

ALASKA LEGISLATURE SPECIAL COMMITTEE / SUBJECT FILES 86 / 2

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HAUGEN: A grant?

STRAUS: To get a grant, we would start charging for the electricity, but the installation charges were linked by (inaudible).

URION: Can we charge for electricity?

STRAUS: We can charge for electricity. We'd be beating an end to the present existing wind system supplement. To start talking windmill in reality though, you're dealing with two problems: 1) the high cost of installation--we're talking \$3,000 for the (inaudible) kilowatt -- that will be Anchorage, just about double that almost. To put in two 60 kw windmills in Deering, that is 18,000 a piece--we're looking at about \$0,000 just to put in two multiple 60 kw generators.

GRUENING: Year round supply?

STRAUS: Deering and Kivilina are the only two in an area of (inaudible) wind velocity. Kotzebue doesn't have the wind.

BOHNERT: This will be our first windmill in the area. The source of information about the estimates of installation (inaudible) Fairbanks offices through Charles Neubert. He's the social director for planning, U of A, Fairbanks.

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RODEY: (inaudible)

STRAUS: Not that I know of. Anchorage used to have a (inaudible) membership years ago. They had a (inaudible) literally out in the Cook Inlet that used to supply electricity.

RODEY: (inaudible)...used to put off every now and then

MEEKINS: Is that what it was? I remember those days--every two days, you'd lose your power.

STRAUS: ...(inaudible)...Northwest, Ketchikan. There was a steam generation plant, a windmill plant of a mining camp down there in Southeast.

GARDINER: You see, Ketchikan Pulp Company uses (inaudible)... what they do is they take all the residue, bark, and make pulp out of it, then they combine that diesel and burn that whole mess. (inaudible)..produce all the electricity through steam generation. That they they just add in whatever petroleum they use to make it burn.

STRAUS: All of these methods presently, we're talking electrical. Technology is not here to start talking (inaudible)....

RODEY: If you couple geothermal with steam generation, (inaudible) using geothermal heat your water at the same 150°?
(inaudible)

STRAUS: The only cost analysis that I have (inaudible) is the steam generator. As I said it was 50% cost savings. The cost savings on geothermal generation I haven't seen any satisfactory figures to give you an answer to that.

RODEY: Would it require that it be handled by a certain amount of (inaudible) oil (inaudible)...

STRAUS: The complication of geothermal is this. It's mostly a question of how far your transmission line is and you've got to (inaudible).. up the hot water and you've got to readjust it. The copying system of this being any practice right now (inaudible)... I know that (inaudible) found economically to outdo their (inaudible) electrical heating generation.

GRUENING: What's the greatest use of electricity? Is it (inaudible)?

STRAUS: Lights, radios; all heating is done by oil presently in the entire region. Up river, they run oil and wood.

GRUENING: I know you're into the energy aspect, but in terms of, let's say, infrastructure is an investment potential that seems to benefit the region? Is it in energy or is it, this is kind of off the top of your head, but economic investments here that would seem to the problems of energy?

STRAUS: The only economic investment I've heard of, and Pat asked me this yesterday, and I had to admit, I have yet to see any indication that's going to get an economic base going there. The only investment I've heard of and have been able to see is with a fish hatchery, which would involve having (inaudible) thermal heat going. There is a small argicultural project going up in Ambler, but that's mainly for home gardeners at this stage. Eventually, the principal investigator (inaudible) has possibly turned into small commercial area (inaudible). Compared to local (inaudible) argiculture, we're growing up in a foreign country, we're talking on the normal two to three crops per year chance of making it. You lose one crop, you've got the other two to make your profit or break even on the one that makes it. Here you're talking one crop a year. The weather's against you; the odds are against you making a profit on it. (inaudible) is long term management of resources.

HAUGEN: This is what I'm interested in mainly. I personally know that there is a tremendous potential for chum salmon. In fact, one of the best fish is chum salmon in this state, in this area. You've got three or four, I don't know how many boats, fishing down in (inaudible). It's without a doubt, the finest product there is. I am amazed at how little the local people I've tried to talk to can tell me about that salmon resource. Hatcheries is a way to protect that resource. It really hasn't had heavy exploitation (inaudible). You don't need all that hot water and

all that stuff. The Japanese don't use it over Pakaiah.^{SP?}
Where I come from, that's all the economy we had in that town for 50 years. It looks to me as if the resource here or the magnitude is that a lot of people could make their living off fishing, for the entire year in one season. You can help nature keep a steady run here. A lot of people who wanted to could make their living that way. If the NANA Corporation is successful in this jade venture that they are into, it looks to me like, with the other things in the community, government and all, it could be a viable community. (inaudible)...

STRAUS: If the economic basis could be found and the jade operation is successful and the fish hatchery (inaudible).. I know NANA's been looking into it...

HAUGEN: Start with the natural runs. Has Fish and Game made any kind of study of the resource in this area?

POPE: I studied this last year. There's some kind of a cycle here that doesn't exist down in the lower part of the state, it's my understanding. Five years ago there was a lot of fish here and ten years ago and now there's not. (inaudible).. farther part of the curve and can't figure out why the curve exists.

HAUGEN: They probably overfished the run that came in.

POPE: No. They didn't overfish here. There's some kind of a (inaudible) ice packs, herring, the weather that doesn't seem to effect down...

HAUGEN: Did you say herring?

POPE: The ice pack is much lower down there than it is in the Bering Sea, than it is other years. It goes down (inaudible)... has an effect upon the salmon. The ice pack doesn't exist down in the Aleutians, down in Southeast. All we know right now is they're at the low part of the curve. So they are restricted.

HAUGEN: Have they got any history at all of the fishing in more than the last ten years?

POPE: Not really. They have some kind of a, not a recorded history. I don't think they did a lot of heavy harvesting (inaudible)...

STRAUS: It has only been before about ten years ago that it was not commercially viable to get out and do anything, because at first you were talking maybe 5 to 20¢ per pound, then you started talking 45 to 50¢ per pound. Now this year, it was 60¢ per pound. Now it's been a commercially possible market, because

the local costs have opened. It used to be the Outside guy would come in and often cut the prices. Nobody thought it was...(inaudible).

HAUGEN: When I started fishing those salmon, at 7¢ a piece. Not here but where I come from. The price this summer is just (inaudible)...

STRAUS: This is the first I found out the (inaudible) was more than regional up here. Also if you did start harvesting your fishery, I was talking to one of the (portion not taped)...

GRUENING: I was really impressed with the (inaudible) yesterday. I hadn't seen anything like it in the world, the United States, especially in Alaska.

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

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Statement of Charlie Edwardson

GRUENING: ~~Excuse me. Charlie, do you want to talk to us
at all?~~

EDWARDSON: ~~(inaudible)~~

GRUENING: ~~No. Can you do it now? Because we want to hear.
Come up to the table. We heard from some folks this morning.~~

EDWARDSON: The basic point of development in Alaska or any other place in the world is that somebody has always had to finance it--^{er} whatever, that's where it came from. All the way through the development of man, especially Western man, the only thing which did not change even when you went to war was the financial arrangements that were made at the time that war had commenced. The victor always had the financial institutions with him.

What does this have to do with ^{State of} Native Alaska? It has a lot to do with it. For the simple fact that prior accumulation had ^{had,} prior savings ~~invested~~ in certain individuals in Alaska, whether we like it or not. [The opportunity here that the state of Alaska has is not so much who is going to be a manager of this portfolio, but how is the citizen going to have a role in the financial infrastructure of his citizenship? This basically means ~~what~~ types of access will the citizen have? ~~lets~~ ^{is} although the standard of care and the standard of conduct for according and recording,

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I feel at this time, is quite sufficient, ~~if you were to~~
use ~~(inaudible)~~ and the thing that I would recommend very
heavily is the simplicity of a financial statement, not
its complexity. When the history repeats itself more
than once and it has it's own weight and its own inertia,
and when you look at society, it says who does the public
take care of? In the past, our history of our welfare
program in this country emerged from communities--that it
was communities that took care of a few marginary cautions,
and the cities and then they find the way to ^{a state program} ~~me~~. They say
~~(inaudible)~~. The most important thing and the potential
that the state of Alaska has is are we at the political
development in time, when capitalism can be a birthright?
Or are we going to selectively, through regulation, dis-
criminate and create a social elitist managerial class in
this state?

The ^{dynamics} ~~dynamometer~~ of a corporation ^{a tool are} ~~has to be cool~~ and still
is, probably ^{the} most creative tool that is available to man at
this time. The success allow ^{ed} capital ^{venture} ~~vengeance~~ in the
state of Alaska will depend upon acceptability--accept-
ability to the citizens. How does one arrive at this
point--~~is~~ the state legislature at this time is responsible
for the administration of the public good to all of its
citizens. What is the meaning of public good? The
meaning of public good means that you have a public manager.

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Although the public manager may be at fault in realignment of the economy by the political process, ~~dozen~~^{best} friends and ~~dozen~~^{best} relatives, is how our political economy in America has been social.

(Today that is no longer an acceptable mode. The gap in America, although we have recognized that there is poverty, ~~but hasn't~~^{is how does} one gets into that state of mind, that state of consciousness, which is totally intolerant ~~the way~~^{the way} that it has arrived in the past is that in an arrogant, organized society ~~(inaudible) coordinates~~^{emphasizes} that those that have the ability to be organized, to get organized, always come into par with the rest of society. / Not only do we see poverty of the mind in rural Alaska but poverty of organization. The state of Alaska, at this time, is one hell of a underdeveloped organization. We are charged with very little responsibility and obligation, yet we fail to give to our citizens the basic desires, basic needs. / How does this ^affect our citizens? The thing that is most pronounced is a very archaic administration. Very few groups of people in Alaska regulating the conduct of enterprise, and not only do we have ~~Constitutional~~ problems, but in order for our citizens to be fully endowed, this endowment must come from the ~~Constitutional~~ genesis of the people in Alaska. The current wealth in the state of Alaska is being handled haphazardly in the eyes of public good that if a ~~corporation~~ corporation can lease 'X' areas of land that the law, significant law, has already occurred, when ownership of

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the citizens gets wasted to few friendly corporations. In order for the Permanent Fund, I feel, to be successful in Alaska that the citizens that it's supposed to serve must have a propriety relationship to the Fund. Not only must the Governor be accountable, but all of its managers must be accountable too--all of its citizens--not just a ~~fin-~~^{elitist} managerial class who are able to shuffle the paper and foster more intolerable situations called ~~fin-~~^{corporate} ~~fascism~~ in this state.

The responsibility and the opportunity ^{is} to develop a portfolio of citizens with a capitalistic class, capitalistic mode. What we have done 200 years ago means no longer self-sufficient, that we must ^{then} ~~then~~ accept this greater right to capital--to all of our citizens. It's the total portfolio of this thing that whatever gets appropriated in the name of the public good must also have a proprietary class ^{meaning.} ~~meeting.~~ Direct ownership to that community, to that citizen at that village of Anchorage so that the citizen of Alaska will have a direct ^{law} ~~(inaudible)~~ of acquiring capital even though it may be an improvement in the community. How does one create enough administration for this? The first form of creativity--America is quite ^{ruralist} ~~in its capital~~ financing ^{development.} ~~dissolves.~~

(We have had not had a change because the only experience that one follows throughout the world has been a multi-national bank. The banking model, I feel, is so tyrannical that it leaves us very ^{bad} ~~leaves~~ humanity in great

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masses behind. Therefore, it is very hard to fill the American image ~~up to~~ ^{else} where--throughout the world. The Permanent Fund in Alaska must have a character of a community; the community not feel elite^{ist} managers who are saying, 'we will now do it for you.' And this growth and this evolution, if you take a total fabric of the community in Alaska, the highest cost of any administration in Alaska is energy development. If we worry about what we are going to do about our natural resources, when is the state legislature or a would-be ~~(inaudible)~~ ^{Governor going to treat its citizens} why do great intentions as a producer not as a payer. Not until we are able to give a hope ~~to~~ ^{discontinue to} ~~(inaudible)~~ of all of our citizens in relationship to capital producing instruments by a Constitutional convention ~~(the present underclass society)~~ ^{the} ~~(not taped)~~ ...other class, whether it's black, white, Native is still growing at a rapid rate. We still mean that there is some fraudulence in our structure, in our system, which we can no longer shelter and leave it for the banks and the cooperate directors. The same conduct and the same potential for insider information of the insider run away with this type of portfolio are still too great, thus leaving the citizen back in its original ~~deplorable~~ ^{deplorable} historical state.

