

284 HRES MISCELLANEOUS (TESTIMONY, STATEMENTS, MEMOS, ETC)

a form of taxation upon the oil industry which is separate and apart from other industries. Whether it should do it or not, you must decide for yourself. There are pros and cons in that. The pro is the source of revenue. The con is that you select this industry and you raise very serious questions about the stability of your tax rates in the future even though the tax system is very good. But if you propose to do it, then it should be done in such a way that if it raises revenue for the state in the first instance, it does not run counter to the long run incentives to development. If, in fact, the industry's return on Cook Inlet turns out to be as poor as has been indicated in recent submissions, and on Prudhoe Bay as lacking in "oomph" as the DCF studies by the industry indicate, then it is terribly important that the state maintain exploration because how else can industry get its money back except from future successes to pay for the failures in Cook Inlet and the failures in Prudhoe Bay, if this is the fact.

I do think that you can seriously consider other forms of taxation if this is the interest and direction the legislature wants to take, providing only that you appreciate that it is done in such a way as it does not destroy incentive.

Now I go back to my main theme, capital risks, profits and tax policy. The second thing which has run through the discussion before the committees this week is that you just can't look at Prudhoe Bay itself. After all, the investments in the pipeline have been ever so much greater even than the investment in the discovery and development of Prudhoe Bay. These pipeline expenditures involve not only capital outlays but they involve risks as well and you must take into account the risks in the pipeline outlay, the pipeline construction, when you consider whether or not the potential profitability in Prudhoe is average, superior or very, very superior. I don't believe that this is really a cogent argument. This is one of the problems also when you use DCF rates of return. Throughout the oil industry there are different orders of risks that an operating company is confronted with. The greatest risk is the risk that is incurred when a lease is taken and exploration is mounted. These are outlays by the industry which may be completely lost if it turns out that the exploration is unsuccessful -- the lease will be abandoned, the costs of that lease whether it be bonus payments, or dead _____ in the interim, all of the spending on dry holes, on the geophysical work that had taken place -- all of these are completely lost. This is the greatest risk to which the industry is subjected.

If you look at the North Slope, the second order of capital expenditures was much greater than the exploration expenditures. These are the tremendously large capital expenditures necessary to develop the productive capacity of a field which has close on to ten billion barrels of reserves, hopefully, recoverable reserves. At this point, the risks are different. The risk is not so much of losing all of one's money. The risk has to do with what will be all the future costs? What will be the prices in the future?

In other words, the risks have to do with whether or not you get a nominal return on your capital investment or you get a very large return on your capital investment. These are the commercial and economic risks, not the risks that nature imposes upon the industry. So when the companies decided to develop Prudhoe Bay, they were gambling a tremendous amount of capital, they were gambling on whether it would be marginally or better or superior profitability.

The pipeline investment is quite a different story. The pipeline investment involving perhaps seven billion dollars of outlays over a very considerable length of time represents an investment for which the risk, in fact, is not very great. Why is it not very great? All of the investment in the pipeline, of the seven billion dollars, will be repaid in due course out of the value of the oil, not in Prudhoe Bay, out of the value of the oil in Valdez. The first claim upon the value of the oil in Valdez will be to meet the operating costs of the pipeline. After that the banks, the insurance companies, the lenders who have, through their lending, financed about 85% of the construction costs of the pipeline, will have a claim so that they will not only be paid their interest, but they will recover their capital as well. And, out of the value of the oil in Valdez, through the pipeline tariff, the companies will as well, pay all of their tax liabilities. Both to the state of Alaska, ad valorem and income taxes and to the Federal government. And the tariff that obtains will still be high enough to give them a profit on the total investment and a multiple profit on their own equity. This is ensured unless there should be a complete failure of Prudhoe Bay production, or such a severe decline in Prudhoe Bay production over time, that they couldn't possibly conceive of a tariff high enough to cover it. But so long as the oil continues to flow and so long as the value in Valdez is satisfactory, the companies pipeline investment will be recovered and the profit will be made. When they knew that they had some ten billion barrels of reserves in Prudhoe Bay, at that point there were tremendous outlays, long waiting, certain uncertainties, but the profitability from the pipeline is more sure than the profitability in an exploration venture or even in a development program. And it is for that reason that I do not believe it is appropriate for the industry to say that when you judge the profitability of Prudhoe Bay, take into account the tremendous costs and risks of pipeline investment. Exploration is one order of risk, development is a second order of risk, the pipeline investment is still quite a different order of risk. This is not to say that the companies participating in the pipeline who are also producers at Prudhoe do not suffer from the high cost of pipeline construction. They certainly do, just as the state does. The run up in pipeline costs is going to diminish the value of oil in Prudhoe Bay. And if it diminishes the value of oil in Prudhoe Bay they will make less money on their wellhead value and the state money will make less money on its royalty, on its severance tax and on its income tax. But once that is taken into account, in other words, the profitability of the pipeline has been charged against the value of the oil in Valdez, I do not think it is correct to say that when you judge the profitability of Prudhoe,

take into account the great risks which we the operating companies assume when we undertook to build this mammoth construction project.

Well, I thought I would just mention these points as apropos of the debate over capital risks, profits and tax policy, an extension of the discussion which we had on Wednesday and then leave it to you to decide if you wanted to pick up the whole question of specific tax bills or general tax policy.

SENATOR POLAND: Are you familiar with Senate Bill 295 that they had in last year on the severance tax?

MILTON LIPTON: Was that Senate Bill 295 last year? I was certainly familiar with it last year. I'm not sure I can identify it this year. Oh yes. This is the one that added brackets to the severance tax structure and increased the tax rate in the two additional brackets of average well producability. I see that in the schedule of severance taxation. Added is a tax on gas and gas liquids. There was a bill before the legislature last session to increase the severance tax on gas to 10%. Did you have a specific question about this Senator Poland?

SENATOR POLAND: Well, I wondered how you felt about this type of production at this time?

MILTON LIPTON: We testified, I believe, before the legislature last session. I know we wrote a memorandum to all of the committee chairmen toward the end of the session and sent it from New York. We responded also to a letter from Senator Croft on the subject of severance taxation. My reply on all three occasions was that in principle, we do think it is quite appropriate for the state to consider the rates of severance taxation, on oil specifically. Gas is, in a sense, a separate question because for a good portion of your gas, any increase in severance tax will be paid by Alaskan consumers. You will have to consider whether or not you want to increase the state's revenues from gas production, both from the Japanese and from Petro Chemical Industry and from the Kenai-Anchorage consumers simultaneously. We felt that it was appropriate considering only that one is careful that the increases shall come not of the lower producability wells but towards the top brackets. Which means possibly adding some brackets and providing also that even at the top that the rates of severance taxation, since it is on gross wellhead value not on profits, do not become unduly onerous.

I would like to call to your attention to the way in which your cents per barrel tax for example on Cook Inlet has operated. In your present severance tax as a percent of value, the rate of the percent of value, for a well up to 300 barrels a day, the current tax, as a percentage of wellhead value would come out to about 4.4%. That is on gross barrels. The 20 million cents per barrel which is actually being paid works out to 6.1% of wellhead value. That is to say, that where you have put the floor under it to your cents per barrel costs because of the escalation of your floor every month until February with some decline already built into it, the result was that on a well in this bracket they were actually paying 6.1% instead of 4.4%. If you take a well of 1,000 barrels a day or over, the percent of value rate of taxation, in your present law, calls for seven percent on the net barrel, whereas the cents per barrel payment, 46 cents a barrel works out to 9.8%. You are already getting higher severance taxes which are a higher percent of wellhead value than the percentages that are built into your severance tax law.

I do believe that all things considered, including the fact that we are almost certainly, but not inevitably, in a rising trend of wellhead values in North America that it might be appropriate now, judiciously to look at a stretching out of the bracket and some increases in the severance tax at the top bracket. You felt that way then. You responded to interrogatories and in my first testimony I repeated that with the admonition that if you are looking at a whole tax package, I would hate to see the legislature decide upon changes in the severance tax law before they had resolved the issue of what is to become of the surtax legislation which has been laid before you.

COMMENT: I'm sure you have noticed that in the Committee Substitute that we have lowered the tax on the first 200 barrels.

SENATOR POLAND: Where there any questions any of the committee members had with regard to that that they wanted to ask Mr. Lipton right now?

SENATOR CHANCY CROFT: The tax on the gas taking it from 4 to 10 percent -- some states have run into the problem of taxing residents, in effect -- the domestic use of gas more by going to that rather than some type of cents per MCF. Do you see any problem like that

here? I'm not sure whether we're at that stage yet or not with Cook Inlet gas production.

MILTON LIPTON: Well, I think that any increase in the growth production tax on gas, under the contracts as I recall them, can be passed on to the consumer. Which means that although the state would be getting greater revenue, it would be getting greater revenue in part from consumers outside the state, in part, if other contracts don't provide for escalation for severance tax, in part, out of producer's profits but I think that is unlikely, but in part out of the prices paid by Alaskan consumers.

SENATOR CHANCY CROFT: As I recall, in Texas, the intrastate sale of gas was at a higher price than the interstate sale because the interstate sale was regulated so that if you used a percentage approach, Texans were paying with the pass-through provision more cents per MCF than were people in other states. And that if you went to a cents per MCF then you, in effect, tax the interstate gas at a higher rate. Is that something we should consider in Alaska? Is there that much difference in gas prices?

MILTON LIPTON: I really don't know. The last I had heard there was a very appreciable increase in their intrastate gas prices. Their interstate prices went up also. There is another aspect to this. And that is whether or not the state can, by indirection, relieve its consumers of the added burden of an increase in the severance tax. Louisiana for many years has had a device -- although they are not allowed to charge a lower severance tax for gas used within the state from gas that is exported, they in effect had a state system of _____ for industry so that the state coffers would know stuff about the severance tax but the costs of energy to Louisiana industry carried a certain state _____.

I have no idea whether the magnitudes we are talking about here warrant a shift from percent of wellhead value to cents per barrel. I don't think, particularly in the case of oil, it makes too much sense to continue the floor by virtue of cents per barrel. I think you should very seriously consider whether you want to get rid of this one or the other alternative as a means by which the producer pays his taxes. But cents per barrel, especially the way it appears in existing law, and as it may if there is escalation in the future, means that the producer and the state is at the mercy of the vagaries of lower 48 state Prudhoe prices. And for a long period of time, the producers in Cook Inlet found that

their severance taxes were going up, not because their own wellhead prices were going up, not because old oil prices were going up, because the wholesale price index for crude produced in the United States was going up because the new crude price was de-controlled and it was going up very, very rapidly. That pulled the average up. The average lifted your cents per barrel floor and the producers, caught with a fixed old oil price, were paying a progressively higher severance tax. In February, suddenly, it worked to the advantage of the producer and to the disadvantage of the state because the government under the energy act rolled new oil prices back from around \$13 a barrel to \$11.28 a barrel, which reduces the wholesale price and makes your floor go down and all of a sudden you have an entirely different severance tax. I don't think this is a particularly healthy situation. There are too many uncertainties in it.

The cents per barrel was introduced into the severance tax at a late moment in the legislature's deliberation and the basic incentive to it at that time to provide a certain guarantee to the Department of Revenue that the revenue projection through 1977 and so on, would not be upset by the possible failure of the Prudhoe Bay wellhead price to reach the level that had been estimated or projected in their projections. I sense that the revenue projections, released as revenue needs got out of kilter for a lot of other reasons in the intervening years. I don't know that there is any particular merit in maintaining the cents per barrel. This you must consider whether you still want a floor somewhere.

SENATOR CHANCY CROFT: You have also looked at Senate Bill 567, which is also the production tax by the interim committee. I was just wondering with regard to either of these two bills and the rate does vary between the two of them, and the tax on gas is certainly different. But is there is any problem that you see with the state enacting either one of those two bills?

MILTON LIPTON: I would not presume to pass judgement on the relative merit of a particular tax, rates and their various brackets. I think in a way there may be a certain virtue in reducing the tax rate in the very low brackets. How high you go in the upper bracket, this is a matter of judgement. I think we were a little concerned with the cents per barrel floor that was put into the sponsor's substitute.

SENATOR CHANCY CROFT: Before we get to that. Just with regard to the percentage.

MILTON LIPTON: No real recommendation to make. One as compared to the other.

SENATOR CROFT: And considering both of them, do you think either one of them goes too far?

MILTON LIPTON: If I say no, neither one of them goes too far, the next question is should you go to 14.5 percent. No I don't think either goes too far.

SENATOR CROFT: Secondly, are they realistic considering the changes that have taken place, the things that you have described to us. Do they still establish a realistic and responsible level of taxation for the state at this point.

MILTON LIPTON: I think so. Basically, although some of these rates look to be higher than, say Louisiana where the top rate is 12.5%, the fact remains that if you go to 12.5% or 14.5%, this is part of the step schedule. And the effective rate is an averaging of what the producer will pay for the first 300 for the next 700 or 1,000, and so on. I wouldn't think that the rates, per se, are horrendously out of line. Furthermore I would say that if either one of these severance tax bills were enacted into law and then Colorado or Texas or California were prepared to say that we will adopt that as a model. I don't think they would. Louisiana might not raise their revenues very much if they take that as a model because Louisiana would have to give up 12.5% on a hell of a lot of oil of their production before they could pick up 14% on the kind of wells that you are apt to have here. The only thing I would add is that you are still talking about a percentage of gross wellhead value and although this step schedule gives you a certain sensitivity because you are looking at average production per well, there is a time when you have to cry halt. This is not an endless device which you can constantly increase because eventually, what you are doing is when you tax the percentage of gross wellhead value you are taxing the percentage of net much higher than that. How much higher depends upon the margin of cost. The fact remains that it may very well be that the cost of the percentage of gross wellhead value will obviously differ field by field in this state, among the two areas you already have and a third which you will hopefully discover within a year or so and all the other fields to come. There has to be somewhere a realization that

you are taxing gross wellhead value. Within the limits of these qualifications, I don't think that these are, per se, _____.

DICK: I think Milton's comments were really directed to the percentage of value as they appear in this law. If you look at the cents per barrel tax in the law, and apply the wholesale price index _____ one comes up with very substantially higher rates of taxation than the percentage of values..

MILTON LIPTON: That is the sponsor substitute? If you talk about the percent of wellhead value you get one set of answers. If you look at the cents per barrel, it changes, and the kind of escalation which takes place, then you get a much heavier rate of taxation than is _____ by the percent of _____.

SENATOR CROFT: What, with regard to committee substitute for Senate Bill 295, those since ...

MILTON LIPTON: We haven't looked at those. We were just given this but we haven't looked at them too carefully. We can run a quick check on them this afternoon.

QUESTION: I would guess that they would be very much -- they look to be relatively _____ percentage of value and the escalation I noticed does not go back to the summer of 73, it starts as of today _____.

SENATOR CROFT: The last step is higher than in 567 but it is more as you mentioned before?

MILTON LIPTON: Senator, it is very difficult. And I think it would be irresponsible for us to make quick judgements until we can do some calculations on this. For example, I hadn't read the text and I'm not quite sure how these would apply and so on. We do know that in the Sponsor's Substitute there is a much more rapid run up in the tax liability when computed on the cents per barrel basis than when computed on the potential wellhead value.

SENATOR CROFT: Could you also look through both of these bills and see if there are any particular provisions to see if they cause you any concern because I assume, as you indicated Tuesday, that you have advised us that we should consider the revision of our severance tax both in terms of reducing the severance in the lower range and substantially increasing it in the upper range and I would assume that both of these bills were in line with that general suggestion. Is that correct?

MILTON LIPTON: Yes.

SENATOR JOE ORSINI: Maybe I am getting something wrong here. As I understand it, your basic premise is not to have the lowered value -- your perception of national policy is to have lower value wells put into production, so as to get more oil...

MILTON LIPTON: Yes. By all means, if you are producing, don't let the well become uneconomical. Try to maintain the greatest possible recovery out of your discovered reserves. Absolutely.

SENATOR ORSINI: In that regard then by going to a gross production tax, either percentage or cents per barrel, are we accomplishing that end or should we go to some sort of a net and somehow tax on the net rather than the gross. Is that a practical approach -- to tax on the net?

