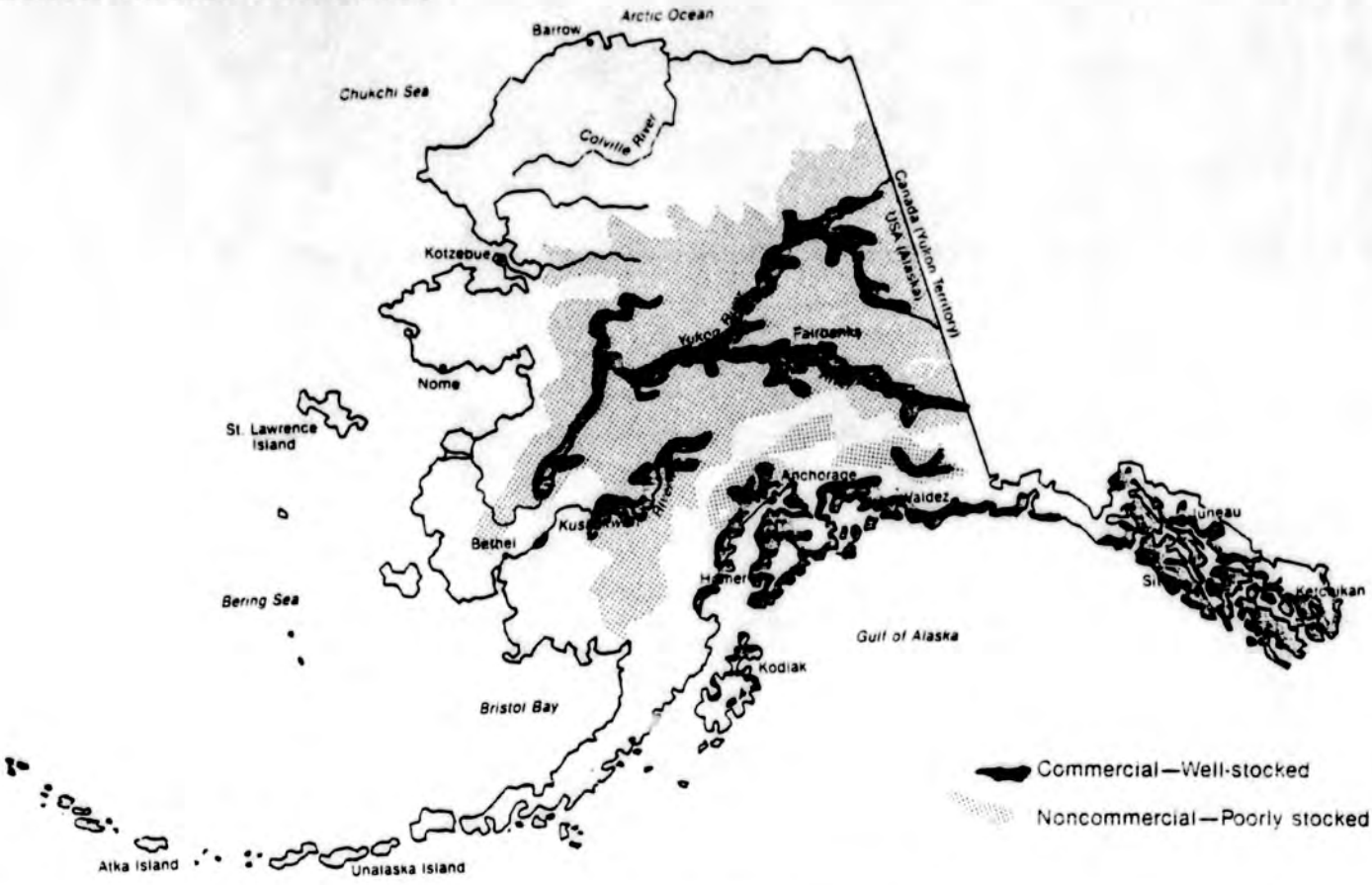


Chart 9

Alaska Timber Resources



of dripping faucets. On a larger scale is the use of properly sized, newer and more efficient diesel generators for electricity generation, and the use of waste heat from the generator jacket and flue gas emissions to heat nearby buildings.

Alaskans are separated by great distances, and have worked to improve economies in transportation and communication. Transportation efficiencies have been brought about through widening, paving, and generally upgrading road surfaces and through carpooling and mass transit programs in Anchorage and Fairbanks. Travel by air and sea have realized greater efficiencies through engine modifications, adjusted travel scheduling, and increased design efficiencies. Communication improvements through the electronic media have reduced the need for travel as well.

State Energy Programs

The State of Alaska continues to give high priority to domestic and export energy issues. Virtually every State agency has some direct or indirect involvement in energy. Several departments have direct responsibility for implementing energy projects or programs. The involvement of the State agencies tends to be based on peripheral concerns, such as environmental permitting.

State agencies with direct responsibility for energy programs are:

1. Department of Commerce and Economic Development (DCED)
   - Office of Energy (OE)—Energy planning, alternative energy development, marketing of fossil fuels.
   - Division of Investments—Energy loan programs.
   - Office of Minerals Development—Assists in developing contacts and encouraging mineral development in-State.
   - Alaska Power Authority (APA)—Planning and development of district heating and electrical systems.
   - Alaska Public Utilities Commission (APUC)—Regulation of electric and gas utilities and pipeline carriers.
   - Oil and Gas Conservation Commission—Regulates oil and gas production.
2. Department of Community and Regional Affairs (DCRA)
   - Division of Community Development (DCD)—Weatherization program, public information efforts, community planning.
   - Municipal and Regional Assistance Division (MARAD)—Community grant and bulk fuel loan administration.
3. Department of Health and Social Services (DHSS)
   - Division of Public Assistance—Low Income Housing Energy Assistance Program.
4. Department of Natural Resources (DNR)
   - Division of Geological and Geophysical Surveys—Investigates oil, gas, coal and geothermal resources.
   - Division of Oil and Gas—Manages oil, gas and geothermal leasing programs, royalty oil sales, and issues permits for exploration and development plans.
   - Division of Mining—Manages coal leasing programs.
5. Department of Transportation and Public Facilities (DOTPF)
   - Research Section—Energy conservation in public facilities.
6. Department of Administration (DOA)
   - Direct grants administration of legislative appropriations to unincorporated communities.

7. University of Alaska (UA)
   - Energy Extension Service—Provide information on energy conservation and conduct alternative technology research.
   - Institute of Water Resources—Energy education and research.
   - Geophysical Institute—Mineral exploration.
8. Department of Revenue (DOR)
   - Research Section—State revenue forecasting.
9. Department of Military and Veterans Affairs (DMVA)
   - Division of Emergency Services— Civil defense and natural disaster emergency planning.
10. Office of the Governor (GOV)
   - Office of Management and Budget (OMB)—State budgeting.

Chart 10

Agency Responsibilities by Energy Functional Areas · 1984

Functional Area	Department of Administration	Department of Community & Regional Affairs	Division of Investments	Office of Energy	Alaska Power Authority	Alaska Public Utilities Commission	Department of Health & Social Services	Department of Transportation & Public Facilities	Department of Natural Resources	University of Alaska
Energy Conservation										
Conservation Education		•								•
Energy Grants	•	•								
Institutional Conservation		•								
Largescale Electrification				•						
Rural Electric Loans				•						
Rural Technical Assistance				•						
Smallscale Electrification				•						
Thermal and Light Standards		•					•			
Utility Loans				•						
Waste Heat				•						
Weatherization		•					•			
Energy Subsidies										
Power Cost Assistance				•	•					
Power Cost Equalization				•	•					
LIHEAP						•				
Audit Grants		•								
Residential Weatherization Loans			•							
Alternative Technology Loans			•							

(Continued)

Functional Area	Department of Administration	Department of Community & Regional Affairs	Division of Investments	Office of Energy	Alaska Power Authority	Alaska Public Utilities Commission	Department of Health & Social Services	Department of Transportation & Public Facilities	Department of Natural Resources	University of Alaska
Electric Systems										
Bulk Fuel Loans			•							
Bulk Storage Grants		•								
Legislative Grants	•	•			•		•			
Alternative Energy										
Demonstration Projects		•		•	•					
Information		•		•						
Alaska Energy Center Projects				•						
Research										•
Grants and Loans	•	•	•							
Utility Regulations						•				
Leasing and Marketing										
Royalty Program								•		
Oil and Gas Leasing								•		
Coal Leasing								•		
Geothermal Leasing								•		
Resource Marketing				•						

Summary and Conclusions

Alaska's **Energy Plan — 1985** gives direction to the economic and financial objectives of Governor Sheffield's energy development policy, supporting orderly, prudent resource development which currently or potentially contributes in a substantial way to the economic vitality of the State. By placing emphasis on the short-term strategies of State agencies having direct responsibility for energy programs and using an interagency workgroup to write the plan, State agencies have more effectively coordinated informational needs and decision-making procedures. Alaska's **Energy Plan — 1985** provides both a snapshot of State energy programs and energy use today, and a mechanism for developing Administration policy on Alaska energy issues in the future.

In the short term, the State will continue to place a major emphasis on energy through the programs administered by some 20 different State agencies. The bulk of those programs is conducted by the Department of Commerce and Economic Development, the Department of Community and Regional Affairs, and the Department of Natural Resources. State energy programs provide aid to private development of Alaska's natural resources through direct subsidies in the form of loans and grants, and through the pursuit of specific demonstration and power development projects.

State subsidies are the backbone of the rural energy program. The Power Cost Equalization program provides funding to rural utilities to reduce consumer electrical costs. Heating costs will be reduced by the construction of bulk fuel storage facilities, through grants and loans for improvements to electrical generation and transmission facilities, by development of waste heat recycling facilities, and through low-interest loans and grants for conservation improvements. Weatherization continues to be provided to low-income households, and conservation education programs are widely used. The State also administers over $11 million in federal funds to help low-income Alaskans pay for their energy requirements.

Power development projects and demonstration projects for alternative technologies are either contemplated, under construction, or in place. The Rural Electrification Revolving Loan Fund permits rural utilities to extend electrical services, and the Power Project Loan Fund develops new ones. Reconnaissance and feasibility studies precede State participation in these endeavors. Alternative energy projects for wind, solar, peat, bioenergy, woodstoves and geothermal are in place. Future activities are being funded with loan programs and through direct State development efforts. Those efforts also include oil, gas, coal, and geothermal leasing of State lands.

Alaska's long-term energy future has been projected in many economic models. One such model, by A. D. Little in 1983, projects a real growth in the economy of 2-3 percent per year, and a population increase of 3-4 percent through the year 2000. Pacific Rim nations are expected to need increased levels of natural gas and oil by 1995. Given Alaska's ability to provide those fuels, additional employment opportunities attached to increased Alaskan production for these Pacific Rim markets can be expected to begin around 1990.

Certain projects will continue to play a dominant role in determining Alaska's energy future. An FY '85 loan appropriation of $210 million was made to the Four Dam Pool (Ketchikan, Wrangell, Petersburg, Kodiak and Valdez) hydroelectric projects, $100 million to the Susitna hydroelectric program, $50 million to the Bradley Lake Dam, and $21.7 million for rural Power Cost Equalization. 1984 saw the acquisition of the Alaska Railroad by the State which will begin hauling coal from Usibelli Coal Mine, near Fairbanks, to Seward for shipment to Korea and the issuance of coal leases in the Palmer area.

Long-term electrical power source(s) for the Railbelt — where three-quarters of Alaskans live — is a question still waiting to be answered. Alternatives to the Susitna hydroelectric project appear to be mine-mouth coal (Beluga), or gas-fired turbines supplied from either Cook Inlet or North Slope natural gas, or a combination of these. The Governor's Council on Railbelt Electricity (G-CORE), formed in 1984 with representatives of local utilities, is attempting to address the questions of the price of Susitna power to Railbelt consumers and which alternative(s), if any, might be preferable. The State will look to the electrical utilities to indicate which power source(s) should be promoted for the Railbelt.

Either a tidewater (TAGS) or cross-Canada (ANGTS) pipeline may bring North Slope natural gas to foreign and domestic markets within the next decade. It is possible, with 40 trillion cubic feet of gas on the North Slope, that liquefied natural gas (LNG) could be shipped to the Pacific Rim nations and natural gas piped to the South-48, concurrently. At the moment, natural gas prices make either venture appear uneconomic. In 1985, Atlantic Richfield Company is expected to begin a pre-feasibility study of the Japanese market for Alaskan LNG. Companion studies of Korean and Taiwanese markets are anticipated.

Funding for Alaska's energy programs will largely be determined by available revenues. On the positive side, removal of federal prohibitions may provide additional revenue to the State. Presently, federal legislation prohibits the export of Alaska oil. As a result, approximately 800,000 barrels of Alaska crude are now being shipped each day to the Gulf Coast on U.S. flag vessels at a cost of over $5.00 per barrel. By shipping to Japan, even in U.S. flag vessels, a substantial cost per barrel savings, perhaps as great as $3.00 per barrel, would be experienced. On the negative side, declines in petroleum revenues from reduced North Slope production after 1990, decreasing world oil prices in the near future, and changes to the level of oil consumption worldwide may potentially reduce State revenues. Development of Alaska's energy programs and overall economic growth may directly depend on the revenues dictated by these actions.

What energy policy should the State embrace? Expectations for reduced State revenues and Alaska's continual growth must work hand in hand, which means applying today's revenues to assure a quality Alaska tomorrow. To do so requires Alaska's energy policy to be founded on the premise that all Alaskans can be assured an adequate supply of acceptable quality energy at a fair price within the financing limits of the State. Extracted resources must provide optimum benefits without leaving the State with energy shortfalls. Alaska must use today's revenues to protect Alaska from future energy "shocks."

Major energy projects must be weighed against less costly options, and potential in-State and export revenue generating capabilities must be quantified. Large projects that require energy must reflect a balance between Alaska's needs for revenue generation and personal needs of State residents. These same nonenergy projects must be analyzed for potential power generation opportunities, such as incorporating tidal power generation with a road crossing of Cook Inlet, for example. Rural Alaska power should be made more accessible, reliable, and less costly through the use of interties, alternative technologies, and more efficient use of cogeneration capabilities where they exist. Generally, Alaska must plan a stepped approach to assuring quality power, a growing economy, and adequate life-cycle cost of every large project undertaken.

Aggressive pursuit of short-term projects with long-term benefits must start today. Weatherization is a proven method to lower power costs and assure a warm, comfortable home and should be provided in line with developing statewide thermal and lighting standards. Conservation must be a byword. Knowing how and where to conserve is a primary step, and education is the key to successful implementation. In schools, and at the consumer levels, Alaskans must have their energy consciousness raised to a point that efficiency is expected. Reducing consumption through efficiencies without degradating accustomed lifestyles, must be a key objective. Reductions to State energy subsidies would benefit from such savings as well. Generally, active pursuit of programs and projects that are relatively low cost yet widespread over rural and urban areas will net considerable energy savings now and in the long run. Ultimately, Alaskans will determine where the State goes on economic expansion and energy development.

RURAL ENERGY
An Overview of Programs and Policy

House Research Agency
Alaska State Legislature
February 1985

House Research Agency Report 85-C

SUMMARY

History of Rural Energy

- A fuel-based lifestyle in many rural Alaska villages began with the introduction of outboard motors and snowmobiles. Government sponsored housing created a demand for heating oil beginning in the 1960s. Also, the spread of electricity in the 1960s and 1970s established the need for diesel fuel to run power generators (page 9).

- The early government housing was often poorly constructed and creates significant energy burdens for the homeowners even today. The newer housing has improved and is more energy efficient. (page 9).

- The increase in State grants for village electrification in the 1970s coincided with the increase in State oil revenues. By the mid-1970s, many of the larger rural communities were electrified to some degree, but about 85 villages were still without a centralized power utility (pages 10-11).

- As fuel demand increased, villages began to experience fuel shortages in the 1970s because of inadequate bulk storage. Although 81 villages (about 31 percent of the rural villages) have received State grants over the past five years, problems still remain in other villages (pages 11-12).

- The energy outlook in rural Alaska is not particularly promising, as declining oil revenues will likely shrink State assistance through the numerous programs. Furthermore, federal energy funds may decrease under deficit reduction efforts. However, declining world oil prices and increased competition in rural fuel markets (particularly in Western Alaska) should alleviate concerns about the potential for spiraling rural energy costs over at least the next few years (page 13).

Government Energy Programs in the 1970s and 1980s.

- The federal home energy assistance program reaches about 20,000 of the estimated 38,000 eligible households in Alaska. The cash payments covered roughly 17 to 29 percent of the fuel expenses for the typical rural household in some coastal western villages and interior villages. Because Alaska participants in the energy assistance program are increasing six to ten

percent annually, it is likely that the average energy payment will decrease in future years in order to extend benefits to more households (pages 15-16).

- About 5 percent, or 7,900 houses, of all housing statewide has received low-income weatherization assistance under the federal and State programs. However, there are roughly 100 communities, primarily small and isolated, which have received no weatherization assistance during the seven years of government programs. In addition, given the substandard condition of much of the rural housing, it is uncertain whether these programs are weatherizing houses which should actually be replaced (pages 16-17).

- Unlike many other states which were focusing serious attention on conserving energy, Alaska's energy agenda beginning in the mid-1970s was primarily to develop new hydroelectric power sites and to promote and extend electric power statewide. State officials were guided by a policy of redistributing the petroleum resource wealth in energy projects throughout the state (pages 17-18).

- Many of the State rural energy programs have emphasized power production and delivery. State loans and grants to rural utilities for diesel generation systems flourished in the late 1970s and the 1980s. Numerous alternative energy demonstration projects were begun in the late 1970s in hopes that they would eventually provide replacements for rural diesel generation. As oil prices continued to rise, the State established a power rate subsidy (Power Cost Assistance) in 1980 as an interim measure until long-term alternative energy solutions could be found for high rural power costs (pages 18-21).

- Space heating costs have been the most critical energy burden facing rural households. In 1979, Native households spent three times as much on fuel oil for space heating as on electric bills. Even today, households in coastal Western Alaska spend 40 percent of their total energy dollars on heating oil, in comparison with 18 percent on electricity. In order to reduce rural Alaskans' vulnerability to high heating costs, a State Energy Policy Committee recommended in 1979 that the State supplement the federal weatherization program. Belatedly, the State began a modest weatherization program in 1983 as federal funds diminished under the Reagan Administration (pages 22-23).

- Disenchantment with the general lack of success with alternative energy projects and the perception of disorganization lead to the demise of the Division of Energy and Power Development in 1983 (page 24).

- As results from alternative energy projects and village reconnaissance studies became known, many people began to realize that there were not realistic alternatives to diesel power generation in most rural communities (page 24).

- With massive State loans for the "Four Dam Pool" and appropriations for Susitna and Bradley Lake hydro projects under consideration during the 1984 session, some rural legislators raised the question of equity in energy assistance for rural Alaskans. The rural power rate subsidy was significantly increased under a revised program, Power Cost Equalization. Rural utilities can now apply for a State subsidy which reduces power costs to 8.5¢/kwh for 750 kwh monthly usage by each customer (page 25).

- Unlike previous statewide energy plans, which were prepared by consultants and merely catalogued energy resources and uses, the State's 1985 long-term energy report presents energy goals and options for action. Many of the options identified through this interagency effort require additional funds and few appear in the Governor's FY 86 budget request (pages 25-26).

- A recent report from the Advisory Committee on Statewide Power Production Costs recommends that the Alaska Power Authority be restructured into a marketing agency which would purchase power from all utilities and resell the power at an average cost. Under this proposal, the APA would also manage future capital additions to a statewide power system, including the Susitna hydro project. The committee report recommends annual appropriations of $350 million for eight years which would cover the costs of rate equalization and stabilization but not the costs of capital additions statewide (page 27).

Alaska Energy Programs Lack Rational Policy

- The State of Alaska has never formally adopted an energy policy as the basis for energy program expenditures totaling as much as $1.7 billion during the last nine years. The energy programs have been implemented without first: 1) accurately defining the energy problems to be solved; 2) carefully articulating goals to be achieved through program expenditures; and 3) thoughtfully deriving a formula for the distribution of State program benefits based on rational and fair distribution principles. Consequently, rural energy programs in Alaska exhibit a serious inequity in the distribution of program benefits and services. Furthermore, several rural energy programs tend to be self-defeating or counterproductive (pages 29-30).

- In large part, the failure of Alaska's rural energy policy can be attributed to an underlying motive of "sharing the wealth" of State revenues accrued through Prudhoe Bay oil royalties and taxation. The desire to "share the wealth", expressed by both administrations and legislatures during the last nine years, has often been the most potent factor affecting the design of State energy programs. Rational energy policy has fallen victim to concerns over achieving a balance between appropriations to rural versus urban areas of the State. In addition, a number of rural energy programs have been spawned out of the capital budget process instead of carefully following the three-step procedure described above (pages 30-33).

What's Wrong With The State's Energy Programs?

- The focus of State energy programs has been largely restricted to addressing a single energy need--electric power. At least $720 million has been expended in meeting urban electric requirements through State emphasis on major hydroelectric developments and electric interties. For rural Alaskans, an annual appropriation of $21.7 million has recently been earmarked for electric power subsidies via the Power Cost Equalization program. Approximately $93 million has been appropriated as grants and loans to villages for the development of electric generation and distribution systems. Nearly $27 million has been expended in search of alternate sources of energy to be used in the generation of electric power, including hydroelectric, geothermal, coal and natural gas resources. Almost $24 million has been invested in research and pilot projects relating to wind energy, wood gasification, solar energy, single-wire ground return, biomass and waste heat recovery technology in an effort to provide alternate methods of generating and distributing electricity in the Bush (page 35).

- Ironically, electric energy constitutes a small portion of the overall energy requirements of many rural communities. In a number of cases, the energy value of electricity makes up less than 5 percent of the total energy requirements of individual villagers. In contrast, often over half of residential energy requirements relates to space heating fuel, while most of the remaining energy use pertains to transportation fuels. Consequently, even if State energy programs prove successful in providing rural communities with affordable electric power, only a small fraction of rural energy needs will have been addressed (pages 35-36).

- Energy program benefits and services have been distributed among rural communities in an inequitable manner. Generally speaking,

the better organized rural communities have garnered the lion's share of the benefits offered by State programs. Typically, those communities which have received electrification grants have also been relatively successful in obtaining bulk fuel grants and loans, waste heat recovery grants and electric power rate subsidies. In this "survival of the fittest" approach to distributing State energy program services and benefits, as many as 70 rural villages have been largely ignored under existing State energy policy (pages 36-39).

- Conventional energy policy is often based on the goals of energy conservation and energy self-sufficiency (particularly a reduction in oil dependency). The centerpiece of Alaska's rural energy policy -Power Cost Equalization--encourages the consumption of electricity and deepens the dependency of rural Alaska on oil. The goals of energy conservation and independence from oil are being undermined by Power Cost Equalization subsidies which cause rural consumers to react to artificially low electric power prices (8.5 cents/kwh) instead of learning to live with the real cost of electric power (often over 50 cents/kwh). Moreover, since almost all electric power in the Bush is produced by diesel generators and rural electric power consumption is increasing every year, rural Alaska is becoming more (not less) dependent on oil and the goal of energy self-sufficiency is falling farther from reach (pages 39-48).

- Beyond the technical flaws in State rural energy policy, several misconceptions have clouded the true nature of the "rural energy problem." Put simply, the "rural energy problem" is a consequence of the high cost of living in rural Alaska and the low average cash income. Anything purchased with cash in rural Alaska is generally more expensive than the same item bought in urban communities, including energy, grocery items, clothing, boats and motors. Due to the scarcity of jobs which provide income and because the subsistence economy is a cashless economy, rural residents will likely remain cash poor by urban standards. Consequently, the "rural energy problem" will only be solved either when opportunities present themselves for rural Alaskans to secure substantial increases in cash income, or if the State government is prepared to support perpetual energy subsidies (page 48).

- The real energy problem for rural Alaskans is not one of finding subsidized energy sources, but one of generating sources of income with which to: 1) purchase energy at the best price; and 2) enable local governments to implement their own decisions about meeting their energy needs. The corollary to this misconception is the mistaken notion that "oil is the enemy" in rural Alaska. The fact remains that oil has been, and will likely

continue to be, the least costly energy option for many remote communities (pages 48-50).

Alternative Plans of Action

The recent budget trimming activity at the federal level, coupled with forecasts of declining State revenues caused by oil price declines over the short term and Prudhoe Bay production declines over the long term, lends urgency to the matter of addressing the energy problems of rural Alaskans. Consequently, our proposals for action in this area call for a dramatic departure from the status quo. These action plan options include:

- Dismantling existing rural energy programs in favor of a direct "wealth distribution" plan to be implemented through State revenue sharing (pages 51-52).

- Paring back present energy programs to include only those which support conventional energy policy goals while greatly expanding the scope and funding of the remaining programs. The surviving programs would be the federal Low Income Home Energy Assistance Program and the Weatherization Assistance Program (page 52).

- Phasing out current energy programs while subsidizing the development of regional energy resources (such as coal in Western Alaska). The goal of this proposal is to attack the root cause of the "rural energy problem"--the lack of a solid and self-sustaining cash economy in rural Alaska (pages 52-54).

SCOMM

#46:31

(Seoul, Korea)

FOR RELEASE AT 8:00 AM LOCAL TIME
MONDAY, NOVEMBER 14, 1983
(6:00 PM EST SUNDAY, NOVEMBER 13, 1983)

JOINT STATEMENT
BETWEEN
HIS EXCELLENCY CHUN DOO HWAN
PRESIDENT OF THE REPUBLIC OF KOREA
AND
THE HONORABLE RONALD W. REAGAN
PRESIDENT OF THE UNITED STATES OF AMERICA

1. At the invitation of President Chun Doo Hwan, the President of the United States and Mrs. Ronald W. Reagan paid a state visit to the Republic of Korea from November 12 to 14, 1983. The two Presidents met at the Blue House on November 12 and again on November 13 for discussions of both bilateral and world affairs. The talks were held in a most cordial and open atmosphere.

   President Reagan addressed the National Assembly, visited field installations of both the Korean and the United States Armed Forces, and also met with senior Korean officials, other Korean citizens, and a group of American businessmen.

2. President Chun expressed his appreciation to President Reagan for America's steadfast support in the wake of the tragedies which the people of Korea have endured so recently: the September 1 Soviet attack on a Korean civil airliner, and the October 9 North Korean terrorist attack in Burma which tragically claimed the lives of 17 innocent Koreans, among them any of the nation's most important leaders in economics, diplomacy, and politics.

   Both Presidents noted the thorough and conclusive investigation by the Government of Burma of the Rangoon bomb atrocity, which has produced unequivocal evidence that the North Korean regime perpetrated this deliberate act of state terrorism. They agreed that such acts cannot be tolerated, and called for effective international sanctions against North Korea. President Reagan affirmed his admiration for the resolution and courage of the Korean people and their leaders in the face of these barbaric acts.

   President Chun expressed his condolences to President Reagan and the American people on the tragic loss of life caused by the October 23 attack on the United States Marine Barracks in Beirut. President Chun and President Reagan joined in declaring the unswerving opposition of the Korean and American peoples to such acts of terrorism, and pledged continued efforts to remove the scourge of terrorism from the earth.

3. The two Heads of State exchanged views on a variety of international issues of mutual concern. President Reagan outlined United States determination to strengthen the defenses of the United States and its allies around the world, to bring about a reduction of tensions in volatile regions such as the Middle East, and to reach an agreement with the Soviet Union to reduce the global deployment of strategic weapons.

   President Chun explained in detail the overall security situation on the Korean peninsula with particular reference to the continuing threat from North Korea, reflected in its military buildup and aggravated by its domestic problems.

MORE

Both President reaffirmed the importance of maintaining deterrence and stability on the Korean peninsula, thereby insuring peace there and in Northeast Asia, a region of critical strategic significance.

President Reagan stated that the United States would continue to fulfill its role and responsibilities as a Pacific power, dedicated to maintaining peace and stability in the region. President Chun avowed his full support for these efforts.

4. In particular, President Reagan, noting that the security of the Republic of Korea is pivotal to the peace and stability of Northeast Asia and in turn, vital to the security of the United States, reaffirmed the continuing strong commitment of the United States to the security of the Republic of Korea. The two Presidents pledged to uphold the obligations embodied in the Republic of Korea-United States Mutual Defense Treaty signed in 1953, noting the success of that alliance in deterring aggression for more than thirty years.

President Reagan stressed that the United States would continue to maintain United States forces in Korea and to strengthen their capabilities. President Chun reaffirmed his support for the presence in Korea of American military forces as part of the United Nations and Combined Forces Commands.

President Reagan noted that Korea spends six percent of its GNP on defense and further noted the efforts of the Republic of Korea to modernize and upgrade its defense capabilities. The two Presidents concurred that this program is essential if peace is to be maintained. President Reagan reconfirmed that the United States will continue to make available the weapons systems and technology necessary to enhance the strength of Korea's armed forces.

5. President Chun explained the Korean government's continuing efforts for the resumption of dialogue between South and North Korea and its policy for peaceful reunification with a view to easing tensions on the Korean peninsula, and achieving the Korean people's long-cherished aspiration for peaceful reunification. Expressing support of the United States for the sincere and patient efforts of the Republic of Korea, President Reagan especially noted President Chun's comprehensive Proposal for Democratic Reunification through National Reconciliation put forth on January 22, 1982.

President Reagan reconfirmed that the United States would not undertake talks with North Korea without full and equal participation of the Republic of Korea. The two Presidents reaffirmed that any unilateral steps toward North Korea which are not reciprocated toward the Republic of Korea by North Korea's principal allies would not be conducive to promoting stability or peace in the area.

6. President Reagan expressed his admiration and support for the expanding and increasingly active international diplomacy of the Republic of Korea, and took note of the determination of the Republic of Korea to pursue an open door policy of dialogue with all nations.

The two Presidents noted the significance of their respective nation's role as the hosts to important global gatherings and events, including the Los Angeles Olympics of 1984 and the Seoul Olympics of 1988. Both countries will abide by their commitments to admit representatives of all nations to participate in these international events.

7. Recognizing the growing importance of the Asia-Pacific region and also the growing sense of community among the Pacific rim countries, the two Presidents agreed that frequent exchanges at all levels among the nations of the Pacific are necessary to enhance regional cohesion. They also agreed that multilateral relations among the countries in the region should be further strengthened in the fields of trade, finance, science, technology, culture, and tourism.

MORE

9. The two Presidents expressed their belief that the Republic of Korea should be accepted in the United Nations pursuant to the principle of universality of the U.N. and that the entry of the Republic of Korea to the U.N. would contribute both to the reduction of tensions on the Korean peninsula and the maintenance of international peace. President Reagan promised continuing support for the entry of the Republic of Korea into the U.N.

9. The two Presidents affirmed the importance of defending and strengthening freedom and the institutions that serve freedom, openness and political stability.

10. President Chun and President Reagan exchanged views on a range of economic issues. They noted the importance of ensuring that global economic recovery not be hindered by reversion to protectionism. In particular, President Reagan welcomed the trade liberalization measures being undertaken and planned by the Korean government, despite its continuing deficit in foreign trade and the global trend of protectionism. Both Presidents agreed that such steps are an example of the positive actions all trading nations must take to defend the world trade system against protectionist attacks and recognized an urgent need for concerted international efforts in this direction.

Both Presidents noted with satisfaction the continued expansion of bilateral trade, which totaled over $11 billion in 1982, making the Republic of Korea one of the United States' most important trading partners and fifth largest market for United States agricultural products, and the United States the Republic of Korea's largest trading partner in exports as well as imports. They agreed that this continued growth of bilateral trade attests to the vitality of U.S.-Korean economic relations.

President Chun also expressed his appreciation for President Reagan's strong commitment to free trade and hoped that the Republic of Korea's major export commodities will be given greater access to the United States market with the continuation of the Republic of Korea's eligibility for GSP benefits on a non-discriminatory basis. President Reagan took note of President Chun's views on these issues. In this regard, both Presidents recognized the necessity of coordinated actions by their respective governments to reduce various tariff and non-tariff barriers.

11. President Chun explained the recent efforts by the Korean government to create a more favorable environment for foreign investment in the Republic of Korea and invited the United States to take advantage of such improved opportunities. Both Presidents noted that a hospitable climate for foreign investors in both countries will continue to contribute to the flow of technology and to an expansion of employment opportunities in the Republic of Korea and the United States. Both Presidents also noted that the continued participation of American firms in the Republic of Korea's major development projects by providing competitively-priced and high-quality goods and services is another indication of the strong and cooperative economic ties that link the Republic of Korea and the United States.

12. President Chun and President Reagan discussed prospects for further broadening cooperation in the fields of technology and energy. They agreed to further promote programs for scientific and technological cooperation.

President Reagan assured President Chun that the United States will remain a reliable supplier of energy resources and energy technology, and in particular, that the United States will seek to assist the Republic of Korea to obtain stable energy supplies in the event of a security emergency. In this regard, President Reagan noted positively the Korean government's efforts to build up energy reserves for economic

MORE

emergencies. President Chun expressed his appreciation for the United States' pledge, and the Republic of Korea's interest in the purchase and development of energy resources in the United States.

13. President Chun and President Reagan took note of the strong and myriad bonds of friendship and cooperation that have linked the United States and the Republic of Korea in the post-war era, and judged those ties to be in excellent condition. As one reflection of the expanding scope and importance of those relationships, President Reagan informed President Chun of the intention of the United States to establish in the near future a consulate in Pusan, Korea's second greatest city and a focal point of the U.S.-Korean economic intercourse. President Chun welcomed that decision.

President Chun and President Reagan pledged to carry forward the full range of security, political, economic, scientific and cultural meetings and consultations on our joint agenda, in order to maintain and deepen our already excellent relations in these diverse fields.

14. The two Presidents underscored the necessity for the promotion of mutual understanding and exchanges between the Korean and American peoples, and agreed to work toward expanded cultural and educational exchanges. The two Presidents expressed their satisfaction with the promotion of American studies in the Republic of Korea as well as of Korean studies in the United States.

15. President and Mrs. Reagan expressed their deep appreciation to President and Mrs. Chun for the warm welcome they receive in the Republic of Korea, and their heartfelt thanks to the people of the Republic of Korea for the hospitality, graciousness and good will they had been shown.

The two Presidents agreed that exchanges of visits between the two Presidents have contributed to the further development of the existing friendly relations between the two countries. In that context, President Reagan asked President Chun to visit Washington again at a mutually convenient time, and President Chun accepted that invitation with appreciation.

# # #

M E M O R A N D U M

TO: File

FROM: Jim Clark

DATE: February 28, 1985

RE: Canadian Oil

I have now had two conversations with Doug Perry, who is the energy person in the Basic Industry Office of the U.S. Department of Commerce. Perry confirmed that Canada will decontrol its crude oil and that this could cause market shifts between Canada and the U.S. Perry says that Canada's oil producing provinces (Alberta and Saskatchewan) are working out the details of Canadian decontrol with the non-producing provinces, the Canadian Federal Government and the oil producers. It is anticipated that the problems will be resolved some time during the second quarter of this year and that Canadian crude oil will then be available for export.

Oil moving from Alberta to eastern Canada must pay a substantial transportation cost. Accordingly, once decontrol occurs, it is very likely that Canadian crude oil will be moved into the mid-western United States. This will have two effects: (1) there will be a reduction of Canadian oil moving into Quebec and Ontario and (2) U.S. crude oil now sold in the mid-west will be displaced.

It is possible to move U.S. crude oil through the Portland (Maine) pipeline into Quebec from the United States. There is not a direct link to Ontario but pipelines are in place so that arrangements could be made to ship U.S. oil into Ontario. Both provinces will be interested in having a source of U.S. crude oil so that they will not be at the mercy of Albertan oil.

How the oil in fact moves will take some time to ascertain. While any type of oil analysis based on free market assumptions will lead to certain theoretical conclusions, the existing contracts and competitive factors will weigh heavily in determining what <u>actually</u> happens. Even though this is the case, it seems to me that certain of the oil companies will contact their representatives and request assistance in exporting the crude oil to Canada so that they have the option to compete when decontrol occurs. In other words, how the markets are impacted, in fact, will be determined on other than free market theory, the political positioning will be based on free market assumptions. This means that it would make sense for the State of Alaska to

attempt to determine which U.S. oil companies would want to be in a position to ship oil to Canada as Canadian decontrol occurs, so that we can join with that group in a larger coalition. The larger coalition would be in favor of crude oil going to its natural market - a position with which Alaska can easily agree.

Perry says that there are no public documents describing these oil shifts either from the U.S. Department of Commerce or from Canada's National Energy Board. He says the Canadians simply do not want to discuss it until they have everything arranged. Certainly, part of the reason for secrecy is that this will put further downward price pressure on OPEC.

Given the impact this could have on economic relations between the U.S. and Canada, we should anticipate that it will come up in the March 17, 1985 discussions between President Reagan and Prime Minister Mulroney.

Jon –

Plz give
me a call
after you've
read this
Jim

THE WHITE HOUSE
Office of the Press Secretary
(Tokyo, Japan)

For Immediate Release November 11, 1983

JOINT STATEMENT BY THE PRESIDENT AND PRIME MINISTER NAKASONE ON JAPAN-U.S. ENERGY COOPERATION

Prime Minister Nakasone and President Reagan share the view that further progress be made in energy trade and cooperation in oil, natural gas and coal between Japan and the United States as outlined in the following Joint Policy Statement recommended by the Japan-United States Energy Working Group!

Taking account of the energy prospects for the entire Pacific basin, the two countries agree that the sound expansion of the U.S.-Japan energy trade will contribute to the further development of the close economic and energy security relationship which exists between the two countries.

They will continue to discuss and find ways of developing this trade for the mutual benefit of both countries, noting the importance of long-term cooperation, the central role of the private sector, and the need for a balance between economic cost and energy security.

Both countries consider Alaska to be a particularly promising area for joint development of energy resources. Both governments will encourage private sector discussions regarding the possibilities for such development.

With regard to trade in oil, gas and coal, we have agreed on the following next steps:

A. The U.S. and Japan recognize that if legislative barriers can be removed, the U.S. has the potential to ship substantial quantities of crude oil to Japan, thereby increasing economic incentives for U.S. oil production and helping to diversify Japan's energy sources. The U.S. will continue to keep under review the removal of restrictions on exports of domestic crude oil.

B. The U.S. and Japan will encourage private industry in both countries to undertake now the pre-feasibility or feasibility studies necessary to determine the extent to which Alaskan natural gas can be jointly developed by U.S. and Japanese interests.

C. The U.S. and Japan will encourage private industry in both countries to discuss the possiblity of concluding long-term coal contracts and jointly developing mines and transportation systems to make American coal more competitive in the Japanese market.

D. In this regard, the two countries welcome the examinations underway of the technical and economic reports of several steam coal projects by private companies concerned on both sides. As economic recovery proceeds, Japan will encourage its industries to consider purchase of more competitively priced U.S. steam coal to meet future demands not already covered by existing contracts. In addition, Japan will invite the private sector concerned to explore the possibility of further increasing substitution of coal for oil in electrical generation.

E. With regard to metallurgical coal, both sides noted that the proposed state of world steel manufacturing had reduced demand for traded coal. However, in view of the fact that the U.S. has been a major supplier to the Japanese market, both sides will endaavor to maintain the level of Japanese imports of U.S. coal. Japan expects that imports of competitively prices U.S. matallurgical coal will not continue to decline; and will encourage its steel industry to increase U.S. coal imports when conditions in the industry permit.

F. As a first step toward developing U.S.-Japan coal trade, from a mid- to long-term prospective, a mission composed of representatives of major Japanese coal users and other appropriate interests will visit the U.S. to meet with major coal mining and transportation interests. The purpose of this mission will be to explore the possibility of expanding coal trade between the U.S. and Japan, and the possibility of conducting a major study of the opportunities for reducing the delivered price in Japan of U.S. coal.

BILL SHEFFIELD
GOVERNOR

State of Alaska
OFFICE OF THE GOVERNOR
WASHINGTON, D.C.

RECEIVED
JAN 2 - 1984
ROBERTSON, MONAGLE,
EASTAUGH & BRADLEY
JUNEAU, ALASKA

December 26, 1984

The President
The White House
Washington, D.C.

Mr. President:

Because you will soon be meeting with Prime Minister Nakasone of Japan, I thought it would be helpful to provide you with recent information on Alaska's efforts to expand our trade with Japan. I would also like to discuss the implementation of the Joint Statement on Japan-U.S. Energy Cooperation issued by Prime Minister Nakasone and you on November 11, 1983.

Oil Exports

The Joint Statement provided that "the U.S. will continue to keep under review the removal of restrictions on exports of domestic crude oil." Your administration has completed several analyses on the subject, including a report recently released by the Federal Trade Commission. To our knowledge, all these investigations concluded that easing existing restrictions on the export of Alaska North Slope crude oil would result in significant national benefits, including greater federal tax revenues, a reduced trade deficit with Japan, and the production of more Alaska oil at lower prices.

The authorization of the Export Administration Act is still pending in Congress. I respectfully urge you to follow through on the results of your Administration's studies of oil exports and actively assist our efforts to ease existing restrictions on the export of Alaska oil. To do so would be entirely consistent with your Administration's support for free trade and U.S. energy development. I believe that it would be timely for you to do this during the 99th Congress, since Congress has expressed an interest in obtaining your views on the matter.

On September 30, 1983 I wrote to let you know of our willingness to offer a portion of the State's royalty oil for export to Japan. From our discussions with interested

parties in Japan, I believe that the quantity of royalty oil available - 50,000 barrels a day - is an appropriate amount to consider at this time. You may also wish to discuss the issue with Prime Minister Nakasone in order to judge its current importance to Japan.

Natural Gas Exports

Progress has been made in assessing the viability of marketing Alaska's enormous North Slope natural gas reserves in the Pacific Rim. As proposed in the Joint Statement, study teams have been organized in the U.S. and Japan, thanks in part to the leadership provided by the Department of State. I offer you the full cooperation of the State of Alaska for any aspect of the study where we might be of assistance. Further, we believe that the study should be expedited as much as possible so that the results can be utilized in future decision-making regarding the export of North Slope natural gas, which our analyses indicates would be of significant benefit to Alaska and the Nation.

Coal Exports

I am also encouraged by the long-term coal contract that the Usibelli mine in Healy, Alaska recently signed with the Korean Electric Power Company. The Beluga and Matanuska fields contain substantial steam coal reserves that are easily accessible and have potential interest to Japan. Accordingly, we are hopeful that future U.S.-Japanese discussions will focus on the economic and other benefits which would accrue from increased trade in Alaska coal.

Fisheries

Currently, approximately five percent of our Nation's trade deficit is related to seafood products. Much of this is attributable to a trade imbalance with Pacific Rim countries, particularly Japan. To counteract this, the State has been working diligently to accomplish import substitutions by establishing a larger domestic market for Alaskan seafood. We are also endeavoring to domesticate as quickly as feasible the harvesting and processing of those species, such as groundfish, which have traditionally been utilized by foreign nations and then exported back to the U.S.

An annual meeting is held between representatives of the U.S. and Japanese fishing industries to discuss business relations, in particular with respect to groundfish. At this year's recently concluded meeting, an agreement was

reached for the 1985 fishing season which will increase the volume of product delivered by U.S. fishermen to Japanese processors in "over-the-side" joint venture operations. Even more importantly, the agreement also provides for the importation by Japan of approximately 7,000 and 20,000 metric tons of finished product which will be manufactured by U.S./Alaskan processors in 1985 and 1986, respectively. This sale of finished product to Japan, most likely surimi, will help stimulate a primary and secondary processing industry that will ultimately employ several thousand Americans.

Critical to the successful implementation of this agreement will be the ability of Japanese companies to import U.S. produced groundfish products. Current Japanese import quotas greatly restrict U.S. imports, while Japanese surimi exports to the U.S. are continuing to dramatically expand. Your insistence that the Government of Japan relax its fish-related tarrif and import barriers would be useful in assuring the success of this industry-to-industry agreement which will have a beneficial impact on the U.S. balance of trade.

On another fish-related problem, recent studies have demonstrated that continued Japanese high-sea harvest of Alaska spawned salmon is seriously affecting the national harvest and management of this resource by Americans. We will be working through Alaska's Congressional delegation to encourage the U.S. State Department to initiate bilateral discussions with the Japanese which will be necessary to stop this deleterious practice.

Timber Exports

The timber industry in Alaska is geared to trade with Japan and the Pacific Rim. As a result, the Alaska industry is increasing its promotional activity in Japan. The State is working through its Alaska Asia Office in Tokyo to assist in the promotion of Alaska forest products and products made from Alaska timber in Japan.

To date, Alaska's spruce round logs and cants are selling well in Japan. However, there is a need to improve hemlock sales to Japan, as sales of hemlock products are currently reduced from previous years' totals. In another troubling area, South Africa, which has lower environmental standards and dramatically cheaper labor costs than Alaska, has captured an increasingly larger share of Japan's dissolving sulfite pulp markets from the United States, particularly

Alaska. Any assistance which your Administration could provide to enhance Alaska's market share of hemlock, as well as to restore the U.S. and Alaska's share of the dissolving sulfite pulp market would be appreciated.

The State and industry are also working to formulate a plan to make attractive foreign investment in the development of Alaska's Interior timber resources. We will advise your Administration on the details of this plan when it is completed.

We very much support your efforts to expand trade with Japan and stand willing to help in any way. If you would like any additional information on our own efforts to increase trade with Japan, we would be pleased to provide it.

Thank you for your consideration of our views.

Sincerely,

Bill Sheffield

Bill Sheffield
Governor

cc: The Honorable Ted Stevens, U.S. Senate
The Honorable Frank Murkowski, U.S. Senate
The Honorable Don Young, U.S. House of Representatives
The Honorable George Schultz Secretary, U.S. Department of State
The Honorable Malcolm Baldridge, Secretary, U.S. Department of Commerce
The Honorable William Clark, Secretary, U.S. Department of the Interior
The Honorable Max Hodel, Secretary, U.S. Department of Energy
William Brock, U.S. Trade Representative
David Stockman, OMB Director

Jeff Logan select all bill = .. 6 all copy d

HJR 75

Introduced: 1/30/85
Referred: House Special Committee
on Oil & Gas and Resources

IN THE HOUSE BY MARTIN AND MARROU

HOUSE JOINT RESOLUTION NO.15

IN THE LEGISLATURE OF THE STATE OF ALASKA

FOURTEENTH LEGISLATURE - FIRST SESSION

Relating to the export of Alaska oil.

BE IT RESOLVED BY THE LEGISLATURE OF THE STATE OF ALASKA:

WHEREAS all states are created equal in the United States of America; and

WHEREAS the State of Alaska is the only state prohibited from exporting petroleum; and

WHEREAS the United States currently exports 600,000 barrels per day of refined petroleum products, including 10,000 barrels per day to the Soviet Union; and

WHEREAS the export of Alaska crude oil would significantly improve the defensive capabilities of our allies that are Pacific Rim nations; and

WHEREAS, due to the International Energy Agreement, if a world-wide oil shortage were to occur today, the United States would be required to export 500,000 barrels per day to Japan and other participating countries; and

WHEREAS the current and prospective trade balance deficit is detrimental to the economy of the United States; and

WHEREAS Japan, Korea, and Taiwan have each expressed interest in obtaining Alaskan crude oil to diversify their oil sources and moderate the panic buying in the spot market that results in exorbitant price increases for everyone; and

WHEREAS a trade-off of importing an equal amount of oil exported from Mexico and Venezuela would enhance the financial stability of our southern neighboring countries and help them pay their debts to the American financial market and the World Bank; and

WHEREAS it costs $4 per barrel more to ship oil from Alaska through the Panama Canal and to the Gulf Coast than to ship directly to Japan; and

WHEREAS for every dollar saved on transportation $.60 goes to the federal government, and hence indirectly to American taxpayers; and

WHEREAS exporting only one tanker of oil a day would net the Federal Treasury another $175 million a year and would decrease the national trade deficit with Japan by $2 billion a year; and

WHEREAS the American consumer, the federal government, and the State of Alaska are all losing because the maritime industry is being subsidized for inefficient service; and

WHEREAS the cost of shipping Alaska's oil to the Gulf and Eastern States is an unnecessary burden on the consumers of those states; and

WHEREAS the Alaska oil export ban is special interest legislation that hurts the entire country;

BE IT RESOLVED that the Alaska State Legislature requests Congress to lift the ban on export of Alaskan ~~natural~~ crude oil.

COPIES of this resolution shall be sent to the Honorable Ronald Reagan, President of the United States; the Honorable George Bush, Vice-President of the United States and President of the U.S. Senate; the Honorable Thomas P. O'Neill, Jr., Speaker of the U.S. House of Representatives; the Honorable Robert Dole, Majority Leader of the U.S. Senate; and to the Honorable Ted Stevens and the Honorable Frank Murkowski, U.S. Senators, and the Honorable Don Young, U.S. Representative, members of the Alaska delegation in Congress; the National Conference of State Legislatures; and the Council of State Governments.

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PAUL S. SARBANES, MARYLAND
CHRISTOPHER J. DODD, CONNECTICUT
ALAN J. DIXON, ILLINOIS
JIM SASSER, TENNESSEE
FRANK R. LAUTENBERG, NEW JERSEY
M. DANNY WALL, STAFF DIRECTOR
KENNETH A. McLEAN, MINORITY STAFF DIRECTOR

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United States Senate

COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS
WASHINGTON, D.C. 20510

February 7, 1984

The Honorable Frank Murkowski
United States Senate
Washington, DC 20510

Dear Frank:

It was good of you and Ted to discuss with me your proposed amendment to Section 7(d) of the Export Administration Act (EAA), that would authorize the export of 200,000 barrels a day of oil produced in Alaska. You made some rather cogent arguments in support of the amendment, but I find myself unable to support it for several reasons.

As you know, the renewal of the Export Administration Act has been a very controversial item and S. 979, the bill unanimously reported by the Banking Committee, is the result of compromises that forged a consensus view. The bill constitutes an integrated package of amendments to the EAA and includes a six-year extension on the prohibition of Alaskan oil. I am concerned that adding a 200,000 barrel a day exemption would complicate the consensus on our package. I believe my concern is real in light of the fact that 10 members of our Committee are among the 45 cosponsors of S. 1159, a bill to make the current ban on Alaskan oil exports permanent.

With these factors in mind, I do not believe that your amendment could be included in our bill without a roll call vote. Even if the amendment were passed in the Senate, which is unlikely, it is not an item that we could win in conference. I say this because a majority of the House members has already cosponsored a companion bill to S. 1159 that extends controls on the export of Alaskan oil for six more years.

I also have very serious doubts about the substance of your amendment. Selling 200,000 barrels a day of Alaskan oil to the Japanese would reduce our bilateral trade deficit with Japan by $2 billion, and thus assist in disguising the true nature of our trade problem with the Japanese. As the AFL-CIO has persuasively argued before our Committee, authorizing oil exports to Japan would enable the Japanese to continue to take our raw materials while sending us their higher value-added manufactured goods. What we need to straighten out our trade problem with the Japanese is (a) for them to open up their markets to our manufactured exports, and (b) for us to reduce our budget deficit to

bring down interest rates and the bloated value of our dollar which is destroying our ability to compete internationally.

I appreciate very much the points you made to me on this issue, and regret that because of the above considerations I cannot support your amendment.

Sincerely,

William Proxmire
Ranking Minority Member

Jim Clark

FEB 27 1984
ROBERTSON, MONAGLE,
EASTAUGH & BRADLEY
ALASKA

Let Alaska's Oil Flow Naturally

By law — indeed, five laws — the United States prohibits exports of Alaskan oil. The nominal reason is national security. The controlling reason is protectionist politics. The ban should be repealed.

Alaska's Senators, Frank Murkowski and Ted Stevens, want to amend the Export Administration Act to authorize at least some sales abroad. To win votes, they've conceded too much to protectionism. Nonetheless, because the House has already voted to extend this senseless embargo, their amendment offers the only hope for reducing its harm.

•

Alaska currently pumps out 1.6 million barrels a day. The idea behind the ban was that it's more efficient — and serves the national interest — to direct that oil to West Coast refineries, a short run down the coast. In fact, those refineries have been able to use only half of it. The rest goes through the Panama Canal and a Panama pipeline to refineries on the Gulf of Mexico, or all the way around South America to the Virgin Islands. What a waste, and discouragement, to Alaska's oil development.

The cost of the long-distance transportation runs as high as $5.25 a barrel. Shipment to the logical buyers in the Pacific basin — Japan, South Korea and Taiwan — would cost $1 or less.

The benefit would be twofold. Gulf and Caribbean refineries could get their crude oil at lesser cost from Mexico, Venezuela and Nigeria. And Alaskan oil across the Pacific would become more competitive, and thus stimulate more exploration.

What about national security? It is said that the Arab oil embargo and resulting escalation of oil prices proved the value of holding on to every drop of American oil. So why let others buy it?

The question turns the issue upside down. Exporting Alaska's oil would enhance national security, not hurt it. The countries that would buy this oil are important allies whose access to oil is vital to American security interests. They have no oil of their own. An assured supply is especially necessary for Japan. By reducing Japanese dependence on the Middle East and also stimulating more production in Alaska, two important interests would be served.

The Murkowski-Stevens amendment would permit exports of 200,000 barrels a day and let the President stop all exports if ever the oil is needed in the United States. That's a reasonable concession to get the amendment approved but of no realistic consequence. If cut off by the Persian Gulf, Japan is not likely to be cut off also by America.

What is objectionable is the Murkowski-Stevens requirement that all exports be shipped in American vessels and that the vessels be maintained and repaired in American shipyards. These concessions, to win over the maritime unions, would increase the cost of shifting transportation patterns and reduce their value. But the ban offends economics in larger ways and violates security. Even at that price, it's worth relaxing.

NY Times 2/23/84

Department of State

INCOMING TELEGRAM

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STATE FOR EAP/K DLAMBERTSON

E.O. 12356: N/A
TAGS: ENRG, EPET, ETRD, OREP, KS
SUBJECT: AMBASSADOR'S REPLY TO LETTER FROM SENATOR FRANK H. MURKOWSKI

DEAR FRANK:

THANK YOU VERY MUCH FOR YOUR LETTER OF JANUARY 27. YOUR VISIT WAS FAR TOO BRIEF. WE LOOK FORWARD TO YOUR RETURN IN APRIL.

I HEARTILY AGREE WITH THE SENTIMENTS EXPRESSED IN YOUR LETTER. WE UNDERSTAND THAT KOREA IS THE DEVELOPING COUNTRY MOST DEPENDENT ON IMPORTED OIL FROM THE MIDDLE EAST TO MEET ITS ENERGY REQUIREMENTS. DURING 1983 THESE IMPORTS AMOUNTED TO MORE THAN 139 MILLION BARRELS, OR 74 PERCENT OF KOREA'S TOTAL CRUDE OIL IMPORTS OF 188 MILLION BARRELS.

FOR A LONG TIME KOREA HAS BEEN TRYING TO DIVERSIFY ITS SOURCES OF IMPORTED CRUDE OIL IN ORDER TO REDUCE DEPENDENCE ON THE MIDDLE EAST. THE OIL SHOCKS OF THE 1970'S WERE EXTREMELY DIFFICULT FOR EVEN THIS VERY PROSPEROUS ECONOMY TO DIGEST. THE KOREANS HAVE BEEN TRYING, WITH LIMITED SUCCESS, TO INCREASE OIL IMPORTS FROM LATIN AMERICA AND INDONESIA. THEY HAVE BEEN CONSIDERABLY MORE SUCCESSFUL IN REDUCING THEIR DEPENDENCE ON IMPORTED CRUDE OIL BY BOOSTING THEIR NUCLEAR PLANT CONSTRUCTION PROGRAM AND SWITCHING FROM DIESEL TO COAL POWERED PLANTS FOR GENERATING ELECTRICITY. NEEDLESS TO SAY, HOWEVER, THESE PROJECTS ARE EXPENSIVE AND TAKE TIME.

DESPITE THESE BOLD EFFORTS, KOREA, FOR A LONG TIME TO COME, WILL NEED TO IMPORT LARGE AMOUNTS OF OIL. THE KOREANS WOULD LIKE VERY MUCH TO BUY EVEN A SMALL AMOUNT OF THEIR REQUIREMENTS FROM ALASKA IN ORDER TO REDUCE FURTHER THEIR DEPENDENCE ON THE MIDDLE EAST. I AGREE THAT EVEN LIMITED KOREAN IMPORTS OF ALASKAN OIL WOULD CONTRIBUTE IMPORTANTLY TO REDUCING OUR TRADE DEFICIT WITH THIS COUNTRY WHICH EXCEEDED DOLS 1.2 BILLION IN 1983, A RECORD HIGH. YOUR APPROACH TO THE ISSUE, TO OBTAIN A LIMITED EXEMPTION TO THE CURRENT BAN ON ALASKAN OIL EXPORTS, AND AUTHORIZATION FOR UNLIMITED EXPORTS AS NEW PRODUCTION COMES ON LINE, SEEMS TO ME TO BE QUITE SENSIBLE.

SELLING ALASKAN OIL TO KOREA OBVIOUSLY WOULD ENHANCE THE SECURITY OF AN IMPORTANT ASIAN ALLY AND WOULD BE CONSISTENT WITH OUR MILITARY COMMITMENT TO THIS COUNTRY. THE VULNERABILITY OF THE KOREAN ECONOMY AND ITS DEFENSE CAPABILITIES TO ANOTHER MIDDLE EASTERN CRISIS WOULD BE REDUCED ACCORDINGLY. I WISH YOU EVERY SUCCESS.

BEST REGARDS,

RICHARD L. WALKER
AMBASSADOR
WALKER

THE WASHINGTON POST, FRIDAY, FEBRUARY 10, 1984

Bill Sheffield

Free Alaska's Oil



By Zarko Kavaltic

American energy consumers have a large stake in the existing federal restrictions on the export of Alaska crude oil. Because Congress must soon act on an extension of the ban, its rationale and costs deserve scrutiny. I share the considered opinion of most economists and of the federal Department of Energy that the United States would produce more oil at lower prices if the export restrictions were lifted.

The origins of the oil export ban lie in the December 1973 authorization for construction of the Trans-Alaska Pipeline System, a project that currently carries some 20 percent of U.S. oil production. Energy security concerns became paramount in the wake of the October 1973 OPEC embargo, and Congress chose to restrict the destination of oil shipped through the pipeline. At that time, when U.S. ability to obtain any imported oil was in question, the restrictions made political sense.

The energy supply picture for the United States has changed during the past 10 years, however. About half of Alaska's oil production of 1.6 million barrels a day is in excess of West Coast needs. As a result, this oil must move to the larger market of the Gulf of Mexico and the East Coast. Unfortunately, this journey is an expensive one, costing four times as much as the tanker run to California. This additional transportation cost means reduced federal tax revenues and reduced incentives for expanding Alaska oil production. Higher trade deficits and diminished national security also result from the ban on our allies.

America's Pacific Rim allies, in close proximity to Alaska, would very much like to purchase this surplus oil to diversify their sources away from the Middle East, but are prohibited from doing so by federal law. The ban is particularly unfair because no other U.S. oil production is barred from export, and the United States currently ships overseas in excess of 700,000 barrels a day of domestically produced refined petroleum products.

Along with Alaska's congressional delegation, I have proposed that Congress relax the existing export ban on Alaska oil to allow 200,000 barrels a day to be shipped to Japan on U.S.-flag tankers. Most knowledgeable observers agree that the federal government and energy consumers in the United States would experience significant benefits from the adoption of this proposal:

- The federal Treasury would realize almost $200 million per year in increased tax revenues as a result of the higher value of oil shipped to the Pacific Rim.
- The oil industry would have a greater incentive to develop currently marginal fields on Alaska's high-cost North Slope and to explore for additional oil and gas in northern Alaska.
- The pricing power of OPEC would be moderated by the entry of Alaskan oil into Asian markets.
- U.S. national security interests would be protected by diversifying the energy supply of key U.S. allies who currently must seek energy from OPEC and Russia.
- The existing trade deficit with Japan would be reduced while the United States would gain a bargaining tool to use on other trade issues.
- Opportunities for financially troubled countries, such as Venezuela and Mexico, to sell oil to the United States would be expanded by providing possibilities for cost-efficient oil exchanges.

In light of these convincing arguments, why does the export ban remain in effect? The Alaska oil trade currently supports a substantial portion of the U.S. merchant marine fleet. Any action that reduces the amount of time Alaska oil must spend in U.S. tankers is therefore fiercely opposed by the owners and workers supported by these ships. To accommodate their concerns, the proposal I am making would sharply limit exports, and would require the use of U.S.-flag tankers manned by American seamen and maintained in American shipyards.

Those of us who live in Alaska strongly believe in the importance of a healthy merchant marine, given our heavy reliance on waterborne commerce. Nevertheless, the Alaska oil export ban is an expensive and ineffective means of achieving it. In a recent draft report, the U.S. Department of Energy said most of the problems likely to confront the U.S. tanker fleet in the future will occur whether or not export restrictions are eased. To forgo substantial federal tax revenues, national trade benefits, improved national security and increased oil production primarily to protect narrow merchant marine interests is not sound public policy.

The writer is governor of Alaska.

PRESIDENT [illegible]GAN'S PRESS CONFERENCE: Febru[illegible] 22, 1984

Jim Clark
(101)

Selling Alaskan Oil

Q. Back home, Mr. President — this week the Senate will consider amendments to the Export Administration Act. One will be to lift the ban on the export of Alaskan oil, allowing it to be sold to markets in the Far East. If a change in the law were to take place, it would reduce our trade deficit with Japan, it would reduce the Federal deficit by generating new revenues and increase domestic exploration and production, provide safer and cheaper transportation, instead of going through the Panama Canal, and many other things. Your Administration has privately supported this. Will you campaign aggressively when it's being considered by Congress?

A. Well we're still looking and studying at this. There are still some problems about it, and I share the view that it would be an asset to the United States to do this.

Q. May I ask you if one of your problems in making a final decision is the opposition that the maritime unions have expressed?

A. Well, I have to say that consideration of our Merchant Marine — the maritime force — has to be one because they are essential to our national defense, and as an adjunct to the Navy. And we want to make sure that there is a Merchant Marine in existence in this country.

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ATTACHMENT A
Minutes from the Congressional Record of March 1, 1984
about the Export Ban on Alaska Crude Oil

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the financial plight of American farmers. Indeed, the people who live in those areas, whether farmers or not, are being caught in this economic bind.

Mr. President, the Senator from Nebraska and I serve on the Senate Budget Committee. We are indeed concerned about the deficits that are confronting our Nation.

I made a comment the other day when I was in one of our Western States, not my own, about the farm program of last year. It was in response to a question about the cost of that program.

Mr. President, I pointed out to the audience I was addressing that had they let a handful of us in the Senate design that program we could have come up with one that cost half as much and did twice as much good for the farmers.

I would like to mention one of the things that has not been mentioned precisely on the floor today, a fact about the Melcher amendment.

Out in North Dakota we will call it the Melcher-Andrews amendment, while they undoubtedly call it the Melcher-Exon amendment in Nebraska.

Let me point out one of the things that may have been overlooked in this body that I think is worthwhile pointing out while the Secretary of Agriculture is engaged in negotiations with one of our Members and will appear before one of our subcommittees in about 25 minutes. That is the fact that the CBO has given us the figures that this amendment, if passed, will result not in an additional cost to the taxpayers but a net saving of $3.273 billion over the next 5 years.

What we are doing is not increasing the costs; we are designing a better program. We are cutting back from 30 percent to 20 percent in set-aside. We asked the farmers to take 30 percent of their land out of production for free. Try going into a downtown area of one of the big cities and tell them to take 30 percent of their rental units out of the production of payments and see how long they could survive that.

The savings come about because of the modest adjustments to the target price and the interplay with what would happen otherwise if many farmers refused to sign up for the program.

Yes, Mr. President, these figures from CBO, at $3.273 billion, might well be modest. It would be my anticipation that if nothing is done, and if we do indeed and in fact stubbornly move ahead as is, come August or September, given the predicted wheat surplus that would exist then, you would see a mass movement on the part of the administration and both sides of the political aisle to try to correct it with a make-do, quick-fix program that would, as the quick-fix PIC program last year, add billions of dollars to the cost.

Mr. President, I say again that hopefully this amendment will be adopted, and even more hopefully it will be put into the program with the Secretary's discretion, which he can do, and we can later modify the target prices that are addressed in this amendment to come up with a net savings to the Treasury as well as a significant program improvement to America's farm families.

Mr. President, I suggest the absence of a quorum.

The PRESIDING OFFICER. The clerk will call the roll.

The legislative clerk proceeded to call the roll.

Mr. HEINZ. Mr. President, I believe the Senator from Alaska seeks the floor.

The PRESIDING OFFICER. The Chair recognizes the Senator from Alaska.

Mr. MURKOWSKI. Mr. President, I thank the floor manager.

Mr. President, has the Melcher amendment indeed been set aside temporarily?

The PRESIDING OFFICER. It has not yet been set aside.

Mr. MURKOWSKI. With the permission of the floor manager, Senator HEINZ, I ask unanimous consent that the Melcher amendment be temporarily set aside.

The PRESIDING OFFICER. Is there objection?

Mr. MURKOWSKI. I direct the question to the Senator from Pennsylvania.

Mr. HEINZ. Mr. President, will the Senator restate his question? I apologize; I was otherwise engaged.

Mr. MURKOWSKI. I asked unanimous consent that the Melcher amendment be temporarily set aside.

Mr. HEINZ. The Senator from Pennsylvania understands that the amendment has been temporarily set aside.

Mr. MURKOWSKI. I questioned the Chair and was advised otherwise.

Mr. FORD. As long as it is temporarily set aside, we have no objection.

The PRESIDING OFFICER. Is there objection? The Chair hears none, and it is so ordered.

Mr. MURKOWSKI. I thank the Chair.

AMENDMENT NO. 2766

(Purpose: To permit crude oil exports pursuant to a treaty)

Mr. MURKOWSKI. Mr. President, I send an amendment to the desk and ask for its immediate consideration.

The PRESIDING OFFICER. The amendment will be stated.

The legislative clerk read as follows:

The Senator from Alaska (Mr. MURKOWSKI) proposes an amendment numbered 2766.

Mr. MURKOWSKI. Mr. President, I ask unanimous consent that further reading of the amendment be dispensed with.

The PRESIDING OFFICER. Without objection, it is so ordered.

The amendment is as follows:

On page 39, line 13, after the period insert the following: Section 7 of the Export Administration Act of 1979 is also amended by inserting in the second sentence of paragraph (1) of subsection (E) the word "working" between "5" and "days".

Mr. MURKOWSKI. Mr. President, I ask for the yeas and nays on my amendment.

The PRESIDING OFFICER. Is there a sufficient second? There is a sufficient second.

The yeas and nays were ordered.

Mr. MURKOWSKI. Mr. President, this amendment is simple and straightforward.

Today, the Secretary of Commerce has only 5 days, upon receipt of a petroleum product export license application, to notify Congress of specific intentions of that export. Given the frequent number of recesses of this body and considering the fact that Congress and Federal agencies respect 3-day weekend holidays, and even sometimes 4-day weekend holidays, I feel it is only appropriate that we give the Secretary 5 full working days to notify Congress of an exporter's intention.

This amendment, Mr. President, makes that change by inserting the word "working" into the text of existing law.

AMENDMENT NO. 2767

(Purpose: To prohibit the export of refined petroleum products)

Mr. MURKOWSKI. Mr. President, I now send to the desk an amendment and ask for its immediate consideration.

The PRESIDING OFFICER. The amendment will be stated.

The legislative clerk read as follows:

The Senator from Alaska (Mr. MURKOWSKI) proposes an amendment numbered 2767.

Mr. MURKOWSKI. Mr. President, I ask unanimous consent that reading of the amendment be dispensed with.

The PRESIDING OFFICER. Without objection, it is so ordered.

The amendment is as follows:

On line 5 after the period insert the following: Section 7 of such Act is further amended—

(1) by striking out "transported by pipeline" and all that follows through "reenters the United States)" in paragraph (1) of subsection (d);

(2) by striking out ", including exchanges" in paragraph (2)(A) of subsection (d);

(3) by striking out "or exchanges" in paragraph (2)(A)(ii) of subsection (d);

(4) by inserting "or refined petroleum products" after "oil" each place it appears in subsection (d);

(5) by striking out paragraph (3) of subsection (e); and

(6) by inserting "and subsection (d)" after "this subsection" in paragraph (4).

Mr. MURKOWSKI. Mr. President, today, we will begin debate on the issue of allowing the export of Alaskan oil, and by now we are certainly aware of the views of oil export proponents. But I would like to point out briefly that this particular issue of Alaskan oil export is not an effort by me and my senior colleague, Senator STEVENS,

to attempt to right a wrong against the State of Alaska.

At this time I submit for the RECORD letters and editorials in support of crude oil exports, and will refer briefly to those editorials.

I quote from the Los Angeles Times of February 22, 1984, "Better Use of Alaskan Oil," the last paragraph:

The rigid ban on Alaskan oil exports has proved to be expensively foolish. Now is the time to end it through a feasible oil-swapping arrangement.

Mr. President, from the New York Times of February 23, 1984, an editorial entitled "Will Alaska's Oil Flow Naturally?" I read the last paragraph:

What is objectionable is the Murkowski-Stevens requirements that all exports be shipped in American vessels and that the vessels be maintained and repaired in American shipyards. These concessions, to win over the maritime unions, would increase the cost of shifting transportation patterns and reduce their value. But the ban offends economics in larger ways and violates security. Even at that price, it's worth relaxing.

Last, in the Boston Globe, the last paragraph of an editorial entitled "Knot in the Oil Line":

Spawned in fear and maintained in quest of wasteful subsidy, the oil export ban is blatant protectionism in an era when the world is in danger of reembracing that wasteful and counterproductive practice. By ending the ban, Congress could reduce that waste and provide a clear signal that it is not being dragged back into the paralyzing era of mindless trade barriers.

Mr. President, Members of this body cosponsored legislation to permanently ban the export of Alaska's crude oil. They have argued this ban is essential to this Nation's energy security, and to the security of our country. Their concern is limited to the national interest. However, their arguments fail the test of logic and commonsense.

I understand this concern. Unfortunately, neither logic nor the facts support it. However, I believe this body should have an opportunity to vigorously debate the wisdom of exporting oil and its oil products from our shores. I also believe we should at the same time attempt to establish a coherent national policy on oil export, based not on the narrow concerns of the special interests but on broad public interest of what is best for the people of this great Nation.

To accomplish this task, Mr. President, I believe we must carefully examine the total picture regarding the export of American petroleum products. To insure that this body has an opportunity to carefully review existing policy—and to establish consistent national policy regarding petroleum exports—I intend to offer two amendments to the Export Administration Act. I also intend to ask for back-to-back votes on these amendments, so that the American people can clearly determine what our national policy is regarding refined products and crude oil exports, and where each Member of this body stands on this important issue.

The first amendment I intend to offer will propose a ban on the export of all refined petroleum products from this country. Presently, we export about 460,000 barrels per day—with about 7,000 barrels per day going to the Soviet Union and Eastern bloc countries. Mr. President, if it is in the interest of national security to prohibit the export of Alaska crude oil to our allies such as Japan and Korea—as many of my colleagues assert—it logically follows that it is also in the national interest to ban the export of refined products, assuming their argument is correct. Of course, anyone familiar with this issue knows that commonsense and the facts show just the opposite, that the export of petroleum products is in the national interest. However, in the interest of establishing a consistent national policy, I believe this body should have the opportunity not only to vote on the further export of Alaska crude oil but also on the present situation in which we export hundreds of thousands of barrels of refined products daily. If those who oppose the export of Alaska crude oil are truly concerned with our national security, they will have no choice but to vote for my amendment to ban the export of refined petroleum products. If the export ban proponents are correct in their arguments regarding crude oil, then these same arguments must apply in spades to a ban of refined oil products. Certainly, those who are for banning the export of Alaska crude oil would also be against the export of refined products to our adversaries of the Eastern bloc nations.

When the vote is finished on the amendment to ban the export of refined petroleum products, I intend to offer a second amendment to allow the export of Alaska crude oil. My intent is to insure that through voting on these two amendments, this body will clearly decide on a consistent national policy regarding petroleum exports.

A BAN ON REFINED PRODUCTS EXPORTS: WHY NOT?

Mr. President, in my efforts to ease restrictions on the export of Alaska crude oil, I have become intrigued by the fact that refined petroleum products represent a growing export commodity for the United States, at a time when there is substantial support for banning the export of even a small fraction of that volume as crude oil.

There is an exception I would like to point out that does exist at this time. Approximately 70,000 barrels of oil per day leave Alaska in foreign vessels, under an exemption, and that oil is moved from Valdez to the Virgin Islands. So there is already an additional inconsistency above and beyond the question of refined products vis-a-vis crude oil.

Congressional proponents of maintaining the ban on Alaska crude oil exports argue that Alaska oil must be kept exclusively for domestic use. They contend that banning the export of crude oil reduces our reliance on imported oil, lowers oil product prices to consumers, and insures a healthy domestic maritime fleet, which we would need in an energy or defense emergency.

Since 1973, Congress has responded to these claims, on numerous occasions, by tightening restrictions on Alaska oil exports until an effective ban on Alaska crude oil exports was created.

Yet, Mr. President, my next amendment, which provides for up to 200,000 barrels a day to be available for export, is only 12 percent of the total production through the trans-Alaska pipeline.

I wish to point out that that proposed amendment will also necessitate the movement of crude oil in U.S. vessels and that those vessels involved in that traffic must be prepared in U.S. yards and, of course, the President has the authority to cancel export contracts if indeed there is a national emergency.

Mr. President, given the apparent support for the crude oil export ban, this body may want to take its convictions one step further. To the extent we benefit from the crude oil export ban, would we not also benefit from banning the export of refined products?

If we are concerned with lower product prices, why do we permit the export of products that people actually buy—such as heating oil, diesel fuel or aviation fuel? Why not let product surpluses drive the prices down?

If we are concerned with emergency requirements, why do we permit the unlimited export of products which could be immediately useful in an emergency? Obviously, crude oil is not that desirous because it cannot be immediately used while the refined product can.

If we are concerned with providing more business for the domestic fleet, why do we deprive the maritime industry of hundreds of thousands of barrels a day of potential tanker business?

If we are concerned with energy independence and our reliance on imported oil, why do we permit product exports when we are importing large volumes of these same products each day?

And I might mention it is estimated that approximately 25 percent of the production that we import from Mexico is in refined products. Are we subsidizing the Mexican refineries?

THE ECONOMIC COSTS AND BENEFITS OF A REFINED PRODUCTS EXPORT BAN

How well would an export ban on refined products achieve these benefits of lower consumer prices, more energy security, and a stronger merchant marine? Let us examine briefly the refined products markets to see what the economic consequences would be.

First, refined product exports result from the inescapable realities of chem-

istry and the equally inescapable high cost of altering that chemistry.

Refineries are not always able to generate the precise mix of products in demand by the local market. Thus, a market imbalance is created, requiring imports in one area and exports in others. For instance, Alaska crude on the west coast produces less gasoline and more heating oil. And that is just the mix of the oil. It is much more efficient that way. Californians need more of the former gasoline and less of the latter heating oil, so there is a surplus of heating oil on the west coast.

According to August 1983 DOE data, the west coast and Alaska—known to the Department of Energy collectively as PADD—produced 231,806 barrels per day of refined products in excess of demand. Those products, 61 percent of which are fuel oils—used in home heating and as fuel for agricultural machinery, are exported.

Then, Mr. President, it is exported in foreign vessels because there is absolutely no restriction on the export of refined products, only on crude oil, another inequity and a glaring one, I point out.

The balance on the east coast is entirely different, in part because refiners use higher quality imported crude which produces less heating oil and more gasoline. So, while the west coast exported 141,483 barrels per day of distillate and residual fuel oils, the east coast had to import 698,161 barrels per day from foreign sources.

Because oil markets are very competitive, it is safe to assume that export is the most profitable marketing option for west coast refiners. If it were not, the refiners would not be exporting. Likewise on the east coast, if import were not the cheapest source of supply for certain products, oil product distributors would not be buying imports.

If we banned these west coast exports, refiners would have to choose from among several less profitable courses of action:

First, they could invest heavily in capital equipment to alter their product mixes;

Second, they could sell the surplus products at much lower prices; or,

Third, they could ship the surplus products eastward by tanker through the Panama Canal, or by truck across country.

If we look at the last option first, it is really the same option that the Alaska North Slope crude producers have been forced to adopt up to this point.

Let us look at the last option first, for it is the same option that ANS crude producers have been forced to adopt.

It would cost a great deal to ship refined products eastward. But, do not assume for a moment that anyone on the east coast would be willing to pay a patriotic premium for U.S. refined products simply because transportation costs are expensive for the refiner. Americans are certainly not fools. They know U.S. heating oil does not warm a house any better than Dutch heating oil or Saudi Arabian heating oil. Thus, U.S. consumers are willing to pay the world market price—and absolutely no more.

As a result, the action of the market would force refiners to absorb the cost of more expensive domestic shipping. Their profits would be less and their ability to compete with huge new refinery complexes abroad would be reduced.

Increasing capital costs would also hurt profits. So would reducing prices. Lower profits mean that, sooner or later, some west coast refiners might go out of business—a result that benefits no one in the long term.

However, in the short term, as a result of the refined export ban, some truckers or tankers would be awarded—by act of Congress—some business which they did not deserve based on competitive criteria. Increased demand for those services would push prices up for other companies who ship from West to East.

With spotty exceptions, oil product consumers would not be affected in the short term—they would pay the market price for products no matter what. This also means that, in an oil crisis, consumers would receive no economic protection from the refined products ban—U.S. refined products would be sold at the competitive market prices, regardless of how high they might go. In some cases, consumers would benefit from short-lived discounts, as refiners seek to avoid the high cost of domestic shipping.

And, some refiners would have their profits squeezed to the point where they could go out of business.

In the long-term, the benefits to the truckers and tankers would vanish, as the refinery shutdowns reduce the surplus. Consumers would pay higher prices because there would be less refining capacity. The energy independence of this country would be lessened, for the ban reduced the ability of U.S. refiners to earn competitive rates of return. Less domestic refining capacity means more vulnerability in a true crisis.

These would be the benefits and costs associated with banning export of refined products. I leave it to you to judge how well this inevitable chain of events meets the goals often attributed to such a policy.

THE OPPORTUNITY TO LEARN FROM EXPERIENCE

In making a decision on a refined products export ban, Congress has the luxury of learning from earlier experience. We can gain valuable insights by examining the consequences of the ban on the export of Alaska crude oil.

While refined product surplus are the result of chemistry, crude surpluses are the result of geology.

In the perfect world, Prudhoe Bay would have been discovered somewhere in Texas, New Jersey, or Ohio—near refineries and near markets. This is not a perfect world.

Nine billion barrels of oil were found about as far away from the major U.S. refiners and markets as you can get—6,700 sea miles and 800 land miles away from the country's refining centers on the gulf coast and even further from the east coast.

To compound the problem, the volume of Alaska crude, plus new west coast production, has overwhelmed the demand of the nearest domestic market—the west coast. So, the problem has arisen of what to do with it all.

Mr. President, what we are doing with it is moving it, moving it some 4,500 miles from the west coast to the Panama Canal where it is unloaded and shipped through the pipeline across Panama and is again loaded on ships and, Mr. President, the average volume of movement has been in the area of 700,000 barrels per day since that pipeline went on line a year ago last February.

The problem has become complicated because, for some inexplicable reason, nationality becomes important when people talk about crude oil.

Even though folks in Minnesota and Massachusetts know that U.S. heating oil does not heat a house any better than heating oil from anywhere else, politicians have been led to believe there is something special about Alaska crude. So special in fact, that we must keep it all for our own use, even at the cost of billions of dollars in Federal revenues, reduced domestic reserves, and damaged relations with key trading partners.

Many people do not understand the transportation advantages associated with the savings offered by the export of some, some 12 percent, 200,000 barrels of Alaska's oil.

The unintended consequences of well-meaning legislation—in this case the crude oil export ban—has been well documented, by the Department of Energy, various energy experts and other policymakers.

High transportation costs reduce wellhead values. Thus, there is less incentive to develop new oil fields in Alaska. Less developed oil in Alaska means less non-OPEC production and more instability in world supplies. Lower wellhead values mean lower Federal windfall profits tax receipts as well as reduced royalty and bonus payments from future leases.

We have been feeling these negative impacts for the last 5 years, and will continue to bear these costs as long as the crude oil export ban is in effect.

Mr. President, it appears that the strongest arguments in support of a refined products ban are that, in the short run: First, it may permit a few west coast consumers to get some discounts on certain products and it may help some truckers and maritime interests to pay higher than competitive wages or earn higher than competitive

rates of return. In the long run, refinery closing would raise west coast prices and eliminate that legislated windfall for the transportation sector.

When you think of it, those are probably the only arguments that can be made for the crude oil export ban—it benefits a few, for a short period of time, while damaging the short-term interests of most Americans and hurting all of us in the long term.

And yet, it is intriguing to me that there is such a great deal of support among my colleagues for the crude oil export ban.

I must assume that there is some reason for this obviously strong conviction that the best interests of all Americans can be served by banning trade in vital commodities, though that reason has eluded me.

If you really believe that the crude oil export ban serves America's best interest, I offer you an opportunity to further demonstrate your conviction by banning the export of refined petroleum products as well. My amendment would, therefore, ban the export of all refined petroleum products from our Nation.

Mr. HEINZ. Mr. President, at the appropriate time I am going to move to table the Murkowski amendments that are now pending. But before I do—and there may be some Senators who wish to be heard on this; I do not want to preclude Senators from being heard—I want to just speak to the amendment that is before us; namely, the Murkowski amendment to prohibit the export of refined products.

The Senator from Alaska himself said in his remarks that there would be very grave consequences to the ban he proposes in this amendment. I think we understand his rationale for proposing it; it being more tactical than it is substantive. I hope my colleagues will join in overwhelmingly defeating his amendment.

But, just so there is no mistake, Mr. President, there is a parallel between the decision taken and the 1973 Alaskan Pipeline Act not to permit, except under special circumstances, the export of Alaskan oil and the Senator's amendment, which is to prohibit from anyplace in the United States the exportation of refined products. Let us be very clear that if you are going to compare those two, you are comparing apples and oranges.

When you talk about the source of oil, you are talking about a lifeline to a nation in the modern world. And, frankly, when we export refined products, we are someone else's lifeline. But if we export crude, say, to Japan, and then have to import more crude from the Middle East, which is exactly what we would have to do, our lifeline becomes long and it becomes dangerously extended because today the Middle East is far more volatile than it was in 1973.

It was far more volatile when the Banking Committee confronted this issue in 1979. The ayatollah had not taken over Iran at the time the Banking Committee last considered this issue in 1979 and there was certainly no Iran-Iraq war and threats and counterthreats being exchanged daily and intelligence reports of every kind of uncertain events breaking on a daily basis.

The fact is that it is a lot better to export refined products than it is to import Middle Eastern crude. So I hope our colleagues will bear in mind that that is one critical difference.

The second critical difference, Mr. President, can best be described as, a deal is a deal. Not every Member of this body served in the Congress, either the House or the Senate, back in 1973. Some of us on the floor did. The Senator from Alaska, being so young, was not among them. But I well remember the debate over in the House. The Alaskan Pipeline Crude Oil Act passed the House over very strenuous environmental and other opposition, including opposition from many consumers who felt that the pipeline was being built in the wrong place, was being built from Prudhoe Bay down to Valdez when it should have been built from Prudhoe Bay down into the northern Midwest where we would not have this problem.

But the Nixon administration already made a deal a couple of years before without consulting anybody in the Northeast or Midwest. The only reason that act passed over that consumer and environmental opposition was there was an agreement made. And that agreement was that we were not going to allow that oil to be exported someplace else and that it was going to be Americans who benefited from it by lessening their vulnerability to Middle East oil supplies on which we were very dependent at that time, much more so than today. And that was the agreement; that was the legislation.

Mr. PACKWOOD. Will my colleague yield?

Mr. HEINZ. In one split second.

That is why I say the other difference, Mr. President, is that a deal is a deal. I would be happy to yield to my friend.

Mr. PACKWOOD. I am curious. This so-called Alaskan oil export amendment seems to have changed daily from Monday to Tuesday to Wednesday to Thursday. As I understand it, we are not now debating the issue of exporting Alaskan oil, but whether we are going to export refined petroleum products. Is that correct?

Mr. HEINZ. The Senator is correct.

Mr. PACKWOOD. Did my colleague have any hearings on this subject?

Mr. HEINZ. The Senator can say we did not have any hearings on this subject. We did not have any hearings on the subject of the exportation of refined products.

Mr. PACKWOOD. I have a briefing book with 77 dividers prepared to argue the Alaskan oil export, which I guess I do not need. Then I also have materials of perhaps 12 or 14 pages with maybe 10 or 15 arguments designed for the amendment circulated yesterday as to the exportation of only newly discovered oil. I have nothing to argue about exporting refined products.

Pardon me. I am asking a question.

Mr. HEINZ. As I understand the Senator's question——

Mr. PACKWOOD. Nobody knows anything about this because we have had no hearings?

Mr. HEINZ. The Senator's question is entirely appropriate and I might add the answer is in the affirmative. But before he finishes asking questions, let me just say to him that in all fairness to the Senator from Alaska who has proposed this amendment that I expect to be overwhelmingly defeated, he, himself, has said, as I understood his remarks, that his amendment really is a deeply flawed amendment. He said in the short term there would be some consumers in California who would benefit because there would be a temporary surplus of refined products. But in the long run, in the next few years, all the refineries in California would go bankrupt and that would be bad. In fact, it would be catastrophic.

Mr. PACKWOOD. It might even be bad for Oregon.

Mr. HEINZ. It is possible, if anybody had taken that into account.

Mr. STEVENS. Does harm to his State govern the Senator's vote?

Mr. PACKWOOD. I do not have the floor.

Mr. HEINZ. I have not yielded to the Senator.

I would say to my colleague from Oregon that his points are well taken. What we are talking about here is really, as refineries run, they inevitably end up with surpluses of one product or another depending on the time of year. It is in our interest to dispose of our surplus at world market prices. Unfortunately, for a variety of reasons, we are importing far more than we are exporting and we need to pay those bills somehow. The smartest way is that when we are able to export a product we do not need, which does not increase our vulnerability, and which we can do because we cannot store it, the best thing to do is to get the best price for it. Of course, the amendment of the Senator from Alaska would mean we could not.

Mr. PACKWOOD. I thank my colleague.

Mr. HEINZ. Mr. President, I am going to make a motion to table in a few minutes, but not right now. I yield to the Senator from Ohio.

The PRESIDING OFFICER. The Senator from Ohio.

Mr. METZENBAUM. Mr. President, in order not to confuse the issue, my remarks will be addressed not alone to the first amendment but the amend-

ment that I know the Senator from Alaska is about to lay down. I do not think there is any particular purpose to be served in speaking twice on the same subject.

The fact is that as we meet here today, realistically speaking, we face a very serious threat of a major oil disruption in the Middle East as the Iran-Iraq War heats up. This Nation, frankly speaking, is unprepared for that. Congress passed the mandatory allocation legislation and the President vetoed it. We have no plan in place.

As a matter of fact, a full-scale war in that part of the world could result in another major oil blockage in the Strait of Homuz. Twenty-five percent of the free world's oil passes through that strait and Khomeini keeps talking about blocking it. We say that it can be cleared.

Well, I am not a naval expert, but I do know that it would cause great havoc and have a tremendous impact upon the oil economy and our overall economy throughout this Nation and throughout the world. If a full blockage occurred, we would see oil prices more than triple from $30 per barrel to almost $100 a barrel. Gasoline prices would go up to $4 a gallon and home heating fuel prices would more than double. Industry, understandably, would hoard its supplies and gas lines would form again.

We are not prepared for such an oil crisis. Adopting the Murkowski amendment or amendments will not help us with respect to that problem. As a matter of fact, it would create more problems for us. Instead of protecting the American people with a mandatory allocation plan, which would provide a program to keep oil prices from going through the roof, which would have a standby program to allocate fuel supplies to farmers, to hospitals, to police and fire departments, which would have a program which would help the poor and the elderly on limited incomes meet sharply escalating fuel prices, the administration says, "Do not worry. The economy will take care of itself. The market will take care of it." As their own studies indicate, prices could go up to about $99 a barrel.

Now we have an amendment or two amendments that will make us even more reliant on foreign oil. This amendment would change current policy to allow 200,000 barrels per day of Alaskan oil to be shipped to Japan. I am not kidding anybody; 200,000 barrels a day is not very much in the overall scheme of things in this country. But if you can let 200,000 barrels flow out the door, then they will be back for 400,000 or 1 million barrels per day.

I am strongly opposed to this amendment. We have had this same argument made to us before on the floor of the Senate and we have turned it down. I do not believe it makes sense to ship American oil overseas, particularly at a time when we are threatened with a cutoff of Mideastern oil.

Today we consume about 15.5 million barrels of oil per day and we are importing a little more than one-third of that, about 5.5 million barrels of oil per day from other countries.

Recent testimony before the Senate Energy Committee showed that the world economic recovery will soon eliminate the temporary glut. When that happens, OPEC will again be back in the driver's seat.

The United States has diversified its import sources, becoming less reliant on oil from the Middle East. But the oil market is truly a world market. If there is a shortage of Mideastern oil, it will drive up prices for Japan and other Western countries, and that will drive up our prices.

There are other sound reasons to keep current policy and to oppose this amendment. As a matter of fact, as an aside I would like to comment on what I understand to be the next amendment of the Senator from Alaska, or an amendment to his own amendment. That has to do with changing the law with respect to the present law which makes it possible to export to countries under the IEA agreement. There is no secret about it. This Senator thinks that this Nation should not be in the International Energy Agency. There is absolutely no reason for us to be there. That is the kind of mandatory allocation plan which would provide for us to give up oil while at the same time we are not willing to share our oil with people here in this country.

But that is another issue that the Energy Committee will be considering in short order. I hope that he will join with me in opposing this Nation's further participation in the International Energy Agency. If I interpret his legislative proposal to that effect, than I commend him for that part of it, not for all of it.

This amendment would actually increase consumer prices by $3 to $4 per barrel. We should understand that Alaskan oil presently is priced below comparable grades of fuel. So under this amendment, we give up 200,000 barrels of oil a day of this lower-priced Alaskan oil, and we would then be importing from other nations the same amount of oil but at current market prices.

That is not going to help the consumer. Obviously, it will not help the American economy. But it would reduce the number of American tankers that would be used to transport oil while at the same time increasing prices to the American consumers.

Under current law, U.S. tankers carry oil from the pipeline terminal at Valdez, Alaska to the lower 48 States; 800,000 barrels of that oil goes to west coast refiners and 700,000 barrels to Panama, where the oil moves across Panama by pipeline and then by U.S. tanker to gulf and east coast refiners.

Let us take a look and see what happens if oil is shipped to Japan. Most likely, it would reduce oil shipments in U.S. tankers to the gulf and east coast refiners. They would get their oil instead from Saudi Arabia, which would be shipped on non-U.S. tankers.

Mr. President, I understand that the oil going to Japan would be shipped in American bottoms, but I do not see any gain that we make out of that. As a matter of fact, I see it as a loss.

We have a substantial interest in maintaining our tanker fleet. The U.S. Government has provided loan guarantees for their construction. And those tankers are on call by Department of Defense in case of national emergency.

This amendment to allow 200,000 barrels of oil to be shipped to Japan would displace 17 tankers presently being used. I believe we should maintain our tanker fleet, instead of reducing their number by changing current policy.

This amendment, frankly speaking, would help Japan secure American oil, but would do nothing to open the Japanese market to American products.

I recognize that Japan is an important ally, an important trading partner, and important to our national security; but we must continue to insist that Japan open its markets to our products. This amendment would undercut that effort.

Proponents argue that this amendment is needed to provide an additional incentive to North Slope producers to produce additional oil. But they already have enough incentive, and Congress has given it to them over the years.

Last year those North Slope producers earned $5 billion. That is enough. That is more than sufficient.

They do not need this amendment to help them out of their economic distress.

In conclusion, I do not believe that a convincing case has been made for changing current policy so that Alaskan oil can be shipped to Japan.

We are faced with imminent threats to our oil security.

We have invested billions of dollars in tankers, pipelines, and other facilities on the premise that Alaskan oil would be shipped to the lower 48 States.

I am opposed to this amendment, Mr. President, as well as to the amendment as amended. I urge my colleagues to join in supporting the tabling amendment, which I understand the manager of the bill intends to offer at an appropriate time.

Mr. MURKOWSKI addressed the Chair.

Mr. HEINZ. Mr. President, I think we are ready to put the question on the amendment, so I move to lay it on the table. I ask for the yeas and nays.

The PRESIDING OFFICER. Will the Senator withhold the motion to table?

Mr. MURKOWSKI. Would the floor manager allow me to make one statement?

Mr. HEINZ. By all means.

Mr. President, I withhold my motion to table. I did not wish to preclude the Senator from Alaska.

Mr. MURKOWSKI. Mr. President, the amendment which I propose and which the Senator from Ohio opposes are obviously two different amendments, but I do intend to bring up an amendment for 200,000 barrels a day after this amendment is disposed of. I would like to bring out one specific point.

My friend from Pennsylvania indicated that in this matter indeed, we were talking about apples and oranges. I point out that you can eat both apples and oranges, and you can burn both crude oil and refined oil; but as we both know, an apple does not become an orange but oil does become a refined product. I ask my colleagues to reflect on the parallel that I have just brought up, because I think it has some merit. The argument made that it is not in this Nation's best interest to allow the export of crude oil but to allow unlimited export of refined product is, indeed, not only ambiguous but, I think, true food for thought on our Nation's energy policy if, indeed, we mean what we say with regard to consistency. After all, they are both used ultimately the same way.

I thank the floor leader for allowing me the opportunity to point this out.

Mr. HEINZ. Mr. President, I move to lay the underlying Murkowski amendment on the table. I ask for the yeas and nays.

The PRESIDING OFFICER. Is there a sufficient second? There is a sufficient second.

The yeas and nays were ordered.

The PRESIDING OFFICER. The question is on agreeing to the motion to lay the first degree amendment on the table.

The PRESIDING OFFICER. The yeas and nays have been ordered. The clerk will call the roll.

The assistant legislative clerk called the roll.

Mr. STEVENS. I announce that the Senator from Illinois (Mr. PERCY) is necessarily absent.

Mr. BYRD. I announce that the Senator from California (Mr. CRANSTON), the Senator from Ohio (Mr. GLENN), and the Senator from Colorado (Mr. HART) are necessarily absent.

The PRESIDING OFFICER. Are there any other Senators in the Chamber wishing to vote?

The result was announced—yeas 94, nays 2—as follows:

[Rollcall Vote No. 25 Leg.]

YEAS—94

Abdnor	Bingaman	Chafee
Andrews	Boren	Chiles
Armstrong	Boschwitz	Cochran
Baker	Bradley	Cohen
Baucus	Bumpers	D'Amato
Bentsen	Burdick	Danforth
Biden	Byrd	DeConcini
Denton	Inouye	Proxmire
Dixon	Jepsen	Pryor
Dodd	Johnston	Quayle
Dole	Kassebaum	Randolph
Domenici	Kasten	Riegle
Durenberger	Kennedy	Roth
Eagleton	Lautenberg	Rudman
East	Laxalt	Sarbanes
Evans	Leahy	Sasser
Exon	Levin	Simpson
Ford	Long	Specter
Garn	Lugar	Stafford
Goldwater	Matsunaga	Stennis
Gorton	Mattingly	Symms
Grassley	McClure	Thurmond
Hatch	Melcher	Tower
Hatfield	Metzenbaum	Trible
Hawkins	Mitchell	Tsongas
Hecht	Moynihan	Wallop
Heflin	Murkowski	Warner
Heinz	Nickles	Weicker
Helms	Nunn	Wilson
Hollings	Packwood	Zorinsky
Huddleston	Pell	
Humphrey	Pressler	

NAYS—2

Mathias	Stevens

NOT VOTING—4

Cranston	Hart
Glenn	Percy

So the motion to lay on the table was agreed to.

Mr. MURKOWSKI. Mr. President, I send an amendment to the desk and ask for its immediate consid ation.

The PRESIDING OFFICER. The pending business before the Senate is the first- and second-degree amendments of the Senator from Montana (Mr. MELCHER).

Mr. HEINZ. Mr. President, I ask unanimous consent that the Melcher amendment be temporarily laid aside.

Mr. STEVENS. Mr. President, reserving the right to object, could I inquire what are the other amendments that would be present here today?

Mr. HEINZ. Mr. President, I will attempt to answer that. It is my understanding the Senator from Alaska (Mr. MURKOWSKI) is about to offer an amendment. There are two amendments by Senator MATHIAS and Senator BOSCHWITZ and one amendment by Senator BOREN. Then we have the Melcher amendments pending.

Beyond that the managers do not know of any additional amendments, although there could be some.

Mr. STEVENS. Mr. President, reserving the right to object, I wonder if my colleague might withhold offering that amendment for a while and let these other amendments go ahead because I am still involved in conversations concerning the version of this amendment, and I wish to pursue those conversations.

Mr. MURKOWSKI. Mr. President, I am very pleased to accommodate my colleague, the senior Senator from Alaska. Assuming that there is no objection from the floor manager, I will withdraw the amendment.

The PRESIDING OFFICER. The question before the Senate is the unanimous consent request of the Senator from Pennsylvania to temporarily lay aside the pending amendments.

Mr. STEVENS. Mr. President, I object.

The PRESIDING OFFICER. Objection is heard.

Mr. STEVENS. Mr. President, I suggest the absence of a quorum.

The PRESIDING OFFICER. The clerk will call the roll.

The assistant legislative clerk proceeded to call the roll.

Mr. BAKER. Mr. President, I ask unanimous consent that the order or the quorum call be rescinded.

Mr. BAKER. Mr. President, I ask unanimous consent that the order for the quorum call be rescinded.

The PRESIDING OFFICER (Mr. HECHT). Without objection, it is so ordered.

MELCHER AMENDMENT NO. 2763

Mr. HELMS. Mr. President, American farmers face many problems, and we must be careful to see that actions by our own Government do not compound the problems.

Our Nation's farmers have achieved levels of productivity and efficiency unparalleled in human history. Through the private sector, agriculture provides the American public with an abundance and diversity of food, fiber, and consumer products at competitive prices.

American agriculture accounts for 20 percent of the gross national product and one-fifth of our foreign exchange. Agriculture provides 24 million jobs, one-fourth of U.S. employment.

Farm exports generated nearly $35 billion worth of earnings in 1983, the largest single positive force in our balance of payments. Every $1 billion worth of farm products we export generates 30,000 jobs in the private sector.

At the same time, this vital industry of Agriculture has been hit by the upheavals of inflation, interest rates, a strong dollar, drought, worldwide surpluses, and a world recession. Farm program spending has reached new highs, and yet some farmers continue to go out of business.

It is in these perplexing circumstances that we consider this amendment.

I do want to make clear that the Secretary of Agriculture has worked hard to provide an effective program for farmers.

On July 1, 1983, Secretary Block announced general guidelines for the 1984 crop wheat program. He make this unprecedented early announcement so that farmers could made their planning and planting decisions efficiently.

This announcement was followed on July 29 by provisional details of two alternative 1984 wheat programs with the proviso that congressional action on the proposed target price freeze legislation would determine which alternate took effect.

Mr. President, the Senate Agriculture Committee adopted the proposed target price freeze as part of a package which provided $600 million of the savings to encourage farm export. Unfortunately, that measure was prevented from being considered by the

NAYS—42

Abdnor	Durenberger	Matsunaga
Andrews	Eagleton	Melcher
Baucus	Exon	Mitchell
Bentsen	Ford	Nickles
Bingaman	Hatfield	Nunn
Boren	Heflin	Pell
Boschwitz	Hollings	Pressler
Bumpers	Huddleston	Pryor
Burdick	Inouye	Randolph
Byrd	Johnston	Riegle
Chiles	Kassebaum	Sarbanes
DeConcini	Kennedy	Sasser
Dixon	Leahy	Stennis
Dodd	Levin	Zorinsky

NOT VOTING—6

Cranston	Hart	Percy
Glenn	McClure	Weicker

So the motion to table was agreed to.

Mr. MELCHER. Mr. President, I ask unanimous consent that Senator BAUCUS be added as a cosponsor to the amendment just voted upon.

The PRESIDING OFFICER. Without objection, it is so ordered.

Mr. MURKOWSKI addressed the Chair.

The PRESIDING OFFICER. The Senator from Alaska.

AMENDMENT NO. 2769

(Purpose: To change the number of days the Secretary of Commerce has to report to Congress)

Mr. MURKOWSKI. Mr. President, I send an amendment to the desk and ask for its immediate consideration.

The PRESIDING OFFICER. The clerk will report.

The assistant legislative clerk read as follows:

The Senator from Alaska (Mr. MURKOWSKI) proposes an amendment numbered 2769.

Mr. MURKOWSKI. Mr. President, I ask unanimous consent that further reading of the amendment be dispensed with.

Mr. HEINZ. Mr. President, reserving the right to object, and I do not intend to object, is there a copy of the amendment available?

Mr. MURKOWSKI. It is at the desk.

Mr. HEINZ. Mr. President, further reserving the right to object, just so that we know, is this the study amendment or is this the 200,000-barrel amendment?

Mr. MURKOWSKI. It is a first-degree amendment.

Mr. HEINZ. The Senator intends to offer another amendment?

Mr. MURKOWSKI. I intend to offer another amendment on the 200,000 barrels.

Mr. HEINZ. Mr. President, I withdraw my reservation.

