

ALASKA LEGISLATURE SPECIAL COMMITTEE / SUBJECT FILES 8672

88 SCOMM 9: HOUSE SPEC. COMM. ON PERMANENT FUND 1977-78

*Dist to
Brookings 9/75
list
Also each list*

By [unclear]

THE ROLE OF THE PERMANENT FUND IN ALASKA'S FUTURE
A PRELIMINARY ANALYSIS

Purpose:

- I. A report on the issues to be resolved by the legislature and a solicitation of comments on the issues from the committee members and a list of interested Alaskans.
- II. A preliminary statement of background and questions to be used in the committee's presentation at the Alaska Public Forum and in the media.

[Draft to committee on July 15, 1977. Publication finished and printed by August 1, 1977.]

I. Introduction by committee chairman [Statement of committee task] [Clark will draft by June 25]

II. Historical perspective - constitutional and legislative

- 1969 - Brookings Seminar
- 1970 - Early Permanent Fund proposals
- 1975 - Permanent Fund bill passed by legislature *(acted by Hammer)*
- 1976 - Permanent Fund constitutional amendment passed by legislature and public
- 1977 - Permanent Fund temporary implementation bill passed by legislature; State Investment Advisory Committee proposal; Permanent Fund Committees set up

*Biller
Sally
Dancy
Const. & Legal*

III. Summary of Work to date

- State Investment Advisory Committee proposal - Price, Waterhouse; White, Weld; etc.
- House & Senate Permanent Fund Committee session work
- Alaska, Inc. proposal

IV. Statement of issues to be resolved

- A. Alternative objectives for the Permanent Fund
- B. Level of funding

*Terry
Dick*

- 1. relation to objectives and other funds
- 2. revenue projections

- C. Investment guidelines
 - 1. constitutional and legal limitations
 - 2. possible statutory requirements

Dancy

- D. Use of Permanent Fund income
 - 1. return to permanent fund
 - 2. Alaska, Inc.
 - 3. deposit in general fund

Decker

*any amount...
interest in... must be...
[unclear]*

- E. Management structure
 - 1. Accountability to legislature, governor and public
 - 2. Evaluation and audit of permanent fund performance
 - 3. Executive and legislative involvement

John

V. Solicitation of responses

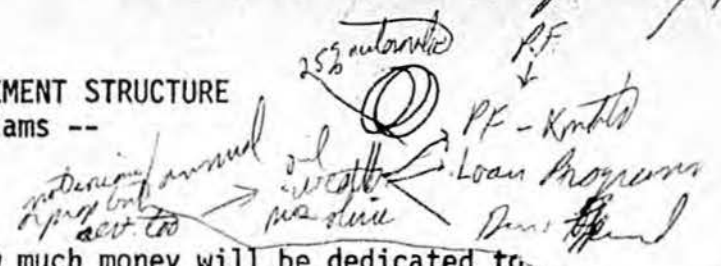
- A. What other issues should be considered
- B. What alternative uses are there
- C. How should the permanent fund relate to other state funds

*Barry
Lester*

WORK ON X MKTS

File quarterly, not

DISCUSSION OF MANAGEMENT STRUCTURE
-- John Williams --



An issue separate from either how much money will be dedicated to the permanent fund or how the money will be invested is the issue of the permanent fund organizational structure. As the old adage states, "form" and "function" are closely related. In this case, the organization (or form) of the permanent fund management may have an important bearing on how effective the fund will be in performing the functions it is directed to accomplish.

is that
const.
deductibility
non non. exp.
to fund their
legis decided

Several important questions must be addressed in deciding the structure. For example:

- (1) How much latitude will the fund managers have in making investments? Will general or specific guidelines be spelled out in the enabling legislation or will the managers have substantial freedom to choose the "best" of competing investment opportunities?
- (2) Who should hire and, if necessary, fire the managers? Will the managers be insulated from political pressures (including the public, the Legislature, and the Governor) and allowed to conduct their jobs without fear of recourse should their decisions prove to be unfavorable; or should they be made to be completely responsive to the wishes of either the politicians or the public?
- (3) Will the management be highly centralized and monolithic or regionalized by geography and/or subject area, with the decision-making power spread throughout several persons or levels of approval? Should different tasks of management be handled by

separate and independent parts of the management structure or should all tasks be handled by one decision-making entity?

- (4) Will the managers be required to coordinate their investment decisions with other agencies of both local and state government? State government has at present several loan programs to specific industries in the state. Will the permanent fund act independently of those funds, or should it try to coordinate its investments with other loan programs and resource management agencies? Will the investments of permanent fund money for developments within the boundaries of local governments be made without the input of that local government?

These questions and many more will play a significant part in determining the success of the permanent fund concept. Alaska must look to other examples of permanent funds, development banks, and other public investment, fiduciary agencies to attempt to learn how various management structures have affected the workings and success of those examples; but in the final analysis, we must decide for ourselves how the Alaska Permanent Fund is to be managed according to the goals and objectives we set for the Fund and the future of Alaska.

SCOMM

#9:3

TO: All Commissioners

DATE: July 25, 1977

FROM: Fran Ulmer, Director
Policy Development and Planning
Office of the Governor

SUBJECT: Alaska Permanent Fund
Working Group

This memo is intended to inform all commissioners about the recently created Alaska Permanent Fund Working Group. If you are not presently designated as a member and wish to be, please contact me at your convenience.

On Wednesday, July 13, the first meeting of the Working Group was held. Unfortunately, very few commissioners were able to attend. We are presently attempting to schedule another meeting and would appreciate notice of whether you could attend either July 29 or August 3.

The purpose of the Permanent Fund Working Group is to coordinate the Administration's efforts on the Permanent Fund through direct involvement of the agencies' personnel and research capability. Attached is a preliminary work plan drawn up by the Division as an example of the kind of efforts to be undertaken under the direction of the Working Group. The Group will work toward coordinating agency efforts so that they will be neither duplicative nor conflicting. The ultimate task of the Working Group will be to advise the Governor in his efforts to develop and refine enabling legislation for the Permanent Fund and to prepare for eventual implementation of the Fund. The Group will help all agencies be prepared to respond to legislative inquiries for information and to provide support for this effort next session.

As defined in the attached letter from Governor Hammond to Representative Gruening, Chairman of the House Special Committee on the Permanent Fund, the Division of Policy Development and Planning (DPDP) will serve as coordinator of this effort.

The Division will attempt to circulate all available information and reports to all participants, communicate regularly with the legislative committees and periodically convene briefing sessions.

July 25, 1977

The Growth Policy Council has selected the Permanent Fund as one of the four major issues to discuss in this fall's Public Forum program. One of the first items on the Working Group's agenda must be the review of the Public Forum questions on the Fund. We should also discuss and develop a consensus on the work agenda and deadlines for work products of all participants.

Due to the magnitude and importance of the Permanent Fund question, your personal participation is requested. In addition, please consider designating a member of your department to serve both as a liaison with the Working Group and as manager of your department's actual work efforts.

Thank you.

Attachments

FAU/TS/ljs

cc: Governor Hammond

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

Meeting with Pope, Rodgers

- 1) OROP role in Pub. Forum questions
- 274-1007 ~~Jim Kennedy~~ - Sky River Process for Pub. Forum
- 2) Public/professional mix in mgmt. - ^{not} Conf. on ~~Alt~~ + Social Pub. Policies

Annex Paper - What ISSUES need to be resolved in LEGIS. by July 15. Then → ask public

AREAS TO ASK PUBLIC

What test/goals for P.F.
E. dev. -

Common boxes - 32 programs directly
Common dev. -

STRUCT. IS TECHNICAL - maybe hearings

White paper - 2000 people ^{groups} ask after issue paper
invite to putting further
PWS - media thing to invite gen. public. to parties.
of response, get white paper to

DON'T THEY EVER TALK ABOUT HOW RESULTS BECOME POLICY?

MEMORANDUM

*input
output
concept*

TO: Fran Ulmer, Director
DPDP

DATE : June 27, 1977

FROM: Russ Cahill
Bill Luria
Dona Lehr
Tom Singer

SUBJECT: Permanent Fund Work
Program

In his letter of transmittal of HB 298, the Governor identified several unsettled policy issues concerning the Permanent Fund which require further investigation. Attached is a work program which we feel addresses the Governor's major concerns, identifies and coordinates State information capabilities and needs, and provides the information necessary for Administration policy-making.

The Governor expressed great concern that the public should be widely consulted concerning the goals for and uses of the Fund. He also identified the need for criteria to guide fund expenditures. Finally, he observed that the complex issue of the proper mix between political and professional control over the fund required further exploration. The work categories described below reflect these concerns as well as our evaluation of additional data and research needs. The specific work items are attached in chart form.

I. Overview

This work area contains ongoing information gathering and distribution efforts, as well as analysis and preparation of information in a format useful to decision-makers (from DPDP's viewpoint, specifically for the Governor). Tasks include continuing consolidation and distribution of reports and data, fiscal planning, and analysis of the implications of alternative proposals.

II. Goals for the Permanent Fund

The goals for the use of the public monies earmarked for the Fund rightly must be derived from the public. Thus, work in this area relates to coordination of the several public participation efforts and the management of the Administration's activities in this area. Once the public has expressed goals and aspirations for the

use of the Permanent Fund, the task emphasis shifts to the interpretation of these goals, and efforts to incorporate the goals into enabling legislation. The various alternative fund structures must be analyzed in terms of their ability to attain the public goals.

III. Criteria and Performance Evaluation

DPDP is currently working in this area with the active participation of other State agencies. Once the goals and major criteria areas are identified through the public participation process, specific effort can be directed toward the refinement of criteria and the development of performance measures.

IV. Political/Professional Mix in Fund Decisions

One of the most difficult questions associated with the Permanent Fund structure is how to maintain public accountability and control over Fund uses while freeing the fund operations from undue political pressures or abuse. There are no handy models or obvious theoretical answers to this question, as State investigations to date have shown. There likely does, however, exist expertise around the country which can be further applied to this problem. We propose an approach which would bring together in Alaska nationally prominent bankers, fund managers, political scientists, economists, etc., to discuss the question in a roundtable seminar. Transcripts of this meeting, and subsequent evaluation of the opinions expressed should contribute greatly to State policy-makers (both in the Administration and in the Legislature) attempting to develop or refine enabling legislation.