MILTON LIPTON: If you start taxing net, you've got an income tax. And the question is, what form of an income tax do you want to use? You have a gross production tax at the present time. And I think that the relatively low rate of severance taxation that you have at the present time tends to encourage the maintenance and production out of these low producability wells. I think if you lower the severance tax a bit more, it also works in that direction. You know you have in your state statutes the rights of the commission to abate royalty, if it is necessary to sustain production. I think the state in general has put together an attitude toward producing operations which is conducive to optimum recovery of reserves. This is just on the side, one of the difficulties that we have and it is in our recent report to the state, was royalty bidding. That rate was a danger and in due course the bidding of high royalties may discourage the optimum or certainly the maximum recovery of oil from discovered reserves. But short of abandoning altogether a gross production tax and going entirely to another form of income tax, I don't think that what you have on the books or what is being proposed really is going to inhibit the maintenance of operations in your fields or optimum recovery from those reserves.

QUESTION: On Senate Bill 620, net proceeds tax. Kind of tying in with Senator Orsini's comments...

MILTON LIPTON: The two things that we had commented on before when we were asked was (1) the definition of gross value, which is the beginning of the whole concept

of net proceeds; and there gross value is defined as the FPB price at the Alaska border or other convenient point or as determined by the Department. We simply felt all along that the logical and the easiest way of operating is if gross value was value at the wellhead. And there, working with the same figure whether it's for royalty purposes, severance tax purposes or net proceeds purposes. Now there may be a legal reason for this and if there is that is well worth looking into.

The other thing has to do on page three, section 040, the deducting of drilling costs and capital expenditures, there is a problem of the definition of property in there and whether it is by lease or by field or what, and the treatment of dry hole expenditures, I think those have to be looked at rather carefully. The department, in computing the allowable amortization of the exploration costs shall allow up to 7% of the exploration cost per year. I would think that in the treatment of capital expenditures and drilling costs in the net proceeds bill, you ought to hold this as carefully as possible for what has already been the regulations of the department on it. How have they been treating these things in the past. But in general, we think that if this is the way to get at producing income in the state, to identify it and therefore to make it liable and susceptible to income taxation, then the approach is certainly worth trying. I should say though, the bill starts out by saying that it is really in lieu of the state income tax. This is what it is meant to be. It is not strictly an in lieu of income tax bill. I think you must all understand that. That under the income tax law, it is the corporation that is being taxed presumably for all of its activities in Alaska. It will merge all of its revenues from all activities. It will deduct all of its costs from all activities and presumably come up with a net profit on account of operations in Alaska. Either directly accountable or by allocation or whatever the case may be.

What the net proceeds bill does is it separates the oil producing operation from oil. That means, in effect, that if there are losses on producing operations, they can be deducted only from profits on producing operations. They cannot be deducted from profits on refining or marketing or real estate speculation or anything else. If there are losses on marketing in Alaska, they cannot be deducted from profits in producing. What you said in effect, a corporation now is going to be taxed

on its income or on its profits from producing operations, separate, apart and independent of all other activities that they may or may not take on in this state. I don't quarrel with that at all. But you must know that this is what you are doing. It means that there is less of an incentive for somebody to put profits from the supermarket business in Alaska into oil exploration because if he loses his money in a dry hole, he can't charge it off against his taxes on profits in the supermarket in Alaska. You have separated these things apart. I say this because you must appreciate that this is what the bill does. The purpose of the bill is to enable you to identify and tax the profits on production -- the way the bill does act is to cut off the business of oil exploration and oil production in the state from every other economic activity.

SENATOR ORSINI: My understanding is that you have advocated this for a long time as what we should do.

MILTON LIPTON: I have advocated for a long time that you must be able, within your income tax law, to identify producing profit in the state, not have them imputed because either the old fashioned direct accounting or now, the imputing of profit by the formula is not going to give you a handle on what the profits may be. You have to be very careful because now the industry is telling of very few profits in Cook Inlet and hardly anything coming up on Prudhoe Bay. But maybe there will be a more successful field someday. And this is quite apart from anything else you do with your tax legislation. I think it is very important for the state that you are able, as a state, to identify the profitability of producing operations here. I don't think it is appropriate that oil that is produced in Alaska and sent out of the state without any sale here in a sense should escape a proper allocation of the profitability of that production. It may be sold in Los Angeles or it may be shipped to Texas or whatever the case may be, but there is a value at the wellhead of that oil having been discovered and produced in Alaska and that value and the profit on the value should be susceptible to your taxation.

QUESTION: How else could you do this other than the approach that is presented in this bill?

MILTON LIPTON: I don't know. I presume that your Revenue Department will be testifying. They may have other ideas.

QUESTION: As far as you know, are there other viable approaches?

MILTON LIPTON: I always felt that the easiest approach, if it could be legally handled, would be if when the company reports on his gross proceeds in the state, gross proceeds are defined either as the revenue from all sales in the state or the value of production in the state if it is exported and not sold in the State. That way everything after that could follow. And then you have all of the cost deductions, all the amortizations of capital and everything. If that could be legally done -- I gather that there might be some problems. If your tax committee and its stand feel it must go this route.

QUESTION: Your feeling as to the optimum way would be to, on our regular tax laws, would be to define the gross proceeds as you just have, in lieu of normally a business would be of gross income. But if there is some legal problems with that, then you see this type of vehicle as a suitable vehicle for...?

MILTON LIPTON: This is a round about device and I gather the reason for it being round about is because there are legal problems. I would rather not talk to the legal problems, you have your own revenue department and your own AG and your own committee that are much better informed about that than we are.

QUESTION: Have you had a chance to look, study this fairly closely? Given that we have to use this type of vehicle, are you satisfied that other than the things you've mentioned here...

MILTON LIPTON: Yes. Yes, we have looked over it very carefully.

Dick calls my attention to line numbers 28 and 29 on page two. The actual cost of transporting the product from the well to the FOB point. What is meant by the actual cost? Is it the cost of service of a company who is both a shipper and owner of the pipeline or is it a tariff? My own feeling is that if you didn't do it on the basis where it says gross value -- if you use wellhead, you avoid all of that.

QUESTION: Do you think the various allowances of costs, expensing deductions and capital expenditures over ten years, etc., these are reasonable?

MILTON LIPTON: I think you would be better advised to get the Revenue Department's evaluation of that because they already have regulations for the rates of which amortization is charged against various

categories and I don't see any particular reason, if you are going this route, why the regulations just have to be changed because you go net proceeds instead of income tax. And there, I think the Revenue Department has had a policy about this for a long time and you should probably talk to them about that.

QUESTION: What about this combination of this type of approach in conjunction with existing _____ we're proposing some applications be advalorem. Do you see those as meshing together?

MILTON LIPTON: Yes.

QUESTION: You have mentioned previously that some of the costs involved in general exploration such as geophysical testing and this kind of thing are legitimate expenses. Of course the problem is that a lot of this work is done outside the state. How would you suggest we get at that kind of a thing? Rely on direct evidence from the involved companies? Or can you think of some rough handle, some percentage of something else is a good measure or how would that...?

MILTON LIPTON: The bill does provide that the deduction shall not include any expenditures for the salary of a person that actually engaged in the operation of the well, or office and engineering work in the state necessary in connection with the operation. On the other hand I don't think that you can disallow services which are purchased from people outside of the state such as geophysical services.

QUESTION: A company may use its own computer, its own staff, who are not in the state for work that is taking place in the state.

MILTON LIPTON: The bill does not allow them to charge the salaries of the people directly. I don't think the bill would deny them the right to bill operations here where the service is rendered. I don't think that you want to be so restrictive that you deny any right to charge legitimate costs for Alaskan operations.

QUESTION: If those kind of costs were not included in that piece of legislation, you're suggesting that we do do those things?

MILTON LIPTON: Yes. I am certain it is perfectly legitimate that the costs associated with exploration and producing

operations in Alaska, if they are performed _____.
I am not sure what percentage of home office overhead you would like to allow applied to Alaska.

QUESTION: Is there any rule of thumb that you can think of? I see a lot of hassle for the companies involved to go separating out 10 percent of this guy's salary and two percent of somebody else's salary and so many square feet of floor space, six months per year or something like that....

MILTON LIPTON: I would think that the -- what can be done of course is if you have an operating company in Alaska who buys a service and he gets billed for it and he pays. It is done as though -- what you would pay for it if it was at arm's length and if it was done in house you pay what otherwise would have been at arm's length price.

QUESTION: Another way to use a rule of thumb -- for every well drilled it is going to cost you the cost of that well plus 20 percent or something. Is that a viable approach or not?

MILTON LIPTON: No. I don't think so. I shouldn't speak so quickly. You may want to give a statutory allowance for costs not otherwise allocable because they were performed elsewhere. You may want to give it statutory allowance which is some small fraction of all costs incurred. That kind of statutory allowance...

QUESTION: It may be worth saving to the administration just to be able to say a flat percentage of some sort. I was looking for something to tie that percentage in to.

MILTON LIPTON: I would guess, again, that the Department of Revenue must have some figures on that. Within the state, what are these small unidentifiable items. Allow the same thing whether its in or out of the state. You are talking about a small fraction of one percent of all the eligible costs.

SENATOR ORSINI: Does this committee have the bills on the state gas pipeline?

SENATOR POLAND: No. You are certainly welcome to ask any questions you want to about those bills because they may be coming to this committee.

QUESTION: We have legislation with respect to gas, to build our own gas pipeline. I was wondering if you had gotten to that at all, if you had anything you were..?

ANSWER: I don't think we do.

QUESTION: Have you had a chance to look at Senate Bill 525 with regard to taking oil or gas from the state, in terms of conditions under which that can be done that is substantially similar with the Texas statute except for obvious changes in regard to...

MILTON LIPTON: This is the one that requires lease restrictions on oil and gas export. I think the only reaction that we had to it was in 180 on lines 14 and 15, that the oil and natural gas is not required to meet the existing need for fuel or raw material. The question is, what is meant by "required". How do you define requirements? I would say too, that one should think very, very carefully about whether or not this is necessary to protect the interests of the state to the extent that you want to put it into a lease. Because the more restrictions you put into a lease, the less attractive the lease becomes. If it is necessary to protect the interests of the state that is one thing. But then you must ask yourself, given the mounting energy requirements of the state, _____ oil and gas reserves and the tremendous hydroelectric development that it's going to get over the next 14 years, does the state really have to worry about running out of energy. All I am saying is that if there is a real concern, one should define in one's mind, how real is this concern, how far does it go. If it is necessary to put it into a lease, okay, but otherwise if you encumber a lease with unnecessary restrictions I think you do a disservice, basically, to the exploration incentive. I cannot speak for a company. But if I were a company going to bid, however I bid, whether it is bonus or net profit carry interest, or anything else, for oil and gas exploration in the state and there were restrictions on the disposition of the oil and gas, I don't think I would be very much worried. It is pretty difficult to conceive that in the state of Alaska internal needs, if they are precisely defined, are ever going to come anywhere close to impinging upon the ability to exploit to a more profitable markets. Companies may feel differently, particularly if they find out that under the lease that each one is required to leave a certain portion of their oil or gas within the state. I would think that the use of royalty oil and gas within the state would probably give as much protection to the state's energy requirements as restrictions on the export. You have to make projections of what the state's future energy needs would be. I personally can't see that this is an urgent requirement, but I may be wrong.

SENATOR CROFT: Part of the background had to do with the concern over gas, that it might give the state a stronger position with regard to the federal Power Commission as a result of some work ...

MILTON LIPTON: Yes, but that would be for the future. This is an attempt to achieve through the leasing -- with a restrictive covenant in the lease which you could not do as the state of Alaska in placing an embargo on exports from the state.

QUESTION: Another bill was Senate Bill 706 (INDISCERNIBLE)

MILTON LIPTON: We have not seen 706.

QUESTION: Once you have a chance to look at that sometime, and maybe you could make some comments on it?

MILTON LIPTON: We'll certainly do that on the severance tax.

SENATOR POLAND: Any other questions for Mr. Lipton? Thank you very much Mr. Lipton.

UNITED STATES DEPARTMENT OF AGRICULTURE
FOREST SERVICE



U.S. FOREST SERVICE COMMENTS ON THE JOINT RESOLUTION
(SENATE NO. 12/HOUSE NO. 13) RELATING TO THE PERENOSA
TIMBER SALE ON AFOGNAK ISLAND INTRODUCED FEBRUARY 20, 1975.

Introduction

The Percnosa Timber Sale was prepared to further establish Afognak Island as an integral portion of the timber management plan for the Chugach National Forest. A task force, appointed by former Alaska Governor Walter J. Hickel and consisting of State and Federal land managers and timber industry leaders, also studied the potential for new timber industry development in Alaska. The timber task force considered the Kodiak-Afognak-Shuyak Island group as a potential economic opportunity for the development of a new timber based industry in Alaska. The Forest Service and the task force recognized that:

- a. No timber industry existed in this island group.
- b. An estimated sustained yield of 40-50 MMBF ^{1/} per year was available from the Kodiak Island-Afognak Island-Shuyak Island group.
- c. A ready market existed for Alaskan timber.

The intent of the Forest Service and the State of Alaska in selling the Perenosa Timber Sale and the adjacent State timber on Shuyak Island

^{1/} MMBF = million board feet

was to establish a new permanent industry in the Kodiak Island group to bring under management an undeveloped timber resource and diversify the economy of that area.

Preparation of the Perenosa Timber Sale began in 1966, and was completed in 1967, proposing a sale of 525 MMBF under a 15-year contract. The gross sale area included approximately 120,000 acres with just 21,000 acres actually scheduled for harvest in 73 clearcut units. The anticipated annual harvest on the sale was to be 35 MMBF. The sale was carried out by oral auction on June 4, 1968, and awarded in July 1968 for a bid price of \$27.05/MBF ^{1/} to Columbia Lumber Company of Alaska.

The purchaser took no action on the sale during 1968. The export market began to drop during 1968-1969. On July 15, 1969, Columbia Lumber Company entered into a third-party agreement with the Afognak Timber Company who then became the company to operate under the sale contract. Recently it has changed hands again and is now held by the Kodiak Lumber Mills.

The Forest Service took advantage of these changes in purchasers, realizing that additional measures could be taken in the sale to protect or enhance other forest resources, and developed a Draft Environmental Impact Statement which considered alternatives to the original sale. A Final Environmental Impact Statement was filed with the Council on Environmental Quality April 5, 1974.

The decision resulting from the Environmental Statement process was to proceed with a greatly modified timber sale contract. Major changes included a timber volume reduction of about 40 percent, an average cutting

^{1/} MBF = thousand board feet

unit size reduction to 100 acres, and added resource coordination requirements. A table illustrating the changes follows:

Table 1
Comparison of Original Timber Sale with the Revised Sale

<u>Item</u>	<u>Original Sale</u>	<u>Revised Sale</u>
1. Total sale volume, MBF <u>1/</u>	525,000	332,329
2. Total sale area (acres)	120,000	120,000
3. Total area logged (clearcut areas)	21,000	12,074
4. Total number of clearcut units	73	121
5. Average unit size (acres)	288	100
6. Maximum unit size (acres)	905	228
7. Smallest unit size (acres)	51	34
8. Roads (miles)	114.0	140.3
9. Volume logged to water for transport via log rafts in water, MMBF <u>2/</u>	172	0
10. Logging period, years	15	10
11. Volume logged per year, MMBF <u>2/</u>	35.0	33.2
12. Acres logged per year	1,400	1,200

1/ MBF = thousand board feet.

2/ MMBF = million board feet.

Comments

The following are some specific comments on wording of the resolution:

WHEREAS the Perenosia timber sale on Afognak Island is presently being pursued in the face of widespread opposition from the public, the Kodiak Borough, local legislators, and Koniag, Inc., the local Native corporation.

COMMENT: Responses in the Final Environmental Impact Statement show support from several State agencies. Other individuals and groups in Kodiak were in favor of economic diversity; however, due to several reasons, they prefer to remain non-vocal in public. Recent correspondence from the Natives indicate they are not in favor of the resolution.

WHEREAS questions raised in administrative appeals, including the uncertainty of reforestation, the effect of herbicides, insecticides, and road building on salmon spawning streams, and the elimination of critical elk and bear habitat, have never been satisfactorily answered by the Forest Service.