When you impose a limitation, such as ~~as~~ to own and acquire portfolio to those ~~(inaudible)~~ ^{capital-} producing infrastructures, that tells me that we are going to have that

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fault. That means that the very country, very state who
is probably incongruous with its natural resources and
had lost its managerial ^{decision} (inaudible) because Alaska has
lost its lease ^{hold} (inaudible). Does ^{now} ~~not~~ have a different
manager called Exxon Corporation ^{or Standard Oil of Sohio} ~~for its~~ (inaudible)

insure

Who is not interested in how your community infrastruc-
ture ^{gets developed?} ~~is designed?~~ ^{whose vested interest is to} But who ~~is left to take into ink in~~
~~account~~ ^{the} (inaudible) political weakness of the capital producing
infrastructure? And the ^{experience} (inaudible) of this model is
done ^{already in the North Slope Borough} ~~a great~~ (inaudible) ~~which~~ we should make conditions
upon the state leases, that no oil company, no U.S. cor-
poration or any other corporation go after the taxing
authority of this municipality. Otherwise ~~that~~ ^{make} those
that have ability to be organized ^{a policy mobilized field}
and ^{thus} ~~that~~ leaves a great gap ^{of poverty in Alaska.} (inaudible). Although it was
done in a fashion of public good. The greatest weakness
of ^{our} annual appropriations and the ^{fallacy} (inaudible) is that under
the designs of public good, those that have always ~~had~~ ^{have}
the access to further reach the benefits. (So the
nature of the plan, unlike any other state, the state of
Alaska need not ^{to} ~~be~~ ^e leasing these resources. But it can
buy back at least other land. The Permanent Fund, as I
view it at this time, can be that holding company that
the state of Alaska has for all of its citizens in a
proprietary class, making all of its citizens capitalists
to gaining those benefits which the federal government is
going to lease the land anyway. (So the state of Alaska is

sp?

in the business. The grand public fraud that has been committed by the public officials is self-denial while the state of Alaska is in the business. We are in the business of oil and gas. Why have we denied an appropriate conduct of our... and the necessary standard of care and conduct? When the state legislature must have a proprietary relationship to all of the wealth that state of Alaska has and the biggest problem of the past that the state of Alaska has failed, the state legislature has failed, to realize is that we can escape to the biggest bandit ^{in town} ~~around~~, the Commissioner of Natural Resources, who has the necessary technical infrastructure to give the resource away at the cheapest cost ^{possible} ~~(inaudible)~~ and therefore creating ^e ~~a~~ ^{thing} ~~(inaudible)~~ ^{for} ~~while~~ your people and class who already have. [It therefore makes socialism for the few possible and makes capitalism for the masses impossible. And how does one view its citizenship or is that no longer a sacred thing? Have we substituted a managerial class and put our citizens ^{at} ~~in~~ the back door--I feel ^{this} ~~is~~ very dangerous.

[There are controls and unless Alaska defines its communities, what type of community we are to have and who lives in that community, we are going to fail, and still have this type of greater population, dislocation. Once we develop an infrastructure where a citizen can always benefit, not in lieu of service, but in capital formation. I feel that the time has come where we must look at basic definitions and see if community-own^{ed} citizens' banks, infrastructures can be

developed. Then the chances for fraud, when one has inherited equal rights, diminish. Where accountability is too fine. When you are equal on paper, on statute ~~or~~ in the Constitution, that ~~is~~ ^{the} chances to find a basic violator are higher than the present format, that is you are administering the public good, which you can get away with and ^{rationalize} ~~(inaudible) lies~~ that under the prior proposal that the Tesoro had the best proposal, although it was bad, but it was still the best proposal, therefore, we had accepted a bad portfolio to start out with ^{with} all the structural problems and because that something has made, therefore, that this type of a public trust because socially ^{respectable} ~~acceptable~~ and correctable. ~~That~~ ^{is} the only way, I feel, that the state legislature must have a greater control on the proprietary of ^{this} ~~the~~ public resource and not making it into a class of public good where anybody in the Governor's Office, the Governor. ^{And} the chief executive of Alaska, at this time, is the largest single one-armed bandit in the state of Alaska. ^{this I} In light ^I would not seek to give higher sanction to the Governor. I would highly recommend to the state legislature that they ^{next} ~~set~~ a veto power in those classes of proprietorship of the management of all of the citizens' portfolio. The biggest problem that we have in this state is our chief executive does not know how to administer, not only that but we also have a place for the strongest ^{tyrant} ~~(inaudible)~~ in a democratic process to exist in Alaska is Governorship of Alaska. That there is no Governor in all the 50 states that has the power ^{that} our Governor has. It is amazing that practitioners

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^{that}
of ~~the~~ office have not totally given our state to be topped ^{a/}
by others, but it is, and I hear sounds that you must be
(11a) ~~stock to come in & manage~~ ^{is from the biggest voice,}
of ~~(inaudible)~~, that the best experience ~~the~~ ~~(inaudible)~~ which
I don't feel is the case. The best experience I know of and
have always ^{vested} ~~(inaudible)~~ in the people that the proprietary
of the Fund must directly back to the people not to any
managerial groups and that none of the commissioners or the
investors of this Fund should not serve in any other capacity
but for the Fund to manage the portfolio of the citizens of
this state. The chances of insider information, I'd say,
is too high, too great. The concept of the Alaskan ^{Native} community
must be clearly defined, otherwise that instead of--I see
if your procedure becomes ^{in the technocrats'} ~~(inaudible)~~ hands, such as an invest-
ment portfolio from our biggest threat, apathy, that the chances
of that experience are equally great. (So, therefore, I do not
think that the exception of a rule just because the guide was
successful in managing a portfolio in Peru creating corporate
^{fascism.} ~~(inaudible)~~ I feel the same advisor is equally dangerous to
the state of Alaska, Milton Friedman. His experience is a
classical one that one must not forget, that corporate fascism
and corporate capitalism are the same when you have a very
strong managerial chief running the portfolio. (I would
suggest ~~to~~ a permanent committee in the state legislature
whereby the legislature and the Governor achieve parity.
Without that, that the Fund will still go to those few and
friendly few unless that the populace have a majority ~~to~~ and
have the control. I would not, I would have a majority of

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the citizens versus majority of man. I do not trust managers. That the conduct for legal managing has--is in the books--has always been ~~(inaudible)~~ ^{slammed.} And while limiting to capital-producing infrastructures in the state of Alaska that means that Alaskans arbitrarily ~~(inaudible)~~ have cut their nose off and say that I am, now that Alaskan wealth has changed managers overnight--that it is no longer ~~the~~ ^{top 500.} Permanent Fund; it is now back to the ~~(inaudible)~~ (The state of Alaska will be buying back, must buy back, and must invest its wealth on federal land, in the state of Alaska. The Permanent Fund must be prepared to find more oil in the outer continental shelf. It must make funds available, necessary so that all of the citizens can grow with the development of our country. If we cannot make--the state of Alaska, as you well know, we've got the coastline. But the coastline has been auctioned off to the largest multinational corporations already. It is because that the citizen has lost a proprietary relationship for that resource. It is because that the color is under public ~~good,~~ ^{good,} therefore, that the citizens do not have a direct relationship, ^{a primary} ~~(inaudible)~~ ~~no~~ relationship to that resource. If we develop a proprietary class for its citizens for state of Alaska in whatever development or investment at this time that I see chances of saving ourselves to the maximum benefit of all of our citizens, not just those who have the ability to be organized.

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I am for controls. If the controls are to exclude citizens, as far as I am concerned, that is a unconstitutional assault, a very direct violation. The citizens' access to this resource, I would say, and the state legislature proprietary control--not the Governor. I would vest the proprietary of the Fund in the state legislature and go fight the Governor. ~~(inaudible) for them.~~ Thus it would make administration checks and balances a lot easier then. I would feel safer if Ernie would have more a say-so on the Permanent Fund than Hammond himself.

GRUENING: So would I. Charlie, thank you; can we ask a question or two?

EDWARDSON: Sure.

GRUENING: You mentioned the Alaska community having problems with the ~~(inaudible)~~ ^{corporations}. How do we define ~~it~~ ^{community} in a way that ~~includes everyone~~ ^(inaudible)? Should it include everyone in the world?

EDWARDSON: The most ^{is} significant development in defining community that is occurring throughout this world has occurred in Norway. The Norwegian government, at the time of development of the North Sea, the Norwegian government took the lowest denomination of sovereignty in Norway and examined it, lowest denominator of sovereignty and the best unit, ^{admin-}istering unit, known to Western man has been family. I would say it is high time in state of Alaska that we attempt ~~to~~

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to actualize in ourselves what is construction and maintenance of Alaskan family and what it means. I see a chance for the first time to develop an actuarial analysis of what constitutes an Alaskan family in this state and to arrive at parity. If state of Alaska is to remain intact, its citizens must have parity and the citizens of state of Alaska should only accept parity, not dislocation.

(This means parity in construction, parity in service, which means it may cost more. It may appear to cost more, but in the long run, if you have parity, it has a high survival rate. The basic needs and the basic expenditures which we are going to have is still going to be energy. We ~~are~~ already know what those basic components of a community is.

This is 1977 and all of those charges and all of those assumptions of responsibility have not been met, therefore, leaving the state very vulnerable to internal attack ~~and~~ although it is beneficial to another segment of the community called lawyers, That the dislocation of its parity of services still is intolerable and with equal access and to arrive at parity, then I say that if this type of dislocation occurs, further occurs, that I see a disemigration of Alaskan society. Not just Native but total disemigration of heavy regionalism. Regionalism occurs structurally because of numbers, because of the nature of administration of public good gets executed in that fashion because there is no proprietary relationship. If you ^{have} proprietary relationship in equity, you will have justice.

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(RODEY: Charlie, what sort of intervention do you think is appropriate in the economy of the Northwest by the Permanent Fund?

(EDWARDSON: I cannot speak for ~~the~~ Northwest. I can speak for what we see in the Arctic. I see the chances of international development in Alaska. Not because of Alaskan resources. State of Alaska has underexamined its strategic location in the universe. State of Alaska is in ~~in~~ probably the best ~~(inaudible)~~ location and let's examine strategic positioning of international trade and put Alaska in the Arctic Ocean. If we are to, say, I would propose for the sake of conversation, I am now going into a submarine transportation business, nuclear subs with very large capacity. Maybe all I need is ~~one or two~~ ~~(inaudible)~~. The 21 day savings, 21 day transportation costs are closing the gap in the Pacific Ocean. The value of Alaska's position in international commerce and the lack of facilitating the hook-up. What happened to Alaska in 1951 ~~was~~ revolutionized the whole commerce of the world. What happened in Alaska in 1951 was the first SAS trans-polar flight occurred. Over ~~night~~ that, say, 22 hours of flying time all over the world that instead of 26 at that time, they made it to 11 hours.