V. Uses of Permanent Fund Earnings

The Governor's memo describing his new "tracking system" allocates activities related to the Alaska, Incorporated Working Group. The results of that working group, along with study of other suggested uses of Fund earnings (e.g. reserve accounts, inflation hedge, Fund operating expenditures) should be coordinated with the analysis and development of enabling legislation for the Permanent Fund principal.

VI. Miscellaneous

Continued legal research is necessary to clarify allowable options for Permanent Fund use as specified in the constitutional amendment which established the Fund. Examples include definition of "permanent" and "income producing". Lastly, continuing effort must be expended to maintain coordination with the legislative committees which are

developing their own proposals for enabling legis-
lation.

Attached are specific work items designed to implement the
six generalized categories given above.

EFFORT	TASK REQUIREMENTS	END PRODUCTS	SUGGESTED RESPONSIBILITY
I. <u>Overview</u>			
a. Coordination	a. In cooperation with Legislative Affairs, consolidate past and existing efforts and information on Permanent Fund--Tussing report on Alaska's capital markets; SIAC efforts; consultant efforts; legislative committees, State agency efforts.	a. Ongoing with monthly status memos for agency distribution.	a. DPDP
b. Fiscal Planning	b. Analysis of State revenue and expenditure patterns under various scenarios; implications for Permanent Fund contributions; identification and evaluation of fiscal tools available for State economic intervention (loan programs, bonds, CIP, Renewable Resources Revolving Fund, others); alternatives available to move financing of government expenditures to a recurring basis.	b. Revenue/Expenditure Report; Fiscal Tools Evaluation (include strengths and weaknesses); Recurring Revenue Analysis	b. Revenue, and Budget Management, Options Commission
c. Alternatives Evaluation	c. Analysis and critique of proposed alternatives for the Permanent Fund and the consultants' work; coordination of agency comments.	c. Evaluation of efforts, including growth, fiscal and economic policy considerations; Reports to the Governor.	c. DPDP and Revenue

EFFORT	TASK REQUIREMENTS	END PRODUCTS	SUGGESTED RESPONSIBILITY
II. <u>Goals Formulation</u>			
a. Coordination	a. Identification and coordination of all public participation programs related to Permanent Fund; coordination of agency inputs.	a. Ongoing, with monthly status memos for agency distribution.	a. DPDP
b. Issue Identification	b. Assist in structuring questions for public discussion; assist and in the preparation of background information.	b. List of specific questions; Background information.	b. DPDP and Revenue
c. Analysis	c. Analyze the implications of public preferences and State policy concerning the alternatives for the Permanent Fund.	c. Report including means for refining enabling legislation.	c. DPDP
State Budget Process	d. Develop methodology for incorporating public forum responses into State policy-making and budgeting process; implementation.	d. Ongoing	d. DPDP and B+W
Public Preference Evaluation (based on Public Forum results now in hand)	e.1 Renewable Resources Investigation e.1.1 Sectoral Analysis relating to renewable resources. e.1.2 Program plans for enhancing renewable resource areas. e.1.3 Loan Programs Evaluation e.1.4 Activities of Development specialists in forestry, fisheries, tourism, agriculture.	e.1.1 Report e.1.2 Report e.1.3 Report e.1.4 Report	e.1.1 Revenue e.1.2 ADF&G e.1.3 B & M e.1.4 CED
	e.2 Community Development Needs and Potentials	e.2 Report	e.2 BCRA and CED
	e.3 Report on existing State investment activity and performance and other in-State experiences (Native Corps, employees pension funds).	e.3 Reports	e.3 Revenue
	e.4 <i>Renewal of</i> Report on "shares in Alaska" concepts <i>(documented and out of the way)</i>	e.4 Report	e.4 B & M DPDP

REPORT	TASK REQUIREMENTS	END PRODUCTS	SUGGESTED RESPONSIBILITY
<u>III. Criteria & Performance Evaluation</u>			
a. Loan Criteria Development	a.1 Development of loan criteria which embody the goals determined for Permanent Fund uses. a.2 Status report on large scale project evaluation criteria	a.1 To be determined a.2 Ongoing, with Status Reports	a.1 To be determined a.2 DPDP with broad agency participation.
b. Performance Evaluation Development	b. Development of performance evaluation measures to determine the performance of fund management in achieving stated goals.	b. To be determined	b. To be determined Revenue, DPDP, B-M (?)
<u>IV. Political/Professional Mix</u>			
a. Preparation for Seminar	a. Identification of seminar participants, <i>organization and planning of the event.</i>	a. Seminar, Transcript	a. To be determined
b. Synthesis of Seminar Results	b. Discussion paper outlining seminar results and the implications for alternative Permanent Fund structures.	b. Report	b. DPDP
c. <u>Use of Permanent Fund Income</u> <i>Coordination</i>	Coordination with Alaska Inc. Working Group. a.4	--	a.4 To be determined

EFFORT	TASK REQUIREMENTS	END PRODUCTS	SUGGESTED RESPONSIBILITY
VI. <u>Micellaneous</u>			
a. Legal Analysis	a. Define "permanent" and "income producing" (market ROI? over-all vs. project? income to fund or individuals?). Outline implications as these definitions relate to "prudent person", inflation, reserve accounts, % put into fund (greater than 25% - can it be withdrawn, interest - can it be withdrawn?), etc.	A.G. Opinions; Summary of legal opinions obtained by Legislative committees.	Dept. of Law
Coordination of Administration and Legislative Activities.	b. Maintain information flow among various participants.	--	DPDP

EFFORT	TASK REQUIREMENTS	END PRODUCTS	SUGGESTED RESPONSIBILITY
I. <u>Overview</u>			
a. Coordination	a. In cooperation with Legislative Affairs, consolidate past and existing efforts and information on Permanent Fund--Tussing report on Alaska's capital markets; SIAC efforts; consultant efforts; legislative committees, State agency efforts.	a. Ongoing with monthly status memos for agency distribution.	a. DPDP
<i>NOT IMP, DONE ANYWAY MAYBE REV. DO IT AS LEAD AGENCY WITH CLOUT</i>			
b. Fiscal Planning	b. Analysis of State revenue and expenditure patterns under various scenarios; implications for Permanent Fund contributions; identification and evaluation of fiscal tools available for State economic intervention (loan programs, bonds, CIP, Renewable Resources Revolving Fund, others); alternatives available to move financing of government expenditures to a recurring basis.	b. Revenue/Expenditure Report; Fiscal Tools Evaluation (include strengths and weaknesses); Recurring Revenue Analysis	b. Revenue, and Budget Management, Financial Options Committee
<i>NO PROBS ISSUE REV.</i>			
c. Alternatives Evaluation	c. Analysis and critique of proposed alternatives for the Permanent Fund and other consultants work; coordination of agency comments.	c. Evaluation of efforts, including growth, fiscal and economic policy considerations; Reports to the Governor.	c. DPDP and Revenue
<i>VERY IMP! PUTS OVER BOX ON TOP OF THEIR BOX</i>			

EFFORT	TASK REQUIREMENTS	END PRODUCTS	SUGGESTED RESPONSIBILITY
II. <u>Goals Formulation</u>			
a. Coordination <i>IMP</i>	a. Identification and coordination of all public participation programs related to Permanent Fund; coordination of agency inputs.	a. Ongoing, with monthly status memos for agency distribution.	a. DPDP
b. Issue Identification <i>VERY IMP. BVT RE PUB. FORUM, NOT SG</i>	b. Assist in structuring questions for public discussion; assist and in the preparation of background information.	b. List of specific questions; Background information.	b. DPDP and Revenue
c. Analysis <i>VERY IMP. - MAY BE KEY TO DIFFUSE SG.</i>	c. Analyze the implications of public preferences and State policy concerning the alternatives for the Permanent Fund.	c. Report including means for refining enabling legislation.	c. DPDP
d. State Budget Process <i>PIE IN SKY</i>	d. Develop methodology for incorporating public forum responses into State policy-making and budgeting process; Implementation.	d. Ongoing	d. DPDP and B+M
e. Public Preference Evaluation (based on Public Forum results now in hand) <i>STERLING'S MEMO</i>	e.1 Renewable Resources Investigation e.1.1 Sectoral Analysis relating to renewable resources. e.1.2 Program plans for enhancing renewable resource areas. e.1.3 Loan Programs Evaluation e.1.4 Activities of Development specialists in forestry, fisheries, tourism, agriculture. e.2 Community Development Needs and Potentials e.3 Report on existing State investment activity and performance and other in-State experiences (Native Corps, employees pension funds). e.4 <i>Review of</i> Report on "shares in Alaska" concepts <i>(decentralized control of Fund)</i>	e.1.1 Report e.1.2 Report e.1.3 Report e.1.4 Report e.2 Report e.3 Reports e.4 Report	e.1.1 Revenue e.1.2 ADF&G e.1.3 B & M e.1.4 CED e.2 DCRA and CED e.3 Revenue e.4 B & M and DPDP

EFFORT	TASK REQUIREMENTS	END PRODUCTS	SUGGESTED RESPONSIBILITY
<u>III. Criteria & Performance Evaluation</u>			
a. Loan Criteria Development <i>a.2 ALREADY, a.1 get SG on board</i>	a.1 Development of loan criteria which embody the goals determined for Permanent Fund uses. a.2 Status report on large scale project evaluation criteria.	a.1 To be determined a.2 Ongoing, with Status Reports	a.1 To be determined a.2 DPDP with broad agency participation.
b. Performance Evaluation Development <i>get SG on board</i>	b. Development of performance evaluation measures to determine the performance of fund management in achieving stated goals.	b. To be determined	b. To be determined Revenue, DPDP, B+M (?)
<u>IV. Political/Professional Mix</u>			
a. Preparation for Seminar	a. Identification of seminar participants, <i>organization and planning of the event.</i>	a. Seminar, Transcript	a. To be determined
b. Synthesis of Seminar Results <i>VERY IMP.</i>	b. Discussion paper outlining seminar results and the implications for alternative Permanent Fund structures.	b. Report	b. DPDP
<u>V. Use of Permanent Fund Income</u>			
a. <i>Coordination LETS GET GOING - GUV'S PET!!</i>	Coordination with Alaska Inc. Working Group. a.4	--	a.4 To be determined