COMMENT: Multiple use means wise use of a blend of resources. Recreation is one of the main activities on the Chugach National Forest of which Afognak is a part. The wildlife, the fish, the scenery, water, and soils are also valuable resources. For example, we believe increased use and management of the wildlife and fish resources will result from the sale. To date, surveys to determine improvement potential of wildlife and fish habitat have been limited primarily to the coastal area on salmon streams capable of producing commercial salmon and on lakes having a potential for sport fisheries. More intensive management of the wildlife and fish resources will take place as access becomes easier and more use is made of them.

The combination of forage and cover which exists around the edge of clearcut blocks is known as "edge effect" and is beneficial habitat for deer and elk.

More of the fishing and hunting potential of the interior of the island will be realized if the sale is completed and the planned permanent roads are built.

WHEREAS repeated requests for a stay of activities pending appeal were turned down by the Forest Service.

COMMENT: An appeal to the Secretary of Agriculture was considered by him, and he upheld the decision to proceed with the modified sale. The Forest Service is in agreement with the Secretary.

WHEREAS the wildlife, commercial and sport fish, and recreational resources within the sale area are extremely valuable to the citizens of the state and will be particularly important in satisfying the growing recreational demands of Anchorage and the entire southcentral area.

COMMENT: We agree. We believe completion of the proposed sale would result in an increase in the recreation opportunity for developed recreation sites on a road system.

More of the fishing and hunting potential of the interior of the island will be realized if the sale is completed and the planned permanent roads are built.

WHEREAS since the sale was made, land selections by Native corporations on Afognak seriously limit the amount of suitable land available for general public use and further question the advisability of committing 120,000 acres to single purpose use at this time.

COMMENT: A portion of the 12,000 acres designated for harvesting has been or is expected to be selected by Native corporations. This was provided for in the Alaska Native Claims Settlement Act, and timber sale alternatives prescribed by the Act can be chosen which will meet the needs of the public.

Only 12,000 acres, not 120,000 acres, is committed to timber activities. Even on these acres, single use is not the appropriate term. Elk,

deer, bear, and many other forms of wildlife use cutover areas as do hunters, picnickers, and others. We have also observed that roads improve access for such big game animals as deer and bear, as well as for humans.

WHEREAS the Forest Service's own Forestry Sciences Laboratory, which cautioned against large-scale logging on Afognak until more is known about the island's soil instability and special reforestation problems, was largely ignored.

COMMENT: Studies have shown that most of the areas logged in the past on Afognak Island have been adequately re-stocked with natural tree regeneration (over 90 percent stocked). However, there may be some tree regeneration difficulties because of competing grass and shrubs. The Forestry Sciences Laboratory is in agreement that what is now planned is responsive to the silvicultural needs of the sale area. The regeneration plans and their coordination with the other resources are discussed in the Environmental Impact Statement. The Forestry Sciences Laboratory research publication (PNW-176) recommended we ". . . proceed cautiously with large-scale timber harvesting. . . ." The sale as modified is a much more cautious approach and size of cutting units are scaled down.

WHEREAS large-scale cutting of Afognak timber, bound for Japan, ignores the larger public need for a balanced utilization of Alaska resources and provides little more than a minimal dollar return for Alaskans.

COMMENT: The capital investment necessary to start a new industry and the payroll for 120 or more employees are important to the State. Locally, an annual direct payroll of about \$2,000,000 is quite significant. In addition, many economists believe that the Nation's ability to maintain a healthy balance of payments is critical. Export of the manufactured products from this sale can help this balance. Trees,

unlike oil and minerals, are renewable, thus harvesting now will actually insure more wood products for the future.

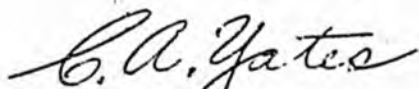
WHEREAS this return, only 25 percent of the net sale price, is only a token amount considering the probability of having to hand plant seedlings, the loss of recreational resources to the state, the added services required, and the degradation of critical commercial crab and salmon spawning and rearing areas.

COMMENT: As mentioned in our comment on the fourth WHEREAS, recreational resources will be increased. The only resource loss is wilderness. Added community services are looked upon as a benefit by some. We believe the revised sale requirements adequately protect crab and salmon spawning and rearing areas.

Any action recommended in a resolution should be realistic. A bilateral cancellation of the contract requires agreement of the purchaser as well as the Government. It is doubtful he would agree unless indemnified. There are no changed circumstances of consequence since June 13, 1974, when the purchaser and the Forest Service signed the modified contract. The contract has already been modified to better protect the environment and other resources. This included an elaborate restructuring of the size and location of cutting areas. Contract clauses are designed to more adequately protect waters from pollution.

To summarize, the Forest Service, obligated by a valid timber sale contract signed in 1968 and which was fostered by the State, voluntarily undertook a bilateral modification with full involvement and participation by the public and the purchaser in 1973. The decision to modify the contract and to proceed with the sale was announced on May 16, 1974. Correction of every personal concern for management was not possible, but most all concerns expressed during this effort were addressed in

this decision-making process. We believe that the National Environmental Policy Act has been complied with, resulting in a contract much more in tune with the public thinking. We were fortunate in having a sale purchaser who was cooperative and willing to give a great deal in the public interest. It is our recommendation that the Legislature stand by the decision to proceed with the sale and not pass the resolution as proposed.



C. A. YATES
Regional Forester

Supplemental Statement to accompany U. S. Forest Service Comments on Joint Resolutions (Senate No. 12/House No. 13), Relating to the Perenosa Timber Sale on Afognak Island, which was presented to House Resource Committee on March 11, 1975.

LANDSCAPE, SOILS, AND EROSION HAZARD

In this discussion we are mainly concerned with the N.E. portion of Afognak Island. It is this area which is proposed for timber harvest under the Perenosa Timber Sale Contract.

Landscape

Except for one mountain and several small, somewhat lower hills, all of the sale area is below 1,200 foot elevation. For the most part it is rolling terrain (slopes <20%) with many lakes, ponds, and muskegs.

The geologic history of the area is quite complex. Bedrock consists mainly of metamorphic rock types. During the last ice age most of the sale area, except possibly for the highest mountain area, was covered by ice. This glaciation resulted in coating the underlying bedrock with glacial till.

During and since the melting of the ice, volcanic ash has been falling on Afognak Island. These ash falls culminated with the last major fall in 1912 which originated from the Mt. Katmai Area.

Supplemental Statement presented before House Resources Committee, Juneau, Alaska, by Tom Sheehy, Soil Scientist, Chugach National Forest, April 3, 1975.

Although many people tend to think of the 1912 ash fall as the volcanic Ash on Afognak and Kodiak, in reality it is only one of many falls which have occurred. Field evidence indicates there have been at least 16 significant (significant meaning visible) ash falls since this last great ice age. Except for the 1912 fall, layers of ash range in thickness from just visible to about 1 inch. The 1912 ash fall ranges from 4-6" thick. Textures range from silt to coarse sand. Total thickness of all the ash layers is approximately 14 inches.

Soils

The soils of Afognak can be broadly divided into two groups - mineral and organic. Mineral soils in turn can be subdivided based on type of material below the soil profile.

Group I - Mineral Soils

Subgroup I

These are the major productive soils of the Island. Generally they are about 20" thick and overlay glacial till or windblown silt. A brief description shows:

Surface organic - 2"

1912 Ash layer - 4"

Buried organic - 2"

Silt loam weathered mineral material - 12" over unweathered glacial materials.

It is interesting to note that in most soils the only ash layer visible is the 1912 ash fall.

Subgroup II

These soils are similar to Group I but are thinner and overlie bedrock at a depth of 20" or less.

Subgroup III

Small areas of uplifted beaches are found along the coast. Soils consist of:

Surface organic - 2"

1912 Ash - 4"

Over coarse, angular beach fragments

Group II - Organic Soils

Lowlying areas throughout the Island have a covering of organic sedge and sphagnum peats ranging in depth from a few inches to 8 feet.

Summary

The landscape of the area of the Perenosa Timber Sale is in the main gently rolling terrain with many muskegs, lakes, and gentle ridges.

Only the upper portion of the soils have been derived from volcanic ash. Total ash thickness is generally less than 14 inches. The remaining portion of the soil is either glacial till, windblown silt or beach cobbles. Only the 1912 ash layer is distinctively visible in the mineral soil profiles, other ash layers having been weathered and incorporated into the lower parts of the soil.

Erosion Hazard

"Volcanic ash is highly erodible" is a statement often heard. One must ask the question-under what circumstances is it and is it not. Factors to consider in this determination are:

1. Slope
2. Particle size of the ash.
3. Amount of weathering or breakdown of ash into smaller components.
4. Exposure of the volcanic ash to the elements, especially water.

Consider these factors in terms of the Perenosa Timber Sale area:

1. Slopes within the proposed sale area are generally gentle. This means minimal landslides and slump hazards. Road construction will require fewer cuts and most construction will be the overlay type (overlay road - a method of construction whereby brush, trees, etc., are removed from the road area and fill material such as rock or gravel is placed over the soil. This material then serves as a road surface). This type of construction on gentle slopes leaves the soil essentially undisturbed and protects it.
2. Particle size of the ash - Particle size defines the size of the grains or individual constituents which make up the material. In other words, the finer the material the more easily it is eroded, particularly by moving water and wind. It takes a large volume of fast flowing water to move a boulder, less to move sand and least to move clay material.

The 1912 ash fall is the uppermost ash fall on Afognak and the one most likely to be disturbed during high-lead logging and road building operations. It is also composed of the largest particle sizes, mainly silt and sand, and is not highly erosive on gentle slopes and under rainfall conditions found in the proposed timber sale area. If water is concentrated in the form of rivulets, however, erosion can occur. Proper culvert installation will prevent this.

3. Amount of weathering - originally the material may have been quite coarse, perhaps sand in size, but because of the break down by chemical and physical weathering the particles become smaller and smaller with time. There has been some breakdown of 1912 ash particles but the material is still very coarse. The old buried ash falls are highly weathered and composed of fine particle sizes which are highly erosive. Fortunately these ash materials are quite thin (generally less than 12 inches) and are protected by a buried organic layer and a surface organic layer as well as the coarse 1912 ash fall.
4. Exposure of volcanic materials to the elements - if the ash material has a protective vegetative cover which prevents moving surface water from contacting it directly, it's stability is maintained. If the protective cover is removed, erosion can occur because water comes directly in contact with the ash. The more weathering, the smaller the particle size and the greater potential for erosion.

Summary - Erodibility and Protection of Afognak Soils

Let us now consider the soils of Afognak in the light of the above discussion to determine their erodibility under the proposed management conditions, namely high-lead logging with overlay access roads.

First, except for the 1912 ash fall, all the ash falls on Afognak have been weathered and incorporated into the soil profile in mineral soils. This weathered ash has small particle size, is highly weathered and very

erosive. At the same time it is protected by the buried organic layer, which prevents erosion.

Second, above the buried organic layer is the 1912 ash fall which has undergone some weathering but still has fairly large particle sizes. This in turn is protected by the new organic layer developed since 1912.

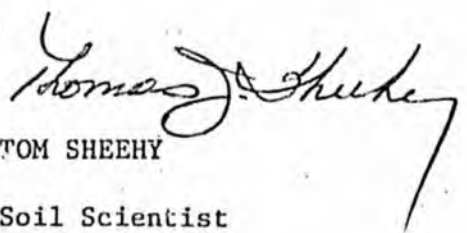
The key to preventing soil erosion and in turn sediment production is to minimize the soil disturbance, particularly the buried, highly erodible ashey soil material.

The best way to do this is by limiting disturbance of the soil. This is done by using high-lead logging methods with overlay access roads.

These logging methods will be used on the Perenosa Timber Sale.

Professional Opinion

It is my professional opinion as a Soil Scientist that by using high-lead logging methods, overlay roads and professional timber sale administration that soil erosion and loss of soil productivity will be minimal on the Perenosa Timber Sale.


TOM SHEEHY

Soil Scientist

ALASKA FEDERATION OF NATIVES, INC.

BEFORE THE

HOUSE AND SENATE NATURAL RESOURCES COMMITTEES,
ALASKA STATE LEGISLATURE

MARCH 23, 1976

MR. CHAIRMAN, MEMBERS OF THE COMMITTEES, I AM SAM KITO, JR., PRESIDENT, ALASKA FEDERATION OF NATIVES. I TAKE THIS OPPORTUNITY TO PRESENT TO YOU, THROUGH THE OFFICES OF THE AFN, THE VIEWS OF THE REGIONAL CORPORATIONS CONCERNING THE OIL AND GAS TAXING LEGISLATION PENDING THIS SESSION.

THE ALASKA FEDERATION OF NATIVES, SPEAKING FOR THE REGIONAL CORPORATIONS, OPPOSES PASSAGE DURING THIS SESSION OF LEGISLATION WHICH ALTERS THE PRESENT METHOD OF TAXING REVENUES DERIVED FROM OIL AND GAS PRODUCTION. THE AFN OPPOSES ANY SUCH LEGISLATION FOR MANY REASONS, AMONG WHICH ARE:

- SUCH PROPOSED LEGISLATION IS UNTIMELY, IN THAT ANY RESULTING INCREASED TAX REVENUES WILL NOT OCCUR FOR SEVERAL YEARS.

- SUCH LEGISLATION IS PREMATURE, IN THAT COMPREHENSIVE REVENUE POLICIES TREATING OIL AND GAS PRODUCTION ARE BEING, AND NEED TO BE, DEVELOPED.

- SUCH PROPOSED LEGISLATION HAS THE NEGATIVE EFFECT OF INHIBITING THE FORMULATION OF A NEEDED COMPREHENSIVE STATE OIL AND GAS REVENUE POLICY.

- SUCH PROPOSED LEGISLATION DOES NOT ALLOW THE REGIONAL CORPORATIONS ADEQUATE TIME TO CONSIDER AND PLAN FOR THE MANAGEMENT OF THEIR RESOURCE LANDS.

- SUCH LEGISLATION WILL BE A STRONG DETERRENT TO INVESTMENT FOR THE NEEDED EXPLORATION AND DEVELOPMENT OF NATIVE RESOURCE LANDS.

- THE LEGISLATION YOU ARE CONSIDERING ALSO COMPLETELY OVERLOOKS THE VERY IMPORTANT DISTINCTIONS (IN THE OWNERSHIP OR OPERATION OF RESOURCE LANDS) BETWEEN PROFIT-ORIENTED REGIONAL CORPORATIONS AND PROFIT-ORIENTED OIL CORPORATIONS.

-- SUCH PROPOSED LEGISLATION IS NARROW, SEEMINGLY INTENDED TO APPLY GENERALLY, BUT IN EFFECT BENEFITTING THE STATE THROUGH ITS OWNERSHIP OF LANDS WHILE RESTRICTING BENEFITS TO THE REGIONAL CORPORATIONS FROM THE OWNERSHIP OF THEIR LANDS.

AT THE BEGINNING IT MUST BE STATED THAT THE POSITION WE ARE TAKING IS NOT INTENDED TO REJECT THE NOTION THAT THE REGIONAL CORPORATIONS, LIKE OTHER INTERESTS, MUST ASSUME A REASONABLE TAX BURDEN ON REVENUES RESULTING FROM PRODUCTION OF MINERAL RESOURCES LOCATED ON THEIR LANDS. WE STATE EMPHATICALLY THAT THE REGIONAL CORPORATIONS FIND THE NOTION OF SPECIAL EXEMPTION UNSETTLING. OUR OPPOSITION TO THE LEGISLATION PENDING WILL NOT BE MOLLIFIED BY THE GRANT OF A SPECIAL EXEMPTION. WE QUESTION WHETHER AN EXEMPTION CAN BE GIVEN.

