

303

HRES

HB 850

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HB

878

HB

850



HB 850

Alaska State Legislature
Senate

JUNEAU, ALASKA

February 27, 1976

Senator Chancy Croft
President of the Senate
Alaska State Legislature
State Capitol, Pouch V
Juneau, Alaska 99811

Representative Mike Bradner
Speaker of the House
Alaska State Legislature
State Capitol, Pouch V
Juneau, Alaska 99811

RE: Interim Report of the Joint Gas Pipeline Impact Committee

Dear Mr. President and Mr. Speaker:

Please consider this to be a letter of transmittal of the Interim Report of the Joint Gas Pipeline Impact Committee existing pursuant to H.B. 258 "The Gas Pipeline Impact Committee", Chapter 170 SLA 75. I request that this letter of transmittal, together with the report, be read into the appropriate Journal in each house.

As an aid to the interpretation of the Interim Report, I submit the following as being my understanding of the sense of the Committee:

1. The Committee does not intend to suggest that the Commissioner of Natural Resources or the Royalty Board enter into unreasonable agreements with prospective purchasers. It is the sense of the Committee that Alaska should indicate that it is a "willing seller" of a portion of its gas and is seeking a "willing buyer" on terms which will reserve as much gas as possible for future use to meet Alaska's internal domestic and other needs. The Committee would expect the executive to negotiate the best possible agreement. Understanding, that when such an agreement is negotiated, it may or may not be acceptable to the Legislature. It may be that the executive will negotiate the best possible agreement, at the same time recommending against its implementation on the basis that too little is received by the State and too much given by the State. We believe that it is imperative, however, in the conduct of the people's business, that such a tentative agreement be made public and its merits debated.
2. We do not wish to tie our negotiator's hands by quantifying the word "substantial" as used in paragraph #7 in the Committee's findings, and paragraph #1 of the Committee's recommendations.

3. The Committee does not suggest an arbitrary time deadline for our executive negotiators. We do point out, however, for the agreement to be finalized, legislative approval is necessary and a special session should be avoided if possible.
4. We do not intend in any manner to preclude negotiations for use of royalty gas within the State of Alaska and the further exploration of petrochemical and domestic uses. The major thrust of the Committee's recommendations is based on the belief that a Trans-Alaska pipeline is essential for future domestic and petrochemical in-state use options of North Slope gas.
5. Pursuant to other action by the Committee, the following have been introduced by the respective Rules Committee by request:

SCR 85/HCR 107	"Relating to the Impact on Alaska of a Trans-Canada Gas Transportation System"
SB 685/HB 848	"An Act Making a Special Appropriation to the Department of Natural Resources for the Purpose of Conducting Negotiations with Prospective Purchasers of North Slope Natural Gas and Providing for an Effective Date"
SB 686/HB 850	"An Act Relating to Waste of Oil and Gas and Providing for an Effective Date"
SB 687/HB 849	"An Act Relating to the Leases of State Land for Oil and Gas into taking of Royalty Gas from them and Providing for an Effective Date"

6. Finally, and most importantly, our recommendations are based on the facts and circumstances as they exist today.

The situation may change at any time rendering the presently recommended strategy inappropriate. For example, it has been suggested that the Federal Power Commission may conduct allocation proceedings nullifying contractual sales commitments. Gas may be more or less deregulated. The recent request of the President for authority to make the final route decision subsequent to January 1, 1977 may effect the political climate. It may be determined, as has been suggested by some, that neither the Trans-Alaska nor the Trans-Canada line are economically feasible at this time.

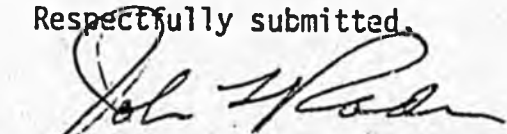
The recommendations of the Committee rely strongly on the advice of our consultant, Mr. Rush Moody, recently Vice-Chairman of the Federal Power Commission. The strategy may only be appropriate if the Federal Power Commission closes the certification hearings in May according to its present schedule and further certifies one route based on the precedents, principles, and considerations customarily employed in past certification proceedings admittedly more limited in scope and of much less national significance.

February 27, 1976

Page 3

The opportunity to use royalty gas to accomplish our public purposes as we perceive them may be lost unless we have substantially negotiated possible sale terms and are ready to move if and when the time arrives - which may be very soon.

Respectfully submitted,

A handwritten signature in dark ink, appearing to read "John Rader", written in a cursive style.

Senator John Rader, Chairman
Gas Pipeline Impact Committee

JR/kb

INTERIM REPORT
OF THE
JOINT GAS PIPELINE IMPACT COMMITTEE

This Committee, through public hearings and staff investigation, has become convinced that immediate action by the State of Alaska is essential if the citizens of this State are to receive maximum benefit from the State's natural gas resource.

The Committee will issue a full and complete report on its findings and recommendations at a later date, but is impelled to submit this interim report to the Legislature and the people of the State of Alaska because of the urgency of the present situation.

The Committee finds and concludes the following:

1. A federal decision authorizing the transportation of North Slope natural gas across Canada would be inimical to the interests of the State of Alaska. The State's resource would be drained, its people denied access to a premium fuel and raw material, its work force deprived of employment opportunities, and productive economic growth would be thwarted.
2. A federal decision authorizing the transportation of North Slope natural gas across the State of Alaska to an open port will serve the best interests of the State.
3. The level of benefits, and burdens reasonably to be expected by the State as a consequence of any decision on a North Slope gas transportation system are of such magnitude that the routing decision must be regarded as critical to the future of the State. Action to secure a Trans-Alaska routing must be pursued as expeditiously as possible; no reasonable step should be left untaken.
4. The position of the state as owner of a one-eighth royalty in natural

gas and natural gas liquids produced from State-owned lands on the North Slope creates an immediate opportunity for effective State action which can assist in securing a Trans-Alaska transportation system.

5. Affirmative, aggressive action by the Governor, the Commissioner of Natural Resources, the State Royalty Board, and the Legislature with respect to the State's royalty gas is imperative.
6. Effective use of the State's royalty gas, to serve the best interests of the State, requires:
 - a. The State must elect to take its royalty share of natural gas and natural gas liquids in kind.
 - b. The State must commit a portion of its royalty gas to purchasers who will assist in securing approval of a Trans-Alaska transportation system, and who will thereafter utilize such a Trans-Alaska system.
7. Present levels of natural gas demand in Alaska permit a commitment of a portion of the State's royalty gas to purchasers outside the State: while every effort must be made to retain a substantial part of Alaska's gas for present and future in-state needs, it is in the overall best interests of the State to offer for sale outside the State, a substantial portion of the State's royalty gas to purchasers who can, and will, assist in securing authorization of a Trans-Alaska transportation system.
8. Those persons and firms interested in the construction and operation of a Trans-Alaska transportation system can materially alleviate State unemployment problems, and the State should, in striking a bargain for the commitment of State resources to a Trans-Alaska

system, secure appropriate commitments for the hire and training of Alaska residents in the construction and operation of such a system.

9. Finally, the risk that non-action by the State, or delayed action by the State, will cause the selection of a Trans-Canadian routing, and the risk that the State will lose substantial benefit of its natural gas resource are so great, it is the sense of this Committee that State action must not be delayed.

BY REASON OF THE FOREGOING, IT IS THE RECOMMENDATION OF THIS COMMITTEE THAT:

1. The commissioner of Natural Resources and the State Royalty Board should undertake immediate negotiations with interested out-of-state purchasers to reach definitive sales and/or exchange agreements covering disposition of substantial portions of the State's royalty gas on the best obtainable terms.
2. The Commissioner of Natural Resources and the State Royalty Board should undertake immediate negotiations with natural gas transporters involved in the proposal for a Trans-Alaska system to reach definitive transportation agreements covering the State's royalty gas sold for out-of-state use, and the State's withdrawal of the unsold portion of its royalty gas from the system for in-state use; appropriate commitments should be obtained with respect to hire and training of Alaska residents.
3. The arrangements and agreements so negotiated should be presented to the Legislature for ratification prior to the end of the Second Session of the Ninth Legislature to avoid, if possible, a special session.
4. The Legislature should hold itself ready for immediate consideration

of and prompt action on, the recommendations of the Commissioner and Board.

5. Such arrangements, contracts, and agreements as are negotiated by the Commissioner and Board and approved by the Legislature should be incorporated into the pending applications for a Trans-Alaska transportation system, presented to the Federal Power Commission by the appropriate transporter-applicant, and approval thereof obtained in the pending Federal Power Commission proceedings.
6. The Legislature should adopt SCR 66 and further seek the active cooperation of all owners of North Slope gas in support of the Trans-Alaska pipeline route.

STATE OF ALASKA

DEPARTMENT OF NATURAL RESOURCES

ROYALTY OIL AND GAS DEVELOPMENT ADVISORY BOARD

JAY S. HAMMOND, GOVERNOR

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

March 22, 1976

The Honorable Nels Anderson
Chairman
House Resources Committee
Pouch V
Juneau, Alaska 99811

Dear Mr. Anderson:

The following comments on H. B. 850 were prepared by the Division of Oil and Gas and given by me as testimony before the House Resources Committee on March 20, at Commissioner Martin's request.

We believe that the inclusion of the words "economic waste" is being put in the wrong place in the statute. Instead, we recommend that Section 1 read: AS 31.05.170 (11) is amended to read 'waste' means, in addition to its ordinary meaning, "physical and economic waste" and includes" ...

The bill as proposed would indicate that subparagraph (j) is physical waste and that obviously is not the intent of the additional definition.

Existing Statute AS 31 does not cover economic waste per se. However, studies by the Interstate Oil Compact Commission legal committee has concluded that "there is in law and in fact a necessary relationship, a legitimate relationship, between economics and conservation". A copy of pages 75 and 76 from the 1964 report on economic waste is included for your information. You will note that the Interstate Oil Compact Commission advises that no state has a statute which defines economic waste.

Since economic waste could occur on a lease or in a pool, individual attention and hearings must be held for each economic waste determination. Although economic waste could occur at several locations simultaneously each lease must be treated as a separate entity for consideration and large scale studies and investigations as some have visualized are not appropriate for this consideration. Consequently, if it is necessary to determine if economic waste exists or conditions exist that cause economic waste this must be done on a pool by pool basis. We believe that the knowledge, ability and expertise within the present Division of Oil and Gas is sufficient to make these determinations.

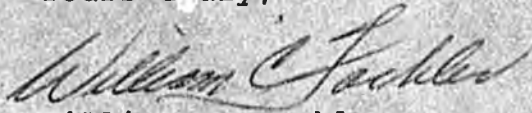
Nels Anderson

-2-

March 22, 1976

The additional definition might prove to be helpful at some time in the future but as you were advised sometime ago we do not feel it is necessary at this time. If, in fact, it is ever needed it will be helpful to have it in the statute and we can visualize no additional expenditure or monetary impact resulting if it is included.

Yours truly,



William C. Fackler
Executive Director

Enclosure

FROM LOCC LEGAL RESEARCH RECEIVED 9/18/67

equitable allowables are established the incentive to produce in a wasteful manner is gone. Unitize a pool and there is little need for further regulation.

Thus, whether or not a conservation statute expressly includes reference to the protection of correlative rights, the duty to protect such rights exists either to render the statute or regulation valid or as a means to prevent waste.

In fact, the earliest conservation case to reach the Supreme Court of the United States^{36/} sustained the Indiana statute in question primarily as an incident to the protection of correlative rights.

On the other hand, one of the few instances where an oil and gas conservation statute has been held invalid^{37/} was in a case where a well-spacing statute prohibited the drilling of a well without giving to the landowner an adequate substitute means of recovering or receiving his fair share of the oil and gas from the common pool on the grounds that it infringed upon his constitutional guarantees. The court said that the right to pool voluntarily his interest with adjacent tracts to form a drilling unit was not an adequate substitute right.

The statutes of 17 states, namely, Alabama, Arizona, Arkansas, Colorado, Florida, Georgia, Idaho, Kansas, Mississippi, Nebraska, New Mexico, North Carolina, North Dakota, Oklahoma, Pennsylvania, South Dakota, and Texas, in express terms grant the regulatory agencies broad powers to protect correlative rights.

The statutes of the states of Alabama, Arkansas, Colorado, Georgia, Mississippi, Nebraska, and North Carolina, define waste to include the abuse of correlative rights.

While the statutes of Iowa, Louisiana, Michigan, Oregon, and Tennessee do not use the term "protect correlative rights", they contain numerous requirements and provisions with respect to the prevention of drainage, injury to others, assuring an owner his just and equitable share, or similar provisions which are but another way of describing the protection of correlative rights.

The statutes of Alaska, Illinois, Nevada, New York, Utah, and Wyoming although mentioning correlative rights in the declaration of policy, or in some instances defining correlative rights, do not make further reference thereto in connection with any power or duty of the regulatory agency other than in respect to the pooling of interests in a well spacing unit or in connection with pool unitization. They make no mention of correlative rights with respect to the broad conservation powers of the regulatory agencies.

The statutes of Indiana, Kentucky, Maryland, Montana, Ohio, Virginia, and West Virginia have no language of any kind that directly or indirectly refers to the protection of correlative or other private rights of the landowners.

The California statutes mention the subject only in respect to the giving to the owner of a tract of less than an acre the right to participate in the production from a well drilled on an adjacent lease.^{37a/} This is a provision adopted to conform to the decision in the earlier California case cited in footnote 37.

Notwithstanding, or perhaps better stated, because of, the constitutional requirement that correlative rights be protected where and to the extent reasonably possible, it would seem wise for a statute to express in clear terms the duty of the regulatory agency in regard thereto.

3.5.2.13 Economic Considerations Other Than Price Regulation^{38/}

Like in the case of "correlative rights", the purposes of the Interstate Oil Compact Commission and, in fact, the conservation statutes of most of the states, omit any reference to economic considerations or "economic waste" in defining the authority of the regulatory agency. Some mention economic

^{36/} Ohio Oil Co. v. Indiana, 177 US 190 (1901).

^{37/} Bernstein v. Bush, 177 P. 2d 913 (Cal. Sup. 1947).

^{37a/} Sec. 3608, as amended, Public Resources Code.

^{38/} For price regulation see section 3.5.2.14 next following.

considerations only in respect to well spacing, pooling within well spacing units, or pool unitization. Others expressly negative any authority to "prevent economic waste".