PERMANENT FUND WORK ELEMENTS

EFFORT	TASK REQUIREMENTS	END PRODUCTS	SUGGESTED RESPONSIBILITY
VI. <u>Micellaneous</u>			
a. Legal Analysis SAMS 56	a. Define "permanent" and "income producing" (market ROI? over-all vs. project? income to fund or individuals?). Outline implications as these definitions relate to "prudent person", inflation, reserve accounts, % put into fund (greater than 25% - can it be withdrawn, interest - can it be withdrawn?), etc.	A.G. Opinions; Summary of legal opinions obtained by Legislative committees.	Dept. of Law
b. Coordination of Administration and Legislative Activities.	b. Maintain information flow among various participants.	--	DPDP

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

TO: [Fran Ulmer
Director

DATE : 6/28/77

FROM: Tom Singer
Senior Planner

SUBJECT: Revenue/DPDP Permanent Fund
Memos

I have three basic problems with Comm. Gallagher's memo of 6/27:

1. It is not clear to me that the SIAC or the Dept. of Revenue have established primacy in the Administration policy - making effort for the Permanent Fund. Has the Governor ordered this? Does he really want them to be the "top box"?
2. Comm. Gallagher's breakdown of the issues into economic diversification (development?), Savings, and Community Development assumes certain decisions and categories of use which have not yet been adequately supported by public input or technical analysis. If his categories stand, they should
 - a. be subject to both analytical and theoretical scrutiny to help provide a systematic and clearly justified basis for government intervention in the State's economy - what market imperfections or public entrepreneurship is government addressing, and
 - b. be clarified to explicitly eliminate certain types of large scale industrial development projects which are neither desired by the public nor in need of public capital if they are truly economically viable.
3. The policy and decision - making process embodied in the present Administration bill is wholly inadequate. The SIAC's proposed Fund structure could be almost perfectly insulated from any form of public control.

As for the bulk of the Memo, I have no great objection to any of the specific efforts recommended by Comm. Gallagher. We do need his support for several of our more important proposals, however; (or do we?) specifically I.c Alternatives Evaluation (DPDP in "top

box"), II.b Issue Identification, II.c Analysis, and IV. Political /Professional Mix.

A few more specific criticisms of Comm. Gallagher's memo follow:

- * Comm. Galagher's laundry list of agencies on the first page is followed by little thought as to what these agencies should do.
- * The Revenue-dominated SIAC's rapport lies with White Weld, ADL, and Price Waterhouse, etc. and Alaskan developers, not with "Alaska's various interest groups."
- * Using the first meeting of the Working Group to assign tasks offers little time for member agencies to figure out what needs doing.
- * Again, Comm. Gallagher's approach begs the question of where, why, and how to structure economic intervention by the State, and eliminates such alternatives as 'maximize return or safety (invest outside) or the provision of more direct benefits by expanding existing State loan programs such as eduaction loans.
- * Regarding economic diversification, can the "one-shot" provision of capital insure the long-term success of any enterprise or industry which was not already operating or successful - why didn't the market already respond to that opportunity?
- * The potential role of the Permanent Fund in community development has been inadequately addressed with respect to needs, opportunities, or pricing.
- * What is being done about Alaska, Inc? Is that the only use of Fund income being considered?

ALASKA PERMANENT FUND INTERIM ACTIVITY

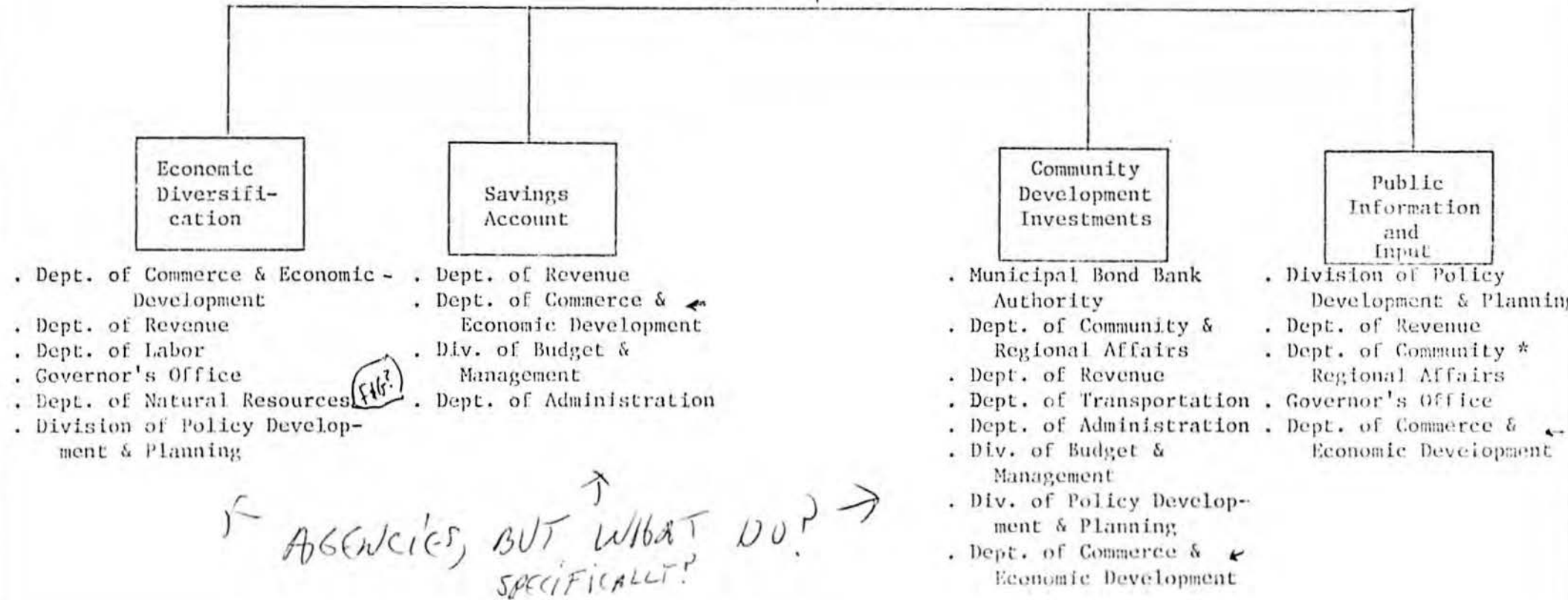
This all is contained in our memo + is OK w/ some need SG on board on few of ours. Also, still thinking w/ diff. assumptions than us. If going with his bill:

- ① Policy Board needs report work-
- ② Basis for intervention as intervention need much analysis + exposure

↑ where



must Δ → since not mandated to be lead state policy making in SF area, not in Rev.



AGENCIES, BUT WHAT DO? →
SPECIFICALLY?

ALASKA PERMANENT FUND WORKING GROUP

*Bob Hammond
to sub SG straight
aligned
prop
not*

The Governor appointed the Department of Revenue as the lead agency for the administration in the development of the Alaska Permanent Fund. Further, the Governor appointed the State Investment Advisory Committee to aid the State in the development of the Alaska Permanent Fund (the S.I.A.C. is statutorily mandated to advise the State on investment policy). It is my recommendation that the proposed administrative Alaska Permanent Fund Working Group report to the State Investment Advisory Committee in order to continue the rapport already established with Alaska's various interest groups. The purpose of the Working Group will be to develop recommendations on policy for the S.I.A.C. based on public input and State agency programs.

*BUZ LSAH,
Walt
ADG, etc!*

which is advisory to SG! Come On!

The Division of Policy Development and Planning will be responsible for coordinating the efforts of the Working Group. It will monitor report preparation and distribution to all agencies. Each agency will be responsible for the preparation of reports and subsequent presentation to the Working Group. The Division of Policy Development and Planning and the Department of Revenue will be responsible for jointly preparing a final report to the State Investment Advisory Committee.

The membership of the proposed Working Group be comprised of the following:

- Department of Revenue/Commissioner's Office
- Department of Commerce & Economic Development/Commissioner's Office
- Department of Community & Regional Affairs/Commissioner's Office
- Department of Transportation/Commissioner's Office
- Department of Administration/Commissioner's Office
- Department of Labor/Commissioner's Office
- Department of Natural Resources/Commissioner's Office
- Department of Law/Attorney General's Office
- Governor's Office/Kent Dawson

*he means
their flunkies to
be dominated,
not heads*

Office of Budget & Management/Ron Lind

Division of Policy Development & Planning/Director's Office

Alaska Municipal Bond Bank Authority/Dave Rose

The Working Group should be sub-divided into the following categories for participation purposes:

- a. Public information and input
- b. Community development investments
- c. Savings account
- d. Economic diversification

} ask about ours vs. his:
 overview, Goals, Interest + Program,
 solid. prof. inv, use of borrowing, etc.
 His assumes use.

LEAVES NO
 TIME FOR
 COORD. DISCUSSION
 OR TALKING

Task assignments will be made at the first meeting of the Working Group. Each assignment should take into consideration each agency's major area of activity and expertise, e.g., Community and Regional Affairs be assigned in the community development area; Division of Policy Development and Planning for agency coordination (circulating reports for comments, deadlines, etc.), and so on.

NO
 SPECIFICS
 WHAT LOOKING FOR FROM THEM?

Specific Questions to be Addressed by the Alaska Permanent Fund Working Group:

1. Public Comment and Information Input

How should the Alaska Permanent Fund monies be invested?

A. Investments in the private sector.

what are all the - say it
 out together! NEED

If the Alaska Permanent Fund is used to stimulate development in the private sector, a number of questions should be asked of the public. The following are questions which may be presented to the public for consideration:

- 1. Investments in capital intensive sectors versus investments in labor intensive sectors.
- 2. Investments which subsidize project development through interest rates lower than market rates of interest.
- 3. Investments at market rates of interest.