The PRESIDING OFFICER. Without objection, it is so ordered.

The amendment is as follows:

On page 39, line 13, after the period insert the following: Section 7 of the Export Administration Act of 1979 is also amended by striking in the second sentence of paragraph (1) of subsection (E) the word "5" and inserting in lieu thereof the word "10".

The PRESIDING OFFICER (Mr. SPECTER). The Senate will be in order.

The Senator from Alaska is recognized.

Mr. MURKOWSKI. I thank the Chair.

Mr. President, I ask for the yeas and nays on my amendment.

The PRESIDING OFFICER. Is there a sufficient second?

Mr. MURKOWSKI. Mr. President, I ask for the yeas and nays on my amendment.

The PRESIDING OFFICER. Is there a sufficient second? There is a sufficient second.

The yeas and nays were ordered.

The PRESIDING OFFICER. The Senator from Alaska.

AMENDMENT NO. 2770

(Purpose: To modify the crude oil export prohibition)

Mr. MURKOWSKI. Mr. President, I send a second-degree amendment and ask for its immediate consideration.

The PRESIDING OFFICER. The clerk will report.

The assistant legislative clerk read as follows:

The Senator from Alaska (Mr. MURKOWSKI) proposes an amendment numbered 2770.

Mr. MURKOWSKI. Mr. President, I ask unanimous consent that further reading of the amendment be dispensed with.

The PRESIDING OFFICER. Without objection, it is so ordered.

The amendment is as follows:

On line 6 of amendment No. 2769 after the period insert the following: Section 7 of such Act is further amended—

(1) in paragraph (1)(A) of subsection (d), by striking out "as described in paragraph (2)(A)(ii) of this subsection";

(2) by striking out paragraph (2) of subsection (d) and inserting in lieu thereof the following:

"(2) Crude oil subject to the prohibition contained in paragraph (1) may be exported at a rate not to exceed 200,000 barrels per day but only if the President makes and publishes express findings that exports of such crude oil, including exchanges—

"(A) will not diminish the total quantity or quality of petroleum refined within, stored within, or legally committed to be transported to and sold within the United States;

"(B) will be made only pursuant to contracts which may be terminated if the crude oil supplies of the United States are interrupted, threatened, or diminished;

"(C) are in accordance with the provisions of this Act;

"(D) will occur on vessels built and documented in the United States, with all maintenance and major repairs on such vessels occurring in United States repair facilities;

"(E) will not impair the ability of the United States maritime fleet to transport or be able to transport the amount of crude oil necessary to meet national security and military needs;

"(F) will provide substantial increases in Federal revenues;

"(G) will be made only on or after January 1, 1985;

"(H) will be made only to countries which have made substantial progress in removing trade barriers to United States imports;

"(I) will encourage increased domestic oil exploration and development; and

"(J) will enhance the international trading position of the United States."

Mr. MURKOWSKI. Mr. President, the export of Alaskan North Slope crude oil has been effectively banned by an act of Congress. The time has come for us to seriously reevaluate this ban.

Mr. President, unless we act now, we will perpetuate a policy which will serve this Nation poorly in the coming decades.

I would like to briefly review the history of this issue.

In January of 1968, 9 billion barrels of recoverable reserves were discovered in Prudhoe Bay on the North Slope of Alaska. Over the next 5 years there was an intense debate on how this oilfield should be developed. Two competing transportation plans were advanced. The first envisioned a pipeline across Canada which could deliver Alaskan crude to Midwestern refiners. The other focused on an all-Alaska pipeline which could deliver North Slope crude to a tidewater port where tankers would transport the oil to the west coast. Congress approved the latter plan. Four years later the Prudhoe Bay field began to pump oil.

At the time, the oil companies anticipated that the growing west coast demand for oil would consume most, if not all, of the Alaskan production. No one could have foreseen how quickly Americans would reduce their demands for oil in response to rising prices. Thus, ever since the oil began flowing from Alaska in 1977, there has been a surplus of North Slope crude oil on the west coast.

Mr. President, my amendment specifically addresses the concerns which have been expressed by my colleagues on the appropriateness of exporting Alaskan oil.

Specifically, the amendment provides for up to 200,000 barrels per day to be available for export. That is approximately 12 percent of the current production of the North Slope of Alaska.

It further provides that if indeed that oil is exported and if indeed there is a market, it shall move in U.S.-flag vessels.

Further, it requires that these vessels, if they do move oil in commerce from Alaska to a foreign country, be repaired in U.S. shipyards.

Lastly, the President has the authority to cancel any agreements if indeed it is in the national interest to do so.

Mr. President, there have been numerous proposals to handle the question of what to do with the excess oil on the west coast. A northern tier pipeline was proposed on several occasions but appears to be permanently abandoned.

I will say for the record that initially it was anticipated by one company, Sohio, that the excess oil on the west coast of the United States would be moved to markets on the gulf coast by utilizing existing pipelines from Long Beach, Calif., to the Texas area.

This effort was initiated by various owner companies and in the process of attempting to obtain permits from the

Long Beach area, there was a great outcry as to the effect that the concentration of tankers in Long Beach harbor would have on the air quality in that area. As a consequence, the permits were denied.

As a consequence of that action, the oil has since moved down from Alaska and the excess to the west coast has moved on to Panama where, incidentally, it was unloaded into small domestic U.S. tankers for the shuttle through the Panama Canal. Then those tankers moved the oil and dispersed it into the gulf coast ports and some east coast ports.

The interesting observation, Mr. President, is that it soon became obvious that there was a better way to move the oil through the Panama Canal than moving it by ships. So a pipeline was initiated across a foreign country to move 800,000 barrels of America's oil. This pipeline was built across the Isthmus of Panama, some 80 miles. Since the operation of that pipeline began a year ago last February, it has averaged approximately 700,000 barrels of oil a day.

The initiation of that pipeline reduced the number of domestic tankers moving oil through the Panama Canal by a substantial amount. It could be said, in response to my opponents who are concerned with this proposed amendment and the effect it would have on the merchant marine, that that, indeed, was an improvement in lowering the cost of transportation. It was also in the national interest to reduce costs to consumers and increasing profit for the oil companies.

As far as I know, Mr. President, that particular effort to build that pipeline was not objected to strenuously by the unions, even though they recognized that they would have ships that would be replaced by a pipeline.

Let me share with my colleagues one other observation that I think points out the inefficiencies, the inconsistencies, associated with our Nation's energy policy today.

Today, there is a concentration of ships in Long Beach harbor. Those ships are engaged in the movement of oil from Alaska to Panama, where the oil is unloaded for transmission through the pipeline.

The reason ships are in Long Beach harbor today is that Long Beach is the only port that has fueling capabilities for the ships that are involved in the shuttle and movement of Alaskan oil. So today there are as many ships, for all practical purposes, in Long Beach harbor as there would have been had we allowed them to unload their oil in the first place when the volumes of oil excess to the west coast were made known. So we have made a complete circle on this issue the the detriment of the U.S. consumers.

I think it is interesting to note that today, we have a new California-to-Texas oil pipeline proposed that could indirectly boost revenues by hundreds of millions of dollars yearly. This pipeline cleared a major hurdle this week: California's South Coast Air Quality Management District approved a needed air quality permit that will allow oil tankers to unload crude oil in Long Beach, the western terminus of the proposed pipeline. The ruling removed a major stumbling block to the 4-year-old proposal by the Pacific-Texas Pipeline Co. to build a 1,026-mile pipeline to Midland, Tex. This new 42-inch line will be capable of carrying up to 900,000 barrels a day of Alaska and offshore California crude oil to the gulf and east coast refiners.

That is a quote from the Pacific-Texas president, Cecil Owens, made from Los Angeles.

The Pacific-Texas group estimates its tariff for oil deliveries will be less than half the cost of transporting oil by tanker to Panama for transport through the Panama pipeline and north to the refiners.

Mr. President, this difference will cut the transportation costs by $2 to $3 per barrel for some 800,000 barrels of Alaskan oil that is excess to the west coast of the United States.

The president of the company said the financing for this $1.6 billion project has been completed. He said his company is about to finish negotiations with the oil companies to confirm the line's crude oil supply. He said he hopes to finish the necessary environmental impact statements this summer.

Mr. President, I think it is interesting to point out that the cash flow generated from a savings of $3 billion is $2.4 million daily—$2.4 million daily, Mr. President, in transportation savings. It is interesting to note that with these transportation savings, this pipeline which is proposed to be built at a cost of $1.6 billion will be paid for in approximately 2 years.

It is like wishing indeed that we should not have a 747 aircraft for the efficiencies that it offers not only to consumers but the owners as well. Indeed, if we outlawed 747's in this country and required the smaller 737's that could carry 100 people, we would have more jobs, certainly. We would have more people involved in servicing those aircraft. But we has to relate to the realities associated with efficiencies in this country. Frankly, that is what we are talking about when we propose the export of Alaskan oil. We are talking about efficiencies in transportation. It costs less to move Alaskan oil to our allies—Japan, Korea, Taiwan—than it does to move it the route that half of it is currently being moved over.

Mr. President, the TAPS Authorization Act of 1973 first restricted the export of Alaskan oil. These restrictions have been tightened in subsequent legislation over the last decade. Because export to closer Asian markets has been effectively banned, this surplus Alaska crude, as I have indicated, has been shipped to Panama, transferred through the Panamanian pipeline, then moved again.

Since 1977, the adverse impact of the oil embargo in the United States has become increasingly clear to energy exporters and policymakers. I wish to point out, Mr. President, what the ban on the Alaska oil export does. It really costs the American taxpayer hundreds of millions of dollars each year in lost taxes and billions of dollars more in lost royalties on Federal oil and gas leases. If we reflect on production forecasts of our OCS lease sales, we are looking at revenues which will offset the growing deficits of our Nation.

Mr. President, the oil export ban discourages new oil development in Alaska, thereby raising the price consumers will pay for oil in the future. It certainly undermines an important trade and defense relationship with our Asian neighbors, notably Japan.

Mr. President, during the course of my remarks I plan to describe in detail each of these impacts and examine why the time is right to ease this wrong, to ease this trade restriction. I also plan to advance a proposal for limited export, which I hope will receive your serious consideration.

Let me note that the arguments in favor of export are simple and convincing. Unfortunately, as too often happens in the public policy arena, this issue has become complicated by political rhetoric and emotional appeal. We spent the last 10 years trying to rationalize a questionable decision made in response to the first oil shock, a decidedly emotional time when tempers flared in the long lines at gas pumps across the country. The ban also created a windfall for a vocal, well-financed interest which has fanned the public fear about oil supplies and inundated policymakers with this leading rhetoric, and now our sense of impatience with the Japanese over their trade policies further frustrates efforts to analyze our Alaska oil export policy on its merits alone.

If we look at the issue of trade with out Pacific neighbors it is not difficult to recognize that indeed we have serious deficits. Our deficit balance of payments with Japan is $21.6 billion; with Taiwan, $6.5 billion; Korea is over $1 billion. Yet we fail to recognize, Mr. President, all of these allies are dependent on importation of raw material in the form of energy, but with the exception of a little coal virtually none of the energy that goes into those countries comes from the United States. And I would ask you why, Mr. President, if we are serious about doing something to offset the deficit balance of payments, are we not initiating trade in regard to the surplus energy items which we have?

Mr. President, for the duration of my remarks I would ask to have my colleagues set aside any preconceived notions on this issue and consider the arguments in favor of limited export

from a fresh perspective. I am confident that you will find these arguments appealing. Let me begin first with some basic facts about marketing Alaska's crude oil.

First, the U.S. west coast is the most profitable market for Alaska's crude, and even if the ban were eliminated totally the west coast would continue to have first claim on North Slope crude produced.

That said, however, it is far, far cheaper to export the west coast surplus than it is to force it over an inefficient route across Panama and on to the U.S. gulf coast. Japan, for instance, is 3,300 miles from Alaska. The gulf coast is twice as far, Mr. President, twice as far—6,700 miles. The trip to Japan is much simpler because it involves no immediate pipeline transit across Panama. Also, greater economies of scale can be achieved on an export route because it is feasible to use much larger tankers.

Mr. President, there is one thing a lot of people do not understand about Alaskan oil, and that is Alaskan oil is the highest priced oil in the world from the standpoint of production. It comes from a harsh area above the Arctic Circle where drilling costs are extremely high. In addition, the oil has to move through and amortize the largest construction project in the history of the world, and that was the Trans-Alaska Pipeline, built at a cost of approximately $7.5 billion. Oil from the North Slope moves through that pipeline, amortizes field development costs and pipeline construction costs, and then is loaded on U.S.-flag vessels and moves down to Panama. Then it is unloaded from those ships, goes across the Isthmus of Panama in a pipeline and is loaded again on U.S.-flag vessels and still marketed at competitive prices with oil from other points in the world.

Oil is like water, Mr. President. It finds its own level, and Alaskan oil can be marketed in spite of these high costs, but my specific point is that if you reduce the transportation cost you induce the exploration effort, and I will get into more on that point in my remarks later.

Shipping a barrel of North Slope crude to the gulf coast costs about $4.50 while it costs roughly 60 cents to $1.10 per barrel to ship that oil to the Orient. The export ban forces producers to pay as much as nine times more for North Slope transportation than they need to. In total, North Slope producers spend over $1 billion for unnecessary oil transportation to the gulf each year. This is substantiated by my earlier reference to the proposed California to Texas oil pipeline, initiated to pick up the transportation savings that can be realized. So the question comes up, Who is paying the tab? Contrary to what most people think, it is the American taxpayer and the average consumer, not the oil companies. Since 1980, Congress has allowed the oil companies to shift the immediate high cost of transportation under the export ban to the average taxpayer. Today most North Slope production comes from the Prudhoe Bay field which is flowing at 1.5 million barrels a day. Unlike other North Slope fields, it is subject to the windfall profits tax. However, the windfall profits tax statute allows most of the transportation costs to be deducted before the taxable value of the oil is calculated. When other Federal and State taxes are included, the impact of this tax deduction is truly astounding. For every dollar spent on transportation, the owner companies reduce their tax liability by approximately 91 cents.

In other words, for every dollar the oil companies pay for a transportation scheme that is inefficient and unnecessary, the American taxpayer loses 91 cents in tax revenues.

So much, Mr. President, for capturing windfall profits. Fewer Federal tax revenues mean higher Federal deficits, higher interest rates, and heavier personal income tax burdens for constituents all over America.

On the other hand, Mr. President, for every dollar that companies would save on transportation through export, State and Federal taxpayers would capture that 91 cents. I am sure that would appeal to my colleagues who are concerned about our growing deficits.

Over the long term, Mr. President, the economic burden that the ban imposes on the taxpayer and the consumer is going to grow heavier. I would like to explain it. The royalties and bonus bids that oil companies pay for acccess to federally owned oil and gas resources is a significant source of Federal revenues. In Alaska, the most attractive new areas for oil development are not on State lands. They are on Federal lands. But because the ban reduces the wellhead value of North Slope crude it decreases the projected profits from exploring and drilling on these Federal lands. Depending on the size of the field, lower projected profits force the oil companies to pay the Federal Government less for development rights or for developing a lease that they already hold. The Department of Energy estimates that over the life of the new field the Treasury would receive an additional $10 billion—that is in today's dollars—in royalties and bonus bids if the export ban were lifted on new field production only. So even though the American public is irate over disposal of other federally owned resources that have been referred to as "fire-sale" prices, we in Congress continue to rubberstamp policy which depresses by billions of dollars the value of Federal oil leases in the State of Alaska.

Over the long term, the ban will also force average consumers to pay higher prices for oil and oil products. The export ban triggers a chain of events which hurts every sector of the economy—households, farmers, utilities, truckers, you name it. Lower wellhead prices result in less production, and less production results in higher oil prices. Less non-OPEC production also increases the instability of the world oil market, making the United States more vulnerable to supply disruptions.

The negative impact of lower wellhead values on consumers was confirmed by testimony before the Federal Energy Regulatory Commission regarding the level of the trans-Alaska pipeline tariff, one component of ANS crude transportation costs. In his testimony on behalf of the Justice Department, Alfred Kahn, a former Chairman of the Civil Aeronautics Board, reports that a $3 per barrel change in the TAPS tariff could affect future North Slope production by about 150,000 barrels a day or more. He reports that estimates have been made which show that increasing production by this amount would reduce world oil prices by between 13 and 26 cents a barrel, saving U.S. consumers on the order of $1 billion a year.

While Mr. Kahn was talking about reducing the TAPS tariff, exporting Alaska oil is another way of reducing North Slope crude transportation costs. It would save North Slope producers between $3.30 and $3.90 a barrel. Clearly, as Mr. Kahn's testimony confirms, the potential exists for such transportation savings to yield welcome additions to the world's crude supply.

As I will discuss later, the export ban benefits a very small group of people greatly. I find it very hard to defend any policy which forces the average American consumer and taxpayer, to support the lifestyle of those we have made immune from competition. How do we justify considering tax increases, when we ignore revenues which could be generated simply by increasing efficiency in the North Slope trade? And, in time of record deficits, how do we justify a policy which costs the Federal Treasury billions of dollars?

I can see no justification for imposing these unnecessary costs on the American economy, at a time when we are attempting to regain our competitiveness in the world marketplace.

As I indicated by my previous amendment, which I put before this body to simply point out the inconsistencies of our policy, we allow the export of refined products with no restrictions of any kind. Refined products are shipped even to our neighbors in the Eastern bloc. Some 7,000 barrels of refined products go to the Soviet Union daily. Yet we restrict crude oil exports. I trust that my colleagues observed this inconsistency.

BAN IS COUNTERPRODUCTIVE IN TERMS OF ENERGY SECURITY

Let me turn now to the impact of the export ban on this Nation's energy security.

After each oil crisis, we reaffirm our ban on exports using the rhetoric of

"energy independence." With this "Doublespeak," we are deluding ourselves and our constituents. The export ban does nothing to help the United States withstand international oil supply disruptions and actually discourages development of new domestic reserves.

We owe it to our constituents, and our children's generation to stop perpetuating this sham.

The suggestion that the ban on Alaska oil exports has helped us in past supply disruptions or will help us in the future is a myth. The adverse impact of a supply disruption comes from a rapidly rising price, not availability per se. In a supply disruption, the world oil price will reach a new level based on the size of that disruption, regardless of where Alaska oil is shipped.

Exxon, Sohio, Arco, and the other North Slope producers will sell their oil at the world price, regardless of whether that sale is made in Yokohama or Houston, Tex. Thus, the ban does not protect this country from the economic effects of an oil supply disruption. In fact, over the long term, the ban will actually increase the vulnerability of the United States and its oil-consuming allies to future supply disruptions because it is a disincentive to new production.

In 1968, this continent's largest oil field was discovered at Prudhoe Bay. Only 5 years from now, in 1989, three-quarters of that oil will have been produced and consumed.

Even though Alaska is the premier area for new oil production in this country, no Alaska oil fields have been found, or are being developed, which will replace even a small fraction of Prudhoe Bay's production.

Make no mistake, Mr. President, there are billions of barrels of oil left to be developed in Alaska. The Department of Energy has substantiated those figures, as has the Department of the Interior. However, future development will involve smaller fields—which are still giant by lower-48 standards—immense technological challenges and much, much higher costs.

The Lisburne Field, which overlies Prudhoe Bay and is larger, is proposed for production and will require new technology because it is heavy oil embedded in sand. We also know that oil is where you find it; but in Alaska when you find it, you had better find a lot of it or you will never be able to afford to bring it to market.

The harsh reality of oil exploration on the North Slope was brought home to us in December. Sohio and its drilling partners paid $1.5 billion for leases on the much-touted Mukluk field. The first well drilled on the field was a dry hole—a $140 million dry hole.

Mukluk was expected to be the next Prudhoe Bay. It was not. Yet, within a 30-day period, another find was discovered at Seal Island. Seal Island is very close to pump station 1. Yet, there is no assurance that this find will ever find its way into the commercial market, because infrastructure costs are so high.

We must maintain a climate to promote the development of new fields for America's energy independence, and the only way to do that is to reduce the crude oil transportation costs every place we can.

The cost of developing new Alaska fields will be higher and the fields themselves will be smaller. The only incentive to develop new North Slope fields will be higher wellhead prices. Easing export restrictions will raise these prices by removing the transportation cost penalty currently imposed by the export ban.

Wishful thinking will not produce more oil from Alaska. Higher prices at the wellhead, as a result of increased transportation efficiency will.

It is important to remember that it takes 8 to 10 years to develop an Alaska oil field. In the next oil crisis, development potential will not heat homes, fuel automobiles or stabilize the world oil price. We must develop Alaska's oil potential to protect against the next oil supply disruption. The export ban stacks the deck against such development.

I ask all of you to recognize that the economics of new field development cannot be compared with those of Prudhoe Bay. Prudhoe Bay is unique. It is a once-in-a-lifetime windfall for our Nation. Prudhoe Bay is such a huge field that it has been able to absorb high operating and development costs as well as the high cost of subsidizing the domestic maritime industry. New fields will not be able to assume that double burden.

The choice is clear. Do we continue to forsake long-term domestic energy production for the short-term interests? Or, do we separate the two issues and work for answers which will insure both long-term domestic oil supplies and a healthy merchant marine? This is the crux of the debate on oil export.

ADVERSE IMPACT ON ASIAN TIES

In addition to imposing domestic penalties, the export ban also imposes penalties in the international sphere.

I think we tend to underestimate the growing importance of the Pacific Rim and choose to focus, instead, on the concerns of Western Europe, the Middle East and the Soviet Union. This is the natural result of proximity as well as our deep cultural ties with that part of the world.

This notwithstanding, I urge my colleagues to recognize that our interests in the Pacific Rim are as important, if not more important, than those in the Atlantic. Lest we forget, the United States is a major Pacific Rim country with a genuine interest in the region's stability and prosperity.

The U.S. trades more with Asia than it does with Western Europe; Japan is our single largest and most important trading partner—it purchased $21 billion in goods and services in 1982 from this country.

Think about these facts for a moment. The time has come when we must all acknowledge that the economic growth and stability of Asia is absolutely vital to improving our own standard of living.

This area is also clearly vital to our national security. Japan, in particular, occupies a key strategic position in Asia for it controls the maritime exits of the Soviet navy from the Sea of Japan into the Pacific Ocean. In addition, U.S. bases in Japan are important to the security and stability of East Asia, particularly South Korea. And, because Soviet military power is growing in the Pacific, the importance of Japan, South Korea and our other Asian allies is increasing.

Mr. President, I think it appropriate to read into the RECORD a letter from our Ambassador to Japan the Honorable Ambassador Mike Mansfield. This letter was dated February 8 and reads as follows:

Hon. FRANK H. MURKOWSKI,
U.S. Senate, Washington, D.C.

DEAR FRANK: I am pleased that the Congress will consider easing restrictions on the export of Alaskan oil. This step would benefit American consumers and taxpayers, improve relations between the United States and Japan, and strengthen U.S. security. I hope the Congress will act soon to approve it.

The economic reasons for allowing the export of at least a portion of Alaskan oil production are straightforward and well understood:

Alaskan oil production is now much more than west coast refineries can use, and it could grow in the future.

Shipping costs for delivering Alaskan oil to U.S. gulf and east coast refineries are now $4.00 to $5.00 a barrel as compared to $1.00 or less per barrel for oil supplied from Mexico, Venezuela, and other countries.

Alaskan oil could be shipped to Japan and other Asian markets for about $0.50 per barrel, or around $1.00 in U.S. tankers.

Allowing the export of Alaskan oil to Japan will also further the security of the United States. Japan is the most important Pacific ally of the United States, the foundation for U.S. defense efforts in East Asia, and a base for the U.S. Seventh Fleet and other U.S. military forces. Japan's energy security is, thus, inseparable from our own—Japanese refineries supply fuel for all U.S. forces in the area. I cannot conceive of the United States not assisting Japan in the event of an international energy crisis and note that we have obligated ourselves to do so under the international energy agreement.

Japan's solidarity with the United States on energy security is a matter of record. Japan was the only country that paid a price for its support of our policies in Afghanistan and Iran. While the hostages were being held in Iran, Japan, at our urging, refused an Iranian request for a $2.50 increase in the price of oil. As a result, Iran, which had been supplying 13 percent of Japan's oil, cut off oil shipments to Japan.

While I would be the first to acknowledge that the United States has trade problems with Japan, those problems are being addressed by the Administration under the coordination of Vice President Bush and a

continuation of the prohibition on oil exports will not help to solve them; it will only raise questions about the sincerity of our efforts to reduce the bilateral trade deficit with Japan.

I would note, in addition, that the U.S. oil market is of vital importance to Mexico and Venezuela. The United States looks to these countries to provide stability and economic growth in the Caribbean. Oil imports from these countries are beneficial to both them and us.

The proposal to allow limited export of current Alaskan production and unlimited export of new field production is an excellent one; it would open the possibility of future export from new fields, encouraging development of those fields and enabling Japanese companies to make long range plans to increase their imports from Alaska without disturbing current oil supply arrangements in either country to any significant degree.

Placing a limit on exports from current Alaskan production should also protect the interests of the U.S. maritime industry and unions by preventing a fall in domestic shipments of Alaskan oil. The economic and other benefits from exporting Alaskan oil would still be substantial, even if use of U.S. ships were to be required for a portion or even all of the oil exported.

Sincerely,

MIKE MANSFIELD.

As you will recall, Mr. President, that is precisely what my amendment says.

We must regard these Asian countries as some of the most important allies we have. We must be concerned about how the export ban affects them.

And really, Mr. President, the crude oil export ban is directed against them. We can ship our refined products, but we cannot ship crude oil to Japan, and we cannot ship crude oil to Korea, and they are very much aware of that. I strongly believe that this trade restriction works against their security interests—hence our own—and undermines our efforts to improve trading relationships.

One of the primary threats to the security of Japan and South Korea, is their reliance on unstable sources of imported energy.

Japan relies totally on imported oil, over 70 percent of which comes from the volatile Persian Gulf. Overall, it must import 90 percent of its energy—oil, coal and natural gas. In contrast, the United States must import only about 10 percent of its total energy requirements.

It is interesting to note, Mr. President, at the current time we import approximately 3 percent of our oil supply from the Mideast. South Korea and Taiwan are even more resource poor and must rely heavily on energy imports. But again, Mr. President, we do not supply any of those countries with energy. The export ban forces Japan and other allies into energy relationships with China and the Soviet Union. We know that such relationships are fraught with geopolitical risks. For example, the recent downing of the Korean airliner occurred over Sakhalin Island, home of a joint Soviet-Japanese energy project.

The Japanese are there because they are not energy self-sufficient. They are looking for energy and willing to buy from any source available. Just as it is not in our interests for European allies to depend on Soviet natural gas, it is not in our interests for the Japanese or the South Koreans to rely on energy projects in the Soviet Union or China.

The export ban also raises doubts about our commitment to share oil supplies with the Japanese in an energy emergency. Iraq has threatened to blow up a major Japanese oil project in Iran, Japan's largest single supplier of oil. Because Japan is the world's second largest oil importer, disruptions in its oil supplies have ramifications for each and every one of us. As we saw in 1979, Japanese buying on the spot market drove up oil prices higher than the supply shortfall warranted.

The same thing could happen today. Prohibiting the export of Alaskan oil will not isolate the United States from such an occurance again. Owners of Alaskan oil will sell crude oil at the world market price, which is based on the price of Saudi light. This world oil price will dictate the price of Alaska crude oil regardless of how much oil you have coming in from Alaska.

We have tried to reassure the Japanese, through the International Energy Agreement, which was referred to earlier by my colleague from Ohio, that we will share our oil supplies with them in an oil emergency. But if you were Japanese, ask yourself how much faith you would put in such a promise when the United States refuses to sell to you, and I might add at a handsome profit, even a small portion of its excess west coast crude in the midst of a worldwide glut.

It is wishful thinking to believe that the United States can continue to either disregard the energy security—hence the national security—problems of our Asian allies, or to address these problems with rhetoric but no action.

I also recognize that we have important disagreements with Japan over its trade restrictions. However, this trade tension is surely not eased in any way by the existence of a ban on trade in a commodity so vital to the Japanese. I sense many people feel that since they are erecting barriers to our commodities, we are justified in having our own barriers. Unfortunately, this is an example of cutting off your nose to spite your face—no one wins and the U.S. taxpayer and consumer loses.

The problem with the oil issue is that people do not understand that Alaska crude oil competes in the world market with Saudi light or it does not compete at all. If it does not compete, it does not come into production and is not available for marketing. Nor is it available in times of short supply. Until my colleagues recognize this fact of life, they will fail to understand that what I propose will bring even more Alaska crude oil to market rather than lock it into the ground where it cannot be reached during periods of short supply.

Of course, the ban is a very expensive way of venting our frustrations with the trading practices of the Japanese, Koreans, and Taiwanese.

At some point, serious negotiations over Japanese trade barriers will ultimately have to face the stumbling block of the U.S. crude oil export ban. However, if the Congrss gives the President flexibility on this issue, it may be possible to turn a stumbling block into a negotiating tool. This will not happen, however, as long as the Congress remains rigid in its support of a complete ban.

Above and beyond our trade disputes, the United States and Japan are partners in, using Ambassador Mike Mansfield's words, "our most important bilateral relationship." In a period of increasing international tensions, we cannot afford to leave Japan unclear about our commitment to its security.

The Department of Energy, in the recently released national energy plan, endorsed—for all of these reasons—the limited export of Alaska oil. Now, it is time for Congress to take action.

I have spent quite a bit of time describing the problems that the export ban has created. Now, let us turn to the one dubious benefit the ban has yielded.

THE MARITIME CONNECTION

As with any other trade restriction, there are the few who benefit at the expense of the many. In this case, it is the ailing inefficient domestic maritime industry which has received a legislated windfall. The oil export ban constitutes a huge hidden subsidy to that industry.

Let there be no misunderstanding, I am committed to achieving the goal of a healthy, competitive domestic maritime fleet. However, even though the export ban heavily subsidizes this industry, we do not seem to be moving any closer to that goal. At the same time, as an undesirable side effect of this subsidy, we are losing ground in our efforts to increase domestic energy supplies. There has got to be a better way, and I am sure my colleagues would agree.

Mr. HEINZ addressed the Chair.

The PRESIDING OFFICER. The Senator from Pennsylvania.

Mr. MURKOWSKI. Mr. President, I will yield for a question.

Mr. HEINZ. The Senator from Pennsylvania will wait.

Mr. MURKOWSKI. I appreciate that. I probably have seven more pages.

Mr. HEINZ. The Senator is sure he is not filibustering his own amendment.

Mr. MURKOWSKI. I assure the Senator from Pennsylvania I am not filibustering my own amendment. I hope that I am making some progress

in convincing my colleagues of the merits of my amendment.

Mr. HEINZ. I thank the Senator for yielding.

Mr. MURKOWSKI. Mr. President, 90 percent of the tanker tonnage in the Jones Act fleet, and about half the tanker crew, is employed in the Alaska oil trade. As long as Alaska oil is produced, the maritime industry is guaranteed work for these tankers and men. They have a monopoly on this trade and, not surprisingly, they charge monopoly prices.

As a result, we pay over $1 billion more than we need to for Alaska oil transportation. Our constituents may well wonder what this $1 billion a year is buying—besides healthy PAC contributions for Members of Congress?

This $1 billion is clearly not buying a healthy merchant marine.

I quote from an article done by the Philadelphia Inquirer of May 1, 1983:

> The U.S. merchant marine steams at nearly double the operating cost of foreign competitors with crew and officer costs that are triple the going world rate . . . Year after year, as massive aid has flowed into the maritime industry, the U.S. merchant fleet has declined. . .

Our policies encourage shipowners to operate their fleets long after safety and efficiency considerations dictate scrapping them. These same policies make operators immune to the exorbitant wage and benefit demands of the maritime unions—where many crew members are paid salaries of $50,000 or more per year, for 6-months' work.

Rather than tackle the tough issues of national maritime policy, this body seems willing to forgo billions of dollars in tax revenues, and to risk our future energy security and that of our allies by using the export ban as a politially expedient way of addressing a serious national problem.

We have been using the export ban as a band-aid for this industy's problems when it really needs much more potent medicine.

We must determine if there is an effective—and cheaper—way of achieving the valid public policy objective of a modern competitive merchant marine. I wholeheartedly support constructive efforts in this direction.

I think my amendment responds positively to the concern for a strong merchant marine because, Mr. President, it dictates that if any oil is exported outside the United States it will be exported in only U.S.-built and documented vessels. I think this will ultimately provide more business for the American merchant marine.

Some of my colleagues have expressed the concern that if this amendment receives favorable consideration, although exported oil will move in U.S.-flag vessels, it will not move as far. I would again remind those with this concern of the realistic alternative of movement by pipeline, as proposed by the new California to Texas pipeline, which is now underway. And while they recognize the oil will not move as far, it may move in larger U.S. tankers than are currently used in the movement of that oil.

I would remind my colleagues of the natural efficiencies available in the movement of commodities as improvements are made.

I know some of my colleagues are concerned that some shipyards in the United States might be affected by my amendment. I have addressed that concern by requiring in my amendment that all ships involved in the carriage of oil outside the United States not have the option of repair in foreign yards. They must be repaired in U.S. shipyards. For my colleagues concerned that these larger ships may not be able to get into the currently available shipyards, I would like to point out another inconsistency.

In the State of Oregon, there is a shipyard on the Columbia River where most of the ships are repaired. That shipyard was constructed in Japan and towed to the Columbia River, where it does an outstanding job of repairing U.S.-flag vessels today. I point this out simply to illustrate the inconsistencies that are in existence in our merchant marine today.

I think my amendment is a positive one. It provides an interim period of continuing operation of U.S. ships and a new market for the maritime unions—the market opened by the export of excess crude oil from the west coast to the Far East.

I strenuously object to achieving—or worse, trying in vain to achieve—one valid public policy objective at the expense of another. That is what we are doing with the Alaska oil export ban.

I represent a State which relies on domestic shipping for the very necessities of life. I would be happy to work with others on problems faced by this industry. It is time, however, to stop creating countless economic, energy security, and foreign policy problems by satisfying the short-term interests of a few.

Now, in the context of our consideration of the Export Administration Act, I believe that the time has come to inject some flexibility into the way we think about, and regulate, Alaska oil.

THE TIME IS RIGHT

The Senate last considered the oil export issue in 1979. Today, the world's energy situation is far different than it was then. Consider these four events of the last 5 years.

First, the worldwide oil glut has reduced oil prices, further decreasing the incentive for new development of high-cost areas such as Alaska.

Second, the west coast surplus, created by the export ban, will grow even larger in the next few years as new California production comes on line. And since the abandonment of the Northern Tier project earlier this year, producers face three alternative ways of dealing with this glut: export, "shut-in" production onshore in California, or, finally, slow further development activities in Alaska.

Third, we have learned a very expensive lesson: Japanese energy vulnerability affects the American consumer in a very tangible way. Japan, like the United States, is vulnerable to oil price changes. However, because they import 100 percent of their oil and 90 percent of their overall energy requirements, the Japanese perceive—and understandably so—that they may face the problem of getting any oil at all.

Make no mistake, the U.S. consumer will pay if Japan is forced, once again, to bid up the world price, as she did in 1979, in frantic efforts to secure oil on the spot market. It does not matter whether an oil price increase is caused by panic buying or a genuine shortfall in supplies, we all pay the new higher price. Exporting Alaska oil would reduce the Japanese perception of vulnerability, lessening the likelihood that their purchases on the spot market would increase the price we all pay for oil.

Banning the export of Alaska oil offered us no protection from the economic consequences of the 1979 supply disruption. Maintaining the ban would not offer any help in the future either. Only new oil supplies and a flexible market will minimize the impact of future disruptions.

Finally, the American public has demonstrated that it understands the way the oil markets really work. For instance, the American public is not concerned that we are importing refined products at the same time that we are exporting them. The United States is currently exporting just short of a half a million barrels a day of refined products, including 7,000 barrels a day to the Soviet Union with no restrictions at all.

I ask how many of you have received letters from constituents in an uproar that we are exporting heating oil from the coast and importing it on another? Clearly, the sky has not fallen in because of refined products exports, nor is it likely to fall if the U.S. exports some fraction of this volume as crude oil.

As the world has changed in the last decade, the need to reevaluate our export policy has become greater and the case for easing export restrictions has become more compelling than ever.

JOINT POLICY STATEMENT ON ENERGY COOPERATION

After nearly a year of study and negotiation, administration policymakers in both the United States and Japan have acknowledged the merits of promoting the export of limited amounts of Alaska oil. Last January, President Reagan and Prime Minister Nakasone announced the formation of a United States/Japan Energy Working Group to promote a cooperative relationship in energy between the two countries.

This group, and its experts—technical advisory committee—studied this issue over the past 10 months. Their deliberations formed the basis of the energy discussions held in November between the President and Prime Minister in Tokyo.

In advance of the President's trip to Japan, the U.S. members of the Energy Working Group released a report of their findings. That report reached the following conclusions:

Enhanced energy trade is one area where we can strengthen our economic presence in the Pacific Rim, improve the area's energy security and preclude further reliance on Soviet energy supplies;

Increases in U.S. energy exports mean new jobs, higher government revenues, enhanced exploration and development of the U.S. resource base, and injections of capital investment;

Therefore, U.S. energy exports are not only an energy security boon for our allies but also for us. Without exports, our energy resources, particularly in Alaska, may remain underdeveloped or undiscovered in their full potential. Exports can facilitate exploration, development, and the availability of U.S. energy for the Pacific Rim.

With respect to oil, the American contingent found that the United States "could derive substantial net benefits" through exports of Alaska oil to Japan. In fact, their report concluded:

We have weighed the costs and benefits of removing export controls, looking at options ranging from export only of oil from new discoveries to a full lifting of the ban. There are some costs to lifting the ban * * * The benefits of lifting the ban are substantially greater than these costs.

The most immediate and direct benefit is the savings in transportation costs * * * Substantial added benefits accrue as the value of new Alaskan and West Coast leases increases; oil exploration and development (and jobs in that industry) increase; and, federal and state revenues are enhanced from these activities. U.S. energy security will improve as increases in domestic production cause net imports to drop, and the diversification of supplies will enhance the energy security of key Pacific Rim allies.

Significantly, President Reagan and Prime Minister Nakasone announced agreement on a "Joint Policy Statement on Energy Cooperation." The importance of this document, which was the culmination of the hard work of the United States/Japan Energy Working Group, for United States-Japan relations should not be underestimated.

The document begins by stating that:

Taking account of the energy prospects for the entire Pacific Basin, the two countries agree that the sound expansion of U.S.-Japan energy trade will contribute to the further development of the close economic and energy security relationship which exists between the two countries.

Specifically noting the potential for Alaska oil exports, the United States and Japan acknowledged that U.S. legislative barriers stood in the way of both countries realizing the gains from this trade. The United States pledged to "continue to keep under review the removal of restrictions on exports of domestic crude oil."

I believe that this bilateral statement gives us yet another reason why the time is right to reevaluate our oil export policy.

I fear that unless we support the progress of the United States and the Japanese negotiators on the issue of energy, specifically oil, it will be difficult for the President to pursue the critical trade issues which are so important to many other American industries.

Clearly, oil is an issue which must be dealt with in a constructive way during wide-ranging trade discussions. However, if we simply rubber stamp an extension of the ban, we will tie the hands of the President on these other trade issues.

AMENDMENT TO ALLOW LIMITED EXPORTS

Mr. President, I do not advocate a wholesale unraveling of web of laws Congress has enacted governing the sale and taxation of Alaska oil.

Instead, I propose an amendment which enables our country to achieve many of the benefits associated with freer trade in energy while at the same time addressing the fundamental concerns of an industry which has come to rely on this legislated hidden subsidy.

This amendment would ease restrictions on the export of Alaska crude oil. It would allow limited exports of up to 200,000 barrels per day from Alaska's North Slope, 12 percent of current ANS production; delay the start of exports for 1 year, giving the President time to use export as a bargaining chip in trade negotiations; require a Presidential finding that export has, indeed, been a factor in advancing trade negotiations; mandate export on U.S.-flag tankers, and require that those tankers be repaired in U.S. shipyards; encourage new production, with the accompanying positive effects on both the level and stability of world oil prices; and diversify the energy supplies of a key Asian ally, such as Japan or South Korea, and enhance the credibility of our assurances of emergency aid. As I noted earlier, Japan's energy vulnerability is our Achilles heel. If we truly want to reduce the threat of an oil supply disruption to the Japanese—which poses a very real threat to the United States—we must take action to address her energy security dilemma. Limited crude oil exports would be a good first step.

Let me also be clear about what easing export restrictions would not do.

Export would not increase the price of oil or oil products in the United States. We would continue to pay the world price for oil, just as we do now for Alaska crude or any other.

Export would not decrease the availability of oil or oil products. Other suppliers—closer to the gulf coast—would replace any exports at the same world market price.

Export would not damage the merchant marine's defense capability. This amendment mandates that export can occur only as long as it does not impair the defense capabilities of the merchant fleet. Given the minimal impacts and the additional Federal revenues generated by export, the Department of Defense can insure that it has the vessels available that it may need in an emergency.

This amendment minimizes any adverse impact on the martitime industry and offers some tactical advantages for the United States in trade negotiations with the Japanese.

With respect to the maritime fleet, the modest reduced domestic demand for tankers and crew will be absorbed through natural attrition. As most of you are aware much of the Jones Act fleet is an old fleet, old crew and old tankers. It is important to remember that the average crew member is 50 years old; of the 14,400 tanker crew in 1982, 2,376, 16.5 percent, were 60 or older. Most crew retire—to lucrative pensions—at 62. So you can see that these retirements will more than compensate for any reduction in crew demand due to export.

As I noted earlier, the Alaska North Slope trade has been encouraging tankers to stay in service long after they were fully depreciated, contrary to the interests of the environment, crew safety, and efficiency. Limited export would permit the vessel retirements which are long overdue.

In addition, using U.S.-flag ships for export provides a benefit to the U.S.-flag fleet as it would employ some heavily subsidized U.S. tankers, which are now foundering in the glutted world market.

With respect to trade relations, this amendment offers U.S. negotiators a tactical advantage. Delaying exports for 1 year allows the President an opportunity to offer Alaska oil to Asian trading partners in return for some reduction in barriers to U.S. exports. Right now, the political opposition to any crude oil exports appears so formidable that the President is effectively precluded from using oil in negotiations. The planned delay in implementation also allows the Congress an opportunity to change its mind on limited export if suitable trade progress is not forthcoming, or if the energy situation changes.

To conclude, export of some Alaska oil has always made good economic sense. It has always made sense in terms of our commitments to our allies and our commitment to free trade. Unfortunately, as I noted earlier, good economics and good policy have been overwhelmed by the force of public misconceptions and fears which have been fed by special interest rhetoric.

Seven years after the first production from the North Slope, I think we can assess the impacts of the export ban: It has cost the U.S. Treasury bil-

lions of dollars and will continue to cost both the Treasury and the consumer billions of dollars more; it discourages new domestic oil production; and it damages our relationships with our allies. The negative repercussions of the export ban clearly make this an issue which requires our attention.

We have been willing, over the last few years, under administrations of both parties, to look at countless laws and regulations to see if they still provide the benefits we once associated with them. We, in Congress, have been wisely skeptical of our ability to—once and for all—legislate an answer to any problem in these changing times.

I ask my colleagues to consider applying a dose of the same healthy skepticism to their review of the way we have chosen to regulate the export of Alaska crude oil.

I think this amendment offers a sound alternative to a simple extension of the current restriction. I believe it allows the United States to take advantage of its natural resource wealth in a way which benefits other U.S. industries, as well as the U.S. Treasury.

Mr. President, I think it is in the best interests of this country and should merit the serious consideration of my colleagues.

I ask unanimous consent that I may suggest the absence of a quorum and retain the floor at the termination or withdrawal of the quorum call.

The PRESIDING OFFICER (Mr. ABDNOR). Is there objection?

Mr. HEINZ. Reserving the right to object, will the Senator restate that?

Mr. MURKOWSKI. I ask unanimous consent that I may suggest the absence of a quorum and retain the floor at the withdrawal or termination of the quorum call.

The PRESIDING OFFICER. Is there objection?

Mr. HEINZ. Mr. President, reserving the right to object, the Senator from Pennsylvania does not intend to object, even though it is an unusual request. I hope there will not be a similar request a second time.

Mr. MURKOWSKI. I respectfully advise my friend from Pennsylvania that I would like to have about 4 minutes.

Mr. PACKWOOD. About how long?

Mr. MURKOWSKI. About 4 minutes.

Mr. PACKWOOD. Would the Senator be willing—I have some comments I would like to make. Would he let me make some comments and he can have the floor back when I am done?

Mr. MURKOWSKI. I shall be happy to relinquish the floor, with the understanding that I do not lose my right to the floor, to my friend from Oregon.

Mr. HEINZ. Mr. President, as I understand the unanimous-consent request it is that the Senator from Alaska has asked unanimous consent to yield to the Senator from Oregon (Mr. PACKWOOD) for not to exceed 5 minutes, without the Senator from Alaska losing his right to the floor.

Mr. MURKOWSKI. That is correct.

Mr. HEINZ. Mr. President, I have no objection to that.

The PRESIDING OFFICER. Is there objection? Without objection, it is so ordered.

Mr. PACKWOOD. Mr. President, the Senator from Alaska touched upon a great many points. One of the points he touched upon, however, was the fact that drilling in Alaska, production in Alaska, distribution in Alaska, is very, very expensive; therefore, it is necessary to get a slightly higher price for the oil overall. Bear in mind that the transportation costs are deducted from the wellhead price and therefore the companies get slightly more money. They need more money to drill. The Department of Energy has estimated that if we export the oil they are talking about, the average price will go up 9 to 13 cents per barrel of oil.

Bear in mind that oil is now $26 a barrel, give or take a dollar from time to time on a spot market. Mr. President, I came to the Senate in 1968. I see my distinguished colleague from Wisconsin is here. He came in the late fifties. As I recall, when he came to the Senate, oil was probably $1 a barrel. I doubt it was more than $2 a barrel when I came.

Mr. PROXMIRE. Let me say to my good friend, I never bought oil by the barrel. When I came, gasoline was about 22 cents a gallon. I am sure we could relate the two prices.

Mr. PACKWOOD. The point I was making is that I know in 1973, just before the boycott, oil was about $3 a barrel. The first boycott drove it up to $12 per barrel; the second drove it up still further.

The Senator from Wisconsin can recall the arguments that have been made time and time again before this body and before the Committee on Finance and other bodies that have to do with tax incentives, that the oil producers need a little more money, a little more something, if we could just get oil to $3 a barrel, $4. When oil shale was just beginning to seem feasible, we were going to produce it in quantities.

Mr. PROXMIRE. I do not know of any industry that has gotten the kind of concessions, especially substantial concessions, out of the Congress as oil has. There is no stopping them.

Mr. PACKWOOD. At the outside, we had a 300-percent increase in inflation from the time the Senator from Wisconsin came to the Senate.

Mr. PROXMIRE. That is right. It is not my fault.

Mr. PACKWOOD. None of which was his fault, I might add.

Mr. HEINZ. If the Senator will yield, perhaps he can recall the former president of Standard Oil, Emiglio Corado, made a speech back then in which he said: "One more dollar." The thesis of that speech was if the price of oil went up $1 more, we would not import a single barrel more because we would make it out of coal.

Mr. PACKWOOD. That argument is still around, but we are $2 short.

Mr. HEINZ. $10 or $20 short, but that is inflation.

Mr. PACKWOOD. No matter what the price of oil is, it is never enough, never enough to quite turn coal into oil, never enough to quite find oil shale, never quite enough. My fellow colleagues, it is never going to be enough. It will not matter if it is $50, $60, or $70. We will still be $3 short of being able to produce it from some alternative that means we would not have to import at all from the Middle East.

I am not going to dwell at length on the limitations and the weaknesses of the amendment of my good friend from Alaska. We had a good debate on this on his previous amendment. All I can simply say is that it is going to raise the cost of oil to Americans, it is eventually going to cause the American tanker fleet to be repaired in Japan that is now repaired in this country, and I do not care what kind of exculpatory clauses they have.

Let us understand most of all what the purpose of this amendment is. Alaska receives money from oil produced in Alaska based upon the wellhead price, and the wellhead price is figured at a price less transportation. Consequently, if the oil can be transported to Japan, as it can, cheaper than it can be transported to the United States, Alaska is going to generate more revenue for their State, depending upon whether it comes off of Federal land or off of Alaska State land and their so-called royalty oil. We are looking at a windfall for Alaska of someplace between $75 million and $250 million a year additional to what they get now.

Now, if I was from the State of Alaska I would feel very strongly in favor of this amendment because it again helps shift part of the cost of energy in this country on to us—additional cost, more windfall for the State of Alaska. I sympathize with the cost of production, but I will say again in concluding—and I thank my distinguished colleague from Alaska for giving me the time—this is going to hurt the American merchant fleet. It is going to hurt the ship-repair yards on the west coast. It is going to raise the cost of oil to the United States, and it is going to cause Alaska to have a significant increase, a windfall in their treasury at the expense of all other Americans. I do not find that to be in the interest of this country.

Mr. HEINZ. Will the Senator yield just briefly?

Mr. PACKWOOD. I yield the floor.

Mr. DURENBERGER. Mr. President, today we are considering an amendment to the Export Administration Authorization Act which would

lift the ban currently in place on exporting Alaskan crude oil.

What we are talking about here is section 7(d) of the Export Administration Act. Let me briefly summarize what this does. Section7(d) provides that before Alaskan oil can be sold abroad, the President must formally find that the exports would not reduce the quantity or quality of U.S. crude oil and that consumers will come out ahead; refiners' crude-buying costs must go down and three-fourths of the savings must be passed through to consumers. It also requires a Presidential finding that the national interest would be served.

In passing the Trans-Alaska Pipeline Authorization Act in 1973, Congress first established the policy that Alaska oil should be used domestically. In 1977 and 1979 we reaffirmed this policy by tightening the restrictions on Alaskan oil exports. Now we are debating the issue again. I, for one, believe these restrictions should be kept in place.

Proponents of lifting the ban contend that exports of Alaskan crude would result in cheaper oil for many American consumers, who could instead receive Mexican oil, which costs less to transport. I have also heard the argument that shipping Alaskan oil to Japan and replacing it with Mexican oil would enhance strained relations with Japan, improve the United States ability to cope with emergencies because of the much shorter transportation time from Mexico and help spur petroleum expansion in Alaska through the lure of higher prices.

I do not need a geography lesson to understand that Mexico is closer to the gulf and Alaska is closer to Japan than either to the other. I also understand that the differences in these distances, in terms of transportation costs, should make a difference in the price available to consumers.

As I understand it, what we are proposing to do is to offer to sell Alaskan oil to Japan and replace it in the U.S. market with oil from Mexico.

Now, I ask, will this reduce the quantity or quality of U.S. crude oil? Yes.

Will consumers come out ahead? No.

Will exporting Alaskan crude oil to Japan be in the national interest? No.

First, oil exports would reverse a long-standing goal toward achieving energy independence. The United States still imports 30 percent of its daily needs. Alaskan oil provides 11 percent of our daily needs. If we export this oil, our percentage of imported oil will increase by 15 percent.

Our dependence on Middle East oil will increase. Exported Alaskan crude would most probably be replaced with Saudi Arabian crude, whose characteristics are very similar to those of Alaskan oil.

Mexico is already producing near capacity and could not make up for the volume of Alaskan oil which would be exported. Further, it is Mexican policy not to export more than 50 percent of output to anyone country whenever possible. Finally, U.S. refineries would have to be substantially modified—which would be both expensive and time consuming—to refine additional quantities of Mexican crude.

The way I see it, exporting Alaskan oil will reduce not only our quantity of crude oil, but our quality as well.

Second, it is extremely doubtful that consumers will come out ahead. In the short run, maybe, but not in the long run.

Although transportation costs would be less, and foreign flag shipping less expensive than using U.S. Jones fleet, these costs savings will not be passed on to consumers.

Alaskan oil has been selling for approximately $3.80 per barrel less than imported oil in eastern markets. On the west coast it enjoys a $2 per barrel discount.

Through increased import costs, loss of the $2 discount and possible rising oil prices, the exporting of Alaskan oil could cost consumers around $2 billion per year.

This price tag does not take into account other costs which will be ultimately borne by consumers. Increased reliance on foreign supplies of oil poses a hazard to U.S. consumers. We think we have an oil glut but remember, a revolution created the last crisis and you can hardly say that the politics of the Persian Gulf have become more stable since then.

How much do you pay for national security? Who pays for national security?

If we export Alaskan oil our transportation infrastructure could crumble. A significant portion of the U.S. Jones fleet and Trans-Panama pipeline would go out of business. As the infrastructure crumbled, so would one key element of our national security for, if there came a time when it was necessary to use Alaskan oil for domestic purposes, we would no longer possess the tankers and terminal facilities necessary to move that oil, and the pipeline that makes its transportation across Panama economical and efficient.

The Federal Government also comes out on the short side of the balance sheet when adding up the costs it would incur through exporting Alaskan oil.

Although the Federal Government would experience a significant windfall in revenues, some $600 million in Federal debt guarantees for ships under the Jones Act would be risked if the tanker market collapses we would be without a means of transporting Alaskan oil in the case of an emergency.

Mr. President, I ask you, is it in the national interest to export Alaskan crude oil? To increase our dependence on Middle East oil? To lose our transportation infrastructure? To be caught in the middle of a world oil crisis without any oil?

I certainly do not think so and will not vote in favor of removing section 7(d) from this legislation.

I thank the Chair.

Mr. HATFIELD. Mr. President, I rise today in opposition to the amendment offered by the Senator from Alaska. I compliment him for his efforts to assuage and protect the American maritime industry, an industry which is vital to American economic and national security interests. However, I want to point out that the matter of exporting Alaskan oil goes much deeper than just protecting an important American industry.

The United States has suffered two severe oil shortages and resultant price hikes since 1973, the most recent occurring in 1979 following the fall of the Shah of Iran. The results of those disruptions and price hikes have been catastrophic, with consumers not only being unable to buy petroleum products, but having to pay dearly for doing so. The 1973 Arab oil embargo was a significant part of the severe inflation rates through which this nation suffered in the 1970's. During that period, the United States economy was turned upside down, and everyone suffered as a consequence. Congress responded by enacting many new energy conservation and renewable energy measures which complemented efforts already underway by private citizens and industry to save energy. A bold new synthetic fuels industry was born in 1980, and America was on the way to a new energy savings consciousness.

Mr. President, there is good news and bad news to report on America's thirst for petroleum. The good news is that U.S. oil consumption is at its lowest level since 1970, and oil imports are less than half the amount we were importing in 1977. Last year, oil imports provided an estimated 12 percent of U.S. energy consumption, compared to 24 percent in 1977. The stranglehold placed on the United States by OPEC has been broken also. In the first three quarters of 1983, OPEC imports represented only 12 percent of U.S. oil demand. By contrast, we derived 20 percent of our oil needs from OPEC in 1982, and 34 percent in 1977.

The bad news is that U.S. oil consumption is on the rise again. The Department of Energy predicts that U.S. oil consumption is expected to increase by 3 to 5 percent in 1984. With domestic production expected to remain unchanged, this means the increase will have to come from imports, expected at a level of 4.7 to 5.3 million barrels per day, excluding the strategic petroleum reserve. Coupled with the expected rise in imports is the sad fact that U.S. lower 48-State oil production is on the decline, and there is a general concensus that Alaskan oil production will begin to decline by the late 1980's or early 1990's. The State of Alaska, for example, projects the decline beginning in 1988, dropping to

approximately 700,000 barrels per day in 1999.

Mr. President, I have been and will remain a strong supporter of energy conservation and development of alternative energy resources outside of nuclear power. Energy conservation is working and will continue to save precious nonrenewable energy resources in the future. Oil price reductions of late have dampened the development and enthusiasm for solar, wind, and geothermal energy, but it is only a matter of time before these and other renewable energy sources make a significant contribution to our overall energy mix. However, I am also a realist. Oil is, and will remain for many years, a primary element of our energy consumption, powering our economy, running our cars and heating our homes. It is a nonrenewable energy resource and should be used wisely and conservatively.

In recent testimony before the Senate Energy and Natural Resources Committee, Energy Secretary Don Hodel predicted that some type of disruption would occur in the world this year that would affect our oil imports. Whether or not that disruption is real or perceived, or even occurs at all, is not important. What is important is, regardless of what happens, our reliance on foreign oil suppliers will continue in the future.

Mr. President, Congress and the Department of Energy have made significant strides in filling the Strategic Petroleum Reserve. It now contains over 380 million barrels of oil—nearly 90 days of our estimated 1983 net oil imports and almost 1,000 days of our estimated 1983 imports from the Persian Gulf region. The stratetic petroleum reserve is good insurance against future oil disruptions, and I will continue to support reasonable fill rate levels until the SPR is filled, hopefully in 1990. Because of this commitment, it makes no sense to spend over $2 million annually to fill the strategic petroleum reserve, while at the same time exporting American oil overseas. We cannot have it both ways.

Three times in the last 11 years, both the Senate and House have voted by large majorities to impose restrictions on the export of Alaskan oil. S. 979, as reported by the Senate Banking Committee, contains a clear statement of conditions and four basic tests that must be met before oil exports are to be allowed: First, a tangible consumer benefit; second, preservation of national energy security; third, inclusion of contractual provisions permitting cessation of exports in an emergency; and fourth, general enhancement of the national interest. The law also provides a sensible and balanced procedure for determining if and when the conditions have been met—a Presidential finding followed by congressional approval within 60 days.

Mr. President, the amendment offered by the Senator from Alaska fails on all accounts. Exporting Alaskan oil is not in the national interest—not now, not ever. I, along with 44 of my colleagues, have introduced S. 1159, which retains the prohibition on the export of Alaskan oil indefinitely. These restrictions are prudent. These restrictions are in the national interest. The economic future of this Nation will be determined by the foresight with which we address the future today.

It makes no sense to export oil from Alaska, no matter what the amount, and at the same time, increase our oil imports on the west and gulf coasts. What do we gain by such a move, other than to enrich the coffers of some foreign government? Certainly this is not in the national interest.

Although the amendment is structured to protect the American maritime industry, it fails to recognize certain things that would happen, should limited exports of Alaskan oil be allowed to commence. First there is a general concensus that the oil will be shipped to Japan and Korea in supertankers, not the smaller tankers that are currently supplying the west coast. What this means, of course, is that the larger, generally automated supertankers will replace many tankers currently in service. The Department of Transportation's Maritime Administration predicts that as many as 14 to 17 smaller tankers would be idled by the passage of this amendment. Hundreds of jobs would be lost, and west coast ship repair facilities would lose business. I certainly do not find this to be in the national interest.

Mr. President, in conclusion, I do not believe that now is the time to even think of exporting a precious national resource. The restrictions are as relevant today as they were when they were first imposed 11 years ago. I urge my colleagues to vote against this amendment.

Mr. HEINZ. Mr. President, I ask unanimous consent that the material I now send to the desk be printed in the RECORD at this point, following the remarks of Senator HATFIELD.

There being no objection, the material was ordered to be printed in the RECORD, as follows:

TRANSPORTATION INSTITUTE,
Washington, D.C., February 6, 1984.

Hon. MARK O. HATFIELD,
Hart Senate Office Building,
Washington, D.C.

DEAR SENATOR HATFIELD: The Senate is scheduled to soon consider legislation relating to the Export Administration Act. This legislation contains language which would extend the current restrictions on the export of Alaska oil for six years. On behalf of the Transportation Institute, I urge you to add your support to the effort to retain this critical natural resource.

In 1973, Congress established a clear-cut national policy that Alaska oil should be reserved for domestic use when it passed the Trans-Alaska Pipeline Authorization Act. Since that time, Congress has voted twice, in 1977 and 1979, to reaffirm and strengthen this policy by amending the Export Administration Act to restrict the export of Alaska oil to certain limited situations.

During the last year, several arguments have been circulated for allowing either a wholesale or limited export of Alaska oil. Proponents of export argue that allowing full or limited export would bring increased revenue to the federal treasury, reduce our trade deficit with Japan, and result in lower domestic energy prices. These contentions simply do not hold up when the facts are examined.

Alaska oil has been consistently priced below imported oil since federal price controls expired in January of 1981. Alaska oil currently costs $3.00 per barrel to $4.00 per barrel less than imported oil. Exporting this oil could only result in higher petroleum prices for the American consumer. At a time when the United States is still importing approximately one third of its oil requirements, it is questionable whether export of this critical natural resource should even be discussed. In addition, for a variety of reasons, the oil that would replace Alaska oil would most likely come from the Persian Gulf. It is curious that the United States would contemplate export of oil at a time when even the Saudis are stockpiling oil reportedly because of the volatile situation in the Middle East.

Undoubtedly, exporting Alaska oil to Japan would reduce our current bilateral trade deficit. But at what cost? Our trade deficit with Japan refects many real problems in our trade relationship. A glossing over of the trade deficit would only reduce the pressure on Japan to meaningfully reduce barriers to U.S. manufactured and agricultural exports. Thus, Japan could continue to exploit our open markets while enjoying the fruits of their protectionist policies. Additionally, the overall U.S. balance of trade would worsen since more expensive foreign oil would have to be imported.

The removal of export restrictions would also be costly to the federal treasury. Tax revenues from U.S. shipping companies and their employees who would be forced out of work would be sacrificed. These losses have been estimated at approximately $300 million a year. Title XI federal loan guarantees totaling up to $2.0 billion would be called if U.S. tankers in the Alaska trade were laid up. Additional revenues would also be lost because of unemployment that would be triggered in related industries.

Export of Alaska oil would also seriously weaken U.S. national security. Over one half of the U.S.-flag tanker tonnage could be displaced and laid-up if Alaska oil were exported. These vessels would be severely missed in a national emergency when ocean transport of fuel, oil, and other petroleum products would be needed. The United States would be dependent on foreign-flag tankers and foreign crews controlled by other countries.

On behalf of the Transportation Institute, representing 174 member shipping companies operating in the nation's foreign and domestic trades, I respectfully urge you to support the extension of the restrictions on the export of Alaska oil. Any type of export proposal, whether it calls for full or limited exports, would be detrimental to the United States and to U.S. national security.

Sincerely,

PETER J. LUCIANO,
Executive Director.

MARITIME TRADES DEPARTMENT,
Washington, D.C. February 6, 1984.

Hon. MARK O. HATFIELD,
Hart Senate Office Building,
Washington, D.C.

DEAR SENATOR HATFIELD: As you know, Congress has temporarily extended the expiration date of the Export Administration

Act (EAA). Legislation to reauthorize and amend the EAA for a full six years is scheduled to soon be considered on the floor of the Senate. In reauthorizing the EAA, this legislation would also extend the restrictions on the export of Alaska North Slope oil for the same period. Without this legislation, the Alaska oil export restrictions will expire along with the EAA. On behalf of the Maritime Trades Department, AFL-CIO, representing 43 affiliated unions comprised of eight and one half million workers, I strongly urge you to support this legislation, and to ensure that the restrictions on the export of Alaska oil are not relaxed or eliminated.

Present law does not absolutely ban the export of Alaska oil. The language contained in Secton 7 of the Export Administration Act states that Alaska oil should be reserved for domestic use unless the President and the Congress find that it is in the national interest to export it. Clearly, Alaska oil has not been exported to date because both the President and the Congress have consistently found that it is in the national interest to keep Alaska oil here.

Recently, proponents of exporting Alaska oil have proposed a limited export which, they argue, is an action which will not adversely affect the United States. However, this is simply not the case. Limited exports would be just as damaging to our nation as a total elimination of the current export restrictions. The United States is still dependent upon imported oil for nearly one-third of its energy consumption.

Exporting currently produced Alaska oil, or increasing its production for export, would just accelerate the depletion of this critical U.S. resource. Every drop of oil exported is oil which could be used domestically to lessen the amount of foreign oil imported. Exporting ANS oil would only increase our dependence on foreign energy sources, and would be a step backwards from increased national security and U.S. energy independence.

It has been ten years since the Arab oil boycott of 1973 shocked the United States into a realization that a dependence on unreliable sources of oil was dangerous. It is questionable, however, whether that lesson has been learned. While much has been accomplished in energy conservation and domestic production of a number of energy sources, the United States still remains entirely too dependent upon imported oil. The Iranian Crisis in 1979 demonstrated all too clearly the continued danger posed by this situation. Exporting Alaska oil would increase this dependence on foreign oil, especially oil from the very unstable Persian Gulf region.

In our view, the American consumer would feel immediate and direct adverse effects if Alaska oil were exported. Since oil prices were decontrolled in 1981, the delivered cost of Alaska oil to U.S. refiners has been significantly lower than the cost of comparable imported oil. If it were necessary to import greater amounts of foreign oil to replace any exported Alaska oil, this added cost would be passed on by the refiners directly to the American consumer. It is estimated that Alaska oil exports would raise consumer petroleum costs by $1.2 to $2.0 billion per year on a nationwide basis.

Export proponents have also argued that exporting Alaska oil would improve our trade deficit and overall trade relationship with Japan. This argument is very misleading. While oil exports may somewhat reduce our current balance of payments deficit with Japan, this benefit would be more than negated by offsetting factors. A lower trade deficit with Japan would act to greatly reduce the pressure on the Japanese to open their markets to U.S. manufactured and agricultural exports, and would thereby allow Japan to continue to exploit the U.S. market while denying U.S. exporters similar access. Furthermore, the overall U.S. balance of payments for all world trade would suffer, since any Alaska oil which is exported would have to be replaced in the U.S. by more expensive imported oil.

If Alaska oil were to be exported, the U.S.-flag tanker fleet would be dealt a devastating blow. Over 40 U.S. tankers would be scrapped, laid-up, or forced into the reserve fleet. This would cost the U.S. government millions in additional funds as tax revenues from maritime companies and personnel are lost, and as companies are forced to default on U.S. Government construction loan guarantees. The vessels which would be idled and lost are considered by the Navy to be a critical aspect of our military sealift capabilities, and are irreplaceable should an emergency arise. Perhaps more importantly, should these vessels be lost, the skilled manpower needed to operate the vessels in an emergency would no longer be available.

Exporting Alaska oil, which is a secure domestic source of oil, would also undermine the entire premise upon which the Strategic Petroleum Reserve was established. Does the U.S. government really believe that the United States is no longer vulnerable to an oil supply disruption, especially at a time when even the Saudis are stockpiling oil? It is believed that the Saudis have been motivated to store oil to protect themselves from a potential Mideast political eruption. Is our government prepared to send a signal to the U.S. public that our energy problems are over?

It is expected that proposals for full or limited exports of Alaska oil will be debated on the Senate floor during consideration of the Export Administration Act. I solicit your support in opposing any efforts to relax the current export restrictions or to allow a limited export, including any proposals to export oil on U.S.-flag ships. If the United States is ever to become energy self-sufficient, we cannot now knowingly increase our dependence on foreign imports.

Sincerely,

FRANK DROZAK, *President.*

NATIONAL MARINE ENGINEERS' BENEFICIAL ASSOCIATION,
Washington, D.C., February 6, 1984.

Hon. MARK HATFIELD,
U.S. Senate,
Washington, D.C.

DEAR SENATOR HATFIELD: On behalf of the National Marine Engineers' Beneficial Association, I would like to thank you for the strong support you have given to maintain existing restrictions on the export of Alaskan oil. Your co-sponsorship of S. 1159 has been a particularly important demonstration that is deeply appreciated. The fact that there are 45 co-sponsors in the Senate, and more than 235 in the House for a similar bill, indicates that public support for these restrictions is unusually widespread.

We are, as you know, coming to the critical moment. S. 979, which re-authorizes the Export Administration Act of 1979, will come to a vote soon. This bill would extend the oil export restrictions for six years.

There will be proposals for "compromises" on the Alaskan oil export issue. One would allow the export of a "small" amount, some 200,000 barrels a day. We firmly and unequivocally oppose all of these so-called compromises. They offer few of the alleged benefits of unrestricted exports yet contain most of the liabilities. They would require a complex regulatory bureaucracy to administer. And, most important of all, these "limited" exports are just a foot-in-the-door, a smokescreen—crafted with the goal of unlimited exports in mind.

More than ever—with increased unrest in the Middle East, with U.S. oil demand and imports up (and U.S. production slipping) it is clear that prohibiting the export of Alaskan oil is vital to our consumers, our economy, and our defense. Now is not the moment to reverse ten years' prudent policy and put America's energy supplies and transportation network in jeopardy.

That is why the support you have given and your continuing support are so vital to seeing that this issue is resolved clearly and unquestionably in the interest of our country, its consumers, its industries and agriculture, and above all its security—by adopting S. 979 with no amendments that would weaken existing restrictions on the export of Alaskan oil.

Again, we thank you. We are grateful for your help.

Sincerely yours,

J. M. CALHOON, *President.*

DISTRICT 2, MARINE ENGINEERS BENEFICIAL ASSOCIATION, ASSOCIATED MARITIME OFFICERS, AFL-CIO,
Washington, D.C., February 3, 1984.

DEAR SENATOR HATFIELD: A proposal to export Alaskan North Slope crude is once again before Congress. Time and again, Congress, in its wisdom, has blocked any effort to export this valuable national resource.

The House version of the Export Administration Act had 237 co-signers. The Senate currently has 46 co-signers on the EAA bill, S. 979. The Murkowski-Stevens amendment seeks to destroy that which Congress has long protected. This amendment would profit only the citizens of one state—Alaska. The lower 48 states, however, would suffer from a loss of $245 million in independent tanker revenues, and a reduction of employment for American seamen and workers in related industries.

If adopted, the amendment would also idle more than 25 tankers, drive down vessel rates and reduce the gross national product by at least $245 million annually. The members of District 2, MEBA-AMO, AFL-CIO urge your support of S. 979 and your opposition to the Murkowski-Stevens amendment.

Sincerely,

JOHN F. BRADY,
Executive Vice President.

JOINT MARITIME CONGRESS,
Washington, D.C., February 6, 1984.

Hon. MARK HATFIELD,
U.S. Senate,
Washington, D.C.

DEAR SENATOR HATFIELD: As you know, the Senate is expected to take up consideration soon of S. 979, the Export Administration Act Amendments. Although many of the provisions have evoked much controversy, there is strong bipartisan agreement on one provision which prohibits the export of Alaskan oil unless it is in the public interest to do so. We urge you to vote against any efforts to change this provision in any way.

The requirement to keep domestic oil in this country is not new and the need to maintain a secure source of oil has not changed. Indeed most experts believe that it is even more important today than ever before. Iran's attacks and military maneuvers in the Persian Gulf area that is crucial to the production and distribution of much of the world's oil supply make stronger the argument that America needs a reliable source of oil not subject to international tensions and disruptions.

Some are suggesting so-called "compromises" on this issue by which a "limited"

amount of oil could be exported. We strongly oppose these "compromises." we cannot be fooled by the suggestions that if we export a limited amount of oil we are somehow protecting ourselves from the liabilities associated with high volume exports. In fact, the Federal Government stands to gain very little from a limited export since this would largely be Alaska royalty oil which is not subject to federal taxation. The truth is that these proposals for "limited" exports are really designed to facilitate eventually the export of unlimited amounts of Alaskan oil.

We thank you for the support you have already shown on this issue and we look forward to your continued support when the Senate considers this legislation.

Sincerely,

DAVID A. LEFF,
Executive Director.

AMERICAN MARITIME OFFICERS SERVICE,
Washington, D.C., February 2, 1984.

DEAR SENATOR HATFIELD: American Maritime Officers Service, which represents 44 American ship owners and operators, supports enactment of S. 979, the Export Administration Act. This legislation contains an extension of the Alaska North Slope oil export ban.

A small, self-concerned group proposes to amend S. 979, to the benefit of Alaska. The rest of the nation would pay the price. Exporting this national resource would have a long-term devastating impact on consumers, America's workers, national security, the economy and the Merchant Marine. Neither the U.S.-controlled oil companies nor the administration are aggressively pursuing a policy change on the Alaskan oil issue, despite lengthy consideration of the matter.

Two-hundred-eighty-three members of Congress have co-signed the legislation that would extend Section 7 (d)(2) of the Export Administration Act, 1979. I am sure after your deliberate and thoughtful consideration, you will concur with their decision.

Sincerely,

GORDON SPENCER,
Legislative Director.

CITIZEN/LABOR ENERGY COALITION,
Washington, D.C., February 6, 1984.

DEAR SENATOR HATFIELD: When the Export Administration is debated on the Senator floor, the Citizen/Labor Energy Coalition requests that you support the retention of restrictions on the export of Alaskan oil. While those restrictions do not prohibit export, they do ensure that sales could occur only if it would not jeopardize U.S. supplies and prices to consumers.

The Energy Coalition believes that the findings required under Section 7(d) of the Export Administration Act are necessary to prevent the unwise depletion of our nation's limited oil resources and to ensure that consumers benefit from lower prices. We are particularly concerned that a weakening or elimination of the Section 7(d) requirements would increase our dependence on foreign suppliers, including the OPEC nations, at a time when imports are already expected to rise. According to the November "Short-term Energy Outlook" published by the Department of Energy, net imports this year are projected to increase 26 percent over 1983 levels, up to 5.5 million barrels a day. Given this expected increase in imports, allowing the export of Alaskan oil in the absence of careful review would make us even more susceptible to international supply disruptions.

There is no reason to allow the export of Alaskan oil without first determining that it would be in the national interest and would provide price benefits to oil users. This is especially true given the precarious political situation in the Middle East. Again, we ask that you support preservation of the Section 7(d) safeguards and oppose any weakening amendment.

Sincerely,

ROBERT M. BRANDON,
Executive Director.

AMERICAN MARITIME ASSOCIATION,
Washington, D.C., February 7, 1984.

Senator MARK O. HATFIELD,
Hart Building,
Washington, D.C.

DEAR SENATOR HATFIELD: As a follow-up to my letter of October 28, 1983, on behalf of the American Maritime Association I want to reiterate that my organization supports maintaining the current restrictions on the export of Alaskan crude oil contained in Section 7(d) of the Export Administration Act of 1979.

In the near future, you will be asked to vote on an amendment designed to alter, if not eliminate, those restrictions. In particular, you may be asked to allow the export of a "limited" amount of Alaskan crude oil on the order of between 50,000 and 200,000 b/d, conditioned upon it being exported on American flag bottoms. We urge you to oppose any and all amendments designed to weaken Section 7(d), in particular this so-called "compromise."

As I indicated in my letter, limited exports, even if conditioned on the use of American flag bottoms, would seriously and adversely affect independent shipping companies by idling vessels and by pushing lower the shipping rates on those vessels that remain in the trade. Given the currently depressed world market, displaced vessels would have to be scrapped, further exacerbating one of the worst periods ever faced by our industry. Moreover, the idling of so many vessels could have a detrimental impact on our national defense, for the very ships idled would be the ones most needed in a time of war.

The American Maritime Association believes that the current restrictions in Section 7(d) are reasonable and should be preserved. We urge you to support an extension of Section 7(d) and to oppose any efforts to weaken Section 7(d) during the upcoming debate on S. 979, the reauthorization legislation for the Export Administration Act.

Sincerely,

MIKE KLEBANOFF, *President.*

AMERICAN INSTITUTE OF MERCHANT SHIPPING,
Washington, D.C., February 22, 1984.

Hon. MARK O. HATFIELD,
Hart Senate Office Building,
Washington, D.C.

DEAR SENATOR HATFIELD: I am writing to urge your support of Section 7(d) of S. 979, the Export Administration Act (EAA). Section 7(d) of the EAA states that Alaskan North Slope oil should be reserved for domestic use unless the President and Congress find that it is in the nation's interest to export this valuable asset. We urge your support for this provision without any weakening amendments when this issue is considered on the floor. The Senate Banking Committee thoroughly considered this matter after a series of hearings and concluded that extending the provisions of Section 7(d) without amendment was indeed in the nation's best interest.

Vessel owners in these trades have invested billions of dollars of capital toward the construction of modern, efficient tankers based on this Congressional policy, and have knowingly done so despite substantial risks. To unexpectedly overturn this long-standing policy based on the capricious rationale advocated by the proponents of export would cause irreparable injury to United States flag shipping companies, their employees, consumers and to the Nation.

Proponents of change have recently called for the limited export of 200,000 b/d, but even under the pretense of limited exports it would be these same tankers that are scrapped and permanently lost to the military. moreover, limited exports would actually cost the government millions of dollars as companies are forced to default on U.S. Government construction loan guarantees.

The Export Administration Act may soon be on the Senate floor and a proposal for limited export may be offered and debated. We urge you to reject this proposal and any weakening amendments and to support the language in Section 7(d). It surely cannot be in the best interest of the nation to become more dependent on foreign imports. We have learned this painful lesson from past experience. The extension of the current export provision found in Section 7(d), without amendment, deserves your support.

Sincerely,

THOMAS J. LENGYEL, *President.*

DISTRICT 2, MARINE ENGINEERS BENEFICIAL ASSOCIATION, ASSOCIATED MARITIME OFFICERS, AFL-CIO,
Brooklyn, N.Y., February 2, 1984.

DEAR SENATOR HATFIELD: On behalf of the members of District 2, Marine Engineers Beneficial Association, Associated Maritime Officers, AFL-CIO, I urge you to support the enactment of S. 979. This bill extends Section 7(d) of the Export Administration Act of 1979, which prohibits the foreign export of Alaska North Slope Crude.

The lifting of that ban, as proposed by the Murkowski amendment, would profit less than 4.4 percent of the American population (including Alaska's residents) and one foreign-controlled oil company. The remaining 95.6 percent of America would be adversely affected. Furthermore, the Murkowski proposal would export 200,000 barrels a day plus any new oil. This seemingly innocuous wording could result in total exports of up to 500,000 b/d/

Over one-half of the U.S. Congress has cosigned the legislation to extend the band on the export of Alaska's oil. These congressmen realize that once the flow of America's oil to the Pacific rim begins, it will be all but impossible to stop, leaving our defense and economy vulnerable. In the American tradition of majority rule, we urge you to support this legislation.

Sincerely,

RAYMOND T. McKAY,
President.

NORTHVILLE INDUSTRIES CORP.,
Melville, N.Y. October 19, 1983.

DEAR SENATOR HATFIELD: When the Export Administration Act is addressed on the Senate floor, we urge you to support an extension of the current restrictions on the export of Alaskan oil.

Through a cooperative venture with the Government of Panama and another United States company, Chicago Bridge & Iron Industries, Northville manages Petroterminal de Panama ("PTP"), the Panamanian company which owns and operates the oil pipeline across the Isthmus of Panama. In this capacity, we have been intimately concerned with the Alaskan oil export issue since the founding of PTP in 1976.

Northville and its partners undertook the $400 million pipeline project in reliance upon the United States Government's long-

standing decision to restrict the export of Alaskan oil. If the government now abruptly changes direction and permits the export of even a portion of Alaskan oil, it would severely impact, if not bankrupt, this venture as well as similar ventures of others who have invested in transportation, storage and refinery infrastructure.

Proponents of a relaxation of the current restrictions on export have argued that such a relaxation would provide the United States with certain advantages in its negotiations with Japan over a variety of international trade and foreign policy issues. We disagree. Because the export of a significant amount of Alaskan oil to Japan would have the effect of bringing our overall balance of trade figures with Japan into something closer to balance, that mathematical change could in fact make it more difficult for us to object to the imbalance in manufactured and agricultural products which is at the core of our trade problems with Japan. Furthermore, according to recent media accounts, the Petroleum Association of Japan ("PAJ") hardly considers the lifting of export restrictions a major concession by the United States. In fact the group as quoted in Platt's Oilgram on Friday, October 14th explicity set these conditions for importing Alaskan crude: "Such deals must be made on a purely commercial basis, with the Japanese retaining rights to choose carriers and with United States guarantees to continue the supply even in emergencies."

Most importantly, this foreign policy argument effectively ignores the impact on the Government of Panama of a relaxation of export restrictions. Panama is an important ally in an unstable region. The canal is a resource vital to our security. If Alaskan oil is no longer shipped across the Isthmus of Panama, the Panamanian Government will not only lose a source of employment for many Panamanians, but annual revenues in excess of $100 million vital to that country's economic and social development programs.

If we permit Alaskan North Slope oil to be exported, America's dependence on other sources of supply—particularly the Persian Gulf—will be increased. This can have only one result: it will make this nation, its economy and its Midwest foreign policy more vulnerable to supply disruptions, whether caused by logistical foul-ups, political instability, or direct political pressure directed against us and our allies.

Replacing Alaskan oil with foreign oil of the same quality is likely to involve increased costs and a lessening of the downward pressure on imported oil prices now created by the assured availability of Alaskan oil. The lower cost of crude oil in America today, with its consequential benefits for our rate of inflation, is clearly related to this country's increasing energy self-sufficiency.

Furthermore, any export of domestic crude oil surely would be viewed by the United States public as inconsistent with any further public support for filling the Strategic Petroleum Reserve, for developing our coal and alternative energy resources, for a military capacity to protect Persian Gulf oil and for promoting voluntary energy conservation.

Finally, Section 7(d) of the Export Administration Act contains a carefully thought out, long-standing and entirely rational set of criteria for determining when it is in the national interest to export Alaskan oil.

We urge you to support the extension of these restrictions.

Sincerely,

HAROLD P. BERNSTEIN,
Chairman of the Board.

AMERICAN PUBLIC POWER ASSOCIATION,
Washington, D.C., October 14, 1983.

Hon. MARK O. HATFIELD,
U.S. Senator, Hart Senate Office Building, Washington, D.C.

DEAR SENATOR HATFIELD: The American Public Power Association urges your support for the restrictions on export of Alaskan oil which are contained in S. 979, the Export Administration Amendments Act of 1983. APPA is the national organization representing more than 1,750 municipal and other local public power systems.

We understand that an amendment may be offered during Senate consideration which would permit unrestricted export of some Alaskan oil. Under current law, exports must be found to be in the national interest and to benefit American consumers. This public policy requirement is reasonable and sound for all Alaskan oil production. We urge you to oppose any weakening of the current restrictions of law to allow "Limited" exports without regard to consumer and national interest considerations.

Enclosed for your information is APPA's policy resolution on Alaskan oil exports, approved by the Association's general membership in May, 1983.

Sincerely,

ALEX RADIN,
Executive Director.

CONTINUING THE EXPORT RESTRICTIONS ON ALASKAN OIL

Whereas, established national policy preserves for domestic purposes the use of petroleum from the North Slope of Alaska, and, under the Export Administration Act of 1979, oil may not be exported unless the President finds, and Congress concurs, that: such export is in the national interest; will result in lower oil acquisition costs to refiners; and most savings will be passed on to consumers, and

Whereas, the Act's export restrictions will expire on September 30, 1983, and H.R. 1197 and S. 1159 have been introduced in the House and Senate which would extend these export restrictions, and

Whereas, the Administration has proposed to allow the Act's export restrictions to expire in order to permit the sale of Alaskan oil to Japan, and

Whereas, Alaskan oil now provides 1.6 million barrels per day for domestic use, or 20 percent of total U.S. oil consumption, at a price of $2.50 per barrel less than imported oil, and

Whereas, the United States still imports one-third of its oil supply, and exporting Alaskan oil would increase foreign oil imports by 15 percent; would reverse the long-standing goal of achieving energy independence; and could adversely affect national security goals, in view of the instability of the world oil market, and

Whereas, the substitution of more expensive foreign oil for Alaskan supplies would increase oil costs to U.S. consumers by $1.7 billion annually, including $600 million on West Coast markets and $1.1 billion on Gulf Coast markets. Now, therefore, be it

Resolved, That the American Public Power Association supports enactment of H.R. 1197 and S. 1159, which amend the Export Administration Act of 1979 to extend the provisions relating to the export of domestically produced crude oil.

NOVEMBER 4, 1983.

Senator ALAN CRANSTON,
Senator MARK O. HATFIELD,
Hart Senate Office Building, Washington, D.C.

DEAR SENATORS HATFIELD and CRANSTON: I and my firm, Robert R. Nathan Associates, have examined carefully the economic and financial consequences of exporting Alaskan crude oil, an issue now before the Senate. In our May 1983 report and my testimony before the Subcommittee on East Asian and Pacific Affairs of the Committee on Foreign Relations of the United States Senate in July, I concluded that exports of Alaskan oil would result in net economic costs to the United States.

I understand there may be proposals before the Senate to permit a token export of 40,000 to 50,000 barrels per day of Alaskan royalty oil, and further that these exports be carried on American flag tankers. While it may appear to some that such levels of exports cannot be harmful, my analysis clearly indicates that this would not be so.

The State of Alaska would be the only U.S. institution to gain financially, and then not more than $30 million annually.

The domestic maritime industry would still incur annual financial losses of $40 million or more.

All the impacts on the national economy, though small in magnitude, would be negative: a $40 million decline in GNP, employment losses of 1,000 and a balance-of-payments cost of about $50 million annually.

Furthermore, this token opening of exports would have no significance in U.S. trade and foreign relations with Japan and other Pacific rim countries precisely because it would be perceived as no more than a token.

The most serious consequence of such token exports is the uncertainty that would be created. The signals to the petroleum industry and the domestic transportation industry would be unclear, affecting both investment and operating decisions for years to come. This would not provide a healthy economic environment for a critical U.S. energy resource.

The issue of the disposition of Alaskan crude oil is an important matter of national economic policy which ought not to be masked by proposals for token exports. I would be pleased to have the opportunity to discuss with you or your staff the basis for the conclusions stated in this letter and my earlier report and testimony.

Sincerely,

JOHN C. REYER,
President.

Mr. HEINZ. I think the Senator from Oregon (Mr. PACKWOOD) has made four excellent points to which I would add just two more. One is the point I made earlier about every barrel of oil that we export from Alaska to Japan is one more barrel of oil we have to import from someplace else, probably from the Middle East through the Strait of Hormuz, which has never been more threatened politically than it is today by the Iran-Iraq conflict.

Second, every time we allow our trading partners, the Japanese, to have a little more oil, they are going to be able to say, "Aha, we reduced our $20 billion trade deficit with you," and

that way they will be able to do one of two things, and maybe both. They will be able to argue that they need to sell more cars here or the alternative is they are going to buy less Pennsylania coal, which I feel substantially more strongly about even than cars. But what it will do, regardless of these parochial kinds of interests, quite seriously, is it will give the Japanese one more reason not to do anything about their nontariff trade barriers, which the administration has just about broken its pick on in the last month or two. You do not have to take my word for it. It is in all the newspapers. I thank the Senator for yielding.

Mr. PACKWOOD. I thank the Senator from Alaska.

Mr. HEINZ. Mr. President, I ask unanimous consent that the material I now send to the desk be printed in the RECORD at this point, following the remarks of Senator PACKWOOD.

There being no objection, the material was ordered to be printed in the RECORD, as follows:

AMERICAN FEDERATION OF LABOR AND CONGRESS OF INDUSTRIAL ORGANIZATIONS,
Washington, D.C., October 17, 1983.

DEAR SENATOR: The AFL-CIO urges your support for S. 979, the Export Administration Amendments Act of 1983, which will soon be scheduled for Senate Action. Of particular concern in this legislation are the restrictions on the export of Alaska oil.

During the floor debate on this bill, an amendment may be offered by Senator Frank Murkowski, R-Alaska, which would seriously weaken the current restrictions on the export of Alaska oil. S. 979 continues the decade-old policy of requiring the President to find that any proposed export of Alaska oil would benefit both national and consumer interests. These findings, which must be presented to Congress for its approval, were adopted in 1973 and reinforced in 1979 in order to assure a domestic preference for the use of Alaska oil.

Over the past 10 years, the restrictions on the export of Alaska oil have worked to benefit all Americans. Every drop of oil produced on the North Slope of Alaska is being used in the lower 48 states. It has helped to fuel our cars, heat our homes and fill the Strategic Petroleum Reserve. It has also sold for lower prices than comparable domestic and imported crude oil, thus benefitting American consumers. And it has helped to bring revenues and jobs to American ports and the regions which surround them. Oil companies have made investments in refinery and shipping capacity in reliance on the longstanding congressional policy of restricting exports of Alaska oil. Those investments will be placed in jeopardy if the restrictions are relaxed. Equally important, the effective domestic use of Alaska oil has helped us to maintain a vital merchant marine, with the ships and the trained seagoing manpower we would need in time of national emergency.

Some have suggested that limited amounts of Alaska oil should be exported to Japan without being required to meet the national and consumer interest requirements of current law. Such a proposal would provide no increased Federal revenues, since the oil to be exported would be Alaska royalty oil to which the Windfall Profits Tax does not apply. On the other hand, limited exports would require the United States to import more oil from such insecure sources as the Middle East. This will not save American consumers a cent, but it will subject our country to increased reliance on foreign sources of oil.

The AFL-CIO urges you to oppose any amendment that would modify or dilute the national and consumer protections contained in the Alaska oil export regardless of whose ships would carry the Alaska oil.

Sincerely,

RAY DENISON,
Director, Department of Legislation.

AFL-CIO MARITIME COMMITTEE,
Washington, D.C., May 13, 1983.

DEAR SEN. PACKWOOD: Exporting of Alaskan North Slope oil to Japan is now being considered by some within the Administration. The exportation of this oil to a foreign source would be detrimental to our national interest.

The Export Administration Act of 1979 which expires this September stipulates that this Alaskan North Slope oil can only be exported to a foreign source if the President, with the approval of Congress, determines that to do so would be in the national interest.

On April 27, 1983, Senators Hatfield and Cranston, along with 17 additional colleagues, introduced S. 1139 which would amend the Export Administration Act of 1979 to extend the provision relating to the export of Alaskan oil.

We ask that you join these Senators in cosponsoring S. 1159, which will protect existing restrictions on oil exports and preserve energy security for the United States.

Respectfully,

TALMAGE E. SIMPKINS,
Executive Director.

THE WILDERNESS SOCIETY,
Washington, D.C., February 7, 1984.

DEAR SENATOR: This week, S. 979, the reauthorization bill for the Export Administration Act is expected to go to the floor for action. Section 7(d) of the Act contains provisions restricting the export of Alaskan oil. The Wilderness Society urges you to extend those provisions without any weakening amendments.

When the Alaska crude oil pipeline was constructed, firm commitments were made that Alaskan oil would not be used for exports except upon the most stringent of conditions. Not only did federal policies restrict the export of Alaskan oil, but the private parties and local government that most directly benefited from the route of the pipeline pledged that they would not seek to export the oil.

Over the past decade those commitments have been strengthened and extended. Above all, Congressional consultation and oversight over this valuable national resource have been reinforced. This consultative process must be maintained with neither branch of government having a free hand to make rash decisions.

Those who are presently trying to weaken the provisions of the Act as an inducement to accelerated drilling are trying to short circuit the careful deliberative process that should govern the development of natural resources in one of this nation's most environmentally sensitive areas. The short term benefits they hope to reap would impose irreparable, long term damage. There is simply no justification to accelerate the depletion of American natural resources in our wilderness areas to meet the energy needs of foreign nations. Furthermore, an amendment to allow the export of American oil is particularly inappropriate at this time when Congress and the American people are so concerned with reducing American dependence on foreign sources of oil.

We urge you to vote for Section 7(d) of the Export Administration Act and reject all weakening amendments.

Sincerely,

WILLIAM A. TURNAGE,
Executive Director.

NATIONAL FARMERS ORGANIZATION,
Washington, D.C., February 6, 1984.

DEAR SENATOR: Our organization, consisting solely of farmers and ranchers, strongly supports maintaining section 7(d) of the Export Administration Act, which restricts exports of Alaskan oil. We urge you to oppose any and all amendments to weaken this section.

Our concern with these provisions stems from the currrent inequities in U.S. Japan trade relations. As you know, the push to lift the restrictions on exports is generated by proposals to export Alaskan oil to Japan. We believe that because such an exchange would cut our trade deficit with Japan subsequently, any incentives Japan might now have to reduce its trade barriers to our agricultural products would be drastically reduced, if not totally eliminated.

It should be noted, moreover, that our overall balance-of-trade picture would not be improved if exports were to occur. Indeed, based on the current prices of oil imports compared to Alaskan oil prices, our balance-of-trade situation could be worsened.

American farmers have been financially strapped for several years. Higher energy bills based on a policy which would encourage exports of our domestic oil and imports of Middle Eastern oil would not be positively received by this sector of the economy.

We appreciate your help on this issue.

Sincerely,

CHARLES L. FRAZIER,
Director, Washington Office.

CONSUMER FEDERATION OF AMERICA,
Washington, D.C., May 19, 1983.

DEAR SENATOR: The Consumer Federation of America urges you to oppose any and all amendments to the current restrictions on the export of Alaskan oil which are part of the Export Administration Act. These restrictions provide significant long-term benefits to U.S. consumers while also permitting Alaska oil exports that benefit our national interest.

The existence of the current restrictions has provided American consumers with Alaskan oil that is priced lower than comparable domestic or imported crude oil. They have also made Alaska oil available for our Strategic Petroleum Reserve. Thus, the restrictions have provided current, tangible benefits to consumers (and our economy as a whole) while increasing our capacity to respond to possible oil import disruptions in the future.

The restrictions also assure that Congress will have the opportunity to give full consideration to any proposal to export Alaskan oil. In addition, they require that any export be made subject to a contract that can be terminated in the event of a U.S. national emergency.

No other statute provides the kind of consumer and national interest protections as contained in the Alaska oil export restrictions of the Export Administration Act. When this issue comes before the Senate Banking Committee within the next few

days, we urge you to oppose any and all amendments to the current restrictions.

Sincerely,

STEPHEN BROSECK,
Executive Director.

CONSUMER ENERGY COUNCIL OF AMERICA,
Washington, D.C., October 19, 1983.

DEAR SENATOR: In the next several days, the Senate will consider S.979, the bill reauthorizing the Export Administration Act (EAA). This bill extends the existing restrictions on the export of Alaskan oil contained in Section 7(d) of the EAA.

We strongly urge you to support the extension because these restrictions ensure that exports will occur only if they are clearly in the national and consumer interest. To date, no President or Congress has been able to say that exports of Alaskan oil would meet these tests.

We believe the reasons for not exporting Alaskan oil today are even more compelling than they were in the past. Specifically, if Alaskan oil is exported, consumers will pay $1-2 billion more per year for oil. Simultaneously, our vulnerability to oil price shocks will increase. With imports on the rise and tensions mounting in the Middle East, this is no time to alter a sound energy policy adopted a decade ago and reaffirmed and strengthened several times since.

We urge you to vote for the Alaskan oil provisions as they are and reject all efforts to change the criteria governing the export of Alaskan oil or to lift the criteria for some Alaskan oil. Offers to lift the ban which stipulate that exports would be carried on American flag vessels are not relevant, since the fundamental issue is a consumer price and energy security issue. Any exports on any vessels would do serious damage.

There is one change that must be made, however. In light of the recent Supreme Court decision, the legislative veto provision must be amended so that Congress maintains its oversight of exports.

Sincerely,

ELLEN BERMAN,
Executive Director.
MARK COOPER,
Research Director.

NORTHVILLE INDUSTRIES CORP.,
Melville, N.Y., July 15, 1983.

DEAR SENATOR: When the Export Administration Act is addressed on the Senate floor, we urge you to support an extension of the current restrictions on the export of Alaskan oil, which are due to expire on September 30th.

Through a cooperative venture with the Government of Panama and another United States company, Chicago Bridge & Iron Industries, Northville manages Petroterminal de Panama ("PTP"), the Panamanian company which owns and operates the oil pipeline across the Isthmus of Panama. In this capacity, we have been intimately concerned with the Alaskan oil export issue since the founding of PTP in 1976.

Northville and its partners undertook the $400 million pipeline project in reliance upon the United States Government's long-standing decision to restrict the export of Alaskan oil. First articulated ten years ago in the TransAlaska Pipeline Act, that decision to restrict Alaskan oil exports in particular has time and again been strengthened and reaffirmed. In 1976, the Ford Administration ruled out the export of Alaskan oil. In 1977, Congress tightened the restrictions on exports, and two years later Congress further stiffened those restrictions. Finally, in 1981, the Reagan Administration decided not to advocate the export of Alaskan oil.

If the government now abruptly changes direction and permits the export of even a portion of Alaskan oil, it would severely impact, if not bankrupt, this venture as well as similar ventures of others who have invested in transportation, storage and refinery infrastructure. Moreover, as that infrastructure crumbled, so would one key element of our national security; for, if there came a time when it was necessary to use Alaskan oil for domestic purposes, we would no longer possess the tankers and terminal facilities necessary to move that oil, and the pipeline that makes its transportation across Panama economical and efficient.

At the core of the current restrictions on the export of Alaskan oil lies a profound concern for America's energy security. It is no answer to that concern to argue that we are participants in a world oil market and to point out that the theoretical niceties of the laws of supply and demand should determine our access to vital oil resources in the years to come. With regard to oil, those supposed laws have failed all too often. Particularly in times of short supply, destination restrictions are placed on tankers for reasons wholly inconsistent with a free oil market.

If significant quantities of Alaskan North Slope oil are exported, America's dependence on other sources of supply—particularly the Persian Gulf—will be increased. This can have only one result it will make this nation, its economy and its Mideast foreign policy more vulnerable to supply disruptions, whether caused by logistical foul-ups, political instability, or direct political pressure directed against us and our allies.

Replacing Alaskan oil with foreign oil of the same quality is likely to involve increased costs and a leasing of the downward pressure on imported oil prices now created by the assured availability of Alaskan oil. The lower cost of crude oil in America today, with its consequential benefits for our rate of inflation, is clearly related to this country's increasing energy self-sufficiency.

The impact on the Government of Panama should also not be ignored. Panama is an important ally in an unstable region. The canal is a resource vital to our security. If Alaskan oil is no longer shipped across the Isthmus of Panama, the Panamanian Government will lose projected revenues in excess of $100 million a year. This could have a diplomatically and economically destabilizing effect. Surely the need to avoid destabilization of a peaceful and vital democracy in Central America and to preserve a secure environment for the Panama Canal outweighs today any marginal foreign policy advantages cited in favor of export.

Finally, Section 7(d) of the Export Administration Act contains a carefully thought out, long-standing and entirely rational set of criteria for determining when it is in the national interest to export Alaskan oil.

We urge you to support the extension of these restrictions.

Sincerely,

HAROLD P. BERNSTEIN,
Chairman of the Board.

Mr. MURKOWSKI. I yield the floor to my senior colleague from Alaska (Mr. STEVENS). I have a substitution after the Senator has completed his remarks.

Mr. STEVENS addressed the Chair.

The PRESIDING OFFICER. The Senator from Alaska is recognized.

Mr. STEVENS. I commend my colleague from Alaska for the work he has done on this matter. I cannot add further. I do not intend to repeat what he has said. I would like to be sure the Senator from Oregon understands the impact of what he has just said, however. Alaska is the only State in which the wellhead price is determined by subtracting the costs of transporting the oil to its final destination from the price at which the oil is sold at the final destination. Nowhere else in the world is that the case.

Despite the fact that up to 50 percent of the potential oil to be discovered in the United States and offshore of the United States is Alaskan oil we now have a situation where oil exploration in Alaska is starting to decline. The reason is that Congress has gone out of its way to put impediments in front of the development of Alaska resources. In bringing supplies to Alaska to support resource development, we can only use Jones Act vessels. Forty percent of all the Jones Act tonnage goes to one State that has about 450,000 people. In transporting one of our major resources, the oil produced on the North Slope, we must use Jones Act vessels, and we can sell that oil only in the United States. This means that much of that oil is shipped in tankers down to the Panama Canal area; is pumped through a pipeline that was constructed solely for our oil; is transferred back into tankers; and winds up on the east coast. In the end, that oil actually traveled further than oil that comes in from Saudi Arabia. Nevertheless, its price to the consumers is exactly the same, as the Saudi crude. As a result of these unnecessary transportation costs, however, wellhead prices and exploration and production incentives in Alaska are reduced.

The argument that this bill has anything to do with the price to consumers is totally fallacious. The east coast people, the gulf coast people, the west coast people pay prices based upon the cost of imported oil, the world price for oil, not on the price of Alaskan oil at wellhead. As I said, the wellhead price in Alaska is determined by taking the price of the oil when it reaches its destination and then subtracting the costs of getting the oil to that destination. The wellhead price of Alaska oil has nothing to do with the price consumers ultimately pay at the final destination.

Just think of this also. A discovery like Prudhoe Bay in Montana would have no restrictions on export and would have no restrictions on rights-of-way, and yet people stand on the floor of this Chamber and say that Alaska is seeking some special privilege when it says to the country that unless an additional incentive in the form of increased wellhead prices through lower wellhead transportation costs is given, additional reserves sufficient to keep that pipeline of ours filled after 1989 will not be developed.

By 1989, the throughput of the Alaska pipeline will start dropping off and it will dramatically decrease. We

have had a hard time up to now finding new reserves for the pipeline. The Mukluk field, as Senator MURKOWSKI has indicated, was a dry hole. The whole field has been abandoned. The recent discovery at Seal Island flows at a rate of 5,000 barrels a day. But, as Senator MURKOWSKI said, the Seal Island discovery, although significant, and close to the pipeline may not be economical to produce. It may not generate enough revenue to bring the oil ashore, let alone to the east coast at high transportation rates.

As I stand in my office in Anchorage, I am closer to Tokyo than I am to Washington, D.C., by air, and yet Alaska oil must travel the complete length of the west coast of the United States, all the way down to the Panama Canal, all the way across the breadth of the United States, across the gulf and up the east coast to reach its destination. The people who pay in the long run for this unnecessary transportation are the consumers because there will be no further oil to fill the Alaska pipeline unless some incentive for further exploration and production is provided.