When you put this, state of Alaska is already in the transportation business. When you take a look at the marine development, our potential, as I see it in Alaska is not so much the land but the estuaries. The greatest bread basket in the world, if we were to keep our estuaries halfway clean, halfway decent, is Alaska in the protein business. And the scale, the present archaic scale of how we used to ~~feel~~ view

Alaska ~~had~~ how it is presently viewed at this time is totally unacceptable. We must develop a psychology for who we are, where we are from, and state of Alaska, as I see it at this time, can get into a international commerce, international trade of not going through Panama, not crossing Atlantic Ocean, not crossing Pacific Ocean, not crossing Indian Ocean, but crossing our own ocean where it cuts down traffic as long as 23 days. These 23 days savings is sufficient capital saving to go into that type of development but in terms of our community that the citizens in the street must become an owner to a community based infrastructure.

I feel that by getting these numbers--you know, we play number games--we all have a bad habit of that, and it has limitations and what state of Alaska needs at this time is an actuarial analysis of its citizens. With an actuarial analysis, we will learn from this incidence of disease, standard of care where our community vulnerabilities are.

If you have healthy people, we also will have healthy economy. If your people are sick, if your citizens are sick, your economy will also be sick. There are two financing models which I feel should be looked at--is amazingly well is Hydro Quebec. Hydro Quebec is the world's largest utility company. I would like to see state of Alaska come into that class of proprietorship--selling power to the world. Hydro Quebec is so successful that it can finance the government. It is the only situation that I know signs the bonds of a government--than the government signing a bond for Hydro Quebec. So when a state that is already in the business, if they really want to become

experienced, the Hydro Quebec model is very good. On our oil and gas activity, a KOBO leasing model is very good. That is a financing technique where investors ^{pool} pool--like you and I pool our monies together and get an outer continental shelf lease. It is a little more complicated than that, but it is a direct line where a non-technical development can get into oil and gas business without buying any ~~(inaudible)~~, without ~~buying unnecessary overhead.~~

HAUGEN: Where do you have access to the two models you are suggesting--Hydro Quebec and KOBO?

EDWARDSON: I can make them available to the Committee. I don't have them here with me. I got them at ^{Washington} ~~(inaudible)~~, so I will be going back probably around the 24th.

HAUGEN: Will our staff be able to acquire them through you?

EDWARDSON: Sure. And the other model that is quite interesting is U.S. Steel in Ontario. Why that is interesting is U.S. Steel provides the coal and Ontario provides ^{power} ~~(inaudible)~~ to U.S. Steel. It is a very interesting model in terms of financing large scale ^{industrial} ~~(inaudible)~~ activities and also financing power so Ontario and U.S. Steel financing techniques has lots of flexibilitiies. It warrants attention. Ontario and U.S. Steel are in the power business. It may work very well in this state because there are some areas where there is a lot of coal and mining industry, as we all know, is well. One of the things, one of the bad policies

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we got a lot of bad habits in our government. We have even had to become practitioners of bad habit especially in large scale energy development (~~inaudible~~). We have a psychological problem that we must take something to the community and the best type of development, as I see it, is at the resources and not taking the community and, which I was happy to hear, it was realized by Fairbanks that the community infrastructure, the social governmental capital to provide sewer and water was more expensive than all of the total (~~inaudible~~), that the secondary community infrastructure got worn and it still will be burdensome. The state legislature will still have to pump in more sewer and water. This is why that I always suspect portfolio managers ~~by~~ (~~inaudible~~) and always suspect bankers. So if I was in the state legislature, man, I would go after the power that the Governor has and vest it in the people, vest it in the state legislature, that is probably the most significant fact that the Permanent Fund Committee can have to have a portfolio run by citizens who do not have loyalties to prior practice, that the chances of an investment banker being loyal and his chances of loyalty will not change ^{but} will have an expeditious intercourse with that ~~commitment~~ ^{prior practice} (~~inaudible~~). I feel it in Alaska has proven itself to be continuing practice and have not seen to exist but now that I see instead of what used to be for people now (~~inaudible~~).

GRUENING: Thank you, Charlie. ~~It is lunch time. John will talk to us at 1:30.~~

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STATEMENT--CHARLIE EDWARDSON
Kotzebue City Hall

September 17, 1977
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EDWARDSON: The basic point of development in Alaska or any other place in the world is that somebody has always had to finance it--wherever, that's where it came from. All the way through the development of man, especially Western man, the only thing which did not change even when you went to war was the financial arrangements that were made at the time that war had commenced. The victor always had the financial institutions with him.

What does this have to do with state of Alaska? It has a lot to do with it. For the simple fact that prior accumulation had, prior savings had, vested in certain individuals in Alaska, whether we like it or not.

The opportunity here that the state of Alaska has is not so much who is going to be a manager of this portfolio, but how is the citizen going to have a role in the financial infrastructure of his citizenship? This basically means what types of access will the citizen have?

Although the standard of care and the standard of conduct for according and recording, I feel at this time, is quite sufficient, the thing that I would recommend very heavily is the simplicity of a financial statement, not its complexity.

When the history repeats itself more than once and it has its own weight and its own inertia, and when you look at society, it says who does the public take care of? In the past, our history of our welfare program in this country emerged from

communities--that it was communities that took care of a few marginaly cautions, and the cities and then they find the way to a state program. The most important thing and the potential that the state of Alaska has is are we at the political development in time when capitalism can be a birth-right? Or are we going to selectively, through regulation, discriminate and create a social elitist managerial class in this state?

The dynamics of a corporation as a tool are, and still is, probably the most creative tool that is available to man at this time. The success allowed capital venture in the state of Alaska will depend upon acceptability--acceptability to the citizens.

How does one arrive at this point--the state legislature at this time is responsible for the administration of the public good to all of its citizens. What is the meaning of public good? The meaning of public good means that you have a public manager. Although the public manager may be at fault in realignment of the economy by the political process, best friends and best relatives, is how our political economy in America has been social.

Today that is no longer an acceptable mode. The gap in America--although we have recognized that there is poverty--is how one gets into that state of mind, that state of consciousness, which is totally intolerant. The way that it has arrived in the past is that in an arrogant,

organized society that those that have the ability to be organized, to get organized, always come into par with the rest of society.

Not only do we see poverty of the mind in rural Alaska but poverty of organization. The state of Alaska, at this time, is one hell of an underdeveloped organization. We are charged with very little responsibility and obligation, yet we fail to give to our citizens the basic desires, basic needs.

How does this affect our citizens? The thing that is most pronounced is a very archaic administration. Very few groups of people in Alaska regulating the conduct of enterprise, and not only do we have constitutional problems, but in order for our citizens to be fully endowed, this endowment must come from the constitutional genesis of the people in Alaska. The current wealth in the state of Alaska is being handled haphazardly in the eyes of the public good that if a corporation can lease 'X' areas of land that the loss, significant loss, has already occurred, when ownership of the citizens gets wasted to few friendly corporations.

In order for the Permanent Fund, I feel, to be successful in Alaska the citizens that it's supposed to serve must have a propriety relationship to the fund. Not only must the governor be accountable, but all of its managers must be accountable to all of its citizens, not just an elitist managerial class who are able to shuffle the paper and foster more intolerable situations called corporate fascism in this state.

The responsibility and the opportunity is to develop a portfolio of citizens with a capitalistic class, capitalistic mode. What we have done 200 years ago means no longer self-sufficient, that we must then accept this greater right to capital--to all of our citizens. It's the total portfolio of this thing that whatever gets appropriated in the name of the public good must also have a proprietary class meaning. Direct ownership to that community, to that citizen at that village of Anchorage so that the citizen of Alaska will have a direct law of acquiring capital even though it may be an improvement in the community. How does one create enough administration for this? The first form of creativity--America is quite ruralist in its capital financing development.

We have had not had a change because the only experience that one follows throughout the world has been a multi-national bank. The banking model, I feel, is so tyrannical that it leaves us very bad, leaves humanity in great masses behind. Therefore, it is very hard to fill the American image elsewhere--throughout the world.

The Permanent Fund in Alaska must have a character of a community; the community not feel elitist managers who are saying, 'we will now do it for you.' And this growth and this evolution, if you take a total fabric of the community in Alaska, the highest cost of any administration in Alaska is energy development. If we worry about what we are going to do about our natural resources, when is the state

legislature or a would-be governor going to treat its citizens as a producer not as a payer. Not until we are able to give a hope to all of our citizens in relationship to capital producing instruments by a constitutional convention. The present underclass society, the other class, whether it's black, white, Native is still growing at a rapid rate. We still mean that there is some fraudulence in our structure, in our system, which we can no longer shelter and leave it for the banks and the corporate directors. The same conduct and the same potential for insider information of the insider run away with this type of portfolio are still too great, thus leaving the citizen back in his original deplorable state.

When you impose a limitation, such as to own and acquire portfolio to those capital producing infrastructures, that tells me that we are going to have that fault. That means that the very country, very state who is probably incongruous with its natural resources and had lost its managerial decision because Alaska has lost its lease hold does now have a different manager called Exxon Corporation or Standard Oil of Sohio who is not interested in how your community infrastructure gets developed. But whose vested interest is to ensure the political weakness of the capital producing infrastructure? And the experience of this model is done already in the North Slope Borough. We should make conditions upon the state leases,

that no oil company, no U.S. corporation or any other corporation go after the taxing authority of this municipality.

Otherwise those that have ability to be organized make a policy mobilized field and thus leaves a great gap of poverty in Alaska. Although it was done in a fashion of public good. The greatest weakness of our annual appropriations and the fallacy is that under the designs of public good, those that always have the access to further reach the benefits.

So the nature of the plan, unlike any other state, the state of Alaska need not to lease these resources. But it can buy back at least other land. The Permanent Fund, as I view it at this time, can be that holding company that the state of Alaska has for all of its citizens in a proprietary class, making all of its citizens capitalists to gaining those benefits which the federal government is going to lease the land anyway.

So the state of Alaska is in the business. The grand public fraud that has been committed by the public officials is self-denial while the state of Alaska is in the business. We are in the business of oil and gas. Why have we denied an appropriate conduct of our...and the necessary standard of care and conduct? When the state legislature must have a proprietary relationship to all of the wealth that state of Alaska has and the biggest problem of the past that the state of Alaska has failed to realize is that we can escape to the biggest bandit in town,

the Commissioner of Natural Resources, who has the necessary technical infrastructure to give the resource away at the cheapest cost possible and therefore create a thing for your people and class who already have.

It therefore makes socialism for the few possible and makes capitalism for the masses impossible. And how does one view its citizenship or is that no longer a sacred thing? Have we substituted a managerial class and put our citizens at the back door--I feel this is very dangerous.

There are controls and unless Alaska defines its communities, what type of community we are to have and who lives in that community, we are going to fail, and still have this type of greater population, dislocation. Once we develop an infrastructure where a citizen can always benefit, not in lieu of service, but in capital formation. I feel that the time has come where we must look at basic definitions and see if community-owned citizens' banks, infrastructures can be developed. Then the chances for fraud, when one has inherited equal rights, diminish. Where accountability is too fine. When you are equal on paper, on statute or in the constitution, that the chances to find a basic violator are higher than the present format, that is you are administering the public good, which you can get away with and rationalize that under the prior proposal that the Tesoro had the best proposal, although it was bad, but it was still the

best proposal, therefore, we had accepted a bad portfolio to start out with, with all the structural problems and because that something has made, therefore, that this type of a public trust because socially respectable and correctable.