STRUCT!
 EC-INTERV.
 MAX REV. → KINGS
 DIRECT
 INCOME PROD.
 BENEFITS -
 CHANST. LUNN
 LIKE
 BOB
 GRANIS

4. Investments to diversify the economy in order to eliminate seasonal effects of certain industries, implement new industries, and to broaden the State's recurring tax base. *- NEED SOME SPECIFIC WORK - CAN K DO THIS -*

5. Investments which minimize environmental impact.

*CRAJ PROVISION OF
K LEAD TO L.T. SUCCESS
ENTERPRISE FUND*

B. Community development investments.

Some types of community development projects which need to be considered by the public include: *ASK COMMUN. + CRA*

1. Housing.

2. Infra-structure development (to include utilities, transportation, communications, power development, etc.).

3. Financial assistance to communities through providing trust, guarantee, and other types of agreements for municipal securities.

Questions which need to be asked pertinent to community development include:

1. What kind of housing: single family, multiple, large housing development projects (condominium development)?

2. Would there be a limitation on infra-structure development assistance?

3. Should there be a specific amount allocated for community development projects? *AT WHAT COST?*

C. Savings account.

The savings account concept means that the Alaska Permanent Fund could be either partially or wholly invested in the financial securities markets. This concept implies investments of the Alaska Permanent Fund monies in U. S. government securities, BAA securities, and other securities of a similar rating. The objective is to earn the greatest amount of income while minimizing the amount of risk in order to insure the preservation of the Permanent Fund. Questions to be presented to the public include:

*↓ inflation in Alaska
leave mkt alone - no major interventions
for stability*

1. What percentage of the Alaska Permanent Fund should be allocated to the savings account concept?

D. Alaska, Inc. *OTHER INCOME ALTS?*

II. State Agency Data and Study. ~~STATE~~

A. Investments in the private sector.

OK Information concerning Alaska's economy may be useful in evaluating investment proposals submitted to the Alaska Permanent Fund. The development of a sectorial analysis of the State's economy to provide information to be used for evaluating investment proposals is an important aspect of the State agency and data area. Such questions as the following may be asked: *Who, by who*

1. What sectors of the State's economy are more attractive for investment purposes?
2. What sectors of the State's economy should be considered for purposes of prioritizing investments from the Alaska Permanent Fund' in the State's economy? *ASK BANKS + ENTREPRENEURS - HOW + WHY ST. POLICY TO FAVOR? CONST?*
3. Should there be an allocated amount of Alaska Permanent Fund monies designated for investment purposes into a particular sector of the Alaska economy?

B. Community development investments.

1. Regional growth rates (actual, projected, limitations).
2. Projected housing needs.
3. Mutual options for community investments in the categories of electric power, utilities, transportation facilities, and communication.
4. An inventory of community investment opportunities. *WIBBT*
5. An inventory of community credit characteristics. *AMBBB*

C. Savings account (financial management and investments).

1. The State's investment management experience in the security market.
2. Investment management experience of other investment managers.

D. Other technical questions.

1. Legal meaning of "permanent" and "income producing".
2. Comparison of cost of administration of other State investment funds.

E. Alaska, Inc.

3 basic probs.:

- 1) Not clear SIAAC + Rev. top policy makers have
- 2) Their breakdown assumes uses + decisions. No analytics or structured basis presented for intervention
- 3) Decision making + policy making (sub. cont'd) wholly integrated

Old Leahy
Lucia Work
Plan + memo

Trans Just Memo

TO: [The Honorable Clark Gruening
The Honorable Terry Gardiner

DATE : May 6, 1977

FROM: Dona Lehr, Acting Director ~~Dona~~ SUBJECT: Permanent Fund Work
Bill Luria, Principal Planner *Bill* Program
Policy Development and Planning
Office of the Governor

At your request, we have taken a look at the various work efforts you and your staff people have identified as being needed to develop the enabling legislation for the Permanent Fund. We have tried to organize the efforts involved in a logical order, as well as to include some of our own thoughts and recommendations. Attached is a breakdown of the range of suggested research/consultant efforts geared toward generation of enabling legislation for the Permanent Fund. Included are specific task suggestions, rationale for each task, end products and possible areas of responsibility. (Except for certain elements of the Fiscal Planning effort, we have not taken a hard look at how the Renewable Resources Revolving Fund will be integrated into the Permanent Fund work effort.)

It should be noted that an exact delineation of each task effort, and who should do what, is not necessary at this time. More specific requirements - in-house vs. consultants for example - will evolve as the program proceeds. The important point is that the program get started immediately. Not attached, but available, is a flow chart depicting what we think should be accomplished and when, as well as highlighting critical milestones/decision points and public input and internal review points. The chart can serve as a tool for monitoring the progress of the effort.

Our initial recommendations are:

1. Pool the collective knowledge and back-up material of your staff people, SIAC, DPDP and the Public Forum so that a refined set of goals, objectives and areas of concern can be identified. This will then form the basis for refining the attached as well as: (a) generating a detailed outline of what will go into the Legislative Report and the Public Forum Document; and (b) defining and assigning specific research/consultant efforts that should start soon;

PFWG

2. The following research efforts should be started immediately in order to provide back-up for the Legislative Report and the Public Forum Document:

- * overview of the general implications/impacts of the Permanent Fund on Alaska;
- * preliminary investigations of alternative fund management strategies;
- * continuation of the legal analyses; and
- * initial State fiscal planning, looking at the strengths and weaknesses of existing fiscal tools.

3. Delegate (or hire) one person who's responsibility will include monitoring the progress of the work effort as well as coordinating the various legislative, executive and consultant inputs; and

4. Clarify the relationship between the Executive (DPDP, Revenue and the SIAC) and the Legislative (House and Senate) branches regarding the overall work effort.

DPDP can provide the following: 1) coordinate State agency participation; 2) assist in monitoring program progress; 3) assist in defining and monitoring consultant efforts; and 4) participating directly in research efforts (particularly fiscal planning), goals formulation and Public Forum workshops.

DKL/BL/ljs

Attachments

cc: Fran Ulmer
Brian Rogers

PERMANENT FUND WORK ELEMENTS
(Excluding Public Input)

EFFORT	TASK REQUIREMENTS	RATIONALE	END PRODUCTS	SUGGESTED RESPONSIBILITY
<u>Summary of Background Information</u> .Public Forum .SIAC .Misc.	What has been said; what directions were given; what can't be determined; what problems were highlighted (comprehensive, absence of back-up material); what can back-up material provide? Summary of SIAC consultant inputs, future plans, coordination possibilities. Prior consultant advice; legislative/staff points of view and information; types of investments, management, results, performance of other major investment efforts in Alaska (e.g. Native Corporations).	Provides basic input for formulating refined set of goals and for generating Legislative Report and Public Forum Document. Same as above plus input to developing fund management strategies. Same as above plus provides some guidance for individual investment investigations.	Preliminary list of goals, objectives and priorities, and areas of concern. Summary memo of information. Summary memo.	Legislative staff, DPDP, Jack Kruse. SIAC, Revenue. Legislative staff.
<u>General Implications</u> .Broadbrush .Analytics	Think piece on potential impact of fund on Alaska, in-state vs. out-of-state investments; efficiency of capital markets, loan vs. direct expenditures. Analytical evaluation of above-impacts on population, per capita income, and growth.	Provides back-up information for Legislative Report and Public Forum Document as well as helping to define more specific areas of investigation. Same as above.	Memo-type report. MAP-model Report.	Legislative staff, ISER (Arlon Tussing). <i>BEING DONE</i> ISER.

PERMANENT FUND WORK ELEMENTS
(Excluding Public Input)

EFFORT	TASK REQUIREMENTS	RATIONALE	END PRODUCTS	SUGGESTED RESPONSIBILITY
<u>Legal Analysis</u>				
.Preliminary	Define "permanent" and "income producing" (market ROI? over-all vs. project? income to fund or individuals?).	Provide back-up information for Legislative Report.	Internal memo with recommendations.	Legislative staff, Law.
.Final	Refine above plus defining "prudent person," inflation, reserve accounts, % put into fund (greater than 25% - can it be withdrawn, interest (can it be withdrawn)?	Highlights constraints to fund management strategies and individual investments.	Same as above.	Same as above.
<u>Fiscal Planning</u>				
.Initial	Definition of fiscal tools (loans, bonds, CIP, Renewable Resources Revolving Fund, general fund, etc.) strengths and weaknesses. <i>- FTR cc. INTERVENTION? FTR. POLICY</i>	Back-up input to legislative Report.	Internal memo.	DPDP, B&M, Revenue Legislative staff.
.Preliminary	Short- and long-term possible expenditure patterns combined with alternative revenue projections. Investigate size of "surplus" in general fund, implications for Permanent Fund contribution, context for evaluating alternative uses of earnings moving the financing of government expenditures to a recurring basis.	Provides input to interim goals formulation and Public Forum Report.	Same as above.	Same as above and ISER.
.Final	Continuation of above.	Provides input to selecting optional fund management approach(es).	Same as above, but effort is on-going beyond Permanent Fund effort.	Same as above.

PERMANENT FUND WORK ELEMENTS
(Excluding Public Input)

EFFORT	TASK REQUIREMENTS	RATIONALE	END PRODUCTS	SUGGESTED RESPONSIBILITY
<u>Legislative Report</u> - <u>Public Forum</u> <u>Report</u>	Generate reports including back-up information and tabloid-ready questions.	Forms basis for public information/public input process.	--	Legislative staff, Public Forum staff.
<u>Fund Management</u> <u>Activities</u>				
.General	Critique of present enabling legislation overview of CDC, Development Banks, State Banks, credit unions, consumer ccops, etc. - traditional goals.	Background information for Legislative Report, Public Forum Document and interim goals formulation.	Memo-type report.	Legislative staff, consultant mix (straights, freaks, ISER, Tom Singer).
.Interim	Refinement of above including a comparative evaluation, pros & cons, implications, relationships to State goals, general selection criteria, test strategy with types of investments.	Part of decision-making process to narrow down management funds to a select few.	Report(s) with recommendations for selected management strategies.	Same as above.
.Final	More detailed and analytical evaluation of selected management fund strategies including analysis of practicality, conflicts, with existing legislation, implications, political considerations (special interest groups).	Part of decision-making process to select optional management strategy(ies), input to fund structures and legislative decisions.	Report(s) with recommendations for optional management strategies.	Same as above.