Now, there is a tremendous amount of oil, I feel, in the Alaskan Arctic, onshore and offshore. It is unfortunate we have been unable to work out some sort of a modification of Senator MURKOWSKI's export approach that could win enough support to pass. I know enough, and so does he, to count the votes around here. We know what is going to happen today with regard to the motion to table his amendment. But the day will come when Americans will start reading what the people of the editorial pages say in this country. Look at the editorials from every part of the country. We do not write then, and I can assure the Senators that the newspapers printing them are not friendly to us usually. And yet whether it is in the New York papers or Los Angeles papers, or the Boston papers, the people have looked into this and said: "wait a minute. If there is not an incentive to produce oil, if there is not a market beyond what exists now, then how can you discover the new reserves that we will need when the current production declines?"

I do believe that the time will come when people will understand the economics of dealing with an area that is so far removed from the everyday lives of the people whom the other Senators in this Chamber represent.

But whether the issue is our Federal lands, whether it is our resources, such as our fisheries, our seals—there is a meeting going on in another part of the building today about our seals and the complete misunderstanding that exists concerning the fur seal population off our shores—our timber, our oil and gas, our minerals, we are constantly the target of legislation offered by someone here to protect the interests in their own States regardless of the cost to us and the Nation. Today, individuals oppose Alaska oil exports without real knowledge of what is going to happen to the interests of their States if they prohibit the development of Alaska's full potential. If there ever has been a misunderstanding, there is certainly one here today.

Mr. President, there is more than $1 billion spent for the maritime industry to keep the oil and gas exploration and development production effort going in Alaska. Yet, it is the people in the maritime industry who oppose this amendment because of its alleged effect on shipyards. We have met that objection. This amendment provides that every tanker used for export be built in the United States, manned by U.S. people, and maintained and repaired in U.S. shipyards.

The pipeline, as my colleague from Fairbanks, Senator MURKOWSKI, said, which may be built between Los Angeles and Texas, would move Alaska oil into Texas and into pipelines there that currently are not filled. This is another thing people ought to take a look at. The throughput of oil in Texas pipelines is not presently enough to keep them filled. The pipeline distribution pattern in the Lower 48 was built for Texas and Oklahoma oil, and that is not where the production is coming from. The substantial new production is coming from Alaska.

If a discovery like Seal Island, with a 5,000 barrels per day flow rate, were found in Texas, everybody would be out on a binge. They have the pipelines to get the oil to market at a reasonable price.

Up our way, we go for the aspirin when we find a Seal Island, because the revenues it generates may not cover the cost of getting its production to market. The impact of this cost on oil and gas exploration and development in Alaska does not seem to be understood here.

I am not going to belabor this debate. I do believe that the time will come when there will be a better understanding of this matter, and the Senate will be asked to address it again in days to come, or months to come, or years to come. The time will come when the Senate will understand the economics of developing Alaskan resources and will not rely upon the opposition of those who fear the future. If Alaskans had shared this fear, there would be no oil and gas development in the State now.

Alaska was a territory, as we all know, until just 25 years ago. The land that was developed and is now known as Prudhoe Bay was under the Federal Government's jurisdiction for almost 100 years, and no exploration activity was allowed. It was not until we became a State and sought the right to select and develop this land that exploration was possible. The first major discovery on the North Slope, the main discovery, is on State lands. That should indicate to the rest of the country that we know our State and that those people who interfere in the management our resources from Washington do not.

If the country wants the development of Alaska's resource base, wants our resources to be available, then the Senate and the House of Representatives will have to listen to those of us who have been sent here by Alaskans to tell you what is in the public interest so far as the development of our resources is concerned. Unfortunately, that does not seem to be the case today, and I see no reason to belabor it.

Mr. President, I suggest the absence of a quorum.

The PRESIDING OFFICER. The clerk will call the roll.

The bill clerk proceeded to call the roll.

Mr. MURKOWSKI. Mr. President, I ask unanimous consent that the order for the quorum call be rescinded.

The PRESIDING OFFICER. Without objection, it is so ordered.

Mr. MURKOWSKI. Mr. President, I believe that my good friend and colleague from New York has a statement to make. I relinquish my right to the floor, pending his statement.

The PRESIDING OFFICER. The Senator from New York.

Mr. D'AMATO. I thank my good friend and colleague, the distinguished Senator from Alaska (Mr. MURKOWSKI).

Mr. President, I rise this afternoon to express my opposition to the pending amendment to S. 979, the Export Administration Act, which would permit the exportation of Alaskan North Slope crude oil. Adoption of such a proposal would seriously affect this Nation's energy security.

Section 7(d) of the Export Administration Act currently restricts the exportation of Alaskan crude. As reported by the Senate Banking Committee, of which I am a member, S. 979 extends the existing restrictions on the export of North Slope oil for 6 years.

Mr. President, I think that is a wise extension—6 years. During the course of that time, we can see if some of the concerns, justified concerns, of my two colleagues from Alaska have come to fruition. At that point, we can always move to amend or alter that prohibition.

Today, the United States remains the single largest importer of crude oil and petroleum products in the world, relying upon imports for nearly one-third of our energy supplies. I think that is worthwhile noting. Some people say: "Well, Japan is the greatest importer." I thought it was, but that is not the case. It is the United States of America that is the world's largest importer. The dependence of this Nation upon foreign sources of oil is all too familiar to each of us.

Oil supply and price disruptions have imposed massive costs on the United States. The oil supply disruption of the 1970's—both of which were small in terms of quantities of oil lost,

yet significant in terms of the price increases they caused—demonstrate the difficulty of the market to adjust. Wellhead prices today are 15 times higher than they were just 10 years ago. These price increases have sent tremors throughout our economy, affecting virtually every sector. According to the Department of Energy, we lost an average of $40 to $50 billion of GNP per year during the 1970's as a result of the energy crisis. A comprehensive study by the Department indicates that energy disruption contributed an additional 2 to 3 percentage points of inflation per year during the decade of the seventies. Furthermore, we lost 1 to 2 million jobs per year.

Despite some improvement, the United States still remains very vulnerable to energy and price problems. This is particularly significant when one considers the instability of the world oil and energy system. Our energy policy should be designed to insulate us from potential shocks in the world system and increase our flexibility. Export of Alaskan oil would do just the opposite.

In an attempt to enhance the energy security of the Nation, the Federal Government established the strategic petroleum reserve, which will eventually have a capacity of 750 million barrels of oil. However, the target date for completion of this important program is late in the 1980's. We have already made a significant investment in the reserve and should not abandon it now. From 1980 through 1982, 31.4 million barrels of Alaskan oil were used to fill the strategic petroleum reserve. Our national interests would clearly not be served by exportation of this oil.

In addition, the export of Alaskan crude would devastate our domestic shipping industry. Nearly 65 percent of the domestic shipping fleet is engaged in Alaskan oil trade. Exporting this oil would drydock as much as half of the U.S. tanker fleet. In the process, 20,000 Americans would lose their maritime-related jobs. We would effectively dismantle our shipping infrastructure and render ourselves incapable of moving oil supplies during a national emergency. This point is of particular concern to me because of the heavy reliance of the Northeast upon imported oil, and the important role which the maritime industry plays in our national security.

For these reasons, I joined as a cosponsor of S. 1159, legislation to extend indefinitely the ban on the exportation of Alaskan oil and I oppose the pending amendment. I would, in the interest of our energy security, encourage my colleagues to reject any proposal which would increase America's vulnerability as the pending amendment would do.

To alter the present policy would be extremely bad energy policy and very shortsighted, counterproductive economic policy. Exportation of Alaskan oil would increase our dependence upon imports from foreign nations and would not lead to a significant increase in domestic oil production.

Needless to say, I think that my constituents, particularly those in the Northeast who are so dependent upon imported oil, could find themselves very adversely affected if we found a diminution in the world's oil supply, if a tragic event might take place to cut off the supply of oil from the Middle East to Western Europe and the United States. In the Northeast, we are very dependent on foreign oil.

I think that this amendment offered by my distinguished colleague from Alaska is ill advised.

Mr. MURKOWSKI. I thank the Chair.

Mr. President, it is certainly an issue that I feel requires a great deal of understanding. It seems indeed as we examine the merits that there is a question of whose best interests are at stake, not necessarily the question of what is in the best interests of our country.

I certainly commend my colleague from New York for the remarks he has made and his opinions. I regard them just as I do the feelings expressed of my colleague from Ohio, Senator METZENBAUM. But we find my colleague, Senator PACKWOOD from Oregon, also has a particular interest. And we begin to look at the special interest associated with this issue, and none has recognized or responded to the specific reality of what is taking place today with regard to the current movement, excess oil from the west coast of the United States.

As additional crude oil comes down from the North Slope as a result of additives being put into the pipeline, increased production from the Kuparuk field, and the decision to develop an additional field, Milne Point, realities dictate that the capacity of the pipeline across Panama will be exceeded. I have been told by the companies involved before the year is out, the small ships will be back, shuttling oil through the Panama Canal, in addition to the funneling of the oil through the pipeline, beneficiaries of the export ban.

We move over to the other special interest groups associated with this, and we find the entrepreneurs from California, the California-Texas pipeline, which, as I have indicated in my statement, proposes to move 800,000 barrels of oil a day from Long Beach, Calif., to the Gulf States at a savings of some $3 per barrel which amounts to $2.4 million per day.

Mr. President, that is the American system at work. It is the reality that there is a better way to do things, so people develop better proposals. As we look at the concerns of my colleague from Oregon, with regard to the shipyard in the Columbia River, all of those tankers that operate from Valdez to Panama are indeed repaired in that shipyard. That is a very efficient American shipyard. My amendment meets the specific concern, of my colleague because it dictates that those vessels will be repaired in American shipyards.

Unfortunately, there may be some ships involved that are so large that they cannot fit into the Columbia River shipyard. So obviously again the special interests of my colleague are affected.

But when we recognize that that shipyard was built in Japan and hauled over from Japan to the United States, and the reason it was not built in the United States is that it would have cost some $35 million or more to build in the United States, one has to reflect on what we are doing to ourselves on the exports issue by mandating the preservation of economic inefficiencies.

I have belabored my colleagues at great length today. I appreciate indeed their understanding. As I reflect back and forth on the merits of this issue, I think it is indeed unfortunate that so many public policy questions in the Senate are resolved through the influences of special interests. As a consequence, the debate that takes place on this floor, as you can see, is not participated in by a majority of the Members. I think it is sufficient to say at this particular time I am the only Member on the floor. It is indeed unfortunate that the merits of this issue have not been thoroughly examined, and I think it is significant to note that in my talks with people in the White House and every other level of Government, they have said that exports are in the national interest, but for this reason or that reason, we cannot support your proposed amendment.

The maritime unions are against it. I understand charity begins at home, but I have already indicated that maritime industry needs help. I am not proposing to harm the maritime industry. On the contrary, I am proposing to provide new jobs in the maritime industry and other industries by encouraging the export of oil, which will increase the incentives for oil and gas exploration in Alaska and elsewhere. If you think the oil companies are going to develop Alaska because they love it, you are entirely mistaken. They are up there because they are looking for a return on their investment, and they have to have an incentive.

I do not care whether you talk about the benefits to Alaska or the benefits to the Federal Government in revenues; the realities dictate that the incentive for industry has to be there, and the incentive can only come in this particular scenario by reducing the transportation costs. You cannot argue with the realities.

The question continually comes up if we export 200,000 barrels we are going to have to import 200,000 barrels. Absolutely. The logical place to import it from is Mexico. They sit right next to

us. The transportation costs are nothing more than moving the oil through a pipeline a few hundred miles. In addition, Mr. President, as we reflect on our situation with Mexico it is kind of interesting to note that Mexico's production from 1980, when it was 1.9 million barrels per day, has gone up to 2.6 million in 1983. Reflecting further on that production, I would like to point out that 25 percent of the production coming into the United States from Mexico is refined products. Think of the merits of that. We have unused refining capacity in this country. Why not bring crude oil in from Mexico to be refined in our refineries? I think this subject deserves a little more examination by this body.

Mr. President, we have a great concern about the issues and the current atmosphere in Central America. It is indeed in our best interest to establish closer ties with Mexico so we can protect the investment of Americans in that country. The best way to achieve this is to buy more crude oil from Mexico—not refined products—and bring Mexican crude oil into the United States, refine it in refineries in this country, and allow the export of corresponding amounts of oil to our fine Pacific Rim allies willing to buy Alaskan oil. This will result in a stimulation to a significant degree of the industry because the inducement is there.

Mr. President, I know my colleagues' attitude on this issue. Unfortunately, this particular issue is one that is going to require additional explanation, and a knowledge we are going to have more and more crude oil on the west coast, to the point that it gets embarrassing. I have indicated that it is embarrassing now because we are going to have to go back to shuttling the ships back and forth. But the merits of an up and down vote on my amendment for 200,000 barrels a day are fraught with the political realities existing in this body. As a consequence, Mr. President, I now wish to modify the pending amendment before you. Therefore, Mr. President, I send my modified amendment to the desk and ask that it be read.

The PRESIDING OFFICER. The amendment is so modified.

The clerk will read the modification.

The bill clerk read as follows:

On page 1, on line 6, after the period, insert the following:

Section 7 of such Act is further amended by inserting after paragraph (2) of section 7(d) the following and renumbering the succeeding paragraph accordingly:

"(3) Notwithstanding paragraph (1) or any other provision of law, crude oil produced from reservoirs other than the Saddlerochit and Kuparuk River reservoirs may be exported in accordance with the provisions of this Act at a rate not to exceed 200,000 barrels a day. Exports of such crude oil shall be made only—

"(A) pursuant to contracts which may be terminated if the crude oil supplies of the United States are interrupted, threatened, or diminished; and

"(B) on vessels built and documented in the United States, with all maintenance and major repairs on such vessels occurring in United States repair facilities."

Mr. MURKOWSKI. Mr. President, this amendment would permit only the export of Alaska North Slope oil from either new production from existing fields or newly developed fields. And it specifically dictates that export of this oil be on U.S.-built and documented tankers, that those flag tankers be repaired in U.S. shipyards, and that the President may cancel export contracts during time of an emergency.

This amendment proposes that an amount not to exceed 200,000 barrels of new oil be available for export. As I have indicated previously, this would encourage oil companies to produce oil in an amount equivalent to the carrying capacity of the Trans-Alaska pipeline. However, the Trans-Alaska pipeline operators believe that it is possible, through technical developments, to increase the oil throughput by as much as 200,000 barrels. Present production from Prudhoe Bay is 1,500,000 barrels per day. Another 130,000 barrels per day comes from the Kuparak field.

My amendment covers new oil from fields other than those I have mentioned. North Slope exploration and development would indeed be spurred by this amendment. It would encourage oil companies to invest in the exploration and development of these new fields. Certainly new exploration and development is in America's national interest.

For example, presently marginal fields on the North Slope of Alaska would most likely be brought into production. In addition, there would be no loss of jobs in the maritime trades because all existing oil would continue to flow as it is presently flowing in the present ships that move the oil.

So, Mr. President, this amendment can only be in the interest of all concerned. It does not impact the concern of my colleague from the State of Oregon, who is worried about the utilization of the shipyard on the Columbia River. It does not impact my other colleagues' concern over how we replace the 200,000 barrels a day of exported oil.

Mr. President, the Lisburne field may come into production if the inducement is there. The difficulty is that the oil is suspended in sand. Much of it is in permafrost. Developing techniques to extract this oil is in the formative stages. But it is in the national interest of this country that that oil be made available for development. And this amendment would provide the inducement to develop the technology necessary to make the Lisburne field a proving field.

Seal Island, as I have indicated in my previous comments, could bring in 5,000 barrels a day. Seal Island will probably not come into production unless this amendment is passed. That is just a hardcore fact. My colleagues should understand that if the return is not there on the investment, the development does not occur.

Conoco and its partners have recently announced that they hope to begin producing 30,000 barrels per day of crude oil from a small field on Milne Point.

My amendment as proposed would address new oil only. As I have indicated, the amendment would have no impact on existing Jones Act tankers or crew, because export levels are pegged at approximately the levels currently being carried by the Jones Act fleet.

The rate at which the U.S. Treasury receives revenues from the windfall profit tax on the Prudhoe Bay field will increase because of accelerated development. This would allow the American taxpayer to capture more of the windfall profit before the windfall tax expires in 1991. On exports of new oil, the Federal Government would capture an estimated $100 million to $150 million per year. So it is an opportunity, Mr. President, for this Nation to provide the incentive to look for new oil.

And I would at this time like to acknowledge the floor manager, Senator HEINZ, for his accommodation in my efforts to again bring before this body the merits associated with the development of Alaska oil. I respectfully ask for the support of my colleagues on the pending amendment, which will initiate the stimulus to develop new oil, which is obviously in the national interest.

Mr. HEINZ. Mr. President, I suggest the absence of a quorum.

The PRESIDING OFFICER. The clerk will call the roll.

The bill clerk proceeded to call the roll.

Mr. HEINZ. Mr. President, I ask unanimous consent that the order for the quorum call be rescinded.

The PRESIDING OFFICER (Mr. MATTINGLY). Without objection, it is so ordered.

Mr. MURKOWSKI. May I make inquiry of the floor manager?

Mr. HEINZ. Mr. President, it is my intention to move to table the Murkowski second-degree amendment. I do not see any of our colleagues wishing further recognition at this time. I think we have debated this issue at length.

Let me just state the position of the managers of the bill. The managers of the bill are unanimously opposed to this amendment. Senator GARN, our chairman, is opposed to this amendment and supports the tabling motion.

There is a list of labor organizations a mile long which are opposed to this amendment.

Someone might ask, What is the administration position on this issue?

Mr. President, I think it can be accurately stated that at the Cabinet Council meeting on this subject 2

weeks ago, the Cabinet Council of the Reagan administration stated that they did not support this issue being considered on this bill, and that they wanted to consider the issue further. They did not want to confront it on this legislation because they agreed that this legislation deals with a number of national security issues and deals directly with the problems of technology transfer between the United States, our allies, and the Soviet Union. They did not want to get into this complex issue on this legislation.

I make that statement. I think it is a matter of record, based on what the Cabinet Council has in fact said. I think it can be confirmed by any telephone call.

So that there is no misunderstanding, I am not saying that the administration is opposed to the substance of what Senator MURKOWSKI wants to do. They have not taken a position on substance. But what they have said, at least insofar as the Cabinet Council is concerned, is that they do not support any kind of amendment in this area on this bill.

I think that is an accurate reflection of the record. I do not think my friend from Alaska would disagree with what I have just said, but I would be happy to yield to him if he chooses to disagree.

Mr. MURKOWSKI. I thank my colleague for yielding. My understanding is that the Cabinet Council did address the substance and voted 7 to 3 in favor of allowing oil exports. I have been advised by the administration, through the Assistant to the President for Legislative Affairs, as a consequence of that vote, that indeed the administration has a position, and that position is no position. [Laughter].

In an interview which occurred in Washington, D.C. on the evening of February 22, the President in a nationally-televised news conference lent his support to the export of Alaskan oil for the first time in such a widely publicized forum. I quote his remarks:

I share the view that it (Alaskan oil exports) would be an asset to the United States to do this.

He said that in response to a question.

As a consequence of that statement, I am somewhat confused at the official administration position, which is no position. However, I can understand the delicacy of this question from a political point of view. As the floor leader has indicated, the unions have indicated there interest. But, again, I would respectfully remind the floor leader that I have addressed the union's interest in my amendment. Indeed, in this amendment we are providing new jobs for the unions because we propose to export new oil.

Mr. HEINZ. Mr. President, I yielded to my friend from Alaska for a point of clarification. I did not want him to go over the excellent points he has made on behalf of his proposition or his point of view.

I wanted to be sure that we all understood that the Cabinet Council in fact did do what I said. The Senator from Alaska is correct, that they ended up saying, "we have not taken a position and we do not support anything happening right now." He is right, it is a heck of a position for someone to take.

Mr. MURKOWSKI. Will my colleague yield for a question?

Mr. HEINZ. I would be happy to yield for a question as long as it is carefully stated.

Mr. MURKOWSKI. What is the Senator's interpretation of the Cabinet Council's vote of 7 to 3 on the substantive question of Alaskan oil?

Mr. HEINZ. I say to my friend, I cannot tell him how they came out on substance except I also know that they agreed they did not want to confront the issue at this time on this bill. That is a fact. No matter how they voted, it is still a fact. The Senator can have his facts correct, I can have mine correct, because they are different facts. They are not self-contradictory. It just may seem that way to casual observers in Washington, D.C., who have not understood the intricacies of our system.

Mr. President, I thank my friend from Alaska. He has been extremely eloquent. I hope he has not persuaded anybody of his position.

I move to table the Murkowski second-degree amendment. I ask for the yeas and nays.

The PRESIDING OFFICER. Is there a sufficient second? There is a sufficient second.

The yeas and nays were ordered.

Mr. PROXMIRE. Mr. President, I rise in opposition to the amendment to section 7(d) of the Export Administration Act, offered by Senator MURKOWSKI, which would authorize the export of 200,000 barrels of crude oil per day produced in Alaska. I believe Senator MURKOWSKI has made some appealing arguments in favor of his amendment, but I cannot support it because I am convinced it would be harmful to our Nation's international trade position.

In 1983 our accelerating trade deficit with Japan was almost $22 billion. In 1984 that deficit is expected to rise to nearly $25 billion. Selling 200,000 barrels of Alaskan oil a day to the Japanese would reduce our bilateral trade deficit with Japan by $2 billion, and thus assist in disguising the structural nature of our trade problem with the Japanese.

Most Japanese exports to our country are higher value-added manufactured goods such as automobiles, video cassette recorders, and other electronic equipment. U.S. manufactured goods, however, are denied access to the Japanese market by nontariff barriers such as restrictions, quotas, and complex inspection and licensing requirements. Even some of our agricultural products such as beef and citrus fruits are kept out of Japan by stringent import quotas as the Japanese are concerned with dislocations that would be caused to their own farmers by such imports.

Our negotiators have been striving for years, without great success, to persuade the Japanese to remove their nontariff barriers to U.S. manufactured goods and their import quotas on our agricultural products. The Japanese Government would like to reduce the pressures on them to open their market for imports of manufactured goods from our country by taking raw materials such as Alaskan oil instead. The problem for us with this Japanese strategy is that the export of oil, which is already in short supply in our own country, does not produce jobs for our workers. The export of our manufactured goods would.

What we need to straighten out our trade problem with the Japanese is (a) for the Japanese to open up their markets to our manufactured exports, and (b) for us to reduce our budget deficit to bring down interest rates and the bloated value of our dollar which is destroying our ability to compete internationally. Selling Alaskan oil is not the solution.

I should also note, in regard to Senator MURKOWSKI's amendment, that section 7(d) of the Export Administration Act does not now forbid the export of Alaskan oil. It permits such oil to be exported if the President finds, and Congress agrees, that: First, such exports are in the national interest; second, they could be terminated in the event of an emergency; third, they would not diminish the over-all petroleum supply available to the United States; and fourth, at least a portion of the increased profits made by oil companies through such exports would be passed on to the consumer. To date, no president has found that these prudent restrictions could be satisfied in exporting Alaskan oil. The amendment, offered by Senator MURKOWSKI, would solve this problem by getting rid of such restrictions. It does not provide for passing any portion of increased oil company profits to American, as opposed to Japanese consumers.

I do not believe this amendment is wise public policy for the above reasons, and I urge you to vote against it.

Mr. PRESIDENT, I ask unanimous consent to have printed in the RECORD articles from the Oil Daily of February 27, 1984, and an article from the Washington Post.

There being no objection, the articles were ordered to be printed in the RECORD, as follows:

[From the Oil Daily, Feb. 27, 1984]

ALASKAN OIL EXPORTS ARE A BAD IDEA FOR U.S., JAPAN

(By James Akins)

New ideas are rare and usually should be cherished.

A group of Japanese businessmen, and Alaskan government officials have proposed an ingenious but simple scheme to redress the staggering trade imbalance between Japan and the United States, and to increase Alaskan state revenues.

They would sell Alaskan oil to Japan. Although exports are currently restricted by the Export Administration Act, that law is being reconsidered by Congress and the restrictions on oil exports could be removed.

Japanese businessmen and other export proponents collectively note that every 100,000 barrels per day of Alaskan oil sold to Japan would reduce our bilateral trade deficit with the country by about $1 billion annually.

These businessmen recognize that they could benefit if this new export caused the United States to reduce its pressure on Japan to liberalize other import restrictions. Another argument for importing Alaskan oil heard in Japan is that Japanese security would be enhanced by reducing imports from the Middle East and switching to the "secure" United States of America.

The State of Alaska could also benefit by selling the Japanese Alaskan oil—particularly state royalty oil. If the market were Japan, transportation costs would be lower due to the shorter transportation distance and the ability to use more economical foreign-flag ships. (Shipments to the lower 48 states must be made in American ships.)

With reduced transportation costs, Alaska would earn more for each barrel of its royalty oil. Even if oil companies exported some of their oil (a less likely proposition than Alaska selling its royalty oil), Alaskan revenues would also increase (although to a lesser extent) because Alaska taxes the value of all oil produced in Alaska. It is also argued that a Japanese market for Alaskan oil would encourage development of new oil resources in that state and for the nation.

A BAD IDEA

Should we then embrace this new idea with open arms? I think not. For upon closer examination, it makes little sense for the nation as a whole.

If the United States were a net exporter of oil and were seeking new markets for its surplus, then exporting Alaskan oil might make sense. But unfortunately, this has not been the case for 30 years and it is unlikely that it ever will be again.

Every barrel of Alaskan oil diverted from the American market and sold to Japan would have to be replaced by a barrel of imported oil. Thus, there would be no overall balance of payments benefit for the United States.

One should not begrudge the Alaskans this attempt to get greater oil wealth, but one's sense of charity is strained when we note that Alaskans already have the highest per capita income in the union, resulting in payments by the state to its citizens—a reverse income tax. If Alaska were a member of OPEC, it would rank fifth in per capita income, right behind Saudi Arabia.

Spurred on by the five-fold increase in the price of oil in the last decade, Alaska has been our main source of additional oil production. There will always be, however, a market for Alaskan oil in the United States. In fact, Alaskan oil production may peak out before the end of this decade and opening it up to the Japanese could threaten America's oil reserves.

THREAT TO RELATIONS

If we did sell Alaskan oil to the Japanese, replacement oil would almost certainly come from the unstable Middle East. If there were a cutoff in oil supplies, however, Congress could (and certainly would, in the absence of a treaty specifically prohibiting such cutoffs) pass legislation again, forbidding the export of American oil. Alaskan oil would then be shifted back to the American domestic market.

This situation would pose a serious threat to Japanese-America relations. The Japanese government understands this well and has been noticably absent from the group advocating purchase of Alaskan oil.

It is difficult to imagine anything that would more severely and permanently disrupt relations between Japan and the United States than for Japan to buy American oil and then, at the time of the first shortage, for the United States to cut it off—something no Middle East exporter would be likely to do, at least not deliberately.

OLD ARGUMENTS HOLD

Who even remembers 12 years ago when oil was discovered in Alaska and ecologists strongly opposed the pipeline construction as potentially damaging to the "fragile Arctic environment."

They archly questioned whether the oil was needed. "Will it not really be exported to Japan?" they asked. "Absolutely not," chorused government and industry. Our oil production was declining, they maintained—honestly, it may be noted—and the oil would be required by the United States.

Even the governor of Alaska, William A. Egan, testified before the Senate Interior Committee on April 19, 1973: "The companies have categorically stated that there will be none of that oil transported to Japan and it is the position of the State of Alaska that there will not be any of the oil transported to Japan."

The arguments for the pipeline proved persuasive and the pipeline was built. We needed it during the oil crises of the 1970s and we need it today.

[From the Washington Post, Feb. 25, 1984]

ONLY ALASKANS AND JAPANESE WOULD BENEFIT

The governor of Alaska recently wrote in The Post that the existing prohibition of export of Alaska oil was not in the "national interest." His arguments are grounded on unrealistic and oversimplified theories about how world trade and the world oil market work. They serve to cloak the purely parochial under the banner of U.S. national interest. I see the export prohibition differently, as do almost 300 members of the House and Senate who have cosponsored legislation to permanently ban the export of Alaskan oil.

Export of this vital national resource would weaken our already one-sided trade position with the Japanese, damage national security and blame energy consumers for the additional $2-$4 per barrel cost of more expensive replacement oil. Furthermore, it would substantially curtail our progress toward energy independence.

Exporting Alaska oil will not improve our trade posture. The overall U.S. trade deficit will not be reduced because exports will force us to import an equal amount of oil. Indeed, exports are likely to increase our $60 billion-plus trade deficit as we pay more for replacement oil that we will get for Alaska oil abroad. Most dangerously, exports will take the heat off the Japanese to lower their trade barriers and alter unfair export promotion policies. Instead of exporting goods manufactured by American labor in American factories, we would send the Japanese a scarce and irreplaceable domestic energy resource.

Furthermore, exporting our oil would be an act of contempt for the paramount goal of energy independence. Saudi Arabia is the most likely source of crude to replace exported Alaska oil because it has oil to sell and because its crude is of similar quality to Alaska oil. Mexico, Venezuela and Nigeria are unlikely sources of replacement crude. Mexico has an explicit policy against more exports to this country; Venezuela and Nigeria both are members of OPEC who are abiding by their production quotas. Thus, exporting Alaska oil would increase U.S. dependence on the Middle East, the Iran-Iraq War, instability in Lebanon and the track record of the region all point out the imprudence of exporting Alaska oil.

For consumers, Alaska oil puts downward pressure on prices in the Gulf and West Coast markets, giving significant price relief and improving our capacity to respond to a supply disruption.

The Alaskans and Japanese alone would benefit from the export of Alaskan oil. Alaskans would add $50 to $300 million a year to the $2.5 billion they currently garner annually from oil revenue. The Japanese would cover up the serious trade issues underlying our $20 billion bilateral trade deficit. U.S. trade interests, energy security and consumers would lose from export. a broad-based coalition of consumer, farm, environmental, labor and industrial interests understand this economic reality and support continued domestic use of our oil. Let's not be fooled into believing Alaska oil exports are in the "national interest."

The PRESIDING OFFICER. The question is on agreeing to the second-degree amendment. The yeas and nays have been ordered. The clerk will call the roll.

The bill clerk called the roll.

Mr. STEVENS. I announce that the Senator from Rhode Island (Mr. CHAFEE), the Senator from Idaho (Mr. MCCLURE), the Senator from Illinois (Mr. PERCY), the Senator from Virginia (Mr. TRIBLE), and the Senator from Connecticut (Mr. WEICKER), are necessarily absent.

I further announce that, if present and voting, the Senator from Illinois (Mr. PERCY), would vote "yea".

Mr. BYRD. I announce that the Senator from California (Mr. CRANSTON), the Senator from Ohio (Mr. GLENN), the Senator from Colorado (Mr. HART), the Senator from South Carolina (Mr. HOLLINGS), and the Senator from Kentucky (Mr. HUDDLESTON), are necessarily absent.

I further announce that, if present and voting, the Senator from Kentucky (Mr. HUDDLESTON), would vote "yea".

The PRESIDING OFFICER. Are there any other Senators in the Chamber wishing to vote?

The result was announced—yeas 70, nays 20—as follows:

[Rollcall Vote No. 27 Leg.]

YEAS—70

Abdnor	D'Amato	Grassley
Andrews	Danforth	Hatfield
Baker	DeConcini	Hawkins
Baucus	Denton	Hecht
Bentsen	Dixon	Heflin
Biden	Dodd	Heinz
Bingaman	Dole	Helms
Boren	Domenici	Humphrey
Bradley	Durenberger	Inouye
Bumpers	Eagleton	Johnston
Burdick	East	Kasten
Byrd	Exon	Kennedy
Chiles	Ford	Lautenberg
Cochran	Garn	Leahy
Cohen	Goldwater	Levin

Long	Packwood	Sarbanes
Mathias	Pell	Sasser
Matsunaga	Pressler	Stafford
Mattingly	Proxmire	Stennis
Meicher	Pryor	Warner
Metzenbaum	Quayle	Wilson
Mitchell	Randolph	Zorinsky
Moynihan	Riegle	
Nunn	Rudman	

NAYS—20

Armstrong	Laxalt	Stevens
Boschwitz	Lugar	Symms
Evans	Murkowski	Thurmond
Gorton	Nickles	Tower
Hatch	Roth	Tsongas
Jepsen	Simpson	Wallop
Kassebaum	Specter	

NOT VOTING—10

Chafee	Hollings	Trible
Cranston	Huddleston	Weicker
Glenn	McClure	
Hart	Percy	

So the motion to lay on the table was agreed to.

Mr. BAKER. Mr. President, I should like to take this opportunity to ascertain, if I can, how many amendments remain, how many rollcall votes we are likely to have, and then make some courageous estimate as to how long we are going to be in tonight.

I wonder if the distinguished manager on the majority side can give me his view of that situation.

Mr. HEINZ. Mr. President, I say to the distinguished majority leader that we are about to dispose of an additional amendment by Senator MURKOWSKI. We can take that on a voice vote.

I anticipate that Senator PRESSLER and Senator PRYOR will have an amendment regarding the Federal Reserve. I anticipate a brief debate on that and a motion to table, after about 10 minutes.

Senator MATHIAS has an amendment which I believe will be acceptable to the managers. No recorded vote will be required. That should take no more than 5 minutes, if my optimism is not being carried away.

Senator BOREN is working on an amendment having to do with wheat. I do not have the details on that. That could very well require a recorded vote.

Senator DODD has an amendment, if he chooses to go ahead with it, on contract sanctity, which would require a vote.

Mr. BAKER. Mr. President, that is a pretty imposing list of amendments.

I have not yet had an opportunity to discuss with the minority leader as to any additions he may have to that.

It seems to me clear that we are going to be in at least until 9 o'clock, maybe later. It is still the hope of the leadership on this side that we can finish this bill tonight. But if we cannot, it would not be the intention of the leadership to ask us to stay past 9 or 10 o'clock, and we will be on it tomorrow.

I urge Senators to be as brief as possible and to see if we can finish this bill by 9 o'clock this evening or thereabouts.

Mr. GARN. Mr. President, will the Senator yield?

Mr. BAKER. I yield to the Senator from Utah.

Mr. GARN. Mr. President, with all due respect to the majority leader, I certainly recommend that we stay for whatever time is necessary to finish. This bill has been in process for a long time. Senator HEINZ and I spent 6 months working on a very careful compromise, and what we have been doing all week has nothing to do with the Export Administration Act. We would become the first Christmas tree of 1984. It is a little early; it is only March.

Nevertheless, we have had a number of nongermane amendments which have nothing to do with a very carefully crafted act. We have been going on extensions of the Export Administration Act. There has been no regard for the importance of the basic structure of the bill.

I suggest to the majority leader that we are going to be in here tomorrow and he can expect we can go all day tomorrow and still be here late tomorrow, an innovative staff will think of more nongermane amendments.

It is the opinion of the chairman of the committee that if it takes us until 1 or 2 o'clock, we should grind it out and get back to the Export Administration and trim the Christmas tree a little bit.

Mr. HEINZ. Mr. President, will the Senator yield?

Mr. BAKER. I yield.

Mr. HEINZ. Mr. President, may I say to my friend, the majority leader, that I am afraid Senator GARN is right. It has been my experience today that as Members were reluctant in coming forward with amendments it gave staff time to cook up another half dozen amendments, and the longer we drag this out the more nongermane, lengthy amendments there will be.

I think Senator GARN may be a little conservative in estimating how much longer it will drag on.

I know we have a lot of things that I know the majority leader wishes to do, and I urge him, and second Senator GARN's motion, to stay as late as possible to finish.

Mr. DECONCINI. Mr. President, will the Senator yield?

Mr. BAKER. I yield.

Mr. DECONCINI. Mr. President, I pose the other side of the issue. It seems to me, I say to the majority leader, that we have tomorrow. We have extended this 30 days, I understand, sometime earlier today. I do not see the need to stay until 1 or 2 a.m. It seems this is not a dire emergency.

With all due respect to the chairman and distinguished Senator from Pennsylvania, if we need to stay here until 1 or 2 a.m., or even 9 p.m. tonight, I think we could come in tomorrow morning and finish it up.

Mr. BAKER. Mr. President, there are many Senators who would wish to finish tonight, and almost no Senators who wish to be back tomorrow doing this. I do not know which is more effective at any given time in the Senate, the carrot or the stick. We now have heard both.

Let me say that in cases of this sort, the managers of the bill are the ones who should have the first opportunity to decide whether we stay late or do not stay late. Obviously, both the chairman of the committee and the manager of the bill on the floor wish to continue, so we will continue.

Mr. HEINZ. I thank our leader.

Mr. President, I believe the Senator from Alaska has an amendment which I believe that we can accept.

Mr. MURKOWSKI. Mr. President, I thank the manager of the bill.

The PRESIDING OFFICER. The Senator from Alaska.

AMENDMENT NO. 2771

(Purpose: To establish a Presidential study commission on crude oil exports)

Mr. MURKOWSKI. Mr. President, I send a perfecting amendment to the desk and ask that it be stated.

The PRESIDING OFFICER. The amendment will be stated.

The assistant legislative clerk read as follows:

The Senator from Alaska (Mr. MURKOWSKI) proposes an amendment numbered 2771 to amendment numbered 2769.

Mr. MURKOWSKI. Mr. President, I ask unanimous consent that further reading of the amendment be dispensed with.

The PRESIDING OFFICER. Without objection, it is so ordered.

The amendment is as follows:

On line 6 after the period insert the following:

Section 7 of such Act is further amended—

TITLE II—CRUDE OIL COMMISSION

ESTABLISHMENT OF THE COMMISSION

SEC. 201. (a) There is established a Presidential Advisory Commission to Study the Export of Crude Oil (hereinafter referred to as the "Commission") composed of seven members appointed by the President. No person shall be appointed who has, or is a member of a company or organization which has, any direct monetary interest in domestic or foreign oil exploration, production, transportation, importation or exportation.

(b) The President shall designate from among the members a Chairman and Vice Chairman. Vacancies in the membership of the Commission shall not affect the power of the remaining members to execute the functions of the Commission and shall be filled in the same manner as the original appointments.

(c) Members of the Commission shall be appointed not later than sixty days after the date of the enactment of this Act and shall serve for the life of the Commission. Members appointed to the Commission shall take office upon the date of their appointment.

PURPOSE AND FUNCTIONS OF THE COMMISSION

SEC. 202. The Commission shall—

(1) undertake a comprehensive review of the issues and related data concerning exports of crude oil, particularly Alaska North Slope crude oil, at free market levels, under current prohibitions, and at levels of 50,000 barrels per day, 200,000 barrels per day, and

500,000 barrels per day, including, but not limited to—

(A) the effect of such exports on the energy and national security of the United States and its allies;

(B) the role of such exports in United States foreign policymaking, including international energy policymaking;

(C) the impact of such exports on employment levels in the maritime industry, the oil industry, and other industries;

(D) the impact of such exports on the average consumer;

(E) the impact of such exports on Federal Government revenues and expenditures;

(F) the effect of such exports on incentives for oil and gas exploration and development in the United States; and

(G) the legal impediments to such exports, particularly section 7(d) of the Export Administration Act of 1979;

(2) develop, after consulting with appropriate State and Federal officials and other persons at the discretion of the Commission, findings, options, and recommendations regarding the export of oil, particularly Alaska North Slope crude oil, which shall be made to the President not later than January, 1, 1985; and

(3) undertake additional related tasks and make interim reports of its activities and recommendations as the President may determine necessary.

ADMINISTRATION AND POWERS

SEC. 203. (a) The Commission may make appropriate rules respecting its organization and procedures, except that no recommendation shall be reported from the Commission unless a majority of the Commission assents.

(b) The Chairman of the Commission may appoint and compensate staff personnel, without regard to the provisions of title 5, United States Code, government appointments in the competitive services, and the provisions of chapter 51 and subchapter III of chapter 53 of such title, relating to classifications and the General Schedule pay rates.

(c)(1) Subject to paragraph (2), the members of the Commission may be reimbursed for travel, subsistence, and other necessary expenses incurred by them in carrying out the functions of the Commission.

(2) Any member may decline the reimbursement of expenses.

(d) the Commission is authorized to—

(1) obtain the services of experts and consultants in accordance with the provisions of section 3109 of title 5, United States Code; and

(2) enter into contracts with Federal or State agencies, private firms, institutions, and agencies for the conduct of research or surveys, the preparation of reports, and other activities necessary to the discharge of the duties of the Commission to the extent or in such amounts as are provided in appropriation Acts.

(e) The Commission may acquire directly from the head of any department, agency, independent instrumentality, or other authority of the executive branch of the Government, available information which the Commission considers useful in the discharge of its duties. All departments, agencies, independent instrumentalities, or other authorities of the executive branch of the Government shall cooperate with the Commission and furnish all information requested by the Commission to the extent permitted by law.

(f) The Administrator of General Services shall provide to the Commission on a reimbursable basis such administrative support services as the Commission may request.

REPORT TERMINATION

SEC. 204. (a) The Commission shall submit a final report to the President not later than January 1, 1985, concerning the findings, options, and recommendations it develops with respect to the matters described in section 202.

(b) The Commission shall terminate within thirty days following the submission of the final report.

SUBMISSION OF THE REPORT AND PRESIDENTIAL RECOMMENDATIONS TO CONGRESS

SEC. 205. In response to the Commission's report, the President shall develop recommendations on the export of crude oil, particularly on the advisability of retaining section 7(d) of the Export Administration Act. He shall submit the Commission's report and his recommendations to Congress not later than March 1, 1985.

AUTHORIZATIONS OF APPROPRIATIONS

SEC. 206. There are authorized to be appropriated in any fiscal year such sums as may be necessary to carry out the provisions of this title.

FEDERAL ADVISORY COMMITTEE ACT

SEC. 207. Except where inconsistent with this title, the provisions of the Federal Advisory Committee Act shall apply to the Commission.

Mr. MURKOWSKI. Mr. President, I submit an amendment covering the importation of a study group.

Mr. President, I understand the Senate's concern over the implications of limited export of Alaska crude oil. There are clearly strongly felt and emotional arguments on both sides.

It seems to me that, in light of this, it would make sense for all of us to stand back and take a dispassionate look at this issue. The Congress has been looking at this issue for 10 years, in the course of legislation and recently in a study by the General Accounting Office. Various administrations, including the current one, have also had this issue under study. I think the time has come to have an independent, impartial body study this issue and make recommendations to the administration and the Congress.

Mr. President, at this time I would like to introduce an amendment to the Export Administration Act which would empower the President to appoint a Presidential Advisory Commission to study the issue of exporting Alaska crude oil.

The Commission would be composed of seven members appointed by the President; the President would also appoint the chairman and vice-chairman.

To insure an impartial analysis and unbiased recommendations, no member of the Commission would have any direct, or indirect, monetary interest in domestic or foreign oil exploration, production, transportation, or distribution.

This Commission would be charged with determining the "facts of the case"—namely, the costs and benefits of exporting limited amounts of Alaska oil, and how those costs and benefits are distributed.

The Commission would study the impact of export of Alaska oil under four different scenarios: Free-market export levels, export of 50,000 barrels per day, export of 200,000 barrels per day, and export of 500,000 barrels per day. For each of these scenarios, the Commission would consider the impact of export on: U.S. national and energy security, employment in the domestic oil exploration and transportation industries, consumer oil prices and Federal royalty, and tax receipts.

A major stumbling block in previous efforts to debate the substantive merits of this issue has been a disagreement of exactly which proposal was being advanced. The Commission will provide the data to overcome this problem.

In addition, the Commission would go one step further and use this information to develop a recommendation on whether export was in the national interest, and if so, at what volume level. Because of the broad-based composition of the group, the recommendation would reflect the national interest, not the interest of any particular group in favor of or opposed to export. A majority of the Commission would have to approve any recommendations.

The Commission recommendations, and its report, would be required to be in the hands of Congress by March 1, 1985.

This Commission would have a very limited life; far be it from me to expand the bureaucracy unnecessarily. Members would serve for the life of the Commission—30 days after the submission of its final report—approximately April 1, 1985.

I believe that the work of this Commission would allow us, at last, to resolve this issue. It would be well worth the modest investment of Federal dollars. I ask for your support.

The Commission's recommendations would be reported to Congress prior to March 1985. The Commission would then expire. I believe, Mr. President, that the work of the Commission will allow us to resolve this issue, which I am sure would meet with the approval of the manager of this bill and many of my colleagues.

I think it would be well worth the modest investment, and I therefore ask your support at this time. I hope the managers of the bill will accept my amendment.

Mr. PROXMIRE. Mr. President, will the Senator yield for two or three brief questions?

Mr. MURKOWSKI. I am happy to yield to my friend from Wisconsin.

Mr. PROXMIRE. Mr. President, in the first place, the Senator intends this Commission to be bipartisan; is that correct?

Mr. MURKOWSKI. Absolutely.

Mr. PROXMIRE. Fine.

Then in the second place, what is the expected cost? I see that the amendment provides for appropriations in fiscal year such sums as may be necessary. Is there any estimate as to how much this would cost?

Mr. MURKOWSKI. I do not have a specific estimate. However, I think that the opportunity to provide the incentive for generation of new oil production would far exceed the cost. The returns to the Federal Government in terms of additional tax revenues from increased production, would be in the best interests of our Nation, and I think it would be worth something to put this issue behind us once and for all by an unbiased group.

But to answer the question of the Senator from Wisconsin, I do not have the specific amount.

Mr. PROXMIRE. Fine.

May I say to my friend from Alaska undoubtedly this has a lot of merit. I do not oppose the amendment, but I do think that in conference we would be well served if we had some estimate as to the cost and if the Senator could get that in the next few days we would be in his debt.

Mr. MURKOWSKI. I will be happy to put that in the RECORD and have it available for the conferees.

Mr. PROXMIRE. Then the final question relates to the provision on page 2 that says, "The role of such exports in U.S. foreign policymaking, including international energy policymaking." Would the Senator feel it would be wise to extend that to trade, role of exports in trade, inasmuch as much of the argument on this relates to our trade with the Japanese?

Mr. MURKOWSKI. I have no objection.

Mr. PROXMIRE. I thank the Senator. I have no objection to the amendment.

Mr. MURKOWSKI. I thank the Senator from Wisconsin for his inquiry.

Mr. HEINZ. Mr. President, will the Senator yield?

Mr. MURKOWSKI. I yield to the floor manager.

Mr. HEINZ. First, I wish, for the record, to ask one question. Is it not true that this amendment does in no way reflect current law, it does not have any repealer, and it allows the provisions of this act to execute as the committee originally intended? Is that correct?

Mr. MURKOWSKI. The floor leader is correct in his analysis.

Mr. HEINZ. Mr. President, I ask that only because there have been a number of versions to this amendment. This amendment is exactly as the Senator from Alaska describes it. It is a study amendment. I wish to say that we are prepared to accept the amendment, but more than that, I wish to commend the Senator from Alaska for having brought before the Senate in extraordinary detail and with great care, and I might say with a very high degree of eloquence, the problems faced by his State and the consequences of our present policies, not just in his State, but to the Nation. I think his approach in this study is not only thoughtful but statesmanlike. I hope our colleagues will accept it.

Mr. MURKOWSKI. I thank the floor leader, the distinguished Senator from Pennsylvania, for his remarks.

I ask that my amendment be voted on.

Mr. HEINZ. Mr. President, a parliamentary inquiry.

The PRESIDING OFFICER. The Senator will state it.

Mr. HEINZ. Is it correct that this is a perfecting amendment to the Murkowski amendment in the first degree?

The PRESIDING OFFICER. The Senator is correct.

Mr. HEINZ. Have the yeas and nays been ordered for the underlying amendment?

The PRESIDING OFFICER. The yeas and nays were ordered on the first-degree amendment. They have not been ordered on the second-degree amendment.

Mr. HEINZ. Mr. President, it is my understanding that the Senator from Alaska does not insist on the yeas and nays and would be willing to ask unanimous consent to withdraw them.

Mr. MURKOWSKI. If I might hopefully enlighten the floor leader, and I think what our position is, I ask unanimous consent that the yeas and nays in the first degree be vitiated.

The PRESIDING OFFICER. Without objection, it is so ordered.

Mr. MURKOWSKI. I therefore ask that my amendment be agreed to.

The PRESIDING OFFICER. Is there further debate on the second degree amendment?

Mr. PROXMIRE. Mr. President, will the Chair inform us as to whether the first degree amendment has been withdrawn.

The PRESIDING OFFICER. No; it is still pending.

Mr. PROXMIRE. If we vote on the Murkowski amendment, are we simply voting on that commission or voting on another amendment in addition?

Mr. HEINZ. Mr. President, may I respond to my friend from Wisconsin? I have examined the underlying amendment. It makes an extremely minor change, changing in one part of the bill the number of 5 days to 10 days.

Mr. PROXMIRE. That is fine.

Mr. HEINZ. It is a trivial underlying amendment just introduced for parliamentary purposes.

Mr. PROXMIRE. All right. Very good.

The PRESIDING OFFICER. Is there further debate on the second degree amendment? If not, the question is on agreeing to the amendment of the Senator from Alaska.

The amendment (No. 2771) was agreed to.

Mr. HEINZ. Mr. President, I move to reconsider the vote by which the amendment was agreed to.

Mr. PROXMIRE. I move to lay that motion on the table.

The motion to lay on the table was agreed to.

AMENDMENT NO. 2769

The PRESIDING OFFICER. The question now is on agreeing to the first-degree amendment, as modified.

The amendment (2769), as modified, was agreed to.

Mr. HEINZ. Mr. President, I move to reconsider the vote by which the amendment was agreed to.

Mr. PROXMIRE. I move to lay that motion on the table.

The motion to lay on the table was agreed to.

AMENDMENT NO. 2750

Purpose: To express the sense of the Congress with respect to improving international efforts toward nuclear nonproliferation)

Mr. MATHIAS. Mr. President, I have an amendment at the desk and I ask for its immediate consideration.

The PRESIDING OFFICER. The clerk will report.

The assistant legislative clerk read as follows:

The Senator from Maryland (Mr. MATHIAS) proposes an amendment numbered 2750.

Mr. MATHIAS. Mr. President, I ask unanimous consent that further reading of the amendment be dispensed with.

The PRESIDING OFFICER. Without objection, it is so ordered.

The amendment is as follows:

On page 53, after line 9, add the following:

POLICY ON NUCLEAR NONPROLIFERATION

SEC. 10. It is the sense of the Congress that the President should take immediate action to—

(1) confer on an urgent basis with other nuclear suppliers, as a first step toward achieving a new worldwide consensus on nuclear transfers, regarding tightening restrictions on dangerous nuclear trade through measures which include—

(A) establishing, while discussions on a new regime for nuclear trade proceed, a temporary worldwide moratorium on transfers of enrichment and reprocessing equipment and technology, even at the experimental level, to sensitive areas, including the Middle East and South Asia;

(B) limiting the size of all research reactors transferred, eliminating the use of high enriched uranium in such reactors, and obtaining the return of spent research reactor fuel to the country of origin;

(C) extending the list of sensitive nuclear equipment, including components and dual use items, whose export the suppliers only permit under safeguards, with public recording of all sales of such items;

(D) making nuclear transfers only to nations which have accepted full-scope safeguards; and

(E) imposing established sanctions in the event of violation of safeguards;

(2) develop with other members of the International Atomic Energy Agency (hereafter in this section referred to as the "IAEA") a strong and effective program for the improvement of the IAEA safeguards regime, specifically considering the practicality of—

(A) extending the concept of full scope safeguards to mean safeguards on all nuclear materials, equipment, and facilities within a non-nuclear-weapon state whether or not such materials, equipment, and facilities have been formally declared to the IAEA;

I told per Weeks

BILL SHEFFIELD
GOVERNOR

State of Alaska
OFFICE OF THE GOVERNOR
WASHINGTON, D.C.

DATE: 5/3/85

THE ATTACHED MATERIALS ARE TRANSMITTED TO YOU BY THE WASHINGTON, D.C. OFFICE OF THE GOVERNOR, STATE OF ALASKA.

SENT TO:

( ) GOVERNOR SHEFFIELD
( ) JOHN SHIVELY
( ) LAURIE HERMAN
( ) SANDRA BORBRIDGE
(✓) LENNIE BOSTON
( ) CAROL DERFNER
(✓) BEN HARDING
( ) MARSHA HUBBARD
( ) RAY GILLESPIE
( ) JOHN GREELY
( ) JIM KELLY
( ) MERRY TUTEN
( ) MIKE NIZICH
( ) MARV FRANKEL
( ) GOV. COORD./GROGAN
( ) STR.PLAN./HARRISON
( ) BUDGET/HOGAN
( ) OMB

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( ) COMMISSIONER PUGH
( ) COMMISSIONER ROBISON
( ) ADJUTANT GENERAL PAGANO
(✓) COMMISSIONER WUNNICKE
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( ) COMMISSIONER KNAPP

ALASKA DELEGATION

( ) SENATOR STEVENS' OFFICE
( ) SENATOR MURKOWSKI'S OFFICE
( ) CONGRESSMAN YOUNG'S OFFICE

(✓) OTHER ① Rep. Davis ② Rep. Pignalberi ③ Rep. Martin ④ Kay Brown, DN. of Oil & Gas

ATTN:

COMMENTS FYI - ① article from Wall Street Journal on politics & current outlook for ANS oil export
② exchange of letters between Dept. of Commerce & Coalition to Keep Alaska Oil — Cook Inlet export

CONTACT: MWitten

car telephones from Motorola, ... existing law prevents the sale.

bly go protectionist."

Maritime Unions Blockade Oil Sales To Japan—One Solution to Trade Flap

By EDUARDO LACHICA
Staff Reporter of THE WALL STREET JOURNAL

WASHINGTON—The U.S. could cut billions of dollars from its problem trade deficit with Japan by selling Alaskan oil to its energy-short ally.

Prime Minister Yasuhiro Nakasone has offered to buy as much of the 1.6-million-barrel-a-day North Slope production as the U.S. will allow. For every 100,000 barrels Japan would buy, the U.S. could shave $1 billion off its $37 billion trade deficit with the Japanese.

This tidy solution to the nation's No. 1 trade conflict counts among its proponents Interior Secretary Donald Hodell, Ambassador to Japan Mike Mansfield and even some environmental groups that say it would reduce the threat of oil spills in U.S. waters. Its most ardent ally is Sen. Frank Murkowski (R-Alaska), who has led the fight to amend the Export Administration Act, which restricts such exports.

But dogged lobbying by the maritime unions, which contributed $2 million to the 1983-1984 campaign coffers of scores of congressmen, persuaded the Senate to shoot down the Murkowski amendment 70-20, thereby effectively banning Alaskan oil exports.

Nearly 90% of seagoing American crews depend for their livelihood on the tanker routes between Alaska and the U.S. mainland. And while union leaders are receptive to discussion, they seem disinclined to take any action.

The Reagan administration has been somewhat circumspect on the whole subject. "It (the administration) hasn't lobbied a single member of Congress as far as we know," says Howard Marlowe, executive director of the Coalition to Keep Alaska Oil. The group is funded by maritime unions and shipping and pipeline companies.

State Department aides explain that the administration does favor Alaskan oil exports to Japan, but not "immediately." The administration appears content instead to press for less-controversial coal sales while waiting for a consensus favoring oil exports to emerge.

The administration's position has been a puzzle from the start. U.S. Trade Representative William Brock wanted to put it on the agenda of a U.S.-Japan working group formed to discuss increasing U.S. energy exports. But the first day the group met in Tokyo, Allen Wallis, the undersecretary of state for economic affairs, dropped the item from the agenda.

"You could see the Japanese faces fall apart," recalls a former U.S. member of that group. "They had earlier circulated a paper saying they were interested in that oil."

W.S.J. p. 28 4-29-85

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To the Helsini



April 1, 1985

Mr. William T. Archey
Acting Assistant Secretary
for Trade Administration
U.S. Department of Commerce
Room 3898B
14th Street between Constitution Avenue
and E Street, N.W.
Washington, D.C. 20230

Re: Exportation of Cook Inlet Crude Oil

Dear Mr. Assistant Secretary:

We understand that the State of Alaska intends to seek authority to export 2.2 million barrels of Cook Inlet crude oil per year. As you are aware, any such sales could only occur following an application for and the issuance of a validated license pursuant to 15 C.R.F. § 377.

The Coalition to Keep Alaska Oil represents a broad and diverse group of entities, including labor, consumer, environmental, agricultural, and business organizations. The Coalition believes exports of our limited reserves of crude oil would be contrary to the consumer, economic, and security interests of the United States.

As you probably are aware, the State of Alaska has continually sought to export crude oil. Congress, however, has consistently placed restrictions on such exports. In 1973, when Congress passed the Trans-Alaska Pipeline Authorization Act, it established a clear-cut national policy that Alaskan crude oil should be used domestically. Congress reaffirmed and strengthened that policy in 1977 and 1979 by amending the Export Administration Act to restrict the export of Alaskan North Slope crude oil to certain limited cases and only pursuant to specific Presidential findings and subsequent Congressional approval. Most recently, in 1984, the U.S. Senate voted 70-20 against even limited exports of Alaskan North Slope crude oil and 272 Members of the House of Representatives co-sponsored legislation to indefinitely extend the restrictions contained in section 7(d) of the Export Administration Act of 1979. Pending legislation to reauthorize the Act would extend these restrictions for 5 years.

Exports of Cook Inlet crude oil are likely to be inconsistent with the national interest and to harm members of the Coalition. Given our continued concern about exports and the immediate and irreparable harm even limited exports are likely to cause, we request that we timely be advised of the receipt by the Department of Commerce of any application for a validated license to export Cook Inlet crude oil and that we be afforded an opportunity to comment while the application is being reviewed.

I myself or a member of the Coalition will telephone your office to arrange a mutually convenient time when we can meet to discuss our concerns and to agree upon a method for ensuring that your agency has an opportunity to consider our views should it receive a validated license application.

Sincerely yours,

Howard Marlowe, Director

HM:kac

cc: The Honorable Malcolm Baldrige
The Honorable Donald P. Hodel

UNITED STATES DEPARTMENT OF COMMERCE
International Trade Administration
Washington, D.C. 20230

16 APR 1985

Mr. Howard Marlowe
Director
Coalition to Keep Alaska Oil
815 16th Street, N.W.
Suite 309
Washington, D.C. 20006

Dear Mr. Marlowe:

Thank you for your April 1, 1985 letter regarding a possible request to export crude oil from Alaska's Cook Inlet.

Crude oil exports are restricted by five separate and often overlapping statutes. The Department reviews and acts on all export license applications in conformance with the provisions of the appropriate statutes and the Export Administration Regulations. These applications and the supporting documentation that accompany them are treated as company confidential as required by Section 12(c) of the Export Administration Act. Accordingly, we do not discuss the content of individual applications with those who are not parties in the proposed transactions. Thus, we would not be able to notify you of the receipt of an application to export Cook Inlet crude oil, nor would we be in a position to discuss the details of any such application or even comment on whether we had received an application.

However, the Department's Export Administration Regulations are drafted in a manner that effectively blocks the export of virtually all domestically produced crude with the exception of certain exchanges with adjacent foreign countries to facilitate transportation. Currently, the export restrictions embodied in these statutes can only be overcome through the issuance of a national interest finding. The President would be required to issue the finding for four of the five statutes. The Secretary of Commerce would be required to issue the finding under the Energy Policy and Conversation Act (EPCA). As part of a national interest finding, we would be required to amend our regulations. Amendments of our regulations under the provisions of EPCA, the statute most applicable to Cook Inlet oil, would require a notice of proposed rulemaking before any final action is taken. You, of course, would have an opportunity to comment on our proposal at that time.

I appreciate your interest in the Department's short supply export control program. Mr. Walter J. Olson, Deputy Assistant Secretary for Export Administration, would be pleased to meet with you and other representatives of the Coalition to hear your concerns. Mr. Olson may be reached on 377-5491.

Sincerely,

William T. Archey

William T. Archey
Acting Assistant Secretary
for Trade Administration

Petroleum News

Japanese finalize deal to buy Chinese oil

Japanese oil refiners have agreed to purchase 8 million tons of Chinese crude oil this year, about the same volume as last year.

The negotiations for the contract were held between the Importers' Conference of Chinese Petroleum in Japan and the China National Chemical Import & Export Corp.

Both parties also agreed to set the price for Chinese crude deliverable to Japan during the January-March quarter at $27.35 a barrel, off $1.05 from that for the preceding quarter.

While the Japanese negotiators failed to achieve their proposed market-based pricing formula, they intend to continue to urge the Chinese corporation to adopt it following the quarterly price checkup system adopted so far.

Japan has imported 8-8.6 million tons of Chinese crude oil a year since 1983 under the long-term trade agreement reached between the two countries.

DRILLING PERMITS APPROVED

ALASKA OIL & GAS CONSERVATION COMMISSION

API Number / Permit Number / Permit Approved	Operator Name / Surface Location / Bottom Hole Objective	Well Name and Number	Classification / Geologic Area / Field and Pool
	For Week Ending 03/22/85		
50-733-20378-00 85-0042 03/18/85	Amoco Production Co. 779 Ft. FNL and 713 Ft. FEL, Sec. 12, T10N, R012W, S.M. 2068 Ft. FNL and 1116 Ft. FWL, Sec. 12, T10N, R012W, S.M.	Granite Pt. St. 18742 35	Development Cook Inlet Granite Pt. Middle Kenai Oil Pool
50-029-21308-00 85-0044 03/18/85	ARCO Alaska Inc. 1066 Ft. FNL and 1852 Ft. FEL, Sec. 26, T12N, R009E, U.M. 1554 Ft. FSL and 1123 Ft. FWL, Sec. 23, T12N, R009E, U.M.	Kuparuk River Unit 1Q-13	Development Arctic Slope Kuparuk River, Kuparuk Oil Pool
50-029-21307-00 85-0045 03/18/85	ARCO Alaska Inc. 1076 Ft. FNL and 1883 Ft. FEL, Sec. 26, T12N, R009E, U.M. 887 Ft. FNL and 1183 Ft. FWL, Sec. 23, T12N, R009E, U.M.	Kuparuk River Unit 1Q-14	Development Arctic Slope Kuparuk River, Kuparuk Oil Pool
50-029-21306-00 85-0046 03/18/85	ARCO Alaska Inc. 1087 Ft. FNL and 1843 Ft. FEL, Sec. 26, T12N, R009E, U.M. 983 Ft. FNL and 1288 Ft. FEL, Sec. 23, T12N, R009E, U.M.	Kuparuk River Unit 1Q-15	Development Arctic Slope Kuparuk River, Kuparuk Oil Pool
50-029-21305-00 85-0047 03/18/85	ARCO Alaska Inc. 1098 Ft. FNL and 1778 Ft. FEL, Sec. 26, T12N, R009E, U.M. 893 Ft. FSL and 1242 Ft. FEL, Sec. 23, T12N, R009E, U.M.	Kuparuk River Unit 1Q-16	Development Arctic Slope Kuparuk River, Kuparuk Oil Pool
50-029-21310-00 85-0048 03/18/85	ARCO Alaska Inc. 1283 Ft. FSL and 109 Ft. FWL, Sec. 08, T11N, R009E, U.M. 1322 Ft. FSL and 1092 Ft. FEL, Sec. 08, T11N, R009E, U.M.	Kuparuk River Unit 2V-10	Development Arctic Slope Kuparuk River, Kuparuk Oil Pool
50-029-21311-00 85-0049 03/18/85	ARCO Alaska Inc. 1223 Ft. FSL and 109 Ft. FWL, Sec. 08, T11N, R009E, U.M. 1468 Ft. FNL and 1099 Ft. FEL, Sec. 17, T11N, R009E, U.M.	Kuparuk River Unit 2V-11	Development Arctic Slope Kuparuk River, Kuparuk Oil Pool
50-029-21312-00 85-0050 03/18/85	ARCO Alaska Inc. 1163 Ft. FSL and 107 Ft. FWL, Sec. 08, T11N, R009E, U.M. 1061 Ft. FSL and 1125 Ft. FEL, Sec. 17, T11N, R009E, U.M.	Kuparuk River Unit 2V-12	Development Arctic Slope Kuparuk River, Kuparuk Oil Pool
50-029-21313-00 85-0051 03/18/85	Sohio Alaska Petroleum 1081 Ft. FNL and 820 Ft. FEL, Sec. 35, T11N, R013E, U.M. 843 Ft. FSL and 1580 Ft. FWL, Sec. 25, T11N, R013E, U.M.	Prudhoe Bay Unit A-35	Development Arctic Slope Prudhoe Bay, Prudhoe Oil Pool
50-029-21314-00 85-0052 03/18/85	ARCO Alaska Inc. 1822 Ft. FSL and 1048 Ft. FEL, Sec. 02, T10N, R015E, U.M. 356 Ft. FSL and 2256 Ft. FWL, Sec. 35, T11N, R015E, U.M.	Prudhoe Bay Unit DS9-35	Development Arctic Slope Prudhoe Bay, Prudhoe Oil Pool

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It seems ridiculous to demand that Congress repeal the ban on Alaska oil exports when our State Legislature has refused to pass a resolution to do so. In the mean time Japan finds it easier to work with a Communist country that believes in the free enterprise system.

"Free HJR 15"

From The Last Frontier

Rep. Terry Martin
State Capitol, Pouch V
Juneau, AK 99811

Representative Marco A. Pignalberi

Remarks on Floor of Alaska House of Representatives

February 8, 1985

The oil export ban is not something we should do only for increased revenue, though that is important. There are wider effects.

Repeal of the export ban could make the difference in whether or <u>not</u> the smaller, marginal oil fields on the North Slope are brought into a production.

The economics of putting these fields on line were run when world oil prices were projected at $35.00 to $40.00 per barrel, plus. Now we're down to $28.00 and falling. Some of the experts have given us forecasts as gloomy as $15.00 per barrel.

The experts, and our own revenue people, say that we can increase the value of exported barrels by $2.00 to $4.00, by lifting the export ban.

There are significant effects from this increase.

1. It would increase the feasibility of these marginal fields--Conoco/Milne, Arco/Lizburne, Sohio/Endicott, Shell/Seal Island.

2. It would raise the overall weighted average price of all ANS crude. This is the official base selling price of royalty oil and the price upon which our severance tax is based.

3. It would increase the amounts bid on state oil leases.

These are important factors that affect Alaska's revenue picture in the short and medium term. Repeal of the ban is a valid public issue for this legislature to address.

There is no doubt that common sense and economics favor the repeal of the ban.

But as one witness testified yesterday,

> "the repeal is a political decision that needs to be made by elected U.S. officials."

It's no secret that although President Reagan's Administration favors repealing the ban, the Congress does not. The reason Congress does not is because of the narrow interests the of maritime union and industry.

These narrow maritime interests will continue to block export of Alaska's oil as long as there is no, consistent, presentation of countervailing arguments.

Yes, we had a skirmish in Congress last year. Senator Murkowski did an outstanding job in raising the congressional consciousness on this issue. But we lost the issue mightily. Most of the research and lobbying expenses were paid for by potential Japanese buyers of our oil. The State's contribution was negligible.

We will continue to lose until we go directly to the constituencies of those people in Congress who now listen only to the Maritime interests. We have arguments that the people in the "lower 48" want to hear.

For Example, the West Coast is the only petroleum district in the U.S. where production exceeds market demand. New production in the next 12 to 18 months from the Santa Barbara offshore will worsen the glut. California's oil will back out some of Alaska's oil; prices will be, and are, artificially low due to the restricted market.

It is in the best interests of West Coast states to bring Alaska's marginal fields into production because the processing modules constructed in the San Francisco Bay area, Anacortes, Tacoma, and other western parts provide more jobs and more economic impact than the tanker jobs that are protected by the ban.

People in the "lower 48" are interested in decreasing the balance of payments and the national deficit. Both of these problems are somewhat ameliorated by repealing the ban.

Mr Speaker, there are other arguments and aspects to these arguments which need to be quantified and targeted for specific areas in the "lower 48". I raised this matter with the Anchorage Chamber of Commerce at the Anchorage Caucus yesterday. I believe there is support in our private sector for a sustained effort to tell Alaska's side of the story to the "lower 48"

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But Somebody has to take the lead. I submit that the Special Committee on Oil and Gas, under the dedicated leadership of the Representative from Fairbanks, is already preparing information on this subject.

I would urge the leadership of this body, you, in particular, Mr. Speaker, as we all have great respect for your tutelage, to take the initiative and marshall the legislative, executive, and private sector forces to bring about a repeal of the export ban on Alaska oil.

I, for one, am ready to assist you and to give substantial effort to achieve this goal.

ATTACHMENT 5

Spending Records of the Seafarers Political Activity Donation and the Masters, Mates and Pilots Political Contribution Fund: 1977-78 and 1979-80

Source: The PAC Directory. 1982 Edition. PAC Researchers: Burke, Virginia.

NON-PARTY (Continued)

SCHLITZ GOOD GOVERNMENT COMMITTEE (continued)

DETAILED INFORMATION:	Office	Party	State	District	Contributions 77-78	Contributions 79-80
Sensenbrenner, F.	H	REP	WI	9	$500	$1,500

SCM PAC — New York NY — C00128025

SUMMARY INFORMATION:	1977-78	1979-80		1977-78	1979-80		77-78	79-80
Gross Receipts:	—	$5,186	Gross Disbursements:	—	$5,000	% of Total Contributions & Independent Expenditures to Gross Disbursements:	—	100.0%
Total Contributions:	—	$5,000	Total Independent Expenditures:	—	0			

OF CONTRIBUTIONS TO ALL CANDIDATES:	Number of Candidates 77-78	Number of Candidates 79-80	Amount 77-78	Amount 79-80		Number of Candidates 77-78	Number of Candidates 79-80	Amount 77-78	Amount 79-80		Number of Candidates 77-78	Number of Candidates 79-80	Amount 77-78	Amount 79-80
Democrats	—	—	—	—	Republicans	—	7	—	$5,000	Other	—	—	—	—
President	—	—	—	—	Senate	—	2	—	$2,000	House	—	5	—	$3,000
Incumbents	—	1	—	$500	Challengers	—	4	—	$3,000	Open Seat	—	2		$1,500
Winners - Gen. Elec.	—	4	—	$3,500	All Losers/Others	—	3	—	$1,500					
RANGE OF $1-499	—	—	—	—	$1000-4999	—	3	—	$3,000					
$500-999	—	4	—	$2,000	$5000 & UP	—	—	—	—					

SCOTT PAPER COMPANY PAC (SCOTTPAC) — Philadelphia PA — C00097220

SUMMARY INFORMATION:	1977-78	1979-80		1977-78	1979-80		77-78	79-80
Gross Receipts:	$5,300	$24,363	Gross Disbursements:	$4,300	$20,750	% of Total Contributions & Independent Expenditures to Gross Disbursements:	65.1%	100.0%
Total Contributions:	$2,800	$21,000	Total Independent Expenditures:	0	0			

OF CONTRIBUTIONS TO ALL CANDIDATES:	Number of Candidates 77-78	Number of Candidates 79-80	Amount 77-78	Amount 79-80		Number of Candidates 77-78	Number of Candidates 79-80	Amount 77-78	Amount 79-80		Number of Candidates 77-78	Number of Candidates 79-80	Amount 77-78	Amount 79-80
Democrats	1	9	$500	$2,700	Republicans	7	42	$2,300	$18,300	Other	—	—	—	—
President	—	—	—	—	Senate	3	14	$1,500	$9,450	House	5	37	$1,300	$11,550
Incumbents	1	29	$500	$9,100	Challengers	5	17	$1,700	$9,400	Open Seat	2	5	$600	$2,500
Winners - Gen. Elec.	5	41	$1,500	$17,300	All Losers/Others	3	10	$1,300	$3,700					
RANGE OF $1-499	5	32	$1,300	$7,750	$1000-4999	—	4	—	$4,800					
$500-999	3	15	$1,500	$8,450	$5000 & UP	—	—	—	—					

DETAILED INFORMATION:	Office	Party	State	District	Contributions 77-78	Contributions 79-80
Symms, Steve	S	REP	ID			$1,800

SEAFARERS POLITICAL ACTIVITY DONATION -SPAD- — Brooklyn NY — C00004325

SUMMARY INFORMATION:	1977-78	1979-80		1977-78	1979-80		77-78	79-80
Gross Receipts:	$577,570	$1,030,216	Gross Disbursements:	$579,209	$884,255	% of Total Contributions & Independent Expenditures to Gross Disbursements:	69.0%	77.4%
Total Contributions:	$396,052	$685,248	Total Independent Expenditures:	$4,000	0			

OF CONTRIBUTIONS TO ALL CANDIDATES:	Number of Candidates 77-78	Number of Candidates 79-80	Amount 77-78	Amount 79-80		Number of Candidates 77-78	Number of Candidates 79-80	Amount 77-78	Amount 79-80		Number of Candidates 77-78	Number of Candidates 79-80	Amount 77-78	Amount 79-80
Democrats	246	292	$374,502	$619,898	Republicans	20	49	$21,550	$64,850	Other	—	1	—	$500
President	—	2	—	$15,000	Senate	28	59	$139,352	$243,480	House	238	281	$256,700	$426,768
Incumbents	190	255	$249,000	$520,928	Challengers	37	54	$73,950	$93,730	Open Seat	39	33	$73,102	$70,590
Winners - Gen. Elec.	186	232	$237,400	$390,728	All Losers/Others	80	110	$156,652	$294,520					

NON-PARTY (Continued)

SEAFARERS POLITICAL ACTIVITY DONATION -SPAD- (continued)

OF CONTRIBUTIONS TO ALL CANDIDATES	Number of Candidates 77-78	Number of Candidates 79-80	Amount 77-78	Amount 79-80		Number of Candidates 77-78	Number of Candidates 79-80	Amount 77-78	Amount 79-80
RANGE OF $1-499	8	9	$1,850	$1,650	$1000-4999	114	203	$186,952	$318,884
$500-999	121	83	$61,750	$40,280	$5000 & UP	23	47	$145,500	$324,434

DETAILED INFORMATION:	Office	Party	State	District	Contributions 77-78	Contributions 79-80
Carter, Jimmy	P	DEM				$10,000
Kennedy, Edward M.	P	DEM				$5,000
Anderson, Wendell R.	S	DEM	MN		$10,000	
Barnett, Don	S	DEM	SD		$7,000	
Baucus, Max S.	S	DEM	MT		$5,000	$1,500
Bayh, Birch E., Jr.	S	DEM	IN		$1,500	$10,000
Biden, Joseph R., Jr.	S	DEM	DE		$4,000	$1,000
Bradley, Bill	S	DEM	NJ		$5,000	$3,000
Christie, Joe	S	DEM	TX		$5,000	
Church, Frank	S	DEM	ID			$10,000
Cranston, Alan	S	DEM	CA			$6,500
Culver, John C.	S	DEM	IA			$4,000
D'Amato, Alfonse M.	S	REP	NY			$1,500
Dixon, Alan J	S	DEM	IL			$3,000
Dodd, Christopher J.	S	DEM	CT			$10,000
Durkin, John Anthony	S	DEM	NH			$10,000
Eagleton, Thomas F.	S	DEM	MO			$7,500
Edmondson, Ed	S	DEM	OK		$5,000	
Flaherty, Pete	S	DEM	PA			$5,000
Flowers, Walter	S	DEM	AL		$4,852	
Ford, Wendell H.	S	DEM	KY			$5,000
Glenn, John	S	DEM	OH			$5,000
Gojack, Mary L.	S	DEM	NV			$2,500
Gravel, Mike	S	DEM	AK			$5,000
Gunter, Bill	S	DEM	FL			$5,000
Hart, Gary W.	S	DEM	CO			$5,000
Haskell, Floyd K.	S	DEM	CO		$10,000	
Hathaway, William D.	S	DEM	ME		$5,000	
Heflin, Howell Thomas	S	DEM	AL		$5,000	
Hollings, Ernest F.	S	DEM	SC			$9,000
Holtzman, Elizabeth	S	DEM	NY			$9,500
Huddleston, Walter D.	S	DEM	KY		$1,500	
Inouye, Daniel K.	S	DEM	HI			$4,000
Javits, Jacob K.	S	REP	NY			$5,000
Johnston, J. Bennett.	S	DEM	LA		$6,000	
Krueger, Robert	S	DEM	TX		$5,000	
Levin, Carl	S	DEM	MI		$10,000	$250
Long, Russell B	S	DEM	LA			$5,000
Magnuson, Warren G	S	DEM	WA			$10,000
Martin-Trigona,	S	DEM	IL			$5,000
Mathias, Charles	S	REP	MD			$7,000
McGovern, George	S	DEM	SD			$10,000
Melcher, John	S	DEM	MT			$5,000
Metzenbaum, Howard	S	DEM	OH		$5,000	
Miller, Andrew P.*	S	DEM	VA		$6,000	$-720
Miller, Zell	S	DEM	GA			$7,500
Moynihan, Daniel	S	DEM	NY			$5,000
Nelson, Gaylord A.	S	DEM	WI			$9,500
Packwood, Bob	S	REP	OR			$6,000
Pell, Claiborne	S	DEM	RI		$2,000	
Pettigrew, Richard A.	S	DEM	FL			$5,000
Randolph, Jennings	S	DEM	WV		$7,000	
Ravenel, Charles D.	S	DEM	SC		$7,000	$1,000
Roy, William R.	S	DEM	KS		$3,000	
Sarbanes, Paul S	S	DEM	MD		$3,000	
Sasser, James Ralph	S	DEM	TN		$2,500	
Schulz, William R	S	DEM	AZ			$5,000
Stevens, Ted	S	REP	AK		$7,500	
Stewart, Donald	S	DEM	AL		$5,000	$14,000
Talmadge, Herman	S	DEM	GA			$3,000
Addabbo, Joseph P	H	DEM	NY	7	$2,050	$6,500
Albosta, Donald	H	DEM	MI	10		$4,000
Allegrucci, Don	H	DEM	KS	5	$1,500	
Ambro, Jerome A.	H	DEM	NY	3	$1,000	$1,500
Anderson, Glenn M.	H	DEM	CA	32	$1,500	$1,500
Ashley, Thomas L.	H	DEM	OH	9	$500	$5,500
Aucoin, Les	H	DEM	OR	1	$4,000	$7,500
Bailey, Donald Allen	H	DEM	PA	21	$1,000	$2,800
Baldus, Alvin	H	DEM	WI	3		$1,500
Barnes, Michael Darr	H	DEM	MD	8	$1,000	$2,500
Barragan, Polly Baca	H	DEM	CO	4		$2,500
Bauman, Robert	H	REP	MD	1	$1,000	$6,000
Baumann, Archie	H	DEM	MN	6		$1,500
Baumann, James L.	H	DEM	OH	12	$1,500	
Biaggi, Mario	H	DEM	NY	10	$2,000	$3,750
Boggs, Lindy (Mrs.	H	DEM	LA	2	$2,000	$2,500
Bolling, Richard	H	DEM	MO	5	$500	$1,500
Bonior, David E.	H	DEM	MI	12	$1,000	$2,500
Burlison, Bill D.	H	DEM	MO	10		$3,000
Burstein, Karen S.	H	DEM	NY	5		$7,500
Burton, John	H	DEM	CA	5	$2,000	$5,000
Carney, Charles	H	DEM	OH	19	$1,500	
Clark, Arthur Joseph	H	DEM	MA	4		$2,790
Clay, William L.	H	DEM	MO	1	$2,000	$1,000
Corcoran, Brian John	H	DEM	WA	2	$2,500	
Corcoran, Dan	H	DEM	CA	37	$1,500	
Corman, James C.	H	DEM	CA	21	$500	$3,000
Daschle, Thomas	H	DEM	SD	1	$4,500	$3,000
Dellums, Ronald V	H	DEM	CA	8		$2,150
Denton, Lane	H	DEM	TX	11	$3,000	
Dicks, Norman D.	H	DEM	WA	6	$2,000	$2,750
Dingell, John D.	H	DEM	MI	16	$1,500	$1,000
Dixon, Julian C.	H	DEM	CA	28	$500	$1,500
Donnelly, Brian J	H	DEM	MA	11	$500	$3,500
Dorgan, Byron L.	H	DEM	ND	At Large		$2,000
Dyson, Royden P.	H	DEM	MD	1		$2,000
Eckhardt, Robert	H	DEM	TX	8	$1,500	$3,000
Eilberg, Joshua	H	DEM	PA	4	$3,000	
Fazio, Vic	H	DEM	CA	4	$1,000	$1,500
Ferraro, Geraldine A	H	DEM	NY	9	$1,500	$5,934
Fithian, Floyd J.	H	DEM	IN	2	$3,500	$3,000
Flippo, Ronnie Gene	H	DEM	AL	5	$500	$1,500
Florio, James J	H	DEM	NJ	1	$1,500	$5,500
Foley, Thomas S.	H	DEM	WA	5	$500	$3,000
Ford, Harold E.	H	DEM	TN	8		$2,000
Ford, William David	H	DEM	MI	15	$1,100	$1,500
Frost, Martin	H	DEM	TX	24	$3,800	$1,300
Gammage, Robert A	H	DEM	TX	22	$3,500	$500
Gaydos, Joseph M.	H	DEM	PA	20	$1,000	$5,500
Gray, William H III	H	DEM	PA	2	$500	$1,500
Green, Mark J	H	DEM	NY	18		$5,000
Guarini, Frank J.	H	DEM	NJ	14	$500	$2,000
Hall, Tony P.	H	DEM	OH	3		$2,000
Hannaford, Mark W	H	DEM	CA	34	$1,850	
Hertel, Dennis M	H	DEM	MI	14		$2,000
Hindes, Gary E.	H	DEM	DE	At Large	$1,500	$-500
Hollenbeck, Harold C	H	REP	NJ	9		$2,500
Howard, James J.	H	DEM	NJ	3	$1,500	$5,500
Huckaby, Thomas	H	DEM	LA	5	$1,500	$500
Johnson, Harold T	H	DEM	CA	1	$500	$2,500
Kogovsek, Ray	H	DEM	CO	3		$4,500
Lantos, Thomas P	H	DEM	CA	11		$2,000
Leach, Claude 'Buddy'	H	DEM	LA	4		$1,500
Lederer, Raymond F	H	DEM	PA	3	$1,000	$1,625
Leland, George	H	DEM	TX	18		$1,500
Lieberman, Joseph	H	DEM	CT	3		$2,500

*See Section IV for independent expenditures made by this PAC during 1979-80 in support of or against the candidate

NON-PARTY (Continued)

SEAFARERS POLITICAL ACTIVITY DONATION -SPAD- (continued)

DETAILED INFORMATION	Office	Party	State	District	Contributions 77-78	Contributions 79-80
Lloyd, Jim	H	DEM	CA	35	$1,000	$2,000
Long, Clarence D	H	DEM	MD	2	$500	$1,500
Long, Gillis W	H	DEM	LA	8	$3,000	$1,500
Luken, Thomas A	H	DEM	OH	2	$1,000	$2,000
Matsui, Robert T	H	DEM	CA	3	$1,500	$1,000
Mavroules, Nicholas	H	DEM	MA	6	$2,000	$4,500
McFall, John J	H	DEM	CA	14	$2,000	
Meeds, Lloyd*	H	DEM	WA	2	$1,550	
Mikulski, Barbara Ann	H	DEM	MD	3	$500	$1,625
Miller, George	H	DEM	CA	7		$1,500
Moakley, John Joseph	H	DEM	MA	9	$1,500	$1,000
Mollohan, Robert	H	DEM	WV	1	$500	$2,500
Murphy, John M	H	DEM	NY	17	$8,000	$7,000
Murphy, Morgan F	H	DEM	IL	2	$2,000	
Musto, Raphael	H	DEM	PA	11		$3,000
Myers, Michael	H	DEM	PA	1	$1,200	$3,000
Nix, Robert N C	H	DEM	PA	2	$1,500	
Nolan, Richard	H	DEM	MN	6	$3,000	$1,000
O'Neill, Thomas	H	DEM	MA	8	$500	$5,000
O'Reilly, Kathleen F	H	DEM	MI	2		$2,500
Oberstar, James L	H	DEM	MN	8	$500	$2,500
Olsen, Kirsten	H	DEM	CA	12	$5,000	
Ottinger, Richard L	H	DEM	NY	24	$500	$2,500
Patterson, Jerry M	H	DEM	CA	38	$1,500	$500
Peck, Carey	H	DEM	CA	27	$2,250	$4,500
Pepper, Claude	H	DEM	FL	14	$5,000	$1,000
Randolph, John F	H	DEM	NY	1	$2,000	
Ravenel, Charles D	H	DEM	SC	1		$2,500
Reibman, Jeanette F	H	DEM	PA	15		$1,500
Richardson, William B	H	DEM	NM	1		$3,000
Robinson, David L	H	DEM	IL	20		$2,000
Roe, Robert A	H	DEM	NJ	8	$2,500	$3,500
Rooney, Fred B	H	DEM	PA	15	$1,500	
Rostenkowski, Dan	H	DEM	IL	8	$1,250	$1,500
Schumer, Charles	H	DEM	NY	16		$7,500
Shelby, Richard C	H	DEM	AL	7	$1,000	$1,700
Slack, John M	H	DEM	WV	3	$1,500	
Solarz, Stephen J	H	DEM	NY	13	$1,000	$4,994
Sprik, Dale K Vert	H	DEM	MI	5		$2,000
Stoffersahn, Kenneth D	H	DEM	SD	2		$1,500
Swift, Allan Byron	H	DEM	WA	2	$1,000	$1,700
Thompson, Frank, Jr	H	DEM	NJ	4	$2,000	$5,000
Tom, Richard	H	DEM	LA	1	$3,500	
Tucker, James Guy, Jr	H	DEM	AR	2	$2,500	
Udall, Morris K	H	DEM	AZ	2		$4,500
Watlington, Janet B	H	DEM	VI	At Large	$7,000	$500
Weaver, James	H	DEM	OR	4	$2,000	$1,500
Wenstrom, Gene	H	DEM	MN	7	$500	$2,750
Wilson, Charles H	H	DEM	CA	31	$3,000	$1,500
Wolff, Lester L	H	DEM	NY	6		$1,500
Wolpe, Howard	H	DEM	MI	3	$1,500	$11,000
Wright, Jim	H	DEM	TX	12	$1,000	$2,500
Yatron, Gus	H	DEM	PA	6		$1,500
Young, Don	H	REP	AK	At Large	$3,000	$1,750
Zeferetti, Leo C*	H	DEM	NY	15	$5,000	$7,000

SEA-LAND GOOD GOVERNMENT FUND SEA-LAND INDUSTRIES INC **Winston-Salem** **NC** **C00100495**

SUMMARY INFORMATION:	1977-78	1979-80
Gross Receipts:	$1,650	$17,330
Total Contributions:	$200	$14,275
Gross Disbursements:	$200	$16,275
Total Independent Expenditures:	0	0

	77-78	79-80
% of Total Contributions & Independent Expenditures to Gross Disbursements:	100.0%	87.7%

OF CONTRIBUTIONS TO ALL CANDIDATES:	Number of Candidates 77-78	Number of Candidates 79-80	Amount 77-78	Amount 79-80
Democrats	2	23	$200	$8,800
President	—	—	—	—
Incumbents	2	32	$200	$12,875
Winners - Gen. Elec.	2	26	$200	$9,925
RANGE OF $1-499	2	26	$200	$5,400
$500-999	—	3	—	$1,875
Republicans	—	12	—	$5,475
Senate		6		$5,200
Challengers		2		$1,200
All Losers-Others	—	9	—	$4,350
$1000-4999		6		$7,000
$5000 & UP		—		
Other				
House	2	29	$200	$9,075
Open Seat	—	1	—	$200

DETAILED INFORMATION	Office	Party	State	District	Contributions 77-78	Contributions 79-80
Magnuson, Warren G	S	DEM	WA			$1,500
Murphy, John M	H	DEM	NY	17	$100	$1,500

SEARLE PAC **Skokie** **IL** **C00111484**

SUMMARY INFORMATION:	1977-78	1979-80
Gross Receipts:	—	$27,745
Total Contributions:	—	$21,100
Gross Disbursements:	—	$27,250
Total Independent Expenditures:	—	0

	77-78	79-80
% of Total Contributions & Independent Expenditures to Gross Disbursements:	—	77.4%

OF CONTRIBUTIONS TO ALL CANDIDATES:	Number of Candidates 77-78	Number of Candidates 79-80	Amount 77-78	Amount 79-80
Democrats	—	14	—	$6,500
President	—	—	—	—
Republicans		80		$14,600
Senate		12		$7,250
Other				
House		32		$13,850

*See Section IV for independent expenditures made by this PAC during 1979-80 in support of or against the candidate.

Democrats		19		$2,750	Republicans	3		$3,970	Other					
President					Senate	11		$1,900	House	22		$3,480		
Incumbents		30		$9,000	Challengers	3		$750	Open Seat					
Winners - Gen. Elec.		26		$7,500	All Losers Others	7		$2,200						
RANGE OF	$1-499	31		$8,200	$1000-4999	1		$1,000						
	$500-999	1		$500	$5000 & UP									

MASTERS, MATES AND PILOTS POLITICAL CONTRIBUTION FUND — Washington DC — C00073056

SUMMARY INFORMATION:	1977-78	1979-80		1977-78	1979-80		77-78	79-80
Gross Receipts:	$113,448	$300,357	Gross Disbursements:	$56,079	$167,256	% of Total Contributions & Independent		
Total Contributions:	$21,550	$113,950	Total Independent Expenditures:	0	0	Expenditures to Gross Disbursements:	38.4%	68.1%

OF CONTRIBUTIONS TO ALL CANDIDATES:	Number of Candidates 77-78	79-80	Amount 77-78	79-80		Number of Candidates 77-78	79-80	Amount 77-78	79-80		Number of Candidates 77-78	79-80	Amount 77-78	79-80
Democrats	14	96	$19,050	$104,450	Republicans	1	10	$2,500	$9,500	Other	–			
President	–	1	–	$1,000	Senate	3	19	$5,000	$42,000	House	12	86	$16,550	$70,950
Incumbents	11	96	$16,050	$107,300	Challengers	3	3	$4,500	$2,650	Open Seat	1	7	$1,000	$4,000
Winners - Gen. Elec.	12	72	$18,600	$65,450	All Losers Others	3	34	$2,950	$48,500					
RANGE OF $1-499	–	2	–	$400	$1000-4999	14	32	$21,050	$48,500					
$500-999	1	66	$500	$33,550	$5000 & UP	–	6	–	$31,500					

DETAILED INFORMATION:	Office	Party	State	District	Contributions 77-78	79-80		Office	Party	State	District	Contributions 77-78	79-80		Office	Party	State	District	Contributions 77-78	79-80
Bayh, Birch E., Jr.	S	DEM	IN			$4,500	Gravel, Mike	S	DEM	AK			$5,000	Packwood, Bob	S	REP	OR			$2,500
Church, Frank	S	DEM	ID			$5,000	Inouye, Daniel K.	S	DEM	HI			$2,000	Stewart, Donald	S	DEM	AL		$3,000	$2,500
Cranston, Alan	S	DEM	CA			$2,500	Magnuson, Warren G	S	DEM	WA			$5,000	Burton, John	H	DEM	CA	5	$1,000	$5,000
Durkin, John Anthony	S	DEM	NH			$2,000	Mathias, Charles	S	REP	MD			$2,500	Burton, Phillip	H	DEM	CA	6	$1,000	$2,000

NON-PARTY (Continued)

MASTERS, MATES AND PILOTS POLITICAL CONTRIBUTION FUND (continued)

DETAILED INFORMATION:	Office	Party	State	District	Contributions 77-78	79-80		Office	Party	State	District	Contributions 77-78	79-80		Office	Party	State	District	Contributions 77-78	79-80
Ferraro, Geraldine A	H	DEM	NY	9		$2,000	Murphy, John M.	H	DEM	NY	17	$3,000	$6,500	Wolpe, Howard	H	DEM	MI	3		$5,000
Lowry, Michael E.	H	DEM	WA	7		$4,000	Nolan, Richard	H	DEM	MN	6	$2,000		Young, Don	H	REP	AK	At Large	$2,500	$500

MASTERS MATES & PILOTS PENSIONERS' ACTION FUND — New York NY — C00012013

SUMMARY INFORMATION:	1977-78	1979-80		1977-78	1979-80		77-78	79-80
Gross Receipts:	$21,584	$253,394	Gross Disbursements:	$167,394	$79,248	% of Total Contributions & Independent		
Total Contributions:	$3,970	$10,250	Total Independent Expenditures:	0	0	Expenditures to Gross Disbursements:	2.3%	12.9%

OF CONTRIBUTIONS TO ALL CANDIDATES:	Number of Candidates 77-78	79-80	Amount 77-78	79-80		Number of Candidates 77-78	79-80	Amount 77-78	79-80		Number of Candidates 77-78	79-80	Amount 77-78	79-80
Democrats	3	2	$3,970	$10,250	Republicans					Other				
President	–	1	–	$10,000	Senate					House	3	1	$3,970	$250
Incumbents	2	2	$2,485	$10,250	Challengers	1		$485		Open Seat				
Winners - Gen. Elec.	2		$2,485	–	All Losers Others	1	2	$485	$10,250					

Officials say oil ban study erroneous

By DAVID RAMSEUR
News-Miner Bureau

WASHINGTON—A new report being circulated to state legislators around the country touts the merits of exporting Alaska oil but is so riddled with errors that some Alaska officials fear it may do more harm than good.

The report, by the National Conference of State Legislators, says lifting the federal ban on Alaska oil exports could increase federal revenues, stimulate Alaska oil development and enhance America's trade posture abroad.

But it contains errors that suggest Alaska would get substantially richer with no export ban and that removing the ban would put thousands of maritime industry employes out of work.

The report has been mailed to 100 state legislators around the country who next month are scheduled to meet here to consider a resolution on the issue.

State Rep. Terry Martin, R-Anchorage, who was largely responsible for production of the report, said Thursday he was disappointed with it and is organizing an effort to counter it.

That effort includes a correction sheet to be provided to the lawmakers and a public debate in early March between Alaska Sen. Frank Murkowski and Connecticut Rep. Stewart McKinney, a leading opponent of Alaska oil exports.

The eight-page report was requested by Martin at an NCSL conference last summer. It is to accompany a resolution a panel of the national group will consider during a conference here March 7-8.

If approved by the panel, the full NCSL will take it up at a Seattle convention in August.

Martin, minority leader of the Alaska House, had hoped to use the resolution to aid the state's effort to remove the federal oil export ban.

But Martin, here for a three-day NCSL conference, said Thursday the report creates the wrong impression about the oil export issue.

For example, it says removing the ban could cost the jobs of 200,000 maritime industry workers and the loss of $300 million in federal tax dollars.

But maritime industry officials have estimated the direct job loss at only 1,700 with perhaps another 5,200 "lost job opportunities" in related fields.

The report, relying on a federal General Accounting Office study, also says Alaska would receive 60 percent of new tax revenues generated by lifting the ban.

In fact, Alaska tax laws limit the state take to about 30 percent while the federal government would get about 60 percent.

The report, which also contains a number of typographical errors, has been sent to the 100 members of NCSL's energy committee, all legislators from states across the country.

Martin said he already has begun countering the report with a mailing he made earlier this month to hundreds of state officials throughout the nation.

He said interest in the issue is increasing and said proponents of lifting the ban are picking up new allies.

House leaders sending wrong message to D.C.

4/85

To the editor:

Even though we in the House of Representatives are divided into two groups, the majority and the minority caucuses, and even though we're divided into three political parties, Republican, Democrat and Libertarian, there are certain items and issues where we unite as one, for the good of the state. There is one issue in particular that I thought we had all agreed to fight: the ban on exports of Alaska North Slope crude oil.

Some members of the House have criticized the governor for not doing enough on the issue. Others have criticized our congressional delegation for not doing enough. But what has the Democrat-led House of Representatives done? Nothing.

I once believed that we in the House were united against the ban, but now I'm not so sure. Earlier this session I introduced a resolution putting this Legislature on record as being in favor of lifting the ban. I thought it was agood idea and members of the majority caucus told me that it was. I had hoped that for this one issue, politics and special interests would take a back seat for the good of the state and the nation. Unfortunately, what I believed and hoped has not materialized.

The chairman of the House Oil and Gas Committee, Rep. Mike Davis, a Democrat from Fairbanks, has held one hearing on the bill. I repeat *one* hearing. When I testified at that hearing, I told the committee that if they wanted to change the bill, that was fine; if they wanted to amend the bill, that was fine; if they wanted to put the committee's name on the bill, that was fine; I just want to get this body on record for having done something.

Recently, I met with a member of Congressman Don Young's staff. He also met with members of the majority caucus. You might know that Rep. Young has taken an active role in the fight to lift the ban. I must admit that I was embarrassed for the Democratic-led majority when he told me that our congressional delegation might be put to task for pushing repeal of the ban when the Legislature hasn't even passed a simple resolution in favor of lifting the ban.

Early last week, the House passed a resolution requesting our congressional delegation to support legislation on the federal level. Legislation, I might add, that is totally unrelated to Alaska. Yet we refuse to support them in their efforts to allow the export of our natural resources and, more importantly, reassert the sovereignty of our state.

Having been a committee chairman myself, I believe the Oil and Gas Committee has had plenty of time to complete any work on this bill. The chairman knows enough about the issue to pass it on. I might add that when the opportunity arose for him to travel back east to Washington, D.C., to attend a meeting on the ban, he went.

Count me in the group in favor of lifting the ban. I believe this is a clear cut issue.

The Democrats who lead the majority causcus are either in favor of lifting the ban or they aren't.

The time for action on this bill is long past. As the groyp leading the House of Representatives I see the responsibility as the Democrats', and theirs alone, to guide this bill through the Legislature so the people of Alaska and the other 49 states know where we stand on this issue. Since it is well within the power of the Democrat-controlled majority to do so, anything less than passage of HJR 15 is tantamount to their proceeding hand-in-hand with the forces that seek to restrict the sovereignty of our great state.

If your readers are in favor of lifting the ban on the export of Alaska oil, I ask them to please send Public Opinion Messages to their elected leaders by calling the local Legislative Information Office.

Rep. Terry Martin
R, Anchorage

Peninsula Clarion

STATE OF ALASKA

POUCH V
JUNEAU, ALASKA 99811
(907) 465-4941

HOUSE SPECIAL COMMITTEE ON OIL AND GAS

May 2, 1985

The Anchorage Times
P.O. Box 40
Anchorage, AK 99510-0040

Dear Editor,

I believe all Alaskans are pleased with how smoothly the legislature has conducted its business this session.

Unfortunately, Rep. Terry Martin has felt compelled to conduct a political campaign reminiscent of the antagonistic and unproductive activities of the last legislature. This is a form of reminiscense that we can all do without.

Rep. Martin claims that the House Special Committee on Oil and Gas has not passed a resolution regarding the foreign export of Alaskan crude oil because the House Majority is opposed to such a measure. The truth of the situation, though, is that the committee has been working hard to repair the damage that Mr. Martin has done to this cause.

Terry Martin traveled to Washington, D.C. this March to lobby for the lifting of the oil export ban. This lobbying effort consisted of sending materials to 100 state legislators across the nation that was so seriously flawed with incorrect and misleading information that the House Minority Leader announced he would have to get back to these legislators with correct information at a later date.

The misinformation so liberally disseminated by Mr. Martin stated that lifting the export ban would result in a windfall to the State of Alaska, and a severe loss of jobs to the maritime industry.

Ironically, these are the same claims made by lobbyists who have spent millions of dollars to keep the ban in place, and these are the claims that the Governor and the Alaskan congressional delegation have been fighting against for years.

But Somebody has to take the lead. I submit that the Special Committee on Oil and Gas, under the dedicated leadership of the Representative from Fairbanks, is already preparing information on this subject.

I would urge the leadership of this body, you, in particular, Mr. Speaker, as we all have great respect for your tutelage, to take the initiative and marshall the legislative, executive, and private sector forces to bring about a repeal of the export ban on Alaska oil.

I, for one, am ready to assist you and to give substantial effort to achieve this goal.

ATTACHMENT B

Spending Records of the Seafarers Political Activity Donation and the Masters, Mates and Pilots Political Contribution Fund: 1977-78 and 1979-80

Source: The PAC Directory. 1982 Edition. PAC Researchers: Burke, Virginia.