The only way, I feel, is that the state legislature must have a greater control on the proprietary of this public resource and not making it into a class of public good where anybody in the governor's office, the governor. And the chief executive of Alaska, at this time, is the largest single one-armed bandit in the state of Alaska. In this light I would not seek to give higher sanction to the governor.

I would highly recommend to the state legislature that they would vest a veto power in those classes of proprietorship of the management of all of the citizens' portfolio. The biggest problem that we have in this state is our chief executive does not know how to administer, not only that but we also have a place for the strongest tyrant in a democratic process to exist in Alaska is governorship of Alaska. That there is no governor in all the 50 states that has the powers that our governor has. It is amazing that practitioners of that office have not totally given our state to be tapped by others, but it is, and I hear sounds that you must be of stock to come in and manage, that the best experience is from the biggest voice, which I don't feel is the case. The best experience I know of and have always vested in the people

that the proprietary of the fund must go directly back to the people not to any managerial groups and that none of the commissioners or the investors of this fund should not serve in any other capacity but for the fund to manage the portfolio of the citizens of this state. The chances of insider information, I'd say, is too high, too great. The concept of the Alaskan Native community must be clearly defined, otherwise that instead of--I see if your procedure becomes in the technocrats' hands, such as an investment portfolio from our biggest threat, apathy, that the chances of that experience are equally great.

So, therefore, I do not think that the exception of a rule just because the guide was successful in managing a portfolio in Peru creating corporate fascism. I feel the same advisor is equally dangerous to the state of Alaska, Milton Friedman. His experience is a classical one that one must not forget, that corporate fascism and corporate capitalism are the same when you have a very strong managerial chief running the portfolio.

I would suggest a permanent committee in the state legislature whereby the legislature and the governor achieve parity. Without that, that the fund will still go to those few and friendly few unless that the populace have a majority and have the control. I would not, I would have a majority of the citizens versus majority of man. I do not trust managers. That the conduct for legal managing has--is in

the books--has always been slammed. And while limiting to capital-producing infrastructures in the state of Alaska that means that Alaskans arbitrarily have cut their noses off and say that I am, now that Alaskan wealth has changed managers overnight--that it is no longer the Permanent Fund; it is now back to the top 500.

The state of Alaska will be buying back, must buy back, and must invest its wealth on federal lands in the state of Alaska. The Permanent Fund must be prepared to find more oil in the outer continental shelf. It must make funds available, necessary so that all of the citizens can grow with the development of our country. If we cannot make--the state of Alaska, as you well know, we've got the coastline. But the coastline has been auctioned off to the largest multi-national corporations already. It is because that the citizen has lost a proprietary relationship for that resource. It is because that the color is under public good, therefore, that the citizens do not have a direct relationship, a primary relationship to that resource. If we develop a proprietary class for its citizens for state of Alaska in whatever development or investment at this time that I see chances of saving ourselves to the maximum benefit of all of our citizens, not just those who have the ability to be organized.

I am for controls. If the controls are to exclude citizens, as far as I am concerned, that is an unconstitutional

assault, a very direct violation. The citizens' access to this resource, I would say, and the state legislature proprietary control--not the governor. I would vest the proprietary of the fund in the state legislature and go fight the governor. Thus it would make administration checks and balances a lot easier then. I would feel safer if Ernie would have more a say-so on the Permanent Fund than Hammond himself.

GRUENING: So would I. Charlie, thank you; can we ask a question or two?

EDWARDSON: Sure.

GRUENING: You mentioned the Alaska community having problems with the corporations. How do we define community in a way that includes everyone? Should it include everyone in the world?

EDWARDSON: The most significant development in defining community that is occurring throughout this world has occurred in Norway. The Norwegian government, at the time of development of the North Sea, the Norwegian government took the lowest denomination of sovereignty in Norway and examined it, lowest denominator of sovereignty and the best unit,

administering unit, known to Western man has been family. I would say it is high time in state of Alaska that we attempt to actualize in ourselves what is construction and maintenance of Alaskan family and what it means. I see a chance for the first time to develop an actuarial analysis of what constitutes an Alaskan family in this state and to arrive at parity. If state of Alaska is to remain intact, its citizens must have parity and the citizens of state of Alaska should only accept parity, not dislocation.

This means parity in construction, parity in service, which means it may cost more. It may appear to cost more, but in the long run, if you have parity, it has a high survival rate. The basic needs and the basic expenditures which we are going to have is still going to be energy. We already know what those basic components of a community are.

This is 1977 and all of those charges and all of those assumptions of responsibility have not been met, therefore, leaving the state very vulnerable to internal attack.

And although it is beneficial to another segment of the community called lawyers, that the dislocation of its parity of services still is intolerable and with equal access and to arrive at parity, then I say that if this type of dislocation occurs, further occurs, that I see a disintegration of Alaskan society. Not just Native but total disintegration of heavy regionalism. Regionalism occurs structurally because of numbers, because of the nature of administration of public

good gets executed in that fashion because there is no proprietary relationship. If you have proprietary relationship in equity, you will have justice.

RODEY: Charlie, what sort of intervention do you think is appropriate in the economy of the Northwest by the Permanent Fund?

EDWARDSON: I cannot speak for the Northwest. I can speak for what we see in the Arctic. I see the chances of international development in Alaska. Not because of Alaskan resources. State of Alaska has underexamined its strategic location in the universe. State of Alaska is in probably the best location and let's examine strategic positioning of international trade and put Alaska in the Arctic Ocean. If we are to, say, I would propose for the sake of conversation, I am now going into a submarine transportation business, nuclear subs with very large capacity. Maybe all I need is one or two. The 21-day savings, 21-day transportation costs are closing the gap in the Pacific Ocean. The value of Alaska's position in international commerce and the lack of facilitating the hook-up. What happened to Alaska in 1951 has revolutionized the whole commerce of the world? What happened to Alaska in 1951 was the first SAS trans-polar flight occurred. Overnight that, say 22 hours of flying time all over the world that instead of 26 at that time, they made it to 11 hours.

When you put this, state of Alaska is already in the transportation business. When you take a look at the marine development, our potential, as I see it in Alaska is not so much the land but the estuaries. The greatest breadbasket in the world, if we were to keep our estuaries halfway clean, halfway decent, is Alaska in the protein business. And the scale, the present archaic scale of how we used to view Alaska and how it is presently viewed at this time is totally unacceptable.

We must develop a psychology for who we are, where we are from, and state of Alaska, as I see it at this time, can get into an international commerce, international trade of not going through Panama, not crossing Atlantic Ocean, not crossing Pacific Ocean, not crossing Indian Ocean, but crossing our own ocean where it cuts down traffic as long as 23 days. This 23-day savings is sufficient capital saving to go into that type of development but in terms of our community that the citizens in the street must become an owner to a community based infrastructure.

I feel that by getting these numbers--you know, we play number games--we all have a bad habit of that, and it has limitations and what state of Alaska needs at this time is an actuarial analysis of its citizens. With an actuarial analysis, we will learn from this incidence of disease, standard of care where our community vulnerabilities are.

If you have healthy people, we also will have healthy economy. If your people are sick, if your citizens are sick, your economy will also be sick. There are two financing models which I feel should be looked at--is amazingly well is Hydro Quebec. Hydro Quebec is the world's largest utility company. I would like to see state of Alaska come into that class of proprietorship--selling power to the world. Hydro Quebec is so successful that it can finance the government. It is the only situation that I know signs the bonds of a government--than the government signing a bond for Hydro Quebec. So when a state that is already in the business, if they really want to become experienced, the Hydro Quebec model is very good. On our oil and gas activity, a KOB0 leasing model is very good. That is a financing technique where investors pool--like you and I pool our monies together and get an outer continental shelf lease. It is a little more complicated than that, but it is a direct line where a non-technical development can get into oil and gas business without buying unnecessary overhead.

HAUGEN: Where do you have access to the two models you are suggesting--Hydro Quebec and KOB0?

EDWARDSON: I can make them available to the committee. I don't have them here with me. I got them at Washington, so I will be going back probably around the 24th.

HAUGEN: Will our staff be able to acquire them through you?

EDWARDSON: Sure. And the other model that is quite interesting is U.S. Steel in Ontario. Why that is interesting is U.S. Steel provides the coal and Ontario provides power to U.S. Steel. It is a very interesting model in terms of financing large scale industrial activities and also financing power so Ontario and U.S. Steel financing techniques have lots of flexibilities. It warrants attention. Ontario and U.S. Steel are in the power business. It may work very well in this state because there are some areas where there is a lot of coal and mining industry, as we all know, is well. One of the things, one of the bad policies we got a lot of bad habits in our government. We have even had to become practitioners of bad habit especially in large scale energy development.

We have a psychological problem that we must take something to the community and the best type of development, as I see it, is at the resources and not taking the community and, which I was happy to hear, it was realized by Fairbanks that the community infrastructure, the social governmental capital to provide sewer and water was more expensive than all of the total, that the secondary community infrastructure got work and it still will be burdensome. The state legislature will still have to pump in more sewer and water. This is why that

I always suspect portfolio managers and always suspect bankers. So if I was in the state legislature, man, I would go after the power that the governor has and vest it in the people, vest it in the state legislature, that is probably the most significant fact that the permanent fund committee can have to have a portfolio run by citizens who do not have loyalties to prior practice, that the chances of an investment banker being loyal and his chances of loyalty will not change but will have an expeditious intercourse with that prior practice. I feel it in Alaska has proven itself to be continuing practice and have not seen to exist but now that I see instead of what used to be for people now.

GRUENING: Thank you, Charlie.

SCOMM

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TESTIMONY

before the
House Special Committee
on the Alaska Permanent Fund

by Harold E. Pomeroy

Sept. 15, 1977

The work of your committee merits high marks. It is clear that you are laying out as many pertinent facts and as much useful information as feasible. The "preliminary report" by your committee "on the Alaska Permanent Fund", is evidence of the quality of your efforts.

The report is a good start. The issues and considerations bearing on the Permanent Fund (P.F.) are so complex and extraordinary, however, that enough data from which to draw well considered conclusions will tend to make any report for general distribution overly long. This is a handicap.

Such qualifications as I may have to appear before you on the P.F. come mostly from actual experiences. I think that reference to these experiences may be useful.

My first contact with Alaska was in 1948 when I flew here from Vienna, Austria, to take a look. In addition to personal interest, there was also the purpose to do off-the-record reconnaissance for groups representing war weary Europeans looking for a fresh start by resettlement. General Kepner provided me with a C-46 to fly around the Kenai Peninsula, Matanuska Valley and Susitna area for an entire day. When I returned and talked with John Gorsuch, then president of the Chamber of Commerce and queried others, it seemed to me the potentials for economically sound large scale settlement, and particularly with reference to an agricultural industry would be too meagre to be feasible.

It looked as though importing ten thousand or twenty thousand or thirty thousand people would be an extravagantly expensive and hazardous effort in the absence of conditions more favorable to viability.

I was raised in alfalfa ranching and dairying in Los Angeles County. After six wearying years in Europe the peace of Alaska as seen in 1948 was so appealing that we homesteaded at Bear Cove on the Kenai Peninsula in 1949. We sawed lumber for fishermen around Kechemak Bay, operated hothouses and commercial gardens. We would have enjoyed this life a little longer had there been very low interest capital investment money, but this would still not have produced enough efficiency to be commercially competitive. We saw and knew scores of once-hopeful homesteader-farmers on the Kenai Peninsula who are now gone.