PERMANENT FUND WORK ELEMENTS
(Excluding Public Input)

EFFORT	TASK REQUIREMENTS	RATIONALE	END PRODUCTS	SUGGESTED RESPONSIBILITY
<u>Fund Management Structure</u>				
.Preliminary	For selected management alternatives, investigate structural make-up potentials-control, organization, operating procedures, accountability, performance evaluation, flexibility to change, safety and maintenance of fund	input to final structure decision	memo-type report highlighting strengths and weaknesses and initial recommendations	SIAC, legislative staff, consultants
.Final	Refinement of above, including investment criteria, staffing, funding, location (centralized or regional), pilot projects requirements, sunset concept	basis of enabling legislation	report with final organizational recommendations	Same as above
<u>Investment Studies</u>				
.General	Overview of investment opportunities, sectoral and regional analyses, State programs, evaluation (in terms of market return/viability)	general background information, back-up input to Public Forum Document	report outlining investment potentials and relationship to fund management alternatives	Same as above plus various State agencies
.Interim	Refinement of above, including rationale, criteria for project selection, measures of success-long-term implications, sensitivity analyses, specific investments comparative evaluations	provides input to enabling legislation, as well as to the alternate fund managers	report detailing initial investment opportunities	Same as above
.Final	Effort is an on-going responsibility of fund managers	--	--	--

PERMANENT FUND WORK ELEMENTS
(Excluding Public Input)

EFFORT	TASK REQUIREMENTS	RATIONALE	END PRODUCTS	SUGGESTED RESPONSIBILITY
<u>Enabling Legislation</u>	Bringing together all the above into formal legislation	--	--	legislative staff

I

Present base on SIAK bill or
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STATE OF ALASKA

DEPARTMENT OF LAW

OFFICE OF THE ATTORNEY GENERAL

July 5, 1977

JAY S. HAMMOND, GOVERNOR

RECEIVED
JUL 6 1977

POUCH K-- STATE CAPITOL
JUNEAU 99811

POLICY DEVELOPMENT
& PLANNING

Hon. Terry Gardiner
Alaska State Legislature
P. O. Box 6092
Ketchikan, Alaska 99901

Re: Permanent Fund

Dear Terry:

We have finally come out from under long enough to give you a short answer to your questions on this. In order of your inquiries, the answers are as follows:

(1) The creation of the permanent fund did not legally obligate the legislature to keep the income of the fund abreast of inflation. There almost certainly is an implied obligation to manage as a prudent person, which means that reasonable efforts to make profitable investments with an eye on inflation are probably a legal requirement. We confess that we cannot be sure. We will have to compare the language establishing our permanent fund with that of others and see what the cases say.

(2) Appropriations made to the permanent fund by law may not be withdrawn even though they are in excess of the amount required by the constitution. Only the income of the fund is available from the fund. Of course, a standing appropriation could be repealed, and if so, no further money would go into the fund from it.

Please advise if you require more on this. We realize that there will be hundreds of questions. We cannot conduct unlimited research on all of them. For the most part, we believe it will be best to limit our research to the issues which are of practical application. Even then, we will be stretched.

Sincerely,

AVRUM M. GROSS
ATTORNEY GENERAL

By: 

Rodger W. Pegues
Assistant Attorney General

RWP:chp

cc: Clark Gruening
Fran Ulmer

STATE
of ALASKA**MEMORANDUM**

TO: Fran Ulmer

DATE : July 18, 1977

FROM: Tom Singer SUBJECT: Permanent Fund
Work Status

Fran, the following items need to be addressed before you meet with Clark Gruening on Friday. Unless your ideas for DPDP on the Permanent Fund have changed, the strategy of working closely with Clark remains our best (only?) alternative. Here's what we need to do:

1. Work efforts on the Permanent Fund need a clearinghouse so that all participants are informed about what everyone else is doing and what results are coming in. You need to get Clark's and Edenzo's agreement on this. Implementation entails: a) compiling a master list of names and addresses of participants; and b) getting Revenue, legislative committees, Legislative Affairs, etc. to agree to send us information for general distribution (we've tried to do this before, and failed).
2. Clark wants to use the Public Forum. On Saturday he expressed the hope that the full committee would attend the first forum. How are he, Judy Brogan, Barry Quinn, and I (and others) supposed to coordinate - when, work plan, etc? What is the schedule and who has the lead (organizing responsibility) here?
3. By Friday, I will give you a preliminary conceptual outline of a proposal to study the public participation and accountability question to show to Clark. Hopefully, he will add either his own concerns not addressed and/or suggest more or other consultants. From this will hopefully come an agreement between you and Clark to receive a detailed, final proposal, which, if accepted, will be funded jointly by DPDP and the committee.
4. By Friday, I will give you an overview of pending consultants' suggestions for further research on the Permanent Fund focusing on Tussing and Daniels. Hopefully, you and Clark can use this to decide priority research areas, and develop a means for Clark, Judy Brogan, Brian Rogers, etc. to coordinate with Dona and I (and others) in developing specific work plans and in managing the consultants to insure we get the work we ask for. We'd like a shot at what the consultants are doing.

TS/ljs

cc: Russ Cahill
Dona Lehr

h:b#

wwwos

STATE OF ALASKA

DEPARTMENT OF NATURAL RESOURCES

OFFICE OF THE COMMISSIONER

JAY S. HARRIMON, GOVERNOR

11TH FLOOR, STATE OFFICE BLDG.
POUCH M - JUNEAU 99811

September 28, 1977

The Honorable Clark Gruening
House of Representatives
State of Alaska
940 Tyonek
Anchorage, Alaska 99501

Dear Mr. Gruening:

The statute creating the Royalty Board and other laws relating to state owned royalty oil and gas create a preference in favor of taking royalties "in-kind", and making sales for use in Alaska. These directions were reinforced during the past legislative session by an amendment which directs in-kind taking of royalty unless the Commissioner of Natural Resources makes an express finding that taking royalty "in-value", through cash payments, is in the State's best interest. That amendment also provided for legislative override of a decision to take in-value.

During the final days of the last legislative session, several legislators expressed both publicly and privately their strong desire that we sell our Prudhoe Bay royalty oil for use in Alaska. Following discussion with the Governor I informed them that I would make every effort to conclude such a sale for consideration by the Royalty Board and the Legislature.

The Department of Natural Resources had earlier made two nationwide public solicitations for proposals to purchase our North Slope oil. The response to these solicitations had been very disappointing, producing only one serious applicant; and that applicant was willing only to study the idea, without committing to in-state use. Therefore, I undertook a third nationwide solicitation for proposals at the end of May. That solicitation set a deadline of August 1 for preliminary proposals and October 15 for final offers. Following negotiations with serious bidders, I hope to present a contract to the Royalty Board before the end of December. If approved by the Board, the contract would be presented to the Legislature for its approval early next session.

Page Two
September 28, 1977

In response to this final solicitation, ten preliminary proposals were submitted. Of these, five were rather detailed offers to process in-state all, or most of, the royalty oil from Prudhoe Bay. A summary of these proposals is enclosed. Other proposals from existing Alaskan refineries and utilities generally were aimed at securing options to purchase small volumes of royalty at a later date.

Although the royalty statute provides general guidance for negotiating a sale of royalty oil, these guidelines do not provide a specific enough framework for conducting a large-volume sale. To gain clear direction, I proposed to the Royalty Board in May a set of policies and invited the Legislature and other interested parties to discuss them with the Board. These were more specific than the general language of the statute, but still broad enough to encompass many competing objectives. Several legislators and industry representatives voiced their views on these policies at a public meeting. Following discussion and modification, the Board adopted eight policies. (Enclosed)

As the time for final sale negotiation draws near, it becomes necessary to translate these policies into detailed state positions. I have attempted to do this by defining for my own use in negotiations a set of proposed state objectives specific to the sale. I am enclosing a copy of these proposed objectives for your review, and would be very grateful if you would, in turn, send me your thoughts and reactions. Unlike other issues brought before the Legislature, contract approval is a yes or no question; a contract cannot be amended. For this reason, it is especially crucial that potential problems in our intended negotiation direction be brought to my attention early. I will, of course, be pleased to consider comments at any time, but would find it most useful if I could receive them prior to or shortly after October 15.

I also am anxious to receive any ideas or comments you might wish to offer on any other aspect of the proposed royalty sale. This letter has been sent to all legislators, and interested communities and organizations. Should you wish more information on proposals submitted to date, or if you would like to discuss policy options in more detail, please do not hesitate to contact me or my Deputy, Fred Boness.

Sincerely yours,



Robert E. LeResche
Commissioner

Enclosures

PRELIMINARY PROPOSALS FOR A LARGE VOLUME (100,000+ B/D)
SALE OF NORTH SLOPE ROYALTY OIL

SUMMARY

September 22, 1977

PRELIMINARY PROPOSALS FOR A LARGE VOLUME (100,000+ B/D)
 SALE OF NORTH SLOPE ROYALTY OIL

PURCHASER	CONSORTIUM MEMBERS	FACILITY CAPACITY	PRODUCT SLATE	DOCUMENTS
Alaska Petroleum Company	a subsidiary of Coastal States Gas Corporation	150,000 B/D	Fuels	Prelim Proposal: 7/22; 12 pp. Supplement: 8/18; 5 pp.
Alaska Petrochemical Company (ALPETCO)	60% Alaska Interstate Company 20% Barbour Oil Co. 20% Alaska Consolidated Shipping; Seatrain Lines, Aleut, Bristol Bay Calista, Chugach Natives, Cook Inlet Region, Koniag	150,000 B/D	Primarily Petrochemicals; * possibly more advanced processing; Fuels	Prelim Proposal: 8/1; 70 pp.
Alaska Petrofining Corporation	Sealaska Kaiser Aluminum Southern California Edison Dow Chemical Co. Pacific Gas & Elect.	250,000 B/D	Primarily Petrochemicals; * Coke; Fuels	Prelim Proposal: 7/27; 5 pp. Press release: 9/7; 5 pp.
Energy Resources Inc.	unidentified	150,000 B/D	Primarily Petrochemicals; * Fuels	Prelim Proposal: 8/1; 50 pp. Supplement: 8/19; 25 pp.
Alaska Oil & Chemical Company	Guam Oil & Refining American Petrofina --	100,000 B/D	Primarily Petrochemicals; * Fuels	Prelim Proposal: 7/28; 3 pp + 40 pp report.
Pacific Resources Inc.	WITHDRAWN			

* aromatics: benzene, toluene, xylenes
 olefins: ethylene, propylene, butylene

POLICY STATEMENT MADE BY

The Alaska Royalty Oil and Gas
Development Advisory Board

May 5 & 6, 1977

1. The Royalty Oil and Gas Board shall recommend disposition of royalty oil and gas (through in-value taking, in-kind taking, sales, and sales conditions) in such a manner to maximize net benefits to the State. These net benefits include not only price, but also the various economic, social, and environmental ramifications, including employment, local training, Alaskan ownership, secondary effects, tax base, and many other factors.
2. The baseline price for any royalty oil or gas sale shall not be less than the price that would be received for that oil or gas if taken "in-value".
3. Preference will be given first to existing in-state facilities with no alternate sources of oil or gas, and second to those who will construct new in-state facilities or expand existing in-state facilities.
4. A portion of royalty oil will be withheld from long-term commitment in order to anticipate future small local demands.
5. With the exception of small sales to public utilities, sales will be for specified volumes or proportions of production, constant throughout the year, rather than for flexible volume "options" to be called by the purchaser.
6. Sales of royalty oil and gas for in-state processing will attempt to insure that products for in-state use are priced at the lowest possible price, within the limits of the general net benefit policy and the pricing policy.
7. Products produced from royalty oil and exported from the State must be surplus to the State's domestic and industrial product needs.
8. In general royalty oil and gas will be disposed of in long-term contracts, rather than in "piece lots" as may be done by a private-sector trader or dealer.