NON-PARTY (Continued)

SCHLITZ GOOD GOVERNMENT COMMITTEE (continued)

DETAILED INFORMATION:	Office	Party	State	District	Contributions 77-78	79-80
Sensenbrenner, F.	H	REP	WI	9	$500	$1,500

SCM PAC **New York** **NY** **C00128025**

SUMMARY INFORMATION:	1977-78	1979-80
Gross Receipts:	—	$5,186
Total Contributions:	—	$5,000

	1977-78	1979-80
Gross Disbursements:	—	$5,000
Total Independent Expenditures:	—	0

	77-78	79-80
% of Total Contributions & Independent Expenditures to Gross Disbursements:	—	100.0%

OF CONTRIBUTIONS TO ALL CANDIDATES:	Number of Candidates 77-78	Number of Candidates 79-80	Amount 77-78	Amount 79-80
Democrats	—	—	—	—
President	—	—	—	—
Incumbents	—	1	—	$500
Winners - Gen. Elec.	—	4	—	$3,500
RANGE OF $1-499	—	—	—	—
$500-999	—	4	—	$2,000

	Number of Candidates 77-78	Number of Candidates 79-80	Amount 77-78	Amount 79-80
Republicans	—	7	—	$5,000
Senate	—	2	—	$2,000
Challengers	—	4	—	$3,000
All Losers/Others	—	3	—	$1,500
$1000-4999	—	3	—	$3,000
$5000 & UP	—	—	—	—

	Number of Candidates 77-78	Number of Candidates 79-80	Amount 77-78	Amount 79-80
Other	—	—	—	—
House	—	5	—	$3,000
Open Seat	—	2	—	$1,500

SCOTT PAPER COMPANY PAC (SCOTTPAC) **Philadelphia** **PA** **C00097220**

SUMMARY INFORMATION:	1977-78	1979-80
Gross Receipts:	$5,300	$24,363
Total Contributions:	$2,800	$21,000

	1977-78	1979-80
Gross Disbursements:	$4,300	$20,750
Total Independent Expenditures:	0	0

	77-78	79-80
% of Total Contributions & Independent Expenditures to Gross Disbursements:	65.1%	100.0%

OF CONTRIBUTIONS TO ALL CANDIDATES:	Number of Candidates 77-78	Number of Candidates 79-80	Amount 77-78	Amount 79-80
Democrats	1	9	$500	$2,700
President	—	—	—	—
Incumbents	1	29	$500	$9,100
Winners - Gen. Elec.	5	41	$1,500	$17,300
RANGE OF $1-499	5	32	$1,300	$7,750
$500-999	3	15	$1,500	$8,450

	Number of Candidates 77-78	Number of Candidates 79-80	Amount 77-78	Amount 79-80
Republicans	7	42	$2,300	$18,300
Senate	3	14	$1,500	$9,450
Challengers	5	17	$1,700	$9,400
All Losers/Others	3	10	$1,300	$3,700
$1000-4999	—	4	—	$4,800
$5000 & UP	—	—	—	—

	Number of Candidates 77-78	Number of Candidates 79-80	Amount 77-78	Amount 79-80
Other	—	—	—	—
House	5	37	$1,300	$11,550
Open Seat	2	5	$600	$2,500

DETAILED INFORMATION:	Office	Party	State	District	Contributions 77-78	79-80
Symms, Steve	S	REP	ID			$1,800

SEAFARERS POLITICAL ACTIVITY DONATION -SPAD- **Brooklyn** **NY** **C00004325**

SUMMARY INFORMATION:	1977-78	1979-80
Gross Receipts:	$577,570	$1,030,216
Total Contributions:	$396,052	$685,248

	1977-78	1979-80
Gross Disbursements:	$579,209	$884,255
Total Independent Expenditures:	$4,000	0

	77-78	79-80
% of Total Contributions & Independent Expenditures to Gross Disbursements:	69.0%	77.4%

OF CONTRIBUTIONS TO ALL CANDIDATES:	Number of Candidates 77-78	Number of Candidates 79-80	Amount 77-78	Amount 79-80
Democrats	246	292	$374,502	$619,898
President	—	2	—	$15,000
Incumbents	190	255	$249,000	$520,928
Winners - Gen. Elec.	186	232	$237,400	$390,728

	Number of Candidates 77-78	Number of Candidates 79-80	Amount 77-78	Amount 79-80
Republicans	20	49	$21,550	$64,850
Senate	28	59	$139,352	$243,480
Challengers	37	54	$73,950	$93,730
All Losers/Others	80	110	$155,652	$294,520

	Number of Candidates 77-78	Number of Candidates 79-80	Amount 77-78	Amount 79-80
Other	—	1	—	$500
House	238	281	$256,700	$426,768
Open Seat	39	33	$73,102	$70,590

NON-PARTY (Continued)

SEAFARERS POLITICAL ACTIVITY DONATION -SPAD- (continued)

OF CONTRIBUTIONS TO ALL CANDIDATES:	Number of Candidates 77-78	Number of Candidates 79-80	Amount 77-78	Amount 79-80		Number of Candidates 77-78	Number of Candidates 79-80	Amount 77-78	Amount 79-80
RANGE OF $1-499	8	9	$1,850	$1,650	$1000-4999	114	203	$186,952	$318,884
$500-999	121	83	$61,750	$40,280	$5000 & UP	23	47	$145,500	$324,434

DETAILED INFORMATION:	Office	Party	State	District	Contributions 77-78	Contributions 79-80		Office	Party	State	District	Contributions 77-78	Contributions 79-80		Office	Party	State	District	Contributions 77-78	Contributions 79-80
Carter, Jimmy	P	DEM				$10,000	Melcher, John	S	DEM	MT			$5,000	Corcoran, Brian John	H	DEM	WA	2	$2,500	
Kennedy, Edward M.	P	DEM				$5,000	Metzenbaum, Howard	S	DEM	OH		$5,000		Corcoran, Dan	H	DEM	CA	37	$1,500	
Anderson, Wendell R.	S	DEM	MN		$10,000		Miller, Andrew P.*	S	DEM	VA		$6,000	$-720	Corman, James C.	H	DEM	CA	21	$500	$3,000
Barnett, Don	S	DEM	SD		$7,000		Miller, Zell	S	DEM	GA			$7,500	Daschle, Thomas	H	DEM	SD	1	$4,500	$3,000
Baucus, Max S.	S	DEM	MT		$5,060	$1,500	Moynihan, Daniel	S	DEM	NY			$5,000	Dellums, Ronald V	H	DEM	CA	8		$2,150
Bayh, Birch E., Jr.	S	DEM	IN		$1,500	$10,000	Nelson, Gaylord A.	S	DEM	WI			$9,500	Denton, Lane	H	DEM	TX	11	$3,000	
Biden, Joseph R., Jr.	S	DEM	DE		$4,000	$1,000	Packwood, Bob	S	REP	OR			$6,000	Dicks, Norman D.	H	DEM	WA	6	$2,000	$2,750
Bradley, Bill	S	DEM	NJ		$5,000	$3,000	Pell, Claiborne	S	DEM	RI		$2,000		Dingell, John D.	H	DEM	MI	16	$1,500	$1,000
Christie, Joe	S	DEM	TX		$5,000		Pettigrew, Richard A.	S	DEM	FL			$5,000	Dixon, Julian C.	H	DEM	CA	28	$500	$1,500
Church, Frank	S	DEM	ID			$10,000	Randolph, Jennings	S	DEM	WV		$7,000		Donnelly, Brian J	H	DEM	MA	11	$500	$3,500
Cranston, Alan	S	DEM	CA			$6,500	Ravenel, Charles D.	S	DEM	SC		$7,000	$1,000	Dorgan, Byron L	H	DEM	ND	At Large		$2,000
Culver, John C.	S	DEM	IA			$4,000	Roy, William R.	S	DEM	KS		$3,000		Dyson, Royden P.	H	DEM	MD	1		$2,000
D'Amato, Alfonse M.	S	REP	NY			$1,500	Sarbanes, Paul S	S	DEM	MD		$3,000		Eckhardt, Robert	H	DEM	TX	8	$1,500	$3,000
Dixon, Alan J	S	DEM	IL			$3,000	Sasser, James Ralph	S	DEM	TN		$2,500		Eilberg, Joshua	H	DEM	PA	4	$3,000	
Dodd, Christopher J.	S	DEM	CT			$10,000	Schulz, William R	S	DEM	AZ			$5,000	Fazio, Vic	H	DEM	CA	4	$1,000	$1,500
Durkin, John Anthony	S	DEM	NH			$10,000	Stevens, Ted	S	REP	AK		$7,500		Ferraro, Geraldine A	H	DEM	NY	9	$1,500	$5,934
Eagleton, Thomas F.	S	DEM	MO			$7,500	Stewart, Donald	S	DEM	AL		$5,000	$14,000	Fithian, Floyd J.	H	DEM	IN	2	$3,500	$3,000
Edmondson, Ed	S	DEM	OK		$5,000		Talmadge, Herman	S	DEM	GA			$3,000	Flippo, Ronnie Gene	H	DEM	AL	5	$500	$1,500
Flaherty, Pete	S	DEM	PA			$5,000	Addabbo, Joseph P	H	DEM	NY	7	$2,050	$6,500	Florio, James J	H	DEM	NJ	1	$1,500	$5,500
Flowers, Walter	S	DEM	AL		$4,852		Albosta, Donald	H	DEM	MI	10		$4,000	Foley, Thomas S.	H	DEM	WA	5	$500	$3,000
Ford, Wendell H.	S	DEM	KY			$5,000	Allegrucci, Don	H	DEM	KS	5	$1,500		Ford, Harold E.	H	DEM	TN	8		$2,000
Glenn, John	S	DEM	OH			$5,000	Ambro, Jerome A.	H	DEM	NY	3	$1,000	$1,500	Ford, William David	H	DEM	MI	15	$1,100	$1,500
Gojack, Mary L.	S	DEM	NV			$2,500	Anderson, Glenn M.	H	DEM	CA	32	$1,500	$1,500	Frost, Martin	H	DEM	TX	24	$3,800	$1,300
Gravel, Mike	S	DEM	AK			$5,000	Ashley, Thomas L.	H	DEM	OH	9	$500	$5,500	Gammage, Robert A	H	DEM	TX	22	$3,500	$500
Gunter, Bill	S	DEM	FL			$5,000	Aucoin, Les	H	DEM	OR	1	$4,000	$7,500	Gaydos, Joseph M.	H	DEM	PA	20	$1,000	$5,500
Hart, Gary W	S	DEM	CO			$5,000	Bailey, Donald Allen	H	DEM	PA	21	$1,000	$2,800	Gray, William H III	H	DEM	PA	2	$500	$1,500
Haskell, Floyd K.	S	DEM	CO		$10,000		Baldus, Alvin	H	DEM	WI	3		$1,500	Green, Mark J	H	DEM	NY	18		$5,000
Hathaway, William D.	S	DEM	ME		$5,000		Barnes, Michael Darr	H	DEM	MD	8	$1,000	$2,500	Guarini, Frank J.	H	DEM	NJ	14	$500	$2,000
Heflin, Howell Thomas	S	DEM	AL		$5,000		Barragan, Polly Baca	H	DEM	CO	4		$2,500	Hall, Tony P.	H	DEM	OH	3		$2,000
Hollings, Ernest F.	S	DEM	SC			$9,000	Bauman, Robert	H	REP	MD	1	$1,000	$6,000	Hannaford, Mark W.	H	DEM	CA	34	$1,850	
Holtzman, Elizabeth	S	DEM	NY			$9,500	Baumann, Archie	H	DEM	MN	6		$1,500	Hertel, Dennis M	H	DEM	MI	14		$2,000
Huddleston, Walter D.	S	DEM	KY		$1,500		Baumann, James L.	H	DEM	OH	12	$1,500		Hindes, Gary E.	H	DEM	DE	At Large	$1,500	$-500
Inouye, Daniel K.	S	DEM	HI			$4,000	Biaggi, Mario	H	DEM	NY	10	$2,000	$3,750	Hollenbeck, Harold C	H	REP	NJ	9		$2,500
Javits, Jacob K	S	REP	NY			$5,000	Boggs, Lindy (Mrs.	H	DEM	LA	2	$2,000	$2,500	Howard, James J.	H	DEM	NJ	3	$1,500	$5,500
Johnston, J. Bennett.	S	DEM	LA		$6,000		Bolling, Richard	H	DEM	MO	5	$500	$1,500	Huckaby, Thomas	H	DEM	LA	5	$1,500	$500
Krueger, Robert	S	DEM	TX		$5,000		Bonior, David E.	H	DEM	MI	12	$1,000	$2,500	Johnson, Harold T.	H	DEM	CA	1	$500	$2,500
Levin, Carl	S	DEM	MI		$10,000	$250	Burlison, Bill D.	H	DEM	MO	10		$3,000	Kogovsek, Ray	H	DEM	CO	3		$4,500
Long, Russell B	S	DEM	LA			$5,000	Burstein, Karen S.	H	DEM	NY	5		$7,500	Lantos, Thomas P.	H	DEM	CA	11		$2,000
Magnuson, Warren G	S	DEM	WA			$10,000	Burton, John	H	DEM	CA	5	$2,000	$5,000	Leach, Claude 'Buddy'	H	DEM	LA	4		$1,500
Martin-Trigona,	S	DEM	IL			$5,000	Carney, Charles	H	DEM	OH	19	$1,500		Lederer, Raymond F	H	DEM	PA	3	$1,000	$1,625
Mathias, Charles	S	REP	MD			$7,000	Clark, Arthur Joseph	H	DEM	MA	4		$2,790	Leland, George	H	DEM	TX	18		$1,500
McGovern, George	S	DEM	SD			$10,000	Clay, William L.	H	DEM	MO	1	$2,000	$1,000	Lieberman, Joseph	H	DEM	CT	3		$2,500

*See Section IV for independent expenditures made by this PAC during 1979-80 in support of or against the candidate.

NON-PARTY (Continued)

SEAFARERS POLITICAL ACTIVITY DONATION -SPAD- (continued)

DETAILED INFORMATION:	Office	Party	State	District	Contributions 77-78	Contributions 79-80
Lloyd, Jim	H	DEM	CA	35	$1,000	$2,000
Long, Clarence D.	H	DEM	MD	2	$500	$1,500
Long, Gillis W	H	DEM	LA	8	$3,000	$1,500
Luken, Thomas A	H	DEM	OH	2	$1,000	$2,000
Matsui, Robert T.	H	DEM	CA	3	$1,500	$1,000
Mavroules, Nicholas	H	DEM	MA	6	$2,000	$4,500
McFall, John J.	H	DEM	CA	14	$2,000	
Meeds, Lloyd*	H	DEM	WA	2	$1,550	
Mikulski, Barbara Ann	H	DEM	MD	3	$500	$1,625
Miller, George	H	DEM	CA	7		$1,500
Moakley, John Joseph	H	DEM	MA	9	$1,500	$1,000
Mollohan, Robert	H	DEM	WV	1	$500	$2,500
Murphy, John M.	H	DEM	NY	17	$8,000	$7,000
Murphy, Morgan F.	H	DEM	IL	2	$2,000	
Musto, Raphael	H	DEM	PA	11		$3,000
Myers, Michael	H	DEM	PA	1	$1,200	$3,000
Nix, Robert N. C.	H	DEM	PA	2	$1,500	
Nolan, Richard	H	DEM	MN	6	$3,000	$1,000
O'Neill, Thomas	H	DEM	MA	8	$500	$5,000
O'Reilly, Kathleen F	H	DEM	MI	2		$2,500
Oberstar, James L.	H	DEM	MN	8	$500	$2,500
Olsen, Kirsten	H	DEM	CA	12	$5,000	
Ottinger, Richard L	H	DEM	NY	24	$500	$2,500
Patterson, Jerry M.	H	DEM	CA	38	$1,500	$500
Peck, Carey	H	DEM	CA	27	$2,250	$4,500
Pepper, Claude	H	DEM	FL	14	$5,000	$1,000
Randolph, John F.	H	DEM	NY	1	$2,000	
Ravenel, Charles D.	H	DEM	SC	1		$2,500
Reibman, Jeanette F.	H	DEM	PA	15		$1,500
Richardson, William B	H	DEM	NM	1		$3,000
Robinson, David L	H	DEM	IL	20		$2,000
Roe, Robert A.	H	DEM	NJ	8	$2,500	$3,500
Rooney, Fred B	H	DEM	PA	15	$1,500	
Rostenkowski, Dan	H	DEM	IL	8	$1,250	$1,500
Schumer, Charles	H	DEM	NY	16		$7,500
Shelby, Richard C.	H	DEM	AL	7	$1,000	$1,700
Slack, John M.	H	DEM	WV	3	$1,500	
Solarz, Stephen J.	H	DEM	NY	13	$1,000	$4,994
Sprik, Dale Robert	H	DEM	MI	5		$2,000
Stofferahn, Kenneth D	H	DEM	SD	2		$1,500
Swift, Allan Byron	H	DEM	WA	2	$1,000	$1,700
Thompson, Frank, Jr.	H	DEM	NJ	4	$2,000	$5,000
Tonry, Richard	H	DEM	LA	1	$3,500	
Tucker, James Guy, Jr.	H	DEM	AR	2	$2,500	
Udall, Morris K.	H	DEM	AZ	2		$4,500
Watlington, Janet B.	H	DEM	VI	At Large	$7,000	$500
Weaver, James	H	DEM	OR	4	$2,000	$1,500
Wenstrom, Gene	H	DEM	MN	7	$500	$2,750
Wilson, Charles H	H	DEM	CA	31	$3,000	$1,500
Wolff, Lester L	H	DEM	NY	6		$1,500
Wolpe, Howard	H	DEM	MI	3	$1,500	$11,000
Wright, Jim	H	DEM	TX	12	$1,000	$2,500
Yatron, Gus	H	DEM	PA	6		$1,500
Young, Don	H	REP	AK	At Large	$3,000	$1,750
Zeferetti, Leo C*	H	DEM	NY	15	$5,000	$7,000

SEA-LAND GOOD GOVERNMENT FUND SEA-LAND INDUSTRIES INC **Winston-Salem** **NC** **C00100495**

SUMMARY INFORMATION:	1977-78	1979-80
Gross Receipts:	$1,650	$17,330
Total Contributions:	$200	$14,275
Gross Disbursements:	$200	$16,275
Total Independent Expenditures:	0	0
% of Total Contributions & Independent Expenditures to Gross Disbursements:	100.0%	87.7%

OF CONTRIBUTIONS TO ALL CANDIDATES:	Number of Candidates 77-78	Number of Candidates 79-80	Amount 77-78	Amount 79-80
Democrats	2	23	$200	$8,800
President	—	—	—	—
Incumbents	2	32	$200	$12,875
Winners - Gen. Elec.	2	26	$200	$9,925
RANGE OF $1-499	2	26	$200	$5,400
$500-999	—	3	—	$1,875
Republicans	—	12	—	$5,475
Senate	—	6	—	$5,200
Challengers	—	2	—	$1,200
All Losers Others	—	9	—	$4,350
$1000-4999	—	6	—	$7,000
$5000 & UP	—	—	—	—
Other	—	—	—	—
House	2	29	$200	$9,075
Open Seat	—	1	—	$200

DETAILED INFORMATION:	Office	Party	State	District	Contributions 77-78	Contributions 79-80
Magnuson, Warren G	S	DEM	WA			$1,500
Murphy, John M.	H	DEM	NY	17	$100	$1,500

SEARLE PAC **Skokie** **IL** **C00111484**

SUMMARY INFORMATION:	1977-78	1979-80
Gross Receipts:	—	$27,745
Total Contributions:	—	$21,100
Gross Disbursements:	—	$27,250
Total Independent Expenditures:	—	0
% of Total Contributions & Independent Expenditures to Gross Disbursements:	—	77.4%

OF CONTRIBUTIONS TO ALL CANDIDATES:	Number of Candidates 77-78	Number of Candidates 79-80	Amount 77-78	Amount 79-80
Democrats	—	14	—	$6,500
President	—	—	—	—
Republicans		80		$14,600
Senate		12		$7,250
Other				
House		32		$13,850

*See Section IV for independent expenditures made by this PAC during 1979-80 in support of or against the candidate.

Democrats	—	19	—	$5,750	Republicans	—	14	—	$3,950	Other				
President	—	—	—	—	Senate	—	11	—	$4,300	House	—	22	—	$5,400
Incumbents	—	30	—	$9,000	Challengers	—	3	—	$700	Open Seat				
Winners - Gen. Elec.	—	26	—	$7,500	All Losers/Others	—	7	—	$2,200					
RANGE OF $1-499	—	31	—	$8,200	$1000-4999	—	1	—	$1,000					
$500-999	—	1	—	$500	$5000 & UP									

MASTERS, MATES AND PILOTS POLITICAL CONTRIBUTION FUND — Washington DC — C00073056

SUMMARY INFORMATION:	1977-78	1979-80		1977-78	1979-80		77-78	79-80
Gross Receipts:	$113,448	$300,357	Gross Disbursements:	$56,079	$167,256	% of Total Contributions & Independent		
Total Contributions:	$21,550	$113,950	Total Independent Expenditures:	0	0	Expenditures to Gross Disbursements:	38.4%	68.1%

OF CONTRIBUTIONS TO ALL CANDIDATES:	Number of Candidates 77-78	79-80	Amount 77-78	79-80		Number of Candidates 77-78	79-80	Amount 77-78	79-80		Number of Candidates 77-78	79-80	Amount 77-78	79-80
Democrats	14	96	$19,050	$104,450	Republicans	1	10	$2,500	$9,500	Other	—	—	—	—
President	—	1	—	$1,000	Senate	3	19	$5,000	$42,000	House	12	86	$16,550	$70,950
Incumbents	11	96	$16,050	$107,300	Challengers	3	3	$4,500	$2,650	Open Seat	1	7	$1,000	$4,000
Winners - Gen. Elec.	12	72	$18,600	$65,450	All Losers/Others	3	34	$2,950	$48,500					
RANGE OF $1-499	—	2	—	$400	$1000-4999	14	32	$21,050	$48,500					
$500-999	1	66	$500	$33,550	$5000 & UP	—	6	—	$31,500					

DETAILED INFORMATION:	Office	Party	State	District	Contributions 77-78	79-80		Office	Party	State	District	Contributions 77-78	79-80		Office	Party	State	District	Contributions 77-78	79-80
Bayh, Birch E., Jr.	S	DEM	IN			$4,500	Gravel, Mike	S	DEM	AK			$5,000	Packwood, Bob	S	REP	OR			$2,500
Church, Frank	S	DEM	ID			$5,000	Inouye, Daniel K.	S	DEM	HI			$2,000	Stewart, Donald	S	DEM	AL		$3,000	$2,500
Cranston, Alan	S	DEM	CA			$2,500	Magnuson, Warren G	S	DEM	WA			$5,000	Burton, John	H	DEM	CA	5	$1,000	$5,000
Durkin, John Anthony	S	DEM	NH			$2,000	Mathias, Charles	S	REP	MD			$2,500	Burton, Phillip	H	DEM	CA	6	$1,000	$2,000

NON-PARTY (Continued)

MASTERS, MATES AND PILOTS POLITICAL CONTRIBUTION FUND (continued)

DETAILED INFORMATION:	Office	Party	State	District	Contributions 77-78	79-80		Office	Party	State	District	Contributions 77-78	79-80		Office	Party	State	District	Contributions 77-78	79-80
Ferraro, Geraldine A	H	DEM	NY	9		$2,000	Murphy, John M.	H	DEM	NY	17	$3,000	$6,500	Wolpe, Howard	H	DEM	MI	3		$5,000
Lowry, Michael E.	H	DEM	WA	7		$4,000	Nolan, Richard	H	DEM	MN	6	$2,000		Young, Don	H	REP	AK	At Large	$2,500	$500

MASTERS MATES & PILOTS PENSIONERS' ACTION FUND — New York NY — C00012013

SUMMARY INFORMATION:	1977-78	1979-80		1977-78	1979-80		77-78	79-80
Gross Receipts:	$21,584	$253,394	Gross Disbursements:	$167,394	$79,248	% of Total Contributions & Independent		
Total Contributions:	$3,970	$10,250	Total Independent Expenditures:	0	0	Expenditures to Gross Disbursements:	2.3%	12.9%

OF CONTRIBUTIONS TO ALL CANDIDATES:	Number of Candidates 77-78	79-80	Amount 77-78	79-80		Number of Candidates 77-78	79-80	Amount 77-78	79-80		Number of Candidates 77-78	79-80	Amount 77-78	79-80
Democrats	3	2	$3,970	$10,250	Republicans					Other				
President	—	1	—	$10,000	Senate					House	3	1	$3,970	$250
Incumbents	2	2	$2,485	$10,250	Challengers	1		$1,485		Open Seat				
Winners - Gen. Elec.	2	—	$2,485	—	All Losers/Others	1	2	$1,485	$10,250					

The Heritage Foundation Backgrounder

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For your info -
Paula Easley

February 22, 1983

EXPORTING ALASKA'S OIL AND GAS

INTRODUCTION

A huge resource of oil and gas is locked up in Alaska by federal legislation that prohibits its free commercial export. As a result, Alaskan oil is currently creating a glut and discouraging oil production in California. Half of Alaska's oil production therefore has to be shipped to the East Coast and Gulf Coast at considerable cost, ultimately borne by American consumers.

Removing export restrictions would gain the federal treasury about $1.5 billion per year and also increase Alaska's revenues substantially. It would reduce the nation's deficit trade balance with Japan and the Far East by up to $20 billion in potential oil and gas exports. Beyond these financial benefits, the action could help break the impasse in trade relations with Japan and ensure supplies of energy to close allies who are very vulnerable to interruptions in the flow of Middle East oil. In addition, it would render unnecessary the construction of a $2 billion pipeline from Puget Sound to the Midwest and eliminate the current costly and wasteful tanker traffic to the East Coast.

Most important, it would stimulate Alaskan producers to develop more oil for export, probably from 0.5 to 1 million barrels per day (mbd)--worth about $5 to $10 billion per year. And it would blaze the way for exports of natural gas in the form of liquid natural gas (LNG) or as raw materials for fertilizer, with great benefits to the economic development of Alaska. Gas exports of about 1 tcf (trillion cubic feet) would be worth about $5 billion per year and add the equivalent of another 0.5 mbd to the world oil market.

Changing the law that bans overseas sales of Alaskan oil will take a measure of political effort. That ban has a powerful constituency in the maritime unions. Under a 1920 law--the Jones

Note: Nothing written here is to be construed as necessarily reflecting the views of The Heritage Foundation or as an attempt to aid or hinder the passage of any bill before Congress.

Act--all shipments between American ports must be made in American-flag ships, manned by American crews. All the oil that leaves the southern Alaska port of Valdez for terminals on the West and Gulf Coasts falls under the Jones Act. Even though only part of the 1.6 million barrels of oil that run through the Alaska pipeline each day might be involved in export to Japan, the maritime unions would fight to keep the law from being changed.

A second problem involves equity for the American companies engaged in northern Alaska oil production. Legally barred from selling this oil to foreign countries, Exxon, Standard Oil Company of Ohio, and Atlantic Richfield Corporation invested heavily in tankers to ship oil from Valdez to other U.S. ports. In addition, these companies are under a three-year contract to move some of the oil going to the Gulf Coast through a pipeline across Panama, offloading from tankers on the Pacific side, reloading to tankers on the Caribbean side. These investments, entered into in good faith, would have to be protected.

But on balance, more would be gained than lost if exports were permitted. Moreover, export of Alaskan hydrocarbons poses no threat whatsoever to U.S. security. On the contrary, putting another 1 mbd (or more) of non-OPEC hydrocarbons into the world market would enable the consumer nations to reduce the amount of oil imported from unreliable OPEC producers. Allowing export of Alaska oil and gas also could improve U.S. relations with Japan. Not only would it narrow the U.S.-Japan trade imbalance ($16 billion surplus for Japan in 1982), but it would go far to alleviate Japan's fears of energy dependence on unstable Middle East nations.

ALASKA'S HYDROCARBON POTENTIAL

In January 1968, roughly 19 billion barrels of oil and 26 trillion cubic feet (tcf) of natural gas were discovered at Prudhoe Bay, Alaska. In 1968-1969, Alaska sold the basic leases for about $900 million, reserving for itself a 12.5 percent royalty interest. Development of the Prudhoe Bay field and plans for an oil pipeline commenced almost immediately. Congress became involved in the decision-making process of selecting the best route for transporting Alaskan North Slope (ANS) oil to market because any oil pipeline would have to cross federal land.

While oil and natural gas have been produced at Cook Inlet since 1954--and successfully exported to Japan in the form of LNG by Phillips-Marathon--it was the 1977 opening of the Trans-Alaska Pipeline System (TAPS) to the Prudhoe Bay field that turned Alaska into a major energy supplier. Last year, Alaska averaged over 1.7 mbd of crude oil production, including over 1.6 mbd from the North Slope. Another 80,000 was added to the TAPS throughput with production from the new Kuparuk field just west of Prudhoe Bay. By the mid-1980s, the $3 billion Waterflood Project will keep up Prudhoe Bay's production by maintaining reservoir pressure

through seawater injection. At the same time, Kuparuk production is expected to be at least 0.2 mbd. So production from the North Slope will come near to TAPS' capacity of 2.0 mbd this decade, even if there are no new discoveries.

Estimates of North Slope reserves have been made for the wells and production in the Prudhoe Bay and Kuparuk fields. As of August 1980, Alaska estimated its "most likely" discovered resources at 10.2 billion barrels of oil and 35.4 trillion cubic feet (tcf) of gas. Under stricter definitions, the American Gas Association (AGA) estimated (in January 1982) proven gas reserves to be 26 tcf for the North Slope and 31.9 tcf for all of Alaska. These estimates are for known, existing fields. Though not confirmed by drilling, undiscovered reserves do exist. The AGA study estimated potential gas reserves for Alaska at 145 tcf. The National Petroleum Council issued estimates (December 1981) for the North Slope and the Bering Sea using averages of other studies. They put undiscovered recoverable resources at a mean of 24 billion barrels of oil (high of 55 billion barrels) and 109 tcf of natural gas (high of 246 tcf). These estimates were based on current energy market conditions. Using historical changes in prices and technology, Heritage Foundation analysts estimate Alaska's potential oil reserves at between 48 and 124 billion barrels, with commensurate increases in potential gas reserves. (For comparison, recent annual U.S. consumption was about 5.5 billion barrels (bb) of oil, and about 20 tcf of natural gas. Note that 1 tcf of gas has a heat content of 1 quad 1,000 trillion BTU's, and is equivalent to 0.17 bb of oil.)

RESTRICTIONS ON EXPORTS

The two primary alternatives for carrying the oil to the lower 48 states were a proposed Trans-Canada pipeline, which was to deliver the oil to Midwestern refineries, and the TAPS to deliver the oil to a tanker terminal at Valdez, Alaska, from where it would be shipped south. Certain groups vigorously opposed the Trans-Alaska route, arguing that it would result in serious ecological degradation of the tundra (they were wrong) and that the West Coast would not be able to absorb all of the Alaskan oil (they were right). There were also charges by consumer groups and representatives of Midwestern and Eastern states that the ultimate purpose was oil companies' desire to ship Alaskan North Slope oil to Japan.

When the TAPS bill was passed by Congress, two weeks after the beginning of the Arab oil embargo, concerns about domestic energy security resulted in inclusion within the Act of tight limitations on domestic oil exported to noncontiguous nations, such as Japan. The Act established two broad criteria to determine whether exports should be permitted: (1) The President must make a finding that the exports would "not diminish the total quantity or quality of petroleum available to the United States and are in the national interest and are in accord with the Export Adminis-

tration Act of 1967," and (2) upon such a finding, the President is required to publish and report it to Congress, which then has 60 days during which it can veto exports by passing a concurrent resolution.

Additional restrictions were put on the export of oil to noncontiguous nations by the 1977 and 1979 amendments to the Export Administration Act (EAA). The 1979 change required that both houses affirm a presidential export proposal. Restrictions on exports have become so tight that it is accurate to speak of an effective export ban for noncontiguous nations.

The reason for the increasing severity of export restrictions has been the continuing, though incorrect, assumption that exports would undermine national energy security. Clashes over the TAPS issue have only made the matter more complex and politically sensitive.

Primarily because oil prices have increased from $2.50 to over $30 per barrel, the demand for oil has not increased as much as both government and industry officials anticipated. As a result, there is an oil surplus on the West Coast. Of the 1.6 mbd of Alaskan oil leaving Valdez, only half is refined in California. The other half is carried by tankers through the Panama Canal (or trans-Panama pipeline) or around Cape Horn to refineries on the East Coast, the Gulf Coast, and the Caribbean.

The maritime industry has a vested interest in the transportation of Alaskan oil, because the Jones Act mandates that any cargo transported between U.S. ports be carried in U.S. bottoms and with U.S. seamen. Half of Jones Act traffic is devoted to Alaskan oil, and about one-quarter of Jones Act traffic would be affected if Alaskan oil were to be freely exported to other countries by cheaper foreign flag tankers.

Another development affecting the maritime industry is the longstanding effort to build a west-to-east oil pipeline. The Northern Tier Pipeline Company, for instance, proposes to construct a pipeline from Port Angeles, Washington, to Clearbrook, Minnesota. The project would cost an estimated $1.9 billion (1981 dollars). This 42" diameter line ultimately would carry .933 mbd. The original project was vetoed by Washington Governor John Spellman for environmental reasons. A new proposal would carry the oil around, rather than across, Puget Sound. Naturally, if such a line were to be constructed, the maritime industry would lose much of its Jones Act business.

Clearly, the time is right for Congress to consider all the options available for Alaskan oil and gas, including the removal of restrictions on exports.

THE SECURITY ISSUE

The maritime industry aside, the principal objection to Alaskan exports stems from security concerns. In case of an embargo or oil cut-off, the argument goes, the U.S. must be guaranteed sufficient Alaskan oil to meet American needs. This argument was born in the period of the first Arab oil embargo. It is no longer valid, if it ever was. The export of Alaskan oil would in no way compromise U.S. security. Indeed, it could enhance it, for the following reasons:

1) The Inconsistency of Oil Export Restrictions

There are no prohibitions regarding the export of oil products, such as gasoline and fuel oil. It seems strange, therefore, that there should be a prohibition against exporting crude oil. There also are no restrictions on exporting oil during emergencies to U.S. partners in the International Energy Agency. In fact, the U.S. has an agreement concerning the sharing of oil supplies during emergencies. It has never been tested, but all IEA members are bound to honor it. Why then should the U.S. not permit the export of Alaskan oil and gas during nonemergency periods?

2) Ineffective Embargoes

There are two kinds of potential embargoes. The first is an embargo declared against the United States without a production cutback. The second is an embargo coupled with a production cutback. The level of production is the critical factor; the simple declaration of an embargo would make little difference to the U.S. except for psychological pressure.

An embargo against the United States cannot be effective--and has never been effective. Oil imported from overseas comes from a number of different sources. If any one of these, or even a combination of them, should embargo oil to the United States, one or both of the following scenarios might develop: (1) the oil companies would sell the oil to another customer, say France, but oil destined to France from, say, Africa, would be diverted and shipped to the United States; (2) oil from the countries involved in the boycott would come into a transshipping terminal, such as Rotterdam, and then be shifted to the U.S. under a swap arrangement. The point is that oil is a fungible substance. Its source matters little.

An embargo would be effective in one instance: if an adversary imposed a naval blockade against the United States along both coasts. Such action would be difficult for any power to mount. But if it were successful, it would interfere with the traffic from Alaska to California and certainly to the East Coast. Short of military actions by opponents, however, the U.S. is immune to any simple embargo.

3) Production Cuts and the Market Price

But what if the embargo were coupled with production cutbacks, such that simple swapping procedures would not be possible? In that case the market could take over and adjust the available supply--now reduced--to the demand. Any production cutback thus would raise the world price, whether the production cutback were coupled with an embargo, or caused by an accident or by third parties, such as a war or sabotage. Everyone would have to pay the higher price in these circumstances--not just the United States. Indeed, the Alaskan oil exported would also command the higher price (as would all domestic oil, in the absence of price controls).

There is often talk about countries "outbidding" each other during a supply crisis, but in a free market this would not be the case. As the price went up, those persons (not countries) wishing to buy the oil would have to pay the higher price, and oil use by others would fall. This redistribution of oil would be entirely automatic, in response to normal market forces, not to government allocation efforts.

Some time could elapse before the new supply relationships were established following an oil cutoff. During this time, there could be dislocations and shortages just as there are shortages in retail outlets when the inventory is low. To soften such short-term disruption, the United States and other industrialized countries have provided for strategic reserves of petroleum. The U.S. reserve is designed to replace 90 days of imports, sufficient for orderly adjustments to take place--even if all imports were cut off. (If, on the other hand, only imports from the Middle East were affected, then the stockpile could last well over six months). The release of oil from the U.S. stockpile (or from the stockpiles of other industrialized countries) would limit any price increase due to sudden interruptions in production levels. If the supply interruption persisted, the oil market would reach equilibrium at a higher price; if it were only temporary, there would be no long-term change in price--although, of course, stockpiles would be partly depleted.

4) Two Case Studies--1973 and 1979

What happened during past embargoes? In October 1973, producers on the Arabian peninsula declared an embargo and cut back their production. The declaration itself did little but scare people. The cutback in production, however, increased the price of oil, which eventually soared from about $3 to $12 per barrel.

There was considerable market disruption in the United States in Spring 1974, characterized chiefly by long lines at gasoline stations. These lines were caused by the exaggerated reaction of the federal government, which sought to allocate gasoline and other oil products to achieve a "fair distribution."

Yet federal bureaucrats had no more success than any other planners in trying to simulate the workings of the market, and misallocation inevitably followed. "Shortages" occurred widely in 1974 because well-meaning government interference with the market process was compounded by price controls on domestic oil. Without free movement of prices, there was no reason for demand to fall to the new, reduced level of supply--other than by the forced decline in consumption because of waiting in line. (The 1974 experience has been discussed and documented in some detail by a number of authors, for example, Professors Paul MacAvoy, H.A. Merklein, and others.) But nothing was learned. In 1979, the Department of Energy again put into effect an allocation system--with predictable results: long lines at gasoline stations.

Further proof that embargoes do not work is found in the events of November 1979. When the U.S. Embassy in Teheran was occupied, President Jimmy Carter declared that the U.S. would no longer buy Iranian oil. The action was, in effect, a self-imposed embargo--a boycott. Of course, nothing happened. The Iranian oil went elsewhere, and the U.S. bought oil from other sources. There was no psychological impact either--perhaps because the word "embargo" was never mentioned.

One of the first acts of the Reagan Administration was to remove price controls on oil. Congress still believed that an allocation system had to be instituted during emergencies and tried to force the White House to agree to such a system. In vetoing the bill, President Reagan explained why the market allocates more successfully than any bureaucrat or combination of bureaucrats. The U.S. Senate upheld the presidential veto.

It should seem clear that embargoes and production cutbacks do not work, when oil prices are decontrolled and a large strategic stockpile keeps prices from moving too high. An embargo threat is little more than a psychological tool that is effective only if the victim thinks it might be harmful.[1]

Security Benefits from Alaskan Exports

There are certain security benefits that should be taken into account when contemplating export of Alaskan oil. If exports were to be permitted, the oil companies holding concessions on the North Slope would certainly increase production and put more oil into the world market. A conservative estimate is that the additional output could amount to 0.5 mbd (more optimistic estimates exceed 1 mbd), in addition to the 1.6 mbd now being supplied through the pipeline.[2] The liquid natural gas exports could exceed 0.5 mbd of oil equivalent.

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1 It should be noted that President Reagan ousted Libyan diplomats from Washington, and Libya made no effort to institute retaliatory action in the oil market against the United States; they also know that embargoes don't work.

2 If production rises above 2 mbd, the pipeline's capacity can be increased at relatively little cost.

Putting more oil and gas onto the world market would be very beneficial to the United States. Not only would it improve the trade balance by about $15 billion per year, and make money for the Treasury, Alaska, and the stockholders of American oil companies, but it would weaken the power of OPEC. As American oil captured a share of the world market, it would decrease consumer dependence on OPEC oil. It would also put downward pressure on the world price by limiting what the OPEC cartel could sell.

If U.S. exports to Japan were increased by 1 mbd, for instance, Japan could reduce its imports from Mexico by a like amount, and the U.S. could replace 1 mbd of Middle East imports by more Mexican oil. Clearly U.S. security would be enhanced, Mexico would gain through lower transportation costs, and even more important, the world oil price would probably be lowered by approximately 5 percent. Since OPEC is currently earning about $200 billion a year in revenues, this would reduce the oil bill of the importing countries, including the United States, by about $10 billion a year.

ECONOMIC BENEFITS AND COSTS OF ALASKAN EXPORTS

The effective ban on exports has led to an established market of Alaskan North Slope (ANS) crude oil on the Gulf and West Coasts. About half of North Slope production is used on the West Coast; the rest is shipped to the Gulf and East Coasts on U.S. flag tankers. The exportation ban, the Jones Act, and the lack of a west-east U.S. oil pipeline mean there is no other marketing option--except not selling oil at all. Eliminating the export ban would open up other, more profitable markets for the surplus.

For an estimate of the scale of the export potential, market prices may be approximated using the price of Persian Gulf (i.e., Saudi Arabian) oil, plus the costs of its transportation to each market. The "wellhead" price which producers receive for their crude oil is the market price (say, in Houston) minus transportation costs. These costs vary with shipping distances, tanker size, and other factors.

Jones Act requirements set U.S. tanker rates well above world tanker rates. Table 1 gives some relevant tanker rates.

Table 1
CRUDE OIL TRANSPORTATION COSTS
($/barrel)

Departure Port	Destination Port	Tanker Costs
Alaska (Valdez)	West Coast	$1.47
	Gulf Coast	4.00
	Japan	.51
Persian Gulf	West Coast	1.50
	Gulf Coast	2.03
	Japan	.96

The different rates mean that ANS producers receive different wellhead prices for their oil, depending on its destination. Using market prices established by Persian Gulf oil, ANS producers would net back $2.00/barrel more for their West Coast shipments than for the Gulf Coast shipments. They could use such a price advantage to drive the West Coast price down and expand their market share by discounting. In fact, there is already increasing, although incomplete, evidence of some West Coast "discounting."

If the ban on exports were lifted, ANS producers could increase the wellhead prices of their currently Gulf Coast-bound shipments by $2.42 per barrel (i.e. $1.97 + 0.96-0.51) by changing the destination to Japan and taking advantage of lower shipping costs. At the same time, of course, a change in the destination of ANS crude would reduce the glut in the West Coast market, and West Coast crude oil prices could rise by as much as $2.00 per barrel. So there would be an increase in the netback to the ANS and to the local California producers, who were previously forced to lower their prices to match the ANS competition.

Another factor in the equation would be the reduced shipping costs associated with the Alaska-West Coast route. The reduction in the demand for U.S. tankers because of the reduced Alaska to West Coast trade and the absence of Jones Act requirements on exported oil would mean more competition along the American coastline--further raising the ANS netback. (For computation ease, it is assumed here that Alaska-West Coast shipping costs would fall by $.42 per barrel, from $1.47 to $1.05, although larger decreases have been forecast.) A summary of total possible increases in wellhead prices resulting from these factors is given in Table 2.

Table 2
ESTIMATED INCREASES OF CRUDE OIL WELLHEAD PRICES
AFTER THE LIFTING OF THE OIL EXPORT BAN
($/barrel)

Market Conditions	Originating Port	Export Ban		No Export Ban		Wellhead Increases with Export Ban Removed
		Destination Port	Wellhead Price	Destination Port	Wellhead Price	
No Discounting	California	West Coast	PG* + 1.50	West Coast	PG + 1.50	.00
	Alaska	West Coast	PG + .03	West Coast	PG + .45	.42
	Alaska	Gulf Coast	PG + 1.97	Japan	PG + .45	2.42
Full Discounting (by Alaskan Producers in California)	California	West Coast	PG - .50	West Coast	PG + 1.50	2.00
	Alaska	West Coast	PG - 1.97	West Coast	PG + .45	2.42
	Alaska	Gulf Coast	PG - 1.97	Japan	PG + .45	2.42

*PG=Persian Gulf price

ANS oil shipments to the eastern U.S. amounted to more than 0.8 mbd in 1982. 0.82 mbd was used for calculations of gross wellhead revenue increases if the oil were exported to Japan, (and 1.1 mbd for California production). The wellhead increases would be between $804 million per year and $1,391 million per year for ANS production, and up to $803 million per year for California production. But the private producers would not receive all of these benefits. Alaskan royalty oil and severance and income taxes would take over 32 percent of ANS increases. The federal government would take 7 percent in corporate income taxes and 52 percent in windfall profit taxes for most current production. California oil producers' increases in revenue would also be taxed. Analysis suggests that the division would leave ANS producers with 8.27 percent of the increases or between $66 million and $115 million per year. The gross yearly wellhead revenue increases and its division are given in Table 3.

Table 3
ESTIMATES OF GROSS REVENUE INCREASES
AND ITS DIVISION
($ millions/year)

Market Conditions	Gross Wellhead Revenue	Yearly Increases		Gross Federal Taxes
		Producer	State Profits Taxes	
No Discount	804	66	262	475
Full Discount				
Alaska producers	1391	115	454	822
California producers	803	626		177
Total	2194			999

Increased revenue to oil producers and the governments does mean some costs to others. Initially the wellhead gains could come at the expense of the tanker owners and crews, the new Panama pipeline, and other groups involved in the transportation of the Alaskan oil to the Gulf Coast. The West Coast refiners and their consumers would also lose the present discount. And some tax revenue would be lost from those companies and individuals.[3] But these losses would occur in any event if the proposed

[3] Another cost to the federal government could be for the acquisition of U.S. tankers whose loans are guaranteed under Title XI. A U.S. Maritime Administration working paper put the one-time net government cost at $593.8 million. But this figure is based on the worst-case projection that all of the tanker tonnage is displaced permanently. This is unlikely, so the actual government cost would be less.

West-to-East oil pipeline were built. In any case, such losses would be surpassed by the savings in transportation, the new commercial opportunities of the export trade, and the long-run benefits of a freer and more efficient market.

ALASKA GAS TRANSPORTATION OPTIONS

Through the middle 1970s, the development of Alaska's hydrocarbon resources focused primarily on the state's enormous oil reserves. For nearly thirty years, a small amount of natural gas has been produced in the southern portion of the state for export to Japan in the form of LNG; but the huge gas reserves of the Alaskan North Slope remain untapped. The opening of the TAPS, which transports North Slope oil to the port of Valdez, gives the gas reserves associated with that oil a new importance. The gas has been reinjected into the formation from which it was drawn, but reinjection provides at best a temporary solution. After a time, this practice results in a reduction in oil field pressure, and an accompanying reduction in the amount of oil that would ultimately be recovered. Moreover, since up to one-third of the gas is consumed in the process of reinjection, the technique carries a high energy penalty. Still, absent a means of transporting the gas, the only other option was to burn it off, or "flare" it--as industry experts call the practice.

The Alaskan Natural Gas Transportation Act of 1976 also contains export limitations. Section 12 states that "the President must make and publish an express finding that such exports will not diminish the total quantity or quality, nor increase the total price of energy available to the United States."

The situation with respect to natural gas is somewhat similar to the oil case. The Prudhoe Bay field contains the largest discovered gas reserves on the North American continent; it represents 10 percent of proved reserves and more than a year's supply for U.S. consumers.[4] Several companies studied ways to move the natural gas to markets. Proposals were filed with the Federal Power Commission (now the Federal Energy Regulatory Commission), beginning in 1974. Of the various proposals, the one finally selected, the Alaska Natural Gas Transportation system (ANGTS) would move gas by pipeline from the North Slope to the Midwest through Canada. However, ultimately the very high cost of the pipeline, now estimated to be in excess of $40 billion, has made the proposal impractical. With higher wellhead prices for natural gas, and with a limited deregulation approaching in 1985, a great deal of gas has been developed in the lower 48 states. The various provisions of the Act can do nothing to make Alaskan gas competitive in price with gas from the lower 48.

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[4] The appraisal of undiscovered probable ANS reserves is of the order of a 10-year supply.

One of the proposals submitted to the Federal Power Commission (FPC) was by the El Paso Alaska Company to transport natural gas from Prudhoe Bay through approximately 800 miles of 42" pipeline, to a gas liquefaction plant and terminal located on Prince William Sound at Point Gravina, Alaska. There the gas would be converted to LNG and shipped via cryogenic tankers to Point Conception near Santa Barbara, California. However, the LNG could be shipped just as easily to Japan, Korea, Taiwan, and other users in the Pacific Ocean basin--but more cheaply from the Kenai peninsula than from Point Gravina. The amount would be on the order of 2.8 billion cubic feet per day or approximately 1.0 tcf per year, worth approximately $6 billion per year.

The Alaska Gas Transportation System (ANGTS) faces problems with financing, cost overruns, and doubts over the marketability of the relatively expensive Alaskan gas in the lower 48 states, which are awash with far less expensive conventional gas. As a result, Alaskans have begun to reexamine the alternatives available to them to determine if some other approach to the problem of marketing their oil and gas might be more sensible. The principal options currently under consideration include:

* To continue to pursue financing for the ANGTS project, in hopes that the use of innovative rate structuring and the decline of interest expense might make Alaskan gas more competitive at some future date.

* To select an alternative means of transporting North Slope gas in hopes that it will prove less expensive, again making the gas more competitive in the lower 48 states.

* To determine whether Alaskan producers should abandon the notion of marketing the gas in the lower 48 and instead focus on the export market.

* To examine ways of using the gas within the state to establish some sort of manufacturing base.

Determining the best solution for the North Slope gas is doubly difficult because the oil and gas market, both in the U.S. and internationally, is undergoing a period of rapid and dramatic change. As the patterns of this change become clearer, it is evident that the traditional view of the gas market is no longer valid. The policymakers currently examining Alaska's options must thoroughly understand the evolution that is taking place, as it will affect fundamentally the economics of those options.

THE CHANGING NATURAL GAS MARKET

"Shortage" into Surplus

It is easy to forget that, as recently as five years ago, the conventional wisdom held that the United States would soon

run out of natural gas. Throughout the first half of the 1970s, interruptions in natural gas deliveries on the interstate market increased, and gas reserves committed to that market diminished. By the winter of 1976-77, the situation had reached crisis proportions, as regions of the Northeast and Midwest faced massive gas shortages that threatened economic chaos. Policymakers were quick to point to these shortages as evidence that the exhaustion of America's natural gas reserves was imminent. This view was embraced with particular enthusiasm by officials of the past Administration, many of whom were convinced that all of the world's resources were on the verge of exhaustion.

Against this background, Alaska's enormous North Slope gas reserves were very tempting to policymakers who believed the United States faced the prospect of running out of oil and gas. The high cost of utilizing these reserves seemed of little consequence.

As early as 1979, however, evidence began to appear that the dire assessment of gas reserves, widely taken as axiomatic, was grossly overstated. The first sign was the appearance of a so-called gas bubble--a large volume of gas that "found" its way into the market. According to the prevailing view of reserves, it should not have appeared. Analysts tried to explain it as merely a temporary "market anomaly" that would soon be absorbed, leaving the U.S. once again with the shortage. The bubble, however, did not disappear; the shortage did. In fact, in 1981, for the first time in more than a decade, the U.S. added more new natural gas to its reserve base than it used. In 1982, instead of a shortage, there was a surplus of natural gas estimated at fully 15 percent. The surplus is currently so great that gas companies, which once could not serve all of their existing customers, are now seeking new ones. But more important, the unexpected availability of natural gas has taken place at prices far below those needed to make North Slope gas economic. Should natural gas prices be decontrolled this year, even greater volumes of gas priced below an economic level for Alaskan production under current circumstances are expected to find their way into the market.

Growing Competition

Competition from natural gas produced in the lower 48 states is not the only factor limiting the marketability of Alaskan gas in the United States. The import of large volumes of natural gas from Canada and Mexico will also provide stiff competition. Both Mexico and Canada are experiencing great economic pressure to move their gas into the U.S. market. Until recently, both countries had priced gas at levels that limited its attractiveness to U.S. consumers. But these pricing policies--which seemed strangely similar--were simply the product of the seller's market for energy existing in the middle to late 1970s. With the crumbling of OPEC, the steady decline of world oil prices, and energy conservation, both Canada and Mexico have had to rethink their

policies. As a result, both nations are now willing to make price concessions. Canadian gas, for instance, sells in the United States at only 65 percent of its authorized price. Despite this reduction, the volume taken is down from just a few years ago.

For Mexico, whose gas reserves far outstrip those of either the United States or Canada, increased sales of both oil and natural gas are critically important. The country's financial collapse was only a warning signal. The need to feed and find employment for its burgeoning population makes it imperative for Mexico to expand sales of its oil and gas. The United States is its most logical market, and so competition from Mexico seems likely to be an even greater barrier to the marketing of Alaskan gas in the lower 48 states than competition from domestic or Canadian gas producers.

Competition from conventional sources of natural gas, whether domestic or foreign, is not the only factor affecting the marketability of Alaskan gas to lower 48 consumers. Of equal importance will be competition from other fuels, and especially from residual fuel oil, or "resid" as it is commonly termed. Since the largest share of natural gas is consumed in the industrial boiler market, industrial consumers effectively determine the price at which gas is sold. Part of their ability to influence gas prices stems from the fact that most industrial boilers were modified to accommodate a variety of fuels during the 1970s, when natural gas supplies were subject to the federal regulators. Many of these boilers can burn either natural gas or resid. As a result, the latter's price effectively caps the price at which natural gas can be sold. At present, resid sells for roughly the equivalent of gas priced at between $4 and $4.50 per thousand cubic feet (mcf). But residual fuel oil prices are expected to decline further in the future because of oversupply.

Given the intense competition, and the probable future price trends in the natural gas market of the lower 48 states, it seems unlikely that North Slope natural gas will be competitive. Therefore, the current price structure must be modified, or an alternative market sought, if Alaska's hydrocarbon resource is to be utilized and further developed.

Reshaping the ANGTS Project

One of the reasons Alaskan gas will be so expensive in the first few years after Alaska Natural Gas Transportation System (ANGTS) comes into service is that loans made for its construction must be repaid. If the repayment schedule can be renegotiated to stretch the payments over a longer period, the selling price of the gas might be reduced. The effectiveness of this approach will hinge on two major factors.

The first is the interest rate. Since most plans to restructure the pipeline's financing call for the payment of interest,

the interest rate and capital repayment schedule (even if deferred) will have to be such that the final price of Alaska gas is competitive.

The second factor, of course, is the prevailing price the lower 48 gas market. Just what this might be in the future is hard to say, but one thing is certain: if Alaskan gas expects to compete, its current projected cost of $10 per mcf (in 1982 dollars, equivalent to $60 oil) must be reduced. Recent attempts to market deep gas at a similar price have failed. In fact, several pipeline companies recently informed a group of deep gas producers that the lines would pay no more than $5 to $6 per mcf for deep gas. This seems to be compelling evidence that Alaskan gas will have to sell in the $5 range if it is to compete with alternative sources of gas.

POSSIBLE ALTERNATE ROUTES

One possible solution to the North Slope gas dilemma would be an alternate means of transportation. Everything from huge atomic submarines to a variety of pipeline routes has been suggested, but the best alternative to the ANGTS appears to be the so-called All-Alaska Pipeline, proposed several years ago by the El Paso Company, which would be built parallel to the existing oil pipeline. At the time the proposal was first put forward, estimates of its cost included funds to build a California LNG terminal and purchase eleven LNG tankers. Adjusted to current dollars, the original cost estimates for the All-America route compare favorably with the $23 billion estimate for the Alaskan segment of the ANGTS pipeline.

A simple inflation escalation of the original estimates for the All-America route, however, does not give an accurate probable cost figure for the project. There are numerous LNG tankers available on the present world market. Some have been sold just for their scrap value. Others have been converted for bulk commodities such as grain. So the current low cost of LNG tankers should be built into revised cost estimates. This factor alone would imply that the All-Alaska route should be supported, if financing for ANGTS fails to materialize. But the All-Alaska route has another, possibly more important, advantage over ANGTS: it does not restrict Alaskan gas to the domestic market, and thereby opens the prospect of Alaskan gas exports.

A committee appointed by the Governor of Alaska in January 1983 has recommended the construction of such a 820-mile pipeline to carry natural gas from Prudhoe Bay to the coast, where it would be liquefied and shipped to Japan. The scheme is a viable alternative to ANGTS.

The committee proposes that the 36-inch line follow the route of the Trans-Alaskan oil pipeline as far as Fairbanks,

where it would continue west to the Kenai Penisula.[5] Cost of the line is estimated at $14.6 billion (as-spent dollars). The liquids would be removed at a $2.5 billion conditioning plant on the coast. The liquefaction plant would cost an estimated $8.3 billion. Total costs would be $25.4 billion in current dollars, $14.3 billion in 1982 dollars--a far cry from the $43 billion total anticipated for ANGTS.

The committee suggests that the project be built in three phases, with revenue from the first phase providing the cash flow for financing the rest of the project. The line's initial capacity, beginning in 1988, would be 950 million CF/day of gas, permitting export of 4.8 million tons/year of LNG. In the second phase, starting in 1990, the line would carry 1.75 billion CF/day of gas, and LNG production would be 8.9 million tons. In the third phase, set for 1992, the levels would be 2.8 BCF/day of gas and 14.5 million tons of LNG. Natural gas liquids production is projected to exceed 110,000 bbl/day by 1992.

ALASKAN NATURAL GAS AND THE EXPORT MARKET

A worldwide trend toward greater use of natural gas has been well established. The most logical export markets for Alaskan gas are the nations of the Pacific Rim, especially Japan. The Japanese already import small amounts of LNG from Alaska. Significantly, Japan is moving aggressively to make use of LNG, and recently contracted with Indonesia for major purchases of the fuel. As a result of this policy, Japan has the necessary LNG terminals in place, and already owns LNG tankers. Hence a pipeline, processing facilities, and liquefaction plant would be the only U.S. infrastructure necessary to market LNG to Japan. Japan might even be willing to help finance the project. However, the decision would have to be made quickly; otherwise Japan might find supplies elsewhere.

A number of economic advantages, beyond the obvious revenues, would be associated with the export of Alaskan gas to Japan. First, such trade would go a long way toward reducing the current U.S./Japan trade imbalance. Secondly, it would reduce Japan's dependence on fuel imported from the politically unstable Persian Gulf, and thereby greatly enhance the world's energy security. Most important, by directly reducing the world's oil consumption, Alaskan gas exports could also help to keep world oil prices down.

It would seem, therefore, that exporting Alaskan gas to foreign markets would be advantageous--for Alaska and for the world in general. These advantages would not materialize if the

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5 This location would incur less environmental risk than Point Gravina (which would have cut through the Chugach range). It would also shorten the travel time to Japan.

gas were marketed only within the U.S. Alaskan gas sold in the lower 48 would not displace foreign oil; domestic usage would have no effect on the U.S. balance of payments; and building a pipeline to transport gas domestically would be a far more expensive proposition than building a pipeline to transport gas for foreign markets. Exporting Alaskan gas would therefore appear to be the optimum solution to the North Slope gas dilemma, from a national standpoint.

DEVELOPING AN ALASKAN EXPORT STRATEGY

Gas exports could provide the catalyst for establishing a stable industrial base in the 49th state. Throughout its history, Alaska's economy has been characterized by sharp cycles. The primary reason for the erratic behavior of the Alaskan economy has been its dependence on the extraction and export of raw materials. Whether the Klondike Gold Rush or the Prudhoe Bay oil find, Alaskan resources went to the lower 48 for finishing, along with potential jobs and revenues from further processing.

In many respects, the removal of raw materials for processing has been unavoidable. Alaska's total population numbers less than half a million, and roughly half of its residents live in small communities scattered across a vast expense of wilderness. Construction costs can often range as much as 50 percent above those in more temperate climates. Nonetheless, modern technology could make local processing of some portion of the state's hydrocarbon resources a realistic possibility. If processing operations proved to be economic, an industrial base to supply continuing employment, and economic stability would finally materialize. But the shape of such a processing industry must be tailored to the state's limitations and advantages. Although Alaska's climate and small population are obvious limitations, its remoteness from America's industrial heartland is a drawback only if the U.S. domestic market is the export goal. If Korea, China, Japan, and the rest of the Pacific Rim became the principal market, Alaska's position would actually be advantageous. Furthermore, by using gas exports as a means of underwriting the cost of a pipeline to bring natural gas down from the North Slope, the other products produced from the fuel could more than offset the competitive disadvantage caused by the state's higher construction costs.

Urea and ammonia rank high on the list of products that might lend themselves to in-state fabrication for the export market. These commodities are the basic components of the fertilizers needed so desparately in the People's Republic of China. Whereas any attempt to market fertilizers produced in Alaska in the lower 48 would be doomed to failure because of the enormous cost of transporting the products to market, shipment to the Far East would entail a relatively easy haul. Moreover, the commodities could be moved in bulk, further reducing their cost. Most important of all, they could be produced in automated plants using highly skilled, well-paid workers. In sum, the production

of fertilizer components would seem ideally suited to the state's unique charactertistics.

LNG is also well suited to Alaska. Like fertilizer production, modern LNG facilities are highly automated and employ a small number of skilled workers. Moreover, a pool of experienced LNG workers already exists in the state because of the LNG facility in operation on the Kenai peninsula.

CONCLUSION

The legislative restrictions on Alaskan oil exports had their origin in the fear of an oil cutoff by overseas producers. It is now clear that oil, as a fungible substance, cannot be embargoed from the United States. Any supply shortfall must be shared by all consumers through the world oil market, which will raise the world price of oil. Now that its price has been freed in the U.S., oil will be imported at the higher price in case of a supply shortfall, but Alaskan oil also will be sold at the same higher price.

Blocking the export of Alaskan oil imposes great costs, ultimately borne by the U.S. taxpayer. Shipping Alaskan oil to the East Coast leads to great economic waste, as would the construction of a special pipeline to the lower 48 states.

The optimum solution for North Slope gas appears to be its export as LNG, using a pipeline paralleling TAPS. The construction of such a system would also encourage the use and manufacture in Alaska of urea and ammonia fertilizer (for export to the Far East). The sensible option for Congress would be to remove restrictions, so that Alaskan oil and gas can be freely exported. This makes sense economically and from a foreign policy perspective as well. U.S.-Japan relations would be enhanced considerably by increased American energy sales to the Japanese.

The possibility of exports of additional oil, bringing a higher return for producers, will act as a powerful incentive for Alaskan oil producers to develop more production. By putting more oil and gas on the world market, such exports would reduce the need for OPEC oil and apply downward pressure on the world oil price--to the benefit of industrialized countries and oil-importing developing nations alike.

S. Fred Singer
Senior Fellow

Milton Copulos
Policy Analyst

David J. Watkins
Research Economist

STATE OF ALASKA

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JUNEAU, ALASKA 99811
(907) 465-4941

HOUSE SPECIAL COMMITTEE ON OIL AND GAS

May 2, 1985

The Anchorage Times
P.O. Box 40
Anchorage, AK 99510-0040

Dear Editor,

I believe all Alaskans are pleased with how smoothly the legislature has conducted its business this session.

Unfortunately, Rep. Terry Martin has felt compelled to conduct a political campaign reminiscent of the antagonistic and unproductive activities of the last legislature. This is a form of reminiscense that we can all do without.

Rep. Martin claims that the House Special Committee on Oil and Gas has not passed a resolution regarding the foreign export of Alaskan crude oil because the House Majority is opposed to such a measure. The truth of the situation, though, is that the committee has been working hard to repair the damage that Mr. Martin has done to this cause.

Terry Martin traveled to Washington, D.C. this March to lobby for the lifting of the oil export ban. This lobbying effort consisted of sending materials to 100 state legislators across the nation that was so seriously flawed with incorrect and misleading information that the House Minority Leader announced he would have to get back to these legislators with correct information at a later date.

The misinformation so liberally disseminated by Mr. Martin stated that lifting the export ban would result in a windfall to the State of Alaska, and a severe loss of jobs to the maritime industry.

Ironically, these are the same claims made by lobbyists who have spent millions of dollars to keep the ban in place, and these are the claims that the Governor and the Alaskan congressional delegation have been fighting against for years.

Rep. Martin's misinformation served as the basis for a report that was printed and distributed by the National Conference of State Legislators. The result of this report was that a resolution requesting that the export ban be lifted was defeated by the NCSL a few weeks later.

Terry Martin's unimpressive performance in Washington, D.C. has been followed by his disinterest in the administration's efforts to export Cook Inlet crude oil to Japan, and by a hearing in the House Special Committee on Oil and Gas on his export ban resolution.

Unsurprisingly, this resolution contains language that is both inaccurate and inflammatory. Although this resolution was scheduled for a second committee hearing yesterday, Rep. Martin apparently did not feel that this issue was of great enough consequence for him to attend the meeting.

A corrected and more reasonable version of this resolution has therefore been drafted by the House Special Committee on Oil and Gas, and this resolution will be heard on May 6. The resolution will go directly from this committee to the House floor where, I have been assured, Rep. Martin will back the House Majority in supporting this measure.

Sincerely,

Rep. Mike Davis, Chairman
House Special Committee on Oil and Gas

605 Wilcox Ave.
Fairbanks, AK 99701
May 6, 1985

Dear Mike,

I have just pounded out the final draft of my oil export paper, and would like to thank you for all your assistance. Included in the material Johnathon Sperber gave me was a comprehensive list of legislation affecting oil exports which was particularly helpful.

I enjoyed myself a great deal in Juneau. Observing the Legislature in person is considerably more exciting than watching "Capital '85." As an added benefit, I came away with a clearer understanding of the need for local hire laws.

I hope to expand my knowledge of Alaskan issues when I am home this summer. I am presently trying to arrange a summer job or internship at the Washington D.C. office of the Governor.

Thanks again for your attention when I was in Juneau.

Sincerely,

Catherine Reardon

BILL SHEFFIELD
GOVERNOR

State of Alaska
OFFICE OF THE GOVERNOR
WASHINGTON, D.C.

March 7, 1985

For [illegible]
SENT: By Ginger
VIA Displaywriter
ATTN: Marie Bishop
DATE: 3/7/85
RECEIVED BY: Chee
DATE: 3/7/85

PERSONAL & CONFIDENTIAL

MEMORANDUM

TO: THE HONORABLE BILL SHEFFIELD, Governor
THE HONORABLE NORMAN GORSUCH, Attorney General
THE HONORABLE RICHARD KNAPP, Commissioner, DOTPF
THE HONORABLE LOREN LOUNSBURY, Commissioner, DCED
THE HONORABLE ESTHER WUNNICKE, Commissioner, DNR
JOHN SHIVELY, Chief of Staff
LENNIE BOSTON, Special Assistant
BEN HARDING, Special Assistant

FROM: JWK JOHN W. KATZ, Director of State/Federal Relations and Special Counsel to the Governor

SUBJECT: EXPORT OF ALASKA OIL

This memorandum will outline a strategy for obtaining federal approval of oil exports from Cook Inlet and the North Slope, respectively.

Cook Inlet

The two accompanying memoranda detail the federal and State requirements which must be satisfied as necessary prerequisites to the export of Cook Inlet oil. The memorandum concerning State law and regulation concludes that Cook Inlet oil could be made available for export by October 1985, assuming expeditious action by State officials. The memorandum on federal law describes a stringent set of federal requirements but concludes that these requirements can be waived or satisfied in appropriate circumstances. In my opinion, the essential determinants of federal decision-making are as much political/substantive, as they are legal. Thus, assuming that a persuasive case can be made on the administrative record, it would appear that the Secretary of Commerce possesses the requisite authority to grant an export license.

With these considerations in mind, we have contacted officials in the White House, Office of Management and Budget, and in the Departments of Commerce, State, Energy,

and Interior. In addition, we have been in touch with certain union and maritime leaders.

These contacts have led us to conclude that there is a clear federal predisposition in high policy circles favoring the export of Cook Inlet oil. While attitudes seem to be changing at the middle management level of the Commerce Department, there is still concern about authorizing Cook Inlet exports. This concern is premised at least partially on perceptual considerations related to the export of any American crude oil. There is no reason at this time to believe that maritime interests would launch a major campaign against a decision by the Reagan Administration to permit Cook Inlet exports. However, this posture could change if such interests perceive Cook Inlet exports as the proverbial "camel's nose under the tent" with respect to the export of North Slope crude oil. Japanese business persons with whom we have spoken seem interested in purchasing Cook Inlet oil.

Congressional reaction to a Cook Inlet export proposal is difficult to determine at this point. The statutes governing the export of this oil provide no direct role for Congress. However, strong Congressional opposition could significantly influence the administrative approval required to permit exports. Congressional reaction will likely be affected by the position of maritime interests and the Northville (cross-Panama) oil pipeline coalition. The operators of the Northville pipeline have already contacted Senator D'Amato's office to express vehement opposition to the export of Cook Inlet oil. After we explained the effect of the Cook Inlet proposal on the Northville pipeline (none), Senator D'Amato's staff indicated that he saw no reason to get involved at this time. Further monitoring of Congress by this office will be necessary as the State continues to consider the export question.

In these circumstances, we believe that there are no insurmountable impediments to the pursuit of federal approval for Cook Inlet exports. Therefore, we suggest that appropriate State officials immediately initiate the process described in the accompanying memorandum prepared by the Department of Natural Resources. If such a decision is made, this office should contact the State Department so that necessary national government to government contacts can be initiated. At a minimum, this type of communication would facilitate the solicitation process required by State law. In addition, such contacts could lead to the

identification of specific purchasers on the Pacific Rim. With the exception just mentioned, it would seem that further federal contacts would not be fruitful pending progress toward the identification of an actual purchaser.*

When a purchaser has been identified, and the Commissioner of Natural Resources has made the necessary findings under State law, we will be in a better position to pursue federal approval. With a specific proposal in hand, we can then make the necessary requests and seek third party support for our position. Because the amount of State royalty oil available in Cook Inlet is relatively small (approximately 6000 barrels per day), we suggest that initiation of the State royalty oil process be accompanied by discussions with Tesoro Petroleum Company to ascertain whether oil from private sources could also be obtained.

North Slope Exports

The situation involving the export of crude oil from the North Slope is more complicated and, in our judgment, requires a different approach.

The Export Administration Act was not reauthorized by Congress last year. Pending in a conference committee was legislation which would have extended the statutory prohibition on North Slope exports for an additional five years, with an interim study of the problem to be conducted by the Office of Management and Budget. Final action on the reauthorization was delayed because of House-Senate disagreement over unrelated provisions. This Congress has already begun an effort to pass the reauthorizing legislation agreed upon last year, with the controversial aspects under consideration in separate legislation. The export ban and study is currently included in the "non-controversial" bill.

The President, by executive order, has extended the provisions of the Export Administration Act until Congress passes a reauthorization measure. Even if this administrative continuation of the ban on North Slope exports had not occurred, the stringent requirements of the

* The Reagan Administration is currently considering the question of Canadian energy exports to the United States. Prompted by a number of factors, including Governor Sheffield's recent visit to Washington, D.C. and the efforts of this office, the Cook Inlet issue is now being considered in light of these deliberations. We will monitor these discussions closely to ascertain whether additional State advocacy is necessary prior to the identification of possible purchasers of Cook Inlet oil.

Trans-Alaska Pipeline Authorization Act and other federal laws are tantamount to an absolute prohibition on North Slope exports. Further, on the basis of our discussions with officials of the Reagan Administration, we believe that it is highly unlikely that the Administration would or could approve North Slope exports given the current political and legal environment.

Renewing efforts that began in the 98th Congress, we have had extensive discussions with officials of the Reagan Administration, maritime leaders, and some members of Congress. On the basis of these discussions, we believe that the Reagan Administration is ideologically committed to the export of oil from the North Slope. However, Administration officials seem unwilling to engage in active lobbying and advocacy on Capitol Hill at this time. The reasons for this reluctance appear more political than substantive. While active monitoring of Congress by the Administration continues, there is a feeling that a battle on oil exports cannot be won in the current environment. As evidence of this conclusion, these officials and others point to a strong opposing coalition of maritime interests, consumer groups, and farmers; to apparent lack of interest or opposition by major components of the oil industry; and to strong and extensive Congressional opposition. With respect to the latter situation, the House of Representatives appears overwhelmingly opposed to North Slope exports, while the Senate is less ardent but still generally opposed.

In these circumstances, we believe that there is no quick and easy solution. The attitude of the White House is critical. Active White House advocacy seems necessary to galvanize the disparate efforts of executive agencies and to stimulate Congressional reconsideration of its current posture. Even with such strong advocacy, the objective of amending federal law will be difficult to achieve in the 99th Congress. Therefore, Alaskans should view the ultimate solution in a relatively long-term context and should be prepared to initiate a continuing, low profile level of activity.

In determining the components of such a program, I believe that the State's experience with the Alaska lands (d)2 issue and similar efforts should be carefully examined. On the basis of this experience, and an examination of the existing debate over oil exports, I think that the expenditure of large sums of money for lobbying and other purposes is unnecessary and could actually be counter-productive. Thus, a high profile, well financed effort creates a convenient target for persons who allege that the State is simply trying to overwhelm the opposition with its large financial resources.

In the alternative, it seems to me that any advocacy program initiated by the State should include the elements listed below. Some of these elements already exist. This office has been working with the Congressional delegation and others over the last two years to achieve a change in the longstanding federal approach to North Slope oil exports. Delegation cooperation will continue to be an important element of a successful effort.

The major components of a long term approach can be summarized as follows:

- o Lobbying - Lobbying is an essential but cannot be the sole component of a successful effort to amend existing law. To be of maximum effectiveness, this form of advocacy in Congress and the executive agencies must occur within a context partially created by other measures.

  It is my understanding that some persons have advocated that future lobbying be accomplished through the hiring of additional personnel with a concomitant significant increase in cost. I recommend against such an approach. First, there is no evidence that existing resources are not sufficient to achieve the desired result. In addition to the capacity of this office, we currently have on retainer the prestigious and highly capable law firm of Van Ness, Feldman, Sutcliffe, Curtis, and Levenberg. This firm is well known for its expertise in advocacy on natural resource issues. Second, past experience shows that a highly visible program which is somewhat divorced from the State's usual advocacy efforts can actually be counter-productive.

- o Coalition Building - Last year, the State participated in a loose coalition of individuals and organizations interested in removing the ban on oil exports. This coalition should be rejuvenated and strengthened under State leadership. Such an effort would involve the identification and participation of a gamut of groups, ranging from certain oil companies to consumer organizations. Experience gained during the Alaska lands debate shows that an effective coalition, such as the environmentalist sponsored "Americans for Alaska," can be a very important adjunct to a lobbying effort.

- o Media - Experience in similar circumstances indicates that the expenditure of public monies for paid advertising is usually counter-productive. In the alternative, I would recommend a program which involves communication with editorial boards in targeted states around the country. This effort could be accomplished

at little cost by utilizing the services of knowledgeable Alaskans who are traveling to the "lower 48" for other reasons -- for example, to give speeches or to participate in conventions. Editorial board work ultimately assisted the Alaska Lands effort and was utilized to some advantage over the last two years on the oil export issue. Previous efforts resulted in favorable editorials appearing in The New York Times, The Boston Globe, and The New York Daily News, among other papers, shortly before final Senate action on the Export Administration Act.

- Negotiation - There is evidence to suggest that the opponents of oil exports might be willing to consider modification of the current ban if certain quid pro quos are forthcoming. Last year, the State modified its initial export proposal by requiring the transshipment of crude oil on Jones Act tankers and by limiting the total volume to between 100,000 and 200,000 barrels per day. Unfortunately, these modifications were not sufficient to assuage the opponents of oil exports.

  While the State is probably not prepared to make further concessions with respect to the items just mentioned, other quid pro quos may exist and should be explored. This effort would involve discussions with maritime leaders and others who have traditionally opposed oil exports to ascertain what items might be included in a total package. In the past, such discussions have focused on civilian manning of certain military transport vessels, enactment of cargo preference legislation, and guaranteed backhauls. Contacts made by this office and others indicate that further discussion could be fruitful. However, it must be recognized at the outset that the State, on its own, will not be in a position to provide some of the quid pro quos which may be desired.

  The development of a solution which is politically palatable to some of the opposing groups appears essential. These groups can exert great influence in the Congress and Administration. It seems clear that the Administration would be more interested in actively advocating a modification of the current ban if some of the major maritime interests can concur in a total package. As indicated previously, active Administration support appears to be the linchpin of a successful effort. Further, many Congressmen who are concerned about maritime issues would also be more likely to support the State's proposal.

Please let me know if you have any questions or comments regarding the suggestions made in this memorandum. In the interim, we will continue the advocacy efforts which were initiated at the beginning of this Congress.

Attachments

bcc: The Honorable Ted Stevens, U.S. Senate
The Honorable Frank Murkowski, U.S. Senate
The Honorable Don Young, U.S. House of Reps.
Jim Clark
Bill Timmons
Bill Van Ness

BILL SHEFFIELD
GOVERNOR

State of Alaska
OFFICE OF THE GOVERNOR
WASHINGTON, D.C.

February 25, 1985

MEMORANDUM

TO: THE HONORABLE BILL SHEFFIELD, Governor
THE HONORABLE LOREN LOUNSBURY, Commissioner, DCED
THE HONORABLE ESTHER WUNNICKE, Commissioner, DNR

FROM: MW [redacted], Associate Director

THROUGH: gwk JOHN W. KATZ, Director of State/Federal Relations and Special Counsel to the Governor

SUBJECT: FEDERAL RESTRICTIONS ON THE EXPORT OF COOK INLET OIL

At Kay Brown's request, we have investigated existing federal restrictions on the export of Cook Inlet crude oil. Cook Inlet oil is subject only to the restrictions applicable to all domestic crude oil, not to the stiffer requirements that apply to North Slope oil. Because the federal laws concerning the export of oil transported through TAPS, over federal rights-of-way, or produced from the OCS or NPRA are different, this analysis should not be construed to apply to oil produced outside Cook Inlet. If any of the Cook Inlet oil is transported over federal rights-of-way, an additional level of statutory and regulatory restrictions would apply. This fact needs to be checked in Alaska.

The authority for the restrictions on crude oil exports is contained in the Energy Policy and Conservation Act of 1975 (42 USC 6212), which requires the President to promulgate rules governing the export of crude oil. Specifically, the President is required to publish rules prohibiting the export of crude oil, except for exemptions that the President determines to be consistent with the national interest and the purposes of the Energy Policy and Conservation Act (i.e., to conserve and increase domestic supplies of fossil fuels).

At this time, the restrictions contained in the petroleum export regulations (15 CFR 377.6(d)) impose strict barriers on all domestic oil exports including those from Cook Inlet. Specifically, the regulations require that crude oil may only be exported if the export will directly result in the equivalent or greater quantity and quality importation of crude oil or petroleum products, will have a beneficial effect on consumer prices, and cannot be reasonably processed in the United States.

A series of detailed filing requirements are contained in the following section of the regulations, at 15 CFR 377.6(e). These include various affidavits that the requirements set out in 377.6(d) have been met, an explanation of the intended end-use, and a statement setting out the reasons that the President "should be asked to make and publish an express finding that the proposed export will not diminish the total quantity or quality of petroleum available to the United States, and that such an export is in the national interest and is in accordance with the Export Administration Act of 1979."

The regulations governing oil exports could be waived by the Director of Export Administration for the International Trade Administration of the Department of Commerce. Such a waiver would be discretionary under the general guidelines of the Administrative Procedures Act. The requirements of the Energy Policy and Conservation Act must still be met, but these are very broad: to protect the national interest and enhance the production and conservation of domestic fossil fuels. The exercise of waiver authority must be supported by a reasonable evidentiary basis contained in the administrative record, and cannot be compelled because it is discretionary.

We have discussed the possibility of a waiver with officials at the Department of Commerce. They informed us that such an action would have to be discussed and approved by the appropriate Cabinet officials and the President, and will be based in part on their present review of the legal and political barriers to exporting both Cook Inlet and North Slope oil. The Reagan Administration is especially concerned with how Congress would react to a decision to allow the export of a small amount of Cook Inlet oil. The maritime industry is likely to strongly oppose any oil exports as a diversion from the existing domestic Jones Act trade and a "foot-in-the-door" on the more important issue of North Slope oil exports. Ultimately, the decision to permit the export of Cook Inlet oil will be made on a political basis, and will be considered within the context of the discussion of North Slope oil exports. If a waiver is granted, it will likely be for a one-year period, with renewal possible.

A copy of the relevant statute and regulations is attached for your information. We have discussed our analysis with the Attorney General's Office. Please let us know if you have any questions.

Attachments

cc: Lennie Boston
Kay Brown
Jack Roderick
Robert Maynard
Steve Porter
Kevin Coyner
Greg Chapados
Dan Kish

NOTE: A copy of Kay Brown's memorandum on State procedures governing State royalty oil disposals is also attached for your information.

MEMORANDUM

State of Alaska

DEPARTMENT OF NATURAL RESOURCES
DIVISION OF OIL AND GAS

TO: Governor Bill Sheffield

DATE: February 19, 1985

FILE NO:

Thru: Esther C. Wunnicke, Commissioner

TELEPHONE NO: 276-2653

FROM: Kay Brown, Director

SUBJECT: Proposed Export Sale of Cook Inlet Royalty Oil

At your request, this memorandum briefly summarizes the major steps necessary to make a short-term, negotiated sale of Cook Inlet Royalty Oil for export to a foreign country. This memo addresses requirements of state law only; your Washington, D.C. office is researching the requirements of federal law.

1. Identify a buyer. This could be done through a public solicitation which invites proposals. Alternatively, interested parties could be identified through diplomatic channels or other means.

2. Negotiate a proposed contract; resolve price and security arrangements.

3. Draft required findings:

   a. The sale will serve the best interests of the state (AS 38.05.035(e));

   b. Competitive bidding is waived (AS 38.05.[illegible]5(a) and (c));

   c. The sale offers maximum benefits to state citizens (AS 38.05.183(e));

   d. The oil is surplus to in-state needs (AS 38.05.183(d));

   e. Other.

4. Publish notice of intent to make findings (AS 38.05.945); make preliminary findings and draft contract available to public; accept public comment for 30 days.

5. Make final findings. Wait 21 days (AS 38.05.035).

6. Sign the contract.

7. Nominate oil for in-kind taking from the producers.

8. Deliver oil to purchaser 6 months later.

Timing

Steps 1-3 would take a minimum of 30 days.

Steps 4-7 would take a minimum of 60 days.

We could deliver oil to a purchaser by December 1, 1985, assuming the following:

- The requirements of federal law do not extend the timeline further;
- We start immediately on Steps 1-3;
- A public solicitation is not used to identify the buyer;
- The project is assigned priority status; and
- Everything goes smoothly.

The Cook Inlet oil is available for in-kind take beginning October 1, 1985. By April 1, we must give notice to return the oil to in-value.

cc: Lennie Boston
Ben Harding
Mark Wittow
Steve Porter
Commissioner Lounsbury

1578K

Rep. Martin's misinformation served as the basis for a report that was printed and distributed by the National Conference of State Legislators. The result of this report was that a resolution requesting that the export ban be lifted was defeated by the NCSL a few weeks later.

Terry Martin's unimpressive performance in Washington, D.C. has been followed by his disinterest in the administration's efforts to export Cook Inlet crude oil to Japan, and by a hearing in the House Special Committee on Oil and Gas on his export ban resolution.

Unsurprisingly, this resolution contains language that is both inaccurate and inflammatory. Although this resolution was scheduled for a second committee hearing yesterday, Rep. Martin apparently did not feel that this issue was of great enough consequence for him to attend the meeting.

A corrected and more reasonable version of this resolution has therefore been drafted by the House Special Committee on Oil and Gas, and this resolution will be heard on May 6. The resolution will go directly from this committee to the House floor where, I have been assured, Rep. Martin will back the House Majority in supporting this measure.

Sincerely,

Rep. Mike Davis, Chairman
House Special Committee on Oil and Gas

Moen
4/25/85

Original sponsors: Martin and Marrou

IN THE HOUSE BY THE HOUSE SPECIAL COMMITTEE ON OIL AND GAS

CS FOR HOUSE JOINT RESOLUTION NO. 15 (Oil and Gas)

IN THE LEGISLATURE OF THE STATE OF ALASKA

FOURTEENTH LEGISLATURE - FIRST SESSION

Relating to the foreign export of Alaskan crude oil.

BE IT RESOLVED BY THE LEGISLATURE OF THE STATE OF ALASKA:

WHEREAS Congress is now considering legislation that includes provisions concerning the foreign export of Alaskan crude oil; and

WHEREAS there are proposals before Congress to change existing federal law that effectively prohibit the foreign export of Alaskan crude oil; and

WHEREAS the export of Alaskan crude oil would improve the national security of the United States by strengthening the defensive capabilities of our Pacific Rim allies; and

WHEREAS the export of Alaskan crude oil would encourage increased domestic oil exploration and development; and

WHEREAS Japan, Korea, and Taiwan have each expressed interest in obtaining Alaskan crude oil to diversify their energy sources; and

WHEREAS the export of Alaskan crude oil would decrease the federal trade deficit with these nations; and

WHEREAS exporting Alaskan crude oil to these nations would mitigate panic buying in the spot markets, thus moderating the cost of petroleum products for all consumers; and

WHEREAS it is far more costly to ship oil from Alaska through the Panama Canal and to the Gulf Coast than to ship directly to the Pacific Rim; and

WHEREAS the additional cost of shipping Alaska's oil to the Gulf Coast and Eastern states imposes an unnecessary burden on the consumers of those states; and

WHEREAS under the International Energy Agreement, the United States is required to export crude oil to participating nations in the event of a worldwide disruption of oil supplies;

BE IT RESOLVED that the Alaska State Legislature respectfully requests the United States Congress to enact laws providing for the export of all Alaskan crude oil; and be it

FURTHER RESOLVED that the Alaska congressional delegation is urged to continue using its best efforts to obtain passage of legislation permitting the foreign export of Alaskan crude oil.

COPIES of this resolution shall be sent to the Honorable Ronald Reagan, President of the United States; the Honorable George Bush, Vice-President of the United States and President of the U.S. Senate; the Honorable Thomas P. O'Neill, Jr., Speaker of the U.S. House of Representatives; the Honorable Robert Dole, Majority Leader of the U.S. Senate; and to the Honorable Ted Stevens and the Honorable Frank Murkowski, U.S. Senators, and the Honorable Don Young, U.S. Representative, members of the Alaska delegation in Congress; the National Conference of State Legislatures; and the Council of State Governments.

COMMITTEE	CANDIDATE SUPPORTED/OPPOSED	OFFICE	STATE	DST	PTY	CONTRIBUTIONS TO	EXPENDITURES ON BEHALF OF	INDEP. EXPEND. AGAINST	ID#
SEAFARERS POLITICAL ACTIVITY DONATION (SPAD) CONNECTED ORGANIZATION: SEAFARERS INT'L UNION OF NORTH AMERICA						NON-PARTY QUALIFIED MONTHLY FILER			C00004325
	YOUNG, DONALD E		AK	00	REP		0	0	H6AK00045
	YOUNG, ROBERT A		MO	03	DEM		0	0	H6MO02103
	ZABLOCKI, CLEMENT J		WI	04	DEM		0	0	H6WI04022
	ZEFERETTI, LEO C		NY	14	DEM		0	0	H6NY15050
	TOTAL						0	0	

SUBTOTAL-CONTRIBUTIONS TO [illegible] CANDIDATES 724

SUBTOTAL-CONTRIBUTIONS TO [illegible] CANDIDATES 125

SUBTOTAL-CONTRIBUTIONS TO [illegible] AND STATES

*LAST ITEMIZED CONTRIBUTION [illegible] END 1982

*NO ITEMIZED EXPENDITURE ON BEHALF OF [illegible]

*NO ITEMIZED INDEP. EXPENDITURE [illegible]

*LAST REPORTING PERIOD COVERED [illegible] END 1982 03FEC/264/1800

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COMMITTEE	CANDIDATE SUPPORTED/OPPOSED	OFFICE	STATE	DST	PTY	CONTRIBUTIONS TO	EXPENDITURES ON BEHALF OF	INDEP. EXPEND. AGAINST	ID#
SEAFARERS POLITICAL ACTIVITY DONATION (SPAD) CONNECTED ORGANIZATION: SEAFARERS INT'L UNION OF NORTH AMERICA						NON-PARTY QUALIFIED MONTHLY FILER			C00004325
	WIRTH, TIMOTHY ENDICOTT		CO	02	DEM	1,000	0	0	H6CO02024
	WISE, ROBERT E JR		WV	03	DEM	2,000	0	0	H2WV03025
	WOLPE, HOWARD E		MI	08	DEM	5,000	0	0	H6MI03073
	WORTLEY, GEORGE C		NY	27	REP	3,500	0	0	H6NY32055
	WRIGHT, JIM		TX	12	DEM	10,000	0	0	H6TX12029
	WYDEN, RONALD L		OR	03	DEM	3,500	0	0	H0OR03026
	YATES, SIDNEY R		IL	09	DEM	500	0	0	H6IL09038
	YATRON, GUS		PA	06	DEM	5,500	0	0	H6PA06024
	YOUNG, C W BILL CONGRESSMAN		FL	08	REP	1,000	0	0	H6FL06035
	YOUNG, DONALD E		AK	00	REP	6,000	0	0	H6AK00045
	YOUNG, ROBERT A		MO	02	DEM	2,000	0	0	H6MO02103
	YOUNG, WENDELL W III		PA	04	DEM	0	0	0	H0PA04055
	ZEFERETTI, LEO C		NY	14	DEM	509	0	0	H6NY15050
	TOTAL					1,274,722	0	0	

SUBTOTAL-CONTRIBUTIONS TO [illegible] DEMOCRATIC CANDIDATES 1,120,802
SUBTOTAL-CONTRIBUTIONS TO [illegible] REPUBLICAN CANDIDATES 153,420
SUBTOTAL-CONTRIBUTIONS TO [illegible] OTHER CANDIDATES 0

*LAST ITEMIZED CONTRIBUTION TO CANDIDATE ENTERED - PRE-GENERAL 1984
*NO ITEMIZED EXPENDITURE ON BEHALF OF ENTERED
*NO ITEMIZED INDEP. EXPENDITURE AGAINST ENTERED
*LAST REPORTING PERIOD COVERED YEAR-END 1984 85FEC/360/4543

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FEDERAL ELECTION COMMISSION DATE 02/11/85

COMMITTEE INDEX OF CANDIDATES SUPPORTED/OPPOSED - (D) 1983-84 PAGE 1

MASTERS, MATES AND PILOTS POLITICAL CONTRIBUTION FUND
CONNECTED ORGANIZATION: MASTERS MATES & PILOTS; INT'L

NON-PARTY QUALIFIED QUARTERLY FILER

C00073056

COMMITTEE	CANDIDATE SUPPORTED/OPPOSED	OFFICE	STATE	DST	PTY	CONTRIBUTIONS TO	EXPENDITURES ON BEHALF OF	INDEP. EXPEND. AGAINST	ID#
	HOLLINGS, ERNEST F	PRESIDENT			DEM	5,000	0	0	P40000358
	BAUCUS, MAX	SENATE	MT		DEM	6,000	0	0	S8MT00010
	BIDEN, JOSEPH		DE		DEM	2,500	0	0	S8DE00012
	BINGAMAN, JEFF		NM		DEM	1,000	0	0	S2NM00021
	BRADLEY, BILL		NJ		DEM	3,000	0	0	S8NJ00038
	COCHRAN, THAD		MS		DEM	2,000	0	0	S8MS00055
	D'AMOURS, NORMAN E		NH		DEM	2,000	0	0	S4NH00013
	DIXON, ALAN J		IL		DEM	1,000	0	0	S0IL00030
	DOGGETT, LLOYD ALTON		TX		DEM	2,000	0	0	S4TX00011
	EVANS, DANIEL JACKSON		WA		REP	2,500	0	0	S4WA00029
	EXON, J JAMES		NE		DEM	7,000	0	0	S8NE00026
	GORE, ALBERT JR		TN		DEM	5,000	0	0	S4TN00039
	GORTON, SLADE		WA		REP	2,000	0	0	S0WA00019
	GRAMM, WILLIAM PHILIP		TX		REP	2,500	0	0	S6TX00040
	HARKIN, THOMAS		IA		DEM	2,500	0	0	S4IA00020
	HATFIELD, MARK ODOM		OR		REP	5,000	0	0	S8OR00017
	HEFLIN, HOWELL THOMAS		AL		DEM	5,000	0	0	S8AL00050
	HUDDLESTON, WALTER DARLINGTON		KY		DEM	3,500	0	0	S8KY00019
	HUNT, JAMES B JR		NC		DEM	5,000	0	0	S4NC00022
	INOUYE, DANIEL K		HI		DEM	1,000	0	0	S4HI00011
	JOHNSTON, JOHN BENNETT		LA		DEM	2,500	0	0	S4LA00016
	LAUTENBERG, FRANK R		NJ		DEM	2,000	0	0	S2NJ00080
	LEVIN, CARL		MI		DEM	2,000	0	0	S8MI00158
	LONG, RUSSELL B		LA		DEM	5,500	0	0	S6LA00029
	LOWRY, MICHAEL E		WA		DEM	2,500	0	0	S4WA00037
	MCGOVERN, GEORGE		SD		DEM	250	0	0	S0SD00021
	MELCHER, JOHN		MT		DEM	2,500	0	0	S6MT00071
	OBERSTAR, JAMES L		MN		DFL	3,800	0	0	S4MN00015
	ROCKEFELLER, JAY		WV		DEM	5,000	0	0	S4WV00027
	STEVENS, TED		AK		REP	5,000	0	0	S2AK00010
	TOWER, JOHN GOODWIN		TX		REP	2,000	0	0	S2TX00023
	TSONGAS, PAUL E.		MA		DEM	2,500	0	0	S8MA00086
	WARNER, JOHN W		VA		REP	3,000	0	0	S8VA00107
	ACKERMAN, GARY L	HOUSE	NY	07	DEM	1,500	0	0	H4NY07011
	ADDABBO, JOSEPH P		NY	06	DEM	6,000	0	0	H6NY07024
	ALBOSTA, DONALD JOSEPH		MI	10	DEM	500	0	0	H6MI10045
	ALEXANDER, WILLIAM V JR		AR	01	DEM	1,000	0	0	H6AR01023
	ANDERSON, GLENN M		CA	32	DEM	1,000	0	0	H6CA32025
	APPLEGATE, E DOUGLAS		OH	18	DEM	1,000	0	0	H6OH18066

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House leaders sending wrong message to D.C.

4/85

To the editor:

Even though we in the House of Representatives are divided into two groups, the majority and the minority caucuses, and even though we're divided into three political parties, Republican, Democrat and Libertarian, there are certain items and issues where we unite as one, for the good of the state. There is one issue in particular that I thought we had all agreed to fight: the ban on exports of Alaska North Slope crude oil.

Some members of the House have criticized the governor for not doing enough on the issue. Others have criticized our congressional delegation for not doing enough. But what has the Democrat-led House of Representatives done? Nothing.

I once believed that we in the House were united against the ban, but now I'm not so sure. Earlier this session I introduced a resolution putting this Legislature on record as being in favor of lifting the ban. I thought it was agood idea and members of the majority caucus told me that it was. I had hoped that for this one issue, politics and special interests would take a back seat for the good of the state and the nation. Unfortunately, what I believed and hoped has not materialized.

The chairman of the House Oil and Gas Committee, Rep. Mike Davis, a Democrat from Fairbanks, has held one hearing on the bill. I repeat *one* hearing. When I testified at that hearing, I told the committee that if they wanted to change the bill, that was fine; if they wanted to amend the bill, that was fine; if they wanted to put the committee's name on the bill, that was fine; I just want to get this body on record for having done something.

Recently, I met with a member of Congressman Don Young's staff. He also met with members of the majority caucus. You might know that Rep. Young has taken an active role in the fight to lift the ban. I must admit that I was embarrassed for the Democratic-led majority when he told me that our congressional delegation might be put to task for pushing repeal of the ban when the Legislature hasn't even passed a simple resolution in favor of lifting the ban.

Early last week, the House passed a resolution requesting our congressional delegation to support legislation on the federal level. Legislation, I might add, that is totally unrelated to Alaska. Yet we refuse to support them in their efforts to allow the export of our natural resources and, more importantly, reassert the sovereignty of our state.

Having been a committee chairman myself, I believe the Oil and Gas Committee has had plenty of time to complete any work on this bill. The chairman knows enough about the issue to pass it on. I might add that when the opportunity arose for him to travel back east to Washington, D.C., to attend a meeting on the ban, he went.

Count me in the group in favor of lifting the ban. I believe this is a clear cut issue.

The Democrats who lead the majority causcus are either in favor of lifting the ban or they aren't.

The time for action on this bill is long past. As the groyp leading the House of Representatives I see the responsibility as the Democrats', and theirs alone, to guide this bill through the Legislature so the people of Alaska and the other 49 states know where we stand on this issue. Since it is well within the power of the Democrat-controlled majority to do so, anything less than passage of HJR 15 is tantamount to their proceeding hand-in-hand with the forces that seek to restrict the sovereignty of our great state.

If your readers are in favor of lifting the ban on the export of Alaska oil, I ask them to please send Public Opinion Messages to their elected leaders by calling the local Legislative Information Office.

Rep. Terry Martin
R, Anchorage

Permanent Chair

Feb 26/85

Sheffield sees no help ending oil ban

By DAVID RAMSEUR
News-Miner Bureau

WASHINGTON—Alaska appears unlikely to get much help from the Reagan White House this year in its efforts to permit the sale of Alaska oil abroad, Gov. Bill Sheffield said Monday following a brief Sunday night conversation with the president.

"He smiled and shrugged his shoulders a little bit," Sheffield said of Reagan, but promised no assistance in lifting the federal ban on Alaska oil exports.

According to the governor, the president reminded him that he asked Congress to remove the ban last year but the effort was opposed by the U.S. maritime industry.

Despite Sheffield's plea for help this year, he said the president offered no assistance.

"I got no indication that they would" push to change the law this year, Sheffield said.

The governor said he spoke with Reagan about Alaska oil exports Sunday night during the after-dinner coffee and drinks portion of a White House banquet for the nation's governors.

Sheffield and other state chief executives are here for a three-day conference of the National Governors' Association, which wraps up today.

Sheffield is scheduled to remain in Washington until Thursday for meetings with top federal officials.

Among those was a late Monday session with Interior Secretary Donald Hodel and six other governors on certain federal offshore oil revenues.

Alaska stands to collect up to $1 billion of the funds but a Sheffield aide this morning reported little progress at the meeting.

At a Monday briefing for reporters, the governor expressed frustration over the oil export issue. Last year, he said, it seemed half the Reagan cabinet supported lifting the ban on Alaska oil sales abroad but did little to push the issue.

"It was frustrating as h— at best," the governor said.

And he said this year appears to be little different.

He reported telling the president the election is over and in his second term Reagan could take on the politically unpopular issue. But he said he got little response.

Sheffield said permitting the sale of Alaska oil to countries such as Japan could help offset the trade imbalance and lead to the export of other Alaska goods such as coal, minerals and natural gas.

On other issues, Sheffield said:

- Alaska will file suit against the federal government unless a settlement is reached over disposition of the so-called "8g" outer continental shelf oil revenues.

The governors of seven coastal states including Sheffield met Monday with Hodel on the issue. But a Sheffield aide said they agreed only to meet again and present Hodel a new proposal by March 31.

- He plans to meet individually with Hodel to push for a 10-year delay on the a proposed North Aleutian federal offshore oil sale. Former Interior Secretary William Clark postponed the sale until August of this year but Sheffield wants a longer delay to study its impact on Bristol Bay fisheries.

- He and other governors are upset with Reagan budget cuts which will curtail programs in their states.

"We're out there on the firing line and we have to go home and increase taxes or cut budgets or take up the slack where the federal government drops off," Sheffield said. "It's hard to do that if you don't have any input into what they cut."

Stevens says Big Oil would fight to keep ban

JUNEAU (AP)—A much-ballyhooed campaign to lift the ban prohibiting export of Alaska oil will likely face opposition from the oil industry, U.S. Sen. Ted Stevens said Monday.

Stevens—in a meeting with reporters after a joint speech to the Alaska Legislature—said low oil prices and a glutted world market should work to discourage any effort to lift the federal prohibition.

"I think we may find real opposition from producers to lifting the ban," he said.

U.S. Sen. Frank Murkowski, R-Alaska, and Republican Congressman Don Young both told state lawmakers recently they thought a push to get the ban lifted could gain steam over the next couple of years.

Stevens—who said Reagan Administration officials support lifting the ban—acknowledged the idea might gain some momentum in Congress this session, especially through committee work slated by Murkowski and Young.

"But even if we could get the ban lifted, it might not mean the export of any oil," Stevens said.

An overabundance of oil and steadily dropping prices means it wouldn't be profitable for oil companies to ship oil to Pacific Rim countries or other world markets right now, Stevens said.

The federal ban was implemented in 1973 when U.S. fuel prices skyrocketed during an export embargo imposed by oil-producing countries of the Middle East.

U.S. House votes to ban oil exports

ADN # 4/17/85

By BETTY MILLS
Daily News correspondent

WASHINGTON — The House Tuesday adopted legislation which extends for five years the virtual ban on exporting Alaska oil.

The provision is included in a reauthorization of the Export Administration Act which cleared the House by voice vote after a 45-minute debate. The Alaska oil issue was only mentioned once.

Under the bill, oil produced on the North Slope can be sold abroad only if the president determines it is in the national interest and would result in lower costs to consumers. Congress must approve any such transaction.

These restrictions will remain in place until September 30, 1990.

The bill now goes to the Senate, where approval is expected shortly.

The legislation also includes an amendment sponsored last year by Alaska Sen. Frank Murkowski which orders a nine-month White House study on Alaska oil policy. The review will focus on the impact of Alaska oil exports on national security, foreign policy, employment in the maritime industry, consumers, the trade deficit and overall energy development.

The president is to develop recommendations concerning the producing and distribution of North Slope oil and submit a report to Congress within nine months of enactment of the bill.

The Alaska delegation and Gov. Bill Sheffield have pressed for a removal of the tight restrictions on exporting Alaska oil — which costs the state hundreds of millions of dollars in lost revenues.

But maritime interests and members of the House from the Northeast and Midwest have combined to retain the virtual ban on exports.

Of the 1.2 million barrels produced each day at Prudhoe Bay, about half is shipped through the Panama Canal to the Gulf and East Coasts, at additional transportation costs.

In 1973, when Congress approved the Trans Alaska Pipeline System, it required that the oil flowing through the 800-mile pipeline be used in the United States. Congress has voted repeatedly to retain the restrictions on Alaska oil exports.

But supporters of the nine-month study provision hope a comprehensive analysis of the issue by the administration will cause Congress to remove the restrictions.

In a statement inserted in the Congressional Record, Rep. Don Young, R-Alaska, said the ban on exports "results in inefficiencies in transportation to East Coast refineries and increased chances of environmental damage from tanker traffic, the leading source of oil spills in the world. Additionally, the state of Alaska and the federal government have lost hundreds of millions of dollars in revenue."