(one remaining)

In 1965 the executive director of the Tolstoy Foundation, the world-wide White Russian refugee service organization asked for a conference on behalf of peasant Russian emigres from Siberia who had arrived in the U.S. via China and Argentina and wanted to establish themselves on the Kenai Peninsula in a village where they could retain a simple life style. We aided them, working with Roscoe Bell of the state division of lands to arrange a sale of land and leases.

☆☆ The Russians were enthusiastic about agriculture. We cautioned that they should be ready to do anything as agriculture might be too meagre. They are now hard-working, successful fishermen. Initially they were prepared to be hardworking farmers but found the potentials too limited.

They have been self supporting from the outset and now have more children in their grade school than there are in the Anchor Point school. If more consumers produce

prosperity I imagine this success story is a good thing.

When the Legislature ordered boroughs organized I became the first borough chairman of the Kenai Peninsula Borough. We initiated a tax program, including a tough 3% sales tax that produced as much money as the 5-mil property tax, which has been maintained every year but one, since then. The purpose was to encourage industrial development by stability and a property tax about 25% of that paid outside. There was much enthusiastic talk about conditions coming right for diversified industrial development. Considerable effort and money went into economic development plans, but neither the petroleum industry nor its support activities produced conditions enhancing the potential for varied industrialization. Nothing happened. This, of course, excludes the plants established by the petroleum industry itself.

There was hopeful talk that the high value nitrogen fertilizer urea could be a big boost to agriculture. Anyone can drive his truck to the plant and have it filled with bulk urea. This has not improved the agricultural outlook. ★★

In 1972 the Legislature passed the "New Cities" bill which was promoted as being a great boon to industrial development in remote areas. The immediate stimulus was the prospective Lost River fluorite enterprise. The bill had significant subsidy implications. I assisted in drafting modifications and supported the bill before the Senate Natural Resources Committee. George Silides testified there were 6 more enterprises ready to go ahead on passage of the bill.

The City of Lost River was incorporated. I learned subsequently that the Canadian promoters expected the law would open the way for substantial U.S. federal government grants for the infra structure required. The underlying problem however, was economic feasibility - the product simply could not compete in the international market. I have heard no more of the other six - just waiting to go. ★★

AK labor
supply is
US

Experience on the Kenai Peninsula has indicated that in periods of normal levels of activity as well as during boom peaks there is a continuing flow of newcomers who compete successfully for jobs. With negligible exceptions employers hire the persons who seem the best qualified, whether just off the plane or lifelong Alaskans.

In view of much effort to promote local hire the actual situation is of compelling interest. To try to understand better what is involved I have been interviewing persons at random since the end of the Cook Inlet - Kenai Peninsula oil and gas development boom - hundreds of them. The persons queried are as varied as: truck-drivers, a new clerk in a pet food store, a new face at Petrolane, men at United Building supply, restaurant workers, persons waiting for their cars at auto service centers and many, many hitch hikers in Anchorage and on the highway between here and Homer. Core questions are: How long here, why did you come, what do you do, did you have difficulty getting work, are you staying? Not one has told me that he was disillusioned and leaving or couldn't get a job.

constant pressure

1111 yes!

From experiences and observations since the organization of the Kenai Peninsula Borough following the Oct. 1963 election, I can only conclude the proposition that economic expansion will cure unemployment is pure illusion. The pressure of new-comers just never lets up. New enterprises and increased economic activity seem to offer enough attraction to keep the pressure on.

I have puzzled over the problem endlessly. Whatever policy we may pursue that stimulates economic development we should do so without the expectation that it will lead us to a plateau of full employment - or even reduce unemployment to a moderate level.

Recently I had occasion to consider the economics of a mining property in connection with writing about severance tax. The property is a substantial body of copper ore

which is reasonably accessible. Development would employ 600 people, which, with dependents, would total about 1800 residents. This number would probably account for another 1800 people in service activities. On the question of the enterprise paying a property tax the response was that this would be impossible. Neither would a severance tax be supportable.

A preliminary guess was that copper would have to be \$1.20 to \$1.25 per lb, for the enterprise to break even. Copper on the world market was then between 50¢ and 60¢ per pound. Obviously the property cannot be developed until economic conditions become far more favorable. Waiving all state and local taxes couldn't buy economic feasibility. but the State would be incurring a cost of several million dollars for public services.

In the report you have said that "our task is to find out what Alaskans want the Fund to achieve and to recommend legislation". This is a difficult task as it is next to impossible to comprehend all the implications of the huge oil and gas revenues. Yet this is a central reality to which we must relate our thinking about the P.F. and everything else concerning the future.

If anyone believes we should spend as convenient as we go along and accumulate in the P.F. only what is left over (with the minimum of 25%) he should stop listening now. If anyone is convinced it is safe to rely on future Prudhoe Bay size discoveries he should stop listening.

Since we began to have petroleum revenues in large quantities the people have aspired towards a variety and level of public services common in most other states. This is far costlier than personal taxes and the productivity of the economy had ^{previously} ~~previously~~ been able to support. Costs in Alaska are higher than elsewhere - for public activities as well as for doing business and living and thus this has aggravated public expenditures. It may be some comfort to rail at the Legislature and a "bureaucracy gone

wild". There are always some inefficiencies , extravagances and poor judgements. The effect of these is insignificant in relation to the total budget. Anyone who thinks some big reform or return to " grass roots " will bring expenditures way down is deluding himself.

The upshot of the situation is that the State is disbursing close to \$1000 per person per year more than it takes in, exclusive of petroleum revenues. This is a central reality with implications hard to perceive or to accept. It makes the proposition to diversify the economy in order to broaden the tax base for the time petroleum revenues diminish an almost total delusion. There is absolutely nothing on the horizon to indicate that any prospective "diversified" enterprises will be able to do much more than pay our currently relatively moderate taxes. In fact the report implies the probability that use of P.F. money to diversify will require benefits such as long low interest rates - meaning some measure of subsidy.

Taking account of the central reality of our situation, one can only conclude that effective promotion of diversification will result in an unfavorable balance sheet of costs and benefits, thus eating into resources we are committed to preserve.

The second paragraph on page 9 of the report is an excellent statement. I would change only the second word from "may" to "will" so that it reads "subsidies will only make sense if the loan ^{will be rep}". This paragraph is generally consistent with the testimony of Drs. Tussing and Daniels touched on in the first and second paragraphs on page 4.

What I have said about diversification applies equally to renewable and non-renewable resources. With respect to agriculture I suggest that the report on Matanuska Valley farming in section B, Anch. Times, 9/4/77 be given close attention. It states inescapable facts, but also quotes what seems to me to be pure wish-thinking. Jalmar Kerttula is the source of statements about massive capital investment aid. He is

quoted as saying :

"In fifty years farming and prices might no longer be marginal. It's something to plan and work for." and "... It would take five years to get a grain project really going here and overall we're talking about fifty years from now before agriculture could become an established state industry..."

Hopeful we don't go overboard.

In general, "diversification" and "renewable resources" seem to be similarly deceptive as to broadening the tax base and stabilizing the economy when oil revenues decline.

The third paragraph on page 5 of the report states, "As oil wealth declines, the P.F. may bear the responsibility of supplementing the general fund through income from fund investment, ..." I would change "may" to "will". A qualification might include words such as "... barring some unpredictable windfall."

The first paragraph on page 5 touches the underlying concept of the P.F. by referring to preserving the dollars into which the oil and gas wealth is being transformed. Dr. Barbara Bergman, of the Univ. of Maryland, speaking on a panel on Sept. 10, said: "The idea of the P.F. is to preserve resources for future generations". Unfortunately the fast transformation of oil into dollars means a considerable wasting away of the dollars from inflation; increased price of the oil in the ground would probably offset inflation, but this is not possible. Managing the money for high return can help preserve the value of the dollar resources.

There is probably no more important statement in the report than the sentence on page 9 "If no in-state opportunities exist, the P.F. cannot create them." In other words, if the requisite conditions for economic viability are not present the State cannot buy them. Further, as a general proposition, if requisite conditions are present, money is available and the State need not go into the financing business separately. This, of course, excludes some social purpose which might be deemed worthy. Any action in this direction should be based on a clearcut identification

of the results to be produced and the costs involved.

I have said that the petroleum revenues are a central reality to which we must relate our thinking and projections for the future. The significance is in the sheer magnitude of money, what we have done so far, and where it is taking us.

Some comparisons may help in relating, and therefore in evaluating: if the State's budget is increased an average of 10% per year, the budget in less than 20 years will be \$6 billion; the 10% annual increase might be made up of 5 - 6% inflation, 2.5% ± population increase, the rest in services expansion. Gold production in 1976 showed a big increase over 1975. If state revenues totalled \$20 per troy ounce of gold for 1976 (a ridiculously high figure) this revenue would be equal to about 4 hrs of the revenue produced by oil and gas when Prudhoe Bay production is at 1.6 million bbls per day.

Recently an exuberant state official said the 200 -mile limit provides us with such a potential bonanza in bottom fish as to overshadow gold and oil combined. A very rough estimate, based on the officials enthusiastic figures indicates that the revenues to the State by 1990 for a year might equal about seven and one-half days of the oil revenue at peak. At the present rate of oil production from the "giant" (by outside standards) Cook Inlet - Kenai Peninsula fields it would take 150 years to produce as much as will flow from Prudhoe Bay in about 20 years.

It seems to me that the central reality is in the question: what do we really want the fund to do for us in the future and that this takes precedence over how we invest whatever money there is in the fund. I construe the size of the fund to be basic to "what do we want the fund to do for us." The people have already expressed themselves in principle. We haven't made clear the picture as to the possible total of the abnormal oil and gas revenues - not just the revenues of which 25% must go

into the P.F. Figure 1 on page 6 of the report is a good start but it isn't enough. I suggest there should be an expenditure chart starting in 1974 or 1975 and projecting on to about 1997. It would have to be on an "assuming that" basis.

This should be accompanied by a similarly based chart of revenue with all the oil and gas revenues (incl. the pipeline tax), and the "normal" revenues, shown separately.

The people need to be informed more fully - if possible - in order to make value judgements on any aspect of the oil and gas revenue. More information might lead to better perception as to a basic goal for the long time future and perhaps influence judgement as to "diversification" and "renewable resources" versus "Investment in high yield, low risk securities", for example.

It seems to me that presently there is danger of people becoming excessively attracted by sacred cow catch phrases which are deceptive because they sound so nice. They are also deceptive because the rate of state expenditures we have reached plus exceedingly high costs, brought on by our own inflation from the sheer velocity of money is further depressing the potential viability of many ordinary economic activities. Consider: our agricultural wages are the highest in the U.S.; the average of seven construction industry classifications, incl. laborer, had risen to \$15.43 an hour, excl. fringe benefits, by last January.

If the people should believe it desirable to feed and nurture the P.F. to maximum feasible size and productivity, the result might be the greatest assistance that could be extended to future prospective enterprise through the simple effect of helping to hold future taxes down. Obviously, every citizen would benefit, too. In this connection the obligation to preserve the wealth, converted into dollars, necessitates enhancing it with earnings to offset its wasting away from inflation to maybe half its face value in 20 years.

Statement for the Special Committee for the Alaska Permanent Fund
for the September 15, 1977 public meeting in Anchorage.

From Betzi Woodman, 117 E. Cook Ave., Anchorage, Alaska 99501

My name is Betzi Woodman and my profession is writer. I first met Alaska in 1953 when my husband was assigned here with the Air Force. We extended his two-year tour because we had fallen in love with the place. After a brief hiatus in California where he decided to retire from the Air Force after 20 years service, my husband and I came back to make our home here in 1959. Since then, our three children and their children also live here so we have a broad stake in this our adopted home. I have been involved in numerous volunteer activities over the years and after writing for both newspapers in Anchorage, I chose at the end of 1963 to become a freelance writer which profession I still follow. The work has taken me around the state often and brought me in contact with many people. Much of what I present here has been discussed with several of these persons who concur with my thinking.