Proposed State Objectives for
Negotiating a Large-Volume Sale of
Prudhoe Bay Royalty Oil

* * *

Volume of Crude to be Sold
Interim Sale of Crude
Product Slate
Facility Size
Facility Siting
Price of Crude
Environmental Controls
Termination Provisions and Penalties
State Advocacy
Resident and Minority Hire
In-state Product Sales and Prices

Note: The list of proposed objectives do not include all topics which will form the basis for negotiations. It includes only those objectives for which State interests may not be clearcut.

Robert E. LeResche
Commissioner
Department of Natural Resources

VOLUME OF CRUDE TO BE SOLD

Background

All companies proposing to build a world-scale facility speak in terms of 20-25 year contracts, as financing of such a project necessitates the long-term assurance of crude supply. Prospective purchasers view state royalty as the core for their 100 to 250 thousand barrel/day operations, with other crude sources (such as producer crude) filling the remaining capacity. Several companies have proposed to buy all of the State's North Slope oil royalties, which are estimated at 150,000 barrels/day at a field production rate of 1.2 million barrels/day. However, the Royalty Board established a policy in May designed to keep our options open:

"A portion of royalty oil will be withheld from long-term commitment in order to anticipate future small local demands."

The question now arises as to the percentage of our royalty oil which should be reserved for future sales. Several parties have shown interest in obtaining small volumes (generally from 3,000 to 5,000 barrels a day) for varying lengths of time. Last spring Golden Valley Electric Company of Fairbanks was awarded approximately 5,000 b/d of royalty for a 6 year term. Municipal Utilities System (Fairbanks), North Pole Refining, and Tesoro-Alaskan have also expressed interest in small-volume sales.

Proposed State Action

I intend to design contract terms which will grant the large-volume producer long-term certainty of a substantial supply (90%) of Prudhoe crude; and yet reserve a small portion (10%) for future local sales.

INTERIM SALE OF CRUDE

Background

Early this year, concern arose over whether the State would lose control of its royalty oil if it was taken "in-value" when pipeline flow began. Arguments were made that with in-value taking marketing arrangements would be "frozen" by the Emergency Petroleum Allocation Act of 1973. On March 23 the State asked the Federal Energy Administration for an interpretation of the Act as it affects in-value taking of royalty oil. On April 27 a ruling was issued, which proved favorable to the State's interests: As long as Alaska receives its royalties in-value we retain the option at a future time to take in-kind and sell to a purchaser of our choice. However, once we do begin taking royalty in-kind for sale, and establish a "supplier-purchaser relationship", the State's control is less certain.

If Alaska sells its oil for immediate delivery to a purchaser who agrees to construct a facility in-state, a supplier-purchaser relationship will be established. If that purchaser then defaults on contract terms and does not follow-through on facility construction, there is a possibility that the State might not be able to terminate sales, regardless of how carefully the contract was written. For this reason, I am hesitant to develop a contract which includes purchase of crude prior to refinery construction. This is especially true now that several companies have offered to enter into a contract in which royalty is purchased only after a refinery becomes operational.

Proposed State Action

I intend to favor proposed contract terms which commit State royalty oil only after a facility is constructed. Any prospective purchaser who desires to purchase oil prior to facility operation will carry the burden of proof. He must demonstrate a need for such an arrangement, propose contract language to protect the State in the event of default, and otherwise suggest how this might benefit Alaska's interest.

PRODUCT SLATE

Background

Preliminary proposals offered a range of product slates from 100 percent fuels to a mixture of fuels and petrochemicals. One company also anticipates producing petroleum coke.

Prospective purchasers are constrained by a variety of factors in deciding upon the type and quantity of products to produce. For example, one consortium has designed a product slate based on the distinct product needs of its member companies. In general, processing capabilities, interests, and marketing outlets for products differ among the applicants. And of course, all have their own separate perceptions as to what product slate will ensure an economically viable project in Alaska.

The State's interest in product slates is not a simple question. One argument is that the State should remain "indifferent", selecting a purchaser and negotiating a contract based on criteria other than the product slate. The other side of the coin is that the State should take an active interest in influencing the companies selection of products to be produced.

All companies are aware of the State's interest in assuring petroleum products to meet Alaskan energy needs. For this reason they all offer to produce enough fuels to meet in-state needs, although I believe some would have concluded this aspect of the project will not be economically attractive for them. Beyond that threshold, proposals diverge as to how the remaining crude should be processed. Some argue that petrochemicals provide more benefit to the State than do fuels. The concept of "value-added" as it relates to jobs and property taxes is advanced. The potential for satellite growth is another factor: The production of petrochemical intermediates may stimulate more advanced petrochemical processing; and coke has been suggested as a product which could lead to in-state processing of metals. In addition to economic concerns, the State must also consider how environmental impacts relate to various product slates.

Proposed State Action

My Department recently published a report which portrays the current and expected in-state needs for petroleum fuels. I have requested that this analysis be supplemented by a discussion of the capabilities of the three existing Alaska refineries to satisfy these needs. Based on this information I intend to determine a minimum threshold of fuels production to meet in-state needs. Once that need is met I believe the State should adopt a position favoring the "value-added" concept of petrochemicals and the potential for satellite growth of a diverse product slate.

In addition, I plan to be sensitive to the need to temper state desires with the realities of marketing economics, which are of prime concern to prospective purchasers, and will consider not requiring a company to produce fuels for in-state use if that company can clearly demonstrate that the State's best interests are served by not doing so.

FACILITY SIZE

Background

Preliminary proposals have offered to construct a world-scale facility ranging from a crude intake of 100 to 250 thousand barrels per day. The amount of royalty crude requested by the applicants differ very little among these proposals. Any facility at or above a threshold of 120,000 barrels/day will be capable of processing virtually all of the North Slope royalty oil. All companies recognize that they likely will have to contract with one or more of the North Slope producers to fill out their needed supply requirements, especially in light of uncertainties of exact field production characteristics.

Several companies indicate that their choice of facility size is based on economics. Some argue that economies of scale translate into "bigger is better". Others argue that market or financing considerations constrain the size. The State, of course, has an interest in the economic viability of a project; and therefore, the State must be sensitive to the concerns of each prospective purchaser.

Socioeconomic and environmental considerations likely will differ with facility size. Economic benefits may very well increase with the size. Environmental and infrastructure problems of a particular site may increase with size, although these costs may or may not outweigh the additional benefits.

Proposed State Action

At present, I will encourage prospective purchasers to develop proposals which optimize the economies of their projects. Within this framework, I will also suggest that bidders maximize in-state processing of Alaskan oil -- using other crude sources as well as our North Slope royalties.

FACILITY SITING

Background

State interests in siting involve a variety of environmental, social, and economic considerations. Industry interests in choosing a site are governed principally by some of these same considerations; physical characteristics, overall economic viability, and favorable local opinions and environmental conditions. As several contract elements may be linked to a choice of site, it will be necessary to select a site before a final contract is developed.

I have asked industry to consider sites anywhere in Alaska in conducting their site analyses. Basic economics have caused industry to focus on sites from the western side of Cook Inlet, through the Kenai Peninsula, Prince William Sound, Gulf of Alaska, and down the northern half of Southeast Alaska. I have asked that in addition to identifying and prioritizing preferred sites, reasons be given for not selecting considered sites.

Agency analyses will center on the information and criteria submitted by the companies, and on the factors of principle concern to Alaska.

Proposed State Action

I will not finalize a contract for Royalty Board and legislative approval until a site is identified and can be included as a contract term. The siting term may possibly include an alternative site, in the event that the selected location cannot be used.

Hearings will be conducted before a site is determined; and a site will not be selected in any area where local or public opinion is strongly adverse.

Proposed sites will be viewed favorably which would result in minimal social and environmental impacts, access of fuel products to Alaska markets, positive synergistic effects with other resources and industry potential for satellite development, and optimal economies for the refinery complex.

PRICE OF CRUDE

Background

In May the Royalty Board adopted a pricing policy:

"The baseline price for any royalty oil or gas sale shall not be less than the price that would be received for that oil or gas if taken "in-value".

This policy is premised on the notion that the revenue received for our royalty oil benefits the State as a whole; whereas spinoff effects of refinery development benefit distinct localities (jobs, property taxes) and users of petroleum products. Therefore, the State as a whole should not "subsidize" industrial development in a particular location.

Proposed State Action

I intend to negotiate a contract with the "in-value" price serving as the minimum acceptable bid.

ENVIRONMENTAL CONTROLS

Background

Prospective purchasers have been asked to address in their final proposals the subject of environmental controls. It is conceivable that a company may find it can reasonably offer to build and operate a facility which surpasses minimum environmental standards. In this event it may be in the State's interest to include as a contract provision a standard higher than a state or federal regulatory agency can impose through their permit processes. If a prospective purchaser receives a favorable review of his offer and is selected on the basis of promises made, then it is in the State's interest to ensure that these promises are incorporated into a contract as commitments.