Some extremists say that there is and should be no relationship between economics and conservation. They advocate conservation "at any cost" asserting that economics should neither be a motive nor a result. Other extremists say that the whole basis for any conservation program is economic. There are also those critics who charge that the conservation programs adopted by the states are but an economic device to manipulate prices and profits rather than prevent waste in the public interest.

The long history of oil and gas conservation legislation in the United States, its beneficial fruits in terms of prevention of actual physical waste and the greater recovery of oil and gas, and the many and unanimous holdings of the courts sustaining regulations for conservation purposes negative unqualifiedly all such extreme positions.

As pointed out in connection with the discussion of correlative rights, the legislation and regulations to be valid under both the Federal and state constitutions must be "reasonable". To be reasonable, whether stated in the statute or not, economics and economic considerations must be taken into account, as otherwise the whole system would be arbitrary and unreasonable and would amount to the taking of private property without due process of law or the equal protection of the law. There is in law and in fact a necessary relationship, a legitimate relationship, between economics and conservation.

In fact, the only incentive to explore for, produce, conserve, market, transport, refine, distribute, and usefully utilize oil and gas is economic. Ignore and remove that incentive and "physical waste" results. This has been the repeated experience that has sired a great portion of the conservation legislation providing for an orderly, sensible, and economically sound program of development and production of oil and gas. The best means or tool to bring about the greatest recovery of oil and gas, and to prevent its physical waste is the avoidance of economic waste. To require the recovery and conservation of oil and gas at a loss would be unconstitutional. A failure to recover the maximum economically recoverable oil and gas is in itself "economic waste" of a valuable natural resource, as well as physical waste.

On the other hand, all of the court decisions sustaining conservation legislation have consistently refuted the claim that the conservation program of the states is designed primarily for economic and profit motives rather than to prevent waste of a natural resource for the common and the public good. The decisions make it clear that the prevention of waste of the natural resources is the principal objective and that economic considerations, if any, are but a means to that end or are incidental.^{12/}

The statutes of Alabama, Alaska, Arizona, Arkansas, Colorado, Florida, Georgia, Idaho, Indiana, Iowa, Louisiana, Mississippi, Montana, Nebraska, Nevada, New Mexico, New York, North Dakota, Oregon, Pennsylvania, South Dakota, Tennessee, Utah, Washington, and Wyoming all mention economic considerations in respect to the drilling of unnecessary wells, well spacing, pooling, and unitization.

Arizona defines as waste the production of oil when it is unprofitable to dispose of such production.

The statutes of Kansas and Oklahoma include "economic waste" as a part of the definition of waste, that is prohibited by the statutes.

The statutes of Illinois and Kentucky expressly prohibit limitation of production to prevent or control "economic waste".

The statutes of Maryland, Ohio, Virginia, and West Virginia make no mention of economic waste.

No statute defines economic waste.

^{12/} Danciger Oil & Refining Co. v. Railroad Commission, 49 SW 2d 837 (Tex. Civ. App. 1932).
People v. Associated Oil Co. 249 P 717 (Calif. Sup. 1930).
Champlin Refining Co. v. Corporation Commission, 31 Fed. 2d 823 (WD Okla. 1931), aff'd 286 US 210 (1932).
Julian Oil v. Royalties Co. v. Capshaw, 292 Pac. 841 (Okla. Sup. 1930).

3-20-71 HB 849 - 856

Eric Ekholm. S.A. Gas & Oil Pipeline Impact Committee
Option.

Bill Fackler: Comments Core Div. of Oil & Gas &
Personal

31.05.170 (11) waste

No definition of Economic waste in any state -
pool to pool determination ..

849 - Undesirable to operators - Diminish lease bonus
on any lease. Because this would place the
burden on the lessee to provide for this even
though this may not be used.

Enlarge the lease and clean up operations
afterwards.

State would have to constantly monitor the
well.

Anti-consumption - Early abandoned -
discount of future lease bids -

Howie Taylor: Exxon - Good addition to the statutes
but not really necessary.

Lease bonuses substantially reduced. State would be
getting into risky position - No determination
on how much gas will be produced -
Banking is ^{not} done on a long-term basis
short term only -

State can enter into short-term
agreements but not long term.

perhaps ~~state~~ storing up of the oil is not a bad
idea.

Bring up the bill

Rosice Moor -

C.R.F. KENAI NATIVE ASSOC. KATCHEMAC BAY
Protective Assoc.

Compatible uses with Commercial
fisheries -

Opinion poll bad -

Laurel Fleeg Local Habitat Biologist F. & G.

Highly productive -

60% of Shellfish products in Cook Inlet.

Bluff point high concentration of King crab larvae
center of concentration is also in the middle of the
lease area.

KEN Move N.P. F. ASSOC. ^{Northern} ~~Northern~~ Pacific Fisheries

600,000 - 1,000,000 per year

Shipping lanes trying to be used -

Paul Jones: Lease Sale should Not
have happened.

→ Check on Palmers stand on Leases - Any
protests.

F & G. only given three days to comment
on the proposed lease Sale -

Local + Borough planning commissions were
not notified in writing - No input at
all.

Grazing leases -

Controls Not adequate for the area on the Ferris.
Containment boom 90 miles away - Not adequate
for containment of spill should it happen.

Tourist dollars significant amount. Major uses
should be considered.

Lottie Eddelmen 125 Kenai Penn. Fisherman

P
K.F.C.A. Unanimously Voted Support -

1. Unique because of shell fish. + larva.
7 Million whole sale fisheries. 100 resident owned boats.

Shell oil + N.M.F.S. would be detrimental to fisheries - Report will be reviewed + available w/in 4 wks.

2. Recreational area.

C.I.F.A. of Anchorage - Supports est. of Marine Sanct.

3. U.F.A. Board of directors Supports 11/16/26

Existing 41 year resident

Platforms have not substantially affected C.I. Year round fishery in the area.

Economic Considerations - Re: Boom + Bust

No hearing re: Leases -

Irregularities in Lease sale. Gorsch felt this. Leases could have been reviewed 3 months later.

Phil Daniels U.F.A. Recommends the Committee pass the bill out with a favorable recommendation.

Stan Rice Ph.D. in Physiology.

oil Toxicity damage to existing fisheries -

Gear damage - oil Toxicity.

fuel oil spills Most damaging - Crude oil is not as bad.

Aeromatic Toxicity -

Report ~~released~~ ^{finished} by April 5th. but must be reviewed before being released to the public.

Some Mishaps will occur. Not enough data available to assess how much of a problem it will be.

Bob Palmer - Project Co-ordinator of the Fisheries Council.

Record of Special Fisheries Committee on Kachumac Bay.

Minute concentration seeping out but building up to amounts which create

April 17, 1972 - Press Release -

No Public Hearings - NO work with other Agencies.
Fish + Game Memo.

Oct 23, 1971 Notice of Sale to oil industry.

308 people signed the petition to request hearings.

Day before sale people put on notice the Admin.
would be subject to legal actions.

Herbert - Fishermen made NO concrete reference.

Huntington: Credit toward Severance tax - Lease sales, Production Tax
get figures → Figures of Raw. Fish products. 3.5 million ←
12% Tax. in F+G.

→ Separate two bills - Put fisheries Management
any authority now allowed the Dept now has.

→ Boundary changes to exclude STATE ARIK
Language change in bill.

Jiel - Listen to tapes.

development of timber barging -

SB 612 Condemnation of oil leases.

Monte TAYLOR - EXXON

Parts of oil in the WATER -

Oil + Fisheries are compatible in the Gulf.
Industry can operate with fishing industry.

2 industry working together - Always will be problems.

Doug Pope -

35.05.35 leasing.

Comm. of Natural Resources did not know that
the area leased was a critical habitat area for crab.

Must Meet Obligations - Commissioner did not meet
his statutory obligations in leasing the Waters in
question.

Copies of the 3 legal briefs. 612 -

Problems: All the leases were not in Critical Habitat area.

F+G - state cannot grant lease then refuse to allow
drilling.

HB

870

STATE OF ALASKA

JAY S. HAMMOND
GOVERNOR

DEPARTMENT OF COMMERCE & ECONOMIC DEVELOPMENT

OFFICE OF THE COMMISSIONER

POUCH D -- JUNEAU 99811

April 9, 1976

Honorable Theodore G. Smith
Vice Chairman
House Resources Committee
Pouch V
Juneau, Alaska 99811

Dear Mr. Smith:

The enclosed booklets show the progress to date of the Bristol Bay Regional Development Council. The opening pages of the Bristol Bay - Its Potential and Development lists a detailed work program for an economic development specialist located in Bristol Bay. Even though it outlines more work than one person could hope to accomplish in one year, it directly answers the original charge to the Commission, that being a thorough evaluation of the economic alternatives to the red salmon industry. The original legislation asked that the Council:

Explore the short-term and long-term economic factors and federal and State programs and policies affecting the Bristol Bay region with a view toward producing a long-term economic and social development program for the region consistent with the living patterns of the resident population and integrating natural resources development with the environmental concerns of the region.

The economic factors have been explored, the analysis stage has been completed. What we now need is funding for an implementation stage.

Incidentally, the last time I appeared before your committee, with two University of Alaska professors who aided the Bristol Bay Native Association, some comments concerned the waste of money on consultants. This Council has been unique in one sense: Over 90% of the 18 month appropriation for planning has gone to the Bristol Bay Native Association. They have called the shots, and have spent the money, and we on the Council feel they have done a pretty good job at it.

Sincerely,



Jim Edenso
Deputy Commissioner

Enclosure

102.24

MEMORANDUM

State of Alaska

DEPARTMENT OF COMMERCE & ECONOMIC DEVELOPMENT

TO: Honorable Nels Anderson, Chairman
House Resources Committee

DATE: March 9, 1976

FILE #:

TELEPHONE NO:

FROM: Jim Edenso, Deputy Commissioner
Department of Commerce & Economic
Development

SUBJECT: Bristol Bay Regional Development
Council

The Bristol Bay Native Association, which has served as the primary contractor to the Council since its inception eighteen months ago, is prepared to resume developmental activities to implement the recommendations of Bristol Bay, Its Potential and Development, and Bristol Bay, the Fisheries and the People, the two planning reports issued by the Council.

BBNA under contract will follow the following work program:

- 1) Strongly urge that federal legislation establishing future land use, carry a provision that specifically guarantees traditional users the right to traditional usage on federally withdrawn lands,
- 2) Urge the Bureau of Indian Affairs to establish a Regional Office in Dillingham,
- 3) Request Congress to authorize and appropriate funds under PL 93-638, the Indian Self-Determination and Indian Educational Assistance Act, to allow small villages to hire a village leader and establish a village administrative office,
- 4) Encourage the U.S. Forest Service to make an inventory of timber resources of Bristol Bay and determine the maximum sustainable yield,
- 5) Strongly urge the Forest Service Laboratory in Juneau to evaluate the grazing potential of forest lands in the Bristol Bay region when funds are available,
- 6) Urge the Soil Conservation Service to make an Environmental Impact Statement of the effect of reindeer herding in Bristol Bay including an estimate of the holding capacity,
- 7) Seek funds from EDA to conduct a manpower assessment and training program to support a reindeer industry,
- 8) Strongly urge that specific legislation be enacted guaranteeing traditional usage of the land for designated state restricted lands, for example, the proposed Wood-Tikchik State Park,
- 9) Develop bi-lingual and bi-cultural curriculums in educational facilities of the region which include industrial and commercial training,

- 10) Urge the Department of Labor to develop a training program for vocational skills needed in construction and in possible oil and gas development,
- 11) Develop a projected construction schedule and prepare funding applications for upgrading airports in Bristol Bay villages; Priority will be given to those villages needing airfield improvements in order to develop their business potential,
- 12) Methodically contact and urge the Department of Fish and Game to develop and initiate projects to replenish the stock of salmon,
- T 13) Ask the Department of Fish and Game to evaluate the impact of reindeer herding on the game resources of Bristol Bay,
- 14) Complete application forms to enable the Department of Public Works to build a boat harbor at Perryville and Chignik so that ~~South~~ fishermen can fish on a year-round basis,
- 15) Lay preliminary ground work to establish a boat harbor also at Naknek and South Naknek.
- 16) Work with the University of Alaska to develop training programs which are designed to develop entrepreneurial and management talent among Bristol Bay residents. This training must be conducted in Bristol Bay,
- 17) Urge the University to consider establishing an Agricultural Experiment Station in the Bristol Bay region,
- 18) Encourage and demand that the Tourism Management Program of the University of Alaska be utilized in the Bristol Bay region,
- 19) Contract petroleum firms and urge them to continue to train Bristol Bay residents to operate oil-related equipment,
- 20) Continue to work closely with village corporations and the Bristol Bay Native Association to alert them to possible profitable opportunities arising from Bristol Bay Native Corporation activities in the minerals and energy area,
- 21) Consider working with Bristol Bay fishermen and processors to develop a promotional campaign to promote Alaska seafood,
- 22) Aid the economic development planner on the Bristol Bay Native Association staff in gathering complete information on all funding sources,
- 23) Develop additional strategies to stimulate local initiative, which entails a follow-up on the village priorities listed in Bristol Bay, the Fishery and the People.

- 24) Identify location, capacity and operating condition of sawmills in the Bristol Bay region,
- 25) Assist the villages in feasibility studies of local lumber mills or log mills,
- 26) Evaluate and consider conducting a manpower training assessment of the Bristol Bay region to determine the productive capacity for arts and crafts,
- 27) Examine the advantages of developing a marketing system for arts and crafts in cooperation with existing arts and crafts marketers,
- 28) Promote the private establishment of retail outlets for arts and crafts in cooperation with lodges and other tourist-related facilities,
- 29) Request that Alaska Natives Arts and Crafts (ANAC) present a training program for village craftsmen,
- 30) Encourage the study and possible development of a specialty products industry for salmon,
- 31) Encourage further study of the development of a possible ground-fishery,
- 32) File application for office-municipal facilities in five Bay villages.
- 3) 33) Follow through with the Economic Development Administration on the the force account contract to modify the existing cold storage facility at Dillingham.

This will be more than enough to keep one person busy full-time through FY-1977.

It will insure that the two reports, with their comprehensive recommendations, completed under the original State appropriation do not "just gather dust" but are implemented by the people residing in the region.

Three applicants have indicated interest in pursuing the above work program. Any indications of continuation of the Council to June 1977 would greatly aid in attracting the best qualified development specialist from Bristol Bay. This Department will work closely with the BBNA representation to insure the efforts toward the above 33 point work program are productive.

HB

872

file

DEPARTMENT OF NATURAL RESOURCES
Division of Oil and Gas

TO: Guy R. Martin
Commissioner

DATE : April 16, 1976

FROM: O. K. Gilbreth, Jr. *OKG*
Director

SUBJECT: Review of House Bill 872

The following will supplement information furnished by Hoyle Hamilton's letter through me to you of March 31, 1976 on the subject bill. There are some points that Hoyle failed to cover that I feel should be brought out in more detail and are discussed as follows:

Section 38.05.180 (a) on line 15 states "on the basis of a cash bonus bid with a royalty reserved to the State of 12 1/2%". This should read "with a minimum royalty reserved for the State of 12 1/2%." There should be enough latitude to allow the Commissioner to provide for a royalty of 16 2/3% or 20% or 25% if he so desires. But it should set the floor. Our last lease sales have provided for royalties above the 12 1/2% figure on a cash bonus bid type sale.

Section 38.05.180(a) (2) provides for a cash bonus bid with a share of the net profit. In subsection (b) of the same section there is an attempt to define what the net profit share will be and certain criteria are set out. It provides that operating costs directly assignable to the development and operation of oil and gas lease issued under a net sharing profit arrangement may be included. No mention is made about allocated overhead, that is, the overhead from the district office which normally is allocated to the individual leases. It might be intentional that this was omitted, but it is called to your attention because it is a significant cost factor in lease operations and one considered by all companies.

In 38.05.180 (a) (4) on line 24 provision is made for a fixed cash bonus with the royalty reserved to the State as a bid variable after public hearing and certification to the legislature by the Commissioner that it would be in the best interest of the State. Since all of the variables in this subsection have a bearing on alternate State income, we can see no difference in no. 4 and nos. 1, 2, and 3 so far as effect on the State treasury is concerned. It would appear that the public hearing route and certification to the legislature would not be any more advantageous on no. 4 than on the others and certainly will require at least an additional year of planning to determine a method of bidding for the sale itself. We can't see the special handling of no. 4 is required.

In section 38.05.180 (b) provision is made for calculation of the State's net profit share of income from a lease. On line 11, page 2, provision is made for net profit share to be taken in kind for both oil and gas production. The methods set out provide that it will be taken

in kind after the fact. The value of production of both oil and gas cannot be determined until the end of month in which it is produced when it is sold to the purchaser and settlement made on the basis of the facts at that time. Some twenty-five days after that accounting is made to determine the amount due the State. Thus settlement cannot be made for from 25 to 55 days after the date the oil and gas has been produced. Values at that time may have changed and in general an additional 20 to 30 days is necessary to correct all the paperwork required just in settlement of normal oil and gas royalties and making corrections on errors made. Thus this portion of the bill will be virtually impossible to administer if the option is taken to do so. From the operator's point of view, it will be very undesirable because he will not know with any degree of reliability what volumes of oil and gas will be available for him to contract for sales to third parties. It is doubtful that anyone would execute a gas purchase contract with such a variable which could cause significant delivery deficiencies. Further, on line 19 the attribution of profits between oil and gas shall be proportionate to the value of the respective shares of production. We believe that this should be the respective shares of production saved, removed, or sold from the lease since there is a difference between amounts produced and amounts sold.

Subsection (c) provides for perpetuation of a lease producing oil or gas in paying quantities if it is part of a unit approved by the Commissioner under AS 31.05.100-31.05.110. It should be pointed out that AS 31.05.100 provides for the pooling of interest of owners in two or more leases to provide for the drilling of a well within a drilling unit or a spacing unit. Our normal statewide spacing is 160 acres for oil and 640 acres for gas and in some cases an operator may not have enough acreage to drill one well on his lease. The provision in this section of the Statute permits operators to join together to form a pooling unit to drill under the spacing orders provided. AS 31.05.110 provides that the operators may voluntarily integrate their interest to form a unit and where they have not agreed the Department has jurisdiction, power and authority after public hearing where certain criteria are met. It should be pointed out that provision is not made in this section for the Department to approve a unit where the operators voluntarily integrate their interest although under AS 38 a provision does exist. All of the units formed in the State to this date have been voluntary units and do not fall under AS 31. We recommend that consideration be given to changing this portion of the proposal to read that the lease may be perpetuated if oil and gas is produced in paying quantities from the lease or if the lease is part of a unit approved by the Commissioner. This way it would catch any approvals under either AS 31 or AS 38.

In subsection (d) on page 3 provision is made for no rentals for the first and second years. This obviously would give the lessee time to shop the lease in an effort to make a better deal without any additional income to the State. We would recommend consideration that rentals for the first and second year be placed at a minimum of \$1 per acre or \$1 for the first year and \$2 for the second year. We feel that there would be additional incentive under these conditions for development and this

would minimize the time spent in trying to peddle the acreage. A similar remark could be made for the provisions outlined in paragraph (E) on line 17 and 18 of page 3. Also (3) on line 19 does not provide for any royalty past the primary term if the lease is in production. This would preclude establishment of any minimum income from the acreage. If the leases had the minimum provision that royalty production income must exceed \$1 per acre per year or the operator would pay the difference in rental income, this would assure a continuous income from all acreage under lease.

In lines 6 and 7, page 4, the requirement is made that the leases shall contain a provision requiring a lessee to operate under a reasonable cooperative or unit plan without regard to whether it is in the public interest. Serious consideration should be given about making this a mandatory requirement because some situations can exist where it might not be in the public interest to force a cooperative or unit plan. Existing Statute AS 31 has provision for mandatory formation of a unit or cooperative plan and adequate authority exists for this at the present time.

On line 21, page 4 subsection (g) provision is made to eliminate acreage on a "known geologic structure" from chargeability. This term should definitely be defined and there is a great deal of difference of opinion on what a geologic structure actually is. In the State, our original discovery royalty award was based on a "new geologic structure." In the Cook Inlet area where a decision was based on the existence of a known geologic structure or a new structure, a law suit was filed in each case against the decision of the administration. There are many opinions on what constitutes a geologic structure and the intent should be fully spelled out to minimize the number of law suits that would occur in the future.

On line 24, page 4, subsection (h) most of the provisions included in this section are already covered in AS 31 and AS 38. On page 5, line 13, section (j) provision is made for the storing of oil or gas. The wording of this paragraph provides that a fee must be paid for the storage or rental on the storage of oil or gas acreage subject to lease under this section. The injection of gas occurs many times in oil reservoirs for enhanced recovery. In section (j), any gas or oil or any other hydrocarbon injected for the purpose of improving the recovery of oil in the reservoir should not be subject to this fee and it should be due only when the products are injected for storage. For example, in the Swanson River field, large quantities of gas are being injected now in a secondary recovery program. This process has been loosely referred to as storage gas in many cases. However, the additional benefits are considerable in the recovery of crude oil and a large portion of the gas ultimately will be recovered. A distinction therefore should be made on what gas and oil the rental fee is due. Also, on line 22 provision is made that the lease shall be in effect so long thereafter as oil or gas not previously produced is produced in paying quantities. This could conceivably result in cessation or cancellation of a lease when huge quantities of oil or gas still remain to be recovered from either a storage project or a secondary recovery project. This would be a paperwork exercise in

futility. It would probably be better if the words "not previously produced" were excluded and permit the lease to stay in effect so long as oil or gas is produced in paying quantities which is what present leases already provide.

Section 38.05.184 provides for granting competitive contract exploration permits with the reward payable by the State to the permit holder per unit of recoverable hydrocarbon discovered. This presumes that the amount of hydrocarbon discovered can be ascertained with some degree of reliability. Many people are being misled into believing that reserves can be estimated with a high degree of accuracy. Nothing could be farther from the truth. Studies based on estimates of petroleum reserves discovered in the south 48 over many, many years have indicated that on the average, first estimates are in the order of 200 to 300% too low because additional reserves are discovered from additional pools and outlying exploration over many future years. One might look at Prudhoe Bay as an example where after eight years of knowledge and the drilling of more than 100 wells, reserve estimates are changing daily. Very recently a well was completed in the interior portion of the Prudhoe Bay field which did not have enough hydrocarbon saturation to complete as an oil or gas well. Reserve estimates in this area are being revised with the drilling of each well and there is a very large degree of difference in the individual estimates of the different operators in Prudhoe Bay as to what the reserves actually are. In the case of the State's reservoir study, during the last six months of 1975, the area containing gas was increased approximately 10% based on drilling and new information. Wells are being completed daily that are changing the geologic picture and the estimates of reserves are dynamic. There is no way that reserves can be estimated with any degree of reliability until 35 to 50% of the total reserve has been produced and even then the estimates have a degree of accuracy in the order of 90% at most. With a provision included such as proposed, there can be nothing but law suits on the basis of every discovery. We believe that at best \$150,000 should be set aside each year to defend law suits on this matter.

On lines 17, 18 and 19 on page 6 provision is made for payment to be made on basis of quantity of hydrocarbons proven to be economically recoverable from the land, covered by the permit. No one can tell the amount of hydrocarbons to be recovered and no one can tell what reserves can be recovered economically because operating costs and crude price play an important factor in these determinations. The only reason that we haven't been plagued by law suits on the "reserves tax" already is because of the "pay back" provision, but we shouldn't be so naive as to believe operators would not file suit on this bill. Further, in line 21 provision is made for an independent assessment board consisting of three professional engineers. No provision is made for the type of professional engineers however, it should be pointed out that of all the types of professional engineers, only petroleum engineers are trained in this line of work.

Section (d) page 6 provides that no reassessment will be allowed after 10 years have elapsed except as required by actual production. No provision is made as to how often this could occur, whether it would be annually, monthly, or some number of years. Either party should be able to request a reassessment at his expense but assessment should be made no more often than once each 3 years. Also, the right of appeal from the decision of the assessment board should be spelled out because there will be disagreement of major magnitude. Section (e) page 7, line 2 provides for payment of gas discovered on the basis of a ratio determined by the Commissioner before offering the contract. However, the payments may be made many years down the road. For example, actual production may change the reserve estimates and some monetary exchange would be necessary. The relative value at that time might be far different than at the time the permit went out for bid. As a matter of fact, this section does not provide for any payment on actual amount of gas discovered, only that it will be paid on the basis of a ratio with oil as determined by the Commissioner prior to bidding. If an operator finds a major gas field and a very minor oil field, the way we read the bill, settlement would be made on the basis of an arbitrary ratio established by the Commissioner regardless of the actual values of oil and gas produced.

Section (f) says that the Commissioner may limit the actual annual discovery reward payment prior to the issuance of the permit or contract. This might prove to be self-limiting as few if any oil operators are willing to take the risk and spend money to discover something knowing that they can only get a return based on some annual partial payment to be determined by the State. This would appear to be more in line with the utility laws where repayment comes over a long period of time and profits are limited. In this high risk business, an operator would be insane to accept these terms.

In the examination of this bill, we see very little that we believe would prove beneficial to the State. The different bidding provisions on page 1, sections a-1, 2, 3, and 4 might prove helpful to the Department in determining optimum methods of bidding for the State, but they can be just as detrimental by preventing other types of bidding. The additional rental payments provided in subsection (d) could be beneficial and would accelerate development in the State. It should be borne in mind, however, that increase in rentals of this nature would have the effect of an operator attempting to increase his development schedules and it carries an obligation that the State would have to timely approve permits for this. The provisions regarding unitization and perpetuation of leases are already covered in existing leases and we cannot see that they improve the situation, but they may in fact confuse the situation because of conflicting jurisdiction in two different Statutes. And finally, the provision for contract exploration permits is one that we cannot see how any oil and gas operator would, under any condition, be agreeable to doing exploratory work for the State without some assurance that he could participate in the benefits. Certainly, this provision as written assumes that an operator would pay the State a fixed cash bonus for

the opportunity to go and risk his money and drill for oil reserves in the hope that the State would reward him if he found something. The odds are 9 to 1 against him finding anything in the first place and about 50 to 1 that he will make a commercial find. Consequently, without some reasonable assurance that he could recover his money, he would be foolish to make a bid for a contract on this basis. More than likely, the operator would want the State to pay him a fixed bonus to go out and drill with the hope that he would have some option to participate in the discovery, if it occurs, either through acreage acquisition or through some rights to market the oil or gas discovered. A provision like this we think would bring exploration to a complete halt in the State of Alaska except what could be financed directly out of the State treasury.

DEPARTMENT OF NATURAL RESOURCES
Division of Oil and Gas

RECEIVED
APR - 1 1976

Department of
Natural Resources

TO: Guy R. Martin
Commissioner

Thru: O. K. Gilbreth, Jr.
Director

DATE : March 31, 1976

FROM: Hoyle H. Hamilton
Chief Petroleum Engineer

SUBJECT: Review of HB 872

Oil and Gas Leasing

This part of the bill provides 4 alternatives the commissioner may follow in regard to bidding oil and gas leases. Alternative (1) provides a fixed royalty of 12 1/2 % and a cash bonus bid. This seems to be a step in the opposite direction that most people seem to be advocating today. A 12 1/2% royalty is less than in our last competitive lease sale, which was 16 2/3%. The general feeling today is for higher royalties, not less royalty. In my opinion, a fixed 16 2/3 % royalty with bonus bidding is the best way to go on competitive lease sales unless there is real drainage acreage involved.

Alternatives (2) and (3) involve a net profit share to the State either in a fixed amount as in (2) or a bid variable as in (3). The commissioner shall by regulation establish accounting procedures for the calculation of net profits.

Net profits would be a very undesirable way for the State to take its share from oil and gas production. The State would be taking the same risks for a net profit share as with a royalty share, however, a net profit share would require much more accounting. In forecasting State revenue from a lease with a royalty provision you have two variables to evaluate, production and wellhead value. With net profits a third variable would be introduced, operating costs. Normally at the end of each month the State royalty share, either in value or kind, can easily be determined. With net profits it may take many months before all the operating costs could be compiled and the State's share accurately determined. The operators incentive to keep operating costs at a minimum are proportionately lessened.

The fourth bidding alternative (fixed cash bonus and royalty bid) would require a public hearing. This seems a useless and time-consuming effort to go through in establishing any bidding procedure. It seems that the royalty board, the legislature and the commissioner should be responsible enough to see that the best interests of the State are met without a public hearing.

On page 2, line 11. It provides for the State to take its net profits share of oil and gas in kind. This would amount to the State taking a share of future production based on the net profits calculated from past production. This would be an accounting nightmare. There is no provision for how frequently the net profit determination would be made.

In lines 14 through 17 on page 2, it is not clear how the determination is to be made for taking in kind volumes of oil and gas.

On page 3, item (3) under (d) doesn't make sense.

In summary, on the first part of this bill regarding bidding, there seems to be nothing to gain but headaches for the State to go for a net profit share when a royalty share would give the State the same thing with less problems. Fixed royalty and bonus bidding with 12 1/2% as a minimum, as in the present statute, would make more sense and give some leeway for higher fixed royalties.

Oil and Gas Competitive Contract Exploration

This bill provides for competitive contract exploration permits for oil and gas, but does not say whether these are seismic permits, drilling permits, or both.

These competitive exploration permits are to be awarded on a fixed cash bonus with the operator bidding for the reward he wants in terms of the reserves he discovers. What is the reward the State pays the operator? Is this to be money or some stock in the State oil company?

On page 6 (c), the bill provides for an independent assessment board, consisting of three professional engineers that would determine the reserves discovered by the permittee. The bill does not specify what engineering field these professional engineers are to be licensed.

If gas reserves are discovered it provides on page 7 (e) that the payment shall be on the basis of a ratio between the expected average values of oil and gas established by the commissioner before offering the exploration permit for bid. This cannot be done with any certainty even after a discovery is made. For example at Prudhoe Bay, eight years after discovery, this ratio is still uncertain.


In my opinion there would be little interest by the oil operators to try and obtain an exploration permit as described in this bill since there is no assurance they would acquire any of the reserves there might be found.

Assuming that with a very low fixed bonus some operators would bid and acquire an exploration permit. What is the State's position? Since the State does not have any unleased drainage acreage these permittees would be wildcatting for the State. For every dry hole drilled the State would lose its opportunity to acquire a bonus from a lease sale on that land. The Prudhoe Bay field has been like a siren song to many oil operators. This is also true with some of our legislators. We should be looking at the future when advocating a State policy regarding our lands with oil and gas potential. If you do this and look at the odds of finding a large field, I think the State would lose its shirt following the procedures proposed in this bill.

MEMORANDUM

TO: Royer Lewis
Legislative Liaison
Office of the Commissioner

DATE : April 5, 1976

FROM: Pedro Denton
Chief, Minerals Section 
Division of Lands

SUBJECT: HB 872

This bill would eliminate two of the best schemes for oil and gas leasing. These are straight bonus bidding with fixed royalty rates at higher than 12½% (percent) and bonus bidding with a sliding scale royalty. Both of these are allowed under present state law.

I have no objection to the other bidding schemes being provided for; but, I doubt it would be in the best interest of the state to use them. Basically, "net profits" are too difficult to administer. I do not have much confidence in our ability to determine "net profits" when we still do not have an answer to "well head" value in Cook Inlet. We might be able to narrowly define net profits by regulation so that they would be easily definable; but, it would appear just as easy to design a sliding scale royalty that would accomplish the same thing without the inherent administrative costs of monitoring net profits.

I am opposed to royalty bidding because it encourages speculative bidding by those unable to perform and would lead to waste of resources by premature abandonment. The state would also, more fully, participate in the risk; but this could be controlled somewhat in well known areas by the amount of the fixed bonus.

Another major problem is that the alternatives allowed include almost all the bidding schemes that have been studied so much in relation to oil and gas leasing during the past few years. I am concerned that an administration faced with a tremendously complex decision, potentially involving many millions of dollars, will simply be unable to timely make decisions with so many complex alternatives. As different administrators jump from scheme to scheme, we will only add to the already far too much uncertainty in Alaska and thereby actually decrease our take by whatever scheme we use. This is all so unnecessary because basically the same thing can be accomplished by intelligent management of either of the schemes; some easier and with less cost than the others. We must remember that all of these theories are projected by various proponents to accomplish essentially the same thing; bring in the greatest return to the government. What many of these theorists forget in the equation are the fundamental problems of government and business.

I would thus rather see only one scheme provided by statute, bonus bidding, with the latitude to set fixed or sliding scale royalties. With fairly simple determinations, these can be tailored to fit the basic objectives of the state as situations change. If this bill must be considered, I recommend that Sec. 38.05.180(a) (1) be amended to state the royalty "not less than 12½%" instead of the flat 12½% (percent) proposed.

I recommend deleting the requirement in Sec. 38.05.180(c) to certify leases of over 5 years to the legislature. In many remote areas 5 year leases will be too short to receive maximum return from a sale. The sharply escalating

rentals should protect against abuse from longer term leases and make checking with the legislature unnecessary. The references to AS 31.05.100 through AS 31.05.110 should be deleted. As written, it could imply that leases could only be extended if in a forced unit and I doubt this was the intent. Line 27 and 28 on page 2 should be rewritten to read as follows:

"lease or, if the lease is committed to a unit approved by the commissioner."

The proposal would (probably by oversight) eliminate the drilling over the expiration date concept in the present law. This provision echoes several problems inherent in mineral development and should be included. It is the third from the last sentence under present AS 38.05.180(a).

The proposal would also eliminate the preference right provision presently under AS 38.05.180(j) and (k). This is a good provision and was designed to solve the title problems in the many federal lease areas with water-bottoms of unknown title. The State's interest is protected by the competitive bid procedures and by our right to object to federal leasing of water-bodies that are clearly navigable.

Section 38.05.184 is confusing and would require considerable study to determine if it is workable. The discovery reward concept appears unworkable but perhaps it could be cured by regulation. The concept of designating "a single petroliferous subsurface geological structure" may also be unworkable or unrealistic without provisions for more data gathering. I doubt that the intended incentives of this bill (i.e. preference right and discovery award) would intice very much revenue, but the bill would be extremely expensive to administer and could condemn considerable state acreage.

cc: Dale Tubbs
Mike Smith

HB

878

"An Act relating to the Alaska Mining License Tax; and providing for an effective date."

COMMITTEE REPORT

3/19/76

HOUSE

FINANCE

Mr. Speaker:

Date 4-12-76

The Committee on RESOURCES has had HB 878

under consideration. A Majority of the members of the Committee

recommends it DO PASS

recommends it DO NOT PASS

recommends it DO PASS WITH ATTACHED AMENDMENT(S)

recommends it BE REPLACED WITH CS FOR _____ AND THAT

CS FOR _____ DO PASS

"and" recommends it BE REFERRED TO THE _____

COMMITTEE

reports it back WITHOUT RECOMMENDATION

"other"

Members signing the Majority report:

Nels C. Anderson _____

Members NOT concurring in the Majority report:

WINE HERSHBERGER recommends: ~~Do Not Pass~~ No Recommendation

_____ recommends: None

_____ recommends:

_____ recommends:

_____ recommends:

Nels C. Anderson Chairman

837 S. Nelson St.
Lakewood, Colo. 80226
April 14, 1976

wood
4/19

Mr. Nels Anderson, Jr., Chairman
House Resource Committee
Pouch V
Juneau, Alaska 99801

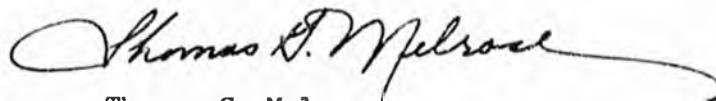
Dear Chairman Anderson:

I understand your committee held hearings on HB 878, which would impose a severance tax on income derived from mining. It is almost unbelievable that such a tax would be considered when mining is largely a potential industry which already faces a tough tax structure on top of staggering development and operating costs.

During the past several years, we have considered various mineral ventures in Alaska and, in some instances, conducted preliminary feasibility studies. The ventures have been turned down on the basis of unfavorable financial analyses before the tax factors were considered! We have apparently erroneously assumed that due to the lack of a strong economic base, the State of Alaska would probably grant tax concessions as an incentive for a major mineral development. As is the case with many companies, we look at Alaska's excellent potential for mineral deposits from the technical standpoint and then define the targets in economic terms. This results in limiting ourselves to mineral deposits with such high unit value that the probability of finding one is too low to justify the high exploration cost.

Until the State government and the labor unions recognize that sound economic development requires a favorable tax structure plus competitive labor costs per work unit, I see little chance of significant growth in Alaska's mineral industry.

Very truly yours,



Thomas G. Melrose

TGM:cj

TELEGRAM

BCA ALASKA COMMUNICATIONS, INC.

PHONE: 586-6440

JUNEAU, ALASKA 99801

#

1976 APR 17 PM 1 53

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01 FAIRBANKS ALASKA 4-17-76

PMS NELS A ANDERSON, CHAIRMAN

HOUSE RESOURCE COMMITTEE
2962

POUCH V

JUNEAU ALASKA

HB 878

DEAR CHAIRMAN ANDERSON:

REGARDING HB 878 MINING TAX, I RESPECTFULLY URGE YOU TO HOLD THIS LEGISLATION IN COMMITTEE, NOT LETTING IT SEE THE LIGHT OF DAY.

IT IS COUNTER PRODUCTIVE FOR ALL ALASKANS IN TERMS OF REVENUE GENERATION, BECAUSE IT WILL RESULT IN LESS MINING EXPLORATION, LESS MINING TAX REVENUE, AND WILL ROB ALASKANS OF JOBS. IT STRIKES PARTICULARLY HARD AT SHARE HOLDERS OF ANCSA REGIONAL CORPORATIONS BECAUSE IT TAKES 7 PERCENT OF THEIR MINERAL REVENUE STRAIGHT FROM THE POCKETS OF THE SHARE HOLDERS. IT ALSO OFFERS A SERIOUS IMPEDIMENT TO MINERAL DEVELOPMENT ON NATIVE LANDS.

CORPORATIONS BECAUSE IT TAKES 7 PERCENT OF THEIR MINERAL REVENUE
STRAIGHT FROM THE POCKETS OF THE SHAREHOLDERS. IT ALSO OFFERS A
SERIOUS IMPEDIMENT TO MINERAL DEVELOPMENT ON NATIVE LANDS AND TO
MINERAL DEVELOPMENT THAT MIGHT CONTRIBUTE TO THE ALASKA NATIVE FUND.

IF HB 878 PASSES, IT WILL SET IN CONCRETE THE CONCEPT OF SPECIAL
TAXES ON MINING, WHICH IS A CONCEPT THAT RUNS AGAINST THE PUBLIC
INTEREST, ESPECIALLY IN TIMES OF HIGH INFLATION AND UNEMPLOYMENT.

THANK YOU FOR YOUR CONSIDERATION.

RESPECTFULLY,

JEFF KNAEBEL

TLX 090354 02

1643 EST

IPMAFUB AHG



Bear Creek Mining Company

Spokane
Office

April 13, 1976

file 878
rec'd H/18

The Honorable Nels Anderson, Chairman
Resource Committee
Alaska State House of Representatives
Pouch "V", State Capitol Building
Juneau, Alaska 99811

Dear Representative Anderson:

Bear Creek Mining Company wishes to thank you for the opportunity to appear before your committee on April 8, 1976. We feel strongly about the need for real incentives in order to establish a viable mining industry in Alaska, and look forward to working with your committee and the State of Alaska to investigate such matters as infrastructure support and federal government tax policy. We would certainly like to reduce our state tax burden, and feel that although this may not be achieved in this legislature, the revisions we requested would relieve this burden in startup years and resulting from lows in the business cycle. We do feel that stability is worth something, and appreciate this aspect of the current House Bill 878.

A viable, rural mineral industry in Alaska would be an asset worthy of State support -- it would be about the only industry which could be developed to furnish jobs for rural Alaskans, and a diverse economic base for the State. Are you and your committee in favor of working toward its development? We would like to think so, and are ready to work with you -- please call on us.

Sincerely,

R. C. Babcock, Jr.
Exploration District Manager

RCB/bb

cc: H. L. Bauer, Jr.

HB 878
rec'd
4/23

April 17, 1976
David L. Butherus
4.1 mile Chena Ridge Rd.
Fairbanks, Alaska 99701

Mr. Nels A. Anderson Jr., Chairman
House Resource Committee
Pouch V
Juneau, Alaska

Dear Mr. Anderson:

I am writing to you in regard to the proposed new tax bill (HB 878) on mining. This new tax proposal, if passed, would be even more detrimental to the mining industry than the existing Mining License Tax.

Mineral exploration and development in Alaska face great difficulties and extremely high costs already, and I feel that the additional burden of an excessive tax would virtually bring a halt to the mining industry in this state. This would result in a monetary loss to the state and a loss of jobs for the people presently employed by the mining industry.

Alaska ranks among the highest, if not the highest in taxation. The infant mining industry in this state cannot hope to bear a heavy tax burden such as those borne by the mature mining industry in states such as Arizona, Montana, Minnesota, and Idaho.

High taxes would stop the flow of exploration money coming into the state. Without exploration money, efforts to evaluate lands in Alaska will be greatly hampered, and the necessary facts to make wise land use decisions will be sadly lacking.

I would like to go on record as opposing this bill (HB 878) and urge you to hold it in committee so that this extremely important matter may be given the careful consideration it demands.

Thank you for your consideration of this important matter.

Sincerely,

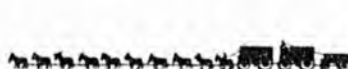
David L. Butherus

David L. Butherus

DLB:seb

878

FINANCIAL DEPARTMENT

 **U.S. BORAX**
A MEMBER OF THE RTZ GROUP

April 12, 1976

Mr. Nels A. Anderson, Jr.
Box 234
Dillingham, Alaska 99576

Dear Mr. Anderson:

This letter is to thank you for permitting me to testify on behalf of United States Borax & Chemical Corporation before your Resources Committee Hearing on House Bill No. 878 on April 8, 1976.

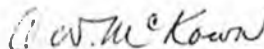
As I stated, United States Borax & Chemical Corporation is very interested in the possibility of mining in Alaska. (See copy of attached News Release). Testimony that was given seems to support either a total repeal of Section 43.65.010 Mining license or modification to recognize and permit (1) deduction of exploration costs in determination of base for tax (2) the deduction of prior losses by permitting carry forward of prior losses until exhausted (3) the allowance of related expenditures incurred outside the State of Alaska and (4) application of 3-1/2 year tax free holiday to each new mine placed in production.

Also, the proposal to establish one rate of 3 per cent or 5 per cent in lieu of present escalating rates could provide some encouragement to future mine operators.

In line with the spirit of 1776, it is believed all taxes should be critically examined to determine if they deter the future developments of Alaska. Your committee has the important role to foster and encourage mineral development that in turn will increase employment and the prosperity of the State.

Happily, United States Borax & Chemical Corporation will be able to bring into operation the property now being defined. A favorable tax consideration for the mining industry by your committee would help our future planning as well as others now considering Alaskan operations.

Yours truly,


C. W. McKown
Tax Manager

CWM:jf
Attachment

news release

issued by the public relations department
3075 Wilshire Boulevard, Los Angeles, California 90010 · 381-5311

U.S. BORAX
A MEMBER OF THE RTZ GROUP

FOR RELEASE MARCH 17, AT 3 P.M., EST,
12 NOON, PST.

United States Borax & Chemical Corporation has discovered a major molybdenum deposit in the Ketchikan area of southeastern Alaska.

The Los Angeles based company revealed today the results of its preliminary evaluation of the deposit, which was initially discovered in the fall of 1974 during an extensive exploration program conducted in southeastern Alaska over the past five years.

The mineralized area, which covers almost a square mile, is located 45 miles east of Ketchikan in the southern Alaska panhandle, and lies at an elevation of 2,000 feet and five miles inland from tidewater.

Drilling to date indicates a potential ore body in excess of 100 million tons grading 0.20 percent to 0.35 percent molybdenum disulfide with the mineralization at or near the surface, permitting mining by open pit methods. The potential for increasing the tonnages both laterally and at depth is considered excellent. Two hundred and thirty-five claims have been filed in the area.

Prospects for future mining of the ore body appear to be promising. However, because of the extent of the mineralized area, considerable further exploration drilling and evaluation will be necessary before a decision can be reached to bring the property into production. The potential ore reserves could support a substantial mining operation.

The company plans further extensive exploration work and environmental studies on the property during 1976 to define the extent of the near-surface mineralization by shallow drilling, to test by deep drilling for the continuity of mineralization at depth and to continue geological mapping and sampling.

The cost of constructing an open pit mine, a concentrating plant to process 30,000 tons of ore per day, and dock and other support facilities is currently estimated at around \$250 million. The project, if brought into production, would employ 700-1,000 people during the construction phase, and about 500 workers on a full-time basis thereafter. The city of Ketchikan would be the major supply base during the construction and operations.

The exploration program, which has cost in excess of one million dollars to date, consisted of extensive geological, geophysical and geochemical surveys in the western Coast Range conducted by an eight-man geologic team, followed by surface sampling and core drilling. Technical

(continued

assistance to the program was given by the company's research facility in Anaheim, California.

During the summer of 1975, forty diamond drill holes averaging about 200 feet in depth were completed in the mineralized area.

Molybdenum is an important alloying agent used to impart hardness, strength, and corrosion resistance to steel, cast iron and nonferrous metals. There are essentially no competitive substitutes for molybdenum in these critical applications. Research is continuing in the use of molybdenum in catalysts for automobile emission controls and coal gasification and as a super alloy for aircraft and industrial gas turbine engines. Free world consumption of the metal in 1975 was approximately 200 million pounds.

U.S.BORAX is a member of the RTZ Group of mining and mineral processing companies. It has a 100-year history of borax mining in southwestern United States and today it operates a borax mine and refinery at Boron, California, producing about 60 percent of free world borates. It manufactures and distributes a wide range of borate products and chemicals domestically and internationally. It also has a 40 percent interest in Allan Potash Mines at Allan, Saskatchewan.

March 17, 1976

*file
#13 478
copy
H/23*

The Honorable H. M. Hershberger
Alaska State House of Representatives
Pouch "V" State Capitol Building
Juneau, AK 99811

April 19, 1976

Dear Congressman Hershberger:

I am writing to comment on two questions you raised at the hearings on the Mining License Tax on April 8 which were not adequately answered at the time.

Your point is well taken that there was much talk about how gold mining would increase when the price of gold rose and there have been few developments since the increase. What has happened, however, well illustrates the reality of mining, the lag time from discovery to production and the risk inherent in the volatility of world metal prices.

Gold mining, particularly placer gold mining, is relatively simple but even in those instances where reserves were known and major capital investments of the past, as in the case of gold dredges, could be capitalized on, it took two years before production could be revived. The complexity of other forms of mining would take more planning and much greater investment.

Revival of small scale placer mining, as you are aware, has been hindered by environmental prohibitions which have not only delayed but in instances required closing of some placer operations.

With the price of gold up, nevertheless, exploration for gold has intensified. The Golden Zone deposit has been drilled during the past two seasons and the Willow Creek mining district is under exploration by a major company, which are two examples of the efforts being made by the mining industry to locate minable deposits.

The Chandalar mining district, with which I am particularly familiar, has been under active exploration during the past two field seasons by established mining companies which have been unsuccessful in preliminary efforts to delimit potential major gold reserves. The Little Squaw Gold Mining Company, owner of the claims in the area, now plans to mine the small tonnage of high grade ore which has been known for years, but is doing so only after having made the effort to evaluate the district for larger scale mining developments.

Significantly, during the period of the past two years, the price of gold has declined to less than one-half its historic high and there are predictions of a collapse in the price, a necessary consideration in any investment planning for a gold mining undertaking.

On another question, you made the valid point that you could only relate to what you know and illustrated that 7% of \$500,000 is \$35,000 an amount equal to what a pipeline worker makes in a half-year and asked why U. S. Borax couldn't pay that amount. The comparison would have been apt were the \$500,000 to have been a relevant figure but unfortunately was off by an order of magnitude which made the inference misleading. In order to explain, let me ask the question, "If you invested \$250, would you be looking to earn 50¢ per year before taxes?" That is the equivalent of \$500,000 earned on the \$250 million investment U. S. Borax projects for the molybdenum development. In proper perspective, therefore, U. S. Borax would have to plan on taxable income of at least 25 times that amount and at a rate of taxation that would be not 7%, but 7% plus 9.4%. Thus the figure to relate to is \$2 million not \$35,000. I should add that it goes without saying that there would be the further tax revenues from property taxes and a considerable swell in personal income tax and sales tax revenues as the effects of the development permeated the southeast Alaskan economy.

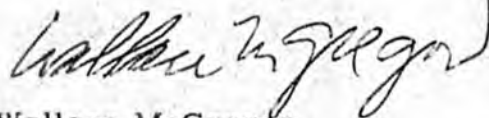
I don't think that there is an awareness that the State's tax policy has had a severe depressing influence on the mining industry nor that any change will have more than a minimal influence on near term tax revenues. Were a mineral industry to be attracted to Alaska, the tax revenue benefits could not be expected to be realized to any substantial degree before the mid 1980's. Thereafter, however, the direct as well as indirect benefits of a broad based mining industry would be substantial and long term.

Page 3/The Honorable H. M. Hershberger/April 19, 1976

I strongly believe that legislative action on the Revised Mining License Tax Bill would be ill-advised at the present time. Without action, nothing is to be lost to the State in revenues to be derived from the present Mining License Tax. What would be lost would be the impetus to thoroughly study the influence of taxation on the mineral industry of Alaska and the ability to meet the tax revenue objectives for the State in the long term.

In closing, let me say that those of us who testified greatly appreciated the interest you expressed in the questions you raised during the hearing.

Sincerely,

A handwritten signature in cursive script, appearing to read "Wallace McGregor". The signature is written in dark ink and is positioned above the typed name.

Wallace McGregor

W Mc G:pn

cc: The Honorable Nels Anderson



RESOURCE ASSOCIATES OF ALASKA, INC.

3230 AIRPORT WAY, FAIRBANKS, ALASKA 99701
TELEPHONE: (907) 479-6231 / 6097
TELEX: 090 35402

April 23, 1976

Mr. Nels Anderson
House of Representatives
Pouch V
State Capitol
Juneau, AK 99811

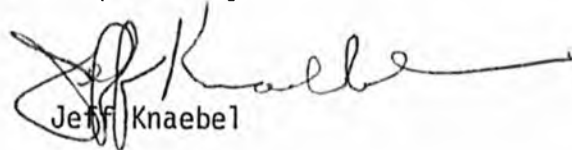
Re: HB 878, Mining License Tax

Dear Representative Anderson:

The enclosed letters, from potential clients (sources of exploration funds) hopefully will help show why the mining license tax has the effect of robbing jobs from Alaskans, with the noteworthy secondary effect that total tax revenue to the state is less than it would be if the severance tax did not exist and the resulting flow of exploration capital provided jobs.

Anybody who has an understanding of these economic factors and a concern for unemployment would seem to be in favor of repealing the existing mining license tax.

Respectfully,



Jeff Knaebel

JK/dc
Encl: Letters

RECEIVED APR 19 1976



TECK CORPORATION LIMITED

1199 WEST HASTINGS STREET
VANCOUVER, B. C. V6E 2K5

TEL: (604) 681-1392
TELEX: 04-507709

April 14, 1976

Representative Nels Anderson, Jr.,
Chairman,
House Resource Committee,
Pouch V,
Juneau, Alaska

Dear Mr. Anderson:

Re: House Bill 878 (Mining License Tax)

As a Canadian company prepared to invest in Alaska mining ventures provided a reasonable rate of return is possible, we wish you to understand that implementation of the above bill will discourage us further from participation in your State which is already one of the highest cost areas available to us.

Yours truly,

TECK CORPORATION LIMITED

J. M. Carr,
Chief Geologist

JMC:mjb

c.c. J. Knaebel,
Resource Associates of Alaska, Inc.

This outfit is a potential client that turned us down. Our company depends on outside capital to provide 20 to 30 permanent jobs for Alaskans and 3 to 6 helicopter contracts per year.

 Resource Associates.
4-22-76

837 S. Nelson St.
Lakewood, Colo. 80226
April 14, 1976

Mr. Nels Anderson, Jr., Chairman
House Resource Committee
Pouch V
Juneau, Alaska 99801

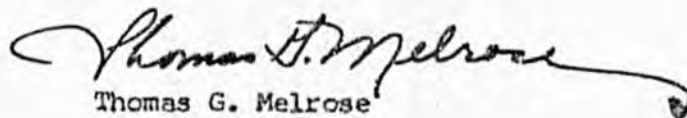
Dear Chairman Anderson:

I understand your committee held hearings on HB 878, which would impose a severance tax on income derived from mining. It is almost unbelievable that such a tax would be considered when mining is largely a potential industry which already faces a tough tax structure on top of staggering development and operating costs.

During the past several years, we have considered various mineral ventures in Alaska and, in some instances, conducted preliminary feasibility studies. The ventures have been turned down on the basis of unfavorable financial analyses before the tax factors were considered! We have apparently erroneously assumed that due to the lack of a strong economic base, the State of Alaska would probably grant tax concessions as an incentive for a major mineral development. As is the case with many companies, we look at Alaska's excellent potential for mineral deposits from the technical standpoint and then define the targets in economic terms. This results in limiting ourselves to mineral deposits with such high unit value that the probability of finding one is too low to justify the high exploration cost.

Until the State government and the labor unions recognize that sound economic development requires a favorable tax structure plus competitive labor costs per work unit, I see little chance of significant growth in Alaska's mineral industry.

Very truly yours,


Thomas G. Melrose

TGM:cj

cc: J. Knaebel ✓

My company depends
on sources of outside capital
like this to provide jobs for Alaskans.
When you raise special taxes on mining,
you take jobs away from Alaskans.
Jeff Knaebel Resource Associates 4-22-76

4713
878

April 17, 1976
3230 Airport Way
Fairbanks, Alaska

Nels A. Anderson, Jr., Chairman
House Resource Committee
Pouch V
Juneau, Alaska

Dear Mr. Anderson:

In reference to the resource committee studying Alaskan taxes on the mining industry, I would very much appreciate making the following points. These are my own thoughts, but everyone I talk to feels the same way about excessive taxation that destroys our ability to work and provide jobs for others, as well as, takes away needed monies for basic studies.

- 1.) The proposed new tax bill (HB878) on mining which would replace the Alaska Mining License tax should be held in committee and not be presented to the legislature. This new tax proposal is even more detrimental than the Mining License Tax.
- 2.) The Mining License Tax is excessive taxation and very detrimental to any eventual mining industry that can provide needed revenue to the people of Alaska. This added tax hinders any mine from going into production, and also stops exploration money from coming into Alaska.

Without exploration money, Alaska will never be given the chance for regional evaluation of lands that are open to mineral exploration. When considering the questions of which lands should be set aside for parks or reserves, and not open to mineral production or any other production, we do not acquire any factual parameters to make these judgments.

- 3.) Perhaps I can illustrate my concern by envisioning this scenario:

The Bristol Bay fisheries resources is reported to be nearly in the same category as other endangered species. By baseline studies (requiring State and Federal funding) definite factual parameters need to be ascertained in order to not allow these species to become extinct.

A panic situation invades the people and the state legislature -

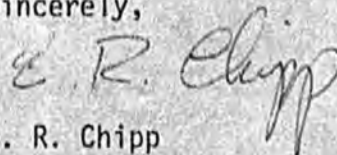
we must come up with these costly research programs! Everyone agrees we must spend this money. The people say, tax the mining and oil industry more! The commission of revenue reports happily - the mining and oil industry left ten years ago. The people say - what about the Alaska Oil and Minerals producing company we recently funded with 3 billion dollars. The commissioner says - although we will "eventually" show a profit we are like the U. S. Postal Service, we need an extra 3 billion this year. A visiting geologist in his normal maverick style says, maybe if you lowered taxes the oil and mining people may return. He is tarred and feathered and sent back to the lower 48 - what nerve these outsiders have trying to run our business! In the mean time, the last red salmon ala Bristol Bay is being fried in someones cabin near Naknek.

The commissioner says - our problem is the people, they won't work because they say they don't have enough enery without a balanced diet. A commission is formed to study the problem of eliminating these undersirables. Before the commission is through receiving testimony, the problem is eliminated by these people dying of starvation.

Fifty years later Bristol Bay has developed a new ecosystem - red and green algae flourish and take all available oxygen in the waters; only anaerobic bacteria survives in this stagnant mass of black water and mud. Fifty million years later these black muds form oil and gas deposits for future generations of Martians. A bright young Martian geologist studying the ancient fossils makes a major breakthrough - there used to be a prolific and marvelous fish called the Bristol Bay red salmon! This species is very important for oil explorers, because once the drill encounters the red salmon fossil beds, no oil is to be found in these formerly oxygen-rich waters.

Thanks very much for your consideration on this very important matter.

Sincerely,



E. R. Chipp

HB878

April 19, 1976
Rodney A. Blakestad
PO Box 80747
College, Alaska 99701

Nels A. Anderson Jr., Chairman
House Resource Committee
Pouch V
Juneau, Alaska

Dear Mr. Anderson:

May I point out to you and your Resource Committee the results of a recently (December, 1975) conducted poll by our Senator Stevens concerning use of the Federally withheld lands under the Native Land Claims Settlement Act. The question read: "Do you favor the multiple-use of D-2 lands to allow for hunting, recreation, fishing, logging, mining and oil and gas exploration activities, rather than single use of such lands for recreation and preservation of natural resources only?" A full 79% of the responding Alaskans were in favor of this, 15% were against, and 6% undecided.

On the same questionnaire was the following: "Do you favor the permanent prohibition of mining in the Mt. McKinley and Glacier Bay areas?" Of the responding Alaskan people 67% said "no".

This attitude, I believe, is very significant with respect to how the people of Alaska feel about development of our state's natural resources. All those in the State Legislature should take note of this stand and be cognizant of it when considering legislation that bears on the question of development.

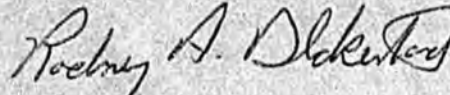
Now the reason I am writing is to urge you and your fellow committeemen to work over the proposed new tax bill (HB878) in such a manner that it will not hinder further the infantile mining industry of Alaska.

As a minerals exploration geologist, resident in Alaska for seven years, I have an acute understanding of the economics for large scale minerals development. Alaska is on the threshold of becoming a major supplier of greatly needed raw metals to our American industry. We in the industry have worked hard and spent hundreds of millions of dollars trying to locate minerals in quantity and grades sufficient to overcome the extremely high cost of extraction already realized in Alaska.

There is no question that taxation of the industry will add a great deal to the coffers of our state over an extremely long period of time when, but only when, the industry is established and working. This high risk industry can develop only if our tax system is equitable and stable (please review the adverse affect inequitable taxation had in the province of British Columbia in recent years).

HB878 should be overhauled to conform with the attitudes of the majority of Alaskans as expressed in the above mentioned poll. It would be best if HB878 remained in committee and a new bill proposed that would set forth a firm taxation foundation upon which the mining industry of Alaska can develop.

Respectfully submitted,



Rodney A. Blakestad



TECK CORPORATION LIMITED

1199 WEST HASTINGS STREET
VANCOUVER, B. C. V6E 2K5

TEL: (604) 681-1392
TELEX: 04-507709

April 14, 1976

HB 878

Representative Nels Anderson, Jr.,
Chairman,
House Resource Committee,
Pouch V,
Juneau, Alaska

Dear Mr. Anderson:

Re: House Bill 878 (Mining License Tax)

As a Canadian company prepared to invest in Alaska mining ventures provided a reasonable rate of return is possible, we wish you to understand that implementation of the above bill will discourage us further from participation in your State which is already one of the highest cost areas available to us.

Yours truly,

TECK CORPORATION LIMITED

J. M. Carr,
Chief Geologist

JMC:mjb

c.c. J. Knaebel,
Resource Associates of Alaska, Inc.

AJV CORPORATION

HB 878

The Honorable Nels Anderson
Alaska State House of Representatives
Pouch "V" State Capitol Building
Juneau, Alaska 99811

April 14, 1976

Dear Congressman Anderson:

I participated in the Resource Committee hearings on April 8 concerning House Bill 878, the revised Mining License Tax Bill. I spoke on behalf of the Northwest Mining Association and presented facts relating Alaska State taxation to other state taxations and the relationship of taxation on mining income relative to other incomes within the State. I did not express my personal strongly held views concerning the inadvisability of passing HB-878 and am writing to do so for the record.

If the Bill is intended to produce tax revenues, it is self evident that its objective will not be met based upon the experience with the tax during the past 25 years. I can attest to the fact that major corporations with whom I have been involved in joint venture undertakings in Alaskan exploration have been discouraged from proceeding with Alaskan investments based upon the findings of feasibility analyses which show the effect of total taxation to be grossly discouraging to development investments.

It has been my experience that the geologic potential for the discovery of mineral deposits has been the attraction for mineral exploration in Alaska with the initial investigations being carried out with little regard for the over-all economic aspects of profitably developing a discovery. The disenchantment sets in when the specifics of cost, including the cost of taxation, are analyzed.

Only private investment will create the tax base from which tax revenues will be derived. The deterrent to investment that the present State tax policy presents can only perpetuate the non-job creating non-tax producing

situation that exists in Alaska mining today. It is my strong belief that passage of HB-878 would be counter-productive to the creation of tax revenues and I urge you to hold the Bill in Committee for the remainder of the current legislative session. In so doing, the long standing Mining License Tax Statute will remain in effect but time would be provided for an in-depth look at a tax plan that could attract rather than discourage development of resource created tax revenues for the long term.

Sincerely,

A handwritten signature in cursive script that reads "Wallace McGregor". The signature is written in dark ink and is positioned above the typed name.

Wallace McGregor
President
AJV Corporation

WMcG:pn



AURORA AIR SERVICE, INC.

P. O. Box 1640, Fairbanks, Alaska 99707

Ph. (907) 452-5422
(907) 456-5212

*File
HB 878*

April 14, 1976

Representative Nels Anderson, Jr., Chairman
House Resource Committee
Pouch V
Juneau, Alaska 99801

Dear Chairman Anderson:

I am writing to express my concern about the apparent trend demonstrated by the State of Alaska to place special taxes on mineral resource development, and especially to voice my opposition to HB 878.

Nels, I realize that every industry and every business in Alaska must contribute to the tax base of the State. Because of the obvious and inherent disadvantages to conventional industry in Alaska as compared to other States, we must develop rather unconventional industries, and depend on those industries for our economy, and therefore our tax base. Timber, fishing, guiding, petroleum and mineral exploration and development, tourism, and transportation are all industries which are rather unique to Alaska, and should be encouraged in every reasonable way in order for us to develop a self sufficient year-round economy capable of supporting Alaskans, and Alaskan needs.

As a small business owner in Alaska, I am rather sensitive to any proposed regulation, control, or tax placed on business which may discourage investment in Alaska. We have all heard the term "fragile" used in reference to our Alaskan ecology, and I believe that applies as well to our economy. I can well assure you that there are relatively few incentives to business as compared to the ever present problems, and with most small Alaskan businesses, the year-round expenses tend to decrease the net gains made in the short summer months to a concernable level. For those of us who do remain in business despite the obstacles, there is the hope that better times are ahead and that a year-round economy will eventually evolve from the seasonal highs and lows which we now experience. For this evolution to occur, a favorable business climate must be established, for without the investment of "outside" capital, Alaskan industry development will not keep pace with the rising cost of living and job demands.

As you know, a few years ago my company was a small bush flying service which contributed little to the local or State economic base. We flew when and where we could, motivated more by the spirit of adventure than any real concern for providing jobs for others or becoming an integral part of the Alaskan business community. But business is more complicated now. We operate several airplanes, employ several pilots, and have committed ourselves to long term obligations which in turn have caused others to look toward us for support and security. In order for us to provide this security our year-round business volume must remain at a high level.

Since 1971, Aurora Air Service has developed a specialized flight service which is designed to support mineral exploration and development activities in Alaska. Because

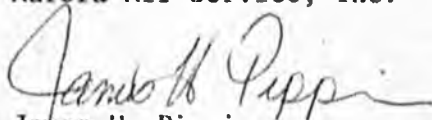
April 14, 1976

we are specialized, the majority of our business is conducted for companies such as Kennecott Copper, Anaconda, Resource Associates of Alaska, Placid Oil Company, and other mineral related companies. In dealing with these companies, it has become obvious that mineral development and petroleum development differ in one major respect: the budgets of mineral companies are considerably smaller than those of petroleum companies. We have attempted to keep our service prices to a minimum level in the hope that our specialized services and reasonable charter and contract rates will act as an incentive for these companies to plan more extensive operations in Alaska each year. Eventually, we hope that year-round mining operations will develop, and our business will be able to maintain a volume level which is necessary for our continued growth.

While I do not claim to be an expert in such matters as State economics, I do believe that the State will benefit from mineral development, if not directly from severance taxes then certainly from the increased jobs and business provided by service companies such as mine. As I said previously, I realize that every industry must contribute a fair share towards our tax base. My concern, however, is that through unreasonable greed, we may kill the goose before it lays the golden egg and those of us who live and work here will die with it.

Your job of establishing a fair mineral tax is a difficult one, and I have no profound suggestions for a tax which will make all parties happy. I would suggest, however, that all the economic implications of mineral development and mineral taxes be considered before a decision is reached, and special incentives be offered which will increase, rather than decrease Alaskan mineral development.

Sincerely;
Aurora Air Service, Inc.


James H. Pippin
President

sc

TELEGRAM

NCA ALASKA COMMUNICATIONS, INC.

PHONE: 586-6440

JUNEAU, ALASKA 99801

12 062 NL FAIRBANKS ALASKA 50 04-12 935A AST

PMS NELS ANDERSON CHAIRMAN

HOUSE RESOURCES COMMITTEE **2145**

JUN

RE BILL 878 REQUEST YOU RECONSIDER CONSEQUENCES

OF PROPOSED SPECIAL MINING TAXES RESULTANT INFLATION CAUSED

IN GRAVEL COST PROHIBITANT HARDSHIPS INFLICTED ON SMALL

MINING VENTURES COULD CRIPPLE AN INDUSTRY IMPORTANT

TO STATE ECONOMY

GEORGE R HORNER PRES H AND H CONTRACTORS INC

*rec'd 4/13
848 file*

1976 APR 12 PM 6 08

10000 4113
E. 5603 Third Avenue
Spokane, Washington 99206

U.S. BORAX
A MEMBER OF THE RTZ GROUP

(509) 534-9321

April 9, 1976

Mr. Nels Anderson
c/o Natural Resources
Pouch M
Juneau, Alaska 99801

Dear Nels:

Thank you very much for allowing me to attend your resource committee meeting on April 8, 1976 (Thursday). As you probably know, U.S. Borax has been quite actively exploring for minerals in Alaska, and has recently made a formal news release in the Ketchikan area of a new molybdenum prospect discovery. Because of our exploration efforts and success, the political and tax environments of Alaska are extremely important.

I feel that one of the main thoughts that should have been left with the committee was that no significant mining presently exists in Alaska at the present, and why? Consider the following facts:

1. Alaska is large and mineral rich.
2. Cost of doing anything in Alaska is high.
3. Taxes on the mining industry are higher than in any other state.

In review, the high taxes for mining in Alaska are as follows:

- a. 48% United States corporate tax
- b. 9.4% Alaska corporate tax
- c. 7% Alaska mining license tax

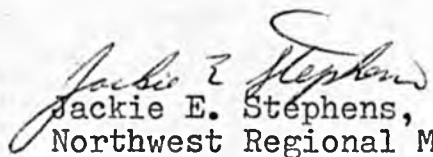
This is the highest rate of taxation for any state in the United States. It will certainly be a miracle if any company can bring into production a major mine considering the above tax handicaps.

For the record, U.S. Borax does not subscribe to the continuation of the mining license tax (Bill 878) as did

several at your hearing. This mining license tax alone may not thwart the start up of any major producer, but added to a presently existing unfavorable economic situation, may continue to kill the goose that could lay Alaskan corporate taxation dollars, and lose badly needed jobs in rural areas.

Thanks for your time.

Yours truly,


Jackie E. Stephens,
Northwest Regional Manager

JES/cl

JOHN A. MISCOVICH
HYDRAULIC MINING CONSULTANT
EQUIPMENT DESIGN

PHOSPHATE



GOLD*****

Alaska Address:
June-September
Otter Dredging Co.
Flat, Alaska 99584
Air Mail Only

*File
HB 878*

*rec'd
4/19/76*

COPPER

California Address:
October-May
1093 No. Greengrove St.
Orange, California 92667
714 - 532-3943

April 6, 1976

Mr. Nels Anderson, Chairman
House Resources Committee
Alaska State Capital
Juneau, Alaska

Dear Nels:

I have not had the pleasure of meeting you but I learned recently a hearing will be held in Juneau on April 8 regarding a tax on the mining industry.

The politicians representing the people of Alaska must start thinking in terms of developing the mining industry of Alaska and not killing it entirely by the burden of taxes on ore yet to be proven profitably and produced.

With the present problems of meeting the demands of the EPA, Fish and Game, Osha, Mesa, inflation, inefficiency of man hour production, high labor costs, short mining season and others I wont mention, it is time that the politicians realize what is happening to Alaska and its future.

We have had a windfall because of the oil strikes in the Prudhoe Bay area and the gigantic pipeline construction program. As a mining consultant traveling over many parts of the world in mining, I have seen the boom and then the lull. Alaska needs continuous development and lots of new capital to develop with. The fear of higher taxes on minerals before they are produced or developed only turns new capital away from Alaska.

I have lived at Flat, Alaska all my life and have worked and traveled in many other parts of Alaska over the past 50 years in gold mining. I have been trying to get an ore deposit at Flat investigated and hopefully into production on a fairly large scale. My work started in 1964 toward this goal and now I find the actions of our politicians has developed a stalemate situation and the company involved is waiting it out and only doing assessment work. This is not good for Alaska or Alaskans. I have found the same to be true with many other companies who once had eyes on Alaska but now have turned away.

I urge you to try and influence your committee to consider legislation that will once again open the doors in Alaska for new and large amounts of capital. Exploration is what we need which means employment. Exploration and evaluation will not commence if that dollar for exploration is going to be sliced into taxes before work begins or otherwise burdened by penalties.

I am opposed to any form of new taxes on the mining industry at this time and urge you to concentrate efforts toward a more active exploration and mining program.

With kind regards to you,

Sincerely yours,
John A. Miscovich
John A. Miscovich

MGMHGB AHG
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TLX RESALASKA FTGN
001 FT COLLINS, CO APRIL 7

RCA Mailgram®



NELS ANDERSON
CHAIRMAN OF HOUSE RESOURCES COMMITTEE
POUCH V
JUNEAU, ALASKA 99811

file 878

rec'd 4/9/76

SPECIAL MINING TAXES AS PROPOSED IN THE REVISED MINING LICENSE TAX BILL BEING INTRODUCED AT THE REQUEST OF GOVERNOR HAMMOND MUST BE DEFEATED.

ALASKA HAS THE POTENTIAL FOR VIABLE MINING INDUSTRY BUT IF THIS OR SIMILAR BILLS ARE PASSED BY THE LEGISLATURE NO MINING INDUSTRY CAN EXIST. EXPLORATION AND DEVELOPMENT COSTS ARE ALREADY EXCESSIVE IN ALASKA AND MORE TAXATION WILL KILL A BUDDING MINING INDUSTRY.

SINCERELY,

HAROLD L. READE
REGIONAL GEOLOGIST
RESOURCE ASSOCIATES OF ALASKA
FT COLLING, CO 80521

1752 EST

MGMHGB AHG

TELEGRAM

BCA ALASKA COMMUNICATIONS, INC.

PHONE: 586-6440

JUNEAU, ALASKA 99801

*File
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18005 NOME ALASKA 119 04-08 125P BST

PMS REP NELS ANDERSON JR, CHAIRMAN HOUSE RESOURCE COMMITTEE

POUCH V

1817

JUNEAU

DEAR CHAIRMAN ANDERSON:

HB 878 REVISING THE MINING LICENSE TAX IS OF GREAT CONCERN TO US. THE CONSEQUENCES OF THE BILL MAY HAVE A NEGATIVE EFFECT ON THE DEVELOPMENT OF THE MINING INDUSTRY SO VITALLY NEEDED HERE IN ALASKA. I ENCOURAGE YOU TO SET UP, NEXT YEAR, A JOINT STUDY COMMITTEE WITH THE ALASKA MINERS ASSOCIATION TO EVALUATE POSITIVE APPROACHES TO MINING ACTIVITY IN ALASKA. ITEMS OF STUDY SHOULD INCLUDE REDUCTION OF TAX RATE, PERMIT CARRY FORWARD OF NET OPERATING LOSSES AND PERMIT DEDUCTION OF FEDERAL TAXES BEFORE COMPUTING ALASKA TAX BASE.

A TAX INCENTIVE TO THE MINING INDUSTRY CAN GENERATE A LARGE TAX BASE IN A COMMUNITY SUCH AS NOME WITH THE MULTITUDE OF TAXES NOW ON THE BOOKS. THIS RIPPLE EFFECT WILL PROVIDE JOBS AND REDUCE OUR DEPENDENCE ON FEDERAL AND STATE HANDOUTS.

RESPECTFULLY SUBMITTED, E.T. HUNTER, MANAGER ALASKA GOLD COMPANY

NOME, ALASKA

TELEGRAM

RCA ALASKA COMMUNICATIONS, INC.

PHONE: 586-6440

JUNEAU, ALASKA 99801

1PMAFUB AHG

2-0344 14C098 04/07/76

TLX RAA FBK

01 FAIRBANKS ALASKA 4-7-76

PMS NELS ANDERSON, CHAIRMAN

HOUSE RESOURCE COMMITTEE

1620

POUCH V

JUNEAU, ALASKA

HB 878 IS AN IMPROVEMENT OVER THE PRESENT MINING TAX ON THE SMALL MINER HAVING NET PROCEEDS OF LESS THAN 150,000. HOWEVER, HB 878 IS VERY OBJECTIONABLE IN THAT IS PROVIDES FOR A SPECIAL TAX OF 7 PERCENT ON MINING OVER AND ABOVE OTHER TAXES ANY LARGE MINING COMPANY MUST PAY.

WHY SHOULD THE MINING INDUSTRY BE SINGLED OUT FOR AN ADDITIONAL TAX? WE HAVE NO CONTROL ON THE CURRENT PRICE OF MINERALS. ALL MINERAL PRICES ARE EITHER UNCHANGED OR ARE FALLING EXCEPT FOR URANIUM.

ONE OF OUR CLIENTS SPENT OVER 1750,000 LAST YEAR DOING EXPLORATION WORK ON A GOLD PROPERTY. THEY WILL NOT BE IN ALASKA THIS YEAR BECAUSE OF THE DROP IN THE PRICE OF GOLD. MOST OF THIS 1750,000 EXPENDITURE STAYED IN ALASKA, WHICH RESULTED IN THOUSANDS OF TAX DOLLARS GOING TO STATE AND FEDERAL GOVERNMENTS. EVEN IF THE GOLD PRICE HAD NOT DROPPED, THE ADDITIONAL SPECIAL TAY OF 7 PERCENT WOULD HAVE HAD AO EFFECT ON THEIR DECISION AS TO WHETHER OR NOT THE PROPERTY WAS ECONOMIC AT THIS TIME.

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BECAUSE OF THE DROP IN THE PRICE OF GOLD. MOST OF THIS 1750,000
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TAX DOLLARS GOING TO STATE AND FEDERAL GOVERNMENTS. EVEN IF THE
GOLD PRICE HAD NOT DROPPED, THE ADDITIONAL SPECIAL TAY OF 7 PER-
CENT WOULD HAVE HAD AO EFFECT ON THEIR DECISION AS TO WHETHER OR
NOT THE PROPERTY WAS ECONOMIC AT THIS TIME.

IN VIEW OF THE ESCALATING COSTS OF DOING BUSINESS AND THE ALMOST
CERTAIN PENDING MINERAL CRUNCH, IT IS UNCONCEIVABLE HOW A SPECIAL
TAX ON MINING CAN BE BENEFICIAL TO THE STATE AND ITS RESIDENTS.

SHOULD THE TIME EVER COME THAT MINING DOES IN FACT, CONTRIBUTE SUB-
STANTIALLY TO ALASKAS ECONOMY, CONSIDERATION CAN THEN BE GIVEN
TO
ADDITIONAL TAXES. UNTIL THEN, SPECIAL MINING TAXES CAN ONLY RESULT
IN FEWER REVENUE DOLLARS TO THE STATE.

DOUGLAS B COLP, 1101 GILLAM WAY, FAIRBANKS ALASKA 99701

TLX 09035402

2014 EST

IPMA FUB AHG

TELEGRAM

ALASKA COMMUNICATIONS, INC.

PHONE: 583-6440
JUNEAU, ALASKA 99801

1976 APR 7 PM 12 14

IPMAFUB AHG

2-0422 14E 098 04/07/76

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8015825632 TDRN SALT LAKE UT 87 04-07 0307P EST

PMS NELS ANDERSON CHAIRMAN HOUSE RESOURCES COMMITTEE STATE OF
ALASKA, DLR 1510

JUNEAU AK

MOST URGENTLY BEG THAT YOURSELF AND ASSOCIATES NOT IMPOSE THE
PROPOSED SPECIAL TAX UPON THE MINING INDUSTRY OF AN ADDITIONAL 7
PERCENT UPON INCOME. THE MINING INDUSTRY OF ALASKA IS NOW BURDENED
WITH A FULL MEASURE OF TAXATION AND HIGH COST DUE IN PART TO
ALASKA'S DISTANCE FROM MARKET AND SUPPLIES. IT IS DIFFICULT TO
UNDERSTAND WHY THE GOVERNMENT OF ALASKA DOES NOT ADOPT A POLICY
OF
WELCOMING AND OFFERING INDUCEMENTS FOR CAPITAL INVESTED IN MINING
VENTURES IN ALASKA

R N HUNT 992 OAK HILL WAY SALT LAKE CITY UT

1509 EST

IPMAFUB AHG

TELEGRAM

RCA ALASKA COMMUNICATIONS, INC.

PHONE: 586-6440

JUNEAU, ALASKA 99801

*rec'd
4/13*

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02 026 ANCHORAGE AK 88 04-12 1025A AST

PMS REP NELS ANDERSON

JUN **2095**

CONTRARY TO STATEMENTS BEING MADE IN TELEGRAMS OR IN THE PRESS
THE ALASKA MINERS ASSOCIATION IS IN GENERAL SUPPORT OF HB 878
WE DID REQUEST MINOR AMENDMENTS WHICH CLARIFIED INTENT OF
LEGISLATION, AND POINTED OUT THAT CARRY OVER OF NET OPERATING
LOSES SHOULD BE ADDED TO ADDRESS THE PROBLEM OF OPERATIONS
IN A PERIOD OF LOW METAL PRICE. HOWEVER WITH THESE MINOR POINTS,
WE HONOR OUR OBLIGATION TO THE STATE AND DEPARTMENT OF REVENUE
MADE IN OUR JOINT MEETINGS ON THIS TAX

1976 APR 12 PM 4 10

C C HAWLEY CHAIRMAN ANCHORAGE BRANCH AMM

SRA BOX 780 ANCHORAGE AK 99507

C. R. LEWIS CO.

INCORPORATED

1500 POST ROAD • TELEPHONE 272-4541
ANCHORAGE, ALASKA 99501*Rec'd
4/9/76*

April 7, 1976

The Honorable Nels Anderson, Chairman
House Resources Committee
State Capitol
Juneau, Alaska

Subject: House Bill 878

Dear Nels:

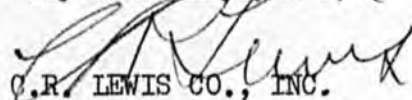
You have this Bill in Committee, as I understand it, and will be holding hearings shortly. I do not know if I can get to Juneau for the hearings, but wish to express my strong opposition to House Bill 878. This appears to work out as basically an income tax of seven percent added to other taxes that the mining industry pays. It is a special burden against one industry, mining, whose costs are already exorbitant and more than the industry will bear.

There appears to be a strong anti-business bias on the part of many in the Administration, and we as citizens and tax payers must look to the Legislature to represent us, which is the way it should be anyway.

In any event, Nels, let me ask you to oppose this Bill as strongly as possible, and assure you that my request reflects the wishes of practically the entire Alaskan business community, whether mining or otherwise, and also, a predominant majority of the working people.

I will appreciate being informed on the status of the Bill and the action which you and your Committee take.

Very sincerely yours,


C.R. LEWIS CO., INC.

Clyde R. Lewis

CRL:jf

TELEGRAM

HGA ALASKA COMMUNICATIONS, INC.

PHONE 586-6440

JUN 24 1976

02065 NL ANCHORAGE AK 9249104-06 237P AST

PMS REP NELS ANDERSON

1387

JUN

1976 APR 6 PM 5 50

GENTLEMEN:

I URGE YOU TO RESIST THE CURRENT EFFORTS TO FIND ALL SORTS OF NEW METHODS TO TAX THE MINING INDUSTRY IN ALASKA WITHOUT FIRST DETERMINING WHAT OTHER AREAS OF THE ECONOMY ARE SIGNIFICANTLY HURT BY THE IMPOSITION OF SUCH NEW TAXES.

A CASE IN POINT WOULD BE THE AIR TRANSPORTATION BUSINESS IN ALASKA AND SPECIFICALLY MY COMPANY.

WE HAVE HISTORICALLY CONTRACTED OUR SMALL THREE PLACE RECIPRO-CATING POWERD HELICOPTERS TO USERS THAT ARE TYPIFIED BY THE SMALL PROSPECTOR OR CONSULTING GEOLOGY FIRMS OF ALASKA.

THESE FIRMS OR INDIVIDUALS NORMALLY HAVE VERY LEAN BUDGETS AND INCREASES IN THEIR COST ARE QUITE OFTEN MADE VISIBLE BY EITHER CURTAILING OR CANCELLING EXPLORATION PROGRAMS.

THESE FIRMS OR INDIVIDUALS NORMALLY HAVE VERY LEAN BUDGETS AND INCREASES IN THEIR COST ARE QUITE OFTEN MADE VISIBLE BY EITHER CURTAILING OR CANCELLING EXPLORATION PROGRAMS.

LAST YEAR THIS COMPANY HAD TWO THREE-MONTH PROGRAMS CANCELLED BY EXPLORATION GEOLOGISTS BECAUSE OF THE UNCERTAINTY OF THE CONTINUED VIABILITY OF THE PROGRAMS THEY WERE WORKING ON DUE TO NEW TAXATION METHODS.

MY POINT IS THAT THE STATE LOST TWICE. IT NOT ONLY LOST BY NOT BEING ABLE TO FAIRLY TAX A MINING PROGRAM THAT MIGHT HAVE BEEN THE RESULT OF THE SURFACE GEOLOGICAL EXPLORATIONS THAT WERE NEVER CARRIED OUT, IT LOST BECAUSE WE DID NOT PAY AN INCREASED AMOUNT OF GROSS RECEIPTS TAX, CORPORATE INCOME TAX, ETC., ETC. BECAUSE WE DIDN'T HAVE A JOB.

PLEASE RECOGNIZE THAT DIRECT TAXATION OF ANY ONE SEGMENT OF THE CONTRIBUTORS TO THE ECONOMY OF OUR STATE DOES IN FACT IMPACT OTHER SEGMENTS OF THE ECONOMY, AND DOES SO RAPIDLY.

YOURS VERY TRULY

C. R. GALLAGHER - PRESIDENT

EVERGREEN HELICOPTERS OF ALASKA, INC.

P. O. BOX 578

ANCHORAGE, AK. 99510

4-8-76

Since 1953 there have been no changes in the amount of tax.

Chuck Holly - AK Miners Assoc.

① Support General -

(2) State should recognize responsibility to miners

Why has mining slowed down.

Bill benefited from input.

Escalating tax -

Royalty rates are higher for smaller operations
+ lower for larger

Suggestion Fixed tax rate at a medium level -

Deduction - Net operating loss -

3 1/2 yr exemption for the start of the operation

Capital costs to get started from 100 million -
300 million

Metals prices are low now -

Special tax

Need transportation

+ smaller - state should help the industry in
providing services. one example could be the

haul-road open for mining traffic - ~~not~~ Also
the rail road extension.

Russ at Babcock -

exploration Geologist Bear Creek - Kennebec

called for incentives - transportation - Tax on

the same basis as other industries - Bill

will promote a feeling of stability - welcome
miners lower tax.

Harshlager: Does the existing tax discourage development? Only in that exploration
costs are higher. Tax would show stability

DALE TUBBS Deputy Director Div. of Lands

Mining - under the bill, includes Sand + Gravel - one of

the biggest mining prospects in the state

pg 9 line 26 In definitions Sand + Gravel are included - Not in con

with Title 38. Should ~~be~~ surface materi

Include Materials in Tax in definition

TELEGRAM

ALASKA TELECOMMUNICATIONS, INC.

1976 APR 5 12 10 35

PHC 2: 5554-40

JUNEAU, ALASKA 99901

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VIPMAFUB AHG

1-01114 1C096 04/05/76

TLX RAA FBK

01 FAIRBANKS ALASKA 4-5-76 -

PMS NELS ANDERSON, JR CHAIRMAN

HOUSE RESOURCE COMMITTEE * 1031

POUCH V

JUNEAU ALASKA

REPRESENTATIVE NELS ANDERSON, JR , CHAIRMAN

HOUSE RESOURCE COMMITTEE

POUCH V

JUNEAU ALASKA

DEAR CHAIRMAN ANDERSON:

IN RESPONSE TO YOUR NOTICE REGARDING HEARINGS ON HB 878 TO BE
HELD IN JUNEAU ON APRIL 8 I HEREWITH SUBMIT THE FOLLOWING
TESTIMONY IN LIEU OF PERSONAL APPEARANCE BECAUSE OF PREVIOUSLY
SCHEDULED DENTAL SURGERY. YOUR COMMITTEES CONSIDERATION OF THIS
TESTIMONY IS GREATLY APPRECIATED.

HB 878 FUNCTIONS AS A SEVERANCE TAX AT THE RATE OF ABOUT SEVEN PERCENT OF INCOME FROM MINING OPERATIONS. IT IS IMPOSED ON TOP OF FEDERAL AND STATE INCOME TAXES, PROPERTY TAXES, SALES TAXES, ETC. IN COMBINATION WITH EXISTING STATE INCOME TAXES IT RESULTS IN WHAT MAY BE THE HIGHEST RATE OF STATE TAXATION ON MINING IN THE U.S.M.

MY TESTIMONY IS BASED UPON THE FOLLOWING ASSUMPTIONS. TO THE EXTENT THAT THESE ASSUMPTIONS MIGHT NOT BE CORRECT, THIS TESTIMONY WOULD NOT HAVE APPLICATION.

1. THAT ALASKANS DESIRE TO BE A FREE PEOPLE.

2. THAT ALASKANS DESIRE TO BE AS NEARLY SELF SUFFICIENT AS THEIR RESOURCES WILL ALLOW.

3. THAT ALASKANS PREFER NOT TO CALL FOR FEDERAL HANDOUTS WITH THEIR ATTENDANT BUREAUCRATIC CONTROLS OR OUTRIGHT COERCION.

4. THAT KNOWLEDGEABLE ALASKANS RECOGNIZE THAT IN MOST OF THE STATE, PARTICULARLY NORTH OF THE ALASKA RANGE, THERE IS VERY LITTLE BASIS FOR SIGNIFICANT ECONOMIC DEVELOPMENT OTHER THAN THE EXTRACTION OF MINERALS OR MINERAL FUELS.

5. THAT ALASKANS UNDERSTAND THAT BECAUSE OF SAVAGELY HIGH COSTS, LACK OF TRANSPORTATION AND LACK OF INFRASTRUCTURE, HARD ROCK MINERAL DEPOSITS IN MOST AREAS OF ALASKA MUST BE TWO OR THREE TIMES MORE VALUABLE THAN IN CONTINENTAL U.S. IN ORDER TO BE COMMERCIAL, AND THAT THESE EXCEPTIONAL DEPOSITS ARE VERY DIFFICULT AND VERY EXPENSIVE TO FIND.

6. THAT KNOWLEDGEABLE ALASKANS REALIZE THAT SINCE THE LAST SIGNIFICANT MINING OPERATION IN ALASKA CLOSED IN 1938, MORE THAN 125 MILLION DOLLARS HAS BEEN EXPENDED IN HARD ROCK EXPLORATION WITHOUT MAKING A DISCOVERY PROVEN TO BE COMMERCIAL UNDER CURRENT CONDITIONS. THIS EXPENDITURE DOES NOT COUNT GOVERNMENT GEOLOGICAL SURVEYS.

②

7. THAT THE MINING INDUSTRY WILL BEAR THE COSTS OF DEVELOPMENT OF TRANSPORTATION AND INFRASTRUCTURE TO THE EXTENT THESE MAY NOT EXIST AT THE TIME OF ANY FUTURE DECISION TO PRODUCE.

8. THAT KNOWLEDGEABLE ALASKANS RECOGNIZE THE SEVERE PROBLEMS OF CAPITAL SHORTAGE AND CAPITAL FORMATION FACED BY THE U.S., AND THAT UNLESS TAXES ARE REVISED TO ALLOW FASTER GENERATION OF PRIVATE CAPITAL, THE CAPITAL NEEDS OF U.S. INDUSTRY WILL EXCEED THE SUPPLY BY INCREASING MARGINS, WITH SERIOUS CONSEQUENCES UPON THE ABILITY OF U.S. INDUSTRY TO PRODUCE THE NEEDS OF ITS CITIZENS. REFERENCE IS MADE TO THE CURRENT PLIGHT OF THE STEEL, RAILROAD, AND MINING INDUSTRIES AMONG OTHERS.

9. THAT ALASKANS ARE CONCERNED ABOUT THE BURGEONING BUREAUCRACY AND MIND BOGGING WASTE THEY SEE IN THE EXPENDITURE OF THEIR TAX DOLLARS.

10. THAT ALASKANS UNDERSTAND THAT METAL PRICES ARE SET BY THE WORLD MARKET, AND THAT BECAUSE OF THIS, MINE OPERATORS CANNOT PASS ON THE COST OF TAXES.

11. THAT ALASKA COMPETES WITH THE REST OF THE WORLD AS A PLACE TO SPEND EXPLORATION DOLLARS, AND THAT POLITICAL STABILITY AND INVESTMENT CLIMATE ARE CRITICAL FACTORS IN MANAGEMENT DECISIONS ABOUT WHERE TO SPEND EXPLORATION DOLLARS. CURRENT PROBLEMS OF LAND STATUS, TAX LEGISLATION, AND GOVERNMENT REGULATION ARE CASTING A CLOUD OVER ALASKA'S EXPLORATION POTENTIAL.

12. THAT ALASKANS WANT JOBS FOR THEMSELVES AND FOR THEIR CHILDREN.

13. THAT ALASKANS UNDERSTAND THAT JOBS COME FROM INDUSTRY, INDUSTRY RESULTS FROM INVESTMENT, AND INVESTMENT REQUIRES A RETURN COMMENSURATE WITH ITS RISK.

BASED UPON THE FOREGOING ASSUMPTIONS, THE ISSUES EVOKED BY HB 878, AS BY ANY SPECIAL TAX ON MINING, INCLUDING THE EXISTING ONE TO BE REPLACED BY HB 878, ARE MORE THAN SIMPLE TAX ISSUES.

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THE ISSUES ARE JOBS FOR OURSELVES AND OUR CHILDREN, THE SURVIVAL OF A FREE ENTERPRISE ECONOMY, AND THE PRESERVATION OF INDIVIDUAL LIBERTY.

THE SEVERANCE TAX PROPOSED BY HB 878, AS ALSO THE PRESENT MINING LICENSE TAX, TENDS TO PREVENT THE CREATION OF JOBS, THE DEVELOPMENT OF ENTERPRISE, THE PRIDE OF SELF SUFFICIENCY, AND THE PRESERVATION OF INDIVIDUAL LIBERTY. IT IMPEDES THESE THINGS BECAUSE IT DISCOURAGES EXPLORATION, WHICH MUST PRECEDE THE DEVELOPMENT OF A MINING INDUSTRY. WITHOUT INDUSTRY THERE ARE NO JOBS, AND WITHOUT JOBS ALASKANS ARE REDUCED TO A KIND OF PARASITIC SERVITUDE AT THE MERCY OF THE FEDERAL PORK BARREL.

THE QUESTION POSED BY HB 878 AND BY THE CONTINUED EXISTANCE OF THE PRESENT MINING LICENSE TAX WHICH IS ALSO A SEVERANCE TAX IN CONCEPT, IS:

DO ALASKANS WANT A MINING INDUSTRY?

WE HAVE NOT HAD A HARD ROCK MINE, MUCH LESS AN INDUSTRY, FOR ALMOST FORTY YEARS. PERHAPS IT MIGHT OCCUR TO THE PUBLIC AND THE LEGISLATURE THAT A COMBINED RATE OF CORPORATE INCOME TAX AND SPECIAL MINING TAX OF PROBABLY THE HIGHEST IN THE NATION IS A MAJOR CONTRIBUTING FACTOR TO AL MISSING MINING INDUSTRY.

(4)

SEVERANCE TAXES IMPOSED ON MINING DISCOURAGE EXPLORATION INVESTMENT, THEREBY CAUSING A LOSS OF EMPLOYMENT. THE CONTINUED NON DEVELOPMENT OF A TAX BASE THUS ACTUALLY CAUSES A LOSS OF REVENUE TO THE STATE COMPARED TO WHAT COULD HAVE BEEN REALIZED FROM REGULAR CORPORATE INCOME TAXES ON AN INDUSTRY THAT MIGHT GROW IN THE ABSENCE OF A SEVERANCE TAX.

ONE MUST HAVE INCOME BEFORE THERE IS ANYTHING TO TAX. IF THE PEOPLE OF ALASKA WANT INCOME FROM MINING, THEN IT WILL PROVE USEFUL TO HAVE A MINE.

IF ALASKANS WANT JOBS THEY WILL NEED MINING. IF ALASKANS WANT A MINE, THEY SHOULD ASK YOU LEGISLATORS TO REMOVE THE SPECIAL TAXES ON MINING. IT IS UP TO ALASKANS TO MAKE THEIR WISHES KNOWN.

MINING TAXES PROPOSED IN 1975 AND 1976 HAVE LOST FIFTEEN POTENTIAL JOBS FOR ALASKANS IN MY COMPANY AND ITS SUB CONTRACTORS. I BELIEVE MOST ALASKANS PREFER WORK TO WELFARE. I BELIEVE MOST ALASKANS WOULD LIKE TO BUILD SOMETHING OF VALUE AND WOULD LIKE TO BE A FREE AND SELF SUPPORTING PEOPLE, NOT LIVING OFF THE TAXES PAID BY THEIR FELLOW AMERICANS.

5

ONE STEP TOWARD SELF SUFFIENCY IS TO REMOVE THE SPECIAL
TAXES ON MINING AND THUS TO ENCOURAGE THE DEVELOPMENT OF AN
INDUSTRY THAT CREATES REAL JOBS.

RESPECTIVELY SUBMITTED ,

JEFF KNAEBEL , 3230 AIRPORT WAY , FAIRBANKS AK

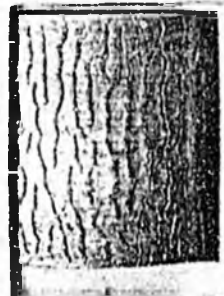
JEFF KNAEBEL

TLX 090354 02

1252 EST

IPMA FUB A HG

(6)



Anchorage Helicopter Service, Inc.
1812 East 5th Avenue
Anchorage, Alaska 99501
(907) 277-1437

Rec'd H/7



Anchorage Helicopter
a Cordon International
Company

4-5-76

DEAR REP. ANDERSON,

I'M A TWELVE YEAR ALASKA RESIDENT, AND I'M
FLYING HELICOPTERS FOR A LIVING. I'D LIKE TO
CONVEY TO YOU MY PERSONAL DISLIKE OF SPECIAL
TAXES ON THE MINING INDUSTRY. WE QUITE OFTEN
WORK FOR MINERAL EXPLORATION FIRMS, AND I KNOW
FIRST HAND THE ARDUOUS, FINANCIALLY RISKY, NATURE
OF THEIR WORK. TO ADD FURTHER BURDENS OF SPECIAL
TAXES, OR RESTRICTIVE REGULATIONS, WOULD BE
UNFORTUNATE FOR OUR STATE. ONE OF OUR MOST
PRODUCTIVE INDUSTRIES WOULD BE ~~CUT BACK~~ AT
THE TIME WE SHOULD BE ADVANCING TO BECOME
THE STORE HOUSE FOR VITAL SUPPLYS TO OUR
NATION. PLEASE DO WHAT YOU CAN TO HELP.
THANK-YOU FOR YOUR TIME.

SINCERELY

F. M. HEFFERNAN

TELEGRAM

RCA ALASKA COMMUNICATIONS, INC.
PHONE: 586-6440
JUNEAU, ALASKA 99801

1976 MAR 25 PM 1 20

HB 878

IPMAFUB AHG

1-0239150085 03/25/76

TLX RAA FBK

01 FAIRBANKS ALASKA 3-25-76

7053

PMS NELS ANDERSON, CHAIRMAN

70 53
HOUSE RESOURCES COMMITTEE

POUCH V

JUNEAU, ALASKA

I WILL APPRECIATE BEING NOTIFIED OF THE HEARING SCHEDULE FOR THE
MINING LICENSE TAX LEGISLATION WITH THE HOPE THAT I MIGHT BE ABLE
TO TESTIFY.

JEFF KNAEBEL, RESOURCE ASSOCIATES OF ALASKA

3230 AIRPORT WAY

FAIRBANKS, ALASKA

PH 479 6231

3/29

JEFF KNAEBEL

TLX 09035402

Notified

1551 EST

IPMAFUB AHG

TELEGRAM

NCA ALASKA COMMUNICATIONS, INC.

1976 APR 5 AM 10 35

PHONE: 586-6440

JUNEAU, ALASKA 99801

VIPMAFUB AHG

1-01114 1C096 04/05/76

TLX RAA FBK

01 FAIRBANKS ALASKA 4-5-76

PMS NELS ANDERSON, JR CHAIRMAN

HOUSE RESOURCE COMMITTEE
* **1031**

POUCH V

JUNEAU ALASKA

REPRESENTATIVE NELS ANDERSON, JR , CHAIRMAN

HOUSE RESOURCE COMMITTEE

POUCH V

JUNEAU ALASKA

DEAR CHAIRMAN ANDERSON:

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HELD IN JUNEAU ON APRIL 8 I HEREWITH SUBMIT THE FOLLOWING
TESTIMONY IN LIEU OF PERSONAL APPEARANCE BECAUSE OF PREVIOUSLY
SCHEDULED DENTAL SURGERY. YOUR COMMITTEES CONSIDERATION OF THIS
TESTIMONY IS GREATLY APPRECIATED.