You will be besieged by suggestions on where to invest the Permanent Fund, how to spend its income. Choosing among these suggestions will be a most demanding job and I hope that you can maintain your thoughtful approach and not succumb to impulse or sudden pressure of a particularly vocal group.

When the state received the then-unprecedented \$900 million in oil and gas lease bonuses in 1969, the late Gene Guess convened a series of seminars to get public opinion on how to use the riches. He invited a group of Alaskans from all regions and representing a broad cross section of interests in the state to meet with a faculty from the Brookings Institution. I was privileged to be an editor for the series and helped to record and summarize the final report of what the people wanted.

It was noteworthy that with one exception, everyone who came, no matter how regional his prior feelings, soon put regionalism aside and truly addressed the subject of what was best for Alaska and its people as a whole. The specifics are on record, but the overall finding showed that it did not matter how much money the state had--a lot or a little--the desires would be the same: to maintain that peculiar Alaskan quality of life and to enhance it.

Brainstorming sessions revealed that defining Quality of Life was a bit more complicated. Each related to his or her particular experiences, attitudes and life style. Basically, however, accomplishing this goal would include:

- Protection of environmental values
- Conserve non-renewable resources
- Develop renewable resources, particularly fisheries
- Provide educational opportunities which fit the peoples' needs and desires
- Encourage cultural development
- Support the strong, independent character of Alaskans.

It was suggested in the discussions that Alaska could skip certain historic phases in development--such as industrial--and could find innovative approaches to economic questions, although few specific programs were presented by the faculty.

At the same time the Brookings' findings were making their impact, a new phrase was heard throughout the land: Alaskans have the last chance to do it differently, to profit from mistakes made in the South 48.

MORE

The phrase was used most often by those from the lower states as they addressed various publics on such matters as Building the Pipeline.

Soon it will be a decade since those first "riches." How and where that money was spent is not the issue here. But attitudes of people, particularly leaders, and how they've approached the ideals are very much the issue. Alaskans, for all their vaunted strengths, are also very human. They, too, can be and often are greedy, shortsighted, impulsive, unwilling to consider all the options. They find it difficult to live up to their own statements of how to achieve a better society.

But perhaps this time the leadership--you, in fact, --can help guide the people toward fulfilling lives. You will certainly be asked to help make life a little easier for Alaskans, and that, if done with wisdom is a valid consideration. But I fervently hope that totally cutting out various taxes which support our necessary institutions and government functions will not be the way you ease their lives.

The evidence is everywhere that when people do not pay their own way, when they are unaware of costs for services, when they have no grasp of what it took to make or build something--that they put little value on the "somethings" which come with no effort and that they also lose in strength and character.

On top of that, if costs of living are reduced too greatly in Alaska, it will open the flood gates for all the freeloaders who want only to be in on the "freebies" but not to contribute to the growth and stability of the state.

And finally, I would ask that you look to ways of enhancing what we have rather than getting more or of setting up the machinery which would lead to the "more and more" syndrome.

So--with that for background, here is my suggestion:

Establish a percentage of the income from the Permanent Fund to be available on an annual basis to Alaskan communities for use in connection with cultural facilities.

A formula would be developed for communities according to population and could be weighted in a manner to be more helpful to those communities with less economic viability.

The funds would be available on application and would not require matching in kind or money. A community would have to demonstrate fiscal responsibility in use of the funds and show that a cultural facility (as defined below) actually exists or is actively being planned.

There would be no "strings" on how the money was used for the facility. That is, the only "approval" of use would be to show that the money would be used for some aspect such as: design for a new facility or complex; contribution to actual construction of such, maintenance or programming for the facility or addition of a wing, etc; acquisition of art works or museum material; salary for curator/director; assistance in retiring debt on existing facility; furnishings for such a facility--new or to upgrade; sponsorship of a program recognized as valid for the type of facility--i.e. instructor in management of such an institution, artist in residence, special performance assistance to outside group, etc. These could be specified or it could be shown what would NOT be allowed.

The facility would have to be truly representative of public interest and use.

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DEFINITION: A cultural facility is defined as a facility or complex which has its principal function serving the arts activities of the community through theatre, concert hall, museum, and/or gallery; with additional compatible uses such as conventions, community meetings and library services as determined by each community.

The money could be allocated through the offices of: the State Council on the Arts and its member local arts councils or an authority or commission set up especially for this matter--always keeping in mind that the local interests get true representation. The object would be not to add another layer of government, but to safeguard allocations so that communities would indeed have local authority and that projects be valid.

The percentage of the Permanent Fund thus allocated could be invested in a separate account, thus earning and enlarging while applications were pending.

Penalties could be established for misuse of funds. An annual application date would have to be determined for such applications and grants so that the amount available could be related to requests.

There is extensive justification why this is an important consideration. A 1975 report found that 93 per cent of the adult American population felt that cultural activities and facilities were important to their lives, and the growth of the arts has reflected this appreciation.

A professor interested in the views on art of the average working person talked with 400 blue collar workers--maids, clerks, mechanics, bus and truck drivers, cab drivers, secretaries, hotel desk clerks, waitresses, carpenters and street laborers as they went about their daily tasks. Their opinions were written up in the study "Opinions of Working People Concerning Art." Some critics hailed it as the first "tell like it is" audience "pulse feeler" done in a long time.

Generally, the professor said, workers interviewed believed that art is necessary to the enjoyment, fulfillment and pleasure of living. A majority also think that tax money should be used to fund artists and art projects. "We found that contrary to the general belief, they (man and woman on the street) like art, enjoy it, feel it worthwhile, know much more than we (the arts world) give them credit for...and of course, we discovered what we should have known all along: that most of them dabble in it themselves, as Sunday painters or collectors of everything from antiques to Ming vases, and coins, stamps--that they act in neighborhood groups, sing in choruses and quartets or save their money for tickets for special performances of plays, operas, ballets--which appeal to them."

As a bartender told one interviewer: "Art brings most of us closer to what we really are and what we feel."

A similar survey done in the Anchorage Borough three years ago revealed the same points of view and willingness to help support arts projects.

The preamble to the bylaws of an 11-community Cultural Facilities Development Committee reads:

"We who are involved in the arts know the importance of cultural facilities to the life of a community. We also know how stifling the lack of such facilities can be to cultural growth. Our task will be to make the voters of the state aware of what cultural facilities can contribute to our communities. Cultural centers can become the focal point for a variety of community activities, providing entertainment,

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cultural enrichment, recreation, instruction and social opportunity for all the people in the community as well as for those who visit our villages and cities.

Along with Alaska's rapid economic development, there is a growing awareness of Alaska's renewable human resources. Civilizations are remembered for their lasting contributions to the arts, humanities and mankind. By providing a cultural home for the arts, artists and Alaska's ever-growing arts audience, these centers proposed for Alaska will contribute to such an endowment. "

If ever there were something which would contribute to and enhance the ~~the~~ Quality of Life in Alaska, participation in creative endeavors is it. And having a facility where it can happen, a situation usually beyond the capabilities of any but the wealthiest of cities, would be the catalyst..

We CAN do it differently in Alaska and this is one exciting, beautiful way. And we DO care how they do it Outside because that's where we learn, both what to do and what not to do.

Thank you--

Betzi Woodman

Proceedings
of
The House Special Committee on the Permanent Fund

PUBLIC HEARING
September 15, 1977
Anchorage

Rep. Clark Gruening, Chairman
Rep. Terry Gardiner, Vice Chairman
Rep. Ernie Haugen
Rep. Russ Meekins
Rep. Bill Miles
Rep. Leo Schaeffer
Rep. Rick Urion

GRUENING: Good morning. We'll call this meeting to order. We've got a list of people that want to testify and I think there are some that are not on the list and we'll just take you down on a Quaker basis. You raise your hand and come forward and testify. Don't let the ads put you off. I saw the ad in the paper that this was called the House of Permanent Fund like the House of Pancakes. This is the House Special Committee on the Permanent Fund.

Representative Ernie Haugen on the committee from Petersburg told me this morning that he heard on the radio that this meeting was to hear from you folks on how to spend the fund. I can assure you that is not our intention. We want to hear we can preserve that fund and we are just as interested in what you don't want the fund to do as what you want it to do.

We had a very interesting hearing in Fairbanks. We heard a lot of what people wanted it to do and what they didn't want it to do. Since it's your fund and before we actually draft specific legislation for consideration of the whole legislature, we want to hear your philosophical approach. So this is---don't feel you have to be an investment banker. We are really talking about philosophy today.

Also with the committee is Representative Bill Miles

and Representative Russ Meekins who is on the committee will be here shortly. Our A.A. to the committee is Mike Doogan and he may be asking some questions today. Do you have any statements, anybody, that you would like to make? OK, our first witness is Senator Joe Orsini.

ORSINI: Mr. Chairman, members of the committee. Thank you for the opportunity to make a little pitch here. I will be brief. My concern is not at this point with what the use of the Permanent Fund is going to be, but how the uses are determined. To a large extent, the legislature will undoubtedly set broad policy guidelines, but the actual management of those guidelines will be done by some body or some group of people and I'd like to address my remarks to how that group of people come into being chosen.

The Permanent Fund was overwhelmingly adopted by the public last year, as we all know. I suspect that your hearings are turning up a variety of opinions when it gets down to the specifics of how that money is going to be used. I would also imagine that probably there isn't a great deal of coalescence of public opinion at this point and people are kind of vague about it except for those people who happen to be in investment or other kind of industry that is directly involved with it. I would also suspect that, despite the good efforts of this committee in trying to get the issue before the public, that until something real; happens or

until the fund is viable such that the impact is being felt substantially in whatever corners that money is going to be spent that the general public will not become involved in this. I could be wrong, but I think that is likely to happen.

On the other hand, people who are knowledgeable about such things as large investment fund maintain that those who control this fund will be extremely powerful in a political-economic sense in the state and probably to the extent that the size of the fund in the next 5-10 years is probably unprecedented with respect to any other state in the Union as a proportion of our state budget. This concept of the power of the fund manager will probably come to pass.

For these reasons, it is my opinion that the managers of the fund ought to be people who are directly accountable to the people, the voters and the general public of the state as opposed to being selected by some other secondary method --- as a panel selects potential people from whom the governor selects. This is sort of a circuitous approach which, in my opinion, ought not to be implemented. I think that one man ought to be directly accountable to the public. As the public sees a need for change in the way in which that fund is invested or used, that change will be reflected in the debate when these people run for their office. And, of course, it

ought to be a full pay, full time office, not just a token or a commission, but a full time, full pay position. The people that run for that, I would think, the public would demand that they have some ability and expertise in handling money in that it is more strictly aimed at than, say the legislature, which is a very broad type thing.

I think the problem with, say, a gubernatorial appointment is that every four years the governor runs for election and there are many, many issues that the governor has control of or discusses and the Permanent Fund will be lost in so many other issues that the governor is involved in --- any governor. I think that this is important enough that they ought to be separately elected.

The frames of the constitution, the state constitution, of course, determines that the governor is the one that has the appointing authority and there are no other elective officers on a statewide basis other than the legislature. But I think that the constitution was framed more than 20 years ago and the state has changed its standards. And we are into an area now, with the oil starting to flow, of a yet greater change than we have seen in the past. And this change should give one reason to take another look at the constitutional concept of only the governor being elected and look at those kind of offices that are perhaps of genuine statewide importance and have statewide input for that particular concern.