Oil export ban repeal 'up in air'

Empire 2/2/85

By JOHN CARTER
Empire Washington Bureau

WASHINGTON — Chances of getting congressional approval for the export of Alaska oil are slim this year, Capitol Hill observers said today.

"It's all kind of up in the air," an aide for Sen. Frank Murkowski said.

These remarks were echoed in statements by Rep. Don Young to the finance committees of the Alaska State House and Senate on Monday. Young told the committees it would be two years at the earliest before the ban could be removed.

Murkowski spearheaded a drive last

Continued on Page 12

Oil export...

Continued from Page 1

year to have the export ban lifted as part of the Export Administration Act reauthorization. He failed in amending the bill to lift the ban, and it was never approved by Congress anyway, so the entire battle will come up again this session.

Murkowski was successful in getting the Senate to agree to a nine-month study of the impact of exporting Alaska oil. This study was included in the export bill and will not begin until the bill is approved by Congress.

"It's up in the air because of the South Africa issue which is included in the export bill," the aide said.

Some members of Congress are hoping to use the Export Administration Act as a vehicle to punish South Africa for its apartheid policies. There are efforts to separate South Africa provisions from the export bill, "but no one's really pushing to get the bill moving," the aide said.

Even if the export bill comes up for consideration again, getting Congress to agree to lift the export ban will be difficult.

"Attitudes have to change about exporting oil," the aide said.

The export act failed to pass the conference committee after differing versions were passed by both the House and Senate last year. The Senate version included Murkowski's study, but that issue was not the roadblock stopping the conference committee from reaching a compromise, Murkowski said.

"The bill contained trade restrictions on South Africa which the House objected to. The conferees held on this issue," Murkowski said.

If the bill passes this session, Murkowski's study will examine the ramifications of oil export.

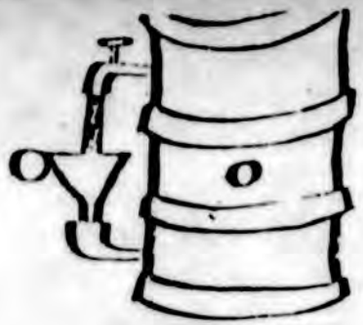
"It would examine the impact on our allies in the Pacific, the impact on employment and on the maritime industry," Alaska's junior senator said.

"The report would look at the benefits to refiners and consumers. I think it will show that there could be significant reduction to the trade deficit if we sell our oil overseas," he said.

Current law prohibits the sale of North Slope oil to anyone except American refiners. The oil is shipped on American vessels and maritime industry officials fear lifting the ban would hurt their business.

A report prepared for Gov. Bill Sheffield by his Washington office last month noted "a major effort to modify the North Slope oil export restriction foundered in the face of maritime industry opposition."

THE WASHINGTON POST, FRIDAY, FEBRUARY 10, 1984



By Zarko Karabatic

Bill Sheffield

Free Alaska's Oil

American energy consumers have a large stake in the existing federal restrictions on the export of Alaska crude oil. Because Congress must soon act on an extension of the ban, its rationale and costs deserve scrutiny. I share the considered opinion of most economists and of the federal Department of Energy that the United States would produce more oil at lower prices if the export restrictions were lifted.

The origins of the oil export ban lie in the December 1973 authorization for construction of the Trans-Alaska Pipeline System, a project that currently carries some 20 percent of U.S. oil production. Energy security concerns became paramount in the wake of the October 1973 OPEC embargo, and Congress chose to restrict the destination of oil shipped through the pipeline. At that time, when U.S. ability to obtain any imported oil was in question, the restrictions made political sense.

The energy supply picture for the United States has changed during the past 10 years, however. About half of Alaska's oil production of 1.6 million barrels a day is in excess of West Coast needs. As a result, this oil must move to the larger market of the Gulf of Mexico and the East Coast. Unfortunately, this journey is an expensive one, costing four times as much as the tanker run to California. This additional transportation cost means reduced federal tax revenues and reduced incentives for expanding Alaska oil production. Higher trade deficits and diminished national security also result from the ban on our allies.

America's Pacific Rim allies, in close proximity to Alaska, would very much like to purchase this surplus oil to diversify their sources away from the Middle East, but are prohibited from doing so by federal law. The ban is particularly unfair because no other U.S. oil production is barred from export, and the United States currently ships overseas in excess of 700,000 barrels a day of domestically produced refined petroleum products.

Along with Alaska's congressional delegation, I have proposed that Congress relax the existing export ban on Alaska oil to allow 200,000 barrels a day to be shipped to Japan on U.S.-flag tankers. Most knowledgeable observers agree that the federal government and energy consumers in the United States would experience significant benefits from the adoption of this proposal:

- The federal Treasury would realize almost $200 million per year in increased tax revenues as a result of the higher value of oil shipped to the Pacific Rim.
- The oil industry would have a greater incentive to develop currently marginal fields on Alaska's high-cost North Slope and to explore for additional oil and gas in northern Alaska.
- The pricing power of OPEC would be moderated by the entry of Alaskan oil into Asian markets.
- U.S. national security interests would be protected by diversifying the energy supply of key U.S. allies who currently must seek energy from OPEC and Russia.
- The existing trade deficit with Japan would be reduced while the United States would gain a bargaining tool to use on other trade issues.
- Opportunities for financially troubled countries, such as Venezuela and Mexico, to sell oil to the United States would be expanded by providing possibilities for cost-efficient oil exchanges.

In light of these convincing arguments, why does the export ban remain in effect? The Alaska oil trade currently supports a substantial portion of the U.S. merchant marine fleet. Any action that reduces the amount of time Alaska oil must spend in U.S. tankers is therefore fiercely opposed by the owners and workers supported by these ships. To accommodate their concerns, the proposal I am making would sharply limit exports, and would require the use of U.S.-flag tankers manned by American seamen and maintained in American shipyards.

Those of us who live in Alaska strongly believe in the importance of a healthy merchant marine, given our heavy reliance on waterborne commerce. Nevertheless, the Alaska oil export ban is an expensive and ineffective means of achieving it. In a recent draft report, the U.S. Department of Energy said most of the problems likely to confront the U.S. tanker fleet in the future will occur whether or not export restrictions are eased. To forgo substantial federal tax revenues, national trade benefits, improved national security and increased oil production primarily to protect narrow merchant marine interests is not sound public policy.

The writer is governor of Alaska.

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United States Senate

COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS
WASHINGTON, D.C. 20510

February 7, 1984

The Honorable Frank Murkowski
United States Senate
Washington, DC 20510

Dear Frank:

It was good of you and Ted to discuss with me your proposed amendment to Section 7(d) of the Export Administration Act (EAA), that would authorize the export of 200,000 barrels a day of oil produced in Alaska. You made some rather cogent arguments in support of the amendment, but I find myself unable to support it for several reasons.

As you know, the renewal of the Export Administration Act has been a very controversial item and S. 979, the bill unanimously reported by the Banking Committee, is the result of compromises that forged a consensus view. The bill constitutes an integrated package of amendments to the EAA and includes a six-year extension on the prohibition of Alaskan oil. I am concerned that adding a 200,000 barrel a day exemption would complicate the consensus on our package. I believe my concern is real in light of the fact that 10 members of our Committee are among the 45 cosponsors of S. 1159, a bill to make the current ban on Alaskan oil exports permanent.

With these factors in mind, I do not believe that your amendment could be included in our bill without a roll call vote. Even if the amendment were passed in the Senate, which is unlikely, it is not an item that we could win in conference. I say this because a majority of the House members has already cosponsored a companion bill to S. 1159 that extends controls on the export of Alaskan oil for six more years.

I also have very serious doubts about the substance of your amendment. Selling 200,000 barrels a day of Alaskan oil to the Japanese would reduce our bilateral trade deficit with Japan by $2 billion, and thus assist in disguising the true nature of our trade problem with the Japanese. As the AFL-CIO has persuasively argued before our Committee, authorizing oil exports to Japan would enable the Japanese to continue to take our raw materials while sending us their higher value-added manufactured goods. What we need to straighten out our trade problem with the Japanese is (a) for them to open up their markets to our manufactured exports, and (b) for us to reduce our budget deficit to

bring down interest rates and the bloated value of our dollar which is destroying our ability to compete internationally.

I appreciate very much the points you made to me on this issue, and regret that because of the above considerations I cannot support your amendment.

Sincerely,

William Proxmire
Ranking Minority Member

Jim Clark

FEB 2[illegible] 1984
ROBERTSON, MONAGLE,
EASTAUGH & BRADLEY
[illegible] ALASKA

Let Alaska's Oil Flow Naturally

By law — indeed, five laws — the United States prohibits exports of Alaskan oil. The nominal reason is national security. The controlling reason is protectionist politics. The ban should be repealed.

Alaska's Senators, Frank Murkowski and Ted Stevens, want to amend the Export Administration Act to authorize at least some sales abroad. To win votes, they've conceded too much to protectionism. Nonetheless, because the House has already voted to extend this senseless embargo, their amendment offers the only hope for reducing its harm.

•

Alaska currently pumps out 1.6 million barrels a day. The idea behind the ban was that it's more efficient — and serves the national interest — to direct that oil to West Coast refineries, a short run down the coast. In fact, those refineries have been able to use only half of it. The rest goes through the Panama Canal and a Panama pipeline to refineries on the Gulf of Mexico, or all the way around South America to the Virgin Islands. What a waste, and discouragement, to Alaska's oil development.

The cost of the long-distance transportation runs as high as $5.25 a barrel. Shipment to the logical buyers in the Pacific basin — Japan, South Korea and Taiwan — would cost $1 or less.

The benefit would be twofold. Gulf and Caribbean refineries could get their crude oil at lesser cost from Mexico, Venezuela and Nigeria. And Alaskan oil across the Pacific would become more competitive, and thus stimulate more exploration.

What about national security? It is said that the Arab oil embargo and resulting escalation of oil prices proved the value of holding on to every drop of American oil. So why let others buy it?

The question turns the issue upside down. Exporting Alaska's oil would enhance national security, not hurt it. The countries that would buy this oil are important allies whose access to oil is vital to American security interests. They have no oil of their own. An assured supply is especially necessary for Japan. By reducing Japanese dependence on the Middle East and also stimulating more production in Alaska, two important interests would be served.

The Murkowski-Stevens amendment would permit exports of 200,000 barrels a day and let the President stop all exports if ever the oil is needed in the United States. That's a reasonable concession to get the amendment approved but of no realistic consequence. If cut off by the Persian Gulf, Japan is not likely to be cut off also by America.

What is objectionable is the Murkowski-Stevens requirement that all exports be shipped in American vessels and that the vessels be maintained and repaired in American shipyards. These concessions, to win over the maritime unions, would increase the cost of shifting transportation patterns and reduce their value. But the ban offends economics in larger ways and violates security. Even at that price, it's worth relaxing.

NY Times 2/23/84

PAGE 01 SEOUL 01396 [illegible]382

ACTION H-03

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UNCLAS SEOUL 01396

H PASS

STATE FOR EAP/K OLAMBERTSON

E.O. 12356: N/A
TAGS: ENRG, EPET, ETRD, OREP, KS
SUBJECT: AMBASSADOR'S REPLY TO LETTER FROM SENATOR
FRANK H. MURKOWSKI

DEAR FRANK:

THANK YOU VERY MUCH FOR YOUR LETTER OF JANUARY 27. YOUR VISIT WAS FAR TOO BRIEF. WE LOOK FORWARD TO YOUR RETURN IN APRIL.

I HEARTILY AGREE WITH THE SENTIMENTS EXPRESSED IN YOUR LETTER. WE UNDERSTAND THAT KOREA IS THE DEVELOPING COUNTRY MOST DEPENDENT ON IMPORTED OIL FROM THE MIDDLE EAST TO MEET ITS ENERGY REQUIREMENTS. DURING 1983 THESE IMPORTS AMOUNTED TO MORE THAN 139 MILLION BARRELS, OR 74 PERCENT OF KOREA'S TOTAL CRUDE OIL IMPORTS OF 188 MILLION BARRELS.

FOR A LONG TIME KOREA HAS BEEN TRYING TO DIVERSIFY ITS SOURCES OF IMPORTED CRUDE OIL IN ORDER TO REDUCE DEPENDENCE ON THE MIDDLE EAST. THE OIL SHOCKS OF THE 1970'S WERE EXTREMELY DIFFICULT FOR EVEN THIS VERY PROSPEROUS ECONOMY TO DIGEST. THE KOREANS HAVE BEEN TRYING, WITH LIMITED SUCCESS, TO INCREASE OIL IMPORTS FROM LATIN AMERICA AND INDONESIA. THEY HAVE BEEN CONSIDERABLY MORE SUCCESSFUL IN REDUCING THEIR DEPENDENCE ON IMPORTED CRUDE OIL BY BOOSTING THEIR NUCLEAR PLANT CONSTRUCTION PROGRAM AND SWITCHING FROM DIESEL TO COAL POWERED PLANTS FOR GENERATING ELECTRICITY. NEEDLESS TO SAY, HOWEVER, THESE PROJECTS ARE EXPENSIVE AND TAKE TIME.

DESPITE THESE BOLD EFFORTS, KOREA, FOR A LONG TIME TO COME, WILL NEED TO IMPORT LARGE AMOUNTS OF OIL. THE KOREANS WOULD LIKE VERY MUCH TO BUY EVEN A SMALL AMOUNT OF THEIR REQUIREMENTS FROM ALASKA IN ORDER TO REDUCE FURTHER THEIR DEPENDENCE ON THE MIDDLE EAST. I AGREE THAT EVEN LIMITED KOREAN IMPORTS OF ALASKAN OIL WOULD CONTRIBUTE IMPORTANTLY TO REDUCING OUR TRADE DEFICIT WITH THIS COUNTRY WHICH EXCEEDED DOLS 1.2 BILLION IN 1983, A RECORD HIGH. YOUR APPROACH TO THE ISSUE, TO OBTAIN A LIMITED EXEMPTION TO THE CURRENT BAN ON ALASKAN OIL EXPORTS, AND AUTHORIZATION FOR UNLIMITED EXPORTS AS NEW PRODUCTION COMES ON LINE, SEEMS TO ME TO BE QUITE SENSIBLE.

SELLING ALASKAN OIL TO KOREA OBVIOUSLY WOULD ENHANCE THE SECURITY OF AN IMPORTANT ASIAN ALLY AND WOULD BE CONSISTENT WITH OUR MILITARY

9828

COMMITMENT TO THIS COUNTRY. THE VULNERABILITY OF THE KOREAN ECONOMY AND ITS DEFENSE CAPABILITIES TO ANOTHER MIDDLE EASTERN CRISIS WOULD BE REDUCED ACCORDINGLY. I WISH YOU EVERY SUCCESS.

BEST REGARDS,

RICHARD L. WALKER
AMBASSADOR
WALKER

BILL SHEFFIELD
GOVERNOR

STATE OF ALASKA
OFFICE OF THE GOVERNOR
JUNEAU

February 1, 1985

Mr. David A. Stockman
Director
Office of Management and Budget
Old Executive Office Building
Room 252
Washington, D.C. 20503

Dear Mr. Stockman:

I am writing to ask for your assistance in amending existing federal restrictions on the export of Alaska North Slope crude oil. Recent estimates by the Federal Trade Commission of the additional Windfall Profits Tax revenues accruing to the federal government as a result of lifting the ban range from 200 million to one billion dollars per year. I believe that any measure offering revenues of such magnitude deserves serious scrutiny by the President and Congress.

The enhancement in federal tax revenues from the export of Alaska oil results from reduced transportation costs. Half of North Slope production -- 800,000 barrels a day -- must undergo an expensive and inefficient journey to the U.S. Gulf and East Coasts, due to the surplus of supply on the West Coast. Reducing the transportation costs increases the wellhead value of the oil, on which taxes are based. This increase in value would also provide the oil industry with a greater incentive to develop currently marginal fields on the high-cost North Slope and to explore for additional oil and gas in northern Alaska.

Eliminating or easing Alaska oil export restrictions would also have other important national and international benefits. The existing trade deficit with Japan would be reduced while the United States would gain a bargaining tool to use on other trade issues. Opportunities for financially troubled countries, such as Venenzula and Mexico, to sell oil to the United States would be expanded by displacing Alaska oil from the Gulf and East Coasts. Finally, national security interests would be enhanced by diversifying the energy supply of key United States allies away from OPEC.

For the reasons stated above, groups as diverse as The Heritage Foundation, The Boston Globe, and The New York Times have endorsed the easing of restrictions on Alaska oil exports. However, the Administration has not conveyed a position on the issue to Congress. Your leadership in this matter is essential to ensuring that it receives proper consideration. In this regard, we have been advised by several members of Congress that the views of the Administration would be very important in their reexamination of the Export Administration Act provisions relating to Alaska oil.

I would like to meet with you to further discuss these issues in late February when I am in D.C. In the interim, please let me know if you have any questions. Thank you for your consideration of our views.

Sincerely,

Bill Sheffield

Bill Sheffield
Governor

cc: The Honorable Ted Stevens, U.S. Senate
The Honorable Frank Murkowski, U.S. Senate
The Honorable Don Young, U.S. House of Representatives
Lee Verstandig, Assistant to the President

ATTACHMENT B

Spending Records of the Seafarers Political Activity Donation and the Masters, Mates and Pilots Political Contribution Fund: 1977-78 and 1979-80

Source: The PAC Directory. 1982 Edition. PAC Researchers: Burke, Virginia.

NON-PARTY (Continued)

SCHLITZ GOOD GOVERNMENT COMMITTEE (continued)

DETAILED INFORMATION:	Office	Party	State	District	Contributions 77-78	Contributions 79-80
Sensenbrenner, F.	H	REP	WI	9	$500	$1,500

SCM PAC — **New York** **NY** — **C00128025**

SUMMARY INFORMATION:	1977-78	1979-80
Gross Receipts:	—	$5,186
Total Contributions:	—	$5,000

	1977-78	1979-80
Gross Disbursements:	—	$5,000
Total Independent Expenditures:	—	0

% of Total Contributions & Independent Expenditures to Gross Disbursements:	77-78	79-80
	—	100.0%

OF CONTRIBUTIONS TO ALL CANDIDATES:	Number of Candidates 77-78	Number of Candidates 79-80	Amount 77-78	Amount 79-80
Democrats	—	—	—	—
President	—	—	—	—
Incumbents	—	1	—	$500
Winners - Gen. Elec.	—	4	—	$3,500
RANGE OF $1-499	—	—	—	—
$500-999	—	4	—	$2,000
Republicans	—	7	—	$5,000
Senate	—	2	—	$2,000
Challengers	—	4	—	$3,000
All Losers/Others	—	3	—	$1,500
$1000-4999	—	3	—	$3,000
$5000 & UP	—	—	—	—
Other	—	—	—	—
House	—	5	—	$3,000
Open Seat	—	2	—	$1,500

SCOTT PAPER COMPANY PAC (SCOTTPAC) — **Philadelphia** **PA** — **C00097220**

SUMMARY INFORMATION:	1977-78	1979-80
Gross Receipts:	$5,300	$24,363
Total Contributions:	$2,800	$21,000

	1977-78	1979-80
Gross Disbursements:	$4,300	$20,750
Total Independent Expenditures:	0	0

% of Total Contributions & Independent Expenditures to Gross Disbursements:	77-78	79-80
	65.1%	100.0%

OF CONTRIBUTIONS TO ALL CANDIDATES:	Number of Candidates 77-78	Number of Candidates 79-80	Amount 77-78	Amount 79-80
Democrats	1	9	$500	$2,700
President	—	—	—	—
Incumbents	1	29	$500	$9,100
Winners - Gen. Elec.	5	41	$1,500	$17,300
RANGE OF $1-499	5	32	$1,300	$7,750
$500-999	3	15	$1,500	$8,450
Republicans	7	42	$2,300	$18,300
Senate	3	14	$1,500	$9,450
Challengers	5	17	$1,700	$9,400
All Losers/Others	3	10	$1,300	$3,700
$1000-4999	—	4	—	$4,800
$5000 & UP	—	—	—	—
Other	—	—	—	—
House	5	37	$1,300	$11,550
Open Seat	2	5	$600	$2,500

DETAILED INFORMATION:	Office	Party	State	District	Contributions 77-78	Contributions 79-80
Symms, Steve	S	REP	ID			$1,800

SEAFARERS POLITICAL ACTIVITY DONATION -SPAD- — **Brooklyn** **NY** — **C00004325**

SUMMARY INFORMATION:	1977-78	1979-80
Gross Receipts:	$577,570	$1,030,216
Total Contributions:	$396,052	$685,248

	1977-78	1979-80
Gross Disbursements:	$579,209	$884,255
Total Independent Expenditures:	$4,000	0

% of Total Contributions & Independent Expenditures to Gross Disbursements:	77-78	79-80
	69.0%	77.4%

OF CONTRIBUTIONS TO ALL CANDIDATES:	Number of Candidates 77-78	Number of Candidates 79-80	Amount 77-78	Amount 79-80
Democrats	246	292	$374,502	$619,898
President	—	2	—	$15,000
Incumbents	190	255	$249,000	$520,928
Winners - Gen. Elec.	186	232	$237,400	$390,728
Republicans	20	49	$21,550	$64,850
Senate	28	59	$139,352	$243,480
Challengers	37	54	$73,950	$93,730
All Losers/Others	80	110	$158,652	$294,520
Other	—	1	—	$500
House	238	281	$256,700	$426,768
Open Seat	39	33	$73,102	$70,590

NON-PARTY (Continued)

SEAFARERS POLITICAL ACTIVITY DONATION -SPAD- (continued)

OF CONTRIBUTIONS TO ALL CANDIDATES	Number of Candidates 77-78	Number of Candidates 79-80	Amount 77-78	Amount 79-80		Number of Candidates 77-78	Number of Candidates 79-80	Amount 77-78	Amount 79-80
RANGE OF $1-499	8	9	$1,850	$1,650	$1000-4999	114	203	$186,952	$318,884
$500-999	121	83	$61,750	$40,280	$5000 & UP	23	47	$145,500	$324,434

DETAILED INFORMATION:	Office	Party	State	District	Contributions 77-78	Contributions 79-80
Carter, Jimmy	P	DEM				$10,000
Kennedy, Edward M.	P	DEM				$5,000
Anderson, Wendell R.	S	DEM	MN		$10,000	
Barnett, Don	S	DEM	SD		$7,000	
Baucus, Max S.	S	DEM	MT		$5,000	$1,500
Bayh, Birch E., Jr.	S	DEM	IN		$1,500	$10,000
Biden, Joseph R., Jr.	S	DEM	DE		$4,000	$1,000
Bradley, Bill	S	DEM	NJ		$5,000	$3,000
Christie, Joe	S	DEM	TX		$5,000	
Church, Frank	S	DEM	ID			$10,000
Cranston, Alan	S	DEM	CA			$6,500
Culver, John C.	S	DEM	IA			$4,000
D'Amato, Alfonse M.	S	REP	NY			$1,500
Dixon, Alan J	S	DEM	IL			$3,000
Dodd, Christopher J.	S	DEM	CT			$10,000
Durkin, John Anthony	S	DEM	NH			$10,000
Eagleton, Thomas F.	S	DEM	MO			$7,500
Edmondson, Ed	S	DEM	OK		$5,000	
Flaherty, Pete	S	DEM	PA			$5,000
Flowers, Walter	S	DEM	AL		$4,852	
Ford, Wendell H.	S	DEM	KY			$5,000
Glenn, John	S	DEM	OH			$5,000
Gojack, Mary L.	S	DEM	NV			$2,500
Gravel, Mike	S	DEM	AK			$5,000
Gunter, Bill	S	DEM	FL			$5,000
Hart, Gary W	S	DEM	CO			$5,000
Haskell, Floyd K.	S	DEM	CO		$10,000	
Hathaway, William D.	S	DEM	ME		$5,000	
Heflin, Howell Thomas	S	DEM	AL		$5,000	
Hollings, Ernest F.	S	DEM	SC			$9,000
Holtzman, Elizabeth	S	DEM	NY			$9,500
Huddleston, Walter D.	S	DEM	KY		$1,500	
Inouye, Daniel K.	S	DEM	HI			$4,000
Javits, Jacob K	S	REP	NY			$5,000
Johnston, J. Bennett.	S	DEM	LA		$6,000	
Krueger, Robert	S	DEM	TX		$5,000	
Levin, Carl	S	DEM	MI		$10,000	$250
Long, Russell B	S	DEM	LA			$5,000
Magnuson, Warren G	S	DEM	WA			$10,000
Martin-Trigona,	S	DEM	IL			$5,000
Mathias, Charles	S	REP	MD			$7,000
McGovern, George	S	DEM	SD			$10,000
Melcher, John	S	DEM	MT			$5,000
Metzenbaum, Howard	S	DEM	OH		$5,000	
Miller, Andrew P.*	S	DEM	VA		$6,000	$-720
Miller, Zell	S	DEM	GA			$7,500
Moynihan, Daniel	S	DEM	NY			$5,000
Nelson, Gaylord A.	S	DEM	WI			$9,500
Packwood, Bob	S	REP	OR			$6,000
Pell, Claiborne	S	DEM	RI		$2,000	
Pettigrew, Richard A.	S	DEM	FL			$5,000
Randolph, Jennings	S	DEM	WV		$7,000	
Ravenel, Charles D.	S	DEM	SC		$7,000	$1,000
Roy, William R.	S	DEM	KS		$3,000	
Sarbanes, Paul S	S	DEM	MD		$3,000	
Sasser, James Ralph	S	DEM	TN		$2,500	
Schulz, William R	S	DEM	AZ			$5,000
Stevens, Ted	S	REP	AK		$7,500	
Stewart, Donald	S	DEM	AL		$5,000	$14,000
Talmadge, Herman	S	DEM	GA			$3,000
Addabbo, Joseph P	H	DEM	NY	7	$2,050	$6,500
Albosta, Donald	H	DEM	MI	10		$4,000
Allegrucci, Don	H	DEM	KS	5	$1,500	
Ambro, Jerome A.	H	DEM	NY	3	$1,000	$1,500
Anderson, Glenn M.	H	DEM	CA	32	$1,500	$1,500
Ashley, Thomas L.	H	DEM	OH	9	$500	$5,500
Aucoin, Les	H	DEM	OR	1	$4,000	$7,500
Bailey, Donald Allen	H	DEM	PA	21	$1,000	$2,800
Baldus, Alvin	H	DEM	WI	3		$1,500
Barnes, Michael Darr	H	DEM	MD	8	$1,000	$2,500
Barragan, Polly Baca	H	DEM	CO	4		$2,500
Bauman, Robert	H	REP	MD	1	$1,000	$6,000
Baumann, Archie	H	DEM	MN	6		$1,500
Baumann, James L.	H	DEM	OH	12	$1,500	
Biaggi, Mario	H	DEM	NY	10	$2,000	$3,750
Boggs, Lindy (Mrs.	H	DEM	LA	2	$2,000	$2,500
Bolling, Richard	H	DEM	MO	5	$500	$1,500
Bonior, David E	H	DEM	MI	12	$1,000	$2,500
Burlison, Bill D	H	DEM	MO	10		$3,000
Burstein, Karen S	H	DEM	NY	5		$7,500
Burton, John	H	DEM	CA	5	$2,000	$5,000
Carney, Charles	H	DEM	OH	19	$1,500	
Clark, Arthur Joseph	H	DEM	MA	4		$2,790
Clay, William L.	H	DEM	MO	1	$2,000	$1,000
Corcoran, Brian John	H	DEM	WA	2	$2,500	
Corcoran, Dan	H	DEM	CA	37	$1,500	
Corman, James C.	H	DEM	CA	21	$500	$3,000
Daschle, Thomas	H	DEM	SD	1	$4,500	$3,000
Dellums, Ronald V	H	DEM	CA	8		$2,150
Denton, Lane	H	DEM	TX	11	$3,000	
Dicks, Norman D.	H	DEM	WA	6	$2,000	$2,750
Dingell, John D.	H	DEM	MI	16	$1,500	$1,000
Dixon, Julian C.	H	DEM	CA	28	$500	$1,500
Donnelly, Brian J	H	DEM	MA	11	$500	$3,500
Dorgan, Byron L.	H	DEM	ND	At Large		$2,000
Dyson, Royden P.	H	DEM	MD	1		$2,000
Eckhardt, Robert	H	DEM	TX	8	$1,500	$3,000
Eilberg, Joshua	H	DEM	PA	4	$3,000	
Fazio, Vic	H	DEM	CA	4	$1,000	$1,500
Ferraro, Geraldine A	H	DEM	NY	9	$1,500	$5,934
Fithian, Floyd J.	H	DEM	IN	2	$3,500	$3,000
Flippo, Ronnie Gene	H	DEM	AL	5	$500	$1,500
Florio, James J	H	DEM	NJ	1	$1,500	$5,500
Foley, Thomas S.	H	DEM	WA	5	$500	$3,000
Ford, Harold E.	H	DEM	TN	8		$2,000
Ford, William David	H	DEM	MI	15	$1,100	$1,500
Frost, Martin	H	DEM	TX	24	$3,800	$1,300
Gammage, Robert A	H	DEM	TX	22	$3,500	$500
Gaydos, Joseph M.	H	DEM	PA	20	$1,000	$5,500
Gray, William H III	H	DEM	PA	2	$500	$1,500
Green, Mark J	H	DEM	NY	18		$5,000
Guarini, Frank J.	H	DEM	NJ	14	$500	$2,000
Hall, Tony P.	H	DEM	OH	3		$2,000
Hannaford, Mark W	H	DEM	CA	34	$1,850	
Hertel, Dennis M	H	DEM	MI	14		$2,000
Hindes, Gary E.	H	DEM	DE	At Large	$1,500	$500
Hollenbeck, Harold C	H	REP	NJ	9		$2,500
Howard, James J.	H	DEM	NJ	3	$1,500	$5,500
Huckaby, Thomas	H	DEM	LA	5	$1,500	$500
Johnson, Harold T.	H	DEM	CA	1	$500	$2,500
Kogovsek, Ray	H	DEM	CO	3		$4,500
Lantos, Thomas P.	H	DEM	CA	11		$2,000
Leach, Claude 'Buddy'	H	DEM	LA	4		$1,500
Lederer, Raymond F	H	DEM	PA	3	$1,000	$1,625
Leland, George	H	DEM	TX	18		$1,500
Lieberman, Joseph	H	DEM	CT	3		$2,500

*See Section IV for independent expenditures made by this PAC during 1979-80 in support of or against the candidate.

NON-PARTY (Continued)

SEAFARERS POLITICAL ACTIVITY DONATION -SPAD- (continued)

DETAILED INFORMATION:	Office	Party	State	District	Contributions 77-78	Contributions 79-80
Lloyd, Jim	H	DEM	CA	35	$1,000	$2,000
Long, Clarence D.	H	DEM	MD	2	$500	$1,500
Long, Gillis W.	H	DEM	LA	8	$3,000	$1,500
Luken, Thomas A.	H	DEM	OH	2	$1,000	$2,000
Matsui, Robert T.	H	DEM	CA	3	$1,500	$1,000
Mavroules, Nicholas	H	DEM	MA	6	$2,000	$4,500
McFall, John J.	H	DEM	CA	14	$2,000	
Meeds, Lloyd*	H	DEM	WA	2	$1,550	
Mikulski, Barbara Ann	H	DEM	MD	3	$500	$1,625
Miller, George	H	DEM	CA	7		$1,500
Moakley, John Joseph	H	DEM	MA	9	$1,500	$1,000
Mollohan, Robert	H	DEM	WV	1	$500	$2,500
Murphy, John M.	H	DEM	NY	17	$8,000	$7,000
Murphy, Morgan F.	H	DEM	IL	2	$2,000	
Musto, Raphael	H	DEM	PA	11		$3,000
Myers, Michael	H	DEM	PA	1	$1,200	$3,000
Nix, Robert N. C.	H	DEM	PA	2	$1,500	
Nolan, Richard	H	DEM	MN	6	$3,000	$1,000
O'Neill, Thomas	H	DEM	MA	8	$500	$5,000
O'Reilly, Kathleen F	H	DEM	MI	2		$2,500
Oberstar, James L.	H	DEM	MN	8	$500	$2,500
Olsen, Kirsten	H	DEM	CA	12	$5,000	
Ottinger, Richard L.	H	DEM	NY	24	$500	$2,500
Patterson, Jerry M.	H	DEM	CA	38	$1,500	$500
Peck, Carey	H	DEM	CA	27	$2,250	$4,500
Pepper, Claude	H	DEM	FL	14	$5,000	$1,000
Randolph, John F.	H	DEM	NY	1	$2,000	
Ravenel, Charles D.	H	DEM	SC	1		$2,500
Reibman, Jeanette F.	H	DEM	PA	15		$1,500
Richardson, William B	H	DEM	NM	1		$3,000
Robinson, David L.	H	DEM	IL	20		$2,000
Roe, Robert A.	H	DEM	NJ	8	$2,500	$3,500
Rooney, Fred B.	H	DEM	PA	15	$1,500	
Rostenkowski, Dan	H	DEM	IL	8	$1,250	$1,500
Schumer, Charles	H	DEM	NY	16		$7,500
Shelby, Richard C.	H	DEM	AL	7	$1,000	$1,700
Slack, John M.	H	DEM	WV	3	$1,500	
Solarz, Stephen J.	H	DEM	NY	13	$1,000	$4,994
Sprik, Dale Robert	H	DEM	MI	5		$2,000
Stofferahn, Kenneth D.	H	DEM	SD	2		$1,500
Swift, Allan Byron	H	DEM	WA	2	$1,000	$1,700
Thompson, Frank, Jr.	H	DEM	NJ	4	$2,000	$5,000
Toury, Richard	H	DEM	LA	1	$3,500	
Tucker, James Guy, Jr.	H	DEM	AR	2	$2,500	
Udall, Morris K.	H	DEM	AZ	2		$4,500
Watlington, Janet B.	H	DEM	VI	At Large	$7,000	$500
Weaver, James	H	DEM	OR	4	$2,000	$1,500
Wenstrom, Gene	H	DEM	MN	7	$500	$2,750
Wilson, Charles H	H	DEM	CA	31	$3,000	$1,500
Wolff, Lester L.	H	DEM	NY	6		$1,500
Wolpe, Howard	H	DEM	MI	3	$1,500	$11,000
Wright, Jim	H	DEM	TX	12	$1,000	$2,500
Yatron, Gus	H	DEM	PA	6		$1,500
Young, Don	H	REP	AK	At Large	$3,000	$1,750
Zeferetti, Leo C*	H	DEM	NY	15	$5,000	$7,000

SEA-LAND GOOD GOVERNMENT FUND SEA-LAND INDUSTRIES INC **Winston-Salem** **NC** **C00100495**

SUMMARY INFORMATION:	1977-78	1979-80
Gross Receipts:	$1,650	$17,330
Total Contributions:	$200	$14,275
Gross Disbursements:	$200	$16,275
Total Independent Expenditures:	0	0
% of Total Contributions & Independent Expenditures to Gross Disbursements:	100.0%	87.7%

OF CONTRIBUTIONS TO ALL CANDIDATES:	Number of Candidates 77-78	Number of Candidates 79-80	Amount 77-78	Amount 79-80
Democrats	2	23	$200	$8,800
President	—	—	—	—
Incumbents	2	32	$200	$12,875
Winners - Gen. Elec.	2	26	$200	$9,925
RANGE OF $1-499	2	26	$200	$5,400
$500-999	—	3	—	$1,875

	Number of Candidates 77-78	Number of Candidates 79-80	Amount 77-78	Amount 79-80
Republicans	—	12	—	$5,475
Senate		6		$5,200
Challengers		2		$1,200
All Losers/Others	—	9	—	$4,350
$1000-4999	—	6	—	$7,000
$5000 & UP	—	—		

	Number of Candidates 77-78	Number of Candidates 79-80	Amount 77-78	Amount 79-80
Other				
House	2	29	$200	$9,075
Open Seat		1		$200

DETAILED INFORMATION:	Office	Party	State	District	Contributions 77-78	Contributions 79-80
Magnuson, Warren G	S	DEM	WA			$1,500
Murphy, John M.	H	DEM	NY	17	$100	$1,500

SEARLE PAC **Skokie** **IL** **C00111484**

SUMMARY INFORMATION:	1977-78	1979-80
Gross Receipts:	—	$27,745
Total Contributions:	—	$21,100
Gross Disbursements:	—	$27,250
Total Independent Expenditures:	—	0
% of Total Contributions & Independent Expenditures to Gross Disbursements:	—	77.4%

OF CONTRIBUTIONS TO ALL CANDIDATES:	Number of Candidates 77-78	Number of Candidates 79-80	Amount 77-78	Amount 79-80
Democrats	—	14	—	$6,500
President	—	—	—	

	Number of Candidates 77-78	Number of Candidates 79-80	Amount 77-78	Amount 79-80
Republicans		80		$14,600
Senate		12		$7,250

	Number of Candidates 77-78	Number of Candidates 79-80	Amount 77-78	Amount 79-80
Other				
House		32		$13,850

*See Section IV for independent expenditures made by this PAC during 1979-80 in support of or against the candidate.

Democrats		19		$2,750	Republicans	1		$1,000	Other				
President					Senate	11		$4,500	House	22		$5,400	
Incumbents		30		$9,000	Challengers	3		$700	Open Seat				
Winners - Gen. Elec.		26		$7,500	All Losers, Others	7		$2,200					
RANGE OF $1-499		31		$8,200	$1000-4999	1		$1,000					
$500-999		1		$500	$5000 & UP								

MASTERS, MATES AND PILOTS POLITICAL CONTRIBUTION FUND — Washington DC — C00073056

SUMMARY INFORMATION:	1977-78	1979-80		1977-78	1979-80		77-78	79-80
Gross Receipts:	$113,448	$300,357	Gross Disbursements:	$56,079	$167,256	% of Total Contributions & Independent		
Total Contributions:	$21,550	$113,950	Total Independent Expenditures:	0	0	Expenditures to Gross Disbursements:	38.4%	68.1%

OF CONTRIBUTIONS TO ALL CANDIDATES:	Number of Candidates 77-78	79-80	Amount 77-78	79-80		Number of Candidates 77-78	79-80	Amount 77-78	79-80		Number of Candidates 77-78	79-80	Amount 77-78	79-80
Democrats	14	96	$19,050	$104,450	Republicans	1	10	$2,500	$9,500	Other	–			
President	–	1	–	$1,000	Senate	3	19	$5,000	$42,000	House	12	86	$16,550	$70,950
Incumbents	11	96	$16,050	$107,300	Challengers	3	3	$4,500	$2,650	Open Seat	1	7	$1,000	$4,000
Winners - Gen. Elec.	12	72	$18,600	$65,450	All Losers, Others	3	34	$2,950	$48,500					
RANGE OF $1-499	–	2	–	$400	$1000-4999	14	32	$21,050	$48,500					
$500-999	1	66	$500	$33,550	$5000 & UP	–	6	–	$31,500					

DETAILED INFORMATION:	Office	Party	State	District	Contributions 77-78	79-80		Office	Party	State	District	Contributions 77-78	79-80		Office	Party	State	District	Contributions 77-78	79-80
Bayh, Birch E., Jr.	S	DEM	IN			$4,500	Gravel, Mike	S	DEM	AK			$5,000	Packwood, Bob	S	REP	OR			$2,500
Church, Frank	S	DEM	ID			$5,000	Inouye, Daniel K.	S	DEM	HI			$2,000	Stewart, Donald	S	DEM	AL		$3,000	$2,500
Cranston, Alan	S	DEM	CA			$2,500	Magnuson, Warren G	S	DEM	WA			$5,000	Burton, John	H	DEM	CA	5	$1,000	$5,000
Durkin, John Anthony	S	DEM	NH			$2,000	Mathias, Charles	S	REP	MD			$2,500	Burton, Phillip	H	DEM	CA	6	$1,000	$2,000

NON-PARTY (Continued)

MASTERS, MATES AND PILOTS POLITICAL CONTRIBUTION FUND (continued)

DETAILED INFORMATION:	Office	Party	State	District	Contributions 77-78	79-80		Office	Party	State	District	Contributions 77-78	79-80		Office	Party	State	District	Contributions 77-78	79-80
Ferraro, Geraldine A	H	DEM	NY	9		$2,000	Murphy, John M.	H	DEM	NY	17	$3,000	$6,500	Wolpe, Howard	H	DEM	MI	3		$5,000
Lowry, Michael E.	H	DEM	WA	7		$4,000	Nolan, Richard	H	DEM	MN	6	$2,000		Young, Don	H	REP	AK	At Large	$2,500	$500

MASTERS MATES & PILOTS PENSIONERS' ACTION FUND — New York NY — C00012013

SUMMARY INFORMATION:	1977-78	1979-80		1977-78	1979-80		77-78	79-80
Gross Receipts:	$21,584	$253,394	Gross Disbursements:	$167,394	$79,248	% of Total Contributions & Independent		
Total Contributions:	$3,970	$10,250	Total Independent Expenditures:	0	0	Expenditures to Gross Disbursements:	2.3%	12.9%

OF CONTRIBUTIONS TO ALL CANDIDATES:	Number of Candidates 77-78	79-80	Amount 77-78	79-80		Number of Candidates 77-78	79-80	Amount 77-78	79-80		Number of Candidates 77-78	79-80	Amount 77-78	79-80
Democrats	3	2	$3,970	$10,250	Republicans					Other				
President	–	1	–	$10,000	Senate					House	3	1	$3,970	$250
Incumbents	2	2	$2,485	$10,250	Challengers	1		$485		Open Seat				
Winners - Gen. Elec.	2	–	$2,485	–	All Losers, Others	1	1	$485	$10,250					

SCOMM

#46:32

1-TL

STATE OF ALASKA

POUCH V
JUNEAU, ALASKA 99811
(907) 465-4941

HOUSE SPECIAL COMMITTEE ON OIL AND GAS

HJR 31

House Joint Resolution No. 31 requests a 10-year delay in the North Aleutian Basin federal Outer Continental Shelf lease sale. Postponement of this sale would be consistent with the state's Bristol Bay Area Management Plan, which postponed oil and gas activities on adjacent state-owned offshore lands until at least 1994.

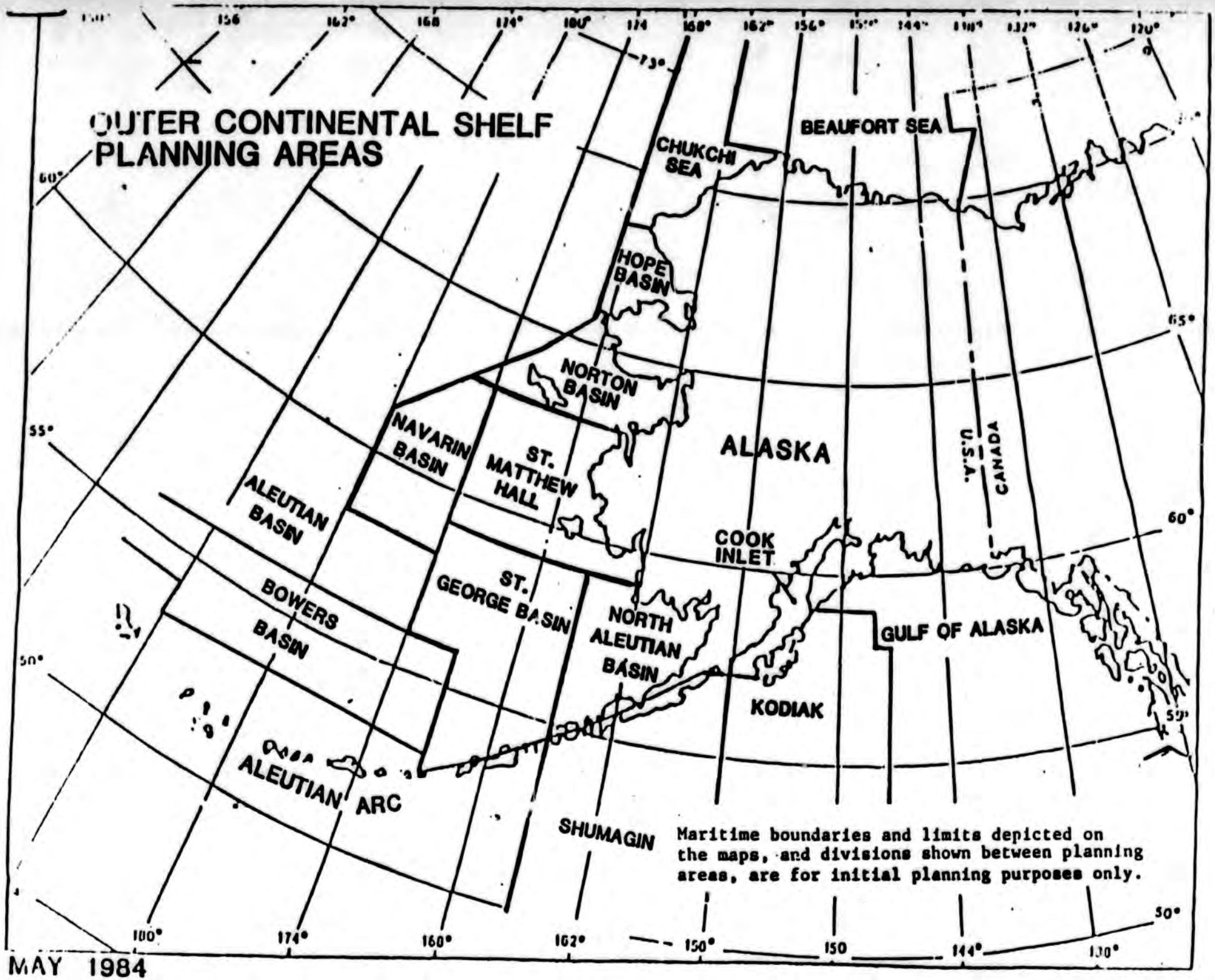
The purpose of this delay is to allow additional environmental impact assessment work to be completed in the area, and to allow time for the development of new technologies that will be better suited for working safely in the extremities of the North Aleutian Basin environment.

This postponement is not intended to delay the development of Alaska's OCS lands as a whole, but to be assured that this development takes place in a manner that does not jeopardize existing resource and revenue bases.

The hydrocarbon potential of this basin is low compared to that of other Alaskan OCS planning areas. For example, the estimated oil reserves of the North Aleutian Basin are about 364 million barrels, whereas the estimated reserves of the St. George Basin, Navarin Basin, and Diapir Field are 660 million, 1.2 billion, and 3 billion barrels of oil, respectively.

In addition to having a relatively limited hydrocarbon potential, Alaska does not presently share in federal OCS revenues. In contrast to this situation, the Bristol Bay fisheries presently employ 10,000 people and produce $250,000,000 in domestic revenues annually.

This resolution addresses the problem the state is presented with, which is that of managing resource development so as to minimize the possiblity that development of one resource base will have a damaging effect upon the other.

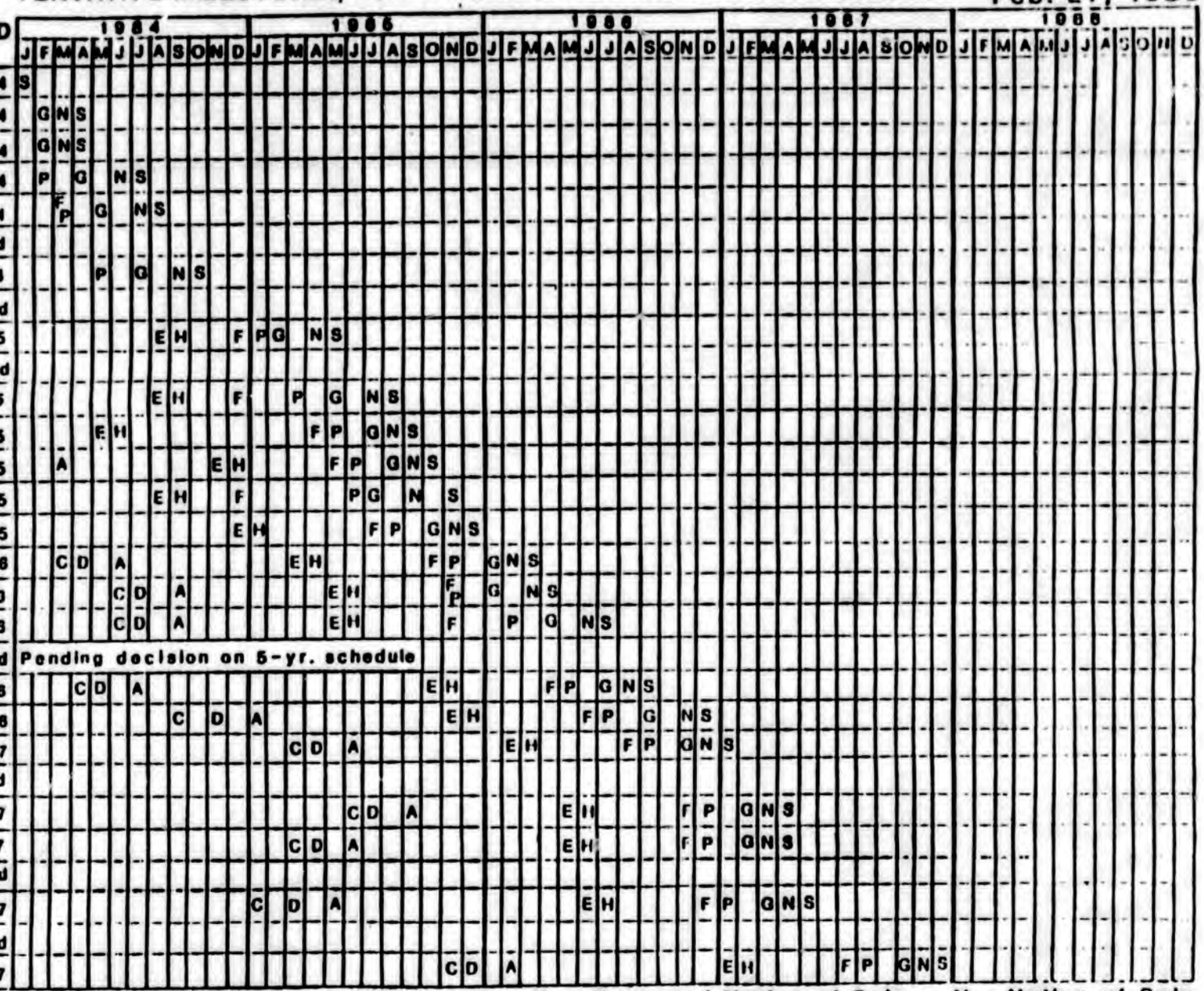

OUTER CONTINENTAL SHELF
PLANNING AREAS
BEAUFORT SEA
CHUKCHI SEA
HOPE BASIN
NORTON BASIN
NAVARIN BASIN
ST. MATTHEW HALL
ALEUTIAN BASIN
ALASKA
U.S.A.
CANADA
COOK INLET
ST. GEORGE BASIN
BOWERS BASIN
NORTH ALEUTIAN BASIN
GULF OF ALASKA
KODIAK
ALEUTIAN ARC
SHUMAGIN
Maritime boundaries and limits depicted on the maps, and divisions shown between planning areas, are for initial planning purposes only.
MAY 1984
U.S. Department of the Interior

U.S. DEPARTMENT OF THE INTERIOR
MINERALS MANAGEMENT SERVICE

TENTATIVE MILESTONES FOR 5-YEAR OFFSHORE LEASING SCHEDULE

Feb. 27, 1985

SALE	PROPOSED DATE
79 E GULF OF MEXICO	1/84
83 NAVARIN BASIN	4/84
81 C GULF OF MEXICO	4/84
81 W GULF OF MEXICO	7/84
87 DIAPIR FIELD	8/84
82 N ATLANTIC	cancelled
80 S CALIFORNIA	10/84
39 GULF of AK/COOK INLET	on hold
88 C GULF OF MEXICO	5/85
90 S ATLANTIC	on hold
92 W GULF of MEXICO	8/85
9 ST GEORGE BASIN	9/85
111 MID-ATLANTIC	10/85
94 E GULF of MEXICO	11/85
97 N ALEUTIAN BASIN	12/85
00 NORTON BASIN	12-3/86
04 C GULF OF MEXICO	4/86
05 W GULF OF MEXICO	7/86
6 N. ATLANTIC	on hold
07 NAVARIN BASIN	3-9/86
7 DIAPIR FIELD	12/86
08 S ATLANTIC	1/87
9 KODIAK	cancelled
10 C GULF of MEXICO	4/87
11 ST. GEORGE BASIN	4/87
5 S. CALIFORNIA	on hold
9 BARROW ARCH	2-5/87
1 C. & N CALIFORNIA	on hold
6 SHUMAGIN	6-12/87



A - Area Identification H - Public Hearing P - Proposed Notice of Sale N - Notice of Sale

- Call for Information

Bristol Bay
Coastal Resource Service Area

OFFICE OF
MANAGEMENT & BUDGET
MAR 01 1985
GOVERNMENTAL
COORDINATION

P.O. Box 189, Dillingham, Alaska 99576
(907) 842-5257 - 842-5258

February 23, 1985

Kurt Fredriksson
Division of Governmental Coordination
Pouch AW
Juneau, Alaska 99811-0165

RE: Comments of North Aleutian Basin Draft EIS

Dear Mr. Fredriksson:

Following are the Bristol Bay Coastal Resource Service Area (CRSA) Board's comments on the draft environmental impact statement (DEIS) for North Aleutian Basin sale #92. As the legal entity assigned the responsibility of developing and implementing a coastal management program for Bristol Bay, the CRSA Board is very concerned about lease #92; this is both in terms of the specific resource information that is lacking, and also, in regard to the exorbitant weight oil and gas is given in the decision making process versus the region's other physical, biological and cultural resource values.

The DEIS for the North Aleutian Basin sale contains the proposal, as well as three alternatives. The CRSA Board has rejected these four potential courses of action and urges the Secretary of Interior to delay proposed sale #92 for at least ten years. The reasons for this follow:

The CRSA Board has been a participant in the sale #92 lease process from the beginning. In a May 23, 1983 letter responding to the Mineral Management Service's (MMS) Call For Information the CRSA Board stated a number of concerns. This letter emphasized the extreme productivity, and sensitivity, of the nearshore environment of the lease sale area. These areas include: Izenbek and Nelson Lagoons, Herendeen Bay and Port Moller, the Seal Islands barrier islands and lagoon system, Port Heiden, and Ugashik and Egegik Bays. Many of the economically important fisheries resources of the region use these nearshore areas during one or more of their lifestages, particularly the critical juvenile stages. The CRSA Board requested that the MMS extensively research this nearshore zone during the DEIS assessment process.

In this same letter, the CRSA Board also voiced particular concern about the salmon which fuel Bristol Bay's world-renown salmon fishery, which in the last two years has had an average annual ex-vessel value (price paid to the fisherman) of 125 million dollars, with a high of 143 million dollars in 1983. A conservative estimate places the number of jobs involved in this fishery at 10,000 (these figures do not include the value and jobs from the Aleutian Island/Alaska Peninsula Management Area). Due to the paramount importance the salmon fishery holds in the economic lives of the region's residents - as well as the subsistence value of the resource, which is difficult to quantify - the CRSA Board asked for a detailed assessment of the location and timing of the movements of salmon in the nearshore and offshore areas, both for the adult and juvenile life stages.

The MMS did not provide this information in the DEIS. Specific omissions in regard to salmon are as follows:

1) What are the seaward migration patterns of king, silver, pink and chum salmon?

2) To what degree do salmon stocks become mixed or concentrated in the nearshore water of Bristol Bay?

3) How long do juvenile salmon remain in the nearshore waters of outer Bristol Bay?

4) What ability do juvenile salmon have in detecting and avoiding oil-contaminated waters?

5) Will adult salmon migrate through oil contaminated waters?

Although these questions are couched in terms of Bristol Bay, it must be remembered that all western Alaska salmon stocks migrate through the North Aleutian Basin "portal" and thus, they are of statewide concern.

Salmon are obviously the major economic and subsistence resource to the region's residents. The last decade, though, has seen the emergence of a new fishery in the Bristol Bay region - herring. The Togiak herring fishery, the largest in Alaska, has increased dramatically over the last five years and had an ex-vessel value of 10.5 million dollars in 1983. As markets evolve and stabilize, new herring fisheries will undoubtedly emerge; in fact, several herring fisheries are scheduled for 1985 in the nearshore areas adjacent to lease sale #92. Two basic questions in regard to herring, and were not addressed in the DEIS, are:

1) The distribution and abundance of herring in the North Aleutian Basin area;

2) The effects of oil contamination on herring spawning substrates.

The lack of information on salmon and herring are of primary concern to the CRSA Board because of the economic importance of these species to the residents of the region.

Significant gaps in other fisheries resources also exist. Basic information on king crab, particularly given the population fluctuations that have occurred in the recent past, is lacking. Also, the distribution and abundance of capelin, important as a food source for species of economic importance, should be undertaken.

The concerns over the impact of lease sale #92 relate to the potential for an oil spill. The MMS spent a significant amount of time in the DEIS quantifying the potential for a spill and concluded that the risk was very low. This did little to allay the fears of the CRSA Board, or the region's resident. The basic question is "what if. . ."? Oil spill response has not been demonstrated in the Bering Sea, which is appropriately referred to by the industry as a "frontier area". A major spill would require relocation of equipment from as far away as California, possible taking two weeks. A recent transportation spill off of the Louisiana coast resulted in 55,000 barrels being dumped into the Gulf of Mexico. Compared to the conditions industry would confront in the Bering Sea, the clean-up of this spill should have been logistically simple; yet only one-tenth of one percent of the spilled oil was contained!

The final comment the CRSA Board wishes to make, and it goes beyond the adequacy of the DEIS, is regard to the national interest of oil and gas leasing and exploration in view of the internationally-recognized resources of Bristol Bay. Unlike oil and gas (through the Outer Continental Shelf Lands Act, as amended), these unique physical and biological resources do not have a comprehensive mandate that states they are of national interest. The questions the CRSA Board poses are these: Is not the largest red salmon fishery in the world of national interest? Are not the largest congregation of marine mammals, and one of the greatest staging areas for waterfowl, in the world of national interest? Is not one of the greatest groundfish and shellfish havest areas in the world of national interest? The CRSA Board feels that any one of these, and definitely the combination of all of them, warrant national interest consideration. The Board also believes that if this discussion were held outside of the very technical and lengthy OCS lease sale planning process, broad-based public opinion would support this conclusion.

In summary, the CRSA Board recommends at least a ten year delay in awarding leases in the North Aleutian Basin. This is in concurrence with the State of Alaska which, through its own planning process, has determined that the economic importance of the area's resources, and the lack of information on them, warrant a delay in oil and gas leasing in the North Aleutian Basin area.

The CRSA Board appreciates the opportunity to comment.

Sincerely,

Tim Hostetler

Tim Hostetler
Acting Director
Bristol Bay CRSA Board

cc: Al Powers

TH/pr

ALEUTIANS EAST COASTAL RESOURCE SERVICE AREA

1689 "C" STREET, SUITE 201
ANCHORAGE, ALASKA 99501

(907) 276-2700

OFFICE OF
MANAGEMENT & BUDGET

MAR 1 1985

GOVERNMENTAL
COORDINATION

February 25, 1985

Mr. Robert Grogan
Office of Management and Budget
Division of Governmental Coordination
Pouch AW (MS 0165)
Juneau, Alaska 99811

Subject: Aleutians East CRSA Comments on the North Aleutian Shelf Draft Environmental Impact Statement.

Dear Mr. Grogan:

The Board passed resolution 85-3, on February 22, 1985, in support of Governor Sheffield's position for a delay of the N. Aleutian Shelf lease sale until at least 1994. This will assure that the data gaps identified by the State are adequately addressed; that the industry catch up with oil spill cleanup and containment and transshipment technology; and that the region is afforded the opportunity to complete the Aleutians East CRSA Coastal Management Plan and that the State and federal government approve the plan and incorporate it into State and federal consistency reviews.

The Board's review of the DEIS is still incomplete. The Board has appreciated the State's extension of a week. Unfortunately poor weather conditions, a better than expected tanner crab season, and delay by consultants reviewing the DEIS have prevented the Board from completing the Board review by February 25, 1985. The Review of the oil spill trajectory analysis is the major area the Board needs to address before the Board's comments will be finalized. The Board understands that our comments on the oil spill trajectory analysis may not be incorporated into the State comments because we are so late, however we expect that the comments herein will be included in the State's comments.

The Aleutians East CRSA Board has reviewed the North Aleutian Shelf DEIS and has concluded that the lease sale as proposed in the DEIS is not consistent to the maximum extent practicable with the State Coastal Management Program nor with the Aleutians East CRSA public hearing draft Coastal Management Plan. In Section E of the General Comments herein the Board identifies measures that need to be taken in order for the Board to consider the lease sale to be consistent with the Aleutians East public hearing draft CMP.

The timing of the lease sale in relation to the Aleutians East CRSA program is unfortunate. The Aleutians East CRSA does not have an approved program. The Board has been rigorous in producing a plan and is pleased that the public hearing draft is out for review. The policies in the draft plan reflect the Board's position regarding 'balanced development' in the Aleutians East region. As you know the North Aleutian Shelf lease sale area is adjacent to the Aleutians East region. The major potential impacts are all directed at the nearshore areas of the north and south side of the Aleutians East CRSA. If a hydrocarbon resource is found the Aleutians East Board will review the permitted activities using the approved Aleutians East Plan as a guide. In light of this the Board has thoroughly reviewed the North Aleutian Shelf DEIS with the Board's knowledge of the region and the public hearing draft policies in mind.

The Board comments are divided into two parts.

1. General Comments on the DEIS including the Aleutians East CRSA policies that need to be incorporated into the DEIS stipulations and ITL's; and

2. Specific Comments on the DEIS.

The Board has been encouraged by your staff's cooperation in working with us. The State and local districts have come a long way in two years by developing a workable process for the State to incorporate local comments into the State position on OCS lease sales.

The Board looks forward to working with you and your staff over the next few months on this issue.

Sincerely,

Stanley Mack (acm)

Stanley Mack
Chairman Aleutians East CRSA Board

cc: CRSA Board
Kurt Fredrickson, OMB
BBCRSA Board
City of Sand Point
City of King Cove
City of Cold Bay
False Pass Village Council
Nelson Lagoon Village Council
Rep. Zharoff
Rep. Hermann

OFFICE OF
MANAGEMENT & BUDGET
FEB 13 1985
GOVERNMENTAL
COORDINATION

CITY OF PORT HEIDEN
PORT HEIDEN, ALASKA 99549

RESOLUTION 85-20

WHEREAS, The U.S. Department of Interior has scheduled an oil and gas lease sale in the North Aleutian Basin OCS area; and

WHEREAS, this sale area supports one of the richest concentrations of fish, waterfowl, marine birds and marine mammals in the world; and

WHEREAS, the world's largest run of salmon migrates through the lease area; and

WHEREAS, the Bristol Bay salmon fishery forms the economic backbone of the region and is a resource of state, national and international significance; and

WHEREAS, the villagers are highly dependent on the Bristol Bay salmon fishery as a major souce of subsistence food; and

WHEREAS, many questions remain unanswered concerning the potential impact of oil and gas development on the fish and wildlife of the area; and

WHEREAS, the oild industry should gain operation experience in other less sensitive areas before being allowed into the North Aleutian Basin;

NOW THEREFORE BE IT RESOLVED that the City Council of Port Heiden strongly urges the U.S. Department of Interior (Minerals Management Service) to cancel North Aleutian Basin OCS Sale #92 and defer any future sales in the area for at least ten (10) years.

Mayor

Attested by Clerk

THIS RESOLUTION HAS BEEN PROPERLY ADOPTED THIS 5 day of Feb.

1985 by the authorized membership of the City Council of Port Heiden, in Port Heiden, Alaska.

THE SEAL OF THE CITY OF PORT HEIDEN

DRAFT

WHEREAS, The Bristol Bay region of Alaska is internationally recognized for its fish and wildlife resources;

WHEREAS, these resources, particularly salmon, represent one of the very few opportunities the region's residents have for participating in the cash economy;

WHEREAS, further dependence on the abundant fish and wildlife of Bristol Bay comes from the subsistence lifestyle that the vast majority of the region's residents lead;

WHEREAS, the federal Department of Interior is pursuing an outer continental shelf (OCS) lease sale in the North Aleutian Basin (Bristol Bay), scheduled for December of 1985;

WHEREAS, the State of Alaska has recognized, through its own planning process, that there are significant gaps in resource information on the lease sale area, and that industry must demonstrate, in other frontier areas, its capability to explore and produce in an environmentally safe manner;

WHEREAS, the state's recognition of these information needs has resulted in its delaying all lease sales in state waters until 1994, and has called upon the federal government to do likewise with the North Aleutian Basin sale;

NOW THEREFORE BE IT RESOLVED that the City Council of Portage Creek urges the Secretary of Interior to remove North Aleutian Basin Sale #92 from the current OCS leasing schedule until at least 1994.

DRAFT

OFFICE OF
MANAGEMENT & BUDGET

FEB 08 1985

GOVERNMENTAL
COORDINATION

CITY OF ALEKNAGIK
P.O. Box 88
ALEKNAGIK, ALASKA 99555
(907) 842-5953

OFFICE OF
MANAGEMENT & BUDGET

FEB 20 1985

GOVERNMENTAL
COORDINATION

February 14, 1985

Coastal Resource Service Area
P.O. Box 189
Dillingham, AK 99576

Attn: Tim Hostetler

Dear Tim:

Enclosed is a copy of Resolution 85-5 that the City Council passed on their Regular Council Meeting held February 12th, and the Council supports this resolution and hope that the Federal and State officials involved in delaying the sale of the North Aleutian Basin (Bristol Bay) OCS Lease will consider our support.

Thank you.

Sincerely,

CITY OF ALEKNAGIK

Helen M. Chythlook

Helen M. Chythlook
City Administrator

cc: Rod Swope, Div. of Governmental Coorination
Governor Bill Sheffield
Senator Ted Stevens
Representative Don Young

CITY OF ALEKNAGIK
P.O. Box 88
ALEKNAGIK, ALASKA 99555
(907) 842-5958

RESOLUTION 85-5

A RESOLUTION DELAYING THE NORTH ALEUTIAN BASIN (BRISTOL BAY) OCS LEASE SALE.

WHEREAS, The Bristol Bay region of Alaska is internationally recognized its fish and wildlife resources;

WHEREAS, these resources, particularly salmon, represent one of the very few opportunities the region's residents have for participating in the cash economy;

WHEREAS, further dependence on the abundant fish and wildlife of Bristol Bay comes from the subsistence lifestyle that the vast majority of the region's residents lead;

WHEREAS, the federal Department of Interior is pursuing an outer continental shelf (OCS) lease sale in the North Aleutian Basin (Bristol Bay), scheduled for December of 1985;

WHEREAS, the State of Alaska has recognized, through its own planning process, that there are significant gaps in resource information on the lease sale area, and that industry must demonstrate, in other frontier areas, its capability to explore and produce in an environmentally safe manner;

WHEREAS, the state's recognition of these information needs has resulted in its delaying all lease sales in state waters until 1994, and has called upon the federal government to do likewise with the North Aleutian Basin sale;

NOW THEREFORE BE IT RESOLVED that the City Council of Aleknagik, Alaska urges the Secretary of Interior to remove North Aleutian Basin Sale #92 from the current OCS leasing schedule until at least 1994.

APPROVED AND ADOPTED THIS 13 DAY OF February, 1985.

Mayor

Vice-Mayor

Secretary-Treasurer

Councilmember

Councilmember

Councilmember

ATTEST:
City Clerk

2-13-85
Date

EGEGIK VILLAGE COUNCIL
Box 29
Egegik, Alaska 99579

February 4, 1985

Mr. Rod Swope
Office of Management & Budget
Division of Governmental Coordination
Pouch AW
Juneau, Alaska 99811

Subject: North Aleautian Basin (Bristol Bay) OCS Lease Sale

Dear Mr. Swope:

We as a Commercial Fishing community urge you to do all that you can to get the Lease Sale delayed for ten (10) years in order to allow for more time to study the potential environmental impacts and allow the oil companies time to gain experience in other less sensitive areas.

Sincerely yours,

EGEGIK VILLAGE COUNCIL

Richard E. Deigh
President

RED/sk

Enclosure

copies: Honorable Governor Sheffield
Senator Ted Stevens
Representative Don Young
Coastal Resource Service Area Board

OFFICE OF
MANAGEMENT & BUDGET
FEB 20 1985
GOVERNMENTAL
COORDINATION

EGEGIK VILLAGE COUNCIL

Box 29
Egegik, Alaska 99579

RESOLUTION NO. 85-03

NORTH ALEUTIAN BASIN OCS LEASE SALE #92

WHEREAS, the Village of Egegik is an Alaska Native Village traditionally organized and recognized by the United States thru the Secretary of Interior; and

WHEREAS, the Egegik Village Council is the governing body of the village of Egegik;

WHEREAS, the U.S. Department of Interior has scheduled an oil and gas lease sale in the North Aleautian Basin OCS area; and

WHEREAS, this sale area supports one of the richest concentrations of fish, waterfowl, marine birds and marine mammals in the world; and

WHEREAS, the world's largest run of salmon migrates through the lease area; and

WHEREAS, the Bristol Bay salmon fishery forms the economic backbone of the region and is a resource of state, national and international significance; and

WHEREAS, the Villagers are highly dependent on the Bristol Bay salmon fishery as a major source of subsistence food; and

WHEREAS, many questions remain unanswered concerning the potential impact of oil and gas development on the fish and wildlife in the area; and

WHEREAS, the oil industry should gain operating experience in other less sensitive areas before being allowed into the North Aleutian Basin;

NOW THEREFORE BE IT RESOLVED that the Village Council of EGEGIK strongly urges the U.S. Department of Interior (Minerals Management Service) to cancel North Aleutian Basin OCS Sale #92 and defer any future sales in the area for at least ten (10) years.

Quorum Constituted by 4 members

Voting for 5

Voting against 0

Date Feb. 7, 1985

Certified by Josephine J. Williams

Date 2-8-85

TOGIAK CITY COUNCIL

Resolution No. 85-02

WHEREAS, The Bristol Bay region of Alaska is internationally recognized for its fish and wildlife resources;

WHEREAS, these resources, particularly salmon, represent one of the very few opportunities the region's residents have for participating in the cash economy;

WHEREAS, further dependence on the abundant fish and wildlife of Bristol Bay comes from the subsistance lifestyle that the vast majority of the region's residents lead;

WHEREAS, the federal Department of Interior is pursuing an outer continental shelf (OCS) lease sale in the North Aleutian Basin (Bristol Bay), scheduled for December of 1985;

WHEREAS, the State of Alaska has recognized, through its own planning process, that there are significant gaps in resource information on the lease sale area, and that industry must demonstrate, in other frontier areas, its capability to explore and produce in an environmentally safe manner;

WHEREAS, the state's recognition of these information needs has resulted in its delaying all lease sales in state waters until 1994, and has called upon the federal government to do likewise with the North Aleutian Basin sales;

NOW THEREFORE BE IT RESOLVED that the Togiak City Council of Togiak urges the Secretary of Interior to remove North Aleutian Basin Sale #92 from the current OCS leasing schedule until at least 1994.

Emma Ayojiak-Carlos

~Mayor

ATTEST:

Annabelle T Schaeffer

OFFICE OF MANAGEMENT & BUDGET

FEB 11 1985

GOVERNMENTAL COORDINATION

2nd

Pedro Bay Village Council Resolution #85-01

WHEREAS, The U.S. Department of Interior has scheduled an oil and gas lease sale in the North Aleutian Basin OCS area, and

WHEREAS, this sale area supports one of the richest concentrations of fish, waterfowl, marine birds and marine mamals in the world; and

WHEREAS, the world's largest run of salmon migrates through the lease area; and

WHEREAS, the Bristol Bay salmon fishery forms the economic backbone of the region and is a resource of state, national and international signaficance; and

WHEREAS, the villagers are highly dependent on the Bristol Bay salmon fishery as a major source of subsistence food; and

WHEREAS, many questions remain unanswered concerning the potential impact of oil and gas development on the fish and wildlife of the area; and

WHEREAS, the oil industry should gain operating experience in other less sensitive areas before being allowed into the North Aleutian Basin;

NOW THEREFORE BE IT RESOLVED that the Village Council of Pedro Bay strongly urges the U.S. Department of Interior (Minerals Management Service) to cancel North Aleutian Basin OCS Sale #92 and defer any future sales in the area for at least ten (10) years.

PASSED THIS 14th DAY OF FEBRUARY, 1985.

Council President, Carl Jensen _____
Vice-President, Zenia Kolyaha _____
Secretary, Ruth Andree _____
Treasurer, Norman Jacko _____
Members, Elaine Aaberg _____
Keith Jensen _____

ATTEST _____
Village Administrator, Barbara Jacko

OFFICE OF
MANAGEMENT & BUDGET
FEB 26 1985
GOVERNMENTAL
COORDINATION

UNITED FISHERMEN OF ALASKA

319 Seward Street Suite #10
Juneau, Alaska 99801-1188
(907) 586-2820

Cass M. Parsons
Executive Director

Mr. Kurt Friedrukson
Senior Analyst
Office of the Governor
Division of Governmental Coordination
Pouch AM
Juneau, Alaska 99811

Dear Mr. Freidrukson:

Enclosed please find a copy of intitial "information needs" identified by the United Fishermen of Alaska on the proposed North Aleutian Shelf lease sale, as well as a resolution passed last week during the UFA's annual board of director's meeting.

While we have not yet completed the information needs assessment, the UFA feels very strongly that a ten-year delay on the lease sale is still warrented, based on the initial survey showing a tremendous amount of vital information missing from the E.I.S. and research in general.

We will be submitting further information needs sometime within the next three weeks.

Thank you.

Sincerely,

Cass M. Parsons
UFA Executive Director

cc: UFA Board of Directors

OFFICE OF
MANAGEMENT & BUDGET
FEB 26 1985
GOVERNMENTAL
COORDINATION

INFORMATION NEEDS
SUMMARY ASSESSMENT

Salmon

Need: Comprehensive seaward migration patterns of juvenile salmon of all species.

Monthly survey of near-shore waters to identify habitat of juvenile salmon in coastal bays and lagoons.

Study of ability of juvenile salmon to detect and avoid oil contaminated waters; also chronic low-level affects on juvenile salmon.

Study of degree of interference oil has on adult salmon migrations and avoidance capabilities.

Herring

Need: Study of distribution and abundance of herring in lease area, both near shore during spawning activities and off-shore migration patterns after spawning.

Distribution and depths of larval herring in surface waters after hatching.

Study of inpacts of oil contaminents on substrates used for spawning.

Caplain

Need: Study of affects of oil contamination on all life stages of caplain.

Study of distribution and abundance of caplain.

Study of impact on spawning areas of caplain once identified.

King Crab

Need: Study of impact of oil contamination on king crab larvae and juveniles.

Study of potential for hydrocarbon uptake by eggs and juveniles.

UNITED FISHERMEN OF ALASKA

Cass M. Parsons
Executive Director

UNITED FISHERMEN OF ALASKA

RESOLUTION 85-3

WHEREAS the United Fishermen of Alaska is an organization representing individual fishermen as well as 17 member fisheries organizations; and

WHEREAS the UFA is vitally concerned with the use, protection and enhancement of Alaska's fisheries resources and their habitat; and

WHEREAS the Federal government has proposed leasing the Outer Continental Shelf in the area known as the North Aleutian Basin; and

WHEREAS the fisheries resources of the Bristol Bay region and North Aleutian Basin are a renewable resource of extraordinary value to the local fishermen, the State of Alaska, and the United States; and

WHEREAS the UFA has had a long standing concern with protecting the fisheries resources in this region, and has expressed particular concern over the effects which oil and gas development will have on these fisheries; and

WHEREAS the economic value of the fishery will, over the long term, greatly exceed the value of the projected oil reserves in the lease area, and therefore must receive maximum protection; and

WHEREAS both the UFA and the State of Alaska have identified several significant information needs relating to fisheries, marine mammals, birds and oilspill trajectory analyses; and

WHEREAS the UFA believes that this information needs to be addressed prior to any consideration of offshore oil and gas leasing in this region in order for all parties to fully and fairly evaluate the impacts of petroleum exploration and development on the important resources of the region.

NOW THEREFORE BE IT RESOLVED that the United Fishermen of Alaska, supports a 10 year delay in any offshore oil and gas leasing in the North Aleutian Basin; and

BE IT FURTHER RESOLVED that the United Fishermen of Alaska believe that this delay should be used to, among other things, provide time to:

1) further develop offshore petroleum drilling and transportation technologies that will ensure safe operations; and

2) ensure that oilspill containment and clean-up technologies are further developed, tested and refined so that oilspill clean-up operations will be effective under the weather and oceanographic conditions found in the region; and

3) allow time for sufficient scientific studies to address the important scientific questions which have been identified by the state and by the UFA; and

BE IT FURTHER RESOLVED that the United Fishermen of Alaska encourages the State of Alaska, and the Alaska Congressional Delegation to work with all parties and to use all of the powers available to them to ensure that the proposed OCS lease sale No. 92 in the North Aleutian Basin is deferred.

Cass M. Parsons
UFA Executive Director

2/19/85
Date

Robert M. Blake
UFA President

2/19/85
Date

Natural Resources Defense Council, Inc.

122 EAST 42ND STREET
NEW YORK, N.Y. 10168
212 949-0049

Western Office
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SAN FRANCISCO, CALIF. 94108
415 421-6561

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1350 NEW YORK AVENUE, N.W.
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WASHINGTON, D.C. 20005
202 783-7800

Mr. Kurt A. Fredriksson
Office of the Governor
Division of Governmental Coordination
Pouch AW
Juneau, AK 99811

18 February 1985

Dear Mr. Frederiksson:

This letter is in response to your request for comments on the Draft Environmental Impact Statement (DEIS) prepared for OCS lease Sale 92 scheduled for December, 1985 in Bristol Bay. Based on our preliminary review of the DEIS and of other documents related to OCS leasing in Bristol Bay, we strongly recommend that the State of Alaska adopt a position opposing federal OCS leasing in Bristol Bay. We base this recommendation on the following considerations.

1. <u>The Value of the Biological Resources of Bristol Bay</u>

According to the U.S. Department of the Interior, the Bristol Bay estuary and the associated continental shelf possess the greatest concentration of birds, fish and marine mammals found anywhere on the North American continent (DOI, 1982). The acreage scheduled to be offered for lease in Sale 92 lies in the heart of this enormously productive region. Indeed, the Sale 92 area contains some of the most important and sensitive habitat

for the biological resources of Bristol Bay. These resources include the following.

Fish: The Sale 92 area contains the major red king crab reproductive site for the Bering Sea (Thorsteinson and Thorsteinson, 1984). The ex-vessel value of the red king crab fishery in 1981 was $169 million (NOAA, 1981).

Bristol Bay also supports the largest sockeye salmon fishery in the world (NMFS, 1980). Approximately 88 percent of all salmon entering streams around the Bering Sea pass through North Aleutian Shelf waters during migration (Thorsteinson and Thorstenison, 1984). The total Bristol Bay salmon fishery, valued in excess of $250 million, is thought to employ 10,000 people. Native villages throughout southwestern Alaska depend heavily on salmon for subsistence.

Finally, the Sale 92 region supports several commercial fisheries for food and bait herring, and there is a potential for capelin to support a future commercial fishery along the north Alaska Peninsula (Barton, et al., 1977).

Birds: The Sale 92 area encompassess one of the world's great bird migration crossroads. Izembek Lagoon, which contains the largest eelgrass beds in the world, is utilized by hundreds of thousands of migrating waterfowl each year. The nutrient-rich lagoons and bays on the north side of the Alaska Peninsula support in various seasons major portions of either the North American or Pacific flyway populations of several species of waterfowl, including black brant, emperor goose, and Stellar's

eider. The coastal areas of the north shore are critical wintering and staging areas for huge numbers of waterfowl and shorebirds. A million birds have been recorded along the north shore of the Alaska Peninsula in fall. (Strauch and Hunt, 1982.)

Marine Mammals: At least 20 species of marine mammals are known to occur in the lease sale area. Approximately 4,000 sea lions, 30,000 harbor seals, 15,000 walrus and 17,000 sea otters utilize Bristol Bay habitats during all or parts of the year (Frost et al., 1983). Virtually the entire eastern Pacific gray whale population, estimated at 15,000 - 17,000 individuals, and approximately 1.2 million northern fur seals (roughly 75% of the world population) migrate through Unimak Pass during their spring and fall migrations (Rugh and Braham, 1979; Leatherwood et al., 1983.)

2. Sensitivity of Affected Biological Resources. The Department of the Interior estimates that one spill of 1,000 barrels or more will occur as a result of Sale 92 (DEIS at IV-B-1). In addition, there is a possibility of a catastrophic (greater than 100,000 barrels) spill (id).

Petroleum hydrocarbons are extremely toxic to a wide variety of organisms at very low concentrations. Oil spills can affect fish by inhibiting growth, disrupting feeding and reproduction, contaminating spawning areas, and blocking or delaying migrations. Direct contact with oil is usually fatal to birds. The pelage of sea otters and fur seals loses its insulative

capacity when oiled, which can lead to death from hypothermia. Grooming oiled fur may result in ingestion of fatal amounts of oil. The effects of oil on whales are poorly understood, but are potentially serious for species of baleen whale, such as the endangered gray whale, that do not feed in wintering grounds and are thus under stress when migrating through Bristol Bay. For fish, marine mammals and birds, elimination or contamination of food sources may result in stress due to reduced food availability or in the ingestion of hydrocarbons, with concomitant effects on behavior and reproductive success.

Prohibiting oil and gas leasing in the area excluded from leasing in Alternative IV in the DEIS will not ensure that oil will not be spilled in sensitive areas or transported to them by winds and storms during critical periods for fish and other wildlife.

In addition to spills, there are other activities associated with offshore oil and gas development that threaten fish and wildlife. Offshore seismic exploratory activity using airguns has been shown to modify the behavior of bowhead whales at distances of 50 km or more (Richardson, 1983). Drilling muds can have acute and chronic effects, particularly for benthic organisms. Formation waters can retain up to 50 ppm of oil as small droplets and up to 35 ppm as dissolved hydrocarbons -- well above lethal concentrations to larval and adult fish and crabs (.01 - 1 ppm) (DEIS at IV-B-2). Blasting, sand and gravel mining, aircraft traffic, cooling water discharge, construction,

and other activities associated with the development of onshore support facilities could result in the abandonment of nesting, breeding or staging areas for birds and other wildlife as well as damage or destroy important salmon habitat.

3. Risks Associated with Development. Within the Bristol Bay uplands adjacent to the sale area, there are 11 active volcanoes; 6 on Unimak Island and 5 on the Alaska Peninsula. The Bristol Bay region is among the most seismically active in the world, with major and minor faults criss-crossing the ocean bottom. Earthquakes are common. Severe weather, frequent fog, winter ice, earthquakes and tsunamis all significantly contribute to a high probability for the occurrence of spills due to platform and tanker accidents. The regional circulation would probably transport oil along the north coast of the Alskan Peninsula to the head of Bristol Bay. Mean wind direction in the area is either onshore or coast-parallel 9-10 months out of the year. In short, virtually all significant environmental factors would work in consort to increase the probability for and the degree of damage resulting from an oil spill or blowout. The Department of Interior has concluded that the effectiveness of oil spill response capability in the Sale 92 area is unpredictable (DEIS at IV-A-13).

4. Lack of significant hydrocarbon resources. DOI's conditional mean resource estimate for the Sale 92 area is 364 million barrels of oil and 2.62 tcf of gas. This represents 2% of the total U.S. OCS hydrocarbon reserve.* If gas is determined to be uneconomic in Bristol Bay, this figure falls to 1% of the total U.S. OCS hydrocarbon reserve. At 1984 U.S. consumption rates,** the amount of oil in Bristol Bay represents a 23 day supply.

In terms of dollar value, it is clear that fish will contribute more than oil to the economy of the State of Alaska and the nation. Last year, the Congressional Budget Office estimated that a one-year delay in leasing in Bristol Bay would cost approximately $150 million in lost bonus bids.*** The Department of the Interior estimated that the total cost of a one year delay (the discounted sum of revenues, less the cost of finding, producing and transporting the resource to market) is $200 million. As noted above, the value of the Bristol Bay salmon fishery alone is estimated at $250 million and is thought to employ 10,000 people. From an economic standpoint, it is clearly to the advantage of the State to preserve Bristol Bay as a revenue generator through fish rather than oil.

---

* Using a conversion factor of 5.62 to convert from tcf of gas to billion barrels of oil equivalent (BOE). 2.62/5.62 = 0.466 billion BOE.0.466 + 0.364 billion barrels of oil = .83 billion BOE. Total US OCS BOE = 36.8 billion BOE (DOI, 1983).

** 15.8 million barrels/day. U.S. Department of Energy, Monthly Energy Review. January, 1985.

*** June 26, 1984 CBO memo "CBO's Estimate of Restriction on OCS Leasing."

5. Data Gaps. Substantial data gaps have been identified by MMS, the State of Alaska and the United Fishermen of Alaska with regards to the impacts of oil development in Bristol Bay on red king crab, salmon, herring, capelin, bottomfish, gray whales, fur seals, Steller's sea lions, overwintering seabirds and waterfowl, staging waterfowl, and sensitive coastal and marine habitats. Information is also lacking regarding the capability of current oil spill containment and cleanup technology to cope with spills in the Bristol Bay environment.

Summary

Due to the importance of the biological resources of Bristol Bay, their sensitivity, the hazards associated with oil development, the relatively small amount oil in relation to the richness of the biological resources present, and the lack of information regarding the potential impacts of hydrocarbon development in Bristol Bay, NRDC strongly recommends that the state adopt a position opposing OCS lease Sale 92.

Thank you for considering these comments.

Sincerely

Lisa Speer

Lisa Speer
Coastal Resource Specialist

References Cited

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Thorsteinson, F.V. and L.K. Thorsteinson, 1984. Fishery Resources. In: Proceedings of a Synthesis Meeting: The North Aleutian Shelf Environment and Possible Consequences of Offshore Oil and Gas Development (Thorsteinson, L.K.,



THE ALLIANCE

P.O. Box 100100 / Anchorage, Alaska 99510 / (907) 562-0100

TESTIMONY ON

H J R 31

A

RESOLUTION IN OPPOSITION TO THE SALE OF

OIL AND GAS LEASES IN THE NORTH ALEUTIAN BASIN

(SALE #92)

for the

ALASKA SUPPORT INDUSTRY ALLIANCE

by

Chuck Becker

Director Government Affairs

Brown & Root U.S.A., Inc.

before the

Alaska State

House Special Committee on

OIL AND GAS

10 April, 1985

Alaska Support Industry Alliance

. . . for responsible economic development

Milton Byrd – President
Frontier Companies of Alaska

Ann Curtis – Vice President
Crowley Maritime

Charles F. Becker – Vice President
Brown & Root, Inc.

William D. Bennett – Secretary
Perkins, Cole, Stone,
Olsen & Williams

Val Molyneux – Treasurer
Veco, Inc.

Bill Bettes – Director
Pingo Corporation

Randy Goodrich – Director
Executive Travel Service

Roger Haxby – Director
Waukesha Alaska Corporation

Joe Mathis – Director
Universal Services, Inc.

Walt Ratterman – Director
Pacific Industrial Company

Jack Thompson – Director
Air Van Lines, Inc.

William F. Webb – Director
Arctic Hosts, Inc

MY NAME IS CHUCK BECKER. I AM THE DIRECTOR OF GOVERNMENT AFFAIRS IN ALASKA FOR BROWN & ROOT, U.S.A. I AM HERE TODAY REPRESENTING THE ALASKA SUPPORT INDUSTRY ALLIANCE FOR WHICH I AM VICE PRESIDENT OF PUBLIC POLICY.

THE ALASKA SUPPORT INDUSTRY ALLIANCE IS A BUSINESS LEAGUE MADE UP OF SOME 200 COMPANIES WHO DO BUSINESS IN ALASKA. OUR MEMBERS PROVIDE EQUIPMENT, SUPPLIES, AND SERVICES TO THE STATE'S OIL, GAS AND MINING INDUSTRIES. WE ARE THE ENGINEERING COMPANIES AND THE CONSTRUCTORS, THE ARCHITECTS AND ATTORNEYS, OIL WELL LOGGERS AND DRILLING FIRMS, CATERERS AND TRANSPORTATION COMPANIES, EQUIPMENT VENDORS AND DIVING FIRMS. WE ARE UNION AND OPEN SHOP - LARGE AND SMALL, JOINED TOGETHER IN AN ALLIANCE TO FOCUS ON PUBLIC POLICY DECISIONS THROUGHOUT THE THREE LEVELS OF GOVERNMENT.

COMPANIES ARE ATTRACTED TO MEMBERSHIP IN THE ALLIANCE BECAUSE EXECUTIVES HAVE COME TO UNDERSTAND HOW PUBLIC POLICY DECISIONS AND ACTIONS EFFECT THE BOTTOM LINE OF PROFIT AND LOSS STATEMENTS. AN AWARENESS IS QUICKLY DEVELOPING AMONG EXECUTIVES AND EMPLOYEES IN THE SUPPORT INDUSTRY AS TO THE IMPORTANCE A HEALTHY AND VIGOROUS PETROLEUM AND MINING INDUSTRY IS TO THEIR OPERATIONS AND SUCCESS. THAT UNDERSTANDING IS SPREADING LESS QUICKLY TO GOVERNMENTAL DECISIONMAKERS, HOWEVER.

IN AN EFFORT TO FOCUS PUBLIC ATTENTION ON THE CRITICAL ROLE THE STATE'S OIL AND GAS INDUSTRY PLAYS IN THE SOCIAL AND ECONOMIC FABRIC OF ALASKA, THE ALASKA OIL AND GAS ASSOCIATION RECENTLY PUBLISHED THE RESULTS OF A SURVEY WHICH DEMONSTRATES THE ENORMOUS BENEFIT THIS INDUSTRY HAS ON ALASKA.

THE SURVEY CONSISTED OF SEPARATE YET INTERRELATED TASKS. FIRST, EACH COMPANY COMPRISING THE STATE'S OIL AND GAS INDUSTRY WAS SENT A FIELD-TESTED SURVEY INSTRUMENT BY DIRECT MAIL; SECONDLY, QUESTIONAIRES WERE SENT TO 2,460 ALASKA BUSINESSES; FINALLY, OVER 1,000 ADULTS THROUGHOUT THE ENTIRE STATE OF ALASKA WERE INTERVIEWED BY TELEPHONE USING RANDOM DIGIT DIALING TECHNIQUES.

SURVEY RESULTS DEMONSTRATED THAT OF THE 147,000 HOUSEHOLDS IN THE STATE OF ALASKA, 42,960 OR 29 PERCENT OF THESE HOUSEHOLDS HAD AT LEAST ONE MEMBER EMPLOYED DIRECTLY BY THE OIL AND GAS INDUSTRY OR BY A COMPANY IN THE SUPPORT INDUSTRY. MOREOVER, NEARLY ONE-THIRD OF ALL HOUSEHOLD INCOME IN ALASKA IS ATTRIBUTABLE EITHER DIRECTLY OR INDIRECTLY TO THE PETROLEUM INDUSTRY. AN ESTIMATED 138,848 MEN, WOMEN AND CHILDREN ARE DEPENDENT ON THE PETROLEUM INDUSTRY AND ITS SUPPORT COMPANY NETWORK. WHEN ASKED ABOUT THE PERCEIVED EFFECT THE OIL AND GAS INDUSTRY HAS HAD ON THEIR HOUSEHOLDS, ALMOST 80% OF ALL ALASKANS SAID THAT THE EFFECT HAS BEEN POSITIVE.

LOOKING AHEAD, THE INSTITUTE OF SOCIAL AND ECONOMIC RESEARCH OF THE UNIVERSITY OF ALASKA FORECASTS CONTINUED GROWTH IN THE STATE'S PETROLEUM INDUSTRY, WITH PROPORTIONAL GROWTH IN ITS SUPPORT SECTOR, IF THE INTEGRITY OF THE FIVE-YEAR OUTER CONTINENTAL SHELF LEASE SALE SCHEDULE IS MAINTAINED. A GRIM FORECAST OF SEVERE ECONOMIC DISLOCATIONS, RESULTING IN LOSS OF JOBS AND A "MASSIVE DECLINE IN STATE EXPENDITURES" IS DEFINED AS A BASE CASE SCENARIO, IN THEIR RECENT STUDY ENTITLED, "ALASKA STATEWIDE AND REGIONAL ECONOMIC AND DEMOGRAPHIC SYSTEMS; EFFECTS OF OCS EXPLORATION AND DEVELOPMENT". IT IS A SCENARIO OF A DETERIORIATING FISCAL CONDITION OF THE STATE COUPLED WITH "RISING TAXES, REDUCED PUBLIC SERVICES" AND A LOSS OF JOBS. YET THE BASE CASE SCENARIO MADE BY THE UNIVERSITY ANALYSTS INCORPORATES OPTIMISTIC ASSUMPTIONS RELATIVE TO OTHER ECONOMIC SECTORS IN THE STATE. THE AUTHORS CONCLUDE THAT ONLY IF THE FIVE YEAR OCS LEASE SALE PLAN PROCEEDS ON SCHEDULE WILL THAT UNHAPPY PORTRAYAL OF ALASKA'S FUTURE BE MITIGATED. INDEED, A HEALTHY SOCIOECONOMIC FUTURE IS PROJECTED, UNDER SUCH CIRCUMSTANCES, CONCLUDING WITH AN ESTIMATE THAT 10 PERCENT OF EMPLOYED ALASKANS WILL DEPEND ON THE EXPLORATION AND PRODUCTION ACTIVITIES OF THE OIL AND GAS INDUSTRY IN ALASKA'S OCS, BY THE YEAR 2000.

THIS POINT-IN-TIME PHOTOGRAPH OF ALASKA'S SOCIAL AND ECONOMIC STRUCTURES AND THESE ECONOMIC PROJECTIONS DEPICT BENEFITS OF ENORMOUS MAGNITUDE STEMMING FROM A SINGLE SOURCE - THE ALASKA PETROLEUM INDUSTRY. INDUSTRY GROWTH TRANSLATES INTO JOBS, IMPROVEMENTS IN THE QUALITY OF LIFE, NEW MARKETS RESULTING FROM A BROADER POPULATION BASE, AGGLOMERATION ECONOMIES RESULTING IN LOWER PRICES TO THE ALASKAN CONSUMER, IMPORT SUBSTITUTION AND ECONOMIC DIVERSIFICATION - THE HISTORIC GOALS OF THE MAJORITY OF ALASKANS AT LAST WITHIN OUR REACH!

BUT ALASKANS MUST HAVE THE COLLECTIVE WILL TO REACH OUT AND SEIZE THE MOMENT.

GROWTH IN THE PETROLEUM INDUSTRY IN ALASKA, WITH ITS ATTENDANT PROMISES, IS CRITICALLY DEPENDENT ON AN OPTIMUM SET OF VARIABLES AMONG WHICH ARE PREDICTABILITY AND STABILITY OF THE BUSINESS CLIMATE WHICH, IN TURN, RELIES ON PUBLIC POLICY MAKERS MAKING PRUDENT DECISIONS BASED ON FACTS AND A WELL-FOUNDED UNDERSTANDING OF THE GLOBAL IMPACTS OF THEIR DECISIONS.

ONCE AGAIN, WE ARE AT AN IMPORTANT MILEPOST IN THE HISTORY OF THE GROWTH AND DEVELOPMENT OF ALASKA. RECOGNIZING THAT THE FLOW OF OIL FROM ALASKA CONSTITUTES 20 PERCENT OF ALL DOMESTIC PRODUCTION, THIS DECISIONMAKING PERIOD ALSO REPRESENTS AN IMPORTANT POINT IN THE DEVELOPMENT AND SECURITY OF OUR NATION.

THE PURPOSE OF THIS HEARING IS TO REACH A DECISION RELATIVE TO THE SALE OF OIL AND GAS LEASES IN THE NORTH ALEUTIAN BASIN. A BRIEF GLANCE AT THE EVENTS LEADING UP TO THIS PROPOSED SALE IS ENLIGHTENING. JUST OVER TEN YEARS AGO, INTERIOR SECRETARY KLEPPE PROPOSED TO SELL LEASES IN THIS AREA IN OCTOBER OF 1977. CONGRESS RATIFIED THAT EXECUTIVE DECISION APPROVING SALE #51 BUT REVISED THE SALE DATE SLIGHTLY TO DECEMBER OF 1977. IN 1976, THEN GOVERNOR JAY HAMMOND APPEALED FOR DELETION OF THE AREA FROM THE SALE SCHEDULE BASED ON INSUFFICIENT INFORMATION AND RESOURCE DATA AND FEARS THAT MULTIPLE USE OF THE AREA MIGHT IN SOME WAY HARM THE INDUSTRIES WHICH RELY ON THE AREA'S FISH AND WILDLIFE RESOURCES FOR A PROFIT. RESPONDING TO THE GOVERNOR'S PETITION, THE DEPARTMENT DELETED THE AREA FROM THE LEASE SALE SCHEDULE. IT WAS NOT UNTIL JUNE OF 1979 THAT THE AREA WAS AGAIN PROPOSED FOR INCLUSION IN THE LEASE SCHEDULE. REINCARNATED AS THE NORTH ALEUTIAN SHELF SALE #75, THE SALE WAS PROPOSED TO BE SET FOR BIDS IN APRIL OF 1983 AND WAS AGAIN APPROVED AND INCORPORATED INTO THE REVISED "FINAL" SCHEDULE. IN MARCH OF 1982, THE AREA WAS COMBINED WITH SALE #92 AND RENAMED THE NORTH ALEUTIAN BASIN AND SCHEDULED FOR BIDS IN APRIL OF 1985. IN JULY OF 1982 THAT DECISION WAS "FINALIZED" ONCE AGAIN, RESPONDING TO A SIMILAR REQUEST FROM THE STATE OF ALASKA, THE DEPARTMENT PUSHED

BACK THE DATE OF THE SALE TO DECEMBER OF 1985 AND IN JUNE OF 1984 SOUGHT TO ALLEVIATE THE APPREHENSIONS OF THE STATE BY DELETING ALL TRACTS EAST OF PORT MOLLER AND CAPE NEWENHAM FROM THE SALE - A REDUCTION IN SIZE OF THE SALE OF A WHOPPING 83 PERCENT!

DESPITE THESE EFFORTS TO ACCOMMODATE CONCERNS, THERE REMAIN THOSE WHO WOULD CONTINUE TO ESPOUSE DELAYS IN THE OFFERING FOR AT LEAST ANOTHER TEN YEARS. WHY? FOR ALL THE SAME REASONS GIVEN NEARLY TEN YEARS AGO - FEAR THAT OIL AND GAS EXPLORATION MIGHT IN SOME WAY THREATEN THE WILD-LIFE AND MARINE RESOURCES OF THE AREA AND, AGAIN, TEN YEARS LATER, $100 MILLION LATER _ OVER 130 STUDIES BY THE INTERIOR DEPARTMENT ALONE, LATER - THE SAME REASON - INSUFFICIENT DATA.

WE BELIEVE THAT A MOUNTAIN OF INFORMATION ON RESOURCES IN THE AREA IS AVAILABLE. IT IS OUR UNDERSTANDING THAT SUCH INFORMATION WAS AVAILABLE TEN YEARS AGO AND HAS BEEN AMPLY SUPPLEMENTED IN THE INTERIM PERIOD. COMPILING AND ORDERING THE DATA IS THE TASK AT HAND AND AMPLE TIME REMAINS FOR THAT WORK TO BE COMPLETED. AS TO THE EXPRESSED CONCERN THAT THE RESOURCES OF THE HUNTING, TRAPPING AND FISHING INDUSTRIES MIGHT BE DEPLETED, THAT IS A FEAR NOT FOUNDED ON EXPERIENTIAL EVIDENCE DRAWN FROM ANYWHERE ELSE IN THE WORLD.

AS I MENTIONED EARLIER, PREDICTABILITY IN BUSINESS IS A PREREQUISITE FOR INVESTMENT. SALE #92 IS A CLASSIC EXAMPLE OF THE ANTITHESIS OF CONDITIONS DESIGNED TO FOSTER INVESTMENT WHICH GENERATES JOBS AND ASSURES ECONOMIC VITALITY.

ON BEHALF OF THE MEMBERS OF THE ALASKA SUPPORT INDUSTRY ALLIANCE, I EARNESTLY ASK YOU TO OPPOSE RATIFICATION OF HJR 31.

THANK YOU.

THE ALLIANCE
P.O. Box 100100 / Anchorage, Alaska 99510 / (907) 562-0100

SUPPORTING THE DECEMBER 1985 SALE OF OIL AND GAS LEASES IN THE NORTH ALEUTIAN BASIN AREA - SALE #92

The State of Alaska has asked Interior Secretary Hodel to postpone OCS Lease Sale #92 in the North Aleutian Basin for at least another 10 years. This request is based on concerns that the risk to fish and wildlife resources in the area is too great to permit leasing in the Bristol Bay region. The state suggests that industry needs to obtain additional experience in other areas to ensure that adequate technology exists for safe operations in such waters. The state also claims that biological data gaps remain which must be filled before a responsible impact assessment can be performed.

Others have asked Secretary Hodel to proceed with the sale as scheduled in December, 1985. Citing the fact that the area had originally been set for sale in 1977 and that over 80 percent of the area has been deleted from the proposed offering in an effort to accommodate state objections, many are concerned that added delays will serve no productive purpose. Those who depend on a viable and predictable oil and gas industry in Alaska for their livelihood cite the following facts for their position:

- Over 250 wells have been drilled in the waters off of Alaska's shores over the past 20 years without harm to the environment and without interfering with resources of Alaska's hunting, fishing and trapping industries.