WE OPPOSE THE LEGISLATION BECAUSE IT'S NOT IN OUR BEST INTEREST TO APPROVE A TAXING SCHEME WHICH IS GEARED SPECIFICALLY FOR PRUDHOE BAY PRODUCTION. WE DO NOT FEEL THAT THE RAMIFICATIONS UPON REGIONAL CORPORATIONS RESOURCE LANDS AND UPON THE FUTURE OF THE REGIONAL

CORPORATIONS HAVE BEEN CONSIDERED BY THIS LEGISLATION. WE DO NOT BELIEVE IT IS IN THE STATE'S BEST INTEREST TO ENTER INTO A TAXING SCHEME WHICH TENDS TO INHIBIT THE FORMULATION OF A MORE COMPREHENSIVE POLICY FOR SECURING TO THE STATE INCREASED REVENUES FROM OIL AND GAS PRODUCTION. WE HOLD THAT IT IS INCUMBENT UPON THIS LEGISLATURE AND THE PRESENT ADMINISTRATION TO DEVELOP INNOVATIVE RESOURCE REVENUE POLICIES, RATHER THAN RESORTING, AS HAS BEEN TRUE THE PAST SEVERAL YEARS, TO PATCHWORK EFFORTS. WE WILL REFER TO SOME ALTERNATE POLICY FOR SECURING ADDITIONAL REVENUES FROM MINERAL LEASING AND PRODUCTION. WE WILL WORK WITH THE STATE AND INDUSTRY, TO CONCEPTUALIZE COMPREHENSIVE, INNOVATIVE POLICY. WE CANNOT, HOWEVER, SUPPORT THE STOP-GAP TAXING SCHEME NOW BEFORE THE LEGISLATURE.

OUR TESTIMONY IS GIVEN DIRECTLY ON BEHALF OF APPROXIMATELY TWENTY PER CENT (20%) OF THE PEOPLE IN ALASKA -- ONE FIFTH (1/5) THE POPULATION OF THE STATE -- AND INDIRECTLY ON BEHALF OF ALL ALASKANS, SINCE ALL ALASKANS WILL BENEFIT OVER THE LONG HAUL FROM SELF-SUFFICIENT SOUND FINANCIALLY MANAGED REGIONAL CORPORATIONS. THE ONE-FIFTH (1/5) ALASKANS DIRECTLY REPRESENTED IN MINERAL RESOURCE REVENUE LANDS BY THE REGIONAL CORPORATIONS ARE ALASKANS WITH ROOTS GENERATIONS BOUND AND WITH ASPIRATIONS PERMANENTLY TIED TO THIS LAND. THE MINERAL LANDS MANAGED BY THE NATIVE PEOPLE, THROUGH THEIR REGIONAL CORPORATIONS, INCLUDE POSSIBLY THE LARGEST ACREAGE BLOC OF LAND WITH STRONG POTENTIAL FOR MINERAL RESOURCE DEVELOPMENT. YET, IN A MATTER OF MAJOR CONSEQUENCE RELATING TO THESE LANDS -- THE REVENUE FROM THE USE OF THEIR LANDS -- THE NATIVE PEOPLE WERE NOT ASKED TO PARTICIPATE IN THE DELIBERATIONS WHICH RESULTED IN THE LEGISLATION PRESENTED. HAD WE THE

OPPORTUNITY, WE WOULD EARLY ON HAVE ADVISED THAT THE TAXING SCHEMES HERE PRESENTED FAIL TO RESOLVE THE PROBLEM OF HOW TO SECURE TO THE STATE THE LARGEST SHARE OF REVENUES FROM ITS MINERAL RESOURCE LANDS. ESSENTIALLY, TAXING IS NOT THE METHOD MOST DESIRED TO SECURE SUCH REVENUES, SINCE TAXING IS HERE PROPOSED SETS UP DIVISIONS BETWEEN THE VARIOUS INTERESTS INVOLVED. THIS LEGISLATURE MUST BE CONCERNED WITH NOT CREATING SUCH DIVISIONS. IT MUST LOOK TO METHODS WHICH ENABLE THE VARIOUS INTERESTS (STATE, REGIONAL CORPORATIONS, AND INDUSTRY) TO WORK HARMONIOUSLY. SUCH TAXING BY THE STATE TO INCREASE ITS REVENUES FROM ITS LANDS IS DETRIMENTAL TO THE DEVELOPMENT OF WISE LEASING POLICIES BY THE REGIONAL CORPORATIONS FOR THEIR LANDS. LITTLE CONSIDERATION IS GIVEN BY THIS LEGISLATION TO THE EFFECT IT WOULD HAVE UPON THE ABILITY OF THE REGIONAL CORPORATIONS TO DEVELOP LONG-TERM COMPREHENSIVE POLICIES FOR THE OPERATION OF THEIR MINERAL RESOURCE LANDS -- NO CONSIDERATION OTHER THAN POSSIBLY GRANT OF AN EXEMPTION SPECIFICALLY DEvised FOR THE NATIVE OWNERSHIP, WHICH KNOWLEDGEABLE OBSERVERS CONSIDER SHORT-SIGHTED AND CONSTITUTIONALLY UNSUPPORTABLE.

THERE ARE SIGNIFICANT DIFFERENCES BETWEEN THE REGIONAL CORPORATIONS AND THE VARIOUS OIL CORPORATIONS, WHICH THE PROPOSED BILLS DO NOT TAKE INTO CONSIDERATION. THE REGIONAL CORPORATIONS ARE ALASKAN CORPORATIONS. THEIR INVESTMENTS ARE GENERALLY ALASKA INVESTMENTS, AND THEIR ASSETS ARE IN ALASKA. THEIR BUSINESS GROWTH AND SUCCESSES EFFECTUATE A MULTIPLYING FACTOR IN ALASKAN INVESTMENTS, RESULTING IN INCREASED EMPLOYMENT OF ALASKANS. UNDERLYING THIS INVESTMENT POSSIBILITY, AND HELPING TO CREATE AN ATMOSPHERE FOR CONTINUING ORDERLY

GROWTH, IS THE MANAGEMENT OF REGIONAL RESOURCE LANDS. THE DISTRIBUTION OF PROFITS, PURSUANT TO SECTION 7(I) OF THE CLAIMS ACT, IS NECESSARY TO ASSIST THE BUSINESS AND INVESTMENT POTENTIAL OF REGIONS WHOSE RESOURCES ARE SLIGHT. THE PROFITS EXPECTED FROM THE LEASING POLICIES WHICH ARE PRESENTLY IN EFFECT IN MANY OIL AND GAS AGREEMENTS THE REGIONAL CORPORATIONS HAVE WITH INDUSTRY ARE BEING RELIED UPON BY ALL THE CORPORATIONS TO CONTRIBUTE TO THEIR DEVELOPMENT.

ONE MUST CONSIDER THAT IF THE STATE TAXING SCHEME AS PROPOSED WERE ENACTED, THE POSSIBILITY IS REAL THAT, ASIDE FROM PRUDHOE BAY, INDUSTRY MAY FIND IT MORE TO ITS LIKING TO INVEST ELSEWHERE, EITHER IN FEDERAL LEASES ONSHORE OR OFF, OR IN OTHER AREAS. THIS WOULD HAVE A SERIOUS DETRIMENTAL EFFECT, BOTH ON THE CONDITION OF THE PRESENT ARRANGEMENTS THE CORPORATIONS HAVE WITH INDUSTRY, AND WITH THE POSSIBILITY OF EXPLORING AND DEVELOPING LANDS NOT COVERED BY AGREEMENT. IT IS OBVIOUS THAT THE REGIONAL CORPORATIONS NEED THE ASSISTANCE, FINANCIAL AND TECHNICAL, OF THE OIL INDUSTRY TO BEGIN THE DEVELOPMENT OF THEIR RESOURCE LANDS. THE PROPOSED TAX WOULD WORK AGAINST INDUSTRY PARTICIPATION. IT WOULD DISCOURAGE CONTINUED AND FUTURE PARTICIPATION. IT WOULD DIMINISH THE ABILITY OF THE REGIONAL CORPORATIONS TO GET INTO A POSITION TO DEVELOP THEIR LANDS THEMSELVES, IF NECESSARY.

WHAT WOULD BE THE MOST DIRECT OVERALL IMPACT OF LEGISLATION OF THIS TYPE? REMEMBERING THAT THE REGIONAL CORPORATIONS ARE UNIQUELY ALASKAN IN NATURE, NOT HAVING THE OPTION TO MOVE ASSETS AND DEVELOPMENT

CAPABILITIES TO OTHER GEOGRAPHIC AREAS AS CAN THE OIL CORPORATIONS, THE IMPACT WOULD BE HIGHLY NEGATIVE. THE STATE WOULD VIRTUALLY DESTROY THE OPPORTUNITY TO BUILD LARGE-SCALE TRUE ALASKA CORPORATIONS, CORPORATIONS WHOSE ASSETS AND SHAREHOLDERS ARE IN ALASKA, AND WILL REMAIN IN ALASKA. GREAT OPPORTUNITIES FOR DEVELOPMENT OVER THE NEXT FEW DECADES OF PERMANENT EMPLOYMENT FOR ALASKANS, OF MONEY DEPOSITS IN ALASKAN INSTITUTIONS, AND OF LEADERSHIP OF NATIVE ALASKANS, JUST TO MENTION A FEW BENEFITS, WOULD BE LOST.

A QUICK HISTORICAL REVIEW WOULD REVEAL THAT THE STATE, OVER THE PAST TWENTY YEARS, HAS ENCOURAGED THE ESTABLISHMENT OF BUSINESSES WHICH WOULD HAVE PERMANENCE HERE. THE REGIONAL CORPORATIONS CONSTITUTE THE FIRST MAJOR RESPONSE TO THIS ENCOURAGEMENT. IT IS RARE THAT THE STATE CAN REALIZE THE ESTABLISHMENT OF BUSINESS INSTITUTIONS WITH SUCH CHARACTER SUITABLE FOR PERMANENT GROWTH. THE REGIONAL CORPORATIONS OFFER THIS. BUT, SINCE THEIR GROWTH DEPENDS UPON THE WISE AND PRODUCTIVE MANAGEMENT OF THE SUBSURFACE ESTATES, STATE ACTION WHICH WOULD DISCOURAGE INVESTMENT IN THEIR RESOURCE LANDS OUGHT NOT TO HAPPEN. PASSAGE OF THE TAX BILLS BEFORE YOU WOULD DISCOURAGE INVESTMENT BY INDUSTRY IN REGIONAL CORPORATION LANDS AS WELL AS STATE LANDS.

HOW WOULD THEY DO THIS? AS THERE IS A MULTIPLYING FACTOR IN EVERY DOLLAR RETURNED TO A REGIONAL CORPORATION FOR INVESTING IN RESOURCE LANDS IN OIL DEVELOPMENT, THERE IS SIMILARLY A REVERSE EFFECT WHEN INVESTMENT OPPORTUNITIES ARE DENIED, BECAUSE OF TAXES AS PROPOSED. THE COMPER AND HUBER BILLS, ESSENTIALLY, ESTABLISH PRUDHOE BAY WITH A RETURN ON INVESTMENT CONSIDERED BY THE AUTHORS AS "FAIR". IN DOING SO, THEY SET UP PRUDHOE BAY AS AN ECONOMIC UNIT, WITH CRITERIA DEFINED

REGARDING RETURN ON INVESTMENT. IT THEREBY ESTABLISHES FIELDS OF MUCH SMALLER SIZE AS UNECONOMIC UNITS; THAT IS, THE CRITERIA FOR INVESTMENT SIZE AND RETURN ESPECIALLY DESIGNED FOR PRUDHOE BAY WILL NOT ENCOURAGE EXPLORATION AND DEVELOPMENT OF SMALLER FIELDS. THE PROFITS JUST WILL NOT BE ATTRACTIVE TO ENTICE INDUSTRY TO EXPLORE AND DEVELOP. SINCE NATIVE RESOURCE LANDS ARE 'FRONTIER' LANDS, IN TERMS OF COSTS OF EXPLORATION AND DEVELOPMENT, THESE LANDS, UNDER TAXATION AS PROPOSED, WILL BE REQUIRED TO OFFER ENORMOUS PROSPECTS TO ENTICE INVESTOR FUNDS. ENORMOUS PROSPECTS ARE RARE. WHAT WOULD BE EXPLORED ELSEWHERE WILL BE PASSED ON.

EVERYONE AGREES THAT THE SIZE OF PRUDHOE BAY IS UNUSUALLY LARGE. THE LIKELIHOOD IS THAT POTENTIAL FINDS UNDER REGIONAL LANDS WILL NOT APPROXIMATE THE SIZE OF PRUDHOE BAY. FOR ILLUSTRATION PURPOSES, WE WILL CONSIDER A 600 MILLION BARREL FIELD. UNDER THE PROPOSED LEGISLATION, SUCH A FIELD BECOMES MUCH LESS DESIRABLE TO DEVELOP. IT BECOMES MARGINAL IN TERMS OF ATTRACTIVENESS. IT WILL RECEIVE NEGATIVE EXPLORATION AND DEVELOPMENT RESPONSES FROM INDUSTRY, FOR THE PRINCIPLE REASON THAT, WITH THE PASSAGE OF THE PROPOSED TAXES, INDUSTRY WILL NEED AND WILL FIND MORE ATTRACTIVE PLACES TO INVEST. IT CAN EASILY CHANNEL AVAILABLE EXPLORATION MONEY INTO OFFSHORE PROSPECTS, OR TO AREAS WHERE THE RETURN IS MORE ATTRACTIVE. IN ADDITION, SINCE REGIONAL LANDS ARE USUALLY LET TO INDUSTRY ON SOME PART OF PROFIT PARTICIPATION FORMULA, NATIVE LANDS WOULD BECOME THE LEAST DESIRABLE BETWEEN FEDERAL, STATE AND NATIVE LANDS.

COMPOUND THIS FACTOR WITH THE FACT THAT REGIONAL CORPORATIONS DO NOT HAVE INDUSTRY'S FLEXIBILITY TO MOVE ASSETS AND INVESTMENTS TO MORE DESIRABLE AREAS, AND YOU REACH THE CONCLUSION THAT THE MULTIPLYING

NEGATIVE EFFECT OF THE PROPOSED LEGISLATION IS NOT ONLY DEVASTATING, BUT IS ONE WHICH THIS LEGISLATION COMPLETELY OVERLOOKS. WE MUST THEN CONSIDER THIS NEGATIVE IMPACT IN LIGHT OF THE FACT THAT THE REGIONAL RESOURCE LANDS ARE A MAIN BASE FROM WHICH CORPORATIONS WHICH ARE UNIQUELY ALASKAN ARE EXPECTED TO GROW. WE MUST ALSO CONSIDER THIS NEGATIVE IMPACT IN LIGHT OF THE EXPECTATIONS THAT THE CONGRESS IMPLIED WHEN IT GAVE THE MANAGEMENT OF THE SUBSURFACE ESTATE TO APPROXIMATELY 40 MILLION ACRES TO THE REGIONAL CORPORATIONS.

WHEN PUT ALL TOGETHER, WE CAN SAY TO YOU, AS A MATTER OF REASONED PERSPECTIVE, THAT THE POTENTIAL FOR USING NATIVE RESOURCE LAND AS A BASE FOR GROWTH OF THE REGIONAL CORPORATIONS WILL HAVE BEEN SEVERELY LIMITED BY THE PASSAGE OF THE PROPOSED LEGISLATION. YOU WILL HAVE WEAKENED THE REGIONAL CORPORATIONS, BY MAKING THEIR LANDS LEAK IN ATTRACTIVENESS. SINCE, AS MENTIONED EARLIER, THE REGIONAL CORPORATIONS REPRESENT A UNIQUE EFFORT IN THE DEVELOPMENT OF LARGE-SCALE, PERMANENT CORPORATE ACTIVITY WHICH IS COMPLETELY ALASKAN IN OWNERSHIP AND MAKEUP, YOU WILL HAVE SEVERELY DAMAGED THIS EFFORT. IF, AS INDUSTRY WILL PROBABLY TESTIFY, THE PROPOSED LEGISLATION WILL CUT INVESTMENT RETURN BY A HIGH PERCENTAGE, CONSIDER THAT THE ATTRACTIVENESS OF NATIVE RESOURCE LANDS WILL HAVE BEEN REDUCED BY A PERCENTAGE FAR, FAR GREATER.