That's really the extent of my testimony. I would urge you to take a look at the concept of having elected people managing the funds. It can be done without changing the constitution as long as the governor has some choice, you could have an elected official---is what I'm told by the Legislative Affairs Agency. Of course, the cleanest way is a constitutional amendment.

GRUENING: Thank you, Senator. Can you stay for a few questions? Any questions from the committee? Representative Haugen.

HAUGEN: Senator, how did you set up the---you mentioned qualifications for the fund manager---that it would have to be people with expertise. Have you got any idea as to how you would qualify that? How would you set these qualifications up?

ORSINI: I wouldn't. I would let the public---presumably ---running for the legislature, there is---you don't have to be particularly have to be an expert in anything. The legislature deals with all kinds of things.

I think the Permanent Fund is different. It is a function of investment. I would think that the public would always

vote for those people who at least have some sort of ability or have evidenced some sort of experience in finance. Maybe he's been a banker, maybe he's been a union fund manager, maybe it's been a whole raft of things that have become involved in the financial implications.

HAUGEN: But you would first have the public set up the background essentials and then ...

ORSINI: No. I think it ought to be an elective office, period, with no other than---I would have no more restrictions on that office than I would have on an office of the legislature.

HAUGEN: Oh, I see. I thought you were implying that you wanted restrictions.

ORSINI: No. I think the public, as the public, will vote for those people who have some of those qualification.

HAUGEN: OK, thank you.

GRUENING: Mike.

DOOGAN: Senator, have you given any thought to whether these people should be elected on a statewide basis or by region or anything like that?

ORSINI: I would support a district basis to assure that there are a variety of interests. I suspect that you are hearing from various parts of the state has borne that out. That different parts of the state do have different concepts as to how that fund should be used. I think that on a district basis it would be preferable. It may be, my suggestion would be some combination of existing election districts where you group---an individual would run for a seat that would be comprised of several election districts so that you wouldn't have the new election districts to try and fit in.

GRUENING: Senator, you hit on probably one of the more difficult issues for the legislature and that is the issue of control. When you have a sizable fund, people are concerned about who is going to control it. It occurs to me that what we'd have there is---we'd be establishing two legislatures to the extent that you increase the size of the Permanent Fund, you'd have a competing legislature. And whether you needed a constitutional amendment or not, I think you do. Do you see any problem with establishing essentially two

legislatures and---with a very strong executive in this state? Wouldn't that kind of tip the balance in the constitution where we have a legislature, although not, maybe not a match for the strong executive, at least it is one body and has the power of the purse. This might fragment it into two. Have you considered that aspect of it?

ORSINI: Mr. Chairman, I don't think you'd have two legislatures. I think you may have two legislatures if you, for example, took certain legislators and put them into Permanent Fund managers. They would almost be operating a separate legislature. But this is a separate body and this body would still be subject to the law as passed by the legislature and signed by the governor. I would presume that we would have laws of general conceptual of appropriateness to the way in which the Permanent Fund is used and this group would have to operate under those laws.

But still, like any law, whatever executive authority it is has a varying amount of leeway, depending on how tightly those laws are written. I don't think you'd be---you'd have another group just as you have the executive and you have the judiciary and you have the legislative groups now. This would to some extent, with the more narrow confines, I suppose, would be almost a competing group who would have also direct public accountability. But I

don't think you are getting into a separate legislature.

A lot of it depends on what the ultimate will of the legislature is with respect to the types of use this Permanent Fund is put to.

Basically, if the legislature decides anything other than maximizing a safe return on the investment, then you are subsidizing some group. It may be homeowners, it may be investing people, it may be fishermen, it may be farmers, it may be any one of a number of groups, whether a narrow constituency or broad statewide groups. It is still some special group or a series of special groups. As opposed to having maximizing returns, having them coming into the general fund for use of legislative determination of how the funding should be spent.

GRUENING: You raised an interesting point there. You were saying that, if I understood it correctly, that when you are dealing with anything but a sole criteria of maximizing income, there is usually some subsidy involved and if you are going to do that there ought to be some equity or some representation.

In other words, if you are going to dole out subsidies, it ought not to be done, let's say, at the decision of some expert, but rather somebody that's responsive as an elected official.

ORSINI: Yes.

GRUENING: Well, let me toss this out as an alternative to that. The extent that you get into the programs which involve subsidies, what do you think of handling it as we do now in the general fund loan programs, in that we establish them out of the general fund, that with the Permanent Fund, you establish that criteria of maximum---of conservation of principal and return the income.

In other words, rather than do everything you have been doing with the general fund, put the Permanent Fund off to the side and say, "OK, we're not---that's the one fund that is not going to be, let's say, doled out, as, say, political pressures dictate, but will be at least for the short run set aside for just preserving capital and producing income." In that way, you don't have that accountability problem that is difficult when you do get into subsidies.

ORSINI: I think I have been on record as personally supporting that concept. Certainly in the short term. As the Permanent Fund grows and as the public becomes more aware of it, you will make a policy at some point. But I think that in the near future it ought to be managed for maximum return, maximum safe return on investment.

GRUENING: Thank you very much. Any other questions?
Thank you, Senator. Our next witness is Robert Rutherford.
Did I pronounce that right?

RUTHERFORD: Yes. Mr. Chairman, members of the committee.
Thank you for the opportunity to appear. I'm not exactly---
consider myself very experienced with these things. I hope
I understand the intent of the hearing.

My business, as you may know, is a consulting engineer
working primarily with the electric utilities throughout
Alaska. So, most of my experience in Alaska since I came
here in 1950 has been related primarily to the electric utili-
ties industry. Along the way in working with these utilities,
of course, the business of providing money for the development
of electricity, that unique energy that really contributes
to the quality of life, is one of the things that we are con-
stantly dealing with and I have some thoughts to share with
you and I hope along the way that I can understand the intent
better so that I can add to this with some written testimony
which I can supply later. Will I have the opportunity to sub-
mit some things in writing later?

GRUENING: Yes. And I'd like to say for everyone here
that we'll accept written statements any time until the time

of the session. There are kind of informational booklets the committee has prepared with a questionnaire on the back. Feel free to help yourself to that and, Paul, why don't you take a stack of that so people don't have to come up. Grab them and they can help themselves. Go ahead, sir.

RUTHERFORD: Let me recite a few areas where it's occurred to me that the Permanent Fund or something similar to it, at this point, I'm just trying to understand what some of the concepts for it might be, what the committee might be thinking about it. Let me talk about these briefly. There are several areas where I believe that the use of the Permanent Fund might be valuable to Alaska.

First off, I'll start out with saying that I believe that my understanding of the Permanent Fund that its use should be on a basis where it's returned. In other words, that it is not intended as a gift, that it should be used in a manner that it is returned to the Permanent Fund if it is loaned on various bases. My own personal feelings are that the fund should be used in that manner. So that it does not definitely become part of the system of grants, perhaps.

GRUENING: Incidentally, that's a constitutional requirement,

the way they---it can only fairly be read to preclude grants. It would have to be income producing.

RUTHERFORD: That probably was in my head from back a ways and I'd forgotten it was already a constitutional provision.

One of the areas where I believe the fund could be used, I like to talk about a minute, is perhaps might be considered as marginal in the sense of whether or not it might be a grant, but, let me explain. There are a number of projects that I have seen as potential in Alaska which are the nature of being somewhat unconventional because of the unique requirements of some Alaska situations. So there are some areas where ---I'm speaking of the electric utilities business where the utilities could use some support for projects that engineers such as myself believe are feasible projects and good projects, but at the same time they may be somewhat unconventional and on that account may have some difficulty in obtaining funding from the more usual sources. I'll give you an example or two.

There has been under study by the Alaska Power Administration some ways in which electric energy can be brought to some of the small villages of Alaska on a basis that, perhaps, is a little more reliable and feasible than some of the present

systems that are in use, mainly small individual generating plants scattered around in the various isolated villages. In an effort to evaluate whether there are some alternatives to that, and in particular see if there is some possibility of being able to deliver forms of energy that can displace fossil fuel, the Alaska Power Administration has in this case asked us to do some studies relating to interconnecting villages with transmission lines, or lines of some kind whereby a group could then receive energy from a larger central supply source or perhaps a small hydroelectric project. And of course, as you know, hydroelectric projects are determined by where the water is and where there's the head and invariably it's necessary to take that energy and deliver it. So, in the small village communities, the only alternatives are to figure out a way to interconnect.

There is a concept that I have presented in these reports that is not unique in the world, but it is somewhat unconventional and it's what I've called a "one wire ground return system" of transmitting electricity. It's been used in many parts of the world. The technology is well known. It's not something that's R & D. It is unconventional. There is a small report here that's been prepared suggesting a demonstration project along the Kuskokwim, perhaps centered around Bethel, to interconnect some of the villages that are now supplied primarily by little individual

generating plants. In some cases each home has its own plant. In some of the villages there is a centralized system.

For such a project, I'm convinced that eventually a project of this kind can probably be financed by REA funds, for example. But at the moment its unique characteristics is such that REA says that, well, it isn't exactly according to our specification, our standards. I've had some nice discussions with them, for example, and I can see their engineers believe me. But there's a few hangups that relate to the uniqueness of the system and I'm suggesting that, perhaps through the use of the Permanent Fund and whoever operates it, that some of these unique solutions that may be adaptable to Alaska be given consideration that perhaps some of this fund could be used as a pilot project.

Which I'm saying again is not R & D. It may be unconventional, but I'm convinced would be feasible. You could then produce what you might call a yardstick . That word has been used in other areas to say this is a feasible project. And that means generate additional support from such as REA by saying, "Here's a project that works." This is the way it's doing. We'd like to build a lot more of it.

In the case of REA, the whole philosophy behind it--- their own program is such that, to me, it's a natural to do

this kind of thing. But it does need a little yardstick, something to get it going. Maybe the Permanent Fund, as an Alaskan fund, can help produce a yardstick program that is required for Alaskans because of the unique or unconventional nature of some of the solutions we have to deal with.

Along with this one wire scheme, it just happens also that in the Bethel region there are some interesting records regarding the wind. There is some possibility for the use of wind as power to supplement diesel generation. Because the delivery cost of the fuel, etc., are pretty high, why the cost of energy in those regions are exceedingly high. And even though wind power generation is a very high-cost scheme, basically today, some of the figures we have digested make it look as though it might be useful if it were part of an integrated system where it's not the sole source of energy, but simply used as a supplement to displace higher cost diesel fuel. So the little report suggests the possibility of adding a little wind generation to find out if that is true.

In another area of the supplying power, electrical power, to small villages, you are all acquainted with AVEC, I think most of you know about the Alaska Village Electric Co-op, which is attempting to do the job throughout Alaska, using REA money. Practically all the clients that are in use are diesel clients isolated with

the same problems that I'm talking about here. I think in some cases we can show that interconnection can help that.

But there are some other things that can be done besides the one wire line, for example, and that would be some improvements in the design of diesel electric generating equipment. Here again, there are a number of things that are available in industry. We're not talking about R & D, but we're talking about something that would be a little bit unconventional. Somebody would have to spend a little bit of money to put in the first step.

One of the areas I'm talking about is the operation of diesel electric equipment. One of the big difficulties in these isolated areas in operating the equipment in a reasonably efficient mode and with the electric load bouncing up and down over the daylight, nighttime hours, it's difficult to keep a generating unit running at an efficient load. So, conventional designs of such equipment, having been developed over the years, using the trade-off of fuel cost and other things that generated those designs by the manufacturer, have resulted in designs that are not necessarily adaptable to some of the problems we've got now resulting from high fuel costs and the very isolated nature of some of these systems. Here again, we believe, and there are other engineers who would

go along with this, I'm sure, that there are some modifications of standard generating devices that can be developed, put in a pilot project and shown to be workable. Perhaps that is something that could be done in some other ways too, but I'm using it as an example to say there are some solutions that I believe, as an engineer, are adaptable to Alaska conditions where they might not have been thought about or even useful on the basis of the trade offs in other areas. And perhaps the Alaska fund, Permanent Fund, can look with a different eye on the things that are peculiarly Alaskan in terms of some of the solutions that we need to find.