- The Cook Inlet with its exceptional tide, powerful currents, hurricane force winds, and swiftly moving ice floes, poses substantially greater hazards than does the Bristol Bay area.

- Nowhere in the world has the petroleum industry cut into the profits of the fishing industry by compromising their natural resources. If anything, evidence indicates that offshore structures have enhanced fishing in areas where the two industries have developed side by side.

- Biological data gaps will always remain - it comes down to how much is enough? Over $100 million has been spent by government, industry and academia studying Bristol Bay resources and socio-economic characteristics spanning the past 15 years.

- Under the most optimum of circumstances, the delivery of crude oil out of Alaska is set to drastically decline in the early '90's. As that decline develops, Alaskans will be thrown out of work. University studies demonstrate that -IF- exploration and production in the OCS remains on schedule, it is likely that a minimum of 10 percent of all jobs in Alaska will depend on OCS oil and gas production - a dramatic promise for the future.

- Scientific surveys by Alaska's best pollsters indicate that at least 7 out of 10 Alaskans support exploration and development of oil and gas fields in the OCS. 8 out of 10 Alaskans indicate that the effect of the oil and gas industry upon households has been positive.

- 32 billion barrels of domestic crude oil will have to be found over the next 10 years just to replace what we are using up. Government estimates that Alaska's OCS may contain 44 percent of all OCS oil resources.

Alaska is today, one of the most dynamic and exciting places in the United States in which to live, due to firm and reasoned decisions made more than a decade ago by government and industry leaders. If such leadership is again now exercised, Alaska's tomorrow will be equally as bright.

Care for Bristol Bay

Bristol Bay contains some of Alaska's most valuable resources, and Gov. Bill Sheffield was on target recently with his renewed call for delay in offshore oil development affecting the region.

Interior Secretary Don Hodel has proposed leasing tracts just outside Bristol Bay along the north side of the Alaska Peninsula. A lease sale is scheduled for December as part of the Interior Department's five-year Outer Continental Shelf leasing program, which has received praise in Washington for its restraint.

Secretary Hodel's OCS program might seem modest from a Washington perspective. It also might bring dollars into the state treasury if offshore finds match oil industry expectations. But as Gov. Sheffield emphasized in a letter to the secretary, an oil spill accompanying OCS development in the Bristol Bay area could endanger the region's multi-million-dollar fishing industry and a multitude of birds and marine mammals. In fact, an oil spill in the remote, turbulent waters of Bristol Bay could be an environmental disaster and an economic nightmare.

Secretary Hodel is, of course, responsible for the national interest, not just a single state's interest. He faces tough choices in developing an OCS program for the nation's benefit. Yet as Gov. Sheffield said, oil exploration in the Bristol Bay region currently presents a risk to the national interest because of its potential impact on fish and wildlife resources.

And given the vulnerability of those precious resources, the governor's concerns deserve to be taken more seriously in Washington.

ANC Daily News 3/29

3/25/85 Anch Times

Sheffield criticizes Bristol plan

by David Ramseur
Times Washington Bureau

Washington — Oil development near Bristol Bay proposed by the federal government could threaten the area's multimillion dollar fishing industry, 85 species of birds and more than 20 species of marine mammals, according to Gov. Bill Sheffield.

The governor, in a recent letter to Interior Secretary Donald Hodel, reiterated his call for a delay in the North Aleutian Basin outer continental shelf lease sale scheduled for December.

Sheffield said the fishing industry near the sale area is among the productive in the world and suggested that oil development could harm both it and the abundant wildlife that populate the area.

". . . Oil and gas exploration and development in this area currently presents too great a risk to the state and national interest in maintaining the extremely productive and valuable fish and wildlife resources which characterize this region," Sheffield said.

The sale, once scheduled for next month, is part of Interior's current national five-year OCS leasing schedule. At Sheffield's request, 83 percent of the sale area was deleted last year by former Secretary William Clark.

The remaining 17 percent was then rescheduled for December despite Sheffield's call for a 10-year delay.

The remaining sale area lies just outside Bristol Bay along the north side of the Alaska Peninsula.

Interior and state officials continue to negotiate over the proposed sale and discussed it during Sheffield's visit here late last month.

According to the governor, the annual value of the fishery in the area averaged $200 million between 1977 and 1982, about half of which came from salmon. More than 60 million adult salmon and several hundred million juveniles migrate through the proposed sale area annually, he said.

Other fisheries also could be affected, he said, including herring, groundfish, and king and tanner crab.

In addition, scores of species of marine mammals and birds travel through or live in the area. For example, up to 17,000 endangered gray whales annually migrate along the Alaska Peninsula and up to 18,000 sea otter live near the sale area, Sheffield said.

The governor said the world populations of several species of birds live in or migrate through the area. They include 131,000 black brant, 71,000 emperor geese and 60,000 Steller's eiders.

A recent Rand Corporation study for the federal government showed that an oil spill would move toward the wildlife populations along the peninsula.

". . . Marine and coastal habitats in the North Aleutian Basin vicinity support fish and wildlife resources of state, national and international significance," Sheffield told Hodel.

"These resources provide the economic mainstay as well as important subsistence food resources for Bristol Bay communities."

THE ALLIANCE

P.O. Box 100100 / Anchorage, Alaska 99510 / (907) 562-0100

J
31 file

April 22, 1985

Dear Fellow Alaskans:

An issue is before us of great importance and vital concern to all Alaskans who wish to preserve and enhance the quality of life we currently enjoy.

A misguided effort is presently being made to place a 10-year moratorium of oil lease sales on the outer continental shelf of Alaska. This effort must be stopped or Alaska will surely face a decline of income and jobs and, ultimately, a quality of life.

Your help and understanding is needed now! Please begin by reviewing the enclosed documents which set out the true facts. If you agree, please sign the enclosed petition and encourage your associates and employees to do likewise.

Write your State Representatives and Senators strongly opposing this moratorium. Ask others to follow your lead. Your efforts can help to preserve a healthy economy in Alaska for all of us and our employees.

The Alliance sees the OCS issue as an ongoing project. In addition to your signature and legislative contacts, we appreciate pledges to help support our extensive educational and media campaigns.

Sincerely yours,

William D. Webb

William Webb
President

Alaska Support Alliance
for responsible economic development

William D. Webb – President
Arctic Hoists, Inc.

William D. Bennett – Secretary
Perkins Cole, Stone, Olsen & Williams

Chuck Becker – Vice President
Brown & Root, Inc.

Ann Curtis – Vice President
Crowley Maritime

Val Mayneux – Treasurer
Veco, Inc.

TO CONTACT YOUR LEGISLATOR

There are a number of methods used to advise key governmental officials of your preferences pertaining to legislative issues. The following methods are listed in the order of their impact upon the recipients.

1. A brief letter to individual legislator/senator (addresses below).
2. A telephone call to specific legislator/senator.
3. A Public Opinion Message (POM) can be called in to Anchorage [278-3668], Fairbanks [452-4448] or Juneau [465-4648]. These are most effective if directed to individuals rather than blanketing the entire legislature.

The petition enclosed in this package should be returned to the Alliance office no later than May 15, 1985, whether completely filled in or not.

Phone 465-	REPRESENTATIVES
3706	ADAMS, Albert P. [D]Kotzebue
4985	BINKLEY, Johne [R]Bethel
4931	BOUCHER, H.A."Red" [D]Anchorage
4858	CATO, Bette [D]Valdez
3704	CLOCKSIN, Don [D]Anchorage
2829	COLLINS, Virginia M. [R]Anchorage
3799	COTTEN, Sam [D]Eagle River
4930	DAVIS, Mike [D]Fairbanks
4766	DUNCAN, Jim [D]Juneau
3709	FRANK, Steve [R]Fairbanks
4984	FULLER, John G.(Jack)[D]Nome
4894	FURNACE, Walter R. [R]Anchorage
4925	GOLL, Peter [D[Haines
4968	GRUENBERG, Max F.,Jr. [D]Anchorage
3824	GRUSSENDORF, Ben [D]Sitka
4939	HANLEY, Alyce [R]Anchorage
4942	HERRMANN, Adelheid [D]Naknek
4947	HURLEY, Katie [D]Wasilla
4530	JENKINS, Roger [R]Anchorage
4992	KOPONEN, Niilo [D]Fairbanks
3727	LARSON, Ronald L. [D]Palmer
2719	MARROU, Andre [L]Homer
3782	MARTIN, Terry [R]Anchorage
4990	MILLER, M. Mike [D]Juneau
3764	MILLER, Mike W. [R]North Pole
3892	NAVARRE, Mike [D]Kenai
4993	PEARCE, Drue [R]Anchorage
4937	PETTYJOHN, Fritz [R]Anchorage
4949	PHILLIPS, Randy [R]Eagle River
4944	PIGNALBERI, Marco A. [R]Anchorage
3712	POURCHOT, Pat [D]Anchorage
3464	RIEGER, Steve [R]Anchorage
4998	RINGSTAD, John [R]Fairbanks
4940	SHULTZ, Richard [R]Tok
4919	SUND, John [D]Ketchikan
4978	SZYMANSKI, Mike [D]Anchorage
4905	TAYLOR, Robin L. [R]Wrangell
2498	THOMPSON, Dave [R]Kodiak
4821	UEHLING, Rick [R]Anchorage
3732	WALLIS, F. Kay [D]Fort Yukon

Phone 465-	SENATORS
4522	ABOOD, Mitch [R]Anchorage
3755	BENNETT, Don [R]Fairbanks
4921	COGHILL, John B. [R]Nenana
4989	DeVRIES, Edna B. [R]Palmer
4711	ELIASON, Richard I. [R]Sitka
3834	FAHRENKAMP,Bettye [D]Fairbanks
4523	FAIRS, Jan [R]Anchorage
3862	FERGUSON, Frank [D]Kotzebue
3791	FISCHER, Paul A. [R]Soldotna
4997	FISCHER, Vic [D]Anchorage
4958	HALFORD, Rick [R]Chugiak
4525	JOSEPHSON, Joe P. [D]Anchorage
3770	KELLY, Tim [R]Anchorage
3771	KERTTULA, Jaimar M. [D]Palmer
4922	RAY, Bill [D]Juneau
3793	RODEY, Patrick [D]Anchorage
3753	SACKETT, John C. [R]Ruby
3818	STURGULEWSKI, Arliss [R]Anchorage
3844	ZHAROFF, Fred P. [D]Kodiak
3743	ZIEGLER, Robert H.,Sr. [D]Ketchikan

The Honorable Ted Stevens and
The Honorable Frank Murkowski
Senate Office Building
Washington, D.C. 20510

The Honorable Don Young
House Office Building
Washington, D.C. 20515

DURING SESSION address all legislator and committee mail to:

Name
Alaska State Legislature
Pouch V [MS 3100]
Juneau, Alaska 99811

CON#052

PETITION

We, the undersigned, support holding the sale of oil and gas leases in the North Aleutian Basin in December of 1985 as presently scheduled by the U.S. Department of the Interior.

NAME	ADDRESS	COMMUNITY



A MIGHTY STRANGE WAY TO CREATE JOBS!

Governor Sheffield's got his head in the sand.

He's asked the federal government to postpone OCS lease sale #92 in the North Aleutian Basin for another ten years. The Governor says that industry lacks the technology to drill safely . . . that the risk to the fish and birds of the area is too great . . . that there's not enough data. He's urging the legislature to support postponement.

HERE ARE THE FACTS:

- Fishing has thrived in all seas, bays and inlets where oil has been discovered . . . isn't 75 years of experience long enough to prove it?
- Over $100 million has been spent on studies in the area . . . do we really need more studies?
- Over 250 wells have been drilled off Alaska's shorelines emphasizing protection for the environment and our fishermen . . . how many more will it take to prove the point?
- Further OCS lease delays could deny employment to as much as 10% of Alaska's work force . . . is your job secure?
- Polls show that more than 7 out of 10 Alaskans SUPPORT OCS exploration and development . . . are you with us?
- CALL YOUR LEGISLATIVE INFORMATION OFFICE AND SEND A FREE PUBLIC OPINION MESSAGE URGING YOUR LEGISLATORS TO REJECT HJR 31 AND SUPPORT NORTH ALEUTIAN BASIN SALE #92.

Anchorage 278-3668 Fairbanks 452-4448 Juneau 465-4648

Alaskan workers need the jobs that OCS development can provide. We believe that for our state's economy to stay healthy we MUST support responsible resource development.

WE'RE THE ALASKA SUPPORT INDUSTRY ALLIANCE.
JOIN US, 562-0100

THE ALLIANCE

DON YOUNG
CONGRESSMAN FOR ALL ALASKA

WASHINGTON OFFICE
2331 RAYBURN BUILDING
TELEPHONE 202/225-5765

COMMITTEES:
INTERIOR AND INSULAR AFFAIRS
MERCHANT MARINE AND FISHERIES

Congress of the United States
House of Representatives
Washington, D.C. 20515

DISTRICT OFFICES
FEDERAL BUILDING AND U.S. COURT HOUSE
701 C STREET, BOX 3
ANCHORAGE, ALASKA 99513
TELEPHONE 907/271-5978

BOX 10, 101 12TH AVENUE
FAIRBANKS, ALASKA 99701
TELEPHONE 907/456-0210

401 FEDERAL BUILDING
P.O. BOX 1247
JUNEAU, ALASKA 99802

RT. 1, BOX 1695
KENAI, ALASKA 99611

BOX 177
KODIAK, ALASKA 99615

901 FEDERAL BUILDING
KETCHIKAN, ALASKA 99901

May 3, 1985

Representative Mike Davis
Alaska State Legislature
Pouch V
Juneau, Alaska 99811

Dear Representative Davis:

It has come to my attention that you are presently circulating a memorandum which misrepresents my position on the proposed Bristol Bay OCS lease sale. Please allow me to clarify my views on this important issue.

As you know, the issue of delaying the lease sale is currently under review by the Department of Interior. This review is based on a study by the Interior Department in cooperation with the United Fisherman of Alaska, which evaluates the fisheries data base being used to determine impact of OCS activity on the Bristol Bay fisheries. I have been in full support of this evaluation procedure. The Interior Department has been willing to obtain the most accurate information available to calculate possible impacts of this lease sale. I have always maintained that this was an acceptable alternative to the Governor's proposal, which would delay the sale for a full decade.

I have stated previously that I would support the Interior Department's final decision, whether it would delay the lease sale or not, and never intended this to be a confirmation of support for the Governor's position. I do not appreciate having my position on this critical issue misrepresented.

Please contact me if you would care to discuss this matter further.

Sincerely,

Don Young

DON YOUNG
Congressman for all Alaska

DY:jp

UNIVERSITY OF ALASKA
Institute of Social and Economic Research
707 "A" St., Suite 206
Anchorage, Alaska 99501
Phone (907) 278-4621

April 23, 1985

Hon. Adelheid Herrmann
Co-chairman, Resources Committee
Alaska House of Representatives
Pouch V
Juneau, AK 99811

Dear Representative Herrmann:

I would like to clarify for the House Committee on Resources certain statements attributed to a report by the Institute of Social and Economic Research regarding the effects of the federal Outer Continental Shelf (OCS) leasing program on the Alaska economy. The statements appear in the testimony of Chuck Becker, representing the Alaska Support Industry Alliance, before the House Oil and Gas Committee on House Joint Resolution 31. While Mr. Becker has quoted the study correctly, he has taken the quotes out of context and has inaccurately represented the report's conclusions.

Mr. Becker's testimony refers to a report entitled Alaska Statewide and Regional Economic and Demographic Systems: Effects of OCS Exploration and Development. Teresa Hull and I prepared the report in April 1984 for the U.S. Minerals Management Service, which has published it as Technical Report 106 in the Alaska OCS Region's Social and Economic Studies Program series.

Mr. Becker stated that the report contains a "grim forecast of severe economic dislocations, resulting in loss of jobs and a 'massive decline in state expenditures' . . . . It is a scenario of a deteriorating fiscal condition of the state coupled with 'rising taxes, reduced public services' and loss of jobs." According to Mr. Becker, "The authors conclude that only if the the five-year OCS lease sale plan proceeds on schedule will that unhappy portrayal of Alaska's future be mitigated." (emphasis mine)

In the first place, declining real levels of state expenditures mentioned in the report result directly from projected declines in state petroleum revenues. The report concluded that oil revenues would be likely to decline regardless of the scale of Alaska OCS development. OCS development, while contributing property tax revenue from onshore support facilities, would place demands on public services in excess of new revenues, resulting most likely in "an additional reduction in per capita government services" (p. 33).

UNIVERSITY OF ALASKA
Institute of Social and Economic Research
707 "A" St., Suite 206
Anchorage, Alaska 99501
Phone (907) 278-4621

April 23, 1985

Hon. Adelheid Herrmann
Co-chairman, Resources Committee
Alaska House of Representatives
Pouch V
Juneau, AK 99811

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Mr. Becker's testimony refers to a report entitled Alaska Statewide and Regional Economic and Demographic Systems: Effects of OCS Exploration and Development. Teresa Hull and I prepared the report in April 1984 for the U.S. Minerals Management Service, which has published it as Technical Report 106 in the Alaska OCS Region's Social and Economic Studies Program series.

Mr. Becker stated that the report contains a "grim forecast of severe economic dislocations, resulting in loss of jobs and a 'massive decline in state expenditures' . . . . It is a scenario of a deteriorating fiscal condition of the state coupled with 'rising taxes, reduced public services' and loss of jobs." According to Mr. Becker, "The authors conclude that only if the the five-year OCS lease sale plan proceeds on schedule will that unhappy portrayal of Alaska's future be mitigated." (emphasis mine)

In the first place, declining real levels of state expenditures mentioned in the report result directly from projected declines in state petroleum revenues. The report concluded that oil revenues would be likely to decline regardless of the scale of Alaska OCS development. OCS development, while contributing property tax revenue from onshore support facilities, would place demands on public services in excess of new revenues, resulting most likely in "an additional reduction in per capita government services" (p. 33).

Secondly, contrary to Mr. Becker's assertion, the report did not project that the Alaska economy would suffer a long-term net loss of jobs if there were no OCS development. In spite of relatively minor fluctuations in employment projected in the late 1980s and early 1990s, the report projected a long-term pattern of growth leading to an approximate 30 percent increase in employment and population by 2010, even with no OCS development (p. 23).

Finally, and most importantly, the report only considers the contribution to the Alaska economy of one hypothetical scenario representating cumulative oil and gas development from all Alaska OCS leases. It does not address the potential effects of a modification to the proposed five-year lease schedule, as requested in HJR 31. Thus one can not directly apply any of the conclusions of the report to the effects of a delay of a <u>single</u> lease sale such as Sale 92 (North Aleutian Shelf).

We have not made any projections of the effects of a delay of Sale 92 on the overall contribution of OCS development to the Alaska economy. However, one would expect, roughly speaking, that the contribution of a given sale to the total direct and indirect effects would be in proportion to the contribution of that sale's direct employment to the total direct employment.

The scenario of cumulative oil and gas development from all OCS areas used in the report was provided to ISER by the Minerals Management Service. It included total direct OCS employment assumptions of 8,100 long-term jobs, with peak employment including construction jobs of nearly 13 thousand in 1997. Adding indirect effects, the report projected that total contribution of this scenario of cumulative OCS development would reach 10 percent of the economy by 2000.

Direct employment estimates for Sale 92, on the other hand, are contained in MMS Social and Economic Studies Technical Report Number 87, <u>St. George Basin and North Aleutian Basin Economic and Demographic Systems Impacts Analysis</u>, prepared by ISER in June 1984. According to this study, Sale 92 may generate long-term direct employment of around 340, provided commercial quantities of oil are discovered in the basin.

This level of long-term direct employment expected from Sale 92 (if oil is found) is approximatly 4 percent of the total for all Alaska OCS areas in the five-year lease schedule. Thus even if oil and gas resources are found and developed, the total direct and indirect contribution of Sale 92 to the Alaska economy would be a small fraction, less than 5 percent, of the total contribution of OCS activity. Sale 92, if held on schedule, will certainly

contribute some new jobs to the Alaska economy. The total contribution of the sale is unlikely to reach 0.5 percent of total state employment, however.

Sincerely,

Matthew D. Berman
Assistant Professor of Economics

STATE OF ALASKA

POUCH V
JUNEAU, ALASKA 99811
(907) 465-4941

HOUSE SPECIAL COMMITTEE ON OIL AND GAS

MEMORANDUM

To: All Legislators

From: Rep. Mike Davis

Date: April 29, 1985

Re: HJR 31

Many questions have arisen regarding HJR 31, which requests a 10-year delay in the North Aleutian Basin federal OCS lease sale. It is important that the following facts be taken into account when evaluating this resolution.

Development. HJR 31 begins by stating that "The state fully supports the prudent and orderly development of the state's oil and gas reserves in an environmentally acceptable manner." The North Aleutian Basin represents only one of 12 federal OCS planning areas in Alaska. Together, these planning areas encompass over 500 million acres.

Revenues. The Bristol Bay fishery is one of the oldest and most stable industries in the state, and is responsible for $250 million in annual domestic revenues. Under the North Aleutian Basin lease sale, the state would not receive any revenues from bonus bids, lease rentals, royalty payments or severance taxes.

Jobs. The Bristol Bay fishery results in 10,000 jobs every year. Oil and gas development in the North Aleutian Basin will result in about 340 jobs. This is less than one-half of one percent of total projected statewide employment.

Risks. In testimony before the House Resources Committee, it was stated that industry is capable of containing oil spills in 7-8 foot seas. The North Aleutian Basin is characterized by winter storms with seas ranging to 20 feet, however. Under these conditions, it is not even possible to deploy clean-up equipment.

Potential. The North Aleutian Basin is estimated by the Department of the Interior to have the relatively low hydrocarbon potential of 364 million barrels of oil. This represents a one-month supply of oil to the United States based on nationwide consumption. The North Aleutian Basin also has far less potential than the Beaufort, Navarin, St. George and Diapir lease sales, all of which are expected to take place on schedule.

Coastal Plans. The proposed 10-year delay in the North Aleutian Basin lease sale is consistent with the state's Bristol Bay Area Plan, which has postponed oil and gas activities on adjacent state-owned offshore lands until 1994. This delay is also consistent with resolutions passed by the Aleutians East Coastal Resource Service Area, Bristol Bay coastal Resources Service Area, City of Point Heiden, City of Aleknagik, Egegik Village Council, Pedro Bay Village Council, Togiak City Council, and the United Fishermen of Alaska.

The purpose of HJR 31 is to allow additional environmental impact assessment work to be completed in the area, and to allow time for the development of new technologies that will be better suited for working safely in the extremities of the North Aleutian Basin area.

This resolution recognizes the resource management problem that Alaska is facing. Alaska must develop its non-renewable resources in a manner that presents as little risk as possible to our proven renewable resource industries.

Legislature: No comment on oil, gas lease sale

By BRUCE SCANDLING
The Associated Press

A controversial federal sale of oil and gas leases scheduled for Bristol Bay in December is likely to draw a collective "no comment" from the Alaska Legislature.

A resolution calling for a 10-year delay of the sale was yanked off the House floor Monday — at the same time an Anchorage senator was pushing a counter-measure urging that the sale be held as planned.

"I think the threat of a bill passing the Senate certainly helped stall this one," said Rep. Mike Davis, a Fairbanks Democrat who was the prime sponsor of a House measure seeking the 10-year delay.

"It was not worth passing this one and then having the Senate push a resolution for strong support of oil development in the area," Davis said.

As part of its plan to foster oil exploration and development on the Outer Continental Shelf, the federal government wants to put 5.6 million acres up for lease in Bristol Bay — the heart of Alaska's fishing industry.

Gov. Bill Sheffield is lobbying for a 10-year delay of the lease sale, but the Interior Department has the sale set for December.

Sen. Arliss Sturgulewski, an Anchorage Republican, said she wants the sale to proceed on schedule.

"It seems to me that with all the work that's been done on this, it doesn't seem right to delay the sale another 10 years," she said.

Ms. Sturgulewski, who recently announced her candidacy for governor, said she was ready to introduce her resolution if the House had passed a measure seeking the 10-year delay.



ALASKA NEWS

Davis, who chairs a House oil and gas committee, said he pulled the measure off the House floor Monday specifically because of Ms. Sturgulewski's threat to introduce the counter-measure in the Senate.

"I didn't want a mixed signal going back there (to Washington, D.C.)," Davis said.

The Bristol Bay sale — known as Sale 92 — has been the center of controversy since it was first listed in the mid-1970s on a federal schedule of OCS oil and gas leasing.

Under former Gov. Jay Hammond, state officials convinced the Interior Department to delay the sale until 1987.

When James Watt took the Interior Department reins in 1981, he unveiled an extensive and unprecedented OCS leasing plan that scheduled Sale 92 for December, 1985.

Watt's plan also expanded the scope of the sale, calling for offering leases on 32.5 million acres of the North Aleutian Shelf.

Sheffield first asked the Interior Department in January 1984 for a 10-year delay of the sale.

Three months later, then-Interior Secretary William Clark reduced the area of the sale by 83 percent, limiting the possibility of oil and gas exploration to 5.6 million acres.

The for-sale region now is north of Cold Bay, an area teeming with salmon, king crab, herring, whales and variety of waterfowl.

"That's the crown jewels of Alaska out there," Davis said. "The fisheries people and some of the other groups wanted the House of Representatives to take a stand on it."

Ms. Sturgulewski, however, said there's been enough study of the region and it's time to find out if there's sufficient oil and gas to prompt development.

"We need to explore out there and know what our resources are, as long as there's environmental protection," she said. "Based on the information we have now, I think that's exactly what will happen.

"I'm very pleased that the House will not go forward with its resolution," Ms. Sturgulewski said.

"But it's not fair to say, 'Arliss killed it,'" she said.

Davis agreed, and said it's no secret that oil-industry lobbyists worked hard to prevent the House from passing its resolution calling for a delay of the lease sale.

"There was a hell of a lot of industry support to kill this," he said.

Davis said a coalition of companies providing support services for the oil industry led the charge in stopping the resolution.

The Alaska Support Industry Alliance — which represents VECO International and other oil-industry companies — lobbied hard against the House proposal, said Davis.

"They were sort of the shock troops for the oil companies and really drew the line on this issue," said Scott Highleyman, executive director of the Alaska Environmental Lobby.

Although Highleyman said his group has pushed hard for federal officials to delay the sale, environmentalists won't be too disappointed if a legislative resolution seeking the delay is not passed.

"The message that comes from this Mexican standoff between the House and the Senate is that Alaskans are divided on this issue and don't necessarily stand behind the congressional delegation," Highleyman said.

He said Alaska Sens. Ted Stevens and Frank Murkowski and Congressman Don Young — all Republicans — "strongly support the Reagan Administration's overly aggressive development of OCS leasing."

Ms. Sturgulewski said Stevens, Murkowski and Young do support holding the sale in December, but said she did not work with the congressional delegation to thwart attempts to delay the sale.

Sheffield, meanwhile, is still pushing for delay.

A final environmental impact statement from the federal government is due on the governor's desk in July, giving Sheffield another chance to respond to the lease schedule.

Sheffield officials said the governor is not likely to change his stance on trying to delay the sale.

"I want to make it clear that the governor supports the OCS program by and large," said John Greely, Sheffield's press secretary.

"But this is the one sale on the schedule that the governor doesn't think should be there," he said.

Hunt for attorney expanded

By BETSY LONGENBAUGH
The Juneau Empire

The search for a new city attorney will probably be expanded to outside Alaska, a committee of Juneau City-Borough Assembly members decided Wednesday.

The current city attorney, Lee Sharp, is leaving Juneau at the end of the month for a new job with the Matanuska-Susitna Borough.

Although the city sent out more than 1,700 job proposals to all members of



State may pay more for school building

By BRUCE SCANDLING
The Associated Press

Alaska school districts could sell general obligation bonds for school construction and count on the state to pay 80 percent of the debt, under a bill that passed the House Wednesday.

Current law says state government will cover just 50 percent of the debt on bonds sold since 1983.

The measure is expected to be [illegible] in the Matanuska-Susitna Valley, the Kenai Peninsula and other fast-growing areas of the state where school officials are trying to keep pace with burgeoning populations.

To develop the intent of the bill [illegible] to determine the state's [illegible]

Although the measure has been approved by both houses, it must be returned to the Senate before going to Gov. Bill Sheffield's desk for final approval.

That's because the House amended portions of Kerttula's bill and Senate lawmakers must agree to the changes before submitting the legislation to Sheffield.

Under the House plan, the state would boost its participation in paying bonded indebtedness from 50 percent to 60 percent. Kerttula's measure, after working its way through several [illegible] committees, called for a 70-per[illegible] contribution by the state.

[illegible] all odds to show the bill would [illegible]

STATE OF ALASKA

POUCH V
JUNEAU, ALASKA 99811
(907) 465-4941

HOUSE SPECIAL COMMITTEE ON OIL AND GAS

MEMORANDUM

To: All Legislators

From: Rep. Mike Davis

Date: April 30, 1985

Re: HJR 31

Attached to this memorandum is a letter from Congressman Don Young that should dispel any confusion arising from a recent newspaper article regarding the North Aleutian Basin federal OCS lease sale. As expressed in Mr. Young's letter to the executive director of the United Fishermen of Alaska, it is the intent of the Alaskan congressional delegation that this sale not proceed until all environmental data gaps are filled.

Delegation angry over OCS deal

4/26/85

by David Ramseur
Times Washington Bureau

Washington — In a rare display of public acrimony, Alaska's three federal politicians Thursday accused Gov. Bill Sheffield of reneging on a deal over the controversial Bristol Bay offshore oil lease sale scheduled for December.

One member of the Republican trio, Rep. Don Young, questioned Sheffield's ability to govern, while Sen. Ted Stevens accused the governor of meddling in Stevens' "home" — Washington, D.C.

"I just think the governor is so preoccupied he is unable to lead the state the way I think he should," Young said.

The blast coincides with announcements Thursday and today by two state Republicans — former Anchorage mayor George Sullivan and State Sen. Arliss Sturgulewski — that they plan to run for governor in 1986.

Sheffield's office here denied any deal had been struck and continued to push for a 10-year delay in the sale over the opposition of the state's congressional members.

The dispute heated up as a contingent of Alaska fishermen concluded a week of lobbying here, claiming the 5 million-acre lease sale could threaten a $1 billion fishing industry in the Bristol Bay area.

The so-called North Aleutian Shelf sale was scheduled years ago as part of the Interior Department's national five-year outer continental shelf development plan.

In response to protests by Alaska fishing, conservationist and coastal planning groups, former Interior Secretary William Clark in March 1984 reduced the sale area by 83 percent.

Alaska's members of Congress participated in those negotiations and hailed the reduction as environmentally sound.

But Sheffield and the groups, which were excluded from the talks, continued to seek a 10-year delay in the sale. They claim an oil spill in the remaining 17 percent would be devastating for the region which is north of Cold Bay and among the most biologically rich in the world.

According to fishing group lobbyist Deming Cowles, the area is a major spawning ground for halibut, herring, king crab and salmon and feeding area for gray whales and many species of birds.

"If they could have picked an area, they couldn't have picked a worse one" for oil development, Cowles said.

The United Fishermen of Alaska last year financed a $75,000 study of the area but discovered this week that Interior officials have not read it.

Cowles and his UFA clients, allied with Sheffield, continued to seek a sale delay.

Noticably irritated by those efforts, Stevens, Young and Sen. Frank Murkowski in separate interviews Thursday accused Sheffield of agreeing to the reduced sale area but now fudging on the deal by pushing for a delay.

To seek a delay "breaks the word of the Alaska delegation to the Interior Department and we face the real threat of them saying, 'Alright, we'll go back to area-wide leasing,'" Young said.

John Katz, head of Sheffield's office here, denied the state ever agreed to any deal.

"For us it's not a numbers game," Katz said. "We appreciate the deletions but the remaining 17 percent has to be considered on its own merit."

DON YOUNG
CONGRESSMAN FOR ALL ALASKA

WASHINGTON OFFICE
2331 RAYBURN BUILDING
TELEPHONE 202/225-5765

COMMITTEES:
INTERIOR AND INSULAR AFFAIRS
MERCHANT MARINE AND FISHERIES

Congress of the United States
House of Representatives
Washington, D.C. 20515

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501 FEDERAL BUILDING
KETCHIKAN, ALASKA 99901

March 11, 1985

Ms. Cass Parsons
UFA Executive Director
319 Seward St., Suite 10
Juneau, Alaska 99801

Dear Ms. Parsons:

Thank you for your letter regarding the North Aleutian Basin OCS lease sale.

The issue of delaying the lease sale is currently under review by the Department of Interior. I proposed a 3 year delay of the lease sale based on concerns of information inadequacies. The Department is presently determining if there are any data gaps in the fisheries information base that is used in the evaluation of lease sale acceptability. The unique and vastly important fish and wildlife resources of the North Aleutian Basin are being given the utmost consideration. If any data gaps are found, the lease sale will be delayed until adequate information is obtained.

The Interior Department has been willing to obtain the most accurate information available to calculate all possible environmental impacts of the sale. This evaluation procedure is an acceptable alternative to an outright moratorium. I can assure you that the Alaskan fish and wildlife interests will not be compromised.

If I can be of any further assistance please do not hesitate to contact me. With best regards.

Sincerely,

DON YOUNG
Congressman for all Alaska

DY:jp

Alaska State Legislature

REPRESENTATIVE
ADELHEID HERRMANN

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CO-CHAIRMAN
RESOURCES COMMITTEE

MEMBER
TRANSPORTATION
COMMITTEE

House of Representatives

DISTRICT 26

ADAK
AKUTAN
ALEKNAGIK
ATKA
BELKOFSKI
CLARK'S POINT
COLD BAY
DILLINGHAM
DUTCH HARBOR
EGEGIK
EKUK
EKWOK
FALSE PASS
IGIUGIG
ILIAMNA
KING COVE
KING SALMON
KOKHANOK
KOLIGANEK
LEVELOCK
MANOKOTAK
NAKNEK
NELSON LAGOON
NEWHALEN
NEW STUYAHOK
NIKOLSKI
NONDALTON
PEDRO BAY
PILOT POINT
PORT ALSWORTH
PORT HEIDEN
PORT MOLLER
PORTAGE CREEK
SAND POINT
SOUTH NAKNEK
SQUAW HARBOR
ST. GEORGE
ST. PAUL
TOGIAK
TWIN HILLS
UGASHIK
UNALASKA

TO: House Committee on Resources
House Special Committee on Oil and Gas

FROM: Representative Adelheid Herrmann
Co-Chair Resources Committee

DATE: April 23, 1985

SUBJECT: Economic Impact of North Aleutian Shelf Sale 92 Delay (HJR 31)

In the recent hearing before the House Special Committee on Oil and Gas on House Joint Resolution 31, testimony was delivered by the Alaska Support Industry Alliance. The testimony referenced research by the Institute of Social and Economic Research (ISER)concerning the importance of the Five Year OCS leasing schedule to the overall Alaska economy.

When provided with a copy of the testimony, Dr. Matthew Berman, the principal author of the ISER study responded with the observation that the referenced studies had been quoted out of context and inaccurately represented. In fact, the report cited by the Alliance concluded that oil revenues would be likely to decline regardless of the scale of OCS development. Further, it is noted that while some property taxes could be contributed to the Alaska economy, OCS development would place demands on public services which would exceed new revenues. Attached please find a copy of a letter from Dr. Berman.

It is important to emphasize that HJR 31 only addresses a single proposed sale among the many that are scheduled for the Alaska OCS. The North Aleutian Basin sale is generally regarded to have a relatively low hydrocarbon potential. The DEIS estimates a mean recoverable resource at 364 million barrels. To put this in perspective, the U.S. average daily consumption is approximately 16 million barrels per day. The North Aleutian Sale is thus roughly equivalent to less than one month worth of consumption.

While the ISER report only addressed the overall OCS schedule and not the impacts of individual sales, other research suggests that deferral of Sale 92 would not significantly impair the Alaska economy. As indicated by Dr. Berman, the long term direct employment associated with the North Aleutian Basin sale could be about 340 jobs (less than 5% of total OCS employment) assuming oil is found. By contrast, the fishing industry currently employs over 10,000 people annually.

COSPONSOR LIST

A RESOLUTION RELATING TO THE NORTH ALEUTIAN BASIN

OUTER CONTINENTAL SHELF LEASE SALE #92

PRIME SPONSOR: SENATOR ARLISS STURGULEWSKI

COSPONSORS: SENATOR BOB ZIEGLER

SENATOR TIM KELLY

SENATOR JAN FAIKS

SENATOR EDNA DEVRIES

SENATOR PAUL FISCHER

SENATOR MITCH ABOOD

SENATOR JACK COGHILL

SENATOR PAT RODEY

SENATOR _____

SENATOR _____

SENATOR _____

14-1192
Moen
5/1/85

IN THE SENATE

SENATE JOINT RESOLUTION NO.

IN THE LEGISLATURE OF THE STATE OF ALASKA

FOURTEENTH LEGISLATURE - FIRST SESSION

Relating to the North Aleutian Basin Outer Continental Shelf lease sale.

BE IT RESOLVED BY THE LEGISLATURE OF THE STATE OF ALASKA:

WHEREAS the state fully supports the prudent and orderly development of the state's oil and gas reserves in an environmentally acceptable manner; and

WHEREAS the state is responsive to the nation's need to decrease its dependence on foreign oil; and

WHEREAS more than 250 wells have been drilled in the waters off Alaska's coast in the past 20 years without harm to the environment; and

WHEREAS oil development and exploration in the state has not interfered with the state's fishing, hunting, or trapping industries; and

WHEREAS stringent measures to protect Bristol Bay's fish, bird, wildlife, and marine mammals are set out in Sale 92's draft environmental impact statement and are required for any oil exploration or development activity in the area; and

WHEREAS industry has demonstrated its ability to operate safely under extreme meteorological and oceanographic conditions; and

WHEREAS Sale 92 has already been delayed since 1977 when it was originally scheduled for sale; and

WHEREAS over 80 percent of the original sale has been deleted; and

WHEREAS the economy of the state is heavily dependent upon the production of oil; and

WHEREAS the production of oil in the state is expected to drastically decline in the 1990's; and

WHEREAS it is vital to search for and find new sources of oil in the face of expected declines in the Prudhoe Bay reserves; and

WHEREAS government estimates indicate that Alaska's Outer Continental Shelf may contain 44 percent of all Outer Continental Shelf oil resources; and

WHEREAS a 10-year delay in the North Aleutian Basin lease sale would seriously delay the search for new sources of Alaskan oil; and

WHEREAS that delay would discourage business activity and development in the state; and

WHEREAS it is in the nation's and the state's best interest to sell leases in the North Aleutian Basin as scheduled in December 1985;

BE IT RESOLVED that the Alaska State Legislature respectfully requests the Secretary of the United States Department of the Interior to proceed with the North Aleutian Basin Outer Continental Shelf Lease Sale No. 92 scheduled for December 1985.

COPIES of this resolution shall be sent to the Honorable Ronald Reagan, President of the United States; to the Honorable George Bush, Vice-President of the United States and President of the U.S. Senate; to the Honorable Thomas P. O'Neill, Jr., Speaker of the U.S. House of Representatives; to the Honorable Donald Hodel, Secretary of the Interior; and Mr. William Bettenberg, Director, Minerals Management Service; and to the Honorable Ted Stevens and the Honorable Frank Murkowski, U.S. Senators, and the Honorable Don Young, U.S. Representative, members of the Alaska delegation in Congress.

SCOMM

#46:33

House Democrats explain oil-export stand

Dear Editor:

I am writing to correct information submitted by Rep. Terry Martin in a recent letter to the editor regarding the export ban on Alaskan oil.

Mr. Martin, the House minority leader, apparently believes the House majority is not interested in lifting the ban on exporting Alaskan oil. His explanation for this is that the House Special Committee on Oil and Gas has not moved quickly enough on his resolution to lift the ban.

The truth of the situation, however, is that the committee and the House majority are very much in favor of lifting the export ban. A committee resolution to end the ban has been introduced into the House. The committee decided to draft its own resolution because it was more expedient than correcting the problems contained in Mr. Martin's version. Mr. Martin has indicated that he doesn't care which version is heard, as long as the issue moves forward.

Mr. Martin traveled to Washington, D.C., in late February to lobby for the lifting of the export ban. His efforts included sending materials to state legislators across the nation and providing the National Conference of State Legislatures with a copy of his resolution. However, he neglected to return two weeks later to back up and defend his resolution when the issue was discussed at the conference. Instead, two other members of the Oil and Gas Committee and I attended the conference and lobbied for lifting the ban.

Those of us who support lifting the export ban believe it will result in an improved trade balance, reduced cost of transporting oil, and increased taxes to the state and federal governments. Unfortunately, powerful maritime interests have successfully spent millions of dollars to convince Congress to maintain the ban.

The Oil and Gas Committee and members of the House majority are committed to working on lifting the export ban, as we feel this is in the best interest of Alaska and the nation.

Rep. Mike Davis
Chairman
Rep. Sam Cotten
Vice-Chairman
House Special Committee
on Oil and Gas

ANC TIMES 5/8/85

House leaders sending wrong message to D.C.

4/85

To the editor:

Even though we in the House of Representatives are divided into two groups, the majority and the minority caucuses, and even though we're divided into three political parties, Republican, Democrat and Libertarian, there are certain items and issues where we unite as one, for the good of the state. There is one issue in particular that I thought we had all agreed to fight: the ban on exports of Alaska North Slope crude oil.

Some members of the House have criticized the governor for not doing enough on the issue. Others have criticized our congressional delegation for not doing enough. But what has the Democrat-led House of Representatives done? Nothing.

I once believed that we in the House were united against the ban, but now I'm not so sure. Earlier this session I introduced a resolution putting this Legislature on record as being in favor of lifting the ban. I thought it was agood idea and members of the majority caucus told me that it was. I had hoped that for this one issue, politics and special interests would take a back seat for the good of the state and the nation. Unfortunately, what I believed and hoped has not materialized.

The chairman of the House Oil and Gas Committee, Rep. Mike Davis, a Democrat from Fairbanks, has held one hearing on the bill. I repeat *one* hearing. When I testified at that hearing, I told the committee that if they wanted to change the bill, that was fine; if they wanted to amend the bill, that was fine; if they wanted to put the committee's name on the bill, that was fine; I just want to get this body on record for having done something.

Recently, I met with a member of Congressman Don Young's staff. He also met with members of the majority caucus. You might know that Rep. Young has taken an active role in the fight to lift the ban. I must admit that I was embarrassed for the Democratic-led majority when he told me that our congressional delegation might be put to task for pushing repeal of the ban when the Legislature hasn't even passed a simple resolution in favor of lifting the ban.

Early last week, the House passed a resolution requesting our congressional delegation to support legislation on the federal level. Legislation, I might add, that is totally unrelated to Alaska. Yet we refuse to support them in their efforts to allow the export of our natural resources and, more importantly, reassert the sovereignty of our state.

Having been a committee chairman myself, I believe the Oil and Gas Committee has had plenty of time to complete any work on this bill. The chairman knows enough about the issue to pass it on. I might add that when the opportunity arose for him to travel back east to Washington, D.C., to attend a meeting on the ban, he went.

Count me in the group in favor of lifting the ban. I believe this is a clear cut issue.

The Democrats who lead the majority causcus are either in favor of lifting the ban or they aren't.

The time for action on this bill is long past. As the groyp leading the House of Representatives I see the responsibility as the Democrats', and theirs alone, to guide this bill through the Legislature so the people of Alaska and the other 49 states know where we stand on this issue. Since it is well within the power of the Democrat-controlled majority to do so, anything less than passage of HJR 15 is tantamount to their proceeding hand-in-hand with the forces that seek to restrict the sovereignty of our great state.

If your readers are in favor of lifting the ban on the export of Alaska oil, I ask them to please send Public Opinion Messages to their elected leaders by calling the local Legislative Information Office.

Rep. Terry Martin
R, Anchorage

Rosemarie Clair

Officials say oil ban study erroneous

By DAVID RAMSEUR
News-Miner Bureau

WASHINGTON—A new report being circulated to state legislators around the country touts the merits of exporting Alaska oil but is so riddled with errors that some Alaska officials fear it may do more harm than good.

The report, by the National Conference of State Legislators, says lifting the federal ban on Alaska oil exports could increase federal revenues, stimulate Alaska oil development and enhance America's trade posture abroad.

But it contains errors that suggest Alaska would get substantially richer with no export ban and that removing the ban would put thousands of maritime industry employes out of work.

The report has been mailed to 100 state legislators around the country who next month are scheduled to meet here to consider a resolution on the issue.

State Rep. Terry Martin, R-Anchorage, who was largely responsible for production of the report, said Thursday he was disappointed with it and is organizing an effort to counter it.

That effort includes a correction sheet to be provided to the lawmakers and a public debate in early March between Alaska Sen. Frank Murkowski and Connecticut Rep. Stewart McKinney, a leading opponent of Alaska oil exports.

The eight-page report was requested by Martin at an NCSL conference last summer. It is to accompany a resolution a panel of the national group will consider during a conference here March 7-8.

If approved by the panel, the full NCSL will take it up at a Seattle convention in August.

Martin, minority leader of the Alaska House, had hoped to use the resolution to aid the state's effort to remove the federal oil export ban.

But Martin, here for a three-day NCSL conference, said Thursday the report creates the wrong impression about the oil export issue.

For example, it says removing the ban could cost the jobs of 200,000 maritime industry workers and the loss of $300 million in federal tax dollars.

But maritime industry officials have estimated the direct job loss at only 1,700 with perhaps another 5,200 "lost job opportunities" in related fields.

The report, relying on a federal General Accounting Office study, also says Alaska would receive 60 percent of new tax revenues generated by lifting the ban.

In fact, Alaska tax laws limit the state take to about 30 percent while the federal government would get about 60 percent.

The report, which also contains a number of typographical errors, has been sent to the 100 members of NCSL's energy committee, all legislators from states across the country.

Martin said he already has begun countering the report with a mailing he made earlier this month to hundreds of state officials throughout the nation.

He said interest in the issue is increasing and said proponents of lifting the ban are picking up new allies.

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existing law prevents the sale.

bly go protectionist."

Maritime Unions Blockade Oil Sales To Japan—One Solution to Trade Flap

By Eduardo Lachica
Staff Reporter of The Wall Street Journal

WASHINGTON—The U.S. could cut billions of dollars from its problem trade deficit with Japan by selling Alaskan oil to its energy-short ally.

Prime Minister Yasuhiro Nakasone has offered to buy as much of the 1.6-million-barrel-a-day North Slope production as the U.S. will allow. For every 100,000 barrels Japan would buy, the U.S. could shave $1 billion off its $37 billion trade deficit with the Japanese.

This tidy solution to the nation's No. 1 trade conflict counts among its proponents Interior Secretary Donald Hodel, Ambassador to Japan Mike Mansfield and even some environmental groups that say it would reduce the threat of oil spills in U.S. waters. Its most ardent ally is Sen. Frank Murkowski (R-Alaska), who has led the fight to amend the Export Administration Act, which restricts such exports.

But dogged lobbying by the maritime unions, which contributed $2 million to the 1983-1984 campaign coffers of scores of congressmen, persuaded the Senate to shoot down the Murkowski amendment 70-20, thereby effectively banning Alaskan oil exports.

Nearly 90% of seagoing American crews depend for their livelihood on the tanker routes between Alaska and the U.S. mainland. And while union leaders are receptive to discussion, they seem disinclined to take any action.

The Reagan administration has been somewhat circumspect on the whole subject. "It (the administration) hasn't lobbied a single member of Congress as far as we know," says Howard Marlowe, executive director of the Coalition to Keep Alaska Oil. The group is funded by maritime unions and shipping and pipeline companies.

State Department aides explain that the administration does favor Alaskan oil exports to Japan, but not "immediately." The administration appears content instead to press for less-controversial coal sales while waiting for a consensus favoring oil exports to emerge.

The administration's position has been a puzzle from the start. U.S. Trade Representative William Brock wanted to put it on the agenda of a U.S.-Japan working group formed to discuss increasing U.S. energy exports. But the first day the group met in Tokyo, Allen Wallis, the undersecretary of state for economic affairs, dropped the item from the agenda.

"You could see the Japanese faces fall apart," recalls a former U.S. member of that group. "They had earlier circulated a paper saying they were interested in that oil."

W.S.J. p. 28 4-29-85

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To the Helsini

Feb 26/85

Sheffield sees no help ending oil ban

By DAVID RAMSEUR
News-Miner Bureau

WASHINGTON—Alaska appears unlikely to get much help from the Reagan White House this year in its efforts to permit the sale of Alaska oil abroad, Gov. Bill Sheffield said Monday following a brief Sunday night conversation with the president.

"He smiled and shrugged his shoulders a little bit," Sheffield said of Reagan, but promised no assistance in lifting the federal ban on Alaska oil exports.

According to the governor, the president reminded him that he asked Congress to remove the ban last year but the effort was opposed by the U.S. maritime industry.

Despite Sheffield's plea for help this year, he said the president offered no assistance.

"I got no indication that they would" push to change the law this year, Sheffield said.

The governor said he spoke with Reagan about Alaska oil exports Sunday night during the after-dinner coffee and drinks portion of a White House banquet for the nation's governors.

Sheffield and other state chief executives are here for a three-day conference of the National Governors' Association, which wraps up today.

Sheffield is scheduled to remain in Washington until Thursday for meetings with top federal officials.

Among those was a late Monday session with Interior Secretary Donald Hodel and six other governors on certain federal offshore oil revenues.

Alaska stands to collect up to $1 billion of the funds but a Sheffield aide this morning reported little progress at the meeting.

At a Monday briefing for reporters, the governor expressed frustration over the oil export issue. Last year, he said, it seemed half the Reagan cabinet supported lifting the ban on Alaska oil sales abroad but did little to push the issue.

"It was frustrating as h— at best," the governor said.

And he said this year appears to be little different.

He reported telling the president the election is over and in his second term Reagan could take on the politically unpopular issue. But he said he got little response.

Sheffield said permitting the sale of Alaska oil to countries such as Japan could help offset the trade imbalance and lead to the export of other Alaska goods such as coal, minerals and natural gas.

On other issues, Sheffield said:

- Alaska will file suit against the federal government unless a settlement is reached over disposition of the so-called "8g" outer continental shelf oil revenues.

The governors of seven coastal states including Sheffield met Monday with Hodel on the issue. But a Sheffield aide said they agreed only to meet again and present Hodel a new proposal by March 31.

- He plans to meet individually with Hodel to push for a 10-year delay on the a proposed North Aleutian federal offshore oil sale. Former Interior Secretary William Clark postponed the sale until August of this year but Sheffield wants a longer delay to study its impact on Bristol Bay fisheries.

- He and other governors are upset with Reagan budget cuts which will curtail programs in their states.

"We're out there on the firing line and we have to go home and increase taxes or cut budgets or take up the slack where the federal government drops off," Sheffield said. "It's hard to do that if you don't have any input into what they cut."

Stevens says Big Oil would fight to keep ban

JUNEAU (AP)—A much-ballyhooed campaign to lift the ban prohibiting export of Alaska oil will likely face opposition from the oil industry, U.S. Sen. Ted Stevens said Monday.

Stevens—in a meeting with reporters after a joint speech to the Alaska Legislature—said low oil prices and a glutted world market should work to discourage any effort to lift the federal prohibition.

"I think we may find real opposition from producers to lifting the ban," he said.

U.S. Sen. Frank Murkowski, R-Alaska, and Republican Congressman Don Young both told state lawmakers recently they thought a push to get the ban lifted could gain steam over the next couple of years.

Stevens—who said Reagan Administration officials support lifting the ban—acknowledged the idea might gain some momentum in Congress this session, especially through committee work slated by Murkowski and Young.

"But even if we could get the ban lifted, it might not mean the export of any oil," Stevens said.

An overabundance of oil and steadily dropping prices means it wouldn't be profitable for oil companies to ship oil to Pacific Rim countries or other world markets right now, Stevens said.

The federal ban was implemented in 1973 when U.S. fuel prices skyrocketed during an export embargo imposed by oil-producing countries of the Middle East.

U.S. House votes to ban oil exports

By BETTY MILLS ADN # 4/17/85
Daily News correspondent

WASHINGTON — The House Tuesday adopted legislation which extends for five years the virtual ban on exporting Alaska oil.

The provision is included in a reauthorization of the Export Administration Act which cleared the House by voice vote after a 45-minute debate. The Alaska oil issue was only mentioned once.

Under the bill, oil produced on the North Slope can be sold abroad only if the president determines it is in the national interest and would result in lower costs to consumers. Congress must approve any such transaction.

These restrictions will remain in place until September 30, 1990.

The bill now goes to the Senate, where approval is expected shortly.

The legislation also includes an amendment sponsored last year by Alaska Sen. Frank Murkowski which orders a nine-month White House study on Alaska oil policy. The review will focus on the impact of Alaska oil exports on national security, foreign policy, employment in the maritime industry, consumers, the trade deficit and overall energy development.

The president is to develop recommendations concerning the producing and distribution of North Slope oil and submit a report to Congress within nine months of enactment of the bill.

The Alaska delegation and Gov. Bill Sheffield have pressed for a removal of the tight restrictions on exporting Alaska oil — which costs the state hundreds of millions of dollars in lost revenues.

But maritime interests and members of the House from the Northeast and Midwest have combined to retain the virtual ban on exports.

Of the 1.2 million barrels produced each day at Prudhoe Bay, about half is shipped through the Panama Canal to the Gulf and East Coasts, at additional transportation costs.

In 1973, when Congress approved the Trans Alaska Pipeline System, it required that the oil flowing through the 800-mile pipeline be used in the United States. Congress has voted repeatedly to retain the restrictions on Alaska oil exports.

But supporters of the nine-month study provision hope a comprehensive analysis of the issue by the administration will cause Congress to remove the restrictions.

In a statement inserted in the Congressional Record, Rep. Don Young, R-Alaska, said the ban on exports "results in inefficiencies in transportation to East Coast refineries and increased chances of environmental damage from tanker traffic, the leading source of oil spills in the world. Additionally, the state of Alaska and the federal government have lost hundreds of millions of dollars in revenue."

Oil export ban repeal 'up in air'

By JOHN CARTER
Empire Washington Bureau

WASHINGTON — Chances of getting congressional approval for the export of Alaska oil are slim this year, Capitol Hill observers said today.

"It's all kind of up in the air," an aide for Sen. Frank Murkowski said.

These remarks were echoed in statements by Rep. Don Young to the finance committees of the Alaska State House and Senate on Monday. Young told the committees it would be two years at the earliest before the ban could be removed.

Murkowski spearheaded a drive last

Continued on Page 12

Empire 2/2/15

Oil export...

Continued from Page 1

year to have the export ban lifted as part of the Export Administration Act reauthorization. He failed in amending the bill to lift the ban, and it was never approved by Congress anyway, so the entire battle will come up again this session.

Murkowski was successful in getting the Senate to agree to a nine-month study of the impact of exporting Alaska oil. This study was included in the export bill and will not begin until the bill is approved by Congress.

"It's up in the air because of the South Africa issue which is included in the export bill," the aide said.

Some members of Congress are hoping to use the Export Administration Act as a vehicle to punish South Africa for its apartheid policies. There are efforts to separate South Africa provisions from the export bill, "but no one's really pushing to get the bill moving," the aide said.

Even if the export bill comes up for consideration again, getting Congress to agree to lift the export ban will be difficult.

"Attitudes have to change about exporting oil," the aide said.

The export act failed to pass the conference committee after differing versions were passed by both the House and Senate last year. The Senate version included Murkowski's study, but that issue was not the roadblock stopping the conference committee from reaching a compromise, Murkowski said.

"The bill contained trade restrictions on South Africa which the House objected to. The conferees held on this issue," Murkowski said.

If the bill passes this session, Murkowski's study will examine the ramifications of oil export.

"It would examine the impact on our allies in the Pacific, the impact on employment and on the maritime industry," Alaska's junior senator said.

"The report would look at the benefits to refiners and consumers. I think it will show that there could be significant reduction to the trade deficit if we sell our oil overseas," he said.

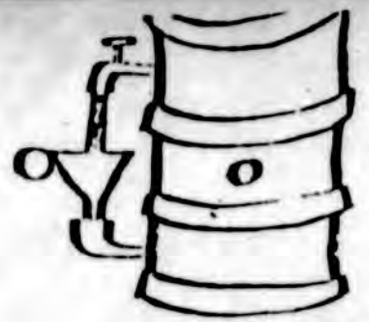
Current law prohibits the sale of North Slope oil to anyone except American refiners. The oil is shipped on American vessels and maritime industry officials fear lifting the ban would hurt their business.

A report prepared for Gov. Bill Sheffield by his Washington office last month noted "a major effort to modify the North Slope oil export restriction foundered in the face of maritime industry opposition."

THE WASHINGTON POST, FRIDAY, FEBRUARY 10, 1984

Bill Sheffield

Free Alaska's Oil



By Zarko Kurshalic

American energy consumers have a large stake in the existing federal restrictions on the export of Alaska crude oil. Because Congress must soon act on an extension of the ban, its rationale and costs deserve scrutiny. I share the considered opinion of most economists and of the federal Department of Energy that the United States would produce more oil at lower prices if the export restrictions were lifted.

The origins of the oil export ban lie in the December 1973 authorization for construction of the Trans-Alaska Pipeline System, a project that currently carries some 20 percent of U.S. oil production. Energy security concerns became paramount in the wake of the October 1973 OPEC embargo, and Congress chose to restrict the destination of oil shipped through the pipeline. At that time, when U.S. ability to obtain any imported oil was in question, the restrictions made political sense.

The energy supply picture for the United States has changed during the past 10 years, however. About half of Alaska's oil production of 1.6 million barrels a day is in excess of West Coast needs. As a result, this oil must move to the larger market of the Gulf of Mexico and the East Coast. Unfortunately, this journey is an expensive one, costing four times as much as the tanker run to California. This additional transportation cost means reduced federal tax revenues and reduced incentives for expanding Alaska oil production. Higher trade deficits and diminished national security also result from the ban on our allies.

America's Pacific Rim allies, in close proximity to Alaska, would very much like to purchase this surplus oil to diversify their sources away from the Middle East, but are prohibited from doing so by federal law. The ban is particularly unfair because no other U.S. oil production is barred from export, and the United States currently ships overseas in excess of 700,000 barrels a day of domestically produced refined petroleum products.

Along with Alaska's congressional delegation, I have proposed that Congress relax the existing export ban on Alaska oil to allow 200,000 barrels a day to be shipped to Japan on U.S.-flag tankers. Most knowledgeable observers agree that the federal government and energy consumers in the United States would experience significant benefits from the adoption of this proposal:

- The federal Treasury would realize almost $200 million per year in increased tax revenues as a result of the higher value of oil shipped to the Pacific Rim.
- The oil industry would have a greater incentive to develop currently marginal fields on Alaska's high-cost North Slope and to explore for additional oil and gas in northern Alaska.
- The pricing power of OPEC would be moderated by the entry of Alaskan oil into Asian markets.
- U.S. national security interests would be protected by diversifying the energy supply of key U.S. allies who currently must seek energy from OPEC and Russia.
- The existing trade deficit with Japan would be reduced while the United States would gain a bargaining tool to use on other trade issues.
- Opportunities for financially troubled countries, such as Venezuela and Mexico, to sell oil to the United States would be expanded by providing possibilities for cost-efficient oil exchanges.

In light of these convincing arguments, why does the export ban remain in effect? The Alaska oil trade currently supports a substantial portion of the U.S. merchant marine fleet. Any action that reduces the amount of time Alaska oil must spend in U.S. tankers is therefore fiercely opposed by the owners and workers supported by these ships. To accommodate their concerns, the proposal I am making would sharply limit exports, and would require the use of U.S.-flag tankers manned by American seamen and maintained in American shipyards.

Those of us who live in Alaska strongly believe in the importance of a healthy merchant marine, given our heavy reliance on waterborne commerce. Nevertheless, the Alaska oil export ban is an expensive and ineffective means of achieving it. In a recent draft report, the U.S. Department of Energy said most of the problems likely to confront the U.S. tanker fleet in the future will occur whether or not export restrictions are eased. To forgo substantial federal tax revenues, national trade benefits, improved national security and increased oil production primarily to protect narrow merchant marine interests is not sound public policy.

The writer is governor of Alaska.

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United States Senate

COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS
WASHINGTON, D.C. 20510

February 7, 1984

The Honorable Frank Murkowski
United States Senate
Washington, DC 20510

Dear Frank:

It was good of you and Ted to discuss with me your proposed amendment to Section 7(d) of the Export Administration Act (EAA), that would authorize the export of 200,000 barrels a day of oil produced in Alaska. You made some rather cogent arguments in support of the amendment, but I find myself unable to support it for several reasons.

As you know, the renewal of the Export Administration Act has been a very controversial item and S. 979, the bill unanimously reported by the Banking Committee, is the result of compromises that forged a consensus view. The bill constitutes an integrated package of amendments to the EAA and includes a six-year extension on the prohibition of Alaskan oil. I am concerned that adding a 200,000 barrel a day exemption would complicate the consensus on our package. I believe my concern is real in light of the fact that 10 members of our Committee are among the 45 cosponsors of S. 1159, a bill to make the current ban on Alaskan oil exports permanent.

With these factors in mind, I do not believe that your amendment could be included in our bill without a roll call vote. Even if the amendment were passed in the Senate, which is unlikely, it is not an item that we could win in conference. I say this because a majority of the House members has already cosponsored a companion bill to S. 1159 that extends controls on the export of Alaskan oil for six more years.

I also have very serious doubts about the substance of your amendment. Selling 200,000 barrels a day of Alaskan oil to the Japanese would reduce our bilateral trade deficit with Japan by $2 billion, and thus assist in disguising the true nature of our trade problem with the Japanese. As the AFL-CIO has persuasively argued before our Committee, authorizing oil exports to Japan would enable the Japanese to continue to take our raw materials while sending us their higher value-added manufactured goods. What we need to straighten out our trade problem with the Japanese is (a) for them to open up their markets to our manufactured exports, and (b) for us to reduce our budget deficit to

bring down interest rates and the bloated value of our dollar which is destroying our ability to compete internationally.

I appreciate very much the points you made to me on this issue, and regret that because of the above considerations I cannot support your amendment.

Sincerely,

William Proxmire
Ranking Minority Member

Jim Clark

FEB 2[illegible] 1984
NORDSTROM, MONAGLE,
EAST[illegible] & BRADLEY
[illegible] ALASKA

Let Alaska's Oil Flow Naturally

By law — indeed, five laws — the United States prohibits exports of Alaskan oil. The nominal reason is national security. The controlling reason is protectionist politics. The ban should be repealed.

Alaska's Senators, Frank Murkowski and Ted Stevens, want to amend the Export Administration Act to authorize at least some sales abroad. To win votes, they've conceded too much to protectionism. Nonetheless, because the House has already voted to extend this senseless embargo, their amendment offers the only hope for reducing its harm.

•

Alaska currently pumps out 1.6 million barrels a day. The idea behind the ban was that it's more efficient — and serves the national interest — to direct that oil to West Coast refineries, a short run down the coast. In fact, those refineries have been able to use only half of it. The rest goes through the Panama Canal and a Panama pipeline to refineries on the Gulf of Mexico, or all the way around South America to the Virgin Islands. What a waste, and discouragement, to Alaska's oil development.

The cost of the long-distance transportation runs as high as $5.25 a barrel. Shipment to the logical buyers in the Pacific basin — Japan, South Korea and Taiwan — would cost $1 or less.

The benefit would be twofold. Gulf and Caribbean refineries could get their crude oil at lesser cost from Mexico, Venezuela and Nigeria. And Alaskan oil across the Pacific would become more competitive, and thus stimulate more exploration.

What about national security? It is said that the Arab oil embargo and resulting escalation of oil prices proved the value of holding on to every drop of American oil. So why let others buy it?

The question turns the issue upside down. Exporting Alaska's oil would enhance national security, not hurt it. The countries that would buy this oil are important allies whose access to oil is vital to American security interests. They have no oil of their own. An assured supply is especially necessary for Japan. By reducing Japanese dependence on the Middle East and also stimulating more production in Alaska, two important interests would be served.

The Murkowski-Stevens amendment would permit exports of 200,000 barrels a day and let the President stop all exports if ever the oil is needed in the United States. That's a reasonable concession to get the amendment approved but of no realistic consequence. If cut off by the Persian Gulf, Japan is not likely to be cut off also by America.

What is objectionable is the Murkowski-Stevens requirement that all exports be shipped in American vessels and that the vessels be maintained and repaired in American shipyards. These concessions, to win over the maritime unions, would increase the cost of shifting transportation patterns and reduce their value. But the ban offends economics in larger ways and violates security. Even at that price, it's worth relaxing.

NY Times 2/23/84

Department of State

INCOMING TELEGRAM

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STATE FOR EAP/K DLAMBERTSON

E.O. 12356: N/A
TAGS: ENRG, EPET, ETRD, OREP, KS
SUBJECT: AMBASSADOR'S REPLY TO LETTER FROM SENATOR
FRANK H. MURKOWSKI

DEAR FRANK:

THANK YOU VERY MUCH FOR YOUR LETTER OF JANUARY 27. YOUR VISIT WAS FAR TOO BRIEF. WE LOOK FORWARD TO YOUR RETURN IN APRIL.

I HEARTILY AGREE WITH THE SENTIMENTS EXPRESSED IN YOUR LETTER. WE UNDERSTAND THAT KOREA IS THE DEVELOPING COUNTRY MOST DEPENDENT ON IMPORTED OIL FROM THE MIDDLE EAST TO MEET ITS ENERGY REQUIREMENTS. DURING 1983 THESE IMPORTS AMOUNTED TO MORE THAN 139 MILLION BARRELS, OR 74 PERCENT OF KOREA'S TOTAL CRUDE OIL IMPORTS OF 188 MILLION BARRELS.

FOR A LONG TIME KOREA HAS BEEN TRYING TO DIVERSIFY ITS SOURCES OF IMPORTED CRUDE OIL IN ORDER TO REDUCE DEPENDENCE ON THE MIDDLE EAST. THE OIL SHOCKS OF THE 1970'S WERE EXTREMELY DIFFICULT FOR EVEN THIS VERY PROSPEROUS ECONOMY TO DIGEST. THE KOREANS HAVE BEEN TRYING, WITH LIMITED SUCCESS, TO INCREASE OIL IMPORTS FROM LATIN AMERICA AND INDONESIA. THEY HAVE BEEN CONSIDERABLY MORE SUCCESSFUL IN REDUCING THEIR DEPENDENCE ON IMPORTED CRUDE OIL BY BOOSTING THEIR NUCLEAR PLANT CONSTRUCTION PROGRAM AND SWITCHING FROM DIESEL TO COAL POWERED PLANTS FOR GENERATING ELECTRICITY. NEEDLESS TO SAY, HOWEVER, THESE PROJECTS ARE EXPENSIVE AND TAKE TIME.

DESPITE THESE BOLD EFFORTS, KOREA, FOR A LONG TIME TO COME, WILL NEED TO IMPORT LARGE AMOUNTS OF OIL. THE KOREANS WOULD LIKE VERY MUCH TO BUY EVEN A SMALL AMOUNT OF THEIR REQUIREMENTS FROM ALASKA IN ORDER TO REDUCE FURTHER THEIR DEPENDENCE ON THE MIDDLE EAST. I AGREE THAT EVEN LIMITED KOREAN IMPORTS OF ALASKAN OIL WOULD CONTRIBUTE IMPORTANTLY TO REDUCING OUR TRADE DEFICIT WITH THIS COUNTRY WHICH EXCEEDED DOLS 1.2 BILLION IN 1983, A RECORD HIGH. YOUR APPROACH TO THE ISSUE, TO OBTAIN A LIMITED EXEMPTION TO THE CURRENT BAN ON ALASKAN OIL EXPORTS, AND AUTHORIZATION FOR UNLIMITED EXPORTS AS NEW PRODUCTION COMES ON LINE, SEEMS TO ME TO BE QUITE SENSIBLE.

SELLING ALASKAN OIL TO KOREA OBVIOUSLY WOULD ENHANCE THE SECURITY OF AN IMPORTANT ASIAN ALLY AND WOULD BE CONSISTENT WITH OUR MILITARY COMMITMENT TO THIS COUNTRY. THE VULNERABILITY OF THE KOREAN ECONOMY AND ITS DEFENSE CAPABILITIES TO ANOTHER MIDDLE EASTERN CRISIS WOULD BE REDUCED ACCORDINGLY. I WISH YOU EVERY SUCCESS.

BEST REGARDS,

RICHARD L. WALKER
AMBASSADOR
WALKER

BILL SHEFFIELD
GOVERNOR

STATE OF ALASKA
OFFICE OF THE GOVERNOR
JUNEAU

February 1, 1985

Mr. David A. Stockman
Director
Office of Management and Budget
Old Executive Office Building
Room 252
Washington, D.C. 20503

Dear Mr. Stockman:

I am writing to ask for your assistance in amending existing federal restrictions on the export of Alaska North Slope crude oil. Recent estimates by the Federal Trade Commission of the additional Windfall Profits Tax revenues accruing to the federal government as a result of lifting the ban range from 200 million to one billion dollars per year. I believe that any measure offering revenues of such magnitude deserves serious scrutiny by the President and Congress.

The enhancement in federal tax revenues from the export of Alaska oil results from reduced transportation costs. Half of North Slope production -- 800,000 barrels a day -- must undergo an expensive and inefficient journey to the U.S. Gulf and East Coasts, due to the surplus of supply on the West Coast. Reducing the transportation costs increases the wellhead value of the oil, on which taxes are based. This increase in value would also provide the oil industry with a greater incentive to develop currently marginal fields on the high-cost North Slope and to explore for additional oil and gas in northern Alaska.

Eliminating or easing Alaska oil export restrictions would also have other important national and international benefits. The existing trade deficit with Japan would be reduced while the United States would gain a bargaining tool to use on other trade issues. Opportunities for financially troubled countries, such as Venenzula and Mexico, to sell oil to the United States would be expanded by displacing Alaska oil from the Gulf and East Coasts. Finally, national security interests would be enhanced by diversifying the energy supply of key United States allies away from OPEC.

For the reasons stated above, groups as diverse as The Heritage Foundation, The Boston Globe, and The New York Times have endorsed the easing of restrictions on Alaska oil exports. However, the Administration has not conveyed a position on the issue to Congress. Your leadership in this matter is essential to ensuring that it receives proper consideration. In this regard, we have been advised by several members of Congress that the views of the Administration would be very important in their reexamination of the Export Administration Act provisions relating to Alaska oil.

I would like to meet with you to further discuss these issues in late February when I am in D.C. In the interim, please let me know if you have any questions. Thank you for your consideration of our views.

Sincerely,

Bill Sheffield

Bill Sheffield
Governor

cc: The Honorable Ted Stevens, U.S. Senate
The Honorable Frank Murkowski, U.S. Senate
The Honorable Don Young, U.S. House of Representatives
Lee Verstandig, Assistant to the President

BILL SHEFFIELD
GOVERNOR

STATE OF ALASKA
OFFICE OF THE GOVERNOR
JUNEAU

December 26, 1984

The President
The White House
Washington, D.C.

Mr. President:

Because you will soon be meeting with Prime Minister Nakasone of Japan, I thought it would be helpful to provide you with recent information on Alaska's efforts to expand our trade with Japan. I would also like to discuss the implementation of the Joint Statement on Japan-U.S. Energy Cooperation issued by Prime Minister Nakasone and you on November 11, 1983.

Oil Exports

The Joint Statement provided that "the U.S. will continue to keep under review the removal of restrictions on exports of domestic crude oil." Your administration has completed several analyses on the subject, including a report recently released by the Federal Trade Commission. To our knowledge, all of these investigations concluded that easing existing restrictions on the export of Alaska North Slope crude oil would result in significant national benefits, including greater federal tax revenues, a reduced trade deficit with Japan, and the production of more Alaska oil at lower prices.

The reauthorization of the Export Administration Act is still pending in Congress. I respectfully urge you to follow through on the results of your Administration's studies of oil exports and actively assist our efforts to ease existing restrictions on the export of Alaska oil. To do so would be entirely consistent with your Administration's support for free trade and U.S. energy development. I believe that it would be timely for you to do this during the 99th Congress, since Congress has expressed an interest in obtaining your views on the matter.

On September 30, 1983 I wrote to let you know of our willingness to offer a portion of the State's royalty oil for export to Japan. From our discussions with interested

reached for the 1985 fishing season which will increase the volume of product delivered by U.S. fishermen to Japanese processors in "over-the-side" joint venture operations. Even more importantly, the agreement also provides for the importation by Japan of approximately 7,000 and 20,000 metric tons of finished product which will be manufactured by U.S./Alaskan processors in 1985 and 1986, respectively. This sale of finished product to Japan, most likely surimi, will help stimulate a primary and secondary processing industry that will ultimately employ several thousand Americans.

Critical to the successful implementation of this agreement will be the ability of Japanese companies to import U.S. produced groundfish products. Current Japanese import quotas greatly restrict U.S. imports, while Japanese surimi exports to the U.S. are continuing to dramatically expand. Your insistence that the Government of Japan relax its fish-related tarrif and import barriers would be useful in assuring the success of this industry-to-industry agreement which will have a beneficial impact on the U.S. balance of trade.

On another fish-related problem, recent studies have demonstrated that continued Japanese high-sea harvest of Alaska spawned salmon is seriously affecting the national harvest and management of this resource by Americans. We will be working through Alaska's Congressional delegation to encourage the U.S. State Department to initiate bilateral discussions with the Japanese which will be necessary to stop this deleterious practice.

Timber Exports

The timber industry in Alaska is geared to trade with Japan and the Pacific Rim. As a result, the Alaska industry is increasing its promotional activity in Japan. The State is working through its Alaska Asia Office in Tokyo to assist in the promotion of Alaska forest products and products made from Alaska timber in Japan.

To date, Alaska's spruce round logs and cants are selling well in Japan. However, there is a need to improve hemlock sales to Japan, as sales of hemlock products are currently reduced from previous years' totals. In another troubling area, South Africa, which has lower environmental standards and dramatically cheaper labor costs than Alaska, has captured an increasingly larger share of Japan's dissolving sulfite pulp markets from the United States, particularly

ATTACHMENT B

Spending Records of the Seafarers Political Activity Donation and the Masters, Mates and Pilots Political Contribution Fund: 1977-78 and 1979-80

Source: The PAC Directory. 1982 Edition. PAC Researchers: Burke, Virginia.

NON-PARTY (Continued)

SCHLITZ GOOD GOVERNMENT COMMITTEE (continued)

DETAILED INFORMATION:	Office	Party	State	District	Contributions 77-78	Contributions 79-80
Sensenbrenner, F.	H	REP	WI	9	$500	$1,500

SCM PAC New York NY C00128025

SUMMARY INFORMATION:	1977-78	1979-80
Gross Receipts:	—	$5,186
Total Contributions:	—	$5,000

	1977-78	1979-80
Gross Disbursements:	—	$5,000
Total Independent Expenditures:	—	0

	77-78	79-80
% of Total Contributions & Independent Expenditures to Gross Disbursements:	—	100.0%

OF CONTRIBUTIONS TO ALL CANDIDATES:	Number of Candidates 77-78	Number of Candidates 79-80	Amount 77-78	Amount 79-80
Democrats	—	—	—	—
President	—	—	—	—
Incumbents	—	1	—	$500
Winners - Gen. Elec.	—	4	—	$3,500
RANGE OF $1-499	—	—	—	—
$500-999	—	4	—	$2,000
Republicans	—	7	—	$5,000
Senate	—	2	—	$2,000
Challengers	—	4	—	$3,000
All Losers/Others	—	3	—	$1,500
$1000-4999	—	3	—	$3,000
$5000 & UP	—	—	—	—
Other	—	—	—	—
House	—	5	—	$3,000
Open Seat	—	2	—	$1,500

SCOTT PAPER COMPANY PAC (SCOTTPAC) Philadelphia PA C00097220

SUMMARY INFORMATION:	1977-78	1979-80
Gross Receipts:	$5,300	$24,363
Total Contributions:	$2,800	$21,000

	1977-78	1979-80
Gross Disbursements:	$4,300	$20,750
Total Independent Expenditures:	0	0

	77-78	79-80
% of Total Contributions & Independent Expenditures to Gross Disbursements:	65.1%	100.0%

OF CONTRIBUTIONS TO ALL CANDIDATES:	Number of Candidates 77-78	Number of Candidates 79-80	Amount 77-78	Amount 79-80
Democrats	1	9	$500	$2,700
President	—	—	—	—
Incumbents	1	29	$500	$9,100
Winners - Gen. Elec.	5	41	$1,500	$17,300
RANGE OF $1-499	5	32	$1,300	$7,750
$500-999	3	15	$1,500	$8,450
Republicans	7	42	$2,300	$18,300
Senate	3	14	$1,500	$9,450
Challengers	5	17	$1,700	$9,400
All Losers/Others	3	10	$1,300	$3,700
$1000-4999	—	4	—	$4,800
$5000 & UP	—	—	—	—
Other	—	—	—	—
House	5	37	$1,300	$11,550
Open Seat	2	5	$600	$2,500

DETAILED INFORMATION:	Office	Party	State	District	Contributions 77-78	Contributions 79-80
Symms, Steve	S	REP	ID			$1,800

SEAFARERS POLITICAL ACTIVITY DONATION -SPAD- Brooklyn NY C00004325

SUMMARY INFORMATION:	1977-78	1979-80
Gross Receipts:	$577,570	$1,030,216
Total Contributions:	$396,052	$685,248

	1977-78	1979-80
Gross Disbursements:	$579,209	$884,255
Total Independent Expenditures:	$4,000	0

	77-78	79-80
% of Total Contributions & Independent Expenditures to Gross Disbursements:	69.0%	77.4%

OF CONTRIBUTIONS TO ALL CANDIDATES:	Number of Candidates 77-78	Number of Candidates 79-80	Amount 77-78	Amount 79-80
Democrats	246	292	$374,502	$619,898
President	—	2	—	$15,000
Incumbents	190	255	$249,000	$520,928
Winners - Gen. Elec.	186	232	$237,400	$390,728
Republicans	20	49	$21,550	$64,850
Senate	28	59	$139,352	$243,480
Challengers	37	54	$73,950	$93,730
All Losers/Others	80	110	$158,652	$294,520
Other	—	1	—	$500
House	238	281	$256,700	$426,768
Open Seat	39	33	$73,102	$70,590

NON-PARTY (Continued)

SEAFARERS POLITICAL ACTIVITY DONATION -SPAD- (continued)

OF CONTRIBUTIONS TO ALL CANDIDATES	Number of Candidates 77-78	Number of Candidates 79-80	Amount 77-78	Amount 79-80		Number of Candidates 77-78	Number of Candidates 79-80	Amount 77-78	Amount 79-80
RANGE OF $1-499	8	9	$1,850	$1,650	$1000-4999	114	203	$186,952	$318,884
$500-999	121	83	$61,750	$40,280	$5000 & UP	23	47	$145,500	$324,434

DETAILED INFORMATION:	Office	Party	State	District	Contributions 77-78	Contributions 79-80
Carter, Jimmy	P	DEM				$10,000
Kennedy, Edward M.	P	DEM				$5,000
Anderson, Wendell R.	S	DEM	MN		$10,000	
Barnett, Don	S	DEM	SD		$7,000	
Baucus, Max S.	S	DEM	MT		$5,000	$1,500
Bayh, Birch E., Jr.	S	DEM	IN		$1,500	$10,000
Biden, Joseph R., Jr.	S	DEM	DE		$4,000	$1,000
Bradley, Bill	S	DEM	NJ		$5,000	$3,000
Christie, Joe	S	DEM	TX		$5,000	
Church, Frank	S	DEM	ID			$10,000
Cranston, Alan	S	DEM	CA			$6,500
Culver, John C.	S	DEM	IA			$4,000
D'Amato, Alfonse M.	S	REP	NY			$1,500
Dixon, Alan J	S	DEM	IL			$3,000
Dodd, Christopher J.	S	DEM	CT			$10,000
Durkin, John Anthony	S	DEM	NH			$10,000
Eagleton, Thomas F.	S	DEM	MO			$7,500
Edmondson, Ed	S	DEM	OK		$5,000	
Flaherty, Pete	S	DEM	PA			$5,000
Flowers, Walter	S	DEM	AL		$4,852	
Ford, Wendell H.	S	DEM	KY			$5,000
Glenn, John	S	DEM	OH			$5,000
Gojack, Mary L.	S	DEM	NV			$2,500
Gravel, Mike	S	DEM	AK			$5,000
Gunter, Bill	S	DEM	FL			$5,000
Hart, Gary W	S	DEM	CO			$5,000
Haskell, Floyd K.	S	DEM	CO		$10,000	
Hathaway, William D.	S	DEM	ME		$5,000	
Heflin, Howell Thomas	S	DEM	AL		$5,000	
Hollings, Ernest F.	S	DEM	SC			$9,000
Holtzman, Elizabeth	S	DEM	NY			$9,500
Huddleston, Walter D.	S	DEM	KY		$1,500	
Inouye, Daniel K.	S	DEM	HI			$4,000
Javits, Jacob K	S	REP	NY			$5,000
Johnston, J. Bennett	S	DEM	LA		$6,000	
Krueger, Robert	S	DEM	TX		$5,000	
Levin, Carl	S	DEM	MI		$10,000	$250
Long, Russell B	S	DEM	LA			$5,000
Magnuson, Warren G	S	DEM	WA			$10,000
Martin-Trigona,	S	DEM	IL			$5,000
Mathias, Charles	S	REP	MD			$7,000
McGovern, George	S	DEM	SD			$10,000
Melcher, John	S	DEM	MT			$5,000
Metzenbaum, Howard	S	DEM	OH		$5,000	
Miller, Andrew P.*	S	DEM	VA		$6,000	$-720
Miller, Zell	S	DEM	GA			$7,500
Moynihan, Daniel	S	DEM	NY			$5,000
Nelson, Gaylord A.	S	DEM	WI			$9,500
Packwood, Bob	S	REP	OR			$6,000
Pell, Claiborne	S	DEM	RI		$2,000	
Pettigrew, Richard A.	S	DEM	FL			$5,000
Randolph, Jennings	S	DEM	WV		$7,000	
Ravenel, Charles D.	S	DEM	SC		$7,000	$1,000
Roy, William R.	S	DEM	KS		$3,000	
Sarbanes, Paul S	S	DEM	MD		$3,000	
Sasser, James Ralph	S	DEM	TN		$2,500	
Schulz, William R	S	DEM	AZ			$5,000
Stevens, Ted	S	REP	AK		$7,500	
Stewart, Donald	S	DEM	AL		$5,000	$14,000
Talmadge, Herman	S	DEM	GA			$3,000
Addabbo, Joseph P	H	DEM	NY	7	$2,050	$6,500
Albosta, Donald	H	DEM	MI	10		$4,000
Allegrucci, Don	H	DEM	KS	5	$1,500	
Ambro, Jerome A.	H	DEM	NY	3	$1,000	$1,500
Anderson, Glenn M.	H	DEM	CA	32	$1,500	$1,500
Ashley, Thomas L.	H	DEM	OH	9	$500	$5,500
Aucoin, Les	H	DEM	OR	1	$4,000	$7,500
Bailey, Donald Allen	H	DEM	PA	21	$1,000	$2,800
Baldus, Alvin	H	DEM	WI	3		$1,500
Barnes, Michael Darr	H	DEM	MD	8	$1,000	$2,500
Barragan, Polly Baca	H	DEM	CO	4		$2,500
Bauman, Robert	H	REP	MD	1	$1,000	$6,000
Baumann, Archie	H	DEM	MN	6		$1,500
Baumann, James L.	H	DEM	OH	12	$1,500	
Biaggi, Mario	H	DEM	NY	10	$2,000	$3,750
Boggs, Lindy (Mrs.	H	DEM	LA	2	$2,000	$2,500
Bolling, Richard	H	DEM	MO	5	$500	$1,500
Bonior, David E.	H	DEM	MI	12	$1,000	$2,500
Burlison, Bill D.	H	DEM	MO	10		$3,000
Burstein, Karen S	H	DEM	NY	5		$7,500
Burton, John	H	DEM	CA	5	$2,000	$5,000
Carney, Charles	H	DEM	OH	19	$1,500	
Clark, Arthur Joseph	H	DEM	MA	4		$2,790
Clay, William L.	H	DEM	MO	1	$2,000	$1,000
Corcoran, Brian John	H	DEM	WA	2	$2,500	
Corcoran, Dan	H	DEM	CA	37	$1,500	
Corman, James C.	H	DEM	CA	21	$500	$3,000
Daschle, Thomas	H	DEM	SD	1	$4,500	$3,000
Dellums, Ronald V	H	DEM	CA	8		$2,150
Denton, Lane	H	DEM	TX	11	$3,000	
Dicks, Norman D	H	DEM	WA	6	$2,000	$2,750
Dingell, John D.	H	DEM	MI	16	$1,500	$1,000
Dixon, Julian C.	H	DEM	CA	28	$500	$1,500
Donnelly, Brian J	H	DEM	MA	11	$500	$3,500
Dorgan, Byron L	H	DEM	ND	At Large		$2,000
Dyson, Royden P.	H	DEM	MD	1		$2,000
Eckhardt, Robert	H	DEM	TX	8	$1,500	$3,000
Edberg, Joshua	H	DEM	PA	4	$3,000	
Fazio, Vic	H	DEM	CA	4	$1,000	$1,500
Ferraro, Geraldine A	H	DEM	NY	9	$1,500	$5,934
Fithian, Floyd J.	H	DEM	IN	2	$3,500	$3,000
Flippo, Ronnie Gene	H	DEM	AL	5	$500	$1,500
Florio, James J	H	DEM	NJ	1	$1,500	$5,500
Foley, Thomas S.	H	DEM	WA	5	$500	$3,000
Ford, Harold E.	H	DEM	TN	8		$2,000
Ford, William David	H	DEM	MI	15	$1,100	$1,500
Frost, Martin	H	DEM	TX	24	$3,800	$1,300
Gammage, Robert A	H	DEM	TX	22	$3,500	$500
Gaydos, Joseph M.	H	DEM	PA	20	$1,000	$5,500
Gray, William H III	H	DEM	PA	2	$500	$1,500
Green, Mark J	H	DEM	NY	16		$5,000
Guarini, Frank J	H	DEM	NJ	14	$500	$2,000
Hall, Tony P	H	DEM	OH	3		$2,000
Hannaford, Mark W	H	DEM	CA	34	$1,850	
Hertel, Dennis M	H	DEM	MI	14		$2,000
Hindes, Gary E	H	DEM	DE	At Large	$1,500	$500
Hollenbeck, Harold C	H	REP	NJ	9		$2,500
Howard, James J	H	DEM	NJ	3	$1,500	$5,500
Huckaby, Thomas	H	DEM	LA	5	$1,500	$500
Johnson, Harold T.	H	DEM	CA	1	$500	$2,500
Kogovsek, Ray	H	DEM	CO	3		$4,500
Lantos, Thomas P.	H	DEM	CA	11		$2,000
Leach, Claude 'Buddy'	H	DEM	LA	4		$1,500
Lederer, Raymond F	H	DEM	PA	3	$1,000	$1,625
Leland, George	H	DEM	TX	18		$1,500
Lieberman, Joseph	H	DEM	CT	3		$2,500

*See Section IV for independent expenditures made by this PAC during 1979-80 in support of or against the candidate.

[illegible]			[illegible]		[illegible]		[illegible]		[illegible]						
President					Senate	11		$1,980	House		22			$5,480	
Incumbents		30		$9,000	Challengers	3		$760	Open Seat						
Winners - Gen. Elec.	—	26	—	$7,500	All Losers, Others	7		$2,200							
RANGE OF $1-499	—	31	—	$8,200	$1000-4999	1		$1,000							
$500-999	—	1	—	$500	$5000 & UP										

MASTERS, MATES AND PILOTS POLITICAL CONTRIBUTION FUND — Washington DC — C00073056

SUMMARY INFORMATION:	1977-78	1979-80		1977-78	1979-80		77-78	79-80
Gross Receipts:	$113,448	$300,357	Gross Disbursements:	$56,079	$167,256	% of Total Contributions & Independent		
Total Contributions:	$21,550	$113,950	Total Independent Expenditures:	0	0	Expenditures to Gross Disbursements	38.4%	68.1%

OF CONTRIBUTIONS TO ALL CANDIDATES:	Number of Candidates 77-78	79-80	Amount 77-78	79-80		Number of Candidates 77-78	79-80	Amount 77-78	79-80		Number of Candidates 77-78	79-80	Amount 77-78	79-80
Democrats	14	96	$19,050	$104,450	Republicans	1	10	$2,500	$9,500	Other				
President	—	1	—	$1,000	Senate	3	19	$5,000	$42,000	House	12	86	$16,550	$70,950
Incumbents	11	96	$16,050	$107,300	Challengers	3	3	$4,500	$2,650	Open Seat	1	7	$1,000	$4,000
Winners - Gen. Elec.	12	72	$18,600	$65,450	All Losers, Others	3	34	$2,950	$48,500					
RANGE OF $1-499	—	2	—	$400	$1000-4999	14	32	$21,050	$48,500					
$500-999	1	66	$500	$33,550	$5000 & UP		6		$31,500					

DETAILED INFORMATION:	Office	Party	State	District	Contributions 77-78	79-80		Office	Party	State	District	Contributions 77-78	79-80		Office	Party	State	District	Contributions 77-78	79-80
Bayh, Birch E., Jr.	S	DEM	IN			$4,500	Gravel, Mike	S	DEM	AK			$5,000	Packwood, Bob	S	REP	OR			$2,500
Church, Frank	S	DEM	ID			$5,000	Inouye, Daniel K.	S	DEM	HI			$2,000	Stewart, Donald	S	DEM	AL		$3,000	$2,500
Cranston, Alan	S	DEM	CA			$2,500	Magnuson, Warren G	S	DEM	WA			$5,000	Burton, John	H	DEM	CA	5	$1,000	$5,000
Durkin, John Anthony	S	DEM	NH			$2,000	Mathias, Charles	S	REP	MD			$2,500	Burton, Phillip	H	DEM	CA	6	$1,000	$2,000

NON-PARTY (Continued)

MASTERS, MATES AND PILOTS POLITICAL CONTRIBUTION FUND (continued)

DETAILED INFORMATION:	Office	Party	State	District	Contributions 77-78	79-80		Office	Party	State	District	Contributions 77-78	79-80		Office	Party	State	District	Contributions 77-78	79-80
Ferraro, Geraldine A	H	DEM	NY	9		$2,000	Murphy, John M.	H	DEM	NY	17	$3,000	$6,500	Wolpe, Howard	H	DEM	MI	3		$5,000
Lowry, Michael E.	H	DEM	WA	7		$4,000	Nolan, Richard	H	DEM	MN	6	$2,000		Young, Don	H	REP	AK	At Large	$2,500	$500

MASTERS MATES & PILOTS PENSIONERS' ACTION FUND — New York NY — C00012013

SUMMARY INFORMATION:	1977-78	1979-80		1977-78	1979-80		77-78	79-80
Gross Receipts:	$21,584	$253,394	Gross Disbursements:	$167,994	$79,248	% of Total Contributions & Independent		
Total Contributions:	$3,970	$10,250	Total Independent Expenditures:	0	0	Expenditures to Gross Disbursements	2.3%	12.9%

OF CONTRIBUTIONS TO ALL CANDIDATES:	Number of Candidates 77-78	79-80	Amount 77-78	79-80		Number of Candidates 77-78	79-80	Amount 77-78	79-80		Number of Candidates 77-78	79-80	Amount 77-78	79-80
Democrats	3	2	$3,970	$10,250	Republicans					Other				
President	-	1	--	$10,000	Senate					House	3	1	$3,970	$250
Incumbents	2	2	$2,485	$10,250	Challengers	1		$485		Open Seat				
Winners - Gen. Elec.	2	-	$2,485	-	All Losers, Others	1	2	$485	$10,250					



April 1, 1985

Mr. William T. Archey
Acting Assistant Secretary
for Trade Administration
U.S. Department of Commerce
Room 3898B
14th Street between Constitution Avenue
and E Street, N.W.
Washington, D.C. 20230

Re: Exportation of Cook Inlet Crude Oil

Dear Mr. Assistant Secretary:

We understand that the State of Alaska intends to seek authority to export 2.2 million barrels of Cook Inlet crude oil per year. As you are aware, any such sales could only occur following an application for and the issuance of a validated license pursuant to 15 C.R.F. § 377.

The Coalition to Keep Alaska Oil represents a broad and diverse group of entities, including labor, consumer, environmental, agricultural, and business organizations. The Coalition believes exports of our limited reserves of crude oil would be contrary to the consumer, economic, and security interests of the United States.

As you probably are aware, the State of Alaska has continually sought to export crude oil. Congress, however, has consistently placed restrictions on such exports. In 1973, when Congress passed the Trans-Alaska Pipeline Authorization Act, it established a clear-cut national policy that Alaskan crude oil should be used domestically. Congress reaffirmed and strengthened that policy in 1977 and 1979 by amending the Export Administration Act to restrict the export of Alaskan North Slope crude oil to certain limited cases and only pursuant to specific Presidential findings and subsequent Congressional approval. Most recently, in 1984, the U.S. Senate voted 70-20 against even limited exports of Alaskan North Slope crude oil and 272 Members of the House of Representatives co-sponsored legislation to indefinitely extend the restrictions contained in section 7(d) of the Export Administration Act of 1979. Pending legislation to reauthorize the Act would extend these restrictions for 5 years.

Exports of Cook Inlet crude oil are likely to be inconsistent with the national interest and to harm members of the Coalition. Given our continued concern about exports and the immediate and irreparable harm even limited exports are likely to cause, we request that we timely be advised of the receipt by the Department of Commerce of any application for a validated license to export Cook Inlet crude oil and that we be afforded an opportunity to comment while the application is being reviewed.

I myself or a member of the Coalition will telephone your office to arrange a mutually convenient time when we can meet to discuss our concerns and to agree upon a method for ensuring that your agency has an opportunity to consider our views should it receive a validated license application.

Sincerely yours,

Howard Marlowe, Director

HM:kac

cc: The Honorable Malcolm Baldrige
The Honorable Donald P. Hodel

UNITED STATES DEPARTMENT OF COMMERCE
International Trade Administration
Washington, D.C. 20230

16 APR 1985

Mr. Howard Marlowe
Director
Coalition to Keep Alaska Oil
815 16th Street, N.W.
Suite 309
Washington, D.C. 20006

Dear Mr. Marlowe:

Thank you for your April 1, 1985 letter regarding a possible request to export crude oil from Alaska's Cook Inlet.

Crude oil exports are restricted by five separate and often overlapping statutes. The Department reviews and acts on all export license applications in conformance with the provisions of the appropriate statutes and the Export Administration Regulations. These applications and the supporting documentation that accompany them are treated as company confidential as required by Section 12(c) of the Export Administration Act. Accordingly, we do not discuss the content of individual applications with those who are not parties in the proposed transactions. Thus, we would not be able to notify you of the receipt of an application to export Cook Inlet crude oil, nor would we be in a position to discuss the details of any such application or even comment on whether we had received an application.

However, the Department's Export Administration Regulations are drafted in a manner that effectively blocks the export of virtually all domestically produced crude with the exception of certain exchanges with adjacent foreign countries to facilitate transportation. Currently, the export restrictions embodied in these statutes can only be overcome through the issuance of a national interest finding. The President would be required to issue the finding for four of the five statutes. The Secretary of Commerce would be required to issue the finding under the Energy Policy and Conversation Act (EPCA). As part of a national interest finding, we would be required to amend our regulations. Amendments of our regulations under the provisions of EPCA, the statute most applicable to Cook Inlet oil, would require a notice of proposed rulemaking before any final action is taken. You, of course, would have an opportunity to comment on our proposal at that time.

I appreciate your interest in the Department's short supply export control program. Mr. Walter J. Olson, Deputy Assistant Secretary for Export Administration, would be pleased to meet with you and other representatives of the Coalition to hear your concerns. Mr. Olson may be reached on 377-5491.

Sincerely,

William T. Archey

William T. Archey
Acting Assistant Secretary
for Trade Administration

SCOMM

#46:34

STATE OF ALASKA

POUCH V
JUNEAU, ALASKA 99811
(907) 465-4941

HOUSE SPECIAL COMMITTEE ON OIL AND GAS

HJR 66

HJR 66 proposes to implement a national crude oil import fee. The premise of this resolution, which is embodied in similar proposals before Congress, is that the federal deficit will be lowered and the economies of oil-producing states will be enhanced by artificially raising the price of oil through imposition of an import fee.

Although using this approach to raise oil prices is appealing, the import fee is fraught with problems. In light of HJR 66 being directed toward the President, leading members of Congress, and Alaska's congressional delegation, this resolution should be reviewed in terms of both national policy and the United States' economic ties with other nations.

An import fee is opposed by several major oil producing companies, including Exxon, Mobil and Chevron, as well as by the American Petroleum Institute and the Independent Petroleum Association of America.

Oil industry opposition is largely based on the fact that most major oil companies import much of their product. Vertically integrated corporations, by paying a higher price for imported oil, will also be placed in the position of having to charge more for refined products. Consequently, these companies will incur greater market competition from foreign refiners.

The oil industry also views the import fee as a tax which, by propping up oil prices, will al o result in increased windfall profit and corporate i ome taxes. An import fee, by raising the cost of feedstock, would also result in a direct increase in consumer energy costs. This last factor has led to regional diviseveness on the import tax issue between the eastern and western states.

Exxon has stated that "These additional fees, which are in effect taxes, would increase consumer prices, increase inflation and reduce real gross national product. In addition, they would distort competition among fuels, place energy-intensive U.S. manufacturing industries at a competitive disadvantage against foreign competition and fall inequitably on different regions of the country."

Hardest hit among U.S. industries would be steel, aluminum and petrochemicals, since these major industries would be forced to compete on foreign markets with the disadvantage of paying significantly higher prices for oil. Higher prices for products of U.S. manufacture would likely result in an increase in our foreign trade deficit, since the added cost of the import fee would make the cost of these products less competitive.

An import fee would also hurt major oil exporters to the U.S., such as Mexico, which are already having great difficulty in repaying loans to U.S. banks. Canada and Venezuela would also suffer economically because of their high volume of oil exports to the U.S.

Other problems with the import fee are its uncertain revenue producing capabilities, its effect on raising inflation, its negating of the gains realized by the recent fall in the value of the U.S. dollar, and its means of finding additional revenues to offset President Reagan's proposed tax cuts.

In terms of reducing the federal deficit, the possibility arises that the national economy, spurred on by lower oil prices, will generate more deficit-reduction dollars than would be realized through the import fee. In this sense, the slowing of national economic growth through imposition of the import fee might work against attempts to lower the deficit.

Lower oil prices have also resulted in lower consumer prices and lower rates of inflation. It is difficult to understand how increasing consumer costs, thus lowering national savings rates, and increasing inflation will help to lower the deficit. The improvement in foreign markets for U.S. products, enhanced by devaluation of the U.S. dollar, would also be lost through imposition of an import fee. At the same time, import fees that are tied directly to the price per barrel of oil would generate highly fluctuating revenues dependent on the number of barrels imported into the U.S.

Another difficulty is the possibility that the imposition of an import fee might take effect or be in effect at a time when oil prices are higher than they are at this time. Higher oil prices would warrant the lifting of the fee, though both consumers and industry would argue that imposing the fee and then removing it would remove stability in the marketplace.

An Energy Tax Boost Is Appealing to Congress As Oil Prices Decline, but the Issue Is Divisive

By Jeffrey H. Birnbaum
And David Rogers
Staff Reporters of The Wall Street Journal

WASHINGTON—There's no such thing as a perfect tax.

That's what more and more lawmakers are realizing about energy taxes. As oil prices have fallen, Congress has focused on energy taxes as a relatively painless way to raise revenue to help address two of its most pressing legislative problems: deficit reduction and tax overhaul.

But legislators are finding that none of the energy levies under discussion, such as an oil-import fee and an increase in the federal gasoline tax, are easy or painless. Energy taxes are divisive. They pit lawmakers from one part of the country against those from another, and they set industries to fighting. They also are believed to fall most heavily on taxpayers who are least able to pay. And they could alienate some allies of tax overhaul.

Indeed, the whole question of whether to raise revenue is still in dispute. "It's a very, very tricky issue," says Joseph Minarik, a tax expert at the Urban Institute, a nonprofit Washington think tank. "It will be very hard politically to come to any sort of agreement."

Door Is Opened

An intense debate about energy taxes looms. President Reagan has opened the door for the Senate Finance Committee to include either an oil-import fee or an increase in the federal gasoline tax in its tax-overhaul bill. His only stipulation: The extra funding can be used to keep the package from raising less revenue than current law, but not to increase revenues above current levels.

The tax-writing Finance Committee appears to be moving to take advantage of the president's offer. Demands by the president and panel members to lower tax rates and to retain or enhance tax preferences in the tax-overhaul bill will cost in excess of $100 billion over five years. The committee likely will need to look outside of the income tax to find that much money.

"No matter how you jimmy it and pry it, you just can't get there by moving the shells around," says Finance Chairman Bob Packwood (R., Ore.). He has said an oil-import fee or gasoline-tax increase could be part of his tax-revision bill.

Powerful Challenge

But Sen. Packwood and the president are being challenged by powerful colleagues, notably Senate Majority Leader Robert Dole (R., Kan.) and the chairman of the Senate Budget Committee, Pete Domenici (R., N.M.). These lawmakers, and what Sen. Dole estimates is a majority of the Senate, believe that any new revenue should be used to reduce federal budget deficits and not to pay for what many believe to be the luxury of lowering tax rates, the main attraction of tax overhaul.