IN ADDITION TO POINTING OUT THE DETERRENT EFFECT THIS LEGISLATION WILL HAVE ON THE INVESTMENT POTENTIAL FOR NATIVE RESOURCE LANDS, AND THE DIFFERING NATURE AND CONCERNS BETWEEN THE REGIONAL CORPORATIONS AND THE OIL CORPORATIONS, I SHOULD REMARK THAT THIS LEGISLATION AUTOMATICALLY WOULD PUT INDUSTRY IN A FAR MORE COMMANDING

POSITION IN BARGAINING WITH THE REGIONAL CORPORATIONS FOR NATIVE RESOURCE LANDS.

ONE OTHER POINT SHOULD BE MENTIONED HERE, SINCE IT IS HISTORIC, AND HAS A FURTHER COMPOUNDING EFFECT UPON WEAKENING THE REGIONAL CORPORATIONS' ABILITY TO DEAL WITH THEIR RESOURCE LANDS. HISTORICALLY, THERE HAVE BEEN OIL AND GAS TAX CHANGES PROPOSED, AND ENACTED, EACH OF THE PAST SEVERAL LEGISLATIVE SESSIONS. THE EFFECT ON INVESTORS IS INCREASING. PASSING THIS LEGISLATION WILL NOT ONLY INCREASE THIS CONCERN TO THE DAMAGING POINT BUT IT WILL ALSO REQUIRE ITS OWN SUCCESSOR LEGISLATION, THUS COMPOUNDING THE CONCERN AND FEAR IN THE INVESTOR.

EACH SUCCEEDING SESSION WILL HAVE TO ADJUST THE ENTIRE OIL AND GAS TAXING SCHEME. IT IS INEVITABLE. CONDITIONS WILL REQUIRE IT. IT IS BAD ENOUGH THAT THE PROPOSED LEGISLATION IS CREATING SUCH A NEGATIVE IMPRESSION IN MOST QUARTERS; IT IS WORSE WHEN WE REALIZE IT IS ONLY THE BEGINNING OF THE TAX UNCERTAINTY. THE FEAR OF INVESTORS WILL BE JUSTIFIABLY REAL, AND WE SHARE IT.

WHY, THEREFORE, IS THE LEGISLATIVE EFFORT NOT DIRECTED TO LONG-TERM REVENUE SATISFACTION FROM THE USE OF STATE LANDS? WHY, IN ORDER TO INCREASE REVENUES FROM STATE LANDS, DOES THIS LEGISLATURE SEEK TO DAMAGE AND RENDER WEAK THE OWNERSHIP OF NATIVE LANDS? THE BILLS BEFORE YOU MAKE THE WISE MANAGEMENT OF NATIVE RESOURCE LANDS DIFFICULT. ANY SUCH TAXING SCHEMES WILL, FOR THEY ARE NARROW IN PURPOSE, BROAD-REACHING IN THEIR ILL-EFFECTS, SHORT-SIGHTED AND SHORT-LIVED (THERE HAVE BEEN DOZENS OF OIL AND GAS TAX BILLS PRESENTED TO THIS BODY IN

THE LAST FIVE YEARS), AND TOTALLY LACKING IN OIL AND GAS REVENUE POLICY CONSIDERATION. WHY DOES THIS LEGISLATURE NOT ACT POSITIVELY TO INCREASE REVENUES FROM ITS LANDS, POSSIBLY BY CHANGING ITS LEASING PROVISIONS?

THE LEGISLATION FAILS TO REALIZE THAT THE STATE GOVERNMENT IS NOT THE ONLY LAND INTEREST INVOLVED IN OIL AND GAS RESOURCES. IT FAILS TO APPRECIATE THE RESPONSIBILITY REGIONAL CORPORATIONS HAVE HAD PLACED UPON THEM BY THE UNITED STATES CONGRESS TO MANAGE SUBSURFACE ESTATES. AND, THAT THIS RESPONSIBILITY IS ONE DIRECTLY PLACED UPON THE REGIONAL CORPORATIONS; THE RESPONSIBILITY FOR THE WISE MANAGEMENT OF NATIVE RESOURCES (WITH RESULTING BENEFITS EXPECTED TO THE NATIVE PEOPLE) IS NOT ONE THE CONGRESS SHARED WITH THE STATE GOVERNMENT. ACTION BY THE STATE GOVERNMENT SHOULD NOT UNDERMINE OR THWART THE REGIONAL CORPORATIONS' ABILITY TO CARRY OUT THEIR RESPONSIBILITIES. FOR OUR PART, WE ENCOURAGE STATE EFFORT TO MAXIMIZE REVENUE FROM ITS RESOURCE LANDS IN A WAY WHICH WILL ALLOW EACH INSTITUTIONAL FORCE (THE STATE AND THE NATIVE MOVEMENT) TO CARRY OUT ITS RESPECTIVE RESPONSIBILITIES TO ITS PEOPLE IN THE MANNER IT BEST SEES FIT. WE ASK YOU TO CONSIDER THAT NEW RESOURCE REVENUE POLICY BE DEVISED WHICH WILL ACCOMMODATE THE STATE'S INTEREST AND THE NATIVE PEOPLES' INTEREST, AND AVOID DIVIDING US. FROM OUR VIEWPOINT, ALASKA DOES NOT NEED, NOR CAN IT AFFORD, PIECEMEAL OIL AND GAS TAXATION.

TO BEGIN, THIS LEGISLATION IS UNTIMELY. NONE OF THE BILLS HAS THE EFFECT OF BRINGING SIGNIFICANT INCREASED REVENUE INTO THE STATE TREASURY BEFORE THE FLOW OF PRUDHOE BAY OIL, WHICH, ACCORDING TO THE EARLIEST ESTIMATES, WILL BE 1977-1978, EXCEPT POSSIBLY FOR

INCREASED REVENUE FROM INCREASED SEVERANCE TAXES ON COOK INLET PRODUCTION.

THE TIME BETWEEN NOW AND 1977-1978 COULD WELL BE USED BY THE STATE AND INDUSTRY, IF IT WISHES TO PARTICIPATE, TO DEVELOP NEW ROYALTY AND LEASING POLICIES WHICH WOULD RESULT IN INCREASED REVENUES TO THE STATE FROM THE USE OF ITS RESOURCE LANDS. WE SUGGEST, THEREFORE, THAT THIS LEGISLATURE RESOLVE TO CAUSE A STUDY TO BE UNDERTAKEN TO DEVELOP A NEW, SUITABLE LEASING POLICY FOR STATE LANDS.

THE LEGISLATION IS ALSO PREMATURE. SEVERAL VOICES, INCLUDING API's, WOULD ADVOCATE FOR CHANGES IN THE STATE'S LEASING POLICY, CHANGES WHICH WILL GUARANTEE TO THE STATE INCREASED REVENUES FROM THE USE OF ITS RESOURCE LANDS, AND DO SO WITHOUT INTERFERING WITH THE VARIOUS METHODS OF LEASING USED BY THE REGIONAL CORPORATIONS IN THE USE OF THEIR RESOURCE LANDS.

NEW LEASING POLICY COULD BE PREPARED AND PRESENTED TO THE NEXT SESSION OF THE LEGISLATURE. WHILE NEW LEASING POLICIES WOULD NOT NECESSARILY INCREASE REVENUES FROM PRUDHOE BAY PRODUCTION, THEY COULD STABILIZE STATE LEASING RELATIONSHIPS WITH INDUSTRY AT A SUFFICIENTLY HIGH LEVEL TO PRECLUDE THE NECESSITY FOR ANNUAL REVIEW OF THE LEVEL OF TAXATION. BESIDES SUBMITTING NEW LEASING POLICIES TO THE NEXT SESSION, APPROVED INCREASES IN THE SEVERANCE TAX COULD BE SUBMITTED. THE TWO-FOLD EFFECT WOULD BE TO GIVE THE STATE SOME SORT OF EQUITY OR PARTICIPATORY INTEREST IN FUTURE LEASING OF STATE LANDS, WHILE SECURING GREATER DOLLAR REVENUE FROM PRUDHOE BAY PRODUCTION.

BESIDES BEING PREMATURE, PASSAGE OF LEGISLATION SUCH AS THE DESIGNATED HUBER PACKAGE OR THE COMPER BILL WOULD HAVE THE NEGATIVE EFFECT OF INHIBITING THE FORMULATION BY THE STATE OF NEW POLICY TO DERIVE GREATER REVENUE FROM ITS RESOURCE LANDS. CLEARLY, THE NEED IS PRESENT TO DEVELOP SUCH NEW POLICY. ROYALTY BIDDING AND METHODS OF ACQUIRING EQUITY PARTICIPATION ARE BEING SUGGESTED. PASSAGE OF THE TAX LEGISLATION BEFORE YOU WILL VIRTUALLY KILL ANY CHANCE THE STATE COULD HAVE TO WORK WITH INDUSTRY TO DEVELOP NEW POLICY. IT SHOULD BE KEPT IN MIND THAT THE OIL INDUSTRY IS NO STRANGER TO VARIOUS PARTICIPATION SCHEMES IN LEASING OIL-RICH LANDS. LONG-TERM SATISFACTORY INCOME PRODUCING POLICY MIGHT COME ABOUT THROUGH A GOOD WORKING RELATIONSHIP BETWEEN THE STATE AND THE INDUSTRY, SUCH AS WOULD OBIVIATE THE ANNUAL NECESSITY OF CHANGING THE TAX MEASURES ON OIL AND GAS PRODUCTION. IT IS THE THREAT OF THIS LATTER POSSIBILITY WHICH MAKES UNCERTAIN A CLIMATE FOR CONTINUING INVESTMENT IN ALL RESOURCE LANDS IN ALASKA. THE POTENTIAL ENORMOUS OIL WEALTH WITHIN ALASKA, BOTH ON STATE AND NATIVE LANDS, TO AN EXTENT INFLUENCES THE STRENGTH OF THE BARGAINING POSITIONS OF THE STATE AND THE REGIONAL CORPORATIONS IN THE LEASING OF THEIR RESPECTIVE LANDS. INDUSTRY IS NOT UNAWARE OF THIS. SURELY, HISTORIC CHANGES IN LEASING POLICY COULD COME ABOUT HERE, WHERE THEY COULD NOT POSSIBLY IN OTHER PRODUCING STATES. THIS IS WHAT THE STATE SHOULD BE ABOUT, NOT ABOUT SOME BAND-AID TAXING SCHEME GEARED TO THE PRODUCTION FROM ONE LARGE FIELD.

WHAT ARE SOME OF THE POSSIBILITIES FOR NEW POLICY? THEY INCLUDE ROYALTY BIDDING, WITH FIXED OR BID CASH BONUSES; FIXED ROYALTY WITH NET PROFITS BIDDING AND FIXED OR BID CASH BONUSES; NO ROYALTY, WITH FIXED NET PROFITS SHARE AND FIXED OR BID CASH BONUSES; NO

ROYALTY, WITH NET PROFITS SHARE BIDDING AND FIXED OR BID CASH BONUSES. THERE CAN BE CONTRACTS WHICH ENCOURAGE EXPLORATION BUT RETAIN TO THE STATE OWNERSHIP RIGHTS, AS PRESENTLY PROPOSED. THE POSSIBILITIES, WHILE NOT ENDLESS, ARE MANY FOR THE STATE TO INSURE INCREASED REVENUES FOR OIL AND GAS PRODUCTION. NONE OF THE ABOVE PROHIBITS REASONABLE INCREASES IN THE SEVERANCE TAX. IMPORTANT, HOWEVER, IS THE FLEXIBILITY THE NEW POLICY WOULD PROVIDE, BY WAY OF SUITABLE RENT-INCOME FORMULAS, TO ALLOW FOR THE EXPLORATION AND DEVELOPMENT OF MARGINAL STATE LANDS.

THE VALUE TO DEVELOPING NEW POLICY, IS, AGAIN THAT INSURED INCREASED REVENUES TO THE STATE, WHICH OBTAIN THE NEED TO ATTEMPT TO PASS ANNUAL TAX LEGISLATION CREATE A STABILITY WHICH IS DEARLY SOUGHT BY INDUSTRY.

INDUSTRY, NO DOUBT, WILL TESTIFY HERE ON THE NEGATIVE IMPACT THIS TAXING LEGISLATION WILL HAVE ON ITS ABILITY TO RAISE CAPITAL FOR FUTURE INVESTMENTS. REASONS INCLUDE THE UNCERTAINTY OF RETURN ON INVESTMENT RESULTING FROM AN UNSTABLE POLITICAL CLIMATE. WE ECHO THIS FEAR. THE REGIONAL CORPORATIONS COMPETE IN THE MARKET PLACE FOR INVESTMENT CAPITAL AND RELATIONSHIPS. MANY OF THE RELATIONSHIPS ARE WITH THE OIL INDUSTRY. EXORBITANT TAXING MEASURES, AS NOW BEFORE YOU, ARE DISGUISED EXPROPRIATION SCHEMES. THEY WILL INFLUENCE INVESTORS TO MORE APPEALING AREAS.

AFI PREFERS TO TAKE A POSITIVE APPROACH TO THE REVENUE PROBLEM. WE BELIEVE THE STATE AND INDUSTRY CAN FIND A LEASING POLICY ACCEPTABLE TO EACH OTHER. WE DO NOT THINK THAT SUBSTITUTING NEW LEASING POLICY FOR EXORBITANT TAXING PROVISIONS IS A MATTER OF POLEMICS; RATHER, WE BELIEVE

IT IS A MATTER OF NECESSITY, TO CREATE A HEALTHY CLIMATE FOR CONTINUING DEVELOPMENT OF STATE AND, NOT INCIDENTALLY, NATIVE LANDS.

WE AT AFN LOOK TO A LARGE AND PROSPEROUS FUTURE IN THE LEASING OF NATIVE RESOURCE LANDS; WE ARE NOT HUNG TO THE NARROW OPINION THAT PRUDHOE BAY IS THE END-ALL OF OIL PRODUCTION IN ALASKA. THEREFORE, WE LOOK TO THE DEVELOPMENT AND ENLARGEMENT OF LEASING POLICIES WHICH WILL ALLOW US TO BENEFIT IN THE GREATEST MEASURE FROM OUR LANDS.

AS MENTIONED EARLIER, THE REGIONAL CORPORATIONS ARE IN THE PROCESS OF DEVELOPING RESOURCE LAND LEASING PROVISIONS WHICH ARE SUITABLE TO THEIR CIRCUMSTANCES. OBVIOUSLY, EACH CORPORATION HAS NEEDS DIFFERENT FROM EACH OTHER CORPORATION. MANY OF THE PROVISIONS FOUND IN VARIOUS LEASING AGREEMENTS WITH THE INDUSTRY NEVER CONTEMPLATED, AND, THEREFORE WERE NOT STRUCTURED TO ACCOMMODATE SUCH AN INVASION OF PRIVATE EQUITY RIGHTS AS IS INTENDED HERE UNDER THE DISGUISE OF THE PROPOSED TAX LEGISLATION. WE CANNOT PROSPER UNDER SUCH AN INVASION. WE MUST HAVE THE TIME AND CLIMATE IN WHICH TO DEVELOP LEASING POLICIES WHICH ALLOW US TO CARRY OUT OUR RESPONSIBILITIES TO USE OUR NATIVE-OWNED RESOURCE LANDS IN THE MOST PRODUCTIVE MANNER POSSIBLE. OUR ATTEMPT IS COMPLETELY THWARTED BY THE TAX ON PROFITS.

THE UNITED STATES CONGRESS DETERMINED IN PASSING THE ALASKA NATIVE CLAIMS SETTLEMENT ACT THAT, TO CORRECT PAST ABUSES WITH RESPECT TO LAND HISTORICALLY CLAIMED AND USED BY THE NATIVE PEOPLE OF ALASKA, THE CONTROL OF CERTAIN LANDS IN ALASKA BE GIVEN TO THE NATIVE PEOPLE OF ALASKA, AND TO NO OTHER GROUP, PARTICULARLY NOT TO THE GOVERNMENT OF THE STATE OF ALASKA. THAT ACT WAS AND IS BASICALLY A LAND CLAIMS ACT.