Getting away from the pilot nature or yardstick nature of projects which the first ones I talked about are, I would suggest some other areas where I believe the Permanent Fund could do some great things for communities of Alaska in energy. And that would be for the fund to participate in some manner with communities in funding for a renewable resource project such as hydroelectric development. I don't have to tell you about hydro---I know that Ernie has been pounding the table for hydroelectric in the communities of Southeastern Alaska for a long time and I'm sure that he would feel that this Permanent Fund could be a tremendous aid to the community to that area. What I'm suggesting is perhaps there is three modes of participation that might be considered.

One of them, of course, would be just a complete funding of a hydroelectric project on a loan basis, long term at appropriate interest rates, lower interest rate, loan to accomplish a hydroelectric project. Through the use of the Water Resources Revolving Fund, which has been operating for a year or two, some communities have been able to get front money to investigate such projects and get them up to the point where it's a go or no-go proposition and then they are faced, of course, with going to the bond market or looking for other sources of funding to actually accomplish the project itself.

And that's where I'm suggesting that the Permanent Fund could participate, either complete funding, perhaps partial funding, and maybe there would be other sources of money, but there would be mutual benefits in lowering interest rates, etc., if the Permanent Fund could participate with a portion of it.

And perhaps the third way would be using the Permanent Fund in a guarantee mode of some kind to guarantee a project rather than using the money directly, backing up a community in the offering of a bond with the guarantee of sorts.

Perhaps I'm influenced to some extent and been sold by the fact that I've been working with REA for a long time, the federal agency. And today they used those three modes for

working with utilities that they finance.

One is a direct loan program, in which, as you know, I'm sure they have two interest rates that are used. They have a certain amount of the money that's loaned out at 2% interest on a 35 year basis and they have some other direct loans they make at 5% interest on 35 year loans.

And they also have a participation program with other lending agencies where they loan part of the money.

And they have guarantee programs.

I'm suggesting that perhaps the Permanent Fund could look to communities for help in energy projects in a similar manner. That there may be something really worth looking at there for the use of that Permanent Fund.

To be a little more particular about renewable resource projects and what it means to Alaska, the hydroelectric development has one thing about it that is---well more than one thing, but---the thing I'm referring to, one thing about it that is quite different than other energy projects and that is that once it's built, its cost, for all practical purposes, do not escalate. And as a practical matter today, we know that almost everything else has been escalating at a pretty substantial rate and most of the economists that make any kind of forecast at all agree generally that escalation is part of the real world and is some-

thing that ought to be considered when you compare alternate projects of one kind or another.

This is one very important difference between the hydroelectric development and alternate energy, electric energy supply systems that you fuel. Because, as we all know sorely, fuel costs certainly have been escalating. And it looks like they're going to continue to escalate because of the fact that we're running out of fuel. Just for the purpose of finding more of it and developing the lesser profitable fuel resources, we know that we are looking at escalation.

On the other hand, the hydroelectric project, once it's built, the sun does the job. It's solar energy, really, and it's free. The falling water is there, it does not escalate. So that obviously there are tremendous benefits to a community when hydroelectric development can take place and displace the fuel they might otherwise have to buy at an escalating rate. And I've made some estimates over a period from now to the year 2000 and the differences are startling if you compare and if you assume some reasonable escalation rate and make a comparison. So, while the support of a project of that kind, I'm suggesting by the Permanent Fund, would be on a loan basis, you'd get your money back like any other loan, it would have a tremendous spinoff on the community itself and obviously

the state in terms of number one, electric cost to the community, number two, stretching the fossil fuel resource because it displaces what would otherwise have to be consumed in the fossil resource.

Another area that the Permanent Fund might find use, and this one is perhaps a little more way out, pardon the expression, I think it is real however and there may be some opportunities for the Permanent Fund to be used this way and that would have to do with some more major developments of energy systems in Alaska. Such as, the support, perhaps through the use of guarantees, I'm not suggesting direct loans in this case, but that it could be very influential in the feasibility of such projects. A major project such as a generation of transmission system for Central Alaska which would extend from Anchorage to Prudhoe Bay. As come of you may know, I've suggested electrification of the gas line and oil line route. I believe that it's feasible because the energy displaced by such electrification has a pretty fancy value today. And if you look at the value of the energy you displace, that would otherwise be burned in the simple transportation of the energy through Alaska, you can show that the electric isolators, that the electric generation would be feasible just from an economic point of view. And of course it would again substantially impact those fuels which---the ones I'm talking about now are oil and gas.

Now where do you get the electricity to do this? Well, there's other fossil resources such as coal. I believe that coal fired electric energy can probably be feasible to displace oil and gas. Coal at the present time---and I'm thinking about fuel is at a lower priority than gas and oil---and so it might be useful to displace that oil and gas.

Obviously, hydroelectric energy could certainly be used to do the job. It does also appear along the way, though, that the hydroelectric project that we are looking at today in this region---which in this case would be like a Susitna development---that most of that hydroelectric energy can actually be absorbed for other purposes in Alaska. It can be used by the community for their normal load growth of Anchorage and Fairbanks and the Central area. I'm suggesting that, if projects such as this catch on in any sense, that perhaps the Permanent Fund can be helpful in improving the feasibility of such a project.

A similar project could be accomplished in Southeastern Alaska. And this is one of the concepts which was talked about many, many years ago by the Forest Service when they made their little study of the water power of Southeastern Alaska. They suggested the possibility of an energy intertie throughout the whole of Southeastern Alaska through the use of sub-

marine cables in many cases because of the rugged nature of the country. And I'm saying now, that while this concept may be slightly way out, there are developments happening in Alaska which very likely may bring such a suggestion to the fore again. But because of the Alaska conditions that exist, it's going to take horsepower to make it go and that Permanent Fund is certainly---it's going to be a device that would impact projects of that nature.

And I'm simply saying that I believe those projects are likely to show feasibility as reviewed by Alaskans. We Alaskans do have some difficulty communicating with other parts of the financial world on some of the things that are unique to Alaska. And this is an area where I believe the Permanent Fund, using good judgement ---I'm not saying do anything silly---but because there will be Alaskans involved, they're probably in a better position to evaluate the kinds of things that I've been talking about in Alaska terms and arrive at a conclusion that says it's a good deal where the general financial market that we usually look to might not be able to evaluate it that same way and thereby something might go begging that really is a good project. The Permanent Fund, to me, would seem like it could perform a valuable function in supporting some of those concepts when they develop.

I guess that's about it and I'd be---I'm intending to put a little more of this in writing and perhaps you can tell me what

portions you feel at this point in your hearing would be appropriate related to the Permanent Fund. I haven't been at any of the other hearings so I don't have the benefit of that.

GRUENING: Well, thank you very much for your interesting comprehensive statement of the possibilities of Permanent Fund participation in energy development. I think we'd like very much to have your written statement. You might include in it some of the reasons REA funding isn't possible for these projects and any more specifics you have on how the financing might work.

RUTHERFORD: Yes, I have some of that and I can do that.

GRUENING: Are there questions from the committee for Mr. Rutherford?

HAUGEN: Well, I could ask a lot of questions but I think it would be a repetition of what he said.

Principally, what you're saying is that maintaining the idea that the Permanent Fund principal will remain but, if those projects could be financed on a long term, low interest basis, the state would get its money back, it would be just

the thing in the early period that---we're using hydro only as an example---the early costs are the ones that put most of us---I'm talking about Wrangell, Petersburg area---out of business if we could have that money loaned to us on a long term, low interest basis say at an early cost of 3 or 4% for the first ten years, knowing how the state fund managers in other funds operate, they want, of course, to obtain the maximum yield.

But, farther down the road, when these utilities got on their feet, they could probably have an accelerated rate of interest. They jump it from 4% to 5% and 5% to 5½% and that of course depends on the size of the project to take. My idea was to have one that had 30 or 40 years of life which, even if we ration it out on a 6% annual growth rate, the state would still get a good return on its money in the long run.

I'm not talking about any giveaway projects, I'm talking about good projects. That if they could get this foot off of the ground and the state would get its money back, we'd retain the idea of what the Permanent Fund is. It would do all kinds of things. It would save the consumer. It would maintain the interest of the consumer down the road if we're going to displace these Mickey Mouse projects we've got now with diesel power. It's just the peaking load---you're acquainted with our problem in Petersburg that throws the rate schedule out to the point that you never

get out of the woods as far as debts are---in fact the peak-
ing power costs you more than the primary power. I appreciate
the comments that you've made to the committee and it's along
the lines I've been thinking. I look forward to some more
of it.

RUTHERFORD: Well, I say again that I believe that the
Permanent Fund can perform a unique function and I know there's
lots of ideas for the use of the Permanent Fund, so whoever
manages that fund has got a problem of spreading it around
the state in a fair and best manner---for the best interests
of the whole state.

But, when you look at the communities themselves in
general and potential spinoffs, I think the energy area is
one place where the use of that fund can result in benefits
that will spread throughout most of the population of the
state. There are particular problems related to Alaskans
and now Alaska is going to have a particular fund that's
also Alaska's. And I'm just suggesting that right there we
have an opportunity to do some of the things, that we have
a little difficulty convincing the rest of the world, that
are feasible. Through the use of the Permanent Fund, I be-
lieve you can yardstick some stuff so we can get some more

money in besides. And since the Permanent Fund can perhaps be used to really generate additional spinoffs to a lot of the communities.

GRUENING: Any questions? Thank you very much.

RUTHERFORD: Thank you.

GRUENING: Our next witness is Carl Steeby.

STEEBY: Thank you, Mr. Chairman and members of the committee. Thank you for the opportunity to be here, appear here. I do not have an entire text or anything, but I would like to offer some of my thoughts to the committee on the Permanent Fund.

I have asked quite a number of people the question what's the purpose of the Permanent Fund to see what their thoughts were when this Permanent Fund was set up and, needless to say, I received numerous answers, mostly to curb legislative spending, to help all Alaskans, to have some money left when the oil runs out and a few had the same opinion I did when the Permanent Fund was set up. It was to mainly develop renewable resources from the income of non-renewable resources, whether it be oil, gas, minerals, whatever they might be.

I was at the hearings Saturday over at the Anchorage Westward and listened to Dr. Gordon and Dr. Bergman make their presentations and, really, I couldn't agree with either one of them and their thoughts on the Permanent Fund. Dr. Bergman split her ideas straight down three different ways. She had three scenarios, you may remember. One was spend it as you get it. The other was the gilt-edge investment. The third was a development fund.

I don't subscribe to any of these scenarios, per se. I subscribe more to all of them. Not necessarily spend it as you get it. Maybe spend the income that would go to the general fund for things like parks, recreation, campgrounds, pioneer roads to the attractions and so forth.

There was several mentions of the \$900 million that disappeared. I might say that, for personal reasons, I had to leave the state from 1963 to 1973. I first came to Alaska in 1942 and have been here most of the time since and in 1963 our roads were in a terrible mess. You couldn't find a campground anywhere, you couldn't find any rest areas, you had to go by the nearest tree or anything else. When I came back in '73 we had campgrounds like no other state has that I know of. They're everywhere, there's lots of them, we need more. They're crowded. But, a lot of that \$900 million did some