Major Energy Tax Proposals

Revenue raised over five years
(In billions of dollars)

Oil import fee
$4 a barrel — $42.4
$8 a barrel — $81.4
$8 with 50% windfall profits tax — $86.2

Gasoline tax
Increase of 21 cents a gallon — $92.0

BTU tax
6% tax on value of all energy products — $102.2

Source: Treasury Department

Much of this deficit-comes-first talk is a thinly veiled effort to kill the tax-overhaul bill. Many senators, like Sen. Domenici, want to avoid the major tax increase for business that is an integral part of the tax-overhaul package. But, at least for now, a petition seeking to set aside tax revision in order to confront the deficit has been slowed. Senate Democrats are hesitating to sign it, hoping that Republicans will act themselves to sink their own president's top domestic initiative.

The oil-import fee, which commands the support of several of the most senior members of the Finance Committee, would appear to be the Senate's first choice. But beneath the surface lies a caldron of problems.

Chief among these is the regional warfare that an oil-import fee would ignite. Lawmakers from states that produce their own oil, primarily in the Southwest and the West, are eager for the tax. It would prop up the falling price of oil and help their already hurting home-state drillers. But lawmakers from places distant from oil fields, especially the Northeast, would feel only the pinch from higher oil prices, particularly in heating fuel. Sen. Claiborne Pell (D., R.I.), along with 12 colleagues, has introduced a resolution opposing the import fee.

This dispute would tend to make enemies of friends of tax overhaul, a controversial measure that needs as many friends as it can get. On the Finance Committee, for example, some of the strongest supporters of tax revision, such as Sen. John Chafee (R., R.I.) and Sen. George Mitchell (D., Maine), vehemently oppose an import fee. "It is reprehensible," Sen. Mitchell says. "It really represents a tax on the middle and lower-income levels to benefit those on the very top of the income scale."

There are other problems. An oil-import fee would offset some of the inflation-suppressing effect of falling oil prices and, perhaps, hinder economic growth as a result. The tax would hurt some U.S. allies, such as Mexico, Canada and Venezuela, which are major exporters of oil to the U.S. Even a staunch advocate like Sen. Lloyd Bentsen (D., Texas) says that the oil-import fee is an inconsistent source of revenue because, in its most likely version, its yield would fluctuate with the price of oil.

The oil industry itself is split. Most major oil companies dislike an import fee because they import much of their product. The petrochemical industry has the same objection. On the other hand, many, but not all, domestic drillers are clamoring for such a fee. A major association of drillers, the Independent Petroleum Association of America, opposes any sort of energy tax, partly because it fears that any energy-tax debate might open the door for a new tax on "windfall" profits.

The gasoline tax would cause the same regional bickering as the oil-import fee, but in reverse. Northeastern lawmakers, such as Sen. Lowell Weicker (R., Conn.), call the gasoline tax "more equitable" than the oil-import fee. But it is disdained in the Southwest and the West, where drivers must routinely cover long distances.

The gasoline tax also is highly visible, which is a liability, particularly when President Reagan has heightened taxpayers' resistance to tax increases. And to produce significant revenue, this tax would have to be raised substantially from its current nine-cent-a-gallon level.

To reduce the regressivity of energy taxes, some liberals want a rebate or an income-tax deduction to ease the impact on middle-income and lower-income families. Others would impose the broadest type of tax on energy to spread its impact among many groups. One version of this tax, the BTU—or British Thermal Unit—tax, would tax all energy products across the board. "Smaller is beautiful, and broader is better," says Rep. Philip Sharp (D., Ind.).

Some combination of taxes on domestic and imported oil also is being viewed as a possible compromise. But not for everyone. Sen. Chafee doesn't want any new revenue source as part of the tax-revision bill. Instead, he wants to pressure tax writers to produce "true tax reform," which pays for lower tax rates by curtailing tax preferences, and eschews new taxes.

BUSINESS

Economists See Faults in Oil Import Fee

By John M. Berry and Anne Swardson
Washington Post Staff Writers

Imposition of an oil import fee—which is actively under consideration by some Reagan administration officials and members of the Senate Finance Committee—would reverse some or all of the economic growth and lower inflation and interest rates generated by the current decline in oil prices, many economists say.

These economists, who range from conservative to liberal, question whether it would be worth paying that price to boost federal revenue—particularly if the purpose of the fee is to replace the revenue lost from lowering personal income tax rates by a greater amount and increasing corporate taxes by a smaller amount than proposed in the House-passed tax revision bill pending before the committee.

Moreover, such a fee does not seem to be the first choice of many economists because it would raise business costs and make American products less competitive on world markets.

Many economists also see falling oil prices as a special boon this year when the inflationary impact of the declining value of the U.S. dollar on foreign exchange markets is expected to be felt. Some analysts fear that the Federal Reserve Board could decide to tighten credit conditions and slow economic growth if inflation begins to accelerate. The oil price decline is seen as reducing that possibility.

Perhaps surprisingly, most segments of the oil industry oppose such a fee. Not only are major companies such as Exxon Corp., Mobil Corp. and Chevron Corp. against it, but so is the Independent Petroleum Association of America, whose members are small drilling and producing companies. "... Taxes, tariffs, fees or quotas on imported crude oil or petroleum products would be counterproductive to the national interest at this time," a recent IPAA policy statement said.

A $5-a-barrel fee, the most commonly mentioned figure, would be equal to about 12 cents a gallon and raise about $8 billion a year if imports of crude oil and refined products remained at last year's levels.

Imports account for less than 30 percent of U.S. petroleum use. If their cost were raised by a fee, the price of domestically produced crude oil and natural gas liquids also would go up, and the U.S. oil industry's revenue would increase by abqut $20 billion.

A portion of that increase would be taxed away through the federal crude oil windfall profits tax as the price of oil rose, and through the corporate and personal income taxes as well. How much additional federal revenue those taxes might yield would depend on a number of things, including how higher oil prices affected the overall economy, economists say.

There also could be some increase in natural gas and coal prices—or at least less of a decline than otherwise would occur—if oil prices are propped up by an import fee.

Altogether, the direct increase in the cost of petroleum products, if passed through entirely to users, would approach $30 billion and be equal to about 0.7 percent of this year's gross national product, which is expected to be about $4.2 trillion.

It probably would take about two years for the higher prices to work their way through the economy, according to economists who have studied the situation.

At the moment, oil prices are falling while the import fee is still only a proposal, albeit apparently a serious possibility, according to Senate Finance Committee Chairman Bob Packwood (R-Ore.). That timing difference led economist Alan Greenspan of Townsend-Greenspan & Co to caution the committee last week. "There is somehow an assumption it is politically easy" to impose a fee, Greenspan said. "There is almost never a way to time such a tax so that prices don't fall and then rise again when it is put on."

Greenspan's point was that whatever restraining influence falling oil prices may have on various price indexes will have occurred already by the time an import fee could be imposed. Then, when the higher oil prices begin to show up in the indexes, the additional inflation will be highly visible, he predicted.

The Finance Committee is considering the fee for several reasons, including providing some price support for the sagging domestic oil industry and for bankers who have risky loans to it. But the principal concern is to find added revenue to offset other

See OIL TAX, F8, Col. 1

Oil Import Fee Questioned

OIL TAX, From F1

tax cuts that President Reagan and members of the committee want to make as part of the massive tax revision bill passed late last year by the House of Representatives.

Several committee members are backing legislation to enact a fee. Sen. Malcolm Wallop (R-Wyo.) wants a sliding fee to capture any decline in crude prices below $22 a barrel. Sen. David L. Boren (D-Okla.) is pushing a $5-a-barrel fee that would begin to phase out if the price rose above $25 a barrel and would disappear after the price reached $30 a barrel.

Both proposals include a higher fee on imported refined products to provide additional protection for U.S. refiners. Wallop would add $3 a barrel; Boren, $10 a barrel. Sen. Lloyd Bentsen (D-Tex.) is a cosponsor of both bills. Senate Majority Leader Robert J. Dole (R-Kan.) also favors an import fee, as does ranking committee Democrat Russell B. Long (D-La.).

All the sponsors are from oil-producing states. Committee members from other parts of the country generally oppose the idea. For example, Sen. George Mitchell (D-Maine) said, "It's an incredible windfall for the domestic oil producers. I don't see what benefit there is to the nation in that. And it would be extremely inflationary."

This split mirrors the different economic impact a fee would have in various regions. Areas such as New England that are heavy users of oil products would pay higher prices but get little of the benefits flowing to the domestic oil industry. Oil-producing areas in the Southwest also are heavy oil consumers, but they would share in the gains of the domestic producers.

Greenspan, a former chairman of the Council of Economic Advisers, noted that a fee on oil imports would raise the cost of chemical products made from oil, of which the United States is a substantial exporter. Higher oil prices could have a significant impact on many lower-cost products, he said.

Nevertheless, Greenspan believes that the fee ought to be looked at as a possible revenue source. "It is the least worst of the available political decisions," he declared. "Whether it's desirable is another question."

Another former CEA chairman, Murray L. Weidenbaum of Washington University, who also testified before the Finance Committee last week, said he would not impose an oil import fee because it would worsen the U.S. competitive position.

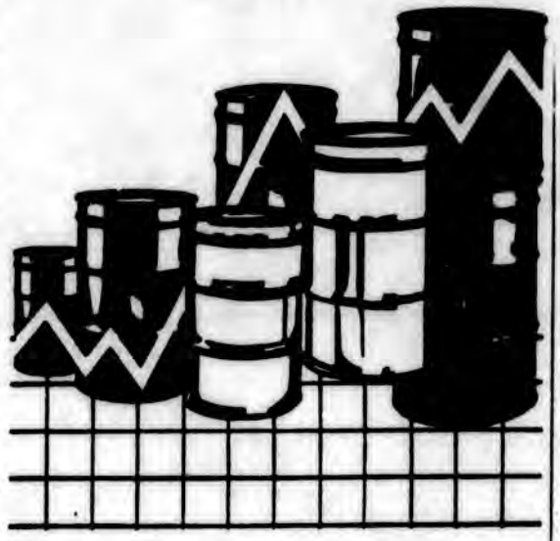
John Makin, a tax economist at the American Enterprise Institute, opposes the proposal. "I really think the energy tax is just a habit of thought," he said. "There was a lot of talk about it in the late 1970s. People have reports and studies, and they dust them off. I don't think that's a good way to go."

Charles L. Schultze of the Brookings Institution, Weidenbaum's predecessor at the CEA, flatly opposes an oil import fee. Falling oil prices "will take some or all of the sting out of the falling dollar," he said. Putting on a fee "would undo some of the good things" that lower prices will produce.

A $5-a-barrel fee would generate about $10 billion in additional revenue, Schultze estimated. "If that was the last $10 billion needed for a decent budget package [to reduce the deficit], I'd hold my nose and buy it, but I would not advocate it," he said.

However, the Senate Finance Committee is looking at a fee primarily as a way of making Reagan-backed changes such as reducing the top personal income tax rate from a proposed 38 percent to 35 percent—it is now 50 percent—and increasing the current $1,080 personal exemption to $2,000 for all but the highest-income taxpayers.

Other changes Reagan is seeking include a corporate income tax rate of 33 percent instead of the 36 percent in the House bill. The president and some committee



members also want to reduce depreciation allowances on business investments in new plants and equipment significantly less than did the House.

Harvard University economist Martin Feldstein, another former CEA chairman, strongly advocates reducing investment incentives by less than what the House has proposed. In order to do that, while still keeping the tax revision measure from generally neither raising more or less revenue than current law, Feldstein would use the fee. "It's a good tradeoff," he said, adding, "It would be better still to have a combination of an oil import fee and a gasoline tax, with heavier weight on the gasoline tax." Feldstein is much less enthusiastic about using part of the revenue from an import fee to offset revenue lost by reducing the top marginal rate for individuals from 38 percent to 35 percent.

Most of the discussion in recent months about an oil import fee has been in the context of raising revenue to reduce the large continuing federal budget deficits. It was in that vein that President Reagan included a $5-a-barrel fee on both imported and domestic oil in a contingency tax package he proposed in early 1983. That package—which he later let be known he did not want to have passed—would have gone into effect only if several conditions were met, including prior enactment of major spending cuts.

Recent public statements by some of the major oil companies, including a Mobil Corp. advertisement in today's Washington Post, generally oppose the fee as a way of cutting deficits. Mobil calls the fee "a dud" because of its inflationary and competitive consequences for the American economy.

An Exxon Corp. statement declares, "These additional fees, which are in effect taxes, would increase consumer prices, increase inflation and reduce real gross national product. In addition, they would distort competition among fuels, place energy-intensive U.S. manufacturing industries at a competitive disadvantage against foreign competition and fall inequitably on different regions of the country . . .

"If it is determined that tax increases are necessary, however, they should be as broad-based as possible."

Former Treasury tax economist Harvey Galper has been invited by the Finance Committee to testify this week on the impact of taxes on international competition and capital formation. Galper said he plans to tell the committee that the most solid way to improve America's competitive position and to increase capital formation is not by providing larger investment incentives through the tax code—especially if the price is imposition of an oil import fee—but rather to increase national saving. And he said that the best way to increase the amount of savings available for investment is to reduce federal budget deficits.

Oil Levies Were a Bad Idea, Anyway

By Charles W. Kadlec
And Arthur B. Laffer

The combination of weakening oil prices and Congress's failure to restrain its profligacy has quickened the pulses of those who wish to protect U.S. oil producers from "cheap" foreign competition and those who want to buy their way out of the budget impasses at the expense of the American taxpayer.

An oil-import fee offers an obvious way to please both groups under the guise of fiscal responsibility. A tax on imported crude and refined products that matches a world oil-price decline, for example, would leave oil and refined-product prices in the U.S. unchanged. Thus, it is argued, such a tax will have little effect on U.S. economic activity. It merely represents a transfer of funds from foreign oil producers to the U.S. Treasury. Moreover, it would provide some price relief to struggling U.S. refineries and encourage the production of U.S. oil. Finally, at the current level of imports, a $5-a-barrel tax on foreign crude and a separate tax of $10 per barrel-equivalent on refined products would raise more than $11.5 billion a year.

A Specious Argument

This analysis, seductive as it might have seemed in Washington until President Reagan tossed cold water on the idea yesterday, ignores the fact the U.S. economy competes with the rest of the world, which will be enjoying the benefits of lower oil prices. It is therefore specious to argue that foreign suppliers of petroleum products would bear the full burden of the import fees. The same failure to recognize full U.S. integration with world markets led most experts to forecast significantly higher gasoline and heating-oil prices here when domestic oil prices were decontrolled in 1981. Indeed, in some respects, the imposition of crude-oil import fees alone would have the opposite effects of the wellhead price controls that were repealed.

U.S. refineries compete directly with foreign counterparts in pricing products to distributors of gasoline, heating oil and diesel fuel. This competition assures that U.S. wholesale prices are equilibrated with world prices, without direct reference to U.S. crude-oil prices. If domestic refineries were to raise their prices above world prices, they would quickly lose their customers to refineries operated in the Caribbean, Canada and Europe.

Evidence is plentiful supporting this view of a global refined-product market operating virtually independently from the domestic crude-oil markets. During the entire period of price controls, heating oil prices in New York and Rotterdam (the major refining center in northwestern Europe) were within the per-gallon shipping cost of three cents to 6.5 cents between the two markets. Virtually identical observations were made by Rand Corp. economists Charles E. Phelps and Rodney T. Smith in their 1977 study of pricing regulations on domestic energy markets.

Moreover, the spot prices in the two markets were left essentially unchanged by decontrol. On Jan. 12, 1981, a gallon of heating oil sold for 97 cents in Rotterdam and $1.02 in New York. Oil prices were decontrolled on Jan. 28, and on Feb. 2, a gallon of heating oil again sold for 97 cents in Rotterdam and $1.02 in New York.

More to the case at hand is the impact on domestic prices of the lifting of a $2-a-barrel import fee on crude oil in January 1976. The effect was washed out in integrated world markets, and heating-oil and gasoline prices were largely unaffected.

The integration of U.S. and world refined-product markets makes the point at which any oil tax is levied as important as the tax itself in determining the effect of the tax on the economy.

If the tax were levied solely on foreign crude oil, then the burden of the tax would be borne by domestic refineries. A $5 import fee would allow domestic oil producers to raise their prices an equivalent amount. However, the import fee leaves unchanged the world price of refined products. As a result, domestic refineries would be able to pass on little if any of the now higher cost of crude oil to their customers. In general, refinery margins would be narrowed by the amount of the tax.

The impact of a tax on foreign crude oil would be to increase revenues to the U.S. Treasury and the profitability of domestic oil producers at the expense of reduced profitability of domestic refineries, both absolutely and relative to foreign-based refineries. In the aftermath of such a tax, imports of refined products would be expected to rise while imports of crude oil and utilization of domestic-refinery capacity would be expected to decline. This result is just the reverse of what happened when the oil-import fee was lifted in 1976. As then, wholesale prices of refined products would be left virtually unchanged.

They would most hurt those industries that use energy most intensively and that also face foreign competition. Domestic steel, aluminum and petrochemicals come to mind.

If, as proposed, a $10-a-barrel tax were levied on imported refined products, domestic refined-product prices would be elevated above the world level by $10 a barrel compared with just $5 a barrel for crude oil. In such a case, distributors of refined products would have no choice but to pay a price equal to the world price plus the tax for their supplies. This approach would widen profit margins for U.S.-located refineries and shift the mix of imports toward crude oil and away from refined products. Before-tax profit margins within the domestic oil industry would rise by the amount of the tax.

But since many users of refined products compete directly or indirectly with foreign suppliers of goods and services, profit margins throughout the rest of the economy would be squeezed. The process of arbitrage does not stop at refined-product markets. Domestically based production facilities that face foreign competition will find it difficult if not impossible to pass on higher energy prices to their customers. Such an overall energy tax would thus hurt those industries the most that are most intensive in the use of energy and that also face foreign competition. The domestic steel, aluminum and petrochemical industries are just three examples that immediately come to mind. To the extent that recently negotiated steel-import quotas protect that industry, then those industries intensive in the use of steel, including autos, also would be affected.

To put it differently, to the extent possible, the American consumer will try to obtain the cheaper foreign oil in whatever form possible. If the imports of crude oil at the world price are blocked, then foreign crude oil will be displaced by imports of refined products. If in a similar fashion the price of imported refined products are elevated above the world level, then energy in "fabricated form"—whether it be foreign-sourced steel, automobiles, plastics or fertilizer—will be sought.

Additional Revenue Isn't Warranted

The least damaging of the above taxes would be a fee solely on foreign oil, though it could sound a death knell for many domestic refiners, who would bear the burden of this tax. Broadening the tax to include imports of refined products would increase profits in the domestic oil industry, but impose yet another competitive disadvantage on American industry. Slower economic growth and intensified pressure for more trade restrictions would be the inevitable result. The cost of such an expanded fee is likely to exceed by far any perceived short-run benefits.

Additional revenue is not warranted. If the members of Congress are serious about balancing the budget, they will cheer the stimulative effects of lower oil prices on the American economy and get back to work on reducing the deficit solely through spending cuts.

Messrs. Kadlec and Laffer are Los Angeles-area economic consultants.



WATCHING WASHINGTON

with Patrick Crow

New import fee approach

Fresh ideas are a scarcity on Capitol Hill.

Most bills have an aura of deja vu because some congressmen introduced a similar bill in the past—or even the current—session.

Among the most frequently filed energy bills are ones calling for an oil import fee, which the industry generally opposes.

The American Petroleum Institute and Independent Petroleum Association of America have come out against an import fee on crude and products. Small refiners, however, have been pressing for protection from imported products.

Last summer, senators considered tacking a $5/bbl oil import fee onto a budget bill until the antitax Reagan administration threatened to veto it (OGJ, Aug. 5, 1985, p. 40).

The Senate voted on a $10/bbl crude and products import fee last November, rejecting it 78-18.

Sen. Gary Hart (D-Colo.) offered the proposal as an amendment to a budget bill, saying it would protect the nation when world oil prices rise again, help reduce the federal deficit, and spur U.S. exploration.

Critics responded that the amendment had less to do with eliminating the federal deficit than it did propping up the oil and gas industry.

And propping up the industry is the unvarnished goal of a bill Sens. Malcolm Wallop (R-Wyo.) and Lloyd Bentsen (D-Tex.) filed last month.

Adding a new wrinkle to an old issue, they proposed an "imported energy excise tax" which would set a $22/bbl "minimum survival value" that a barrel of crude or equivalent products should bring on the domestic market.

If the price of imported oil or products fell below $22, the tax would make up the difference, ensuring a $22/bbl floor for U.S. oil production.

Unlike some other oil import tariff bills, the Wallop-Bentsen measure will at least get an airing. Wallop, chairman of the Senate finance committee's energy and agriculture taxation subpanel, plans hearings soon.

Wallop said passage of the bill would protect domestic producers and refiners from large fluctuations in price and supply. The fee would not apply to home heating oil and feedstocks used to make exported goods.

Bentsen said if world crude prices continue to decline, they will trigger an increase in U.S. demand, thus shoring up prices again.

He said, "Under this bill, that won't happen. When world oil prices fall below $22, that decline will not be felt in this country.

"That could mean world prices could continue to decline instead of being firmed up by an increase in demand, and that could spell further trouble for the Organization of Petroleum Exporting Countries."

With the administration opposed to new taxes and Congress favoring low energy prices, prospects for the Wallop-Bensten bill appear slim.

But it does have a chance. It would raise several billion dollars at a time Congress will be scrambling for ways to reduce the federal budget deficit under mandates of the Gramm-Rudman Act.



WATCHING WASHINGTON

with Patrick Crow

Import fee still alive

Momentum continues to build for passage of an oil import fee as Congress comes to grips with the budget deficit.

Although a fee could raise billions of dollars a year, legislators have been reluctant to increase their constituents' energy costs.

Falling oil prices have removed that problem. Consumers would not feel the bite of the tax.

It's difficult to gauge support for an import fee in the populist House of Representatives. But support clearly is building in the Senate, which twice rejected a fee in the last 6 months (OGJ, Jan. 13, p. 31).

True, President Reagan continues to oppose in principle any new tax—and an oil import fee is undisguisably that. Sen. Robert Packwood (R-Ore.), finance committee chairman, recently discussed new taxes with Reagan and later related, "On a scale of one to 10, he was minus five."

But senators discount that because Reagan's top advisers privately are telling them a 10¢/gal gasoline tax or a $4/bbl oil import fee could generate $50 billion during 5 years. Senators also recall that 4 years ago the administration proposed a $5/bbl fee to resolve a budget problem.

There are two possible avenues for a fee: in budget or in tax reform legislation. Both seem open.

Pete Domenici (R-N.M.), Senate budget committee chairman, supports a fee. Committee member Ernest Hollings (D-S.C.) flatly predicts Congress will vote a fee in the 1987 budget.

On the Senate finance committee, which is working on the tax reform bill, David Boren (D-Okla.), Malcolm Wallop (R-Wyo.), and Lloyd Bentsen (D-Tex.) are pressing for a fee. They reason that a fee would shore up U.S. oil prices and the suffering oil industry in their home states.

Wallop chairs an energy taxation subcommittee that will conduct hearings Feb. 27-28 on an import fee.

Even senators not on the finance or budget committees sense the momentum. Don Nickles (R-Okla.) recently told Reagan that for the sake of fairness an import fee should be levied equal to the "windfall profits" tax oilmen pay.

Nickles said, "My guess is that you probably will see an oil import fee some time this year."

James McClure, energy committee chairman, opposes a fee. "I don't know of any way you can levy one without creating competitive distortions in the energy market," he says.

But he concedes, "There will be a great deal of pressure and the possibility of some movement in that direction."

A recent finance committee decision may make it easier for oil state senators to try to substitute an import fee for higher oil industry taxes in the tax reform bill.

Rather than work from the House-passed bill or Reagan's proposal, the committee asked Packwood to draft a "starting point" bill for it to use when markups begin.

That puts tax reform on an even slower track. A bill won't go to the Senate floor before June, and any ensuing House-Senate conference committee will take much more time.

Energy Experts Say Reagan's Tax Plan Favors Oil and Gas Over Other Sources

4/18/85

By Robert E. Taylor
Staff Reporter of The Wall Street Journal

WASHINGTON – President Reagan's tax proposal would give a competitive advantage to oil and gas over competing energy sources.

The president's plan would preserve a major tax subsidy for oil and gas drilling while eliminating tax incentives to develop plentiful coal and renewable energy sources, including wind and solar power. In effect, the proposal would set a national energy policy of relying more heavily on America's dwindling oil and gas reserves, draining them faster.

The administration says it decided to retain some controversial oil and gas tax incentives largely because dropping them would "increase U.S. dependence on foreign energy, exacerbate the problem of the trade deficit, and again make the U.S. vulnerable" to an oil embargo.

But some energy experts, as well as Mr. Reagan's own Treasury Department, say that oil and gas tax breaks eventually could undermine the president's goal of reducing reliance on fuel imports.

The oil and gas tax breaks are likely to be the focus of hearings today as the House Ways and Means Committee looks into the energy aspects of the president's tax proposal.

Reducing U.S. Vulnerability

The Treasury said last November that eliminating oil and gas tax subsidies would "reduce vulnerability to foreign supply disruptions" in the long-run by encouraging conservation and slower depletion of U.S. reserves. In addition, many economists say the oil and gas tax breaks would attract investment away from other enterprises, including competing energy industries such as coal and wind power. Short-term strength in oil production, they say, will be offset by weaker development of these other energy sources.

Some experts say the U.S. should shepherd its remaining petroleum reserves and develop lasting alternatives. "We probably shouldn't continue to rely so totally on oil and gas," says Michael Blum, a Merrill Lynch & Co. investment banker who formerly directed the Energy Department's research and development projects.

If the goal is to reduce energy imports, adds Robert Stobaugh, an editor of the book "Energy Future" and a Harvard Business School professor, "you could make as big a case for tax incentives for solar, coal and conservation as you do for oil."

The oil tax breaks have their defenders. Mr. Stobaugh says any slowing of U.S. oil production would be hard to reverse if the need arose. "Once the industry falls below a certain level of activity," he says, "it takes a long time to get it started up again."

Little Incentive in Reagan Plan

Independent oil producers, in fact, insist that the Reagan plan provides too little tax incentive to sustain current production. While major oil companies can generate funds internally, independents rely on the tax breaks "to produce money to drill other wells," argues Michel Halbouty, a Houston oilman and a Reagan administration energy adviser.

Mr. Stobaugh argues that write-offs of drilling costs can be justified as research and development expenses. Also, he says, coal and other energy sources are imperfect substitutes for oil and gas.

The administration has been ambivalent about energy self-reliance. It wants to lower fuel-efficiency requirements for cars and stop stockpiling oil in the U.S. strategic reserve during the current glut. Still, the administration argues that the nation needs to extend some oil industry tax incentives to encourage risky drilling ventures. Otherwise, it says, oil and gas production would drop by the energy equivalent of one million barrels a day. The White House argues that this is a national security issue and, thus, an exception to its view that the tax code shouldn't promote economic or social goals.

Environmental Action, a group often critical of the administration, calculates that the Reagan plan would preserve annual oil and gas industry tax breaks of $8 billion to $12 billion—about $4 billion less than current levels. In contrast, the group figures that the plan would eliminate all $1 billion in breaks for renewable energy and conservation and three-quarters of about $42 billion in tax incentives for coal.

Under the president's proposal, the oil industry would lose most percentage depletion, which allows write-offs of 15% of the value of oil produced. But percentage depletion already had been scaled back by Congress.

'Intangible' Write-Offs

More important, the president would let oil and gas drillers continue to write off in one year, instead of for the life of the well, all of their "intangible," or, non-equipment, drilling expenses.

Last year, Treasury concluded that the intangible-drilling cost write-off undermines tax equity, diverts investment from more productive activities, promotes "excessive reliance upon drilling" compared with other exploration techniques, and mostly benefits the rich.

Yet, the industry's political and economic clout played a role in reversing Treasury's view within the White House, administration aides concede. Democrats also are likely to find it difficult to resist the industry's political strength. Many large coal companies, moreover, are owned by oil giants. Rather than criticize the oil tax breaks, they seek comparable incentives.

The major loss for coal companies stems from the proposal's five-year phase-out of their 10% depletion allowance for coal mined. Carl Bagge, president of the National Coal Association, calls this allowance coal's "equivalent to oil and gas's intangible drilling costs."

Merrill Lynch's Mr. Blum contends that the proposed tax changes could trigger a "depression" in the Appalachian states.

The loss of tax breaks, Mr. Blum says, also would slow the research and development of renewable energy sources, including solar, wind and alcohol fuels.

Oil Import Fee Faces Trouble in Congress

Despite signals from President Reagan that he could accept an oil import fee as part of an overhaul of the federal tax system, the proposal appears to have only a slim chance of enactment.

Members of the Senate Finance Committee, in the preliminary stages of drafting a tax-revision bill, are unlikely to include the fee as part of their plan because of a host of regional and economic problems, according to aides.

Three economists told the panel Feb. 6 that the fee would raise relatively little revenue, would erase some of the economic benefits of declining oil prices and would be an inefficient way to help domestic oil and related industries.

"I think they just nailed the coffin shut," remarked John Heinz, R-Pa., when the witnesses concluded. Heinz and five other committee members from the energy-consuming Northeast have said they are fiercely opposed to the fee.

In addition, senators who generally favor an import levy are split over whether it should be used to reduce the deficit or as part of a "revenue-neutral" rewrite of federal tax law.

As the tax comes under more scrutiny, others are questioning its impact on trade and the overall prospects for economic growth.

Still, budgetary pressures could emerge later this year that might force consideration of a revenue-raising import fee as Congress struggles to meet the demands of the deficit. *(Budget pressures, p. 299)*

Committee aides note that the fee has a formidable array of backers, led by Finance Chairman Bob Packwood, R-Ore., and ranking committee Democrat Russell B. Long of Louisiana. It also has been promoted by Senate Majority Leader Robert Dole, R-Kan., and Senate Budget Committee Chairman Pete V. Domenici, R-N.M., for use in a deficit-reduction bill.

Packwood, however, has said his committee will not consider any tax increase to lower the deficit unless

—By Pamela Fessler

Disadvantages Said To Outweigh Gains

Reagan takes the lead — something the president reaffirmed in a Feb. 11 press conference that he would not do. *(News conference text, p. 317)*

"It [the fee] might come out of committee," said Finance Committee Chief of Staff Bill Diefenderfer. "But it would be after a terrible struggle."

Tax Bill's Problems

The difficulty of enacting an import fee illustrates the Finance Committee's predicament as it tries to reshape the House-passed tax bill (HR 3838) to restore a number of tax breaks and make other changes favored by members and the administration. *(House bill, 1985 Weekly Report p. 2705)*



Some members of Congress are pushing an oil import fee in hopes it will help bolster the domestic oil industry.

The committee is tentatively scheduled to begin marking up a bill by the middle of March.

Besides a number of business-related tax advantages that members would like restored, Reagan has called for a lower top tax rate and a higher personal exemption than were included in the House bill. *(Weekly Report p. 142)*

Packwood has said the panel might need as much as $130 billion over the next five years to produce a measure that raises the same amount of revenue as the existing tax system, a standard the committee has tentatively agreed to meet.

But Senate tax aides, who have been meeting almost daily as the committee staff tries to incorporate members' concerns into a draft plan, say that few areas of agreement on how to pay for the changes have emerged.

"We're just going through each provision of the [House] bill and seeing where the land mines are," said one Democratic aide, adding that they appeared to be "everywhere."

The Treasury Department has sent the committee a 26-page list of possible revenue-raising options, but almost every one is rife with controversy. They include a broad-based consumption tax, which Reagan has said he opposes, and limits on deductions for state and local tax payments. The list also includes an oil import fee, a gasoline tax and an across-the-board energy tax.

The Treasury document estimates that it will cost as much as $125 billion over five years just to make changes favored by Reagan, not to mention changes committee members would like to see.

Door Open on Oil Fee?

The import fee was given a boost during the week of Feb. 3, when Reagan and several administration officials said the president was willing to look at the levy as part of the tax-overhaul bill. This was in contrast to

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Oil Import Fee Revenues

Following are the Treasury Department's estimated revenues from imposition of an oil import fee starting Jan. 1, 1986:

Fee	Revenue in Billions of Dollars					
	1986	1987	1988	1989	1990	Total, 1986-90
$4 a barrel	$ 6.2	$ 8.4	$ 8.7	$ 9.2	$ 9.9	$ 42.4
$8 a barrel	13.0	16.8	16.3	17.0	18.3	81.4
$4 a barrel with an additional tax on domestic "windfall" profits	7.5	10.1	10.4	11.0	11.7	50.7
$8 a barrel with an additional tax on domestic "windfall" profits	14.8	19.6	19.6	20.4	21.8	96.2

previous statements by Reagan that he would not consider any new taxes for either the tax rewrite or to help reduce the federal deficit. *(Weekly Report pp. 143, 259)*

But with world oil prices dropping at a rapid pace, the oil fee has attracted considerable interest on Capitol Hill as members search for a way out of their fiscal dilemmas.

In fact, Packwood made little secret of the fact that he wanted to use the fee as part of his tax-overhaul bill before Budget Committee Chairman Domenici could lay claim to it to help reduce the federal deficit.

The fee has been promoted mainly by oil-state members who hope it would bolster the domestic oil industry, which has been stunned in recent weeks by a dramatic plunge in world prices to below $20 a barrel.

They argue that an excise tax on imports would provide much-needed protection for domestic producers against the world price decline and prevent a resurgence of U.S. dependence on foreign energy sources. Presumably, the price of domestic oil would be set at a level at or near the level of oil imports, after the fee has been attached.

Among the two proposals that have received the most attention in the Senate are bills introduced last year by Finance Committee members David L. Boren, D-Okla. (S 1507), and Malcolm Wallop, R-Wyo. (S 1997). Both measures are cosponsored by Lloyd Bentsen, D-Texas, who is also a committee member.

Boren's bill would impose a $5-a-barrel import fee on crude oil and a $10 fee on refined products, to provide additional protection for domestic refiners. Wallop's measure calls for whatever import fee would be necessary to keep the price of crude oil from falling below $22 per barrel. Both measures will be the subject of hearings by Wallop's Subcommittee on Energy and Agricultural Taxation on Feb. 27-28.

Boren and Wallop argue that the fee is needed not only to help cushion producers against the impact of the world price drop, but to protect businesses closely tied to the oil industry. In Oklahoma, for example, banks with extensive outstanding loans to producers are already feeling the pinch as the value of collateral put up by borrowers has eroded with the drop in prices. A wave of small- and mid-sized bank collapses in the state this year is feared.

"If the price drops to $15 or $12 a barrel, it will cause chaos," said Boren. "And it won't stop in Houston or Dallas, but will extend all the way to New York."

In addition, local economies and state government coffers are expected to be hurt. Texas State Comptroller Bob Bullock announced Feb. 13 that his state expected about $1.3 billion less in revenue for its fiscal 1986-87 budget as a result of the oil price decline.

Eroding Support

But promoters of the fee realize they face an uphill battle, as new questions arise about the promised revenue and other benefits of a fee.

"There are so many problems with an import fee," acknowledged a Wallop aide, "that it's difficult to see how it will get off the Hill in a form that will have the support of the original sponsors."

In order to attract broad congressional backing, Boren and others have stressed that the fee would be an easy way to raise much-needed revenue for the federal government at a time when consumer prices are likely to ease.

The Treasury Department has estimated that a $4-per-barrel fee would raise about $42.4 billion over the next five years and that an $8 fee would raise about twice that amount. *(Revenue estimates, box, this page)*

But the budgetary impact of a fee is not that simple. In promoting the administration's budget the week of Feb. 3, Beryl W. Sprinkel, chairman of the president's Council of Economic Advisers (CEA), listed a number of economic advantages from the drop in oil prices that could be wiped out by a new tax on imports.

A $10 drop in the price of oil could be expected to translate into a 1 percentage point increase in the rate of economic growth, he said, adding that declining prices would also lead to lower inflation.

Such economic results, he noted, translate into budget savings. For example, the administration estimated in its budget that each percentage point increase in the growth rate would mean a $78 billion reduction in the deficit over the next five years.

The question that some on Capitol Hill and in the administration are asking is whether the revenues raised by the fee are worth the negative impact the fee could have on the overall economy and the political struggle the proposal is likely to entail.

A 1985 study by the Congressional Research Service (CRS), done in conjunction with the econometric forecasting firm of Data Resources Inc., showed that under certain circumstances a $5-a-barrel oil fee could actually increase the deficit in the initial years.

"It's clear that with the oil import fee, what you see is not what you get," said CRS economist Lawrence Kumins.

Regional Rifts

A potentially more difficult problem for promoters of the oil import fee is the opposition it arouses from members from the Northeast and some

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parts of the Midwest, who say their constituents would bear the brunt of higher oil prices.

They argue that while a $4 or $5 import fee might raise $8 billion a year for the federal government, consumers would pay as much as $30 billion a year more for energy as domestic producers jack up their prices.

"Why tax home heating oil in places that get the 30 or 40 below zero weather in order to finance ... this long list of corporations?" asked Finance Committee member Dave Durenberger, R-Minn. Durenberger said he told Packwood he was "96 percent" against the import fee.

Outside the committee, regional objections also are strong.

Claiborne Pell, D-R.I., along with 13 other senators, introduced a "sense of the Senate" resolution (S Res 335) Feb. 6 opposing a fee.

"The truth is that it is not a good idea and it would not be painless," said Pell. "An oil import fee would impose heavy new costs on all who use oil and oil products in manufacturing and production. It would impose higher costs on all those who heat their homes with oil or use oil-generated electricity."

In the House, the fee might face its strongest Northeastern opponent. Speaker Thomas P. O'Neill Jr., D-Mass., has said he is "absolutely opposed to it.... No way would I support an oil import fee."

Boren and other proponents have said they could accommodate such regional concerns by exempting home heating oil from the fee. But opponents argue that such exemptions will only make the fee complex to administer and put pressure on legislators to exempt others, such as farmers and manufacturers, who might be hurt by the fee.

To accommodate some of the regional disparities, former CEA Chairman Martin S. Feldstein has suggested that Congress impose a gasoline tax along with an import fee. The burden of higher gas taxes, he notes, would be greater in the South and West, where consumers drive longer distances than in the Northeast.

But there are divisions even within the oil industry and within oil-producing states over whether an import fee is a good idea.

The American Petroleum Institute and the Independent Petroleum Association of America, two of the industry's largest trade groups in Washington, have come out against the fee, at odds with many oil producers.

The associations argue that Congress is unlikely to allow domestic producers to reap large financial benefits from an import fee without imposing a new domestic oil tax.

In fact, among the revenue-raising options outlined by the Treasury Department are two that would include an expanded windfall profits tax.

The current windfall profits tax would capture only a small amount of domestic oil income resulting from the fee because the tax is based on profits in excess of per-barrel oil prices that were set several years ago and are now above or at current levels. *(Congress and the Nation Vol. V, p. 530)*

Other energy-related businesses are also wary of an import fee.

Rep. Bill Archer, R-Texas, for example, has complained that the petrochemical industry would be severely burdened by the fee because its energy costs would be much higher than those of its foreign competitors, who could purchase oil outside the United States at a lower price.

Others warn that the already precarious trade position of farmers and manufacturers, who also use large amounts of energy, would be further damaged. "It would raise production costs for every single business in this country — no exceptions," economist Norman Ture told the Finance Committee Feb. 6. ■

ECONOMIC AFFAIRS NOTES

Rostenkowski Opposes Tax Bill Delay

House Ways and Means Committee Chairman Dan Rostenkowski, D-Ill., said Feb. 10 he will not agree to a wholesale delay in effective dates in the tax-overhaul bill (HR 3838) passed by the House late last year.

In a speech to the Bond Club of New York, Rostenkowski said such a change could encourage some tax abuses to continue as well as cost the federal government lost revenues.

Most of the provisions in the House bill, which lowers tax rates and restricts a number of existing tax breaks, would take effect Jan. 1, 1986. But since the Senate is unlikely to act on the measure until later this year, it is assumed many of the effective dates will be revised before the bill becomes law.

Businesses and others have complained that the uncertainty has stymied many activities covered by the tax bill. For example, sales of tax-exempt bonds, which would be severely restricted under HR 3838, have virtually come to a standstill. *(House bill, 1985 Weekly Report p. 2705)*

The House and the Senate have passed non-binding resolutions (H Res 335, S Res 281) backing a change in the effective dates until Jan. 1, 1987. Senate Finance Committee members have asked Chairman Bob Packwood, R-Ore., and ranking Democrat Russell B. Long, La., to meet with Rostenkowski, ranking Ways and Means Republican John J. Duncan, Tenn., and Treasury Secretary James A. Baker III, to draw up a statement outlining their intention to back a Jan. 1, 1987, effective date for the bill. Rostenkowski said he would meet with Packwood, but warned he would agree only to "selective" changes. ■

PAC Gifts to Tax-Writers Double

According to a new study by Common Cause, the debate over tax revision continues to prove a boon for the campaign coffers of members on the congressional tax-writing committees. The citizens' lobbying group reported Feb. 11 that 1985 political contributions to the 56 members of the House Ways and Means and Senate Finance committees were twice what they had been two years before.

The members received $6.7 million from political action committees and $19.8 million in total receipts last year, compared with $2.7 million and $9.9 million, respectively, in 1983.

While most committee members deny that contributions influence their votes on tax law, many recognize the financial benefits they have reaped from the tax debate. When the tax bill was on the verge of being blocked from consideration on the House floor last December, one Democrat was overheard suggesting to another that the party prevent a final vote so the bill would remain in limbo for a few more months. "Why kill the goose that laid the golden egg?" he asked. *(Background, 1985 Weekly Report pp. 1806, 2613)* ■

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Falling Oil Prices Spur Inflation Optimism

Forecasts Vary, Tend Toward Low Rate

By Lindley H. Clark Jr.
Staff Reporter of The Wall Street Journal

In the mid-1970s, economists were trying desperately to predict the impact of sharply rising oil prices. Many of the forecasts, which ranged all the way to international financial disaster, proved to be far too pessimistic.

In the mid-1980s, economists are trying to predict the impact of collapsing oil prices. Their forecasts once again vary widely, but on average they tend to be quite optimistic. Indeed, in the stock market, the optimism has bordered on euphoria, as the Dow Jones Industrial Average has climbed more than 100 points in recent weeks largely on the strength of the oil-price drop.

"Lower oil prices will help restrain inflation and lift U.S. economic growth," says John M. Godfrey, chief economist of Barnett Banks of Florida. "The benefits to consumers and businesses of falling oil prices far outweigh any possible damages to oil producers and energy lenders."

Some of the most ebullient forecasters envision the oil-price decline as carving nearly two percentage points off this year's inflation rate and adding a percentage point or more to the growth in output.

A close look at the forecasts, however, discloses that there's a lot of guesswork involved. The average cost of crude oil used in U.S. refineries has tumbled $10 a 42-gallon barrel since last November, to about $20 a barrel. But no one is sure how that drop will be reflected in petroleum-product prices, and how much the prices of natural gas, coal and other competing energy sources will fall as a result. Moreover, it's anybody's guess how much oil prices will continue to drop, if at all.

Indeed, some economists, such as Robert Jones of Money Market Services Inc., Belmont, Calif., and Michael K. Evans, a Washington-based economic consultant, expect oil prices to rise later this year. Mr. Evans says that once the Organization of Petroleum Exporting Countries "and their partners in crime realize that reducing total production by about 3% will generate a $10-a-barrel increase in prices, they will come to their senses."

To be sure, economists generally feel they have a better handle on the impact of oil-price changes than they did a decade ago. "After all," says Jerry L. Jordan, an economist at First Interstate Bank of Los Angeles, oil prices can't fall forever."

But the general climate of uncertainty has analysts playing a lot of "what if" games.

Burton Zwick, an economist at the brokerage firm of Kidder, Peabody & Co., says that if oil prices average $20 a barrel this year and then fall to $15 by the end of 1987, the consumer price index over three years will fall 5 percentage points more than it otherwise would have. Over the same period, he says, real gross national product—the total value of the nation's output of goods and services, adjusted for inflation, will rise to 1½ percentage points higher than it would have.

What if oil prices average $15 this year and then fall to $10 in 1987? "That would be even better," Mr. Zwick says. "Prices would be about seven percentage points lower and real GNP would be 1½ to 2 percentage points higher than otherwise."

Mr. Zwick and other economists emphasize that such estimates are largely guesses. When it comes to assessing price impact, moreover, a continuing effect on the inflation rate requires a continuing decline in prices.

Declining Importance

Another fact is that, dollar for dollar, the price decline can't help the U.S. economy as much as the price rise hurt it in the 1970s. "Energy—particularly oil—is less important to the U.S. economy than only a decade ago," says Richard Berner of the investment firm of Salomon Brothers Inc. "The price hikes of the 1970s spurred energy conservation that kept demand flat while the economy expanded. As a result, oil consumption per dollar of real gross national product plunged by about a third since 1974."

Mr. Berner is less optimistic than Mr. Zwick about the impact on inflation of declining oil prices, at least for this year. Mr. Zwick estimates that $20-a-barrel oil this year would cut about 1½ percentage points off the consumer price index, while Mr. Berner thinks the cut would be only about ½ percentage point.

Assuming that prices don't go back up to where they were three months ago, Americans in effect have had a significant tax cut. Mr. Berner's arithmetic indicates that a $10-a-barrel cut in oil prices would lower U.S. energy costs by roughly $60 billion annually—a sizable tax reduction.

"Will there be a rise in consumption or a rise in savings and investment?" asks Mr. Jordan of First Interstate. "The guy who fills his gas tank finds that he has more money left over. We have no way of knowing what he will do with it."

More Large Cars?

Some auto companies are hoping that some Americans will decide that now is the time to invest in a larger car, since the extra gasoline it will use won't be as much of a burden. General Motors Corp.'s Cadillac division recently has been advertising that it offers the largest production model made in the U.S.

While some effects of cheaper oil are showing up in gasoline and fuel-oil prices, the full effects will take time to work their way through the economy. Cheaper oil, many analysts comment, will help to hold down prices of competing forms of energy, but even that won't have a major effect on overall prices, since all forms of energy account for only 7% of the consumer price index.

Broader effects will show up as cheaper energy reduces costs for many forms of business. Lower costs "will allow businesses to either increase profits or to lower selling prices," says Ray Worseck, manager of economic research for the brokerage firm A.G. Edwards & Sons Inc. in St. Louis.

No one can be sure just what proportion of businesses will take which route, but Mr. Worseck believes many firms will cut prices, so that "the oil-price cuts will be at least partially passed through to consumers."

Lower Inflation Expectations

The drop in oil prices already has had a favorable effect on inflation expectations. Edward Yardeni of Prudential-Bache Securities Inc. is one of the most optimistic. "The collapse in oil prices," he says, "virtually locks in a zero inflation rate for the year."

Most economists are less optimistic, but the lower expectations have helped to bring down interest rates, especially in the long-term market. If oil prices continue to drop or at least stay at current low levels, lower inflation expectations could affect future business pricing decisions and union wage demands, helping to turn the expectations into reality.

Such hopes, however, would be affected—possibly crushed—if Congress decides to impose an oil-import fee an idea that is under discussion. Such a fee would lift the market price of imported oil and thus would help to support the price of domestically produced oil.

Many Fervent Supporters

Many congressmen and quite a few economists are fervent supporters of the proposal. The tax, they note, would help the domestic oil industry and thus the banks that have lent money to the industry. "An oil-import tax should be met with enthusiasm by economists and politicians as a relatively painless solution to growing budget deficits and a strained financial community," says Michael Englund of Money Market Services.

Actually, however, much of the domestic industry has been less than enthusiastic. Big U.S. oil companies are also heavy importers. Smaller companies fear that Congress might eventually siphon off any gains through some form of windfall tax.

"Imposing any form of general tax on petroleum will only be politically easy if it can be done before declining crude oil prices affect the price of refined products, and this appears to be highly unlikely," an analysis by the consulting firm of Townsend-Greenspan & Co. said late last month.

Official raps oil tax proposal, but says keep it alive

WASHINGTON (AP)—Raising taxes on imported oil would cost the average family up to $385 a year, penalize the poor, hurt key allies and damage the nation's trade balance, the Reagan administration told Congress today.

But the proposal should be kept alive in case it is needed to finance President Reagan's plan for overhauling the income tax system, J. Roger Mentz, acting assistant secretary of the treasury for tax policy, told the Senate Finance subcommittee on energy taxation.

After describing the oil tax as extremely regressive and estimating that for most families it would wipe out any benefit from the tax revision plan, Mentz said, "The president has not ruled it out. We suggest you keep it on the table."

Sen. Malcolm Wallop, R-Wyo., chairman of the subcommittee, described the administration's position as "sitting on a fence with both ears to the ground."

The tax is being pushed by oil state lawmakers to help a domestic oil industry being squeezed by plunging prices on the world market. Prices are dropping because Saudi Arabia is trying to whip other members of the Organization of Petroleum Exporting Countries into line, said Sen. Lloyd Bentsen, D-Texas.

"Are our memories so short that we're going to once again put ourselves at the mercy of OPEC?" asked Bentsen, recalling the oil embargo of the early 1970s. "We ought . . . to be able to look backward far enough and recall the last time we were hooked on foreign oil, then take rational steps to prevent that from happening again."

Sen. David Boren, D-Okla., said a higher tax on imported oil would "place a safety net under the price of domestic oil that would also protect the financial system against the shock of further decreases in the price of oil." He noted that billions of dollars worth of loans to domestic producers are secured by the value of oil reserves—a value that declines with the world price of oil.

"The stability of the banking and financial system in oil-producing regions of the country will be threatened" if the world price continues to plunge and the United States does nothing to react, Boren said.

But Sen. George Mitchell, D-Maine, countered: "If national security, energy independence and bank safety and soundness are issues that need to be addressed, Congress can, and should, deal with these problems directly—not indirectly through an oil-import fee," said Sen. George Mitchell, D-Maine.

The Treasury Department estimates the oil industry would get $1.75 benefit for each $1 that the tax brought to the government.

Treasury's Mentz said an oil tax proposed by Bentsen and Boren would boost the average family's energy expenditures by $288 a year. A second plan, by Wallop and Bentsen, would cost the family $385 a year, he said.

Leonard P. Steuart II, representing distributors who sell oil to 8 million homes and businesses, and Carl Bolch Jr., speaking for the Society of Independent Gasoline Marketers of America, opposed the tax.

James W. Hunt, speaking for Texas Independent Producers and Royalty Owners Association, endorsed an import tax.

BILL SHEFFIELD
GOVERNOR

State of Alaska
OFFICE OF THE GOVERNOR
WASHINGTON, D.C.

February 21, 1986

MEMORANDUM

TO: DISTRIBUTION LIST

FROM: JOHN W. KATZ, Director of State/Federal Relations and Special Counsel to the Governor

SUBJECT: FEDERAL ISSUES PENDING IN WASHINGTON, D.C.

Oil Import Fee - The international decline in the world price of crude oil has created some Congressional interest in an oil import fee. The fee is being considered in two contexts: first, as a means of adding revenue to the budget to apply to the reduction of the Federal deficit; and second, as a means of generating monies to be included as part of the revenue-neutral tax reform effort being promoted by the Administration.

Two bills will be the subject of hearings before the Senate Finance Committee on February 27 and 28. One bill would essentially establish a $22 per barrel price for oil, with an elastic import fee in an amount equal to the difference between the world price (if lower) and $22. The other bill would levy a fixed import fee per barrel for crude oil ($5 per barrel) and on refined products ($10 per barrel).

A resolution has been introduced in the Senate expressing opposition to an import fee. At last report, as of February 18, there were 18 Senators who had signed on to cosponsor the resolution. Recently, the Reagan Administration has expressed opposition to an import fee on economic and geo-political grounds. How the Administration will react if confronted with a specific proposal passed by Congress is a matter for speculation.

The Alaska Department of Revenue is analyzing the bills that have been introduced. This analysis will become the premise for any future advocacy necessary to effectuate State objectives.



WATCHING WASHINGTON

with Patrick Crow

Another 'windfall' tax?

Faced with the harsh reality of falling oil prices, some U.S. producers have been ambivalent about or have advocated an oil import fee.

They reason that an oil import fee would prop up domestic prices. A $5/bbl fee on imported crude, for example, would increase domestic postings by the same amount.

Oil lobbyists, familiar with the track record of Congress, have been less sanguine about that.

Now the Reagan administration has confirmed their fears. Among options it sent the Senate finance committee for additional revenues for the tax simplification bill was an "alternative 'windfall profits' tax."

If Congress enacts an oil import fee and the Reagan proposal, producers would have to calculate their windfall profits tax liability and then their alternative windfall profits tax and pay whichever was higher.

In essence, the government would use the oil import fee not only to raise general revenues but also to revive its sagging windfall profits tax collections.

Treasury told the committee a $4/bbl oil import fee would raise $42.4 billion during fiscal 1986-90, an $8/bbl fee $81.4 billion, a $4/bbl fee with a 50% alternative windfall profits tax $50.7 billion, and an $8/bbl fee with a 50% alternative tax $96.2 billion.

Treasury said Congress could increase excise taxes on gasoline and diesel fuel 21¢/gal to glean $92 billion for the 5 year period or set a 6% tax on the value of all energy products, on a BTU basis, to net $102.2 billion.

In addition, Treasury noted that the House tax reform bill calls for a 3 year phaseout of the percentage depletion allowance except for independents and royalty owner stripper oil. Including royalty stripper oil in the phaseout would glean $100 million for the government.

There are many uncertainties about the alternative windfall profits tax proposal at this point. But even with a $5 oil import fee it could result in windfall profits taxes being reimposed on some Tier 3 crude (newly discovered, heavy oil, and incremental tertiary).

And if the alternative windfall profits tax does not provide a deduction for severance and royalty payments, its bite could be deeper than the 50% proposed.

At this point there is no guarantee that Congress will approve such a tax. But it is likely to be considered if an oil import fee is.

Congress also could consider a different tax to offset producers' gains from an import fee, such as eliminating expensing of intangible drilling costs.

An import fee also would be likely to have numerous exemptions for classes of products users and would entail new regulations and new regulators for the oil industry.

Sen. Robert Dole (R-Kan.) said last week he is undecided about an oil import fee. "I thought it might be a good idea because it would raise domestic prices."

But many Kansas producers have told Dole they oppose an oil import fee even though prices are falling.

"They can live with that better than they can live with a new federal bureaucracy," Dole explained.



WATCHING WASHINGTON

with Patrick Crow

Dealing with the cycle

Plunging crude oil prices dramatize the cyclical nature of the oil business.

Charles DiBona, president of the American Petroleum Institute, says the U.S. government should be considering policies that look beyond that cycle.

He points out that today's market is an outgrowth of the oil price shocks of the 1970s, when rising prices prompted conservation by industrial and residential consumers and spurred exploration/development by producers.

"As a result, world production capacity, which could not keep up with demand in the 1970s, has far exceeded it in the 1980s," DiBona says.

He warns that although declining oil prices will stimulate the economy, if they fall significantly and stay low awhile they will rebound to higher levels more rapidly than they would have otherwise.

With shrinking wellhead revenues, operators have diminished ability to invest in productive capacity. Thus today's U.S. active rig count is only one third of the 1981 peak.

But petroleum demand is increasing. Gasoline use rose more than 1%/year during the past 3 years, and the slump in residual oil use by electric utilities seems to have bottomed out.

API figures that if real oil prices stayed at $15/bbl during 1986-95, U.S. oil consumption would increase markedly—an average of 1 million b/d/year.

World increases in consumption, combined with price induced decreases in production, very quickly would absorb most of the Organization of Petroleum Exporting Countries' excess capacity, perhaps within 3-4 years, and cause prices to rise precipitously.

DiBona argues that an oil import fee would not protect U.S. consumers from the supply/demand roller coaster.

For one thing, higher oil prices would place exports of U.S. manufacturers at a disadvantage. For another, Congress would riddle an oil import fee with a "myriad of exceptions" for home heating oil users, farmers, and perhaps even for small refiners.

Thirteen senators from the Northeast have filed a resolution warning that any import fee should exempt home heating oil.

DiBona says raising the gasoline tax also would be an inefficient way to encourage U.S. production. But government can do something to spur drilling at a time when prices are declining.

"It would be far more rational to approach this goal directly by abolishing an existing tax, the 'windfall profits' tax, which discourages oil production, and by avoiding the imposition of new, discriminatory treatment of the oil industry such as that contained in the tax reform bill recently produced by the House of Representatives," the API executive says.

The Independent Petroleum Association of America agrees with API on that.

At a recent meeting, IPAA directors voted to reassert their long standing position against a crude or products import fee.

New York Times - 2/23/86

Tax Oil to Save Oil

As surely as rising oil prices taught Americans to conserve energy, lower prices will lead them to forget. That would be a national tragedy, and a foolish security risk. Prices are falling because we conserved. Now that the price is not incentive enough to save, add a tax.

No new oil price shock is in sight. But the world's affordable supplies are still being depleted, and the risk of upheaval in the Middle East is ever present. As long as they last, lower prices mean greater consumption the world over.

Homeowners won't tear out insulation bought when heating costs soared; new energy-efficient buildings won't be razed. But the pressure to spend money for more conservation is being lost.

Just think about automobiles, which burn more than half the oil we consume. At less than $1 a gallon, drivers lose their incentive to slow down and tune up, and they stop caring about mileage ratings on new cars. They drift back into larger models, and Government can't resist relaxing the regulations that made the biggest '86 cars more efficient than the smallest in 1973.

America consumed 17.5 million barrels of oil a day in 1973. Today, in an economy one-third larger, consumption has fallen below 16 million. Dependence on foreign oil has also declined, from 36 percent of consumption in 1973 to 30 percent, and, significantly, the decline is much sharper for Persian Gulf oil.

The Reagan Administration wants only to reap the disinflation benefits. It favors more off-shore domestic drilling and, rightly, more deregulation of natural gas. But it is blindly rushing past this chance to build up the Strategic Petroleum Reserve at bargain prices. For transient budget benefit, it would even sell off three naval reserve fields. And it has unwisely relaxed the pressure on Detroit's car designers.

Federal fuel standards and other regulation would be less necessary if we turned to a tax to encourage more conservation. With prices falling, we could conserve by paying ourselves instead of Middle East potentates.

What's the best form of tax? On alternate days, President Reagan offers to consider a tax on oil imports — provided it's called a "fee" and is used to finance tax-law revisions. Congress, too, seems to prefer an import fee to a tax on gasoline or all energy. An all-energy tax, in any case, would have no special impact on oil consumption. The choice comes down to taxing imported oil and refined products or taxing gasoline at the pump.

An import fee would reduce dependence on foreign sources and encourage domestic production. The oil patch likes the idea because raising the price of foreign oil would let American producers charge more for domestic oil. The consuming states of the Northeast and West Coast and Florida balk at the idea and would, at the least, insist on taxing away the domestic producers' windfall. So taxing imports would lead to taxing all oil.

That would raise the cost of living, retard growth and damage friendly suppliers, like Mexico and Canada, which might need exemptions. The petrochemical industry, too, would want exemption, and who knows who else. The administrative complexity is offset by the political attraction: the public wouldn't much notice an import fee.

A gasoline tax would be highly visible even if it only held prices at prior levels. But it would be simple to administer atop the existing Federal tax of 9 cents a gallon. And it would not discriminate against any region.

Either tax could be shaped to yield as much as $100 billion over five years — $8 a barrel on imports combined with a 50 percent "windfall" profits tax, or 20 to 25 cents a gallon on gasoline. The revenue could help balance the Federal budget and thus improve the economy.

The main and lasting benefit of either tax would be in conservation and national security. An oil conservation tax is good policy any time. It is more easily achieved now that prices are down.

STATE OF ALASKA 1986 LEGISLATIVE SESSION
FISCAL NOTE

Revision Date : _____

REQUEST

Bill/Resolution No. : HJR 66
Title : Relating to a Federal tax on imported oil

Sponsor : Reps. Pignalberi & Gruenberg
Requestor : Rep. Pignalberi
Date of Request : 2-26-86

FISCAL DETAIL

Agency Affected : _____
BRU : _____

Components : _____

EXPENDITURES/REVENUES : (Thousands of Dollars)

OPERATING	FY 86	FY 87	FY 88	FY 89	FY 90	FY 91
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING						
CAPITAL						
REVENUE						

FUNDING : (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER						
TOTAL						

POSITIONS :

FULL-TIME						
PART-TIME						
TEMPORARY		807,800	653,422	634,443	592,890	528,121

ANALYSIS : Attach a separate page if necessary

See attached.

Prepared by : Charles L. Logsdon for C. L. Vincent Wright
Division : Research
Phone : 276-5364
Date : March 4, 1986

Approved by Commissioner : Henry A. Herndale
Agency : _____
Date : 3/17/86

Distribution (by Agency preparing fiscal note):
- Legislative Finance
- Legislative Sponsor
- Requestor
- Office of Management and Budget
- Impacted Agency(ies)

10/25/85

HJR 66 Fiscal Note Analysis

Current legislation to tax imported oil amounts to an approximate $5/bbl charge based on current oil prices. This fiscal note assumes that this tax results in a dollar for dollar increase of $5/bbl in the price of Alaskan oil over what it would have been in the absence of the tax. The revenue impacts are based on March projections of Alaska North Slope production and include only the impact on royalties and severance tax.

The import tax on petroleum and petroleum products would without a doubt help prevent what could be an abrupt and severe dislocation in the Alaskan economy due to the tax base erosion, devaluation of State royalties, and decline in oil industry activity which may result from the recent oil price plunge. However, a clear majority of economists feel such a tax is on balance not a good idea for the nation as a whole. This Department cannot evaluate the short and long term effects on Alaska which may result from political considerations rising out of economic consequences on the national scene.

SCOMM

#46:35

AMENDMENT #1 TO SB 309
BY SUND

* Sec. 2. AS 38.05.180 is amended by adding new subsections to read:

Within 90 days after the written request of a lessee of a lease issued under this section, the commissioner shall enter into an agreement with the lessee to use the price for the gas established in the contract between the lessee and a gas or electric utility as the value of the state's royalty share of gas production sold by the lessee under the contract unless the commissioner makes a written finding:

(1) that the contract price is unreasonably low; and

(2) the prospective reduction in royalty receipts would not be balanced by increaseed benefits to in-state gas and electric consumers, and

(3) the lessee and the utility are not related in management, ownership, or other aspect, and

(4) the contract price is not in the best interest of the state.

AMENDMENT #2 TO SB 309
BY SUND

* Sec. 3. AS 38.05.183 is amended by adding a new subsection to read:
The commissioner may enter into a contaract to sell royalty gas in kind to a gas or electric utility at less than market value of the royalty gas if the commissioner makes a written finding that the sale is in the best interest of the state. The commissioner shall consider the consumer benefits, other benefits and detriments of the sale.

STATE OF ALASKA

POUCH V
JUNEAU, ALASKA 99811
(907) 465-4941

HOUSE SPECIAL COMMITTEE ON OIL AND GAS

Sectional Analysis
Proposed Oil and Gas Committee Substitute for CSSB 309 (Rules)

Sec. 1. Findings. It is in the best interest of the state to authorize the commissioner of DNR to establish the in-value royalty for gas sold to a gas or electric utility by using the contract price between the lessee of the state and the utility. This authorization applies only prospectively, and this Act does not apply to state policies regarding the sale of royalty oil.

Sec. 2. The commissioner shall enter into an agreement with a lessee to use the price established in a contract between the lessee and a gas or electric utility as the value of the state's royalty share of gas production, provided that:

a. the lessee and the utility are not related.
b. the agreement is requested in writing by the lessee.
c. the commissioner does not make a written finding that the contract price is unreasonably low and that a prospective reduction in royalty receipts would not be balanced by increased benefits to in-state gas and electric consumers.

This section states that a "gas or electric utility" includes electric cooperatives (such as Chugach, Matanuska, Homer, rural co-ops, and Golden Valley Electric), municipal utilities (such as Anchorage Municipal Light & Power), and gas utilities regulated under AS 42.05 (such as Enstar).

This section also states that, for purposes of this Act, the state's royalty share of gas production does not include gas production from mental health lands or school lands.

Sec. 3. Adds a new subsection to AS 38.05.183, which provides that the commissioner may sell royalty gas taken in-kind to a gas or electric utility at less than market value if the commissioner makes a written finding that the sale is in the best interest of the state. The same definitions for "gas or electric utility" and "royalty gas taken in kind by the state" found in sec. 2 of this legislation are also found in this section.

Sec. 4. Amends AS 38.05.810(a) to make this subsection consistent with the other provisions of the Act.

Sec. 5. Provides that AS 38.05.180(aa), which would be enacted by sec. 2 of this legislation, applies to agreements to establish the in-value royalties on gas production that are sold under a contract entered into, on or after the effective date of the act between the state's lessee and a gas or electric utility.

Sec. 6. Provides for an immediate effective date.

Proposed Amendment to CSSB 309 (Oil & Gas)

Page 2, Line 16

AS 38.05.180(aa)(1) is amended to read:

(1) "gas or electric utility" includes an electric cooperative organized under AS 10.25, a municipal utility, and a gas or electric utility regulated under AS 42.05, provided that if the contract gas is transmitted to consumers through a pipeline and the gas utility either owns the pipeline or is related in ownership to the owner of the pipeline, then the gas utility qualifies as a "gas or electric utility" within the meaning of this subsection only if it is bound or agrees to be bound by the covenants set forth in AS 38.35.120; and

Page 3, Line 3

AS 38.05.183(h) is amended to read:

In this subsection, "gas or electric utility" includes an electric cooperative organized under AS 10.25, a municipal utility, and a gas or electric utility regulated under AS 42.05, provided that if the contract gas is transmitted to consumers through a pipeline and the gas utility either owns the pipeline or is related in ownership to the owner of the pipeline, then the gas utility qualifies as a "gas or electric utility" within the meaning of this subsection only if it is bound or agrees to be bound by the covenants set forth in AS 38.35.120.

Bannister
4/7/86

Original sponsors: Faiks, Kelly
and V.Fischer

IN THE SENATE

BY THE HOUSE SPECIAL COMMITTEE ON OIL AND GAS

CS FOR SENATE BILL NO. 309 (Oil & Gas)

IN THE LEGISLATURE OF THE STATE OF ALASKA

FOURTEENTH LEGISLATURE - SECOND SESSION

A BILL

For an Act entitled: "An Act relating to royalty gas contracts; and providing for an effective date."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

* Section 1. FINDINGS. The legislature finds that the best interest of the state will be served if the commissioner of natural resources is authorized to establish the in-value royalty for gas sold to a gas or electric utility by using the contract price between the lessee of the state and the utility, whether or not the gas lease establishes a different standard for the valuation and if the lessee and the utility are not related to each other. The legislature finds that this authorization should apply prospectively and does not intend the authorization to apply to the valuation for royalty purposes of gas sold by a lessee under a gas sales contract entered into before the effective date of this Act. The legislature does not intend this Act to apply to the policies of the state regarding the sale of royalty oil.

* Sec. 2. AS 38.05.180 is amended by adding new subsections to read:

(aa) Within 90 days after the written request of a lessee of a lease issued under this section, unless the commissioner makes a written finding that the contract price is unreasonably low and that a prospective reduction in royalty receipts would not be balanced by increased benefits to in-state gas and electric consumers, the commissioner shall enter into an agreement with the lessee to use the price for the gas established in the contract between the lessee and a gas or electric utility, if the lessee and the utility are not related in

management, ownership, or other aspect, as the value of the state's royalty share of gas production sold by the lessee under the contract to the utility. In this subsection

(1) "gas or electric utility" includes an electric cooperative organized under AS 10.25, a municipal utility, and a gas or electric utility regulated under AS 42.05;

(2) "price for the gas established in the contract" includes tax reimbursement amounts, deliverability and other charges, and other forms of consideration paid by the gas or electric utility under the contract;

(3) "state's royalty share of gas production" does not include the state's royalty share of gas production from land patented to the state under

(A) P.L. 84-830, 70 Stat. 709 (Alaska Mental Health Enabling Act);

(B) 38 Stat. 1214 (Act of March 4, 1915); or

(C) 43 U.S.C. 1635 in settlement of the claims of the state under 38 Stat. 1214.

* Sec. 3. AS 38.05.183 is amended by adding a new subsection to read:

(h) The commissioner may enter into a contract to sell royalty gas taken in kind by the state to a gas or electric utility at less than the market value of the royalty gas if the commissioner, after considering the consumer benefits, other benefits, and detriments of the sale, makes a written finding that the sale is in the best interest of the state. In this subsection,

(1) "gas or electric utility" includes an electric cooperative organized under AS 10.25, a municipal utility, and a gas or electric utility regulated under AS 42.05;

(2) "royalty gas taken in kind by the state" does not

include royalty gas taken in kind by the state from gas production on land patented to the state under

(A) P.L. 84-830, 70 Stat. 709 (Alaska Mental Health Enabling Act);

(B) 38 Stat. 1214 (Act of March 4, 1915); or

(C) 43 U.S.C. 1635 in settlement of the claims of the state under 38 Stat. 1214.

* Sec. 4. AS 38.05.810(a) is amended to read:

(a) Except as otherwise provided in AS 38.05.183(h), the [THE] lease, sale, or other disposal of state land or resources may be made to a state or federal agency or political subdivision, or the lease, sale, or disposal of coal deposits suitable for mining may be made to a utility owned and operated by a government agency or nonprofit cooperative association organized to participate under the Federal Rural Electrification Act for the purpose of generating electric power and energy or the production of process steam, or both, for less than the appraised value as determined by the director and approved by the commissioner to be fair and proper and in the best interests of the public, with due consideration given to the nature of the public services or function rendered by the agency, subdivision, or utility making application, and of the terms of the grant under which the land was acquired by the state.

* Sec. 5. AS 38.05.180(aa), enacted by sec. 2 of this Act, applies to agreements to establish for a lease issued under AS 38.05.180 the in-value royalties on gas production that is sold under a contract entered into on or after the effective date of this Act between the state's lessee and a gas or electric utility.

* Sec. 6. This Act takes effect immediately in accordance with AS 01.-10.070(c).

STATE OF ALASKA

POUCH V
JUNEAU, ALASKA 99811
(907) 465-4941

HOUSE SPECIAL COMMITTEE ON OIL AND GAS

Sectional Analysis
Proposed Oil and Gas Committee Substitute for CSSB 309

Sec. 1. Findings. It is in the best interest of the state to authorize the commissioner of DNR to establish the in-value royalty for gas sold to a gas or electric utility by using the contract price between the lessee of the state and the utility. This authorization applies only prospectively, and this Act does not apply to state policies regarding the sale of royalty oil.

Sec. 2. The commissioner shall enter into an agreement with a lessee to use the price established in a contract between the lessee and a gas or electric utility as the value of the state's royalty share of gas production, provided that:

a. the lessee and the utility are not related.
b. the agreement is requested in writing by the lessee.
c. the commissioner does not make a written finding that the contract price is unreasonably low and that a prospective reduction in royalty receipts would not be balanced by increased benefits to in-state gas and electric consumers.

This section states that a "gas or electric utility" includes electric cooperatives (such as Chugach, Matanuska, Homer, rural co-ops, and Golden Valley Electric), municipal utilities (such as Anchorage Municipal Light & Power), and gas utilities regulated under AS 42.05 (such as Enstar).

This section also states that, for purposes of this Act, the state's royalty share of gas production does not include gas production from mental health lands or school lands.

Sec. 3. Adds a new subsection to AS 38.05.183, which provides that the commissioner may sell royalty gas taken in-kind to a gas or electric utility at less than market value if the commissioner makes a written finding that the sale is in the best interest of the state. The same definitions for "gas or electric utility" and "royalty gas taken in kind by the state" found in sec. 2 of this legislation are also found in this section.

Sec. 4. Amends AS 38.05.810(a) to make this subsection consistent with the other provisions of the Act.

Sec. 5. Provides that AS 38.05.180(aa), which would be enacted by sec. 2 of this legislation, applies to agreements to establish the in-value royalties on gas production that are sold under a contract entered into, on or after the effective date of the act between the state's lessee and a gas or electric utility.

Sec. 6. Provides for an immediate effective date.

Proposed Amendment to CSSB 309 (Oil & Gas)

AS 38.05.180(aa)(1) is amended to read:

(1) "gas or electric utility" includes an electric cooperative organized under AS 10.25, a municipal utility, and a gas or electric utility regulated under AS 42.05, provided that if the contract gas is transmitted to consumers through a pipeline and the gas utility either owns the pipeline or is related in ownership to the owner of the pipeline, then the gas utility qualifies as a "gas or electric utility" within the meaning of this subsection only if it is bound or agrees to be bound by the covenants set forth in AS 38.35.120; and

AS 38.05.183(h) is amended to read:

In this subsection, "gas or electric utility" includes an electric cooperative organized under AS 10.25, a municipal utility, and a gas or electric utility regulated under AS 42.05, provided that if the contract gas is transmitted to consumers through a pipeline and the gas utility either owns the pipeline or is related in ownership to the owner of the pipeline, then the gas utility qualifies as a "gas or electric utility" within the meaning of this subsection only if it is bound or agrees to be bound by the covenants set forth in AS 38.35.120.

DNR 3-3-86

SUMMARY OF CSSB 309 (RULES)

The Bill will allow the state to provide certainty in royalty gas valuation for Alaska consumer uses and North Slope gas development.

Specifically, the Bill would:

- Authorize the Commissioner of the Department of Natural Resources to accept a contract price between a state lesses (gas producer) and a gas or electric utility as the value of the state's royalty share of production.

- Authorize the Commissioner of the Department of Natural Resources to sell the state's royalty gas to a gas or electric utility at a price below market value. The Legislature reviews long-term sales under existing law.

- Establish a royalty valuation procedure which will facilitate financing for a North Slope gas pipeline.

"Gas or electric utility" includes cooperative electric utilities (such as Chugach, Matanuska, Homer, rural coops, and Golden Valley Electric), municipal utilities (such as Anchorage Municipal Light and Power), and a gas utility regulated under AS 42.05 (such as Enstar).

The Act would apply only to future contracts between a lessee and a purchaser.

A preliminary settlement agreement between the Department of Natural Resources and the Board of Directors of Chugach Electric, which would settle pending litigation over the value of the state's royalty share of Beluga gas now pruchased by Chugach at $0.26/mcf, is contingent on passage of the bill. The preliminary settlement agreement sets the price of Beluga royalty gas under the existing Chugach contract at $0.75/mcf.

Revenue Impact: Section 3 of the Bill, which authorizes the Commissioner to sell royalty gas taken in kind to a gas or electric utility at a price below market value, could result in lower state revenues in the future if this discretionary authority is exercised. The amounts of potential revenue loss cannot be precisely calculated, but would be identified at the time of the sale, when legislative review would occur. The state could also lose or gain revenue by any disparity between contract prices and market values, but this fiscal impact is not predictable.

DNR 3-3-86

Section-by-Section Analysis of CSSB 309 (Rules)

Section 1 of the Bill makes several findings:

- The best interest of the state will be served if the commissioner of Natural Resources is authorized to establish the in value royalty for gas sold to a gas or electric utility by using the contract price between the state lessee and the utility;
- It is in the best interest of the state to give the commissioner explicit discretionary authority to sell in kind royalty gas to a gas or electric utility at a price below market value;
- The proper exercise of discretion conferred by the Act will support and complement the other energy programs of the state;
- The state should adopt a policy for the sale of royalty gas to gas or electric utilities for in-state consumer use and in-state generation of electricity that is fundamentally different from the policies of the state for the sale of royalty oil and for the sale of royalty gas for export from the state or for uses other than in-state consumer use and in-state generation of electricity; and
- It is in the state's best interest to facilitate the financing and construction of a pipeline and increased gas production from the Prudhoe Bay reservoir by establishing a procedure by which the state could commit itself to a royalty valuation methodology for as long as the state takes its royalty share of gas production in value.

Section 2 adds new subsections to AS 38.05.180:

- Subsection (aa) provides that within 90 days after the written request of a lessee, unless the commissioner makes a written finding based on clear and convincing evidence that the contract price is unreasonably low and that a prospective reduction in royalty receipts would not be balanced by increased benefits to in-state gas and electric consumers, the commissioner shall enter into an agreement with the lessee to use the price established in a contract between the lessee and a gas or electric utility as the value of the state's royalty share of gas production, if the lessee and the utility are not related. "Gas or electric utility" includes an electric cooperative organized under AS 10.25, a municipal utility, and a gas or electric utility regulated under AS 42.05.
- Subsection (bb) provides that in the event of a contract between unrelated parties for the sale of gas from the Prudhoe Bay reservoir for delivery through a pipeline for export out of the state, the commissioner shall within 90 days after the written request of a lessee enter into an agreement with the lessee to use the price for gas established in the gas sales contract as the value of the state's royalty share of gas production, unless the

commissioner makes a written finding that the contract price does not assure the maximum benefits to the people of the state in return for the state's gas resources. The lessee shall have the burden of providing all information necessary for the commissioner to make an informed decision, and shall provide clear and convincing evidence that the value of the gas is reflected by the gas sales contract price rather than being attributed to transportation, marketing, or other profit or cost centers.

Section 3 adds a new subsection to AS 38.05.183:

- Subsection (h) provides that the commissioner may sell royalty gas taken in kind to a gas or electric utility at less than the market value of the gas, if the commissioner, after considering the consumer benefits, other benefits, and detriments of the sale, makes a written finding that the sale is in the best interest of the state. "Gas or electric utility" includes an electric cooperative organized under AS 10.25, a municipal utility, and a gas or electric utility regulated under AS 42.05.

Section 4 amends AS 38.05.810(a) to make it consistent with the other provisions of the Act.

Section 5 provides that the proposed AS 38.05.180(aa), which would be enacted by Section 2 of the Act, applies to agreements to establish the in value royalties on gas production that is sold under a contract entered into on or after the effective date of the act between the state's lessee and a gas or electric utility.

Section 6 provides an immediate effective date.

STATE OF ALASKA

DEPARTMENT OF NATURAL RESOURCES

OFFICE OF THE COMMISSIONER

BILL SHEFFIELD, GOVERNOR

POUCH M
JUNEAU, ALASKA 99811
PHONE: 907-465-2400

The Honorable John Sackett
Co-Chair, Finance Committee
Alaska State Senate
Juneau, AK 99811

March 3, 1986

Dear Senator Sackett:

I am responding to your request for more information on the fiscal note and potential fiscal impact of CSSB 309 (Res), now before the Senate as CSSB 309 (Rules).

The fiscal note

The department has submitted a zero fiscal note for the bill, which will not directly affect the state's current royalty gas revenue stream. There are two reasons that it is not possible to identify future costs of the legislation:

- the department is not able to predict how often the new valuation mechanism will be applied in the future, nor can we predict future gas contract prices and quantities; and

- market values for Alaska natural gas (particularly Cook Inlet gas now sold for instate consumer uses and most immediately affected by the proposed statute) are unpredictable, as is the possible disparity (positive or negative) between contract price and market value.

Even though there is no direct fiscal impact that can be assigned to the bill, enactment of the legislation will indirectly affect state royalty income from existing production in Cook Inlet. The state has entered into an agreement with Chugach Electric to value the state's royalty share from Beluga Field production purchased by Chugach under existing contracts at $0.75/mcf if the legislation passes. This value is one-half the state's January offer to settle the pricing dispute at $1.50/mcf, which was rejected by the Beluga producers who sell to Chugach. If the dispute had been settled at $1.50/mcf under existing state law, the

10-J9LH

state would have received approximately $1.9 million/year in new royalty income from the Beluga field. Settlement at $0.75/mcf, as will occur if CSSB 309 (Rls) is passed, will increase state royalty revenues from Beluga production by about $810,000/year, according to our calculations, because the state's share of this production is currently valued at $0.21/mcf by the producers. This increase in state royalty revenues is less than would have been expected if 1) the state's $1.50/mcf settlement offer had been accepted, or 2) the state had successfully pursued its legal arguments regarding the value of the state's royalty share under the existing lease terms, based on existing law.

Future costs to the State

As stated above, the department has submitted a zero fiscal note because it is unable to predict future market conditions and contract terms for Alaska natural gas. It is important for the Legislature to consider that market value in the future could either exceed or remain below long-term contract prices for instate consumer gas purchases. The present situation in the Beluga field is an example of how long-term contract prices (Chugach at an adjusted $0.26/mcf and Enstar at an adjusted $2.05/mcf) can be above or below "market value" simultaneously in the same field.

Section 2. The fiscal impacts of Section 2(aa) of CSSB 309 (Rls) will largely depend on future market and contract conditions in Cook Inlet, unless there is a commitment of North Slope natural gas by the producers for instate use. The natural gas market for instate energy use will be affected by the costs of thermal and hydroelectric energy alternatives, including new or expanded coal development; production from new or shut-in gas sources; geothermal development (which has been discussed in connection with Beluga coal development); hydroelectric construction; export projects for coal, gas, or oil; and the price of fuel oil and diesel as alternative fuel sources. There have been some projections of Cook Inlet gas prices by other agencies that this department has disputed on grounds that the Cook Inlet market remains largely controlled by local factors rather than world gas or oil prices or exports. If North Slope natural gas is brought to market its pricing and availability will also become an important factor in the fiscal impact of this bill (Section 2(bb)). Because the eventual marketing arrangements for Prudhoe Bay gas would

probably have to be less diverse and more stable than are marketing arrangements for Cook Inlet gas, it is likely that there would be less disparity between Prudhoe Bay contract price and market value, although the fiscal impact of accepting the contract price as the state's royalty value (given the magnitude of the Prudhoe Bay gas resource) might be larger, either positively or negatively affecting the state's revenues.

Section 3. This section gives the commissioner authority to make below-market-value gas sales for instate energy use. Because the Legislature reviews long-term royalty oil and gas contracts before their implementation by the Department, the fiscal impact of this section will be considered by future Legislatures reviewing such below-market-value gas sales by the state. Without knowledge of how often or at what cost the state will exercise this option, there is no way to estimate the fiscal impact of enacting this statute.

Please contact me if you have any further questions or comments. I am providing copies of this letter to other members of the Senate in anticipation of the floor debate on CSSB 309 (Rls) this morning. Thank you for your interest in this issue.

Sincerely,

Esther C Wunnicke

Esther C. Wunnicke
Commissioner

cc: All Senators
Dr. Joyce Murphy, Chugach Electric

Work Draft

March 26, 1986

IN THE HOUSE BY THE HOUSE SPECIAL COMMITTEE ON OIL AND GAS

CS FOR SENATE BILL NO. 309 (RULES)

IN THE LEGISLATURE OF THE STATE OF ALASKA

FOURTEENTH LEGISLATURE - SECOND SESSION

A BILL

For an Act entitled: "An Act relating to royalty gas contracts; and providing for an effective date."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA;

* Section 1. FINDINGS. (a) The legislature finds that the best interest of the state will be served if the commissioner of natural resources is authorized to establish the in-value royalty for gas sold to a gas or electric utility by using the contract price between the lessee of the state and the utility, whether or not the gas lease establishes a different standard for the valuation and if the lessee and the utility are not related to each other. The legislature finds that this authorization should apply prospectively and does not intend the authorization to apply to the valuation for royalty purposes of gas sold by a lessee under a gas sales contract entered into before the effective date of this Act. The legislature states that this Act shall not apply to the policies of the state for the sale of royalty oil.

(b) The legislature finds that it is in the state's best interest to facilitate the financing and construction of pipelines and increased gas production from state gas leases for industrial and export uses by establishing a procedure by which the state could commit itself to a long-term royalty valuation methodology.

* Sec. 2. AS 38.05.180 is amended by adding subsections (aa) and (bb) to read:

(aa) Within 90 days after the written request of a lessee of a lease issued under this section, the commissioner may enter into an agreement with the lessee to use the price for the gas established in the contract between the lessee and a gas or electric utility, if the lessee and the utility are not related in management, ownership, or other aspect, as the value of the state's royalty share of gas production sold by the lessee under the contract to the utility. The commissioner may enter into such an agreement after conducting public hearings and making a written determination that the contract price is reasonable and that a prospective reduction in royalty receipts would be balanced by increased benefits to in-state gas and electric consumers. The lessee shall have the burden of providing all information necessary for the commissioner to make an informed decision, and shall provide clear and convincing evidence that the contract price is reasonable and that a prospective reduction in royalty receipts would be balanced by increased benefits to in-state gas and electric consumers.

(1) "gas or electric utility" includes an electric cooperative organized under AS 10.25, a municipal utility, and a gas or electric utility regulated under AS 42.05, provided that if the contract gas is transmitted to consumers through a pipeline and the gas utility either owns the pipeline or is related in ownership to the owner of the pipeline, then the gas utility qualifies as a "gas or electric utility" within the meaning of this subsection only if it is bound or agrees to be bound by the covenants set forth in AS 38.35.120; and

(2) "price for the gas established in the contract" includes tax reimbursement amounts, deliverability and other charges, and other forms of consideration paid by the gas or electric utility under the contract.

(bb) In the event of a contract for the sale of gas from a gas lease issued under this section which does not qualify under subsection (aa), the commissioner may enter into an agreement with the lessee to use the price for the gas established in the gas sales contract as the value of the state's royalty share of gas production sold by the lessee under the gas sales contract. The commissioner may enter into such an agreement after conducting public hearings and making a written determination that the contract price assures the receipt of maximum benefits to the people of the state in return for the state's gas resources. In order to invoke this subsection, a lessee must make its written request no later

than 90 days after the first delivery of gas under the gas sales contract. The commissioner shall then act on the request in writing within 120 days. The agreement between the lessee and the commissioner may be for a lesser period of time than that covered by the lessee's gas sales contract, and may provide for a periodic review of the royalty value term by the commissioner. The lessee shall have the burden of providing all information necessary for the commissioner to make an informed decision, and shall provide clear and convincing evidence that the value of the gas is reflected by the gas sales contract price rather than being attributed to transportation, marketing, or other profit or cost centers. The legislature may disapprove an agreement between the commissioner and a lessee under this subsection by passing a resolution within 60 days of the convening of the next regular legislative session. In this subsection, "price for the gas established in the gas sales contract" includes tax reimbursement amounts, deliverability and other charges, and other forms of consideration received by the lessee under the gas sales contract.

* Sec. 3. AS 38.05.183 is amended by adding a new subsection (h) to read:

(h) The commissioner may enter into a contract to sell royalty gas taken in-kind by the state to a gas or electric utility at less than the market value of the royalty gas if the commissioner, after considering the consumer benefits, other benefits, and detriments of the sale, conducts public

hearings and makes a written determination that the sale is in the best interest of the state. In this subsection, "gas or electric utility" includes an electric cooperative organized under AS 10.25, a municipal utility, and a gas or electric utility regulated under AS 42.05, provided that if the contract gas is transmitted to consumers through a pipeline and the gas utility either owns the pipeline or is related in ownership to the owner of the pipeline, then the gas utility qualifies as a "gas or electric utility" within the meaning of this subsection only if it is bound or agrees to be bound by the covenants set forth in AS 38.35.120.

* Sec. 4. AS 38.05.810(a) is amended to read:

(a) <u>Except as otherwise provided in AS 38.05.183(h), the</u> [The] lease, sale, or other disposal of state land or resources may be made to a state or federal agency or political subdivision, or the lease, sale, or disposal of coal deposits suitable for mining may be made to a utility owned and operated by a government agency or nonprofit cooperative association organized to participate under the Federal Rural Electrification Act for the purpose of generating electric power and energy or the production of process steam or both, for less than the appraised value as determined by the director and approved by the commissioner to be fair and proper and in the best interests of the public, with due consideration given to the nature of the public services or function rendered by the agency, subdivision, or utility making application, and of the terms of the grant under which the land was acquired by the state.

* Sec. 5. AS 38.05.180(aa) and (bb), enacted by sec. 2 of this Act, apply to agreements to establish for a lease issued under AS 38.05.180 the in-value royalties on gas production that are sold under a contract entered into, on, or after the effective date of this Act between the state's lessee and a gas or electric utility.

* Sec. 6. This Act takes effect immediately in accordance with AS 01.10.070(c).

* Sec. 7. This Act does not apply to gas royalties due on production from land patented to the state under the Alaska Mental Health Enabling Act of 1956, P.L. 84-830, 70 Stat. 209 (mental health lands), and the Act of March 4, 1915, ch. 181, 38 Stat. 1214 and sec. 906(b) of the Alaska National Interest Lands Conservation Act, P.L. 96-487, 94 Stat. 2430 (school lands).

3-25-86

COMMITTEE CS FOR SENATE BILL NO. 309 (Rules) IN THE LEGISLATURE FOR THE STATE OF ALASKA

FOURTEENTH LEGISLATURE - SECOND SESSION

A BILL

For an Act entitled: "An Act relating to royalty gas contracts; and providing for an effective date."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

* Section 1. FINDINGS. (a) The legislature finds that the best interest of the state will be served if the commissioner of natural resources is authorized to establish the in-value royalty for gas sold to a gas or electric utility by using the contract price between the lessee of the state and the utility, whether or not the gas lease establishes a different standard for the valuation and if the lessee and the utility are not related to each other. The legislature finds that this authorization should apply prospectively and does not intend the authorization to apply to the valuation for royalty purposes of gas sold by a lessee under a gas sales contract entered into before the effective date of this Act.

(b) The legislature finds that it is also in the best interest of the state to give the commissioner explicit discretionary authority to sell royalty gas received in kind by the state to gas or electric utilities at a price that is below market value.

(c) The legislature finds that the proper exercise of the discretion conferred on the commissioner by this Act would support and complement the other programs that assist the citizens of the state with their long-term gas and electrical needs, including the power cost equalization program under AS 44.83.162 - 44.83.165 and hydroelectric and other programs for the generation of electricity.

(d) The legislature finds that the state should adopt a policy for the sale of royalty gas to gas or electric utilities for in-state consumer use and in-state generation of electricity that is fundamentally different from the policies of the state for the sale of royalty oil and for the sale of royalty gas for export from the state or for uses other than in-state consumer use and in-state generation of electricity.

(e) The legislature finds it is in the state's best interest to facilitate the financing and construction of pipelines and increased gas production from state gas leases for industrial and export uses by establishing a procedure by which the state could commit itself to a royalty valuation methodology for as long as the state takes its royalty share of gas production in value.

* Sec. 2. AS 38.05.180 is amended by adding new subsections to read:

(aa) Within 90 days after the written request of a lessee of a lease issued under this section, unless the commissioner makes a written finding based on clear and

convincing evidence that the contract price is unreasonably low and that a prospective reduction in royalty receipts would not be balanced by increased benefits to instate gas and electric consumers, the commissioner shall enter into an agreement with the lessee to use the price for the gas established in the contract between the lessee and a gas or electric utility, if the lessee and the utility are not related in management, ownership, or other aspect, as the value of the state's royalty share of gas production sold by the lessee under the contract to the utility. In this subsection

(1) "gas or electric utility" includes an electric cooperative organized under AS 10.25, a municipal utility, and a gas or electric utility regulated under AS 42.05, provided that if the contract gas is transmitted to consumers through a pipeline and a gas utility either owns the pipeline or is related in ownership to the owner of the pipeline, then the gas utility qualifies as a "gas or electric utility" within the meaning of this subsection only if it is bound or agrees to be bound by the covenants set forth in AS 38.35.120; and

(2) "price for the gas established in the contract" includes tax reimbursement amounts, deliverability and other charges, and other forms of consideration paid by the gas or electric utility under the contract.

(bb) In the event of a contract for the sale of gas from a gas lease issued under this section that does not qualify under subsection (aa), the commissioner may enter into an agreement with the lessee to use the price for the gas established in the gas sales contract as the value of the state's royalty share of gas production sold by the lessee under the gas sales contract if the commissioner makes a written finding that the contract price assures the receipt of maximum benefits to the people of the state in return for the state's gas resources. In order to invoke this subsection, a lessee must make its written request no later than 90 days after the first delivery of gas under the gas sales contract. The commissioner shall then act on the request in writing within 120 days. The agreement between the lessee and the commissioner may be for a lesser period of time than that covered by the lessee's gas sales contract, and may provide for a periodic review of the royalty value term by the commissioner. The lessee shall have the burden of providing all information necessary for the commissioner to make an informed decision, and shall provide clear and convincing evidence that the value of the gas is reflected by the gas sales contract price rather than being attributed to transportation, marketing, or other profit or cost centers. In this subsection, "price for the gas established in the gas sales contract" includes tax reimbursement amounts, deliverability and other charges, and

other forms of consideration received by the lessee under the gas sales contract. The legislature may disapprove an agreement between the commissioner and a lessee under this subsection by passing legislation within 60 days of the convening of the next legislative session.

* Sec. 3. AS 38.05.183 is amended by adding a new subsection to read:

(h) The commissioner may enter into a contract to sell royalty gas taken in kind by the state to a gas or electric utility at less than the market value of the royalty gas if the commissioner, after considering the consumer benefits, other benefits, and detriments of the sale, makes a written finding that the sale is in the best interest of the state. In this subsection, "gas or electric utility" includes an electric cooperative organized under AS 10.25, a municipal utility, and a gas or electric utility regulated under AS 42.05, provided that if the contract gas is transmitted to consumers through a pipeline and a gas utility either owns the pipeline or is related in ownership to the owner of the pipeline, then the gas utility qualifies as a "gas or electric utility" within the meaning of this subsection only if it is bound or agrees to be bound by the covenants set forth in AS 38.35.120.

* Sec. 4. AS 38.05.810(a) is amended to read:

(a) Except as otherwise provided in AS 38.05.183(h), the [THE] lease, sale, or other disposal of state land or resources may be made to a state or federal agency or political subdivision, or the lease, sale, or disposal of coal deposits suitable for mining may be made to a utility owned and operated by a government agency or nonprofit cooperative association organized to participate under the Federal Rural Electrification Act for the purpose of generating electric power and energy or the production of process steam or both, for less than the appraised value as determined by the director and approved by the commissioner to be fair and proper and in the best interests of the public, with due consideration given to the nature of the public services or function rendered by the agency, subdivision, or utility making application, and of the terms of the grant under which the land was acquired by the state.

* Sec. 5. AS 38.05.180(aa) and AS 38.05.180(bb), enacted by sec. 2 of this Act, apply to agreements to establish for a lease issued under AS 38.05.180 the in-value royalties on gas production that is sold under a gas sales contract entered into on or after the effective date of this Act.

* Sec. 6. This Act takes effect immediately in accordance with AS 01.10.070(c).

* Sec. 7. This act does not apply to gas royalties due on production from land patented to the state under the Alaska Mental Health Enabling Act of 1956, P.L. 84-830,, 70 Stat. 209

(mental health lands), and the Act of March 4, 1915, ch. 181, 38 Stat. 1214 and section 906(b) of the Alaska National Interest Lands Conservation Act, P.L. 96-487, 94 Stat. 2430 (school lands).

STATE OF ALASKA 1986 LEGISLATIVE SESSION
FISCAL NOTE

Revision Date : 2/20/86

REQUEST

Bill/Resolution No. : CSSB 309 (Res)
Title : Royalty gas contracts

Sponsor : Faiks
Requestor : Senate Resources
Date of Request : 2/19/86

FISCAL DETAIL

Agency Affected : Natural Resources
BRU :

Components :

EXPENDITURES/REVENUES : (Thousands of Dollars)

OPERATING	FY 86	FY 87	FY 88	FY 89	FY 90	FY 91
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	-0-	-0-	-0-	-0-	-0-	-0-
CAPITAL						
REVENUE						

FUNDING : (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER						
TOTAL	-0-	-0-	-0-	-0-	-0-	-0-

POSITIONS :

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS : Attach a separate page if necessary

The valuation provisions of this bill will be applied only for future long-term gas contracts, and there is no way to estimate any fiscal impact on the state. Any revenue losses should be balanced by savings in utility costs for consumers, according to the bill.

Prepared by : Ned Farquhar
Phone : 465-2400
Division : Commissioner's Office
Date : 2/20/86

Approved by Commissioner : Lenton C Wunnicke
Date : 2/20/86
Agency : Natural Resources

Distribution (by Agency preparing fiscal note) :
Legislative Finance
Legislative Sponsor
Requestor
Office of Management and Budget
Impacted Agency(ies)

10/25/85

(RECEIVED APR 2 9 1985 (

ENSTAR Natural Gas Company
3000 Spenard Road
P.O. Box 6288
Anchorage, Alaska 99502
(907) 277-5551

April 25, 1985

Dear Senator Faiks:

The State has announced it intends to increase the price paid for royalty gas which we receive pursuant to a contract entered into in 1960 and last renegotiated in 1974, with Marathon and Union, our suppliers at the Kenai gas field. The Administration says it is compelled to take this action in order to get a fair market value for its royalty gas and stop a "subsidy". The Administration's statements are misleading. The State is receiving fair value. There is no subsidy. There is no requirement for the Administration to take such action. Without proposing regulations, holding hearings, or giving those affected an opportunity to be heard, the Administration would use the State's monopoly power to exact an excessive price from the consumers.

The Fair Value of Gas Committed to a Long-Term Contract Is The Arm's Length Negotiated Price

Historically, the value of the royalty share of gas committed to a long-term contract has been considered to be the price established by the contract, if that price was set by unrelated parties in arm's length negotiations. Since gas transmission systems require massive capital investments, long-term contracts for production are a characteristic of the business. Without long-term contracts, pipelines would not have been built. In order to assure the marketability of the pipeline's out put, good business practice requires a pricing mechanism that will deliver the product at a competitive price. The free market system basically has dictated the business practices we have followed.

Royalty owners in a number of states have attacked the long followed principle that fair value is determined by arm's length negotiated prices, with mixed results. Courts in Alaska have not ruled on the issue, but ENSTAR believes that the prevailing and equitable view is that fair values are determined by arm's length negotiations, not by bureaucratic edict.

Our Customers Are Not Being Subsidized by the State

The Administration claims there is a subsidy because the price the State is receiving under ENSTAR's long-term contract is less than the price ENSTAR is paying for gas we more recently negotiated to purchase. That purchase covers fifteen years, cannot be terminated, and has known pricing terms. The State's royalty can be terminated on six months notice (and then taken "in kind"). The State maintains it can unilaterally "reprice" its gas at any time while taken as royalty-in-value. No willing buyer would purchase gas from the State under such conditions.

During the 1960's ENSTAR was subjected to criticism in Juneau because some politicians believed ENSTAR paid too much under the very same contract on which DNR now says ENSTAR is paying too little. We (our customers) paid the price necessary to get the commitment of half a trillion cubic feet of gas for 20

years. We (our customers) took the risk that gas prices would go down, not up. The State received what was then considered to be a high price, guaranteed for the life of the contract.

Our customers paid the market price for the risk they took. Gas prices have gone up, not down. Now the State in effect would confiscate the values the consumers paid for. Now the State maintains that without this confiscation, it is subsidizing the consumers. Baloney.

The State is Using Monopoly Power to Exact an Excessive Price from the Consumers

Alaska is unique in that the Federal and State governments control substantially all royalty. The governments have a monopoly and it is not possible to negotiate royalty valuation terms of lease agreements. Terms are dictated, not negotiated. This is effectively a monopoly action at work, not a free market. DNR admitted in an internal memorandum that its present pricing proposal would "further its relations with the ANCSA corporations... and lend support to current federal royalty litigation...". If business corporations made pricing decisions in concert with or to accommodate other suppliers, they probably would be subject to prosecution.

When we, as purchasers, enter into a long-term contract with a producer, we are not assured of the royalty share since the State retains the right to take its gas in kind. Yet we must take the royalty share, no matter what price may be exacted. Obviously, if a free market prevailed, we simply would not purchase State royalty on such terms. The concept of the State receiving fair value for its resources does not mean it can use its monopoly power to squeeze the last bit of revenue from the consumer. It does mean receiving the value that would be arrived at in a free market system. That is exactly what arm's length negotiations do.

For 25 years the State has accepted arm's length negotiated pricing as royalty value. We believe it is unfair and probably unlawful for the State to reverse this acceptance in the present situation, with no regulations, no public hearings, and no court decisions.

We are trying to work with the State Administration and others to develop a legislative or administrative solution to this problem, and are preparing to inform the public as to its scope and effect in the event these efforts are not successful.

Cordially,

ENSTAR Natural Gas Company

Bill B. Hickman
Executive Vice President

BBH/dms

ENSTAR Natural Gas Company
3000 Spenard Road
P.O. Box 6247
Anchorage, Alaska 99502
(907) 277-5551

December 12, 1984

The Honorable Jan Faiks
Alaska State Senator
1024 West 6th Avenue, Suite 202
Anchorage, Alaska 99501

Dear Jan:

I have your September 6 letter and will try to respond in writing, somewhat as to the handout you requested. We have been quite busy through this week, but should have some time after that for the meeting with the Anchorage Caucus if that is still desired. (Jury duty December 16-21).

I will respond in this letter to the "subsidy" allegation, and relate the history of gas in Cook Inlet in a memorandum, attached. The allegation is that our price (and Chugach's) payable to the producers for gas negotiated and contracted many years ago is below the price at which gas would be negotiated at present, and that the price differential, applied to the State's royalty interest in that gas, constitutes a subsidy from State residents who are not users of that gas (or electricity made from it) to those State residents who do use the gas (or electricity made from it).