PURSUANT TO THIS DETERMINATION, THE CONGRESS GRANTED TO THE NATIVE PEOPLE OF ALASKA THE RIGHT TO TITLE TO AND THE RIGHT TO CONTROL APPROXIMATELY FORTY MILLION ACRES OF LAND IN ALASKA, WITH THE RIGHT TO THE SUBSURFACE ESTATE TO MOST OF THIS ACREAGE TO REST IN THE REGIONAL CORPORATIONS. CERTAIN EXPECTATIONS ARE INHERENT IN CONGRESS' REPOSING SUCH MANAGEMENT RESPONSIBILITY IN THE REGIONAL CORPORATIONS FOR THE SUBSURFACE ESTATES. THE MOST OBVIOUS IS THAT THE SUBSURFACE ESTATES BE MANAGED PROFITABLY, SINCE THE PROFITS ARE TO BE DISTRIBUTED ANNUALLY AMONG ALL THE REGIONS. THESE ARE EXPECTATIONS WHICH WILL BE DISAPPOINTED IF THE PROPOSED TAX LEGISLATION IS ENACTED.

WE, THEREFORE, URGE YOU TO CONSIDER THAT THE STATE SHOULD NOT ENACT TAXING SCHEMES FOR ITS OWN BENEFIT WHICH HAVE THE EFFECT OF INTERFERING WITH OR DESTROYING THE ABILITY OF THE REGIONAL CORPORATIONS TO MANAGE WISELY THEIR RESOURCE LANDS. THAT THE EXPECTED RESULT OF THE REGIONAL CORPORATIONS' POLICIES CAN BE UPSET BY THE EXORBITANT USE OF A TAXING POWER BY THE STATE IS AN ODIOUS THOUGHT. ALL THE MORE SO, IF THE END SOUGHT BY THE STATE (INCREASED REVENUE FOR ITS OWN BENEFIT) CAN BE REASONABLY ATTAINED BY FORMULATION OF POLICY TO ACHIEVE THAT END, WITHOUT DETRIMENTAL EFFECT TO THE LEASING POLICIES OF THE REGIONAL CORPORATIONS.

IT IS NOT THE INCREASED NUMBER OF DOLLARS THAT WOULD GO INTO THE STATE'S TREASURY THAT THE REGIONAL CORPORATIONS OBJECT TO; NO, WE ENCOURAGE THE STATE TO SECURE GREATER REVENUES, BY WAY OF NEW LEASING POLICY. HOWEVER, THE STATE DOES NOT HAVE TO DESTROY THE REGIONAL CORPORATIONS' ABILITY TO DEVELOP PRODUCTIVELY THEIR RESOURCE LANDS IN ORDER TO SECURE THE GREATER REVENUES.

SENATE BILLS 620 (TAX ON NET PROCEEDS) AND 621 (TAX ON EXCESS PROFITS) (THE HUBER PACKAGE) AND THE COMPER BILL, HOUSE BILL 803, ARE CUMBERSOME, AWKWARD BILLS. SB 620 INTERFERES WITH THE STATE INCOME TAX SCHEME, WELL ESTABLISHED UNDER TITLE 43. IT REQUIRES EACH REGIONAL CORPORATION, WHETHER THAT CORPORATION ACTUALLY OWNS THE RESOURCE LANDS LEASED OR NOT, TO FILE GROSS VALUE PRODUCTION AND NET PROCEEDS STATEMENTS ANNUALLY. THAT IS BECAUSE UNDER SECTION 7(1) OF THE CLAIMS ACT, EACH REGIONAL CORPORATION ANNUALLY MUST SHARE ITS REVENUES RECEIVED FROM USE OF ITS SUBSURFACE ESTATES WITH EACH OF THE TWELVE REGIONAL CORPORATIONS, AND SB 620 REQUIRES EACH "RECIPIENT" OF ROYALTY PAYMENTS, WHICH INCLUDES PERSONS OWNING OR CLAIMING INTERESTS, TO FILE SUCH STATEMENTS, AND ALSO TO FILE STATEMENTS SHOWING "THE LESSEES RESPONSIBLE FOR TAXES DUE IN CONNECTION WITH THE WELLS FOR FIELDS" INCLUDED IN THE EARLIER STATEMENTS. THE COMPER BILL HAS SIMILAR REQUIREMENTS. THIS IS A HEAVY ADMINISTRATIVE BURDEN. THE PAYMENT OF THE TAX, HOWEVER, IS DIRECTED TO THE REGIONAL CORPORATION FROM WHOSE LANDS THE PRODUCTION FLOWS, AND THE TAX IS ON THE "ASSESSED VALUE OF PRODUCTION WHICH IS SEVERED OR SOLD FROM EACH WELL OR FIELD". AS THE BILL IS PRESENTLY DRAFTED, REGIONAL CORPORATION X, FOR EXAMPLE, WOULD BE REQUIRED TO PAY TAX BASED ON "THE ASSESSED VALUE OF PRODUCTION WHICH IS SEVERED AND SOLD FROM EACH WELL OR FIELD" IN ITS REGION, EVEN THOUGH REGIONAL CORPORATION X IS REQUIRED BY THE CLAIMS ACT TO DISTRIBUTE SEVENTY PER CENT (70%) OF ITS SHARE OF THE "ASSESSED VALUE OF PRODUCTION" TO ELEVEN OTHER REGIONAL CORPORATIONS. PUT ANOTHER WAY, THE "INCOME", AS DEFINED AND TAXED UNDER SB 620, IS NOT TRUE INCOME TO REGIONAL CORPORATION X; BY INTERFERING WITH THE PRESENT INCOME TAX SCHEME, SB 620 OVERTAXES THOSE REGIONAL CORPORATIONS WITH RESOURCE LANDS. AT THE SAME TIME, IT BURDENS EACH REGIONAL CORPORATION WITH INCREASED ANNUAL ADMINISTRATIVE WORK, WHICH COSTS EACH REGIONAL CORPORATION TIME AND MONEY.

IT IS QUESTIONABLE WHETHER THE REGIONAL CORPORATIONS COULD COMPLY WITH THE PROVISIONS OF SB 620.

SB 620 HAS THE FURTHER POSSIBLE EFFECT OF REQUIRING REGIONAL CORPORATIONS TO FINANCE THEIR OWN ALASKA NATIVE FUND.

WHILE THE ACTUAL EFFECTS OF THESE BILLS WILL VARY ACCORDING TO THE AGREEMENTS THE SEVERAL REGIONAL CORPORATIONS HAVE WITH INDUSTRY FOR THE OPERATION OF RESOURCE LANDS, THE OVERALL NEGATIVE EFFECT IS THE FAILURE TO TAKE INTO ACCOUNT THE REASONS INDIVIDUAL REGIONAL CORPORATIONS AGREE TO DIFFERENT LEASING PROVISIONS. THE STATE CAN LEASE ITS LANDS UNDER A SOMEWHAT UNIFORM SET OF LEASING PROVISIONS; THE REGIONAL CORPORATIONS CANNOT, FOR THE FACTORS INFLUENCING THE DETERMINATION OF REGIONAL CORPORATIONS LEASING PROVISIONS VARY GREATLY FROM REGION TO REGION. IN MANY INSTANCES, REGIONAL CORPORATIONS MAY BE PARTNERS WITH INDUSTRY IN FIELD PRODUCTION.

IN ADDITION TO THE NEGATIVE IMPACT PASSAGE OF THESE BILLS WILL HAVE ON THE REGIONAL CORPORATIONS, FOR REASONS JUST STATED, THERE WILL BE OTHER UNDESIRABLE RESULTS FLOWING FROM THESE BILLS.

THE BILLS LACK DEFINITION. ADMINISTRATIVELY, THE TAX SYSTEM WILL BE CONFUSED. A TAX BUREAUCRACY WILL BE NECESSARY. THE STATED PURPOSE OF SB 620, USED FOR EXAMPLE, IS "TO PROVIDE EFFICIENT ADMINISTRATION AND COLLECTION OF" A TAX; THESE BILLS ARE NOT ENGINEERED TO PROVIDE FOR AN EFFICIENT TAX ADMINISTRATION - JUST THE OPPOSITE IS THE LIKELY RESULT.

THERE ARE MORE THINGS AFN COULD SAY ABOUT THE PROPOSED BILLS. FOR EXAMPLE, WHAT CONSIDERATION WAS GIVEN IN DRAFTING THE LEGISLATION TO THE IMPACT PASSAGE WOULD HAVE ON THIS BODY'S EXPRESSED DESIRE TO INFLUENCE THE ROUTING OF A GAS LINE THROUGH ALASKA. OR, HOW WILL THIS LEGISLATION HAMPER THE EXPLORATION FOR AND DEVELOPMENT OF OIL AND GAS RESOURCES ON STATE LANDS, WHICH BY ONE U.S.G.S. ESTIMATE COULD AMOUNT TO OVER 10 BILLION BARRLES. IT SEEMS UNREALISTIC TO THINK YOU CAN EXTRACT INCREASED REVENUES FROM PRUDHOE BAY STATE LANDS BY PROFIT-TAXING AND YET ENCOURAGE CONTINUED EXPLORATION ON OTHER STATE LANDS. WHAT DOES THIS DO TO THE STATE PLANNING POLICY? WHAT CONSIDERATION HAS BEEN GIVEN TO THE POSSIBILITY THAT SUCH PROFIT-TAXING WILL FIND INDUSTRY RELIEF THROUGH HIGHER PIPELINE TARIFFS, THUS REDUCING WELL-HEAD VALUE, AND STATE INCOME?

ANOTHER VALID CRITICISM IS THAT THESE PROPOSALS, BEING TAXING MEASURES, LACK RELEVANCE TO TESTED OBJECTIVES; AT LEAST, THERE SHOULD BE SOME DEMONSTRATION THAT THE TAX IS NEEDED TO GOVERN. AS IT IS, NO SUCH OBJECTIVE IS PRESENTED, OTHER THAN TO AMEND THE ORIGINAL LEASE (BY TAXATION) TO IMPROVE THE STATE'S BARGAIN. IF THIS CAN BE DONE NOW, THERE IS NO REASON FOR THE REGIONAL CORPORATIONS, THEIR INVESTORS, AND INDUSTRY TO BELIEVE ANYTHING THE STATE SAYS ABOUT THIS BEING THE LAST TAX.

WE ARE HERE TODAY TO TELL YOU WHAT THE CONCERNS ARE OF THE REGIONAL CORPORATIONS TO THE PROPOSALS BEFORE YOU. WE APPRECIATE THE OPPORTUNITY, AND COURTESIES, EXTENDED TO US. ON OUR PART, WE SEE PROBLEMS WHICH WILL HAVE DIRECT IMPACT UPON THE LIVES OF MANY ALASKANS. IT IS OUR OBLIGATION TO DISCUSS THESE CONCERNS WITH YOU. UNDER NO CONDITIONS WOULD WE WISH TO CHARACTERIZE OUR THOUGHTS, OR HAVE THEM

CHARACTERIZED, AS OPPOSITION TO THE APPARENT DESIRE OF THE STATE TO INCREASE ITS REVENUES FOR OIL AND GAS RESOURCES.

ON THE CONTRARY, AS MENTIONED EARLIER, WE ENCOURAGE EFFORTS WHICH HAVE THE LONG-TERM EFFECT OF INCREASING STATE REVENUES. WE BELIEVE THIS CAN BE DONE.

TO CONCLUDE, I WOULD LIKE TO SUMMARIZE THE BASIC CONCERN WE HAVE. IT IS DIFFICULT TO CONVEY FULLY TO YOU THE IMPORTANCE OF OUR BASIC CONCERN, WHICH IS: THE NEGATIVE IMPACT THIS LEGISLATION WILL HAVE ON THE ORDERLY DEVELOPMENT OF NATIVE RESOURCE LANDS.

MOST OF THESE LANDS ARE YET TO RECEIVE ATTENTION. THEIR DEVELOPMENT IS NECESSARY TO THE GROWTH AND FUNCTIONING CAPABILITIES OF THE REGIONAL CORPORATIONS, PARTICULARLY TO THOSE REGIONS WHICH ARE SCARCE WITH RESOURCE LANDS. THE PASSAGE OF THIS LEGISLATION WILL AUTOMATICALLY MAKE NATIVE RESOURCE LANDS THE LEAST DESIRABLE AMONG STATE, FEDERAL, AND NATIVE LANDS. FOR EXAMPLE, WITH THIS LEGISLATION ON THE BOOKS, SUCCESSFUL EXPLORATION OF NAVAL PETROLEUM RESERVE #4 WILL BRING INVESTOR MONEY INTO THOSE FEDERAL LANDS, CREATING A LARGE ATTRACTIVE COMPETITIVE RESERVE OF FEDERAL OIL LANDS IN THE MIDST OF NATIVE RESOURCE LANDS. IT WILL BRING INCREASED INVESTOR ATTENTION AND MONEY TO OFFSHORE FEDERAL LANDS, AT THE EXPENSE OF NATIVE RESOURCE LANDS. IT WILL RENDER THE ATTRACTIVENESS OF NATIVE RESOURCE LANDS MARGINAL, OR LESS SO.

THE STATE CAN INCREASE ITS REVENUES WITHOUT DAMAGING THE

NATIVE PEOPLE. THE STATE CAN EFFECTUATE LONG-TERM OIL AND GAS REVENUE POLICY, IF IT SO DESIRES. THE IRONY PRESENT IS THAT THE LEGISLATION BEFORE YOU FAILS TO ACCOMPLISH EITHER RESULT.

IN CLOSING, MAY I REMARK THAT THE NATIVE PEOPLE OF ALASKA ARE NOT SAYING HERE THAT WE WANT SPECIAL TAX PRIVILEGES. ABSOLUTELY NOT. WE WILL PAY FAIR TAXES.

ALL WE ASK IS THAT THE STATE NOT TAX OUR LANDS OUT OF EXISTENCE.

THE FOLLOWING PAGES WERE TREATED AS
A UNIT IN THE ORIGINAL FILE.

COOK INLET REGION, INC.



1211 WEST 27th AVE. ANCHORAGE, ALASKA 99503

TELEPHONE 274-8638

December 22, 1975

Mr. Nels Anderson
Chairman - House Resource Committee
State of Alaska
120 West Fourth Street
Juneau, Alaska 99701

Dear Nels:

Please find enclosed a copy of the legislation and the document entitled, "Terms and Conditions for Land Consolidation and Management in the Cook Inlet Area", as presented to the Committee on the Interior and Insular Affairs. It passed the House Committee on December 16, 1975 essentially as outlined.

We will provide you with copies of the final legislation as soon as we receive them.

If you have any questions, please do not hesitate to call me.

Sincerely,

COOK INLET REGION, INC.

A handwritten signature in cursive script that reads "Roy M. Huhndorf". The signature is written in dark ink and is positioned above the printed name and title.

Roy M. Huhndorf
President

RMH:bf

Enclosure

MEMORANDUM

The attached document entitled "Terms and Conditions for Land Consolidation and Management in the Cook Inlet Area" is incorporated by this reference as if set out herein. Having determined that the proposed "Terms and Conditions" would facilitate land management in the Cook Inlet basin by effecting land consolidations and encouraging settlement and development on appropriate lands, and that it would serve as an equitable resolution by the United States of Cook Inlet Region's entitlement under ANCSA, the undersigned hereby agree to support federal legislation incorporating the content of the proposed "Terms and Conditions". In the event that such legislation becomes law, the undersigned agree to recommend that the State of Alaska notify the Secretary within sixty days of the commencement of the 1976 session of the Alaska State Legislature of its assent to be bound by the requirements of the proposed "Terms and Conditions".

It is understood and agreed between the undersigned that the proposed "Terms and Conditions" will be referred to the Alaska State Legislature for its approval within 60 days of the commencement of the 1976 session, such approval to be expressed either affirmatively by action thereon or constructively by inaction.

Cook Inlet Region, Inc., in consideration of the promise both to support such federal legislation and to recommend that the Secretary be notified, as indicated above, agrees now to be bound by the "Terms and Conditions" subject to the enactment of federal legislation and the final consent of the State of Alaska.

DATED THE TENTH DAY OF DECEMBER, 1975, AT WASHINGTON, D. C.

COOK INLET REGION, INC.

by _____

Roy M. Huhndorf, President
for the Cook Inlet Region,
Incorporated

Michael C. T. Smith
Director, Division of Lands

Concur:

Guy R. Martin
Commissioner, Department
of Natural Resources

*adopted 7-10-75
w/ amendment on
distribution of
by Young.*

AMENDMENT to H.R. 6644, viz: On page 21, line 7, through page 23, line 18, delete section 12 and insert the following in lieu thereof:

Sec. 12. Cook Inlet Settlement. (a) The purpose of this section is to provide for the settlement of certain claims, and in so doing to consolidate ownership among the United States, the Cook Inlet Region, Incorporated ("Region" hereinafter), and the State of Alaska, within the Cook Inlet area of Alaska in order to facilitate land management and to create land ownership patterns which encourage settlement and development in appropriate areas. The provisions of this section shall take effect at such time as all of the following have taken place:

(1) The State of Alaska has conveyed or irrevocably obligated itself to convey lands to the United States for exchange, hereby authorized, with the Region in accordance with the document referred to in subsection (b);

(2) The Region and all plaintiffs/appellants have withdrawn from Cook Inlet v. Kleppe, No. 75-2232, 9th Circuit, and such proceedings have been dismissed with prejudice, and

(3) All Native village selections under section 12 of the Alaska Native Claims Settlement Act of the lands within Lake Clark, Lake Kontrashibuna, and Mulchatna River deficiency withdrawals have been irrevocably withdrawn and waived.

The conveyances described in paragraph (1) of this subsection shall not be subject to the provisions of section 6(i) of the Alaska Statehood Act (72 Stat. 339).

(b) The Secretary shall make the following conveyances to the Region, in accordance with the specific terms, conditions, procedures, covenants, reservations, and other restrictions set forth in the document entitled "Terms and Conditions for Land Consolidation and Management in Cook Inlet Area," which was submitted to the House Committee on Interior and Insular Affairs on December 10, 1975, and which is set forth with particularity in House Report No. 94- , the terms of which are hereby ratified as to the duties and obligations of the United States set forth therein:

(1) Approximately 10,240 acres of land within the Kenai National Moose Range; except that there shall be no conveyance of the bed of Lake Tustumena, or the mineral estate in the water-front zone described in the document referred to in this subsection.

(2) Title to oil and gas and coal in not to exceed 9.5 townships within the Kenai National Moose Range;

(3) Federal interests in townships 10 South, Range 9 West, F.M., and township 20 North, Range 9 East, S.M.;

(4) Township 1 South, Range 21 West, S.M.: secs. 3-10, 15-22, 29 and 30; and rights to metalliferous minerals in the following sections in township 1 North, Range 21 West, S.M.: secs. 13, 14, 15, 22, 23, 24, 25, 26, 27, 28, 32, 33, 34, 35, 36;

(5) Twenty-nine and sixty-six hundredths townships of land outside the boundaries of Cook Inlet Region; unless pursuant to the document referred to in this subsection a greater or lesser entitlement shall exist, in which case the Secretary shall convey such entitlement;

(6) Lands selected by the Region from a pool which shall be established by the Secretary and the Administrator of General Services: Provided, That conveyances pursuant to this paragraph shall not be subject to the provisions of section 22(1) of the Alaska Native Claims Settlement Act: Provided further, That conveyances pursuant to this paragraph shall be made in exchange for lands or rights to select lands outside the boundaries of Cook Inlet Region as described in paragraph (5) of this subsection and on the basis of values determined by agreement among the parties, notwithstanding any other provision of law.

Effective upon their conveyance, the lands referred to in paragraph (1) of this subsection are excluded from the Kenai National Moose Range, but they shall automatically become part of the Range and subject to the laws and regulations applicable thereto upon title thereafter vesting in the United States. The Secretary is authorized to acquire lands formerly within the Range with the concurrence of the owner. Section 22(e) of the Alaska Native Claims Settlement Act, concerning refuge replacement, shall apply with respect to lands conveyed pursuant to paragraphs (1) and (2) of this subsection, except that the Secretary may designate for replacement land twice the amount of any land without restriction to a native corporation.

No lands without the exterior boundaries of Cook Inlet Region, which were as of December 15, 1975, withdrawn for the purposes of section 11(a)(1) of the Alaska Native Claims Settlement Act, or lands adjacent to lands selected under section 11(a)(3) of the Alaska Native Claims Settlement Act, shall be conveyed to Cook Inland Region, Inc., without the concurrence of the Region in which such land is located, and the concurrence of any native village whose section 11(a)(3) or 11(a)(1) selections are adjacent to the subject lands.

(c) The lands and interests conveyed to the Region under the foregoing subsections of this section and the lands provided by the State exchange under subsection (a)(1) of this section, shall be considered and treated as conveyances under the Alaska Native Claims Settlement Act unless otherwise provided, and shall constitute the Region's full entitlement under sections 12(c) and 14(h)(8) of the Alaska Native Claims Settlement Act. Of such lands, 3.5 townships of subsurface in the Kenai National Moose Range shall constitute the full surface and subsurface entitlement of the Region under section 14(h)(8). The lands which would comprise the difference in acreage between the lands actually conveyed under and referred to in the foregoing subsections of this section, and any final determination of what the Region's acreage rights under sections 12(c) and 14(h)(8) of the Alaska Native Claims Settlement Act would have been, if the conveyances set forth in this section to the Region had not been executed, shall be retained by the United States and shall not be available for conveyance to any regional corporation or village corporation, notwithstanding any provisions of the Alaska Native Claims Settlement Act to the contrary.

(d)(1) The Secretary shall convey to the State of Alaska, all right, title and interest of the United States in and to all of the following lands:

(i) At least 22.8 townships and no more than 27.0 townships of land from those presently withdrawn under section 17(d)(2) of the Alaska Native Claims Settlement Act in the Lake Iliamna area and within the Nushagak River or Koksetna River drainages near lands heretofore selected by the State, the amount and identities of which shall be determined pursuant to the document referred to in subsection (b); and

(ii) Twenty-six townships of lands in the Talkeetna Mountains, Kamishak Bay, and Tutna Lake areas, the identities of which are set forth in the document referred to in subsection (b).

All lands granted to the State of Alaska pursuant to this subsection shall be regarded for all purposes as if conveyed to the State under and pursuant to section 6 of the Alaska Statehood Act: Provided, however, that this grant of lands shall not constitute a charge against the total acreage to which the State is entitled under section 6(b) of the Alaska Statehood Act.

(2) The Secretary is authorized and directed to convey to the State of Alaska, without consideration, all right, title and interest of the United States in and to all of that tract generally known as the Campbell Tract and more particularly identified in the document referred to in subsection (b) except for one compact unit of land which he determines, after consultation with the State of Alaska, is actually needed by the

Bureau of Land Management for its present operations: Provided, That in no event shall the unit of land so excepted exceed 1,000 acres in size. The land authorized to be conveyed pursuant to this paragraph shall be used for public parks and recreational purposes and other compatible public purposes in accordance with the generalized land use plan outlined in the Greater Anchorage Area Borough's Far North Bicentennial Park Master Development Plan of September 1974: Provided, That if the land is not used for the above purposes it shall revert to the United States. Except as provided otherwise in this paragraph, in making the conveyance authorized and required by this paragraph, the Secretary shall utilize the procedures of the Recreation and Public Purposes Act (44 Stat. 741), as amended, and regulations developed pursuant to that Act: Provided, however, that the acreage limitation provided by section 1(b) of that Act, as amended by the Act of June 4, 1954 (68 Stat. 173), shall not apply to this conveyance, nor shall the lands conveyed pursuant to this paragraph be counted against that acreage limitation with respect to the State of Alaska or any subdivision thereof.

(3) The Secretary is authorized and directed to make available for selection by the State, in its discretion, under section 6 of the Alaska Statehood Act, 12.4 townships of land to be selected from lands within the Talkeetna Mountains and Koksetna River areas as described in the document referred to in subsection (b).

(e) The Secretary may, notwithstanding any other provision of law to the contrary, convey title to lands and interests in lands selected by Native corporations within the exterior boundaries of Power Site Classification 443, February 13, 1958, to such corporations, subject to the reservations required by section 24 of the Federal Power Act.

(f) All conveyances of lands made or to be made by the State of Alaska in satisfaction of the terms and conditions of the document referred to in subsection (b) of this section shall pass all of the State's right, title, and interest in such lands, including the minerals therein, as if those conveyances were made pursuant to section 22(f) of the Alaska Native Claims Settlement Act, except that dedicated or platted section line easements and highway and other rights-of-way may be reserved to the State.

(g) The Secretary through the National Park Service, shall provide financial assistance, not to exceed \$25,000, hereby authorized to be appropriated, and technical assistance to the Region for the purpose of developing and implementing a land-use plan for the West side of Cook Inlet, including an analysis of alternative uses of such lands.

(h) Village corporations within the Cook Inlet Region shall have until December 18, 1976, to file selections under section 12(b) of the Alaska Native Claims Settlement Act, notwithstanding any provision of that act to the contrary.

(i) The Secretary shall report to the Congress by April 15, 1976, on the implementation of this section. If the State fails to agree to engage in a transfer with the Federal Government, pursuant to subsection (a)(1), the Secretary shall prior to December 18, 1976, make no conveyance of the lands that were to be conveyed to the Region in this section, nor shall he convey prior to such date the Point Campbell, Point Woronzof and Campbell tracts, so that the Congress is not precluded from fashioning

TERMS AND CONDITIONS FOR LAND CONSOLIDATION AND MANAGEMENT

IN THE COOK INLET AREA

December 10, 1975

I. The United States shall convey to Cook Inlet Region, Inc., the following lands:

A. Sixteen sections of land, as described in Appendix A, presently within the boundaries of the Kenai National Moose Range, but to be removed from the boundaries of the Range. The conveyance of these lands shall be subject to the following conditions:

(1) Included in the lands described in this paragraph shall be a restricted zone of lake front and river front lands, not to exceed an average of 160 acres per linear mile, to be measured from the high water line, the exact boundaries to be determined by mutual agreement between CIRI and the Secretary no later than September 1, 1976. The conveyance of the lands within this zone shall contain the following restrictions so long as Lake Tustumena remains a part of the Range:

(a) A restrictive covenant running with the land which provides that no development shall take place or facilities be constructed within the zone, except those which are directly necessary to support water dependent activities, such as a boat dock, airplane tie-up and marina. Reasonable access to these facilities will be permitted. It is contemplated that a lodge may also be located within the restricted zone, provided, however, that the lodge shall be of such a design, size and at a location agreed upon by the United States

Fish and Wildlife Service. CIRC must submit a request in writing to the Fish and Wildlife Service for approval of any construction or development within the zone, which approval will not be unreasonably withheld. The Fish and Wildlife Service will notify CIRC of its decision on any such request within 120 days of receipt of such request, and failure of any response will be considered as approval.

- (b) a provision that CIRC will not sell the lands to any third party for a period of 25 years from the date of the conveyance, without the consent of the Secretary.
- (c) a provision that CIRC and its assigns will offer the United States the right of first refusal to purchase the lands if the lands are ever sold. The right of first refusal shall be for a period of 120 days from the date of notice in writing to the United States that the owner of the land has received a bonafide offer of purchase. The United States shall exercise such right of first refusal by written notice to the owner within such 120 day period. The United States shall not be deemed to have exercised its right of first refusal if the owner does not consummate this sale in accordance with notice to the United States.
- (d) the conveyance of the lands comprising this restricted zone shall only convey the surface estate to CIRC. The United States shall retain the rights in oil and gas and all minerals, including but not limited to common varieties of minerals.

(e) the United States reserves the right of re-entry on these lands to be exercised upon occurrence of the following conditions:

- (1) The United States obtains a final judgment in a proceeding in law or equity to enforce in whole or in part the restrictive covenants contained in the conveyance of the lands described in this section; and
- (2) subsequent to such final judgment, the United States institutes proceedings in law or equity to enforce the provisions of the restrictive covenants which were the subject of the final judgment obtained in subparagraph (1) of this paragraph. The right of re-entry shall be asserted in such subsequent action but may not be actually exercised except upon and in accordance with the final judgment in favor of the United States in such subsequent action.
- (3) such right of re-entry shall be limited, in any case, to the lands which were the subject of the final judgment referred to in subparagraph (1) hereof.

(2) The remainder of the lands described in Appendix A shall be conveyed to CIRC without restriction, other than the reservation of those easements authorized by 17(b) of ANCSA or other applicable federal statutes. The conveyance of such remainder shall include both the surface and the subsurface estates to such lands.

B. Three and fifty-eight one hundreds townships of the subsurface estate to oil and gas and coal as identified in Appendix B; provided that the United States shall retain all other minerals including but not limited to common varieties of minerals; and provided that the right to extract coal shall be conditioned upon the opening for the extraction of coal of that portion of the Range in which these lands are located, and provided further, that coal shall only be extracted in a liquid or gaseous state. The extraction of oil and gas and coal shall be conducted in accordance with a surface use plan approved by the Secretary. Such extraction shall be undertaken in accordance with the most advanced technology commercially available at that time and causing the least practicable temporary and permanent harm to the fish and wildlife habitats of the Range. Any surface damage caused by the exercise of the rights herein must be repaired or reclaimed by CIRI, its successors and assigns, as rapidly as practicable without unreasonable interference with the rights of extraction. The United States shall make available to CIRI, its successors and assigns, sand and gravel as is reasonably necessary for the construction of facilities and rights of way appurtenant to the exercise of the rights conveyed under this section, pursuant to the provisions of 30 U.S.C. 601 et. seq., and the regulations implementing that statute which are then in effect. By mutual consent of CIRI and the Secretary, CIRI may exchange any interest described in this paragraph for other mineral interests of equal value outside the boundaries of the Kenai National Moose Range.

(1) All federal lands and interests in lands within the following:

(a) T. 10 S., R. 9 W., F. M. (Healy); and

(b) T. 20 N., R. 9 E., S. M. (Glenn Highway).

- (2) T 1 N R 21 W, S. M. (sections 13, 14, 15, 22, 23, 24, 25, 26, 27, 28, 32, 33, 34, 35, 36).

The Secretary shall only convey the rights to metalliferous minerals in the land herein described. Extraction of such minerals shall be subject to a surface use plan submitted by CIRC and approved by the Secretary. Surface use for the purposes of exploration, extraction, access and benefaction shall be conducted in accordance with the most advanced technology commercially available at that time consistent with the exercise of the rights conveyed under this subparagraph. CIRC, its successors and assigns, shall be required to repair and reclaim any surface damage as rapidly as practicable consistent with the reasonable exercise of such mineral rights.

- (3) T 1 S, R 21 W, S. M. (Sections 3-10, 15-22, 29 and 30).

The Secretary shall transfer to CIRC the above described lands in fee simple. Such conveyance shall be subject to a restrictive covenant, running with the land, providing that the surface shall only be used for purposes reasonably incident to mineral extraction, including processing and transportation. The Secretary shall also convey to CIRC, an easement for a port which shall reasonably provide for receiving, shipping, storage and incidental handling, and incidental facilities thereto, of the minerals extracted from the lands conveyed under this subparagraph. The Secretary shall also convey to CIRC a transportation easement to provide for transportation by road, rail or pipeline, of the minerals from the above described lands to the port easement. The Secretary and CIRC shall mutually agree upon the location of the port and transportation easements.

C. (1) Twenty nine and sixty six one hundredths townships from any federal public lands withdrawn under sections 11(a)(1), 11(a)(3), and 17(d)(1) without the exterior boundaries of Cook Inlet Region; to be identified in the manner herein provided; provided that if CIRI's total entitlement under Section 12(c) of ANCSA is determined to be greater or less than 54 townships, the number of townships to be conveyed under this paragraph (hereinafter out-of-Region entitlement) shall be increased or decreased one for one.

(a) lands to be nominated and conveyed under this paragraph

C-1 shall be limited as follows: The entitlement shall be satisfied from lands within Ahtna Region, Bristol Bay Region, Calista Region, Chugach Region, and Doyon Region.

With the concurrence of the Secretary and the State and any affected Region other than those described above, selections may be made from one or more of the other Regions, on the basis hereinafter described or on such other basis as the parties shall contemporaneously agree. CIRI shall not nominate any of the following:

- (1) lands located west of the 161 degree west longitude of Greenwich Meridian
- (2) lands within Areas of Environmental Concern as described in the Secretary's 1973 Four Systems proposals to Congress
- (3) lands within any of the Secretary's 1973 Four Systems proposals to Congress
- (4) lands made available to the State for selection pursuant to Sections 2 and 5 of the State-Federal Agreement of September 1, 1972.

(b) By May 1, 1976 the Secretary shall, after consultation with the State, submit to CIRC a list of areas where approval of out-of-Region selections is unlikely. CIRC may thereafter nominate to the Secretary, with simultaneous notice to the State, a township or townsl for selection. Within 120 days after such nomination, the Secretary after consultation with the State shall approve or disapprove it for withdrawal for placement in the selection pool as described herein. By October 18, 1978 CIRC must nominate at least 6 times its remaining out-of-Region entitlement. If the Secretary fails to approve a pool of three times that remaining out-of-Region entitlement from said nominations, then he and CIRC, by mutual consultation and study, shall agree by January 18, 1979 on sufficient additional townships to compose that number. The Secretary must, on that date, report to Congress as to the operation of this selection mechanism, and the need for remedial legislation, if required. Upon completion of the pool, the State and CIRC shall commence a striking and selecting process. The State may strike ten percent of the pool and the Region may select a number of townships equal to ten percent of the original pool. Alternate strikes and selections of five percent of the original pool shall continue until CIRC's out-of-Region entitlement is, as defined in this paragraph, satisfied. The State and CIRC must complete this process no later than May 18, 1979. Notwithstanding the foregoing, with the consent of the United States, State of Alaska, and CIRC, lands may be conveyed without resort

to the pool and striking mechanism herein provided, or in the manner described in subparagraph 2 of this paragraph C, in which case the number of townships to be nominated, pooled, struck and selected, shall be reduced proportionately.

- (c) The State may continue to select lands under the Statehood Act which may be affected by this paragraph C, provided however, that any Regional nomination made hereunder shall be superior to and take precedence over any such State selection made after July 18, 1975. None of those lands selected by the State under the Statehood Act after July 18, 1975, and also nominated by CIRC pursuant to this paragraph C, shall be tentatively approved for patent to the State by the Department of the Interior for so long as these lands are potentially available to CIRC under this subparagraph or unless CIRC has consented to such tentative approval.
- (d) Lands approved by the Secretary for the out-of-Region pool shall, as of the date of such approval, be withdrawn from all forms of entry and location under the Public Land Laws including the mining and mineral leasing laws, but not from selection by the State, for so long as the said lands shall be included in the said pool.
- (e) Prior to nomination of any townships for secretarial approval, the Region shall obtain the consent of other Native Corporations where applicable, and a copy of such consent shall be attached to such nomination.
- (f) CIRC shall select its out-of-Region entitlement in blocks no less than 36 sections in size, along section

lines, with no segment of an exterior line less than six miles in length, unless the Secretary specifically authorizes another manner of selection.

(g) CIRI may, with the consent of the Secretary and the State, select that portion of the mineral estate reserved by the United States in a township if the remainder of the estate may not be legally or readily available for selection, in which case, however, such substitute selection shall be treated as full satisfaction of the entitlement represented by the acreage involved and no additional selection rights shall arise by reason of the lack of conveyance of the entire estate.

(h) It is the intent of the Secretary and the State that all out-of-Region selections shall be as compact as is practicable, and that wherever possible, CIRI shall select lands which are contiguous to privately-owned lands.

(i) Nothing in this paragraph shall be construed as limiting any Congressional review and approval of the Secretary's 1973 four systems proposals to Congress.

2 (a) The Secretary, in conjunction with the General Services Administrator, shall promptly identify and take the necessary steps by January 15, 1978, to create a selection pool which shall consist of all the following lands within the exterior boundaries of the Cook Inlet Region now in existence or hereafter coming into existence by January 15, 1978:

(i) abandoned or unperfected public land entries, provided

however, that the United States shall not be obligated to initiate any adversary proceedings other than an adjudication by the BLM to determine if such entries are abandoned or unperfected, and the burden of identifying such lands shall be on CIRI;

- (ii) federal surplus property;
- (iii) revoked federal reserves;
- (iv) cancelled or revoked power site reserves, with the exception of the Bradley Lake reserve in the Lake Clark proposal, and the Chakachamna Lake reserve, if ever cancelled or revoked;
- (v) public lands created by the reduction of federal installations as defined in Section 3(e) of ANCSA, except that, if such lands are within a Section 11(a)(1) withdrawal area, they shall be subject to prior Village Corporation selections properly filed prior to December 18, 1975; and
- (vi) any other federal lands as agreed by the State the Region and the Secretary, including but not limited to lands withdrawn under Section 17(d)(1) of ANCSA and not withdrawn for any other purpose.

The Secretary shall notify CIRI after any above-described lands have been placed in the pool. With the concurrence of CIRI, the State and any other concurrence that may be required under paragraph I-C(1)(e) of this Document, the Secretary may, in his discretion, contribute to such pool properties of one or more of the foregoing categories from without the boundaries of the Cook Inlet Region, provided that properties described in subparagraphs (2)(a)(ii) and (2)(a)(iii) of this paragraph

shall be removed from the pool if not selected by CIRI within 90 days after the Secretary notifies CIRI that such properties have been placed in the pool or valued by the Secretary in Subparagraph 2(c) of this document whichever date is later.

(b) The State shall be advised of all properties located within the exterior boundaries of Cook Inlet Region to be placed in the pool described in subparagraph 2(a) and may require Secretarial consultation with the Joint Land Use Planning Commission with respect to any specific piece of property so included, except those in subparagraph 2(a)(i) hereof, to determine whether private ownership of such property would be incompatible with reasonable land-management principles; provided, that the Secretary shall not be bound by any recommendation of the Joint Land Use Planning Commission: The Secretary shall notify the State, CIRI and the Commission of his decision in writing. The State may conclusively object to the inclusion in the pool of up to 1,500 of the acres, described in paragraph 2(a)(i) and 2(a)(iv), and additional lands within these two categories may be excluded from the pool upon replacement by the State with lands of equal values. Lands not included in the pool as result of the State's conclusive objection or lands which have been replaced by the State under this subparagraph shall, immediately upon their exclusion or replacement from the pool thereby, be made available by the Secretary to the State for selection under the Alaska Statehood Act for a period of 90 days to the exclusion of all competing claims or parties.

- (c) Unless specifically excepted by the Secretary, all tracts of land and improvements thereto in said pool shall be appraised by one or more appraisers mutually agreeable to CIRI and the Secretary.
- (d) CIRI shall be entitled to select any tract of land from said pool in exchange for its out-of-Region selection rights, in part or in whole and pro tanto, in satisfaction thereof, in the following manner:
- (1) any tract of land and improvements thereto specifically excepted from appraisal by the Secretary as described in subparagraph (c) of this paragraph may be exchanged acre for acre;
 - (2) any tract of land and improvements thereto valued by CIRI and the Secretary after review of the appraisals, at less than \$500 per acre at fair market value may be exchanged acre for acre;
 - (3) any tract of land and improvements thereto valued by CIRI and the Secretary after review of the appraisals at \$500 per acre or more at fair market value shall be exchanged as follows:
 - (i) for each acre of land in said tract, each valued increment of \$500 or proportion thereof shall be considered an acre of land or proportion thereof, in the same proportion, hereinafter called an "acre/equivalent"; and
 - (ii) any acre/equivalents may be exchanged for any acres of CIRI's out-of-region entitlement.

(e) Anything in the foregoing provisions notwithstanding, the selection pool created hereunder shall not include or affect lands within the Point Woronzof, Point Campbell, Goose Lake, and Campbell tracts, to which CIRI waives any claim which it may have had and such lands shall be reserved by the United States for early conveyance to the State as an integral part of the consideration for this Document.

(f) The Secretary shall utilize his best efforts to maximize the pool through the use of all available properties within the described categories in order to augment the opportunity for the land exchanges described herein. If, by January 15, 1978, the Secretary and the General Services Administrator have not identified for the pool at least 138,240 acres, or acre/equivalents of lands within the exterior boundaries of Cook Inlet Region, the Secretary shall add to the pool an amount equal to the difference between 138,240 acres, or acre/equivalents, and the number of acres so identified from the following:

- (1) with the consent of the State, lands located within the boundaries of the Region, withdrawn for the purposes of section 17(d)(1) of ANCSA, and valued by the Secretary and CIRI at \$200 per acre, or more.
- (2) with the consent of the State and CIRI, lands described in subparagraph I-C(3)(a) of this Document from without the exterior boundaries of Cook Inlet Region.

CIRI must select all lands in the pool located within the

Region which are valued by the Secretary and CIRI at \$200 per acre, or more, until CIRI has selected 138,240 acres, or acre/equivalents as described in subparagraph 3(i) of this paragraph.

(g) No later than 90 days following the conclusion of the period for creation of the pool as specified in subparagraph (1) hereof, the Secretary shall, with the assistance of the General Services Administrator, report to Congress on the status of the conveyances under paragraph C and the need for remedial legislation, if required.

(h) Conveyances under this subparagraph 1-C(2) shall not be subject to the provisions of Section 22(j) of ANCSA.

II. Upon final consent by the State of Alaska to be bound by the terms and conditions of this Document, which consent must be given, if at all, within 60 days of the commencement of the 1976 Session of the Alaska State Legislature, the State of Alaska shall convey to the United States for reconveyance to CIRI the lands described in Appendix C to this Document. Said lands shall be considered State lands until the United States accepts the State deed of title. Upon acceptance of a State deed of title, the Secretary shall withdraw the lands conveyed thereby, subject to valid existing rights, from all forms of appropriation under the public land laws, including the mining and mineral leasing laws, and from selection under the Alaska Statehood Act, as amended; such withdrawal to expire upon reconveyance of said lands to CIRI.

III. A. The Secretary shall convey to the State of Alaska all right, title and interest of the United States in and to all of the following lands:

- (i) At least 22.8 townships and no more than 27.0 townships of land from those presently withdrawn under section 17(d)(2) of the Alaska Native Claims Settlement Act in the Lake Iliamna area and within the Nushagak River drainage near lands heretofore selected by the State, the amount and identities of which shall be determined pursuant to Appendix D hereof; and
- (ii) Twenty-six townships of lands in the Talkeetna Mountains, Kamishak Bay, and Tutna Lake areas, the identities of which are set forth in Appendix E hereof.

All lands granted to the State of Alaska pursuant to this subsection shall be regarded for all purposes as if conveyed to the State under and pursuant to section 6 of the Alaska Statehood Act; provided, however, that this grant of lands shall not constitute a charge against the total acreage to which the State is entitled under section 6(b) of the Alaska Statehood Act.

- B. The Secretary shall convey to the State of Alaska, without consideration, all right, title and interest of the United States in and to all of that tract generally known as the Campbell Tract and more particularly identified in Appendix F hereof except for one compact unit of land which he determines, after consultation by the State of Alaska, is actually needed by the Bureau of Land Management for its present operations; provided, that in no event shall the unit of land so excepted exceed 1,000 acres in size. The land authorized to be conveyed pursuant to this paragraph shall be used for public parks and recreational purposes and other compatible public purposes in conformance with the generalized land use plan outlined in the Far North Bicentennial

Park master development plan of September, 1974. Provided, that that portion of the tract identified in the document referred to in subsection (d) may be used for any public purpose which is compatible with the public parks, recreational and other compatible public purposes for which the balance of the tract is conveyed. Except as provided otherwise in this paragraph, the Secretary shall utilize the procedures of the Recreation and Public Purposes Act (44 Stat. 741), as amended, and regulations developed pursuant to that Act; provided, however, that the acreage limitation provided by section 1(b) of that Act, as amended by the Act of June 4, 1954 (68 Stat. 173), shall not apply to this conveyance, nor shall the lands conveyed pursuant to this paragraph be counted against that acreage limitation with respect to the State of Alaska or any subdivision thereof.

C. The Secretary shall make available for selection by the State, in its discretion, under section 6 of the Alaska Statehood Act, 12.4 townships of land to be selected from lands within the Talkeetna Mountains and Koksetna River areas as described in Appendix G.

IV. The lands and interests conveyed to CIRI under paragraphs I and II of this Document shall constitute CIRI's full entitlement under Section 12(c) of ANCSA, except that the mineral estate conveyed pursuant to subparagraph I-B of this Document shall constitute full entitlement of CIRI's surface and subsurface entitlement under Section 14(h)(8) of ANCSA. The lands which would comprise the difference in acreage between the lands actually conveyed under paragraphs I and II of this Document, and any final determination of what CIRI's acreage rights under Section 12(c) and 14(h)(8) of ANCSA would have been notwithstanding the provisions and this Document, shall be retained by the United States,

and this Document shall create no right or interest in any other Regional Corporation or Village Corporation notwithstanding any provisions of ANCSA to the contrary. ^{2.} To the extent that CIRI is or becomes entitled to subsurface rights;

- (a) As a result of Section 12(a) of ANCSA, selections by Village Corporations within the Kenai National Moose Range, or
- (b) as a result of any section 14(h)(1)(2) or (5) of ANCSA selections within the Kenai National Moose Range or within the Secretary's 1973 Lake Clark proposal; and
- (c) to the extent that CIRI's section 12(a) of ANCSA subsurface rights are reduced by virtue of exchanges between village corporations and the State resulting in the relinquishment of village selections in the Secretary's 1973 Lake Clark proposal, CIRI shall take, in lieu thereof, an equal acreage from the following:

- (1) The subsurface estate to oil and gas and coal in those lands described in Appendix B to the extent that such interests are not transferred under paragraph I-B of this Document, and are subject to the restrictions there described.
- (2) Up to 46,080 acres of lands within section 11(a)(3) of ANCSA withdrawals in the Talkeetna Mountains; provided CIRI shall make all 12(b) selections in this withdrawal contiguous to existing 12(a) selections, first selecting all over-selected 12(a) lands in this withdrawal. P
- (3) If sufficient acreage to satisfy any such selections does not exist in those areas described in subparagraphs (1) and (2) of this paragraph, the Secretary shall make available lands outside the Region, in his discretion, for selection by CIRI.

V. The Secretary, GRI, and the State shall seek legislation authorizing the Secretary to convey title to those selections by Native Corporations within the exterior boundaries of Power Site Classification 443, February 13, 1958, provided however, that the patents conveying the above described lands shall contain the reservations required by Section 24 of the Federal Power Act, 16 U.S.C. 818.

VI. A. The State shall not select any of the following lands, so that such lands may be added to a management unit in the Lake Clark Area.

T 4 S R 23 W (N 1/2)

T 3 S R 20-24 W

T 2 S R 24-25 W

T 1 S R 24-26 W

T 1 S R 27 W (sections 1-6, 8-15, 23-25)

T 1 S R 28 W (sections 1-6)

T 1 S R 29 W (sections 1-6)

T 1 N R 24-29 W

T 2 N R 24-30 W

T 3 N R 28-30 W and 31 W (E 1/2)

T 4 N R 30 W and 31 W (E 1/2)

B. The Secretary, GRI and the State recognize that there are nationally significant resources in the Lake Clark area. Management of this area should be flexible and recognize the scenic, recreational, and inspirational resources that should be preserved as well as State and local interests including subsistence and sport hunting.

VII. In fulfillment of its obligation to equitably reallocate acreage among villages pursuant to section 12(b) of the Act, CIRI shall allocate section 12(b) selections to the following areas:

- A. Four and one-half townships in the Talkeetna Mountain withdrawals, provided that such selections shall be compact and contiguous to 12(a) selection in said withdrawals and 12(a) over-selections shall be selected first.
- B. All lands that will not otherwise be conveyed to the villages under 12(a) on the Iniskin Peninsular
- C. To the extent necessary to fulfill any remaining 12(b) entitlement lands within the following:

T 7 S, R 25 & 26 (Except Secs. 29-31) W, S.M.

T 6 S, R 25 W and 26 (E $\frac{1}{2}$) W, S.M.

T 5 S, R 25 W, S.M.

T 4 S, R 24 W (S $\frac{1}{2}$), S.M.

T 4 N, R 19 W, S.M.

T 4 N, R 20 W (E $\frac{1}{2}$) S.M.

T 4 N, R 18 W (W $\frac{1}{2}$) S.M.