Proposed State Action

I intend to consult with the Departments of Fish and Game and Environmental Conservation to determine contract elements which might protect the environment in a way or to an extent which is currently beyond their regulatory powers. In so doing, I intend to be sensitive to industry considerations and to ensure that minor environmental gains are not dependent upon monumental economic losses.

TERMINATION PROVISIONS AND PENALTIES

Background

The State has an obvious interest in selecting a purchaser who will carry through with facility construction. Further it has been brought to my attention that time is an important factor in securing favorable financing: Each day of Prudhoe production taken in-value reduces the total volume of royalty the State can provide over the length of a contract. Hence, a false start resulting in contract default carries substantial burdens.

The State must examine the experience and financial status of prospective purchasers in order to ascertain capabilities to carry through with facility construction and operation. It is also important to ensure that the successful bidder fully intends to execute the contract, rather than viewing a contract as an option to be executed or terminated following the outcome of a feasibility study. There are several elements of the project which, inherently, will demonstrate the level of industry commitment. These include the status of securing crude from other sources to assure full volume beyond the royalty core, the extent to which take-or-pay product sale contracts have been executed, and the success in obtaining committed project financing before the time of contract finalization.

In addition the State might also assess the sincerity of the prospective purchasers by their willingness to limit purchaser termination clauses and to include penalties for non-performance or default in the contract.

Proposed State Action

I intend to evaluate each company's capabilities and commitment to build a facility in-state before selecting a successful bidder. In addition, I intend to negotiate for a contract which will limit purchaser termination rights and which includes penalties or liquidated damages provisions in the event of non-performance or default.

STATE ADVOCACY

Background

Several companies have indicated a desire for the State to contractually (or otherwise) commit to assuming an advocacy role in government regulatory processes. These suggestions include the following:

- * The State will supply supportive testimony during local, state, and federal permit processes.
- * The State will commit itself to ensuring that state permit applications are reviewed in a timely fashion.
- * The State will grant the issuance of all state (and local) permits required by law.

Proposed State Action

I intend to keep the State's proprietary powers entirely separate from its sovereign powers.

While we may properly commit to taking an active role as an interested party in a regulatory process, we will not use our sovereign powers to interfere in any manner with the normal decision-making processes of those regulatory bodies. I further will not grant the purchaser any special termination rights, nor allow the State to be liable for any actions or inactions which may occur because of a state agency carrying out its duly authorized responsibilities.

RESIDENT AND MINORITY HIRE

Background

As evidenced by recent court decisions, the State, as a sovereign, has limitations imposed on its powers to influence resident hire. However, conditions the State may wish to impose through a contract are not so constrained.

Proposed State Action

I intend to include strong provisions requiring resident and minority training and hire in the contract.

IN-STATE PRODUCT SALES AND PRICES

Background

The royalty statute addresses in-state use in the following manner:

"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 with the approval of the Alaska Royalty Oil and Gas Development Advisory Board determines that the royalty in-kind oil or gas is surplus to the present and projected intrastate domestic and industrial needs." AS 38.05.183(d)

While it may be argued that the statute refers only to crude oil and not to the refined products, the Royalty Board has set as policy:

"Products produced from royalty oil and exported from the State must be surplus to the State's domestic and industrial product needs."

In addition the Royalty Board adopted a policy that:

"Sales of royalty oil and gas for in-state processing will attempt to insure that products for in-state use are priced at the lowest possible price, within the limits of the general net benefit policy and the pricing policy."

Proposed State Action

I will endeavor to include a provision ensuring a preference of product sales to in-state markets. The extent of this preference will be tempered by the recognition that prospective purchasers must secure long-term sales contracts for a substantial portion of their products, in order to obtain financing.

STATE ENERGY POLICY COMMITTEE

October 19, 1977

Minutes (draft)

On Wednesday, October 19, 1977, the fourth meeting of the State Energy Policy Committee was called to order by Chairman Miles at approximately 2:00 p.m. In attendance were: Members Joan Ray, Bob Huffman, Clarissa Quinlan, Kay Poland and Bill Miles.

Chairman Miles stated that the meeting was called at the request of Commissioner Gallagher to discuss the solicitation, for proposals regarding the use and disposition of Alaska's royalty gas. The Committee itself would not be taking any formal action but the Commissioner wanted the Committee's comments, suggestions and questions.

Commissioner Gallagher said that following consultation with the Departments of Commerce and Natural Resources, the Department of Revenue sent out letters soliciting bids for studies that would analyze relevant state options for the use and disposition of Alaska's royalty gas. One study will deal with technical and engineering aspects associated with royalty gas, while the other concerns the economics or marketing of the royalty gas, inside and outside the state, including foreign markets. The budget for these studies is \$150,000. The money was allocated pursuant to HCR 27, passed by the Legislature last session. These solicitations were sent to approximately ten firms. Any interested firm that did not receive either solicitation letter should contact Jim Edenso in Juneau.

A separate study (HCR 27 \$60,000 budget) will deal with the feasibility of state financing of separate royalty gas spur lines, etc.

Commissioner Gallagher introduced Jim Edenso who gave a detailed overview of both solicitations. Phase I included eight subjects, summarized as follows: I. Injecting the NGL into the TAPS crude-oil stream at Prudhoe Bay and subsequently extracting the NGL from the crude-oil stream at Fairbanks or tidewater; II. Constructing a pipeline to carry "wet gas" from Prudhoe Bay to Fairbanks or tidewater and producing NGL and NG at Fairbanks or at tidewater; III. Feasibility of constructing a gas conditioning plant at Prudhoe Bay and a separate pipeline to carry NGL to Fairbanks for royalty and producers gas liquids; IV. Feasibility of a NG pipeline from Fairbanks to Haines; V. Feasibility of thermally polymerizing excess propane and butane into gasolines at Prudhoe Bay and transporting gasolines in crude oil to market; VI. Feasibility of hydrocracking excess propane and butane to methane and ethane at Prudhoe Bay and transporting

methane and ethane in NG to market; VII. Feasibility of using excess NGL in combined cycle, gas turbine power generation at Prudhoe Bay and sending power south via high-voltage DC transmission to Fairbanks, Anchorage, and to run pipeline pumps and compressors; VIII. Feasibility of doing nothing and simply taking the state's royalty share in dollars.

Phase II should answer questions of production and marketing. It will give the State answers to the questions of how much natural gas is being produced at Prudhoe Bay and Cook Inlet and what is the disposition of that production. It also delves into current plans for construction of a gas conditioning plant at Prudhoe Bay and the maximum amount of natural gas liquids that can technically be included in a crude oil pipeline. Phase II will also look into market for natural gas and natural gas liquids in the Fairbanks/Anchorage railbelt area; the market for natural gas, liquid propane and natural gas liquids in rural and southeast Alaska, including specific product delivery modes, and the market for natural gas liquids in the Lower 48.

Questions asked by the Committee included the following: The firms are only being given approximately two weeks to formulate a bid and the study itself must be completed in two or three months. Is that an adequate length of time? Where and/or how would a bidder obtain the answers to these questions? Does the State have any personnel qualified to answer them? Commissioner Gallagher replied it would take a technical engineering firm to obtain the answers. He plans to interview the potential bidders. Time requirements would be a part of that discussion.

Ms. Quinlan asked if the producers had developed plans for their seven-eighths share of natural gas liquids? No word has been received. Commissioner Gallagher felt the producers are presently undecided.

Speaker Malone questioned Commissioner Gallagher as to what will be done with what is left over after the liquids are extracted? The Commissioner said it is not yet clear what will be done. The study will address that issue. As to the methane, it is presently being reinjected into the field. Speaker Malone also asked what is Alecon going to do about the gas liquids? Discussion by Senator Poland, Commissioner Gallagher, Rep. Chatterton and Bob Huffman followed as to the probable, highest and best use of the natural gas liquids.

Speaker Malone asked whether the study would consider the present and projected energy demands of the Southcentral area? Also, in this regard, Committee Staff Assistant David Rogers asked whether Alaska's needs for natural gas would be addressed in this study. Commissioner Gallagher answered affirmatively that all the State's natural gas needs would be considered.

In discussing sites for possible conditioning plants, Speaker Malone requested that they consider sites in the Kenai Peninsula Borough. He also expressed concern that the feelings and planning efforts of local governments be taken into account as well as the possibility of pricing reductions for areas in the processing areas. Chairman Miles questioned whether the solicitations to the contractor took into consideration royalty oil options as they relate to decisions regarding royalty gas? The study will definitely address this problem, according to Commissioner Gallagher.

Executive Director of OMAR Paula Easley raised the issue of whether Canada would extract certain natural gas liquids as the pipeline enters Canada and replace those extracted natural gas liquids with others as the pipeline reenters the U.S. Discussion by Bob Huffman, Commissioner Gallagher and George Silides ended with Commissioner Gallagher stating he would obtain a legal analysis of the Treaty and Agreements related to this problem.

Chairman Miles requested that the Phase II marketing study not limit itself to looking only at domestic markets for the State's natural gas and natural gas liquids but include the potential foreign markets, i.e. Japan. Commissioner Gallagher assured the Committee this would be done.

Representative Rhode inquired if the producers were helping finance these studies, couldn't they furnish most, if not all, the information requested? He felt that since they own seven-eighths share, it seems they would have a greater interest in these studies than the State would owning only one-eighth share.

Chairman Miles closed the meeting by stating that it was his understanding the solicitation for proposals would not be sent out until the Energy Policy Committee had a chance to make comments and recommendations. He added that it appeared to be the consensus of the Committee that the final contract include: all options for the use of royalty gas, consideration of the relationship between a royalty oil decision and the royalty gas options and the question of local pricing exceptions.

The meeting adjourned at approximately 3:30 p.m.

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STATE ENERGY POLICY COMMITTEE

Memo: To All Legislators
From: Bill Miles, Chairman
State Energy Policy Committee
Re: Royalty Oil Proposals, Report I
Date: October 20, 1977

In order that the entire Legislature may have access to available information on the Royalty Oil Proposals prior to the commencement of the next legislative session, the attached report is being sent to you. It represents the first in a series of reports designed to keep members abreast of pertinent information as it develops regarding royalty oil.