Those who allege a subsidy appear not to comprehend the character of the natural gas business, and I hope this letter will be of some help in that respect. Natural gas, unlike oil, requires a relatively large investment for delivery to market. The investment is for relatively large pipelines and compressors, (cryogenic processing, storage, and ships in the case of LNG, liquefied natural gas). The investment cannot be made without long term contracts at known pricing, generally well below the then prevailing delivered price of oil in order to assure a market against that competition. Essentially many major users of natural gas can literally switch to oil whenever oil can be obtained for less than gas. The producers run this risk in developing natural gas production, and the pipeline/utility system is exposed to relatively much greater risk because its investment per unit is normally much greater than the producer's. For both, however, long term contracts at known pricing are essential and traditional in the industry. When such contracts are abrogated, as with Canadian production since the early 70's, great distress and severe reaction develops. The experience there is an object lesson for Alaska: Canadian gas was arbitrarily repriced, and lost its market in the Pacific Northwest to OPEC oil. It was followed by depression in both Canada and the Pacific Northwest and by devaluation of Canadian money and in turn the defeat of the decades-old Canadian administration, this year.

Admittedly there has been and will be litigation on the sanctity of contracts and the "rights" of royalty interest owners, as with all controversies both private and public. The State has recently settled with Phillips on North Cook Inlet gas used in its LNG plant, and that in turn has enabled us to gain access to a portion of that gas, for standby purchases in times of high demand.

It is my opinion that a majority of Alaskan legislators and the administration and the courts will acknowledge the sanctity of contracts as to our purchase of Cook Inlet gas. In my opinion, the allegations of subsidy of gas ratepayers are advanced in order to justify admitted State subsidy to non-railbelt electric users, as enacted this year and may be increased next year.

It is worth noting that the State's royalty interest in Cook Inlet gas we buy is really rather small (about 1/6th of 1/8th, or 2% of the 26 million mcf annual production). The spread between the price we currently pay and the State's negotiated settlement with Phillips is not nearly as wide as would be inferred from statements by some political figures and other royalty interest owners. It is in the range of $1 million per year, a far cry from the admitted State subsidy to non-railbelt power users.

Jan, I hope the foregoing and the attached memorandum will be of some interest to the Anchorage Caucus. Frankly, I would prefer not to appear before your group at this time, because we are quite likely to become embroiled in the lawsuit involving CIRI, MMS (old USGS) and Union Oil Company. It would be embarrassing to me personally to respond with no comment or otherwise appear evasive, when I would really like to make announcements to the world.

Cordially,

* ENSTAR Natural Gas Company

Dale Teel
President

DT/dms

* The same Anchorage Gas Corporation, Anchorage Natural Gas, Alaska Gas and Service Company, Alaska Pipeline Company, etc. etc.

ENSTAR

ENSTAR Natural Gas Company
COMPANY

Inter-Company Correspondence

To: File

Location:

From: Dale Teel

Date: December 12, 1984

File:

Subject: History of Cook Inlet Natural Gas
Prepared in Response to Request from Senator Jan Faiks of September 6, 1984

The history of Cook Inlet gas begins, I believe, with the 1959 discovery of the Kenai gas field by Union and Marathon. It was this discovery, I believe, which enabled Anchorage Gas Corporation to win the franchise referendum election in the fall of 1959. I didn't participate in the 1959 negotiations or the franchise campaign and didn't make my first visit to Alaska until January of 1960. I was told however, that the owners of Anchorage Gas Corporation had had in mind to bring me to Alaska (from Honolulu) to organize Anchorage Gas Corporation as an operating company in 1959, even prior to the Kenai discovery, when they were planning to distribute propane or manufactured gas in Anchorage in anticipation of a discovery. The Swanson River oil field had been discovered (1957 or 1958), with gas shows but not commercial quantities. My background then was in propane/butane and manufactured gas, in Hawaii, and I am a graduate chemical engineer.

We built the first marine pipeline in Alaska, across Turnagain Arm, in 1960-61, and turned on gas service in Soldotna and Anchorage in August of 1961. Our first wellhead cost was 32 cents per Mcf (thousand cubic feet), well above the nationally regulated price of 16 cents or so. For a time we believed this cost could compete against coal at Chugach's Knik Arm steam plant (now being moth-balled), and the power/heating plants at Elmendorf and Fort Richardson. Coal was then roughly 55 cents per Mcf equivalent. We were in part relying on the better efficiency and labor cost savings from gas to be competitive with coal. The conversion of these plants, all funded by the federal government, became a hot political issue, and it was not until 1968 that we won out against the politics and the government inertia.

In the meantime, Chevron and Texaco vigorously defended their fuel oil business in Anchorage. They cut their price from 24 cents per gallon to 20 cents per gallon soon after gas became available, and did heavy advertising and took other actions against the introduction of gas. One weekend they hired students to deliver a small bag of peanuts to each house in Anchorage with a flyer saying -- "If you're thinking of converting to gas, think again. Peanuts is all you'll save, so we have decided to give you the peanuts and let you save the cost of conversion." This and many other un-funny competitive actions forced me to appeal to Union and Marathon to cut the Kenai wellhead price to 24 cents (25% reduction) to enable us to remain viable without the large users (power plants) or the large commercial who were burning heavy oil from Chevron.

In 1963 or so the Beluga gas field was discovered, and Chevron and the other producers signed a 20-year contract with Chugach at 16 cents. This fact, and the City's installing its first gas turbine, led me once again to appeal to Union and Marathon for a wellhead price reduction. They agreed that any gas I could sell above 1.6 bcfy (billion cubic feet per year) to the City would be priced at 16 cents, while holding the 24 cents on the remainder. In this way we encouraged the City to add more gas turbines and compete with Chugach.

Later in 1967 or so, we amended the Kenai wellhead price again, to put the first 8 bcfy at 24 cents and all above 8 bcfy at 16 cents. By this time we had recovered from the 1964 earthquake and found good acceptance in the community. With various sales tools we were rapidly gaining customers and the coal suppliers (Evan Jones) had shut down so that coal was coming from Healy at a much higher price than gas. Until this time Union and Marathon had owned half of our common stock (non-voting), but in 1967 our owners offered a public sale of stock (Alaska Interstate Company) and bought out the Union and Marathon interest.

Our annual gas volume grew rapidly as we displaced coal at all three power plants and the City continued to install gas turbines. In turn, Union/Marathon wanted to raise the wellhead price and dedicate their gas to other markets -- ammonia (Union) and LNG (Marathon). They had made an agreement with Chevron to "rent" Kenai field gas for 8 cents per mcf, but to pay the State royalty at 16 cents, which had become the "market price" via the Beluga sale as well as our negotiations with them. I believe (but do not know) that 8 cents was the wellhead value necessary to make the ammonia and LNG feasible, so pricing the Kenai royalty at 16 cents was a subsidy to the State from Union/Marathon.

In 1967 we renegotiated Kenai gas to 21 cents and scheduled future escalations, in order to get a firm commitment of 550 bcf over a new 20 year term, to 1992, and in 1974 we again negotiated to add a 19.4 cent charge to get firm deliverability through 1985 of 160 million cubic feet per day and 700 psig delivery pressure. Firm deliverability is the right to obtain gas on any day at the contracted level despite a much lower average daily take -- in our case only 72 million cubic feet, or a "swing" of 222%. The federally regulated price at that time was about 40 cents, for 110% "swing". Thus we felt that adding the deliverability charge gave us long term protection and assurance of supply including peak demands. It was well that we did so, because from 1973 or so OPEC began to bring chaos to the price of oil, followed by the embargo and the Iranian actions which took oil (and gas, nationally) to catastrophic levels.

In 1977, again running short of deliverability, we negotiated with the State to buy the State's royalty interest from the North Cook Inlet gas field operated by Phillips. We were aware that this gas price was variable and escalating, but we considered that we could meet the escalating price on condition that we had no obligation to take that gas and would do so only to enable our customers to avoid using oil at an even much higher price. We continued using State royalty gas until we were able to negotiate the needed deliverability from Marathon (at the Beaver Creek gas field). Beaver Creek gas was initially priced at $2.32 and included assured long term deliverability, but is indexed up or down to the price of turbine fuel (oil) at the Tesoro refinery, so that its present price is $2.19. This year we began buying gas from the Lewis River gas field with negligible take or pay, at $1.80.

Clearly, the wellhead value of gas in Alaska does not have a direct correlation to the world price of oil, or even to inflation. There has been, and is, a surplus supply of gas available in the Cook Inlet area, and its real value is determined by negotiations of a willing buyer and a willing seller. We are entrusted by the Alaska Public Utilities Commission with the responsibility to behave prudently in these negotiations and to make the best deals we can for the interest of our custom-

ers and our owners. There is perhaps an art, but very little science, in deciding when to make a deal and on what terms. We have been complimented by many of our associates in the industry, by our customers, and by the APUC. We have been criticized by experts at various times that we have paid too little or too much. But a deal is a deal in the real world, and I am proud of having the lowest gas rates in the country and among the best long term supply. Where we had no customers in 1960, we now serve nearly 70,000 and the benefits extend to all of railbelt Alaska through interconnects of electric power, from Homer and Seward through the Matanuska Valley and soon to Fairbanks. There is no subsidy to our customers, or to these others, although they, in total, are saving hundreds of millions of dollars per year as compared to what they would be spending for oil if we had not developed natural gas in Alaska.

We are aware of efforts by CIRI and MMS (old USGS) to collect retroactive royalty and to set artificial wellhead values for gas used by Union/Marathon in their ammonia-LNG plants. These conditions do not attach to our purchases, all of which were made at arms-length and establish the real market, the only true value of the gas we buy for our customers.

DT/dms



YUKON PACIFIC CORPORATION

March 18, 1986

Rep. Mike Davis
Pouch V - Mail Stop 3100
Juneau, AK 99811

Re: Position Paper/SB 309

Dear Mr. Davis:

1. Yukon Pacific Corporation is an Alaska-based company working to bring about the Trans Alaska Gas System (TAGS) a pipeline to tidewater for shipment of liquefied natural gas (LNG) to Asian markets.

2. Financing and construction of a multibillion dollar system requires the ability to make long-term contracts with certainty that the state will not later come along and change the price of the State's royalty gas. Pass-through provisions are not possible in the international market.

3. SB 309 in its original form would have addressed the problem by requiring the State to accept the price of the gas under long-term contracts when its royalty share is taken in value. SB 309 as passed by the Senate confirms the State's contention, now being challenged in court, that it does have the right to revalue gas under contract. The bill then makes certain "exceptions" to allow the state's utilities to have the certainty in long-term contract prices they believed they had before the Commissioner's decision in 1985 to raise Beluga in-value prices.

4. Yukon Pacific has sought language in SB 309 that would give it a similar "exception" to allow the Commissioner to agree to long-term contract prices if certain findings are made. The language contained in SB 309 would allow the Commissioner to see to it that producers could keep their price commitments to buyers of North Slope gas if the Commissioner was certain the transaction was both arms-length and did not unfairly diminish the value of the gas by attributing greater profits to transportation or marketing.

5. Yukon Pacific would urge the following changes to the legislation, if the issue is not first settled in court:

P.O. Box 101700 • Anchorage, Alaska 99510 • 907 279-1596 • Telex 25-340 Capt. Cook AHC
515 South Post Oak Road • Suite 225 • Houston, Texas [illegible]

a. The so-called "exception" should be broadened to all new gas contracts so long as the state maintains the ability to prospectively take and sell its gas on an in-kind basis during the life of the contract.

The state may be protected by agreeing to a formula for transportation and for processing charges up front, before the Commissioner makes the findings to go with the contract.

b. The arms length clause in the North Slope contract could prevent a contract price decision by the State if North Slope producers take any interest in a gas pipeline. In ANGTS this was the case and it is likely the case in TAGS.

The State is protected by the parallel finding that the market value of the gas is appropriate. Had such a finding been made by the Commissioner before less-than-arms-length transactions were made to construct TAPS, the Phillips-Marathon LNG plant, and the Collier Chemical Plant, it is our belief that expensive and disruptive legal battles on appropriate values of wellhead oil or gas could have been avoided.

6. In conclusion, while Yukon Pacific believes this legislation may not have been necessary if the pending court cases were allowed to come to a conclusion, the company also believes that broadened legislation, removing the proscription on less than arms length transactions, could provide the stability in royalty policy necessary to sign long-term contracts and to finance new projects.

Please pass this information along to the Committee at the hearing on Wednesday, March 19.

With best regards.

Sincerely,

John Horn
Vice Chairman

JH:BH

MEMORANDUM State of Alaska

TO: Kay Brown, Director
Division of Oil and Gas
and Ned Farquhar, Special Assistant/
Legislative Liaison
Department of Natural Resources

DATE: March 19, 1986

FILE NO:

TELEPHONE NO:

FROM: Harold M. Brown
Attorney General

By: Mark P. Worcester
Assistant Attorney General
Oil, Gas and Mining-Anchorage

SUBJECT: Yukon Pacific's 3/18/86 letter on SB 309

I have the following comments on the Yukon Pacific position paper on SB 309, dated March 18, 1986, and addressed to Representative Mike Davis.

* The letter consistently confuses the terms "price" and "value". When the state takes royalty in value, it receives the value of the gas; when it takes royalty in kind, it receives a price. Accordingly, the state does not "change the price" of royalty on gas production taken in value. Rather, it merely enforces lease provisions which provide that value is not exclusively determined by the price established by the producer's sales contract. This is an essential distinction. For instance, Horn's confusion betweeen "price" and "value" is the predicate for his insinuation that "uncertainty" is attributable to the supposed vagaries of state administration, whereas the critical uncertainty is caused instead by the inability to predict the marketplace over time.

* The letter ignores the fact that Yukon Pacific has always had the ability to obtain "certainty" as to royalty contract "price" through a contract for in kind royalty gas paralleling any sale of working interest gas. Indeed, as indicated above, the only way the state can commit itself not to change a royalty "price" (as opposed to a royalty "value") is in the context of a sale of gas taken in kind.

* The insinuation that the state's legal case is weak is entirely false. If the producers and utilities had thought they had long-term contract prices controlled in value royalties, they would not have had "pass-through" clauses in their sales contracts. More explicitly, had Phillips, Marathon, Union, and Enstar really felt their litigation chances to be so favorable, they would not have all entered into settlements so clearly favorable to the state. Even the Chugach settlement will bring the state three times the amount of royalty that Chugach and the producers asserted was due.

* Up front agreement to a formula for apportioning price among the gas, processing costs and transportation costs for all sales contracts in unrealistic. The state still has not reached final resolution on TAPS charges, and the shipping charge issues for North Slope oil are in litigation in the Amerada Hess case. It took years to resolve these issues with Phillips and Marathon. It would be difficult for the departments to make sound decisions on such apportionment "up front" - especially within a 90 day time frame.

* The present bill would not require the department to agree to a formula to apportion a North Slope gas contract price among pipeline, liquefication, shipping and the gas. For instance, the sales contract could be between the producers and Yukon Pacific at the North Slope, with Yukon Pacific marketing the gas in Japan. The bill does not require agreement as to an apportionment formula - only a finding that the value of the gas has not been diverted to transportation or other cost or profit centers.

* The apportionment issue will be a significant issue if the first sale of North Slope gas is directly to the Japanese. Mr. Horn worked with Phillips. Phillips argued in the Cook Inlet LNG litigation that under a "proper" (from Phillips' perspective) netback method, the value should be apportioned according to the amount invested in each segment. Since the pipeline, LNG facility and LNG tankers have great up front costs, this would have resulted in a very low netback value for the gas. In fact, the great profits of the Phillips/Marathon LNG plant came from an increase in the value of the gas: it was economic rent from the fortuitous worldwide escalation of energy prices that created the large profits. I am confident that any formula which Phillips would have proposed "up front" would have been designed to deprive the royalty owner from fully sharing in any fortuitous rise in the value of the gas. Any simple formula would inappropriately attribute rises in the value of the gas to liquification, pipeline and shipping, and would not account for the depreciation of the pipeline, liquefication and shippong facilities.

* It may be worth reiterating that the ability of the state to take its gas is kind is a safeguard of questionable value. The gas market is limited - especially on a day-to-day basis. More importantly, the state is in a very disadvantageous

marketing position. Not only must any contract go through administrative and legislative procedures which discourage potential buyers, but the state, unlike producers, cannot control the volume of gas under any in kind sale, since the state simply takes a percentage of what the amount produced under the lessees' sales contracts.

* The suggestion that "expensive" litigation could have been avoided had SB 309 been on the books sooner is incredible. Certainly, it has been expensive to litigate TAPS and the Phillips LNG cases. However, it has primarily been "expensive" to the oil companies, since they have been required to pay huge sums to the state. Moreover, it is disingenuous to suggest that the Phillips/Marathon LNG disputes could have been avoided if SB 309 had been in place when that project was built. Phillips and Marathon both strenuously argued that the Japan sales price could not be used to determine their royalty obligation. Instead, they argued that their royalty was controlled by the local market price (which they acknowledged could change over time). Union's dispute also could not have been resolved by a SB 309, since it does not sell its gas, but rather transfers it from its production to its chemical division. The only reason that John Horn is touting a netback for Yukon Pacific, after he adamantly opposed a netback when working for Phillips, is because the market is now different, and Yukon Pacific believes the royalty will be lower using a netback from the Japan price (especially if they can manipulate the netback "formula") than it would be if the royalty were controlled by local market values. This illustrates that the most consistent "principle" guiding the industry's stance on royalty policy is that royalties should be minimized.

* It now looks like a real push will be made to amend the (bb) subsection in SB 309 - at least to remove the restriction to arm's-length contracts. I have an additional suggestion on possible amendments. I believe that it would be important that the commissioner have the power to <u>conditionally</u> approve the use of contract price. I think that the power exists now, since a commissioner could reject a proposal, and in the decision accompanying the rejection state the changes which would make the proposal satisfactory. However, it may be difficult for a commissioner to take such actions because of political pressures not to "obstruct" significant projects. It may be easier for a commissioner to insist upon changes to protect the state's

royalty interest if the authorizing statute expressly comprehended that the commissioner's role would go beyond merely taking or leaving an oil company proposal. This kind of authority would be especially important where the proposal called upon the commissioner to agree to apportionment of a destination price among the gas, pipeline, shipping and liquefication segments.

DNR 3-12-86

DISCUSSION POINTS

CSSB 309 (RULES)

- The Bill would benefit Alaska consumers of electricity and natural gas. This way the use of Alaska's royalty gas resources would directly benefit state citizens.

- Although state revenues may be reduced in the future as a result of the Bill, any losses attributable to consumer use would likely be small (compared to oil revenues).

- The Bill would not affect the Legislature's ability to review long-term royalty sales under AS 38.05.183 (See AS 38.06.055).

- The Bill is not a "special interest" rewrite of the state's royalty valuation policy. The benefits that would accrue under the Bill would benefit more than three-fourths of the state's citizens.

- Passage would facilitate financing for a North Slope gas pipeline, which would provide many jobs and boost the state's economy generally. For a project of this magnitude the Legislature may wish to provide "certainty" for valuation of the royalty share.

- The Bill (unlike the original version) provides a proper delineation of the respective roles of the executive and legislative branches.

- The Bill would apply only to future contracts between a lessee and a purchaser, and to future proposed in-kind sales.

- The Administration's reservations about the original bill have been addressed. The Bill allows the conditional settlement agreement with Chugach Electric to take effect, and should be passed promptly.

BY TELECOPY

To: Ned Farquhar
From: Mark P. Worcester
Date: March 7, 1986

RE: Housekeeping amendments to SB 309

We recommend the following amendments to CS for SB 309 (Rules):

Amend Section 1, subsection (e) as follows:
Replace the phrase "the Prudhoe Bay reservoir" with the phrase "Alaska North Slope gas leases";

Amend section 2, subsection (bb) as follows:

(bb) In the event of a contract between parties that are unrelated in management, ownership, or other aspect for the sale of gas from [PRUDHOE BAY RESERVOIR] Alaska North Slope gas leases by means of delivery of the gas through a pipeline for export out of the state, and within 90 days after the written request of a lessee of a lease issued under this section, unless the commissioner makes a written finding that the contract price does not assure the maximum benefits to the people of the state in return for the state's gas resources, the commissioner shall enter into an agreement with the lessee to use the price for the gas established in the gas sales contract as the value of the state's royalty share of gas production sold by the lessee under the gas sales contract. The lessee shall have the burden of providing all information necessary for the commissioner to make an informed decision, and shall provide clear and convincing evidence that the value of the gas is reflected by the gas sales contract price rather than being attributed to transportation, marketing, or other profit or cost centers. In this subsection [,]

(1) "Alaska North Slope gas leases" includes any gas lease issued by the state under this section that lies in whole or part north of 68 degrees north latitude; and

(2) "price for the gas established in the gas sales contract" includes tax reimbursement amounts, deliverability and other charges, and other forms of consideration received by the lessee under the gas sales contract.

Add a new section 7:

This Act does not apply to gas royalties due on production from land patented to the state under the Alaska Mental Health Enabling Act of 1956, P.L. 84-830, 70 Stat. 209 (mental health lands), and the Act of March 4, 1915, ch. 181, 38 Stat. 1214 and section 906(b) of the Alaska National Interest Lands Conservation Act, P.L. 96-487, 94 Stat. 2430 (school lands).

STATE OF ALASKA

POUCH V
JUNEAU, ALASKA 99811
(907) 465-4941

HOUSE SPECIAL COMMITTEE ON OIL AND GAS

CSSB 309 (Rules)

Packet Material

1. Letter from DNR to Sen. Sackett re: fiscal note
2. Summary of CSSB (Rules)
3. Section-by-Section Analysis
4. Cook Inlet Royalty Gas Valuation Overview - DNR 2/10/86
5. Impacts of State Royalty Gas Increase on Railbelt Consumers - Chugach Electric Association

STATE OF ALASKA

DEPARTMENT OF NATURAL RESOURCES

OFFICE OF THE COMMISSIONER

BILL SHEFFIELD, GOVERNOR

POUCH M
JUNEAU, ALASKA 99811
PHONE: 907-465-2400

The Honorable John Sackett
Co-Chair, Finance Committee
Alaska State Senate
Juneau, AK 99811

March 3, 1986

Dear Senator Sackett:

I am responding to your request for more information on the fiscal note and potential fiscal impact of CSSB 309 (Res), now before the Senate as CSSB 309 (Rules).

The fiscal note

The department has submitted a zero fiscal note for the bill, which will not directly affect the state's current royalty gas revenue stream. There are two reasons that it is not possible to identify future costs of the legislation:

- the department is not able to predict how often the new valuation mechanism will be applied in the future, nor can we predict future gas contract prices and quantities; and

- market values for Alaska natural gas (particularly Cook Inlet gas now sold for instate consumer uses and most immediately affected by the proposed statute) are unpredictable, as is the possible disparity (positive or negative) between contract price and market value.

Even though there is no direct fiscal impact that can be assigned to the bill, enactment of the legislation will indirectly affect state royalty income from existing production in Cook Inlet. The state has entered into an agreement with Chugach Electric to value the state's royalty share from Beluga Field production purchased by Chugach under existing contracts at $0.75/mcf if the legislation passes. This value is one-half the state's January offer to settle the pricing dispute at $1.50/mcf, which was rejected by the Beluga producers who sell to Chugach. If the dispute had been settled at $1.50/mcf under existing state law, the

state would have received approximately $1.9 million/year in new royalty income from the Beluga field. Settlement at $0.75/mcf, as will occur if CSSB 309 (Rls) is passed, will increase state royalty revenues from Beluga production by about $810,000/year, according to our calculations, because the state's share of this production is currently valued at $0.21/mcf by the producers. This increase in state royalty revenues is less than would have been expected if 1) the state's $1.50/mcf settlement offer had been accepted, or 2) the state had successfully pursued its legal arguments regarding the value of the state's royalty share under the existing lease terms, based on existing law.

Future costs to the State

As stated above, the department has submitted a zero fiscal note because it is unable to predict future market conditions and contract terms for Alaska natural gas. It is important for the Legislature to consider that market value in the future could either exceed or remain below long-term contract prices for instate consumer gas purchases. The present situation in the Beluga field is an example of how long-term contract prices (Chugach at an adjusted $0.26/mcf and Enstar at an adjusted $2.05/mcf) can be above or below "market value" simultaneously in the same field.

Section 2. The fiscal impacts of Section 2(aa) of CSSB 309 (Rls) will largely depend on future market and contract conditions in Cook Inlet, unless there is a commitment of North Slope natural gas by the producers for instate use. The natural gas market for instate energy use will be affected by the costs of thermal and hydroelectric energy alternatives, including new or expanded coal development; production from new or shut-in gas sources; geothermal development (which has been discussed in connection with Beluga coal development); hydroelectric construction; export projects for coal, gas, or oil; and the price of fuel oil and diesel as alternative fuel sources. There have been some projections of Cook Inlet gas prices by other agencies that this department has disputed on grounds that the Cook Inlet market remains largely controlled by local factors rather than world gas or oil prices or exports. If North Slope natural gas is brought to market its pricing and availability will also become an important factor in the fiscal impact of this bill (Section 2(bb)). Because the eventual marketing arrangements for Prudhoe Bay gas would

probably have to be less diverse and more stable than are marketing arrangements for Cook Inlet gas, it is likely that there would be less disparity between Prudhoe Bay contract price and market value, although the fiscal impact of accepting the contract price as the state's royalty value (given the magnitude of the Prudhoe Bay gas resource) might be larger, either positively or negatively affecting the state's revenues.

Section 3. This section gives the commissioner authority to make below-market-value gas sales for instate energy use. Because the Legislature reviews long-term royalty oil and gas contracts before their implementation by the Department, the fiscal impact of this section will be considered by future Legislatures reviewing such below-market-value gas sales by the state. Without knowledge of how often or at what cost the state will exercise this option, there is no way to estimate the fiscal impact of enacting this statute.

Please contact me if you have any further questions or comments. I am providing copies of this letter to other members of the Senate in anticipation of the floor debate on CSSB 309 (Rls) this morning. Thank you for your interest in this issue.

Sincerely,

Esther C Wunnicke

Esther C. Wunnicke
Commissioner

cc: All Senators
Dr. Joyce Murphy, Chugach Electric

DNR 3-3-86

SUMMARY OF CSSB 309 (RULES)

The Bill will allow the state to provide certainty in royalty gas valuation for Alaska consumer uses and North Slope gas development.

Specifically, the Bill would:

- Authorize the Commissioner of the Department of Natural Resources to accept a contract price between a state lesses (gas producer) and a gas or electric utility as the value of the state's royalty share of production.

- Authorize the Commissioner of the Department of Natural Resources to sell the state's royalty gas to a gas or electric utility at a price below market value. The Legislature reviews long-term sales under existing law.

- Establish a royalty valuation procedure which will facilitate financing for a North Slope gas pipeline.

"Gas or electric utility" includes cooperative electric utilities (such as Chugach, Matanuska, Homer, rural coops, and Golden Valley Electric), municipal utilities (such as Anchorage Municipal Light and Power), and a gas utility regulated under AS 42.05 (such as Enstar).

The Act would apply only to future contracts between a lessee and a purchaser.

A preliminary settlement agreement between the Department of Natural Resources and the Board of Directors of Chugach Electric, which would settle pending litigation over the value of the state's royalty share of Beluga gas now pruchased by Chugach at $0.26/mcf, is contingent on passage of the bill. The preliminary settlement agreement sets the price of Beluga royalty gas under the existing Chugach contract at $0.75/mcf.

Revenue Impact: Section 3 of the Bill, which authorizes the Commissioner to sell royalty gas taken in kind to a gas or electric utility at a price below market value, could result in lower state revenues in the future if this discretionary authority is exercised. The amounts of potential revenue loss cannot be precisely calculated, but would be identified at the time of the sale, when legislative review would occur. The state could also lose or gain revenue by any disparity between contract prices and market values, but this fiscal impact is not predictable.

DNR 3-3-86

Section-by-Section Analysis of CSSB 309 (Rules)

Section 1 of the Bill makes several findings:

- The best interest of the state will be served if the commissioner of Natural Resources is authorized to establish the in value royalty for gas sold to a gas or electric utility by using the contract price between the state lessee and the utility;
- It is in the best interest of the state to give the commissioner explicit discretionary authority to sell in kind royalty gas to a gas or electric utility at a price below market value;
- The proper exercise of discretion conferred by the Act will support and complement the other energy programs of the state;
- The state should adopt a policy for the sale of royalty gas to gas or electric utilities for in-state consumer use and in-state generation of electricity that is fundamentally different from the policies of the state for the sale of royalty oil and for the sale of royalty gas for export from the state or for uses other than in-state consumer use and in-state generation of electricity; and
- It is in the state's best interest to facilitate the financing and construction of a pipeline and increased gas production from the Prudhoe Bay reservoir by establishing a procedure by which the state could commit itself to a royalty valuation methodology for as long as the state takes its royalty share of gas production in value.

Section 2 adds new subsections to AS 38.05.180:

- Subsection (aa) provides that within 90 days after the written request of a lessee, unless the commissioner makes a written finding based on clear and convincing evidence that the contract price is unreasonably low and that a prospective reduction in royalty receipts would not be balanced by increased benefits to in-state gas and electric consumers, the commissioner shall enter into an agreement with the lessee to use the price established in a contract between the lessee and a gas or electric utility as the value of the state's royalty share of gas production, if the lessee and the utility are not related. "Gas or electric utility" includes an electric cooperative organized under AS 10.25, a municipal utility, and a gas or electric utility regulated under AS 42.05.
- Subsection (bb) provides that in the event of a contract between unrelated parties for the sale of gas from the Prudhoe Bay reservoir for delivery through a pipeline for export out of the state, the commissioner shall within 90 days after the written request of a lessee enter into an agreement with the lessee to use the price for gas established in the gas sales contract as the value of the state's royalty share of gas production, unless the

commissioner makes a written finding that the contract price does not assure the maximum benefits to the people of the state in return for the state's gas resources. The lessee shall have the burden of providing all information necessary for the commissioner to make an informed decision, and shall provide clear and convincing evidence that the value of the gas is reflected by the gas sales contract price rather than being attributed to transportation, marketing, or other profit or cost centers.

Section 3 adds a new subsection to AS 38.05.183:

- Subsection (h) provides that the commissioner may sell royalty gas taken in kind to a gas or electric utility at less than the market value of the gas, if the commissioner, after considering the consumer benefits, other benefits, and detriments of the sale, makes a written finding that the sale is in the best interest of the state. "Gas or electric utility" includes an electric cooperative organized under AS 10.25, a municipal utility, and a gas or electric utility regulated under AS 42.05.

Section 4 amends AS 38.05.810(a) to make it consistent with the other provisions of the Act.

Section 5 provides that the proposed AS 38.05.180(aa), which would be enacted by Section 2 of the Act, applies to agreements to establish the in value royalties on gas production that is sold under a contract entered into on or after the effective date of the act between the state's lessee and a gas or electric utility.

Section 6 provides an immediate effective date.

COOK INLET ROYALTY GAS VALUATION:
An Overview

A Presentation to the
Senate Resources Committee
by:

Esther C. Wunnicke, Commissioner
Alaska Department of Natural Resources

Kay Brown, Director
Division of Oil and Gas
Alaska Department of Natural Resources

Bill Van Dyke, Petroleum Manager
Division of Oil and Gas
Alaska Department of Natural Resources

Mark Worcester, Assistant Attorney General
Alaska Department of Law

February 10, 1986

ATTACHMENT 1

2/5/86

COOK INLET GAS SUMMARY

Lease interpretation: Under the terms of its oil and gas lease contracts with the oil companies, the state is entitled to royalty payments determined by the higher of the price received by an oil company under its sales contract, or the value of the gas at the time of production. This means that the price received under a long-term gas sales contract does not control royalty valuation in those instances where inflation and market forces have caused the current value of the gas to be higher than the contract price.

DNR policy:

(1) As land manager for the citizens of the entire state, it is DNR's responsibility to obtain fair value for the state's oil and gas resources by collecting the full royalties to which the state is entitled under its oil and gas leases.

(2) DNR should not selectively abdicate its responsibility to enforce the royalty terms of the Cook Inlet gas leases just because utility companies have agreed as part of their gas purchase contracts to reimburse the oil companies for royalty collections made by the state. Any consumer subsidy should be the result of an affirmative, direct subsidy by the legislature as part of a comprehensive energy policy.

(3) DNR should not divert from uniform enforcement of the oil and gas leases, since such action could, in addition to directly reducing revenues from any leases from which royalties are not fully collected, also indirectly cause a much larger reduction in state revenues by impairing the state's ability to enforce the royalty provisions of the North Slope leases.

The potential consumer impact result from actions by Chugach, not the state. The risk that gas values might escalate to values in excess of the long-term gas sales price was a circumstance foreseen by the parties to those sales contracts. This is demonstrated by the fact that the contracts between the oil company lessees and Chugach Electric Association, Inc. (Chugach) specifically assign to Chugach the risk of any rise in royalty obligations. The state was not a party to those sales contracts. The contract price, the absence of an adequate price escalator or price reopener, and the assignment to Chugach of the risk of increased royalty obligations were all conditions established by contract between Chugach and the lessees without state participation.

Existing law provides an adequate mechanism for long-term royalty certainty: DNR is sympathetic to the desirability of long-term certainty in royalty matters. However, new statutory authorities are not necessary in order to provide such certainty. Royalty certainty can be attained by negotiation of long-term in kind gas sales contracts which parallel the contracts between the state's

lessees and their gas purchasers. This would allow an opportunity for DNR, the royalty board, and the legislature to evaluate the adequacy of the royalty over the life of the contract. This is preferable to being locked into a long-term royalty value set by prices established by lessees without any notice to or participation from the state.

Litigation: Last March DNR notified the Cook Inlet lessees of its determination to enforce the leases. The notices asserted that the most recent (December 1982) major contracts from the Kenai and Beluga River fields (the "APL II contracts") established the current value. These contracts had a base contract price of $2.05 per mcf in 1985. The state subsequently indicated its readiness to accept a lower royalty value if presented with evidence that the current value of gas in Cook Inlet is less than the price established under the APL II contracts. Union, Marathon, ARCO, Chevron and Shell responded to the notices by suing the state.

Recent Cook Inlet Gas Sales Contracts:

Date of Contract	Purchaser	Field	Starting Base Price
1982	APL (Enstar)	Beluga	$2.32
1982	APL (Enstar)	Kenai, Beaver Creek or McArthur River	$2.32
1983	Chugach	Cannery Loop	$1.80
1984	APL (Enstar)	Lewis River	$1.80
1985	Tesoro	Kenai, Beaver Creek or McArthur River	$2.01

Settlements achieved: In the last two months of 1985 DNR's royalty enforcement actions achieved significant success. Settlements relating to gas royalties due on production from the Kenai Field, and involving Marathon, Union, Alaska Pipeline Company (Enstar), CIRI, the U.S. Department of the Interior and the state, yielded the state about $4 million in retroactive royalties, and will bring in excess of $6.5 million per year more than the amounts which would have been paid under the lessees' prior reporting practices (including those increases attributable to the state's 90% interest in federal onshore royalties). Under the lessees' theory, the royalties would have been variously between $0.21 and $0.61 per mcf; under the settlement, the lessees will pay $1.95 per mcf during 1986. The $1.95 is squarely within the gas values established by recent Cook Inlet gas sales contracts, as well as the values established by Enstar's pending rates ($2.1854 for Schedule C purchasers - "Large Commercial Service", and from $1.6480 to $2.0158 for sales to power plants). The settlements confirm the soundness of the royalty enforcement action taken last spring.

Remaining disputes: The major remaining dispute relates to the Beluga River field, the primary source of gas for Chugach.

Settlement negotiations during the last six months have failed to produce any resolution. Options explored have included underlifting the state's royalty share, thus delaying the royalty into the future; an in kind sale to Enstar or Chugach; and an in value settlement. The lessees (ARCO, Chevron and Shell) assert that they should not be required to contribute any monies to any settlement, since their sales contract with Chugach requires Chugach to reimburse the lessees for any additional royalty amount the state collects. Chugach, in turn, has been unwilling to agree to an acceptable value, and has indicated that it will seek legislative relief. Recently, the state made a formal offer to its lessees to settle the dispute for $1.50 per mcf. This offer was rejected, but settlement efforts and discussions continue.

Consumer impact. Chugach estimates that a royalty rate of $2.05 per mcf on state leases would increase retail consumer rates only about 2.38%, assuming the lessees were successful in asserting that their contracts with Chugach permitted them to pass the royalty burden on to Chugach, and further assuming that the APUC permitted Chugach to pass the burden on to its consumers. DNR estimates that a $2.05 royalty would increase state revenues by about $2.8 million per year. Under the $1.50 per mcf settlement offer, the increased royalty income would fall to about $2 million per year, and the magnitude of retail consumer impact would be correspondingly reduced to less than 2%. (A two per cent increase on a monthly bill of $30 would be only $0.60).

ATTACHMENT 2

2/5/86

COOK INLET GAS ROYALTY SETTLEMENTS
(State leases and State share of federal royalties)

Lessee	Scope of Settlement	Retro-active Payment (millions)	Current Monthly Value Under Settlement (per Mcf)	Estimated Additional Royalties per year (millions)
Phillips	North Cook Inlet Field gas sold as LNG in Japan	$36.3	$2.32	$12.00
Marathon	Kenai field gas sold as LNG in Japan	$ 4.3	$2.32	$ 0.75
Union and Marathon	All of Union's Kenai field gas disposition (including the following: urea/ammonia plant, rental gas, Enstar), plus Marathon's dispostions to Enstar under Enstar's 1975 contract	$ 4.1	$1.95	6.90
	Total	$44.7		$19.65

ATTACHMENT 3

2/5/86

COOK INLET GAS ROYALTY CHRONOLOGY

Month	Year	Description of Event
March	1964	Foster v. Atlantic Refining Company, 329 F.2d 485 (5th Cir. 1964) holds that long-term contract price does not control royalty valuation when market value rises, even if this is burdensome on the lessee.
May	1965	Chugach Electric Association, Inc. enters into 20 year contracts with ARCO, Chevron and Shell for Beluga River gas, with an initial price of 15.2 cents per mcf, subject to a volume limit.
January	1973	Chugach renegotiates its 1965 contracts, extending the term to 1998 (unless the new, higher volume limit is reached earlier). The 1986 base price under those contracts is about 21 cents per mcf.
November	1982	Chugach obtains supplemental gas deliveries under the 1973 contract at a base price of $1.48 per Mmbtu (approximately equivalent to $1.48 per mcf).
December	1982	Alaska Pipeline Company (Enstar) signs contracts for gas deliveries from Beluga River (with Shell) and Kenai (with Marathon) at a price of $2.32 per mcf, with annual adjustments based upon fuel price fluctuations (the "APL-II" contracts). This is the first totally new contract for Beluga River gas subsequent to the 1973 Chugach contract under which there were any deliveries.
March	1984	Piney Woods County Life School v. Shell Oil Company, 726 F.2d 225 (5th Cir. 1984), reh. den. 750 F.2d 69, cert. den. 105 S.Ct. 1868 (1985) reaffirms the soundness and continued validity of the rule in Foster, above.
May	1984	The state and Phillips settle their dispute concerning the valuation of Cook Inlet gas from state leases which is sold as LNG in Japan, using a formula which initially yields a royalty of $2.40 per mcf.
May	1984	The federal government informs Union that virtually all gas royalties from the Kenai field, including gas sold under below-current-market, long-term contracts with Enstar, must be valued in accordance with the price under the APL-II contracts.
November	1984	DNR determines, in consultation with the Department of Law, to enforce the Cook Inlet lease terms requiring payment of gas royalty on the basis of current value.

February	1985	U.S. District Judge Fitzgerald rules that Marathon must pay royalties on Kenai Field gas sold as LNG in Japan based upon the Japan sales price, less costs of transportation. Marathon calculates the netback value under the order to be about $3.00 per mcf, while the federal government calculates the value to be about $3.60 per mcf. The accounting remains in dispute in District Court, while the District Court's February 1985 decision is under appeal to the Ninth Circuit.
March	1985	By written notice, DNR informs its Cook Inlet lessees of its determination to enforce the royalty requirements of the leases.
May/June	1985	All Cook Inlet gas producers file separate lawsuits seeking judicial declaration of their royalty obligations under the leases.
July	1985	The state and Marathon settle their dispute concerning the royalty value of Kenai Field gas sold as LNG in Japan in accordance with the terms of the May 1984 Phillips settlement.
November	1985	The state, federal government and CIRI (all royalty owners in the Kenai field) settle most royalty issues for production from the Kenai field. Most significantly, royalty on gas used in Union's urea and ammonia plant and used to promote greater oil production from the Swanson River oil field, is set at $1.85 per mcf for 1985 and $1.95 per mcf for 1986, with annual adjustments thereafter based upon fluctuations in fuel oil prices.
November	1985	The Secretary of the Interior issues a definitive order holding that Cook Inlet gas sold by Union and Marathon to Enstar must be valued for royalty purposes according to current market values.
December	1985	The state, federal government and CIRI enter into a settlement agreement on the value of the royalty on Kenai gas sold to Enstar under long-term contracts. Under this settlement, the royalty owners receive $1.85 per mcf for the part of 1985 at issue, and will receive $1.95 per mcf for 1986 production, with annual adjustment thereafter based upon fluctuations in the oil prices.
January	1986	The state offers to the producers to settle the dispute concerning the royalty value of gas sold to Chugach. This $1.50 per mcf offer is rejected by the producers, but settlement discussions continue.

ALASKA DEPARTMENT OF NATURAL RESOURCES - DIVISION OF OIL AND GAS
SUMMARY STATISTICS
COOK INLET GAS PRICE DISPUTE
AVERAGE MONTHLY SALES VOLUMES - JULY 1984 THROUGH JUNE 1985

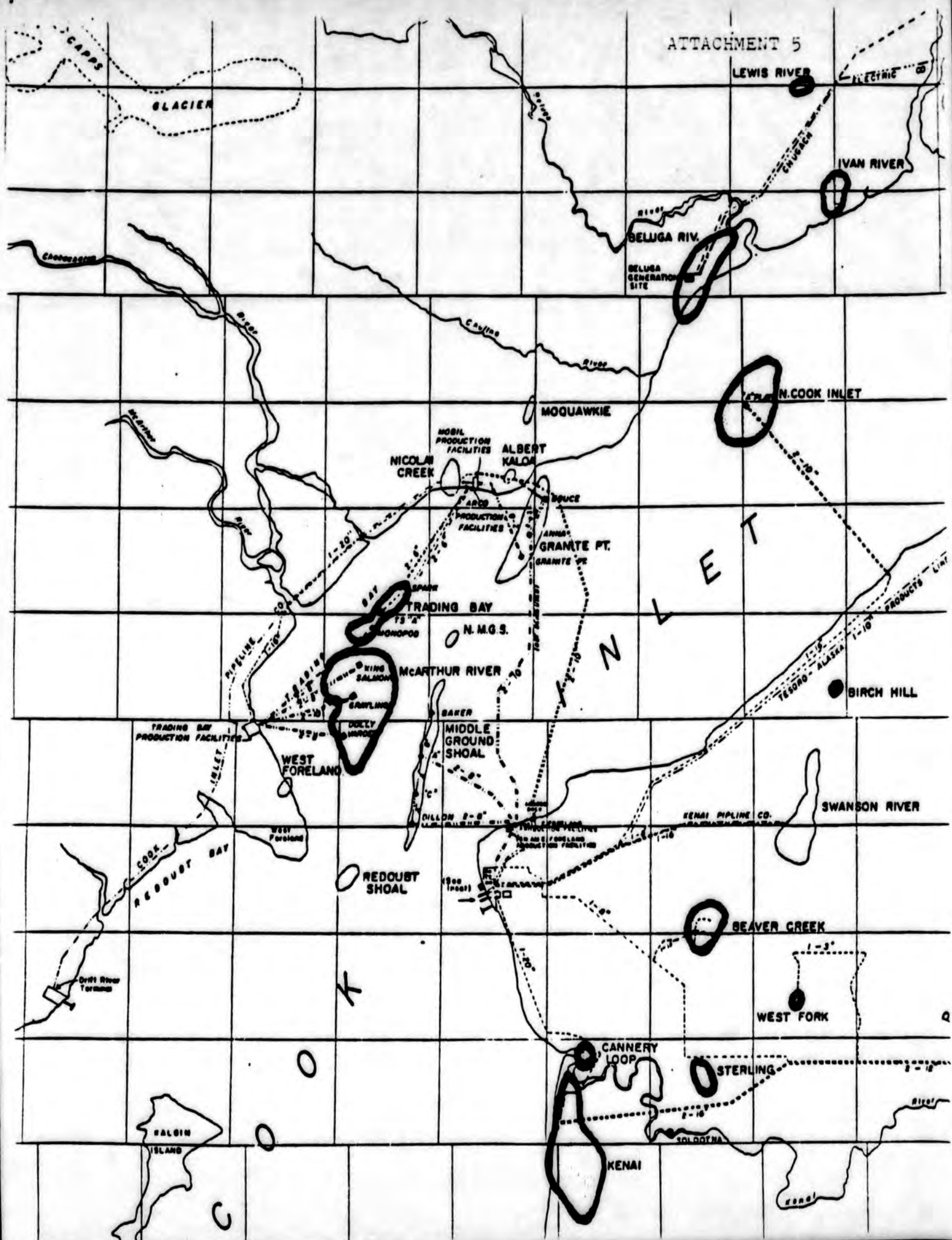
Date:11/14/86

FIELD Producers (% of field owned)	PURCHASER	% of FIELD on sale by sale basis	SALES VOLUMES (MCF) 1/	EFFECTIVE ROYALTY INTEREST	ROYALTY VOLUME (MCF)	VALUE REPORTED FOR ROYALTIES 2/	PRODUCER/ PURCHASER BASE CONTRACT VALUE 2/ 7/	EFFECTIVE DATE	EXPIRATION DATE	
BELUGA RIVER FIELD										
CHEVRON (33.33%)	ENSTAR	2.11%	37,790	0.07555	2,855	$1.0000	$2.0300 9/	12/20/82	10/1999	
ARCO (33.33%)	ENSTAR	2.11%	37,790	0.07555	2,855	$1.0000	$2.0300 9/	12/20/82	10/1999	
SHELL (33.33%)	ENSTAR	2.11%	37,790	0.07555	2,855	$1.0000	$2.0300 9/	12/20/82	10/1999	
AGEA (100.00%)M-214-35	ENSTAR	0.45%	8,122	0.07555	614	$1.0000	$2.0300 9/	12/20/82	10/1999	
SUB TOTAL		6.77%	121,492		9,179					
CHEVRON (33.33%)	CHUGACH	28.70%	515,065	0.07555	38,913	$0.2103	$0.2103	5/16/65	1/1998	3/
ARCO (33.33%)	CHUGACH	28.70%	515,065	0.07555	38,913	$0.2103	$0.2103			
SHELL (33.33%)	CHUGACH	28.70%	515,065	0.07555	38,913	$0.2103	$0.2103			
AGEA (100.00%)M-214-35	CHUGACH	7.15%	127,863	0.07555	9,660	$0.2103	$0.2103			
SUB TOTAL		93.23%	1,673,058		126,400					
TOTAL BELUGA RIVER FIELD		100.00%	1,794,550		135,578					
KENAI FIELD										
UNION (50%)	APL-ANCHORAGE	10.20%	845,622	0.020600	17,494	$1.9500 8/	$0.6220 6/	5/13/60	12/92	3/
UNION (50%)	APL-CHEV RIK	0.19%	15,888	0.020600	329	$1.9500 8/	$0.6220			
UNION (50%)	UNION-CHEV	0.19%	15,518	0.020600	321	$1.9500 8/	$0.6220	2/5/81	INDEFINITE	
UNION (50%)	CITY OF KENAI	0.25%	20,599	0.020600	426	$0.3000	$0.3000	5/17/66	6/1986	
UNION (50%)	RENTAL GAS	4.50%	370,334	0.020600	7,661	$1.9500 8/	$0.0700	1/17/66	1/1995	3/
UNION (50%)	ADDITIONAL RENTAL	2.37%	194,981	0.020600	4,034	$1.9500 8/	$0.3000			
UNION (50%)	UNION CHEMICAL	40.73%	3,352,041	0.020600	69,347	$1.9500 8/	$0.6150	11/1/77	1998	
TOTAL UNION SHARE		58.51%	4,814,973		99,612					
MARATHON (50%)	APL-1	14.38%	1,183,535	0.020600	24,485	$1.9500 8/	$0.6220 6/		12/1992	3/
MARATHON (50%)	APL-11	4.68%	368,603	0.020600	7,626	$2.0550	$2.0800 9/	12/16/82	12/1997	3/
MARATHON (50%)	APL-NIKISKI	0.19%	15,888	0.020600	329	$2.0550 4/	$0.6220			
MARATHON (50%)	CITY OF KENAI	0.25%	20,599	0.020600	426	$2.0550 4/	$0.3000		6/1986	
MARATHON (50%)	RENTAL GAS	4.50%	370,242	0.020600	7,660	$0.2100	$0.2100		1/1995	3/
MARATHON (50%)	ADDITIONAL RENTAL	2.36%	194,050	0.020600	4,023	$0.3000	$0.3000			
MARATHON (50%)	TOKYO UTILITIES	15.32%	1,261,073	0.020600	26,089	$2.2795	$0.7590 5/		6/1/89	
TOTAL MARATHON SHARE		41.49%	3,414,390		70,637					
TOTAL KENAI FIELD		100.00%	8,229,363		170,249					
STERLING FIELD										
UNION (50%)	PENINSULA GREENHOUSE	50.00%	736	0.015546	11	$0.4000	$0.4000	10/27/61		
MARATHON (50%)	PENINSULA GREENHOUSE	50.00%	736	0.015546	11	$2.0550 4/	$0.4000			
TOTAL STERLING FIELD		100.00%	1,472		23					
MCARTHUR RIVER FIELD										
UNION/MARATHON (50% each)		0.47%	1,671	0.125	209	0.000	0.000			
UNION/MARATHON (50% each)	RENTAL GAS	1.48%	5,260	0.125	658	0.000	0.210			
UNION/MARATHON (50% each)	UNION CHEMICAL	87.56%	311,215	0.125	38,902	0.000	0.613			
UNION/MARATHON (50% each)		9.39%	33,375	0.125	4,172	0.000	0.000			
UNION/MARATHON (50% each)		1.10%	3,910	0.125	489	0.000	0.000			
TOTAL MCARTHUR RIVER FIELD		100.00%	355,431		44,429					
TRADING BAY FIELD										
Marathon 48.66%		48.66%	580	0.125	73	0.000	0.000			
Union 48.66%		48.66%	580	0.125	73	0.000	0.000			
Superior 1.34%		1.34%	16	0.125	2	0.000	0.000			
Texaco 1.34%		1.34%	16	0.125	2	0.000	0.000			
TOTAL TRADING BAY FIELD		100.00%	1,192		149					

1/ ANNUAL VOLUME DIVIDED BY 12 MONTHS EQUAL AVERAGE MONTHLY VOLUME.
2/ ROYALTY AND CONTRACT VALUES ARE THE MOST CURRENT IN EFFECT AS OF JANUARY 1986. PRODUCTION AND HAVE NOT BEEN ADJUSTED FOR BTU CONTENT.
3/ QUANTITY TERM COULD OPERATE TO EXTEND OR SHORTEN THE CONTRACT PERIOD.
4/ PRICE REPORTED BY MARATHON IS BEING PAID UNDER PROTEST.
5/ CONTRACT PRICE IS A GROSS PRICE BEFORE TRANSPORTATION COSTS.
6/ CONTRACT PRICE TO GO TO $0.27 MCF DURING 1986.
7/ BASE CONTRACT PRICE DOES NOT INCLUDE LESSEE TAX OBLIGATIONS PAID BY THE PURCHASER.
8/ VALUE AGREED TO BY SETTLEMENT.
9/ SPECIAL DELIVERABILITY CHARGE OF $0.35/MCF MAY ALSO BE EFFECTIVE.

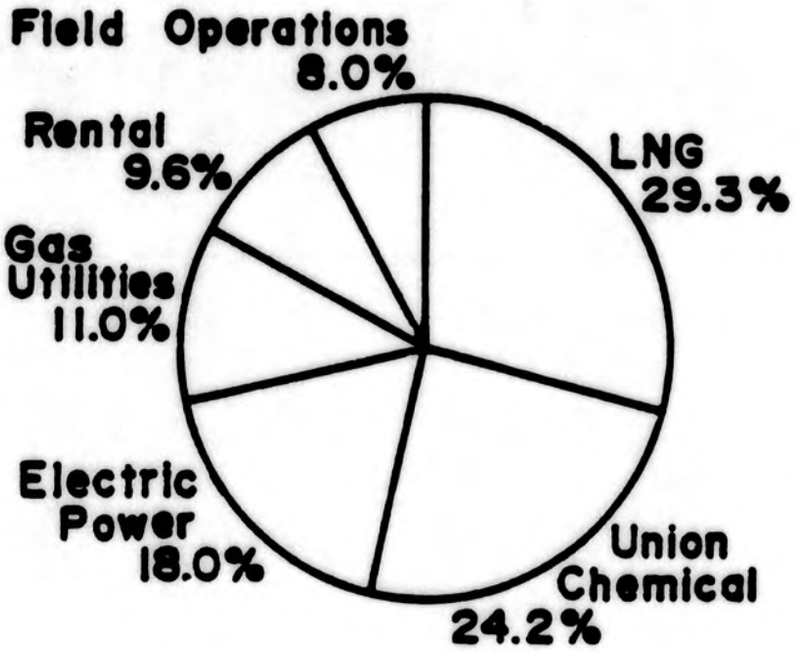
ATTACHMENT 1

ATTACHMENT 5

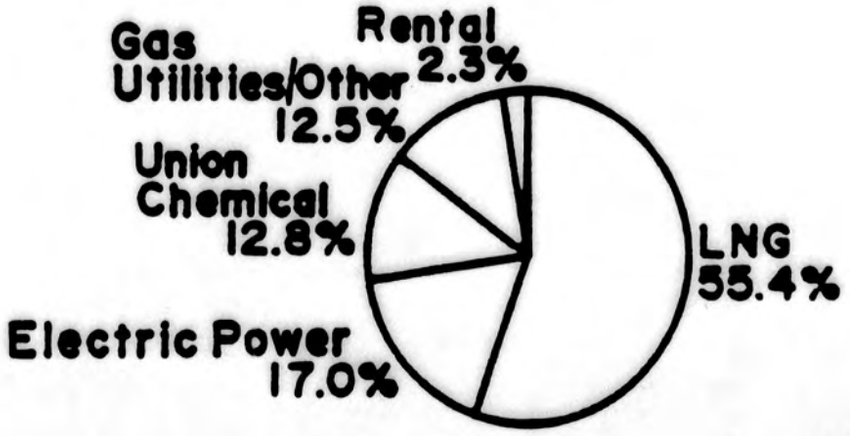


COOK INLET

Total Sales



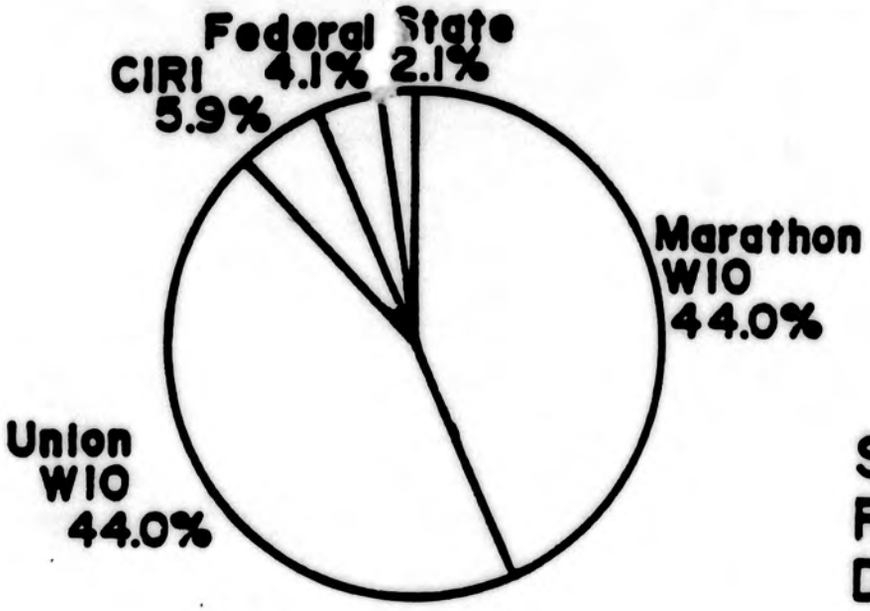
State Royalty Disposition



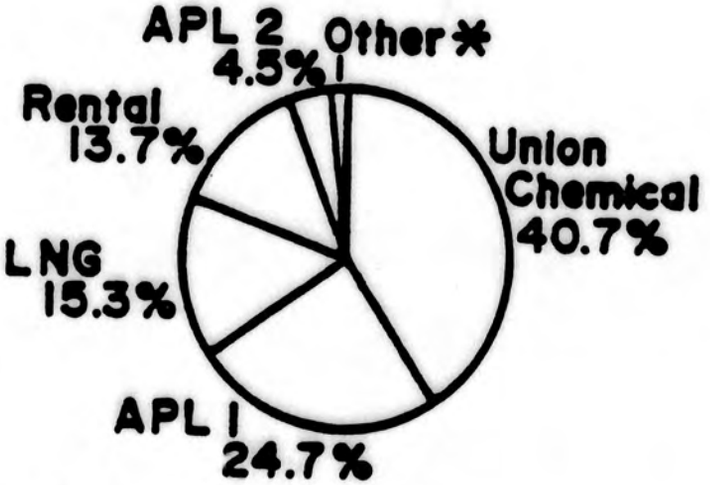
ATTACHMENT 7

KENAI FIELD

Royalty And Working Interest Ownership



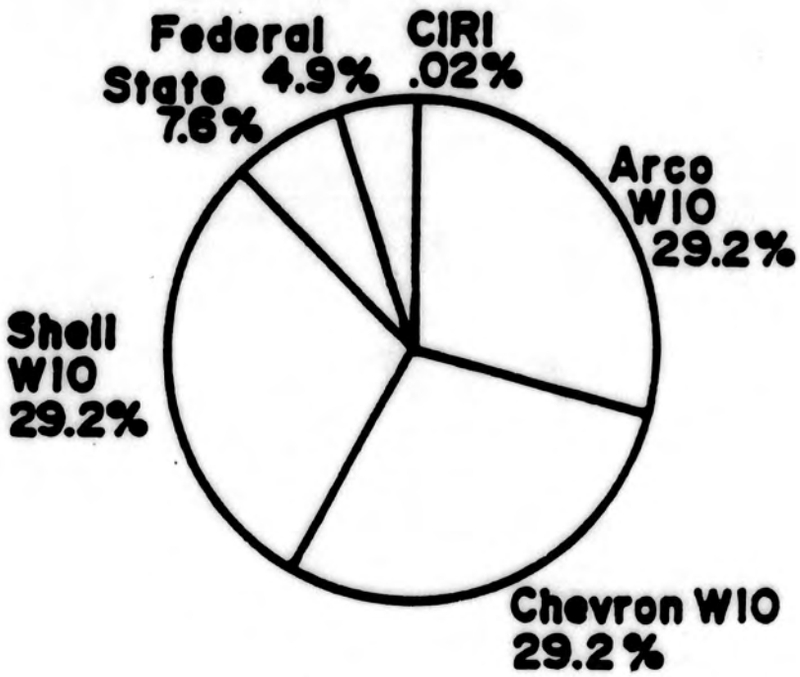
State Royalty Disposition



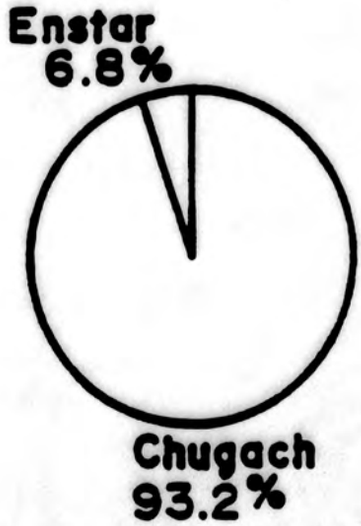
* APL-Nikiski 0.4%
Union-Chevron Exchange 0.2%
City Of Kenai 0.5%

BELUGA FIELD

Royalty And Working Interest Ownership



State Royalty Disposition



COOK INLET GAS PRODUCTION
(For 1984)

		Total MMCF/Month	State Royalty MMCF/Month
Beluga River Field			
For:	Chugach	1673	125
	Enstar	121	9
	Total	1794	134
Kenai Field			
For:	APL 1	2029	42
	APL 2	369	8
	APL Nikiski	31	1
	APL Kenai	41	1
	Union Chevron Ex	16	1
	Rental gas	741	15
	Rental gas extra	389	8
	Ammonia-Urea	3352	67
	LNG	1261	25
	Total	8229	168
McArthur River Field			
For:	Rental gas and ammonia-urea	355	44
Beaver Creek Field			
For:	APL 2	789	0
Lewis River Field			
For:	APL 2	153	19
North Cook Inlet Field			
For:	LNG	3932	491
GRAND TOTAL		15,250	856

Excerpts from Lease Form DL-1
Pertaining to the Pricing of Royalty Products

11. ROYALTY ON PRODUCTION. Except for oil and gas used on said land for development and production or unavoidably lost, Lessee shall pay Lessor as royalty the following:

(a) On oil 12-1/2 percent in amount or value of the oil produced and saved and removed or sold from said land.

(b) On gas 12-1/2 percent in amount or value of the gas produced and saved and sold or used off said land or used for the extraction of natural gasoline or other products therefrom.

(c) On associated substances 12-1/2 percent in amount or value of such substances produced and saved and removed or sold from said lands.

15. ROYALTY IN VALUE. At the option of Lessor, which may be exercised from time to time upon not less than six months' notice to Lessee, and in lieu of royalty in kind, Lessee shall pay to Lessor the field market price or value at the well of all royalty oil and/or gas. All royalty that may become payable in money to Lessor shall be paid on or before the last day of the calendar month following the month in which the oil or gas is produced. The payments shall be accompanied by copies of run tickets or other satisfactory evidence of sales, shipments, and amounts or gross production.

16. PRICE. The field market price or value of royalty oil or gas shall not be less than the highest of: (1) The price actually paid or agreed to be paid to Lessee at the well by the purchaser thereof, if any; or (2) The posted price of Lessee in the field for such oil or gas at the well, if any; or, (3) The prevailing price received by other producers in the field at the well for oil of like grade and gravity or gas of like kind and quality at the time such oil or gas is removed from said land or run into storage, or such gas is delivered to an extraction plant.

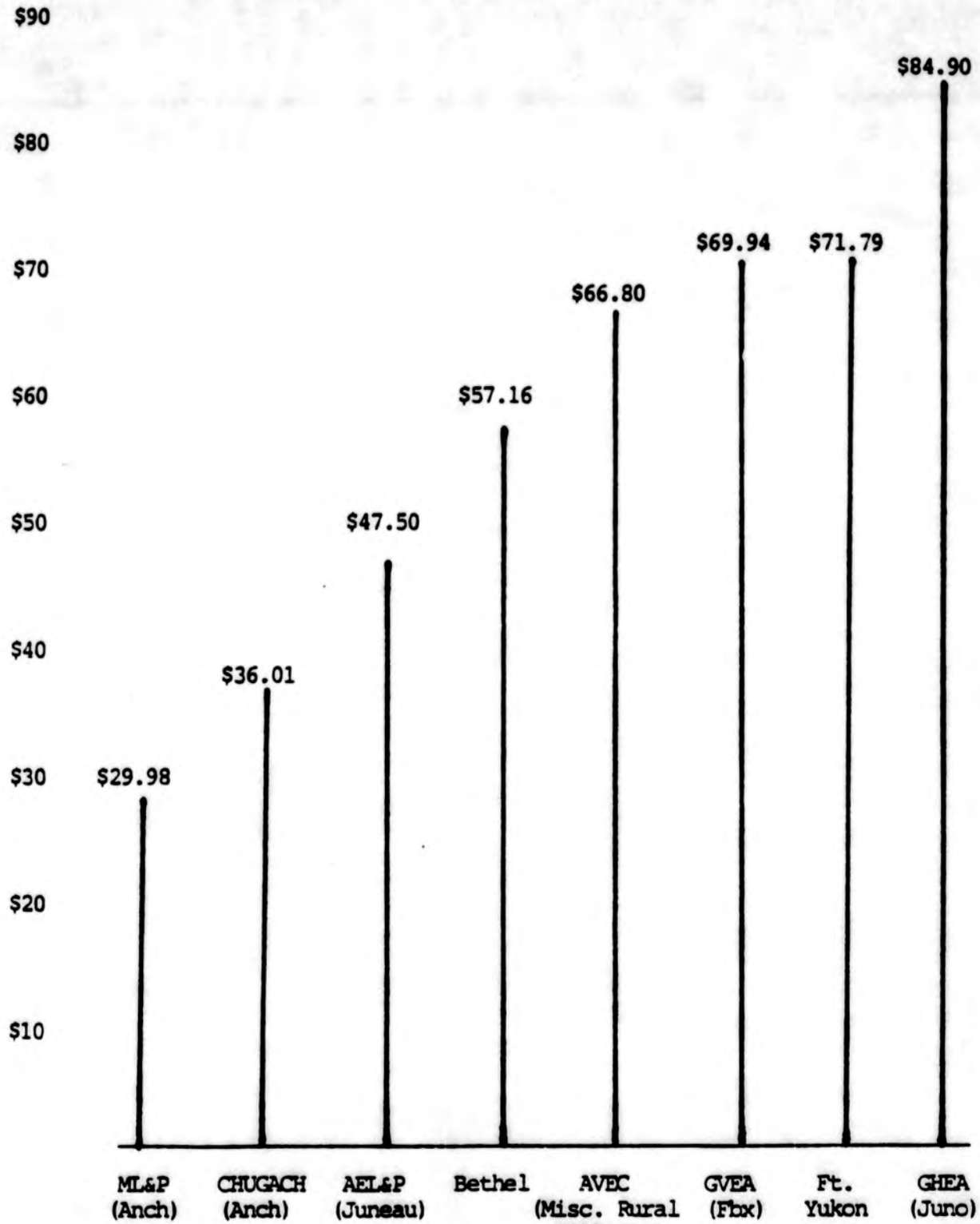
RECENT CONTRACTS AND PURCHASE AGREEMENTS

	Purchaser	Field or Seller	Starting Base Price
1977	Pac Alaska	Cook Inlet	$1.46 per mcf
1982	Enstar	Beluga River	$2.32
1982	Enstar	Beaver Creek Field	$2.32
1982-83	Chugach (Peaking Gas)	Beluga River	$1.40-1.60
1983	Chugach	Cannery Loop	$1.80
1984	Enstar	Lewis River	$1.80
1985	Tesoro	Marathon	$2.01
1985	AEG&T (Homer Electric)	Enstar	$2.04
1985	ML&P (Anchorage)	Enstar	$1.60

February 6, 1986

Representative Residential Electrical Rates for 500 KWH

Assumes: Residential rate, non-demand, hot water heater, winter season. Power Cost Equalization payments have been subtracted.



Source: Alaska Public Utility Commission, except GHEA rates, which were obtained from GHEA.

Chugach Electric

IMPACTS OF STATE ROYALTY GAS INCREASE ON RAILBELT CONSUMERS

Alaskans from Fairbanks to Homer face utility bill increases as a result of the Alaska Department of Natural Resources' decision to drastically raise the price of royalty gas in Cook Inlet. For Chugach Electric Association consumers in the Anchorage area, the impacts will be nearly $3 million a year.

DNR's action was taken with virtually no advance notice to the parties involved, to the public or to the State Legislature. Litigation was initiated by the three producers against DNR on the revaluation in April 1985. Chugach is also involved in the litigation.

There are two major aspects of this issue: The additional costs to utility consumers of DNR's actions and, perhaps more important, the fundamental policy question of how royalty valuation is established.

On March 18, 1985, the Department of Natural Resources (DNR) issued a formal notice to the three Beluga River gas field producers -- ARCO, Shell and Chevron -- informing them that DNR would no longer accept royalty payments based on long-term contract price but would require payments based on the "prevailing market value."

This value was initially determined by DNR to be $2.05 per thousand cubic feet (mcf), based on a Shell-ENSTAR (APL II) contract signed in December 1982. By contrast, Chugach currently pays $.26/mcf for its Beluga gas, under long-term contracts on which the DNR had based its royalty price for the past 17 years.

Based on the $2.05/mcf figure, the annual increase to Chugach retail and wholesale consumers would be approximately $2.8 million -- the equivalent of a rate increase averaging about 3 percent. Even under a recent settlement offer by the state which would value the royalty gas at $1.50/mcf, the impact would be approximately $1.9 million annually -- an equivalent rate increase averaging about 2 percent.

Chugach negotiated its Beluga contracts in good faith and at arms length in 1965, and renegotiated with the producers in 1973. The contracts extend to 1998 or whenever 373 billion cubic feet (bcf) of gas is used, whichever comes first. That means the overall impact of the Beluga royalty revaluation alone could total more than $30 million to consumers.

Additional financial impacts on Chugach consumers have resulted or could result from actions similar to or related to the Beluga royalty revaluation. Those actions are:

- a possible revaluation, identical to the state's, by the other Beluga royalty gas owners (the federal government and Cook Inlet Region, Inc.);

- the recent $8.5 million settlement by ENSTAR relative to royalty gas from the Kenai field (raising ENSTAR's Kenai royalty price from $.66 to $1.95, and including retroactive payments);

- an increase in the cost of power purchased from Anchorage Municipal Light & Power, which was substantially impacted by the ENSTAR increase, and

- a possible increase in state gas severance taxes based on the Beluga royalty gas revaluation.

If all these actions occur, the impact on Chugach consumers would be approximately $6 million annually -- the equivalent of about a 6 percent rate increase. Attachment A details the impacts.

Financial impacts also will be felt in the Fairbanks area, because Chugach has been selling wholesale power to Golden Valley Electric Association and Fairbanks Municipal Utility System over the Anchorage-Fairbanks intertie. ML&P also is selling power to Golden Valley. Golden Valley has estimated that its consumers will save more than $600,000 this winter alone through purchases of power from Chugach and ML&P.

Copper Valley Electric Association also is concerned, because the Glenallen-based cooperative wants its consumers from Glenallen to Valdez to be intertied with the Railbelt utilities and reap the benefits of less expensive power.

Approximately three quarters of the state's estimated 560,000 residents live in the Railbelt between Fairbanks and Homer. Chugach serves nearly half the state's population through sales to its own retail consumers and those of Matanuska Electric Association, Homer Electric Association and the City of Seward. Thus, residents of the Matanuska and Susitna Valleys and on the Kenai Peninsula are directly affected.

In addition to the cost increases associated with the existing gas contracts, there is another major -- and perhaps even more important -- impact of DNR's royalty revaluation decision.

This is what could be called the uncertainty factor. If DNR is ultimately successful in setting royalty prices on what it determines to be the prevailing market value of a resource, utilities, producers and other purchasing parties will have no assurance of what future royalty gas components will be. This injects a real measure of insecurity into long-term gas contracts and, for Chugach at least, into power supply planning and ratemaking.

The uncertainty factor is an important public policy question for the state and is one that may well eclipse the cost-increase aspect of any given royalty lease revaluation. It could be argued that settling the price dispute over a specific revaluation without first resolving the underlying policy question is getting the horse before the cart.

It is important to note that although DNR's gas and oil lease form has given rise to dispute and litigation in many instances over the years, DNR has failed to propose regulations defining important lease terms. Proposed regulations would at least allow for a public discussion of the policy questions.

To resolve the problem raised by the state's royalty gas revaluation, Chugach is supporting passage of S.B. 309, or similar bills H.B. 403 and H.B. 425. Each of these bills would require DNR to tie royalty valuation to long-term contract price, thereby resolving the underlying policy question. A copy of each of the bills is attached.

Uncertainty in long-term price for royalty gas raises problems for Chugach and other utilities both in terms of long-term financing for generation projects and in efforts to ensure electric rate stability. Tying royalty price to long-term contract price allows DNR to continue to manage the state's resources for maximum value, while recognizing that these resources do not have a value independent of long-term contracts. DNR would still be permitted, on only six months' written notice, to take its royalty share in kind and sell it directly to a willing purchaser.

ATTACHMENT A

CHUGACH ELECTRIC ASSOCIATION, INC.
Rate Impacts Due to Market Valuation of Royalty Gas

January 10. 1986

	Retail: Dollars	Retail: Percent	Wholesale: Dollars	Wholesale: Percent	Total: Dollars	Total: Percent
Current revenues	$63,200,000		$35,800,000		$99,000,000	
Impacts:						
The state's Beluga royalty revaluation from $.26/mcf to $2.05/mcf	1,501,164	2.38	1,278,769	3.57	2,779,933	2.81
Possible federal/CIRI Beluga revaluation (based on state's $2.05/mcf figure)	1,000,776	1.58	852,513	2.38	1,853,289	1.87
ENSTAR settlement	420,853	0.67	358,505	1.00	779,358	0.79
ML&P rate increase (resulting from ENSTAR settlement)	337,500	0.53	287,500	0.80	625,000	0.63
Possible state gas severance tax increase (based on state's Beluga royalty revaluation)	87,100	0.14	74,196	0.21	161,296	0.16
	$3,347,393	5.30	$2,851,483	7.97	$6,198,876	6.26

STATE OF ALASKA
DEPARTMENT OF NATURAL RESOURCES
DIVISION OF OIL AND GAS

ESTIMATED PRODUCTION AND SALES FOR NORTH SLOPE ROYALTY OIL (9)

	ESTIMATED TOTAL PRODUCTION (BARRELS PER DAY)						ESTIMATED ROYALTY (BARRELS PER DAY)						ESTIMATED SALES OF ROYALTY OIL (BARRELS PER DAY)								
YEAR	(1) TOTAL PRUDHOE	(1) TOTAL KUPARUK	(1) TOTAL LISBURNE	(1) TOTAL ENDICOTT	(1) TOTAL MILNE PT.	TOTAL	PRUDHOE ROYALTY	KUPARUK ROYALTY	LISBURNE ROYALTY	ENDICOTT ROYALTY	MILNE PT. ROYALTY	TOTAL ROYALTY	AMOCO	(2) DOE'A	(3) TESORO (OLD)	(4) TESORO (NEW)	(5) CHEVRON	(6) COMPETITIVE SALE 12-11-84	(7) PETRO/CHEVRON (PROPOSED)	(8) COMPETITIVE SALE 2-4-86 (PROPOSED)	ROYALTY TO VALUE
1985	1,350,000	180,000			3,000	1,733,000	193,750	22,500			375	216,625	35,000	9,167	47,333	26,867	18,600	45,000		10,000	
1986	1,350,000	220,000			30,000	1,800,000	193,750	27,500			5,400	226,650	35,000	9,167	47,333	26,867	18,600	45,000	6,000		
1987	1,350,000	270,000	30,000		30,000	1,850,000	193,750	27,500	6,250		5,400	232,900	35,000	9,167	47,333	26,867	18,600		6,000		
1988	1,376,000	220,000	60,000	50,000	30,000	1,736,000	177,000	27,500	7,500	7,000	5,400	219,400	35,000	8,307	47,197	23,051	16,517		6,000		
1989	1,183,000	270,000	70,000	100,000	75,000	1,598,000	147,875	27,500	8,750	14,000	4,500	202,625	35,000	3,943	34,278	20,506	14,196		6,000		
1990	1,010,000	187,000	80,000	100,000	20,000	1,405,000	127,250	23,375	10,000	14,000	3,600	178,225	35,000	3,393	31,218	17,646	12,216		5,525		
1991	920,000	134,000	90,000	100,000	15,000	1,297,000	115,000	19,075	11,250	14,000	2,700	163,025	35,000	3,093	28,458	16,086	11,136		4,690		
1992	846,000	125,000	100,000	100,000	15,000	1,196,000	105,750	16,875	12,500	14,000	2,700	151,825	35,000	2,820	25,944	14,664	10,152		3,989		
1993	772,000	122,000	100,000	85,000	10,000	1,089,000	96,500	15,250	12,500	11,900	1,800	137,950	35,000	2,573	23,674	13,382	9,264		3,603		
1994	706,000	109,000	100,000	75,000	10,000	1,000,000	88,250	13,625	12,500	10,500	1,800	126,675	35,000	2,353	21,650	12,238	8,472		3,220		
1995	646,000	98,000	90,000	70,000	10,000	914,000	80,750	12,250	11,250	9,800	1,800	115,850	35,000						2,095		
1996	591,000	89,000	80,000	65,000	0	825,000	73,875	11,125	10,000	9,100	0	104,100	35,000						2,630		
1997	541,000	80,000	72,000	60,000	0	753,000	67,625	10,000	9,000	8,400	0	95,025	35,000								
1998	498,000	72,000	65,000	55,000	0	690,000	62,250	9,000	8,125	7,700	0	87,075	35,000								
1999	458,000	65,000	58,000	50,000	0	631,000	57,250	8,125	7,250	7,000	0	79,625	35,000								
2000	421,000	58,000	52,000	45,000	0	576,000	52,625	7,250	6,500	6,300	0	72,675	35,000								
2001	387,000	52,000	47,000	40,000	0	526,000	48,375	6,500	5,875	5,600	0	66,350	35,000								
2002	357,000	47,000	42,000	39,000	0	484,000	44,625	5,875	5,250	5,800	0	58,550	35,000								
2003	329,000	42,000	38,000	10,000	0	418,000	41,000	5,250	4,750	1,400	0	52,400	35,000								
2004	302,000	38,000	34,000	0	0	374,000	37,750	4,750	4,250	0	0	46,750									
2005	278,000	34,000	31,000	0	0	343,000	34,750	4,250	3,875	0	0	42,875									
2006	255,000	31,000	28,000	0	0	314,000	31,875	3,875	3,500	0	0	39,250									
2007	235,000	28,000	25,000	0	0	288,000	29,375	3,500	3,125	0	0	36,000									
2008	216,000	25,000	20,000	0	0	261,000	27,000	3,125	2,500	0	0	32,625									
2009	199,000	20,000	15,000	0	0	234,000	24,875	2,500	1,875	0	0	29,250									
2010	183,000	15,000	10,000	0	0	208,000	22,875	1,875	1,250	0	0	26,000									
2011	168,000	10,000	0	0	0	178,000	21,000	1,250	0	0	0	22,250									
2012	155,000	0	0	0	0	155,000	19,375	0	0	0	0	19,375									

(1) DOE ESTIMATE OF FIELD PERFORMANCE, DECEMBER 1985.

(2) DOE'A'S TEN-YEAR CONTRACT COMMENCED JULY 1, 1985. QUANTITY IS 2.667% OF DAILY PRUDHOE ROYALTY OIL.

(3) TESORO'S CONTRACT IS CURRENTLY AT ITS MAXIMUM QUANTITY OF 24.533% OF DAILY PRUDHOE ROYALTY OIL. THE CONTRACT EXPIRES JANUARY 1995.

(4) ON OCTOBER 1, 1985 TESORO COMMENCED DELIVERIES UNDER 12/9/83 PRUDHOE CONTRACT WHICH HAS A MAXIMUM QUANTITY OF 13.86% OF DAILY PRUDHOE ROYALTY OIL AND EXPIRES JAN. 1, 1995.

(5) CHEVRON'S CONTRACT CALLS FOR A MAXIMUM QUANTITY OF 9.6% OF DAILY PRUDHOE ROYALTY OIL. THE CONTRACT EXPIRES JANUARY 1, 1995.

(6) DELIVERIES COMMENCED APRIL, 1985 FOR 30,000 BPD OF PRUDHOE BAY UNIT ROYALTY OIL AND 15,000 BPD OF KUPARUK RIVER UNIT ROYALTY OIL, AND WILL CONTINUE FOR ONE YEAR AS A RESULT OF THE DEC. 11, 1984 COMPETITIVE SALE AND THE SUBSEQUENT KUPARUK SOLICITATION. PRIOR TO THAT TIME THIS OIL REMAINED "IN VALUE."

(7) A PROPOSED PETRO STAR/CHEVRON CONTRACT WILL BE SUBMITTED TO THE LEGISLATURE FOR APPROVAL OF A SALE OF 6,500 BPD ROYALTY OIL FROM THE KUPARUK RIVER UNIT. PETRO STAR/CHEVRON INITIALLY WOULD PURCHASE 6,000 BPD. THE CONTRACT IS EXPECTED TO COMMENCE IN LATE 1986 AND EXPIRE SEPTEMBER 30, 1996.

(8) ON FEBRUARY 4, 1986 THE STATE WILL SELL BY COMPETITIVE BID APPROXIMATELY 10,000 BPD FOR A SIX-MONTH TERM COMMENCING JUNE 1, 1986.

(9) Includes only fields in, or planned for production in the near future.

dmj

SCOMM

#46:36

STATE OF ALASKA 1986 LEGISLATIVE SESSION
FISCAL NOTE

Revision Date : 03-21-86

REQUEST

Bill/Resolution No. CSSSSB 430 ([redacted])
Title : Revoke/Reduce Royalty Increase

Sponsor : Fahrenkamp
Requestor : Senate Finance
Date of Request : 03-21-86

FISCAL DETAIL

Agency Affected : Natural Resources
BRU : Petroleum Management

Components :

EXPENDITURES/REVENUES : (Thousands of Dollars)

OPERATING	FY 86	FY 87	FY 88	FY 89	FY 90	FY 91
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	-0-	-0-	-0-	-0-	-0-	-0-
CAPITAL						
REVENUE	(2260.0)	(2150.0)	(1900.0)	(1660.0)	(1460.0)	

FUNDING : (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER						
TOTAL						

POSITIONS :

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS : Attach a separate page if necessary

See Attached Explanation

Revenue reduction figures are based on a calendar year, not a fiscal year.

Prepared by : Kay Brown
Division : Oil and Gas
Phone : 762-4241
Date : 03-21-86

Approved by Commissioner : Norm D Arnold, Deputy
Date : 03-21-86
Agency : Natural Resources

Distribution (by Agency preparing fiscal note) :
Legislative Finance
Legislative Sponsor
Requestor
Office of Management and Budget
Impacted Agency(ies)

10/25/85

Attachment Fiscal Note for SSSB 430

This amended fiscal note is necessary because CONOCO last week revised downward their projected rate of production. This fiscal impact (Revenue) is estimated on the basis of several assumptions:

... The bill would affect only Milne Point unit production;

... Milne Point Unit production at:

1986	18,500 bpd
1987	17,600 bpd
1988	15,500 bpd
1989	13,600 bpd
1990	11,900 bpd

... Royalty reduction from 20§5 to 12.5% under SSSB 430;

... Wellhead price is assumed to be $5.45/barrel

STATE OF ALASKA

POUCH V
JUNEAU, ALASKA 99811
(907) 465-4941

HOUSE SPECIAL COMMITTEE ON OIL AND GAS

CSSSSB 430 (Rules)

CSSSSB 430 (Rules) would allow the commissioner of the Department of Natural Resources to reduce or revoke a royalty increase that was made in connection with the institution or operation of a cooperative or unit plan. Such a reduction or revocation would also have to contain a mechanism to provide that if the profitability of a lessee's operation increases to a specified level after the reduction or revocation is made, the commissioner shall increase the royalty obligation to a level not exceeding the amount of the royalty increase that the commissioner reduced or revoked.

This legislation is directed specifically toward Conoco's Milne Point Unit. The renegotiation of lease terms in 1979 between Conoco and DNR occurred as a result of the unitization of the Milne Point field. One condition of unitization was a royalty increase from 12.5 to 20 percent. Milne Point is the only producing unit that has been subjected to a royalty increase. Non-producing units that have been subjected to similar royalty increases are Gwydyr Bay and Duck Island.

It is the view of DNR that present law prevents the commissioner from making the royalty reduction or revocation sought by the operator of the Milne Point Unit. DNR believes that the specific royalty reduction limitations stated in AS 38.05.180(j) control the general royalty reduction powers granted in AS 38.05.180(p).

AS 38.05.180(j) states that "To prolong the economic life of an oil and gas field, the commissioner shall adopt regulations for all bidding methods to allow reduction of royalty on leases within the field to compensate for increasing costs in the later stages of production decline. The commissioner may not grant a reduction of royalty until two years' initial production from the field has occurred and each lessee requesting the reduction has made a clear showing that the revenue from all hydrocarbons produced from the field is insufficient to produce a reasonable rate of return with respect to that lessee's total investment in the field."

SSSB 430 started to move actively through the Senate after Conoco and DNR failed to negotiate an agreement to alter the royalty obligation at Milne Point. The most hopeful attempt at resolving this issue was DNR's offer of a royalty reduction to 12.5 percent, in combination with a 12.5 percent royalty and a 35 percent net profit share from the Shallow Sands reservoirs at Milne Point. This would have provided the state with revenues equivalent to a 20 percent royalty, while allowing Conoco to defer payment of 7.5 percent of its royalty obligation. Negotiations broke down, however, when Conoco stated that the company must have a real reduction in its royalty obligation rather than simply the deferring of a share of this obligation.

Conoco's request for a royalty reduction derives from the company's unfortunate economic timing. The Milne Point Unit and the consequent royalty increase were established at a time when the price for crude oil was near its record high. Profitability projections at the time were sufficient to warrant the commencement of production activities, notwithstanding the 20 percent royalty.

Because of the lower current price for crude oil, however, Conoco claims that the life of the Milne Point field will be terminated prematurely unless the company is provided with some measure of royalty relief. Conoco further states that the reduction or revocation of its Milne Point royalty obligation will enhance the company's opportunity to develop the nearby Shallow Sands reservoir. However, the costs of field development are expected to far exceed the revenues retained by Conoco through a reduction in its royalty obligation.

STATE OF ALASKA

DEPARTMENT OF NATURAL RESOURCES

OFFICE OF THE COMMISSIONER

BILL SHEFFIELD, GOVERNOR

POUCH M
JUNEAU, ALASKA 99811
PHONE: 907-465-2400

March 17, 1986

The Honorable Arliss Sturgulewski
Chair, Senate Resources Committee
P.O. Box V
Juneau, AK 99811

Dear Senator Sturgulewski:

The Department of Natural Resources supports SS SB 430, which is scheduled for a hearing today in the Senate Resources Committee. The bill would authorize the commissioner of the Department of Natural Resources under certain circumstances to reduce or revoke oil or gas royalty obligation increases made in connection with the institution or operation of a cooperative or unit plan.

The bill primarily would affect the Milne Point Unit, a small North Slope oil field which began production last fall.

Conoco, Inc., the Milne Point Unit operator, has been seeking for several years to roll back a 20% royalty on certain Milne Point leases. The royalty obligation on those leases was increased from 12.5% to 20% under an agreement required by the department in 1979 as a condition of approval of the Milne Point Unit.

As a result of an application for royalty relief filed last fall by Conoco and Milne Point Unit working interest owners Reading and Bates Petroleum Company, Champlin Petroleum Company and Cities Oil and Gas Corporation, the department has examined confidential economic, geological, geophysical and engineering data supplied by the companies. Based upon that review, the department believes that rescinding the royalty increase would encourage continued production and further development of oil reservoirs within the Milne Point Unit.

Under existing and forecasted economic conditions, there is a high likelihood that both the economic and physical recovery of oil and gas at Milne Point will not be maximized for either the companies or the state at a royalty rate of 20%. Production of oil and gas from the developed reservoir (i.e., the Kuparuk River formation) will not be maximized, and development and production of oil and gas from yet to be

developed reservoirs (i.e., the Shallow Sands - heavy oil and gas reservoirs, geologically equivalent to ARCO's West Sak-Ugnu reservoirs at Kuparuk Unit) likely will not occur at all. The companies have made a persuasive case that they cannot be reasonably assured an adequate rate of return on any future or incremental investment under the existing 20% royalty. Given the further erosion of crude oil prices since the application was filed with the state last October, it is possible that current production will be halted if the royalty rate on the leases remains at 20 percent.

A careful review by staff of the data and analyses supplied by the companies confirms that, under current and expected market conditions, the companies likely will not receive an adequate rate of return on their current investments, and that future investments in the Milne Point Unit also would yield a less than satisfactory return. It is also very likely that if current conditions persist (or get worse), the field will be shut-in if the royalty remains at 20%. In addition, future development of the Milne Point Unit Shallow Sands is almost certain not to occur at a 20% royalty.

A reduction in the royalty rate from 20% to 12.5% would result in a revenue decrease to the State of approximately $4.5 million a year from the Milne Point Unit. (See attached fiscal note.)

The department has tried to address the need for royalty relief within the current statutory framework, and earlier this year proposed that the royalty obligation be changed (not reduced) to a 12.5% royalty and a 35% Net Profit Share in lieu of the current 20% royalty. The companies have not accepted this proposal, even though it would have the effect of an immediate reduction in the royalty obligation, and would leave open the opportunity for the companies to apply for further relief after two years of field production based on the facts and circumstances at that time.

The department has been constrained from considering an outright royalty reduction by AS 38.05.180(j), which precludes the commissioner from granting a reduction of a lease royalty "until two years' initial production from the field has occurred and each lessee requesting the reduction has made a clear showing that the revenue from all hydrocarbons produced from the field is insufficient to produce a reasonable rate of return with respect to that lessee's total investment in that field."

The department's proposal to change the existing royalty rate was based on the authority of AS 38.05.180(p), which authorizes the commissioner to change royalty requirements of unitized leases "as the commissioner determines necessary

or proper to secure the proper protection of the public interest." Under the department's proposal, the state likely would have been compensated for the near-term revenue losses resulting from a reduction to a 12.5% royalty rate by the further receipt of revenues from the development of the Shallow Sands reservoirs at Milne Point and the application of the 35% Net Profit Share and the 12.5% royalty to that production. Revenues to the state over time likely would have been equivalent or greater under the department's proposal, but the income would have been delayed.

The department believes that it is not authorized to reduce the royalty obligation under AS 38.05.180(p), because of the limitation AS 38.05.180(j) appears to place on the commissioner's powers. If AS 38.05.180(j) applied only to leases that had not yet been unitized, AS 38.05.180(j) would be a nullity because, as a practical matter, unitization always precedes production. Related statutes should not be construed to make one statute a nullity.

Further, the general rule of statutory construction is that specific provisions control general provisions. Under this rule, the specific royalty reduction provisions of AS 38.05.180(j) would control the general provisions of AS 38.05.180(p).

Further, the legislative history of AS 38.05.180(j) argues against using AS 38.05.180(p) to circumvent the royalty reduction limitations stated in AS 38.05.180(j).

Testimony before the Legislature in 1978 focused on royalty reductions in conjunction with the increased flexibility given to the commissioner to select bidding methods. A prime concern was to prevent royalty bid manipulation, where a bidder obtains a tract by bidding an unreasonably high royalty counting on a subsequent royalty reduction to make the lease profitable. Although the companies obtained their leases at a fixed royalty sale, the policy against royalty bidding is arguably still applicable. The companies' leases were about to expire, causing the companies to agree to increase royalties in order to keep from losing the leases which were about to expire.

The bill that created AS 38.05.180(j) went through several committee substitutes. One committee, the House Resources Committee, voted to place an express limit on the commissioner's powers under AS 38.05.180(p) by adding the language: "however, the commissioner may not reduce the state's royalty within any unit except as provided in [j] of this section." A subsequent committee reviewing the bill, the Senate Resources Committee, deleted that language, but its sole motive was that the language was unnecessary since that committee had already decided to delete AS 38.05.180(j) altogether.

Later in the Senate Resources hearing, DNR pointed out that AS 38.05.180(j) granted the commissioner less power to reduce royalties than existed at that time under AS 38.05.140. The committee then voted to amend AS 38.05.140 to delete the commissioner's royalty reduction powers for oil and gas, and voted to reinstate AS 38.05.180(j). The committee immediately adjourned, without taking up the question of whether the previous committee's limitation of AS 38.05.180(p) should be retained.

In view of this legislative history, the department concluded that the specific royalty reduction limitations stated in AS 38.05.180(j) control the general royalty reduction powers granted in AS 38.05.180(p).

Thank you for the opportunity to comment on SS SB 430.

Sincerely,

Esther C. Wunnicke
Commissioner

Attachment

cc: Senator Bettye Fahrenkamp

Conoco Inc.
3201 C Street
Suite 200
Anchorage, AK
(907) 564-7600

December 23, 1985

The Honorable Mike Davis
Representative, Alaska
315 Barnette Street
Suite 101
Fairbanks, Alaska 99701

Re: Enclosed Request for Unit
Agreement Amendment

Dear Representative Davis:

Enclosed is a copy of a request by Conoco Inc. and other Milne Point Unit working interest owners to amend the Milne Point Unit Agreement. The companies submitted the request to DNR on November 4, 1985. The amendment would remove a 7½% royalty surcharge that was imposed upon these companies by DNR Commissioner Robert LeResche in September, 1979.

Granting the companies' request for removal of the surcharge will have a negligible effect on current state revenues. Indeed, the surcharge will net the state only some $8 million in additional royalties in 1986. However, if the surcharge results in premature field abandonment, the state will suffer a forseeable $1.1 billion net loss in taxes and royalties. Moreover, the subsequent production at Milne Point which is jeopardized by the surcharge is critical to the state. For example, if the surcharge is removed, and the unit is fully developed, the state's projected FY 1996 oil production decline will be reduced by 31%.

Either inaction by DNR, or DNR's refusal to acknowledge its authority to grant the companies' request, may necessitate a legislative response in order to prevent premature abandonment of the only currently-active marginal field on the North Slope, and the resultant loss in state revenue. As a result, we hope that you, and your staff, will have the opportunity to review the companies' papers.

This matter arose in 1979, when the Milne Point companies applied to Commissioner LeResche for approval of the Milne Point Unit. The commissioner refused to approve the unit unless the companies consented to pay a 20% royalty, rather than the 12½% that had been agreed to at the 1969 competitive sale. The companies, of course, had little choice but to accept the commissioner's demands, since a rejection of the unit

decision before your next session commences. And, we will certainly keep you advised of the progress of our request.

Thank you in advance for the attention which I know that you, and your staff, will give to this matter.

Sincerely,

John R. Kemp
Division Manager
Anchorage Division

vv

TESTIMONY OF AL HASTINGS

BEFORE THE HOUSE OIL & GAS COMMITTEE

REGARDING CS SS SB 430 (APRIL 16, 1986)

CONOCO IS THE OPERATOR OF THE MILNE POINT UNIT. BY ANY DEFINITION, MILNE POINT IS A MARGINAL UNIT. IT BEGAN PRODUCTION LAST FALL, AND IS CURRENTLY PRODUCING ONLY 18,000 BARRELS PER DAY--THIS IN COMPARISON TO PRUDHOE BAY'S 1.5 MILLION BARRELS PER DAY, AND 260,000 BARRELS PER DAY FROM THE KUPARUK UNIT.

DESPITE ITS MARGINAL NATURE, MILNE POINT, AND MILNE POINT ALONE, IS REQUIRED TO PAY A SPECIAL ROYALTY SURCHARGE. AT THE STATE'S 1969 COMPETITIVE SALE, THE SUCCESSFUL BIDDERS STRUCK AN AGREEMENT UNDER WHICH THEY AGREED TO PAY A 12.5% ROYALTY. IN 1979, HOWEVER, WHEN THE MILNE POINT COMPANIES SOUGHT APPROVAL OF THEIR UNIT, THE STATE REFUSED UNLESS THE COMPANIES AGREED TO PAY A ROYALTY SURCHARGE OF 7½%, THUS INCREASING THE ROYALTY TO 20%.

SINCE REJECTION OF THE UNIT WOULD CAUSE THE COMPANIES TO LOSE THEIR LEASES, WE HAD LITTLE CHOICE BUT TO ACCEPT.

IN 1979, THE STATE BELIEVED THAT THIS ROYALTY SURCHARGE WAS IN THE PUBLIC INTEREST, BECAUSE IT ALSO BELIEVED THAT WELLHEAD OIL PRICES IN 1985 WOULD BE NEARLY $35 PER BARREL. AS EVENTS HAVE TRANSPIRED, ANS CRUDE IS SELLING ON THE WEST COAST SPOT MARKET AT $12-$14/BBL, AND TRANSPORTATION COSTS FROM MILNE POINT TO MARKET ARE $11-$12/BBL. AS A RESULT, INSTEAD OF INCREASING STATE REVENUES, THE ROYALTY SURCHARGE THREATENS TO FORCE PREMATURE ABANDONMENT OF THE UNIT.

LAST NOVEMBER, CONOCO SUBMITTED A FORMAL REQUEST TO RECONSIDER THE ROYALTY SURCHARGE IN THE MILNE POINT UNIT AGREEMENT. ON FEBRUARY 5th OF THIS YEAR, WE RECEIVED A LETTER FROM COMMISSIONER WUNNICKE, WHICH INDICATED THAT EXISTING LAW COULD PRECLUDE HER FROM REDUCING OR REVOKING THE ROYALTY SURCHARGE.

AT THAT POINT, AND IN LIGHT OF DNR'S CONCERNS OVER THE

STATUTE, IT BECAME OBVIOUS THAT LEGISLATION WAS NECESSARY IF DNR WAS ABLE TO CONSIDER REVOKING OR REDUCING THE SURCHARGE, AS OPPOSED TO SIMPLY CHANGING ITS FORM. THIS BILL WOULD ACCOMPLISH PRECISELY THAT.

THERE ARE A FEW POINTS THAT I WOULD LIKE TO BRIEFLY MAKE WITH RESPECT TO THE BILL, THE URGENCY BEHIND IT, AND THE ONGOING EFFORTS TO NEGOTIATE A SOLUTION TO THIS CONTROVERSY WITH DNR. FIRST, THE BILL IS VERY NARROWLY DRAFTED. IT WOULD AUTHORIZE, AND ONLY AUTHORIZE, THE COMMISSIONER TO REDUCE OR REVOKE ROYALTY SURCHARGES IMPOSED AT THE TIME OF UNIT FORMATION. IT ALSO REQUIRES THE COMMISSIONER TO PROVIDE A MECHANISM TO INCREASE THE ROYALTY IF THE COMPANIES' PROFITABILITY IMPROVES. FINALLY, THIS BILL GIVES THE COMMISSIONER NO AUTHORITY WHATSOEVER TO REDUCE ROYALTIES BID UPON OR AGREED TO AT A COMPETITIVE SALE.

NEXT, THE BILL DOES NOT GRANT CONOCO, OR ANYONE ELSE, ROYALTY RELIEF. IT MERELY AUTHORIZES THE COMMISSIONER TO RECONSIDER ROYALTY SURCHARGES IN UNIT AGREEMENTS WHEN THE PUBLIC

INTEREST WARRANTS. CONOCO WILL STILL HAVE TO PROVE ITS CASE BEFORE THE DEPARTMENT. THE ISSUE BEFORE THIS COMMITTEE IS NOT WHAT CONOCO'S ROYALTY SHOULD BE; THAT ISSUE WILL HAVE TO BE RESOLVED BY DNR, BASED ON THE CONSIDERATION OF FINANCIAL DATA, SOME OF IT CONFIDENTIAL. THE ONLY RELIEF CONOCO IS ASKING HERE IS TO REMOVE A PERCEIVED AND VERY UNINTENTIONAL IMPEDIMENT TO DNR'S ABILITY TO RECONSIDER THE SURCHARGE.

THERE IS URGENCY TO THIS LEGISLATION. AS YOU KNOW, THE UNIT HAS ALREADY HAD TO SUSPEND NEW DRILLING AT MILNE POINT, AND IN LIGHT OF THE RECENT DRAMATIC DECLINE IN OIL PRICES THE SURCHARGE IS JEOPARDIZING NOT ONLY FUTURE DEVELOPMENT, BUT EXISTING PRODUCTION AS WELL. IN A LETTER TO SENATOR STURGULEWSKI, COMMISSIONER WUNNICKE STATED (AND I QUOTE) "IT IS ALSO VERY LIKELY THAT IF CURRENT CONDITIONS PERSIST (OR GET WORSE), THE FIELD WILL BE SHUT IN IF THE ROYALTY REMAINS AT 20%."

CONOCO AND DNR HAVE ATTEMPTED TO RESOLVE THIS MATTER THROUGH NEGOTIATIONS. IN THOSE NEGOTIATIONS, COMMISSIONER WUNNICKE AND

HER STAFF HAVE USED THEIR BEST EFFORTS TO WORK WITHIN THE PERCEIVED CONSTRAINTS. SPECIFICALLY, DNR HAS DONE AS WELL AS ANYONE COULD TO CHANGE THE NATURE OF THE SURCHARGE WITHOUT REDUCING IT, AND AT THE SAME TIME AFFORD SOME MEANINGFUL RELIEF TO CONOCO. WE COMMEND DNR FOR THE EFFORTS THEY HAVE MADE IN THIS REGARD; HOWEVER, THEIR JOB MAY BE AN IMPOSSIBLE ONE UNDER THEIR VIEW OF THE STATUTE, FOR IT IS VERY HARD TO REDUCE A ROYALTY WITHOUT IN FACT REDUCING IT.

CONOCO'S INTENT IS A LONG-TERM COMMITMENT TO REMAIN AN OPERATOR IN ALASKA. WE HAVE CONTINUED TO BE ACTIVE IN BOTH STATE AND FEDERAL LEASE SALES, AND MILNE POINT IS AN IMPORTANT KEY TO THIS COMMITMENT. WITH THE CURRENT CRUDE PRICES, WE ARE NOT MEETING OUR OPERATING COSTS. PASSAGE OF THIS BILL WILL PROVIDE SUBSTANTIAL ENCOURAGEMENT FOR THE CONOCO AND ITS PARTNERS TO STAY IN OPERATION DURING THESE DIFFICULT ECONOMIC TIMES.

THANK YOU FOR THE OPPORTUNITY TO TALK WITH YOU TODAY REGARDING SB 430, AND I WOULD BE DELIGHTED TO TRY TO ANSWER ANY

QUESTIONS YOU MIGHT HAVE.