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could have substantially reduced severance tax and royalty revenues over time.

Subsequently, however, as stated earlier in this report, the FEA adopted regulations which placed North Slope oil under upper tier price ceilings and gave it exempt entitlement's treatment. 42 Federal Register 41567 (August 17, 1977). This essentially gave favorable pricing and entitlement treatment to North Slope production since the beginning price ceilings would be substantially above what was projected to be a wellhead value for North Slope oil and no entitlement penalties would be assessed against North Slope oil.

Market Prices

The starting point in any determination of wellhead value is market price received for the oil, which is then reduced by the transportation charges between the place of sale and the field where the oil is produced.

In the case of North Slope oil, some oil has been sold right at the mouth of the Trans Alaska Pipeline system (LACT meter) so that no net back of transportation charges is necessary. The market price of that oil in the field, in fact, becomes a value for computation of severance tax purposes assuming that the prices are truly arms-length

sales. Those sales taking place at the wellhead as reported in December Royalty reports are as follows:

<u>Company</u>	<u>Sales Price</u>
Getty	\$6.38
Mobil	6.23

Other companies have made sales at Valdez which include tariff charges on the transportation of the oil from the North Slope to Valdez. These sales are as follows:

<u>Company</u>	<u>Sales Price</u>
Amerada Hess	\$12.60
Exxon	12.30
Hunt Group	12.62
Sohio	12.53

The majority of the oil, however, has been transported by the producing companies and marketed in various locations outside the state. These sales prices and their destinations are:

<u>Company</u>	<u>Sales Price</u>	<u>Destination</u>
ARCO	\$13.44	West Coast
Exxon	13.16	West Coast
Phillips	13.38	West Coast
Sohio	13.30	West Coast
Sohio	13.42	Gulf Coast

Pipeline Tariffs

The largest element of transportation cost, and therefore the one having the biggest effect on wellhead value is the tariff charge of the Trans Alaska Pipeline System (TAPS)

which transports the oil from Prudhoe Bay, where it is produced, to Valdez, where it is loaded onto tankers and transported out of state.

During the months of May and June of 1977 the eight owner companies of the Trans Alaska Pipeline System filed with the Interstate Commerce Commission (ICC) initial tariffs for the transportation of oil from Prudhoe Bay to Valdez. Those initial tariffs ranged from \$6.04 to \$6.44 per barrel and taken together computed a weighted average tariff per barrel of \$6.20 based upon pipeline ownership.

Those initial filed tariffs were:

<u>Pipeline Carrier</u>	<u>Filed Tariff</u>
Amerada Hess	\$6.44
ARCO	6.04
BP	6.35
Exxon	6.27
Mobil	6.31
Phillips	6.22
Sohio	6.16
Union	6.09

Subsequent to the initial filing of pipeline tariffs, the ICC's Bureau of Investigations and Enforcement, the U.S. Department of Justice, the State of Alaska and Arctic Slope Regional Corporation all filed protests against the initial tariffs [Protest and Petitions For Suspension by the United States Department of Justice, June 15, 1977; Protest/Complaint of the State of Alaska Seeking the Suspension and Investigaiton

of Initial Rates and Tariff Provisions, June 15, 1977;
Protest and Petition of The Bureau of Investigation and
Enforcement for Suspension and Investigation, June 15, 1977;
Protest and Petition for Suspension of Initial Rates and
Tariffs by the Arctic Slope Regional Corporation, June 13, 1977].

The protests sought suspension and institution of a formal investigation of the rates published by the TAPS carriers. In its protest the State of Alaska set forth what it considered reasonable interim tariffs for TAPS as follows:

<u>Pipeline Carrier</u>	<u>Rate</u>
Amerada Hess	(Insufficient information)
ARCO	\$3.74
BP	4.42
Exxon	3.80
Mobil	3.59
Phillips	(Tariff had not been filed)
Sohio	4.04
Union	3.85

Protest/Complaint of the State of Alaska Seeking the Suspension and Investigation of Initial Rates and Tariff Provision, June 15, 1977 (p. 4).

On June 28, 1977, the Interstate Commerce Commission (ICC) suspended the initial filed rates for a seven-month statutory period and ordered an immediate investigation of the rates. At the same time that the ICC suspended the filed rates it stated that it would accept for filing a lower schedule of interim rates pending the outcome of the investigation.

That schedule was as follows:

<u>Pipeline Carrier</u>	<u>Interim Rate</u>
Amerada Hess	\$4.85
ARCO	4.91
BP	4.68
Exxon	5.10
Mobil	4.84
Phillips	4.83
Sohio	4.70
Union	4.84

Order of the Interstate Commerce Commission in Investigation and Suspension Docket No. 9164, Trans Alaska Pipeline System (Rate Filings) and No. 36611, Trans Alaska Pipeline System (Rules and Regulations), June 28, 1977.

Thus the initial tariffs, the proposed tariffs by the State of Alaska and the Interim Tariffs allowed by the ICC looked as follows:

<u>Pipeline Carrier</u>	<u>Filed Tariff</u>	<u>Alaska's Proposed Tariff</u>	<u>Interim Tariff</u>
Amerada Hess	\$6.44	--	\$4.85
ARCO	6.04	\$3.74	4.91
BP	6.35	4.42	4.68
Exxon	6.27	3.80	5.10
Mobil	6.31	3.59	4.84
Phillips	6.22	--	4.83
Sohio	6.16	4.04	4.70
Union	6.09	3.83	4.84

Several of the pipeline companies petitioned the Fifth Circuit Court of Appeals contending that the ICC was without authority to suspend the initial tariffs or to suggest maximum interim tariffs. Mobil Alaska Pipeline Company v United States,

No. 77-2392, (July 6, 1977); BP Pipeline Inc. v United States,
No. 77-2412 (July 8, 1977); Exxon Pipeline Co. v United States,
No. 77-2421 (July 11, 1977); ARCO Pipe Line Co. v United States,
No. 77-2437 (July 14, 1977).

The Fifth Circuit Court, however, dismissed the pipeline carriers petitions concluding that the ICC had acted lawfully. Mobil Alaskan Pipeline Company v United States, 557 P2d 775 (1977).

Some of the companies then filed motions in the U.S. Supreme Court for a stay of the Fifth Circuit decision. Four of the carriers also filed petitions for certiorori. The Supreme Court granted a stay of the Fifth Circuit decision and the certiorori petitions, and at the present time a decision on the seven month suspension and interim rates is pending before the Supreme Court. Order of November 28, 1977 Granting Certiorori in Mobil Alaska Pipeline Co. v United States, No. 77-452; Exxon Pipeline Co. v United States, No. 77-457; BP Pipeline, Inc. v United States, No. 77-551; ARCO Pipe Line Co. v United States, No. 602.

Concurrently with the litigation over interim rates the ICC and now its successor the Federal Energy Regulatory Commission (FERC) has been conducting its investigation of TAPS rates in order to set lawful permanent tariffs.

The investigation proceedings have separated into two phases. The first phase of the proceedings deals with such issues as the allowable rate base and the appropriate rate of return while the second phase of the investigation will deal with the amount of costs which may be claimed by the carriers as a part of the rate base.

All of the protestants, including the State of Alaska, argue that the TAPS tariffs filed by the pipeline companies are too high for several reasons. Joint Pre Hearing Brief of the United States Department of Justice, The State of Alaska and The Arctic Slope Regional Corporation, (December 30, 1977).

First, for example, it is being argued that the pipeline companies should earn a rate of return on the actual investment in the pipeline system rather than upon an inflated valuation of replacement cost. This approach would be consistent with rate bases used for most public utilities and would insure that pipeline owners would not receive a return on their investment more than once.

It is also being argued that the rate of return allowed to the pipeline companies on TAPS for the debt and equity portions of the pipeline should be no higher than that needed to reflect the relative risks involved and to compensate for the costs of servicing the debt.

In addition, the protestants have argued that the pipeline owners should be allowed only a return on prudent investments and not be allowed to include any costs due to mismanagement or inefficiency.

All of the arguments are aimed at the extremely excessive nature of the tariffs. One illustration of how the tariffs were "pumped-up" as high as they were is shown by the double counting of a rate of return on the pipeline owners debt. In the initial filing, the pipeline carriers computed their proposed tariffs high enough to cover their operating costs (including interest) plus a rate of return on the total valuation of the pipeline. In essence, the pipeline companies were claiming a double rate of return on that portion of the pipeline financed through debt. They were first recovering their interest expense on their debt in addition to a rate of return on the borrowed money itself. The ICC, however, in its order suspending the rates, eliminated the double counting for purposes of setting interim rates by specifying that it would accept, on an interim basis, tariffs based upon a 10 percent rate of return on valuation with interest cost to be paid out of company's rate of return.

The effect of the excessive tariffs for the pipeline companies was extremely high rates of return and substantial profits for the pipeline companies. For example the degree of profit that would be yielded by the pipeline companies using

their originally filed tariffs was illustrated by the Commission as follows:

<u>Pipeline Carrier</u>	<u>on Equity</u>	<u>on Total Investment</u>	<u>on Valuation</u>
Amerada Hess	31.5%	13.8%	13.3%
ARCO	86.2%	13.1%	12.4%
BP	42.5%	14.2%	13.5%
Exxon	31.4%	13.2%	12.5%
Mobil	(no equity)	13.8%	13.1%
Phillips	38.2%	14.0%	13.1%
Sohio	40.6%	13.6%	13.1%
Union	71.1%	13.8%	12.7%
Average	46.0%	13.6%	12.9%

These inflated tariffs substantially reduced severance tax and royalty values and resulted in considerably reduced revenues. For example, shortly after the initial tariffs were filed the Department of Revenue estimated the loss of revenues would be as shown in the following table:

<u>Duration of High Tariffs</u>	<u>Reduced Royalty and Prod. Tax Revenue</u>
6 months	15.6
12 months	41.7
18 months	70.5

These initial tariffs were way beyond what others expected the pipeline companies would claim. Those third party estimates are shown on the following table.

<u>Date</u>	<u>Source</u>	<u>Amount</u>
11/76	Mortada International, <u>The Determination of Equitable Pricing Levels for North Slope Alaskan Crude</u> , pp. II-18, III-10, III-12, IV-24, VII-6 VII-7	4.20-4.50
4/76	Drexel Burnham & Co., <u>The North Slope: Paradise Lost?</u> pp. IV-11	4.60
1/7/77	Washington Analysis Corp., <u>Entitlements Program Impact on North Slope Profits</u>	5.00
2/28/77	Merrill, Lynch, Pierce, Fenner & Smith, Inc., <u>Institutional Report "Petroleum Notes, Prudhoe Bay Crude Oil, Entitlements Program</u> , p. 4	5.40
4/1/77	Wainright Securities Inc., <u>Industry Review, "Petroleum Industry, North Slope Oil and Gas,"</u> pp. 25 (Table 7), 43 (Table 10).	4.28*
	*includes 5¢ for TAPS liability fund	
4/15/77	The President of the United States, <u>Report to Congress on the Pricing of Alaska North Slope (ANS) Crude Oil</u> , pp. 63-64 (Table IX-3).	5.10

Even the Department of Revenue's extremely conservative estimate of \$5.54 (worst case scenario) of what the companies might claim fell substantially below what was actually filed. As shown earlier in this report the filed tariffs also exceeded substantially the public pronouncements of the companies themselves.

Tanker Tariffs

Another item having a direct impact on the wellhead value for calculation of the severance tax is the cost of marine transportation from Valdez to various points on the West Coast and Gulf Coast of the United States.

Unlike pipeline tariffs, the oil tanker transportation costs are not regulated by any government regulatory body since the tankers are not operating as common carriers. Instead the transportation charges are set by negotiation between the tanker company and the shipper, which in some cases may be between affiliated companies.

Since production began in June of 1977 tankers have been loading oil at Valdez and transporting it to various locations in the states of California, Washington and on the Gulf of Mexico. The charges claimed for this transportation have varied considerably between shippers and far exceed the expectation of third parties who estimated the amount of the charge.

Those tanker charges that have been claimed during the month of December are as follows:

<u>Company</u>	<u>Charge</u>	<u>Destination</u>
ARCO	\$.88	West Coast
Exxon	1.08	West Coast
Phillips	.81	West Coast
Sohio	.89	West Coast
Sohio	3.61	Gulf Coast

These tanker charges that have ranged from \$.88 to \$3.61 are substantially greater than what other third parties thought the charges would be. These estimates were as follows:

<u>Date</u>	<u>Source</u>	<u>Tanker Cost</u>
11/76	<u>Mortada International, The Determination of Equitable Pricing Levels for North Slope Alaskan Crude, pp. II-18, III-10, III-12, IV-24, VII-6 and VII-7</u>	
	Delivered to Los Angeles	.671*
	Delivered to Puget Sound	.459*
*Figures in 1976 dollars		
4/76	<u>Drexel Burnham & Co., The North Slope: Paradise Lost?, pp. IV-11</u>	.50
1/7/77	<u>Washington Analysis Corp., Entitlements Program Impact on North Slope Profits</u>	
	Delivered to West Coast	.60
2/28/77	<u>Merrill, Lynch, Pierce, Fenner & Smith, Inc., Institutional Report, "Petroleum Notes, Prudhoe Bay Crude Oil, Entitlements Program," p. 4.</u>	.55
4/1/77	<u>Wainwright Securities Inc., Industry Review, "Petroleum Industry, North Slope Oil and Gas," pp. 25 (Table 7), 43 (Table 10)</u>	
	Delivered to Puget Sound	.50
	Delivered to San Francisco	.80
	Delivered to Long Beach	.70
	Delivered to Houston	2.45
4/15/77	<u>The President of the United States, Report to Congress on the Pricing of Alaska North Slope (ANS) Crude Oil pp. 63-64 (Table IX-3)</u>	
	Delivered to Puget Sound (120 MB/D)	.74
	Delivered to San Francisco (250 MB/D)	.96
	Delivered to Los Angeles (340 MB/D)	1.01
	Delivered to Gulf Coast (490 MB/D)	2.98

The Department of Revenue predicted a weighted average tanker charge of \$.59 to the West Coast and it too was much below the tanker charges claimed.

Transportation to more Distant Markets

Another factor complicating the determination of wellhead value is the West Coast surplus. When the new production from Prudhoe Bay combined with imports and California production, the amount of crude oil exceeded the physical capacity of the refineries on the West Coast to process it. As a result the surplus oil had to be, and still must be transported to other areas of the United States in order to be sold.

Currently, the North Slope surplus oil is being transported by Sohio through the Panama Canal by tanker to market destinations on the Gulf Coast. As production from Prudhoe Bay increases to 1.2 million barrels a day in March of this year, the surplus situation will worsen.

Several possible pipelines to transport surplus oil from the West Coast to eastern markets are on the drawing board, including: The Sohio Pipeline, Atlantic Richfield's proposed "Yoyo" of the Trans-Mountain line, the Kitimat line and the Northern Tier Pipeline. For the short term, however, no relief from the problem is in sight except the costly transshipment through the Panama Canal.

The extra transportation charge claimed by Sohio for shipment through the Panama Canal has been \$2.72 per barrel. This in

itself has greatly reduced the wellhead value on a major portion of the North Slope production.

FIELD VALUE

In taking the market prices received for Prudhoe Bay oil and netting back actual claimed transportation charges from the point of sale to the point of production, the producers are reporting wellhead values ranging from \$3.53 to \$7.70.

The lowest value is reported by Sohio for the oil which it is marketing on the Gulf Coast. Sohio begins with a market price on the Gulf Coast of \$13.42. From that amount it is deducting \$3.61 for tanker transportation from Valdez to the Gulf Coast and a \$6.28 TAPS pipeline charge from Prudhoe Bay to Valdez.

A schedule showing the various reported values for each of the producers follows. These reported values are taken from the December royalty reports as filed by the North Slope producers, and as stated earlier these values taken together produce a weighted average wellhead value for severance tax purposes of \$5.44.

Producer	Quantity	Sale	Market Price	Tanker Cost	TAPS Tariff	Reported Value*
Amerada Hess	119,585	Valdez	\$12.60	--	\$6.44	\$6.16
ARCO	4,507,962	West Coast	13.44	.88	6.16	6.40
Chevron	187,488	--	--	--	--	7.70
EXXON	3,913,000	West Coast	13.16	1.08	6.27	5.81
EXXON	514,699	Valdez	12.30	.15	6.27	5.88
EXXON	41,736	Fairbanks	12.30	--	6.274	6.026
Getty	121,920	Prudhoe Bay	6.38	--	--	6.38
Hunt Group	21,191	Valdez	12.62	--	6.14	6.48
Louisiana Land & Expl.	8,839	Valdez	11.89	--	6.04	5.85
Marathon	11,094	--	--	--	--	6.35
Mobil	465,495	Prudhoe Bay	6.23	--	--	6.23
Phillips	454,632	West Coast	13.38	.81	6.22	6.35
Placid	9,415	Valdez	12.62	--	6.14	6.48
Sohio	4,550,000	West Coast	13.30	.89	6.27	6.14
Sohio	6,097,000	Gulf Coast	13.42	3.61	6.28	3.53
Sohio	1,170,000	Valdez	12.53	--	6.25	6.28

*Not including field cost deductions

Although clearly not deductible under AS 43.55.140 for severance tax purposes in determining wellhead value, the producers have deducted so called "field costs" in determining wellhead value for royalty payments. These costs or deductions represent the costs of gathering, cleaning and dehydrating the oil from the point where the oil comes out of the ground to the point where it is metered into the Trans Alaska Pipeline. The state has taken issue with these deductions as well as all other producer calculations of wellhead value for royalty purposes in a lawsuit entitled State v Amerada Hess et. al., Superior Ct., No. 77-847, First Judicial District.

The amount of field costs deducted for royalty purposes have varied in amount among the producers and for December those deductions ranged as follows:

<u>Producer</u>	<u>Field Cost Deductions</u>
Amerada Hess	.68
ARCO	.64
Exxon	.53
Getty	.78
Mobil	1.11
Phillips	1.03
Placid	.77
Sohio	.60

Thus for royalty purposes the producers during the month of December reported values as follows:

<u>Producer</u>	<u>Royalty Value</u>
Amerada Hess	\$5.48
ARCO	5.77
Chevron	7.70
Exxon (West Coast)	5.28
Exxon (Valdez)	5.35
Exxon (Fairbanks)	5.50
Getty	5.60
Hunt Group	6.48
Louisiana Land & Exploration	5.85
Marathon	6.35
Mobil	5.12
Phillips	5.32
Placid	5.71
Sohio (West Coast)	5.48
Sohio (Gulf Coast)	2.87
Sohio (Valdez)	5.62

Thus with claimed field costs, Sohio for example, is claiming a wellhead value of \$2.87 for the oil which it is shipping to the Gulf Coast. The weighted average wellhead value of Prudhoe Bay oil for royalty purposes for all producers during the month of December is \$4.79 per barrel.

In contrast to the values being reported to the State of Alaska for severance tax and royalty purposes, an objective comparison of the value of North Slope oil using comparable market refining prices on the West Coast and reasonable transportation charges from the market to the North Slope oil field yields a value substantially above the reported values.

First of all, in computing a comparative market wellhead value, we begin with a free market price of oil of like quality to that of North Slope oil. That market price of oil, most comparable to North Slope oil is the price of oil imported to the West Coast and is computed as follows.

VALUE OF 27° ALASKA NORTH SLOPE (ANS) OIL
AT REFINERY DESTINATION

	<u>Los Angeles</u>
Saudi sales price FOB Ras Tanura	\$12.32
Class 2 tanker tariff (AFRA)	1.12
Import fee	-0-
Price for Saudi FOB refinery	13.44
Entitlement for Saudi	-2.37
Refiner's acquisition cost for Saudi	11.07
Entitlement given for ANS oil	2.37
VALUE (Max. price refiners would pay for ANS oil)	13.44

Thus the free market value at the refinery of Prudhoe Bay oil is \$13.44.

Secondly, reasonable transportation charges need to be computed and subtracted from the market price at the refinery. Again we have used third party bench marks in computing a comparison of wellhead value.

All the TAPS protestants including the State of Alaska, the U.S. Justice Department, the Arctic Slope Native Corporation, and the ICC staff have recommended TAPS tariffs substantially below what the companies originally filed. All of the TAPS

protestants except the ICC staff recommended TAPS tariffs below even the ICC interim tariffs. For purposes of this report, however, we have chosen the ICC interim rates as a bench mark for reasonable pipeline transportation costs even though these tariffs may in fact still be too high as permanent tariffs.

Those interim tariffs were:

<u>Pipeline Carrier</u>	<u>Interim Rate</u>
Amerada Hess	4.85
ARCO	4.91
BP	4.68
Exxon	5.10
Mobil	4.84
Phillips	4.83
Sohio	4.70
Union	4.84

Using the weighted average of these tariffs results in a pipeline transportation cost of \$4.85 per barrel.

For tanker transportation to the West Coast we have chosen a conservative estimate of .70 based upon third party calculations of average tanker costs to the West Coast.

Using these third party bench mark figures of refinery prices and transportation costs results in a market price net back to the field of \$7.91.

Also in contrast to the reported wellhead values are the projections of values by third parties as shown in the following table. Interestingly enough, however, these third party estimates coincide closely with our construction of an objective determination of a Prudhoe Bay wellhead value.

<u>Date</u>	<u>Source</u>	<u>Delivered Price</u>	<u>Tanker</u>	<u>TAPS Tariff</u>	<u>Wellhead Price</u>
4/76	Drexel Burnham & Co., <u>The North Slope: Paradise Lost?</u> pp. IV-11	13.00	.50	4.60	7.90
11/76	Mortada International, <u>The Determination of Equitable Pricing Levels for North Slope Alaskan Crude</u> , pp. II-18 III-10, III-12, IV-24, VII-6 and VII-7				
	Delivered to Los Angeles	13.05*	0.671*	4.20-4.50	7.83-8.18
	Delivered to Puget Sound		0.459*	4.20-4.50*	
	Average Case				7.90*
	*Figures in 1976 dollars.				
1/7/77	Washington Analysis Corp., <u>Entitlements Program Impact on North Slope Profits</u>				
	Delivered to West Coast	13.52	0.60	5.00	7.92
2/28/77	Merrill, Lynch, Pierce, Fenner & Smith, Inc., <u>Institutional Report, "Petroleum Notes, Prudhoe Bay Crude Oil, Entitlements Program,"</u> p.4				
	Delivered to West Coast	13.40	0.55	5.40	7.45
4/1/77	Wainwright Securities, Inc., <u>Industry Review, "Petroleum Industry, North Slope Oil and Gas,"</u> pp. 25 (Table 7), 43 (Table 10)				
	Delivered to Puget Sound	13.27	0.50	4.28*	8.49
	Delivered to San Francisco	13.38	0.80	4.28*	8.30
	Delivered to Long Beach	13.32	0.70	4.28*	8.34
	Delivered to Houston	13.57	2.45	4.28*	6.84
	*includes 5¢ for TAPS liability fund				
4/15/77	The President of the United States, <u>Report to Congress on the Pricing of Alaska North Slope (ANS) Crude Oil</u> , pp. 63-64 (Table IX-3)				
	Delivered to Puget Sound (120 MB/D)	14.53	0.74	5.10	8.69
	Delivered to San Francisco (250 MB/D)	14.53	0.96	5.10	8.47
	Delivered to Los Angeles (340 MB/D)	14.53	1.01	5.10	8.42
	Delivered to Gulf Coast (490 MB/D)	14.83	2.98	5.10	6.75
	Weighted Average	---	--	---	7.77

INFLATION AND CHANGES IN WORLD OIL PRICES

In Alaska's Oil and Gas Tax Structure (p. VI-22), the Department of Revenue recommended last year that

"[t]o prevent the 'floor' from losing value through time it should escalate"

Suggested escalators then were the Gross National Product (GNP) deflator, which is the primary index of U.S. inflation, and the world market price of similar foreign oil. The GNP deflator during the last year has changed as follows:

<u>Index Period</u>	<u>Index Amount</u>	<u>Change from 3rd Quarter 1976</u>
3rd Quarter 1976	134.56	--
4th Quarter 1976	136.35	+1.3%
1st Quarter 1977	138.13	+2.7%
2nd Quarter 1977	140.52	+4.4%
3rd Quarter 1977	142.25	+5.7%

With respect to world oil market prices, 1977 saw a period of two-tier pricing within OPEC come to an end. The split in OPEC developed when Saudi Arabia and the United Arab Emirates (UAE) refused to go along with the rest of OPEC in December 1976 in raising their State Sales Prices by 10 percent. Instead, Saudi Arabia and the UAE raised prices by only about 5 percent. In midyear this breach was closed, when the two nations raised their prices while the rest of OPEC forewent its previously announced increase scheduled

for that time. Since Saudi Arabian crudes are of all imports, most like Prudhoe Bay crude in refining characteristics, the midyear increase in price for those crudes is relevant to the appropriate cents-per-barrel floor for Alaskan oil production. Accordingly, the exact prices and percentages of change follow:

Changes in State Sales Prices (FOB)
by Saudi Arabia and the U.A.E.
During 1977

Crude Type	1-1-77 \$/B	1-9-78 \$/B	%	
			Change	
Saudi Arabia				
Berri (39°)	12.48	13.22	+5.9]	
Light (34°)	12.09	12.70	+5.0]	+5.5% average
Medium (31°)	11.69	12.32	+5.4]	
Heavy (27°)	11.37	12.02	+5.7]	
U.A.E. (39°)	12.514	13.26	+6.0	

Source: Platt's OILGRAM Price Service

Besides these indicators, other indices are available and could be used. For example, a Consumer Price Index is calculated for the entire United States, and another one for Anchorage. Their changes are given below.

Changes in Consumer Prices Indices
for the United States and for Anchorage

Index Month	Anchorage Index		United States Index	
	Index Amount (1967 = 100)	% Change from 10/76	Index Amount (1967 = 100)	% Change from 10/76
Oct. '76	167.6	--	173.3	--
Jan. '77	169.4	+1.1	175.3	+1.2
Apr. '77	172.6	+3.0	179.6	+3.6
Jul. '77	177.4	+5.8	182.6	+5.4
Oct. '77	177.3	+5.8	184.5	+6.5

The table on the following page provides a comparison of U.S. price indices for crude petroleum and refined petroleum products, which the Bureau of Labor Statistics of the U.S. Department of Labor prepares and maintains.

A Comparison of U.S. Price Indices for Crude Petroleum
and Petroleum Refined Products, December 1976 and
December 1977 (1967 = 100 unless otherwise indicated)

	<u>Index</u> 12-76	<u>Index</u> 12-77	<u>%</u> Change
Crude Petroleum	264.4	288.1	8.96
Petroleum Products, Refined	287.6	313.7	9.08
Gasoline	263.4	279.5	6.11
REGULAR	242.2	255.8	5.62*
Dealer Tank-wagon to Retail Outlets	225.8	238.6	5.67*
Sales to Jobbers	267.1	283.3	6.07*
Commercial Consumers	256.4	267.9	4.49*
PREMIUM	214.9	229.8	6.98*
Dealer tank-wagon to Retail Outlets	204.9	218.7	6.73*
Sales to Jobbers	237.1	254.9	7.51*
Commercial Consumers	242.3	260.0	7.30*
UNLEADED	100.0	99.7	-.3
Dealer tank-wagon to Retail Outlets	100.0	99.9	-.1*
Sales to Jobbers	100.0	99.6	-.4*
Commercial Consumers	100.0	98.6	-1.4*
Light Distillate	323.2	381.2	17.95
Kerosene to Resellers	266.1	303.7	14.13*
Commercial Jet Fuel, Kerosene base	269.9	320.0	18.96*
Middle Distillate	349.8	394.2	12.69
Fuel Oil No. 2 to Resellers	282.0	319.9	13.44*
Diesel to Commercial Consumers	281.6	314.2	11.58*
Residual Fuels	480.4	510.5	6.27
Cargo shipments to Resellers	305.6	328.3	7.43*
Steam Electric Utilities	100.0	103.4	3.40*
Lubricating Oil Materials	274.3	333.4	21.55
Bright Stock	169.5	203.6	20.11*
Neutral Stock	152.6	192.8	26.34*
Pale Stock	98.0	115.8	18.16*
Finished Lubricants	178.6	197.5	10.58
Automotive Motor Oils	156.5	170.8	9.14
Industrial Oils	167.7	190.9	13.83*
Petroleum Grease	126.5	130.2	2.92*
Petroleum Wax	200.2	247.5	23.63

Source: U.S. Department of Labor
Bureau of Labor Statistics

*base year different than 1967

AGO 547802

RECOMMENDATIONS

The present \$6.53 floor for "other oil" is inadequate.

As shown earlier (p. 38) an objective computation of the market value of Prudhoe Bay oil using comparable refinery market prices and reasonable transportation costs (determined from third party sources) yields a wellhead value of \$7.91.

Additionally, at the same time as the Department recommended a \$7.50 floor, the oil companies were speaking publicly of wellhead prices near and above that level. Numerous informed consulting firms were forecasting prices in this range, too (see p. 40). Aside from inflation and the price increases of Saudi Arabia and the UAE, nothing else has changed during 1977 that would alter the appropriateness of that figure. As such, \$7.50 plus 5.7 inflation as measured by the G.N.P. deflator yields a value of \$7.93.

Accordingly, the Department of Revenue recommends a floor of \$7.90. The cents-per-barrel amount that corresponds to this floor at a 12.25 percent rate is .96775 which, when rounded, is \$.968. AS 43.55.011(c) should be amended so that \$.968 replaces the \$.80 figure that is there now.

The Department also believes it is appropriate at this time to adjust the cents-per-barrel rate for "old oil" and the cents-per-Mcf rate only to the extent necessary to offset

the 5.7 percent inflation. Thus the \$0.60 figure in AS 43.55.011(c) should be changed to \$0.634, and the \$0.064 figure in AS 43.55.016(c) should be changed to \$0.068.

While AS 43.55.012(a) requires only that Department of Revenue make the recommendations above, the Department will further recommend a change in AS 43.55.012(a) itself so that a greater degree of stability may be incorporated into the production tax. As that statute reads now, the cents-per-barrel tax rates must come under review each and every year. This needlessly creates an uncertainty from one year to the next, which can eventually harm the investment climate for further oil and gas development. The Department therefore recommends tying the cents-per-barrel and cents-per-Mcf rates to an index to offset the adverse effects of inflation on the meaningfulness of these floors. This would be done by repealing AS 43.55.012(a) in its entirety and enacting the following provision to replace it:

(a) The amounts set out in sec. 11(c) and sec. 16(c) of this chapter shall be increased or decreased by a percentage equal to the percentage of change in the Gross National Product Deflator published by the Bureau of Economic Analysis of the United States Department of Commerce, using 1972 as the base period for the deflator (1972 = 100). Changes in tax rates will be computed based on changes in the Gross National

Product Deflator from the First Quarter 1978 Gross National Product Deflator. The department shall post the changes in the tax rates periodically and shall notify every person producing oil within the state of the changes.

HB

887

COMMITTEE REPORT

HOUSE

3/15/78

FURTHER: FINANCE

Date: April 17, 1978

Mr. Speaker:

The Committee on RESOURCES has had HB 887
"An Act making a special appropriation to the Dept. of Natural Resources to acquire land for establishment of the Funny River State Wayside; eff. date."

under consideration and (a majority of the committee) (the committee reports it back as follows)

- 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 _____ new title same title

- AND attaches a Letter of Intent New Fiscal Note
- reports it back without recommendation
- and recommends it be referred to the _____ Committee

MEMBERS SIGNING DO PASS:

OTHER RECOMMENDATIONS:

W. V. ...

M... ..

...

Chairman

THE LEGISLATURE OF THE STATE OF ALASKA
TENTH LEGISLATURE

FISCAL NOTE

I. REQUEST

Bill/Resolution No. House Bill No. 887

Title Special appropriation to DNR for land acquisition for a Funny River Wayside

Requested by House Resources Committee

Date 3/15/78

II. FISCAL DETAIL

Agency Affected Division of Parks, Department of Natural Resources

Program Category Affected Natural Resources and Environmental Conservation

Budget Request Unit(s) Affected Parks and Recreation

EXPENDITURES (Thousands of Dollars)

	FY 78	FY 79	FY 80	FY 81	FY 82	FY 83
100 PERSONAL SERVICES	0	0	1.8	2.0	2.2	2.4
200 TRAVEL	0	0.2	0.2	0.3	0.4	0.5
300 CONTRACTUAL	0	1.0	1.7	1.9	2.1	2.3
400 COMMODITIES	0	0.5	2.0	2.2	2.4	2.6
500 EQUIPMENT	0	0	0	0	0	0
600 LAND & STRUCTURES	110.0	0	285.7	0	0	0
700 GRANTS, CLAIMS, ETC.	0	0	0	0	0	0
TOTAL	110.0	1.7	291.4	6.4	7.1	7.8

FUNDING (Thousands of Dollars)

GENERAL FUND	110.0	1.7	148.6	6.4	7.1	7.8
FEDERAL FUNDS	0	0	142.8	0	0	0
OTHER (Specify)	0	0	0	0	0	0

POSITIONS

FULL TIME	0	0	0	0	0	0
PART TIME	0	0	1/3	1/3	1/3	1/2
TEMPORARY	0	0	0	0	0	0

III. ANALYSIS (See Fiscal Note Preparation Instructions, Section III)

It is assumed that the bill will only result in acquisition of the 13.89 acres of private land. Actual opening and operation of the area for public recreation would be dependent upon a future allocation for development of the area. This development would include a boat ramp, parking, toilet facilities, trails, water well, picnic sites, and several tent camping sites. The cost of this development is estimated to be 225.0 dollars and presumably would occur in 1979 or 1980.

It is expected that 50-50 matching funds would be available in 1979 from the federal Land and Water Conservation Fund.

Assuming that development funds will be appropriated by the legislature in 1979, maintenance costs will be reasonably low thereafter due to the provision of low maintenance facilities. Maintenance and operation cost projections also assume that the area will not be open to the public until it is developed. To open the area in an undeveloped condition would lead to high maintenance costs due to random use patterns which would develop.

IV. DATE 4/5/78

PREPARED BY Terry A. McWilliams, Director
AGENCY Division of Parks, Dept. of Natural Resources
PHONE 465-2421 (Anchorage: 274-4676)

Original: Legislative Finance

MEMORANDUM
DEPARTMENT OF NATURAL RESOURCES
DIVISION OF LAND & WATER MANAGEMENT

TO:

DATE: December 23, 1977

NEIL C. JOHANSEN
Chief of Planning
Division of Parks

FILE NO:

TELEPHONE NO:

FROM:

DL
DENNIS L. LATTERY C.R.A.
Appraiser

SUBJECT: Letter of opinion of value

As requested this is to provide you with an estimate of the market value of a parcel of land located at the confluence of the Funny River and Kenai Rivers described to me as:

Tract Six, Addition No. Two, Heistand Subdivision
NE $\frac{1}{4}$, SE $\frac{1}{4}$ Government Lots 12 & 13, Section 28, T5N,
R9W, S.M. (Total 13.89 acres)

You will understand that I have not had the benefit of a field inspection of this property nor the comparable sales used to support this estimate. Because of this I am obliged to provide you with a probable range of values rather than a simple "ball park" figure. I will note that I have appraised a number of parcels in this area in the past, including both backlands and river fronting properties, and that I am reasonably familiar with market thinking in the vicinity.

On a basis of five reasonably current sales in this area, including a 47 acre river fronting tract very near the subject, a range in value of \$7,500.00 to \$8,300.00 per acre is indicated to this property.

I hope this is sufficient for your needs.

105.0 - 116.2

MEMORANDUM

State of Alaska
DEPARTMENT OF FISH AND GAME


11/14/77

TO: [

Russ Redick
Regional Supervisor
SF - Anchorage

DATE : November 8, 1977

FROM:

Sid Logan 
Area Management Biologist
SF - Soldotna

SUBJECT: Kenai-Funny River
Confluence Land Purchase

This memo is in reference to your request of November 2 concerning the desirability of the state acquiring the McFarland property located at the Funny-Kenai River confluence. We believe the purchase of this parcel would be beneficial to recreational angling public for the following reasons:

1. This site is located 10 miles east of Soldotna adjacent to the Funny River Road. This is a good gravel all weather road which provides for easy access from the Soldotna-Kenai areas. Also, it would be more readily accessible to the Anchorage population center when a bridge is eventually constructed across the Kenai River near Naptowne connecting it with the Sterling Highway.

2. This 14 acre parcel has approximately 1,000 feet of frontage on the Kenai River which would be available as shoreline access to the angling public. Most of the land above and below this site is either private or generally not accessible from the road system. The site also has excellent potential for the construction of a boat ramp or harbor in the sheltered Funny River.

3. This will be the only developed public access site on the south bank of the Kenai River except for the Soldotna City Campground. It will also be located approximately in the center of a 16 mile section of the Kenai River which is only lightly utilized due to the lack of readily accessible developed public access. During the 1977 king salmon fishery this area received only 9.1 percent of the total effort although it comprises 47.1 percent of the stream area open to fishing.

4. The Kenai River is the most popular salmon fishery in the state of Alaska so the demand for improved public access is very high. Total angler effort on king salmon during June and July has increased by 252 percent over a four year period from 23,600 man-days in 1974 to 83,000 man-days in 1977. Effort on silver salmon during August and September was 36,000 man-days in 1976.

TELEGRAM

NDA ALASKA COMMUNICATIONS, INC.

PHONE: 526-6440

32145 NL ANCHORAGE, ALASKA 99501