This report includes an overview of various activities relating to the royalty-oil disposition question. It further includes a summary analysis of the preliminary proposals submitted to the Royalty Oil and Gas Advisory Board.

REPRESENTATIVE BILL MILES, CHAIRMAN

SENATOR KAY POLAND, VICE CHAIRMAN	COMMISSIONER H. PHILLIP HUBBARD
SENATOR W. E. "BEAD" BRADLEY	COMMISSIONER ROBERT LERESCHE
SENATOR GLENN HACKBELY	ROBERT HUFMAN
REPRESENTATIVE AL NAKAK	WILSON A. RICE
REPRESENTATIVE LEO RHODE	JOAN A. RAY

I. THE USE AND DEVELOPMENT OF ALASKA'S ROYALTY SHARE OF PRUDHOE CRUDE-- OVERVIEW

In June of this year, Commissioner Robert LeResche, on behalf of the Department of Natural Resources and the Alaska Royalty Oil and Gas Development Board, mailed detailed nation-wide solicitations for a negotiated sale of Alaska's Royalty share of Prudhoe Bay crude oil--approximately 150,000 barrels per day (b/d) on a field production rate of about 1.2 million b/d. To date, the Royalty Board has received eleven proposals offered pursuant to the June, 1977, solicitation (Phase I). Final proposals were due to the Royalty Board on October 15, 1977 (Phase II). The State will select one or more proposals which will provide the basis for final action by the Administration. During the first part of February, 1, 1978, contract(s) will be concluded and submitted to the Legislature for its approval.

The Alaska Royalty Oil and Gas Development Advisory Board is charged with primary substantive review of these proposals. Under AS 38.06.050 (a), no sale, exchange, encumbrance or other disposition of oil or gas or the rights or waiver of the right to receive a future production of royalty oil or gas may be offered by the Commissioner of Natural Resources to the Legislature without the prior written approval of the Board. The Board's decision must promote private economic growth consistent with applicable environmental standards

and public fiscal stability (AS 38.06.010) taking into consideration State revenue needs, present and projected local and regional need for oil and gas products and by-products as balanced against state and federal requirements, desirability of the various local economic effects of the bargain, social and environmental impacts, benefits to local and regional labor and consumption markets, state and local costs as a result of related development, and effects on private enterprise. (AS 38.06.070(a) 1--8) The Board may recommend to the Commissioner that royalty oil may be taken in kind rather than in value if it is determined that such an acquisition would be in the best interests of the State. (AS 38.05.182) The Board may also require, as a condition for disposition, that oil or gas be refined or processed in the State. (AS 38.06.070(b)) No royalty oil taken in kind may be sold or otherwise disposed of for export from the State until the Commissioner, with the approval of the Royalty Board, determines that the in kind oil is surplus to present and projected intrastate domestic and industrial needs. (AS 38.05.183 (d))

Commissioner LeResche has publicly enumerated certain "bottom line" conditions and objectives for the sale. The price for crude oil must be equal to or greater than that received if royalty oil taken "in value." In-state processing facilities must provide net positive effect on Alaska's social and economic welfare. It must also be environmentally acceptable. Finally, the state should seek to ensure a relative decrease in the price of fuel and, perhaps, petrochemical products in

Alaska, all without government subsidies in the form of tax relief, risk assumption "under sold" crude, or other mechanisms. According to Commissioner LeResche, the ideal offer would provide as follows: purchase of up to 150,000 b/d of Alaska's royalty crude for a term of twenty to twenty-five years; pay "in-value" price or more; construct in four to five years an integrated refinery and petrochemical complex in Alaska for 150,000 through 250,000 b/d; commit \$400 million to \$1.5 billion in private capital to the project; train and employ three hundred to four hundred Alaskans in permanent refinery and shipping jobs and about two thousand in construction; insure availability of products in Alaska at a price below imported product; pay state and local taxes of up to \$100 million per year; provide the "world's most sophisticated" design and pollution control capabilities. The Commissioner has also indicated that 90% of the royalty oil will be offered for sale. The remaining 10% will be reserved for use by in-state refineries.

In an effort to facilitate timely development of proposals which adequately reflect the requirements of law and administration policy in this matter, the state has prepared a "Developers' Guide for Alaska's Royalty Oil and Gas." The stated intent of this Guide is to "assist potential developers in providing responses necessary to satisfy the state's evaluation procedure" and to "describe specific areas of concern, preliminary siting criteria and an inventory of

state permitting requirements" This comprehensive manual systematically categorizes, lists and illustrates the various information requirements that must be met by serious proposals. The guide requests such things as general project descriptions, site development data, power needs, state and local revenue projections, financing and ownership schemes, labor demands including local hire provisions, subsidy requirements, in-state product pricing and availability potentials, views and suggestions on methods to share certain development costs, environmental implications, and ways to accommodate public participation in the decision making process. This information is required in some detail in Phase I and in greater detail and scope in Phase II. In addition, the Developers' Guide provides readers with a list of preliminary siting criteria "to assist a developer in preparing a description of the proposed facility and locating potential acceptable sites." This section asks the developer to consider a wide range of factors including project compatibility with projected land and water uses, transportation needs and impacts, safety controls, environmental effects and safeguards and local preferences for development. The Guide also includes a draft inventory of state permit requirements to "assist prospective developers in understanding the scope of required actions necessary prior to development activities."

The Developers' Guide comes complete with a detailed listing of sample evaluation factors to help developers understand

"how their input will be utilized by the state and the key factors of concern to the state." A working committee of state personnel has been assigned to assist in the information exchange/evaluation process.

(FOOTNOTE*: The "Developers' Guide for Alaska's Royalty Oil and Gas" from which much of the above information was taken, is available from the State Energy Policy Committee library.)

II. ROYALTY OIL PROPOSALS

Eleven proposals were submitted for Phase I scrutiny. Eight primarily involve the construction of new fuel and petrochemical refineries; three involve requests from local users of petroleum seeking to supplement their present supply with Alaska Royalty Oil. The information contained in this report has been taken directly from the preliminary proposals submitted to the State.

New Facility Proposals

Alaska Petroleum Company

A. General Information

The Alaska Petroleum Company is a wholly-owned subsidiary of Coastal States Gas Corporation with its principal offices in Houston, Texas. To date, the Coastal States Gas Corporation has refineries in Corpus Christi, Texas, Hercules, California and Wichita, Kansas which produce "a full line of petroleum products." It operates refined products terminals in Boston, Los Angeles and southeast United States. Coastal owns four tankers, operates nine others under time charter, and utilizes up to twenty additional vessels from "time to time." Subsidiaries of the company also own two crude carriers presently under construction and scheduled for completion in late 1977 and mid-1978. In 1976, Forbes, which publishes a ranking of the five hundred largest U.S. corporations, ranked Coastal 131st

in total sales, 230th in total assets and 312th in net income. According to the proposal, Alaska Petroleum Company, incorporated in Alaska, "looks to the parent organization for financial support and management advice in conducting its business in the State."

B. Proposal

Alaska Petroleum Company seeks to contract with the State for the purpose of building and operating 150,000 b/d refinery to be located at a site "mutually acceptable to both parties." More specifically, APC is bargaining for a State guarantee of 150,000 barrels per day capacity for twenty years commencing on the first day of refinery operations for the purpose of producing a variety of fuels and, perhaps, certain petrochemical products such as Benzene, Toluene and Paraxylene. Alaskan markets for these products would be preferred. APC requests expeditious permit processing, no "new burdensome government regulations," and preferential rights to purchase royalty crude oil from "time to time" until refinery operations are established. The company agrees to employ "best available technology" in complying with applicable federal and state environmental control standards.

The company has identified several possible plant sites including Port McKenzie, Tyonck, North Kenai to Homer, Seward, Gravana Orca Bay and "in the vicinity of Juneau." The facilities will cost approximately \$400 million excluding

marine facilities and community development expenditures, will take three to four years to construct and will employ up to fifteen hundred trade people in the process. The refinery operation itself will employ approximately three hundred people. When necessary, community service personnel are added to the work force. Alaska Petroleum Company claims seventeen hundred new jobs would be created by the refinery operation with a payroll contribution of thirty-five to forty million dollars annually. The company endorses preferential employment of qualified Alaskans and agrees to provide training programs to enable Alaskan applicants to qualify for employment in the proposed refinery.

The Alaska Petroleum Company is proposing a solely private venture and contends that "contractual assurance of a long term raw material supply with the state would be required to obtain favorable loan consideration." Sales contracts for the principal products may also be necessary "depending on the magnitude of the loan obligation." Some of these commitments may be obtained from affiliates on the West Coast and "elsewhere in the U.S." The project will be completed "under normal circumstances" by 1983 to 1985. Alaska Petroleum will pay "its fair share" of the development costs for the project.

Alaska Petrochemical Company

A. General Information

The Alaska Petrochemical Company (ALPETCO), is an Alaskan

corporation formed and owned by Alaska Interstate Company (AKI) (60%), Barbour Oil Company (20%) and Alaska Consolidated Shipping Inc. (20%): Aleut Corp. Bristol Bay Native Corp., Calista Corp., Chugach Natives, Inc., Cook Inlet Region, Inc., Koniag, Inc. and Seatrain Lines, Inc. Ford, Balon & Davis Inc. will provide engineering management. It is interesting to note that Barbour Oil Company currently owns and operates about seventeen thousand acres of oil and gas leases in Kansas, Louisiana, Oklahoma, and Texas. Seatrain Lines, Inc. which owns 49% of the ACS stock operates ocean terminals, a refinery in Abilene, Texas through its wholly owned Pride Refinery, Inc., has six U.S. vessels available for use and is able to acquire other vessels on an "as needed" basis. In addition, a subsidiary, Seatrain Ship Building Corp., operates a ship yard and has recently completed construction of three petroleum tankers with one scheduled for delivery in early 1978. Alaska Interstate Company which owns Anchorage Natural Gas Company and the Alaska Pipeline Company, holds interests in 285,000 gross acres of federal oil and gas lease applications in Alaska and has a working interest in a Susitna exploration drilling venture. AKI employs approximately 200 persons in Alaska.

B. Proposal

ALPETCO proposes to purchase all available royalty crude for twenty-five years at a price "which is not less than the price the State of Alaska would have received in value" for the purpose of building a 150,000 b/d petrochemical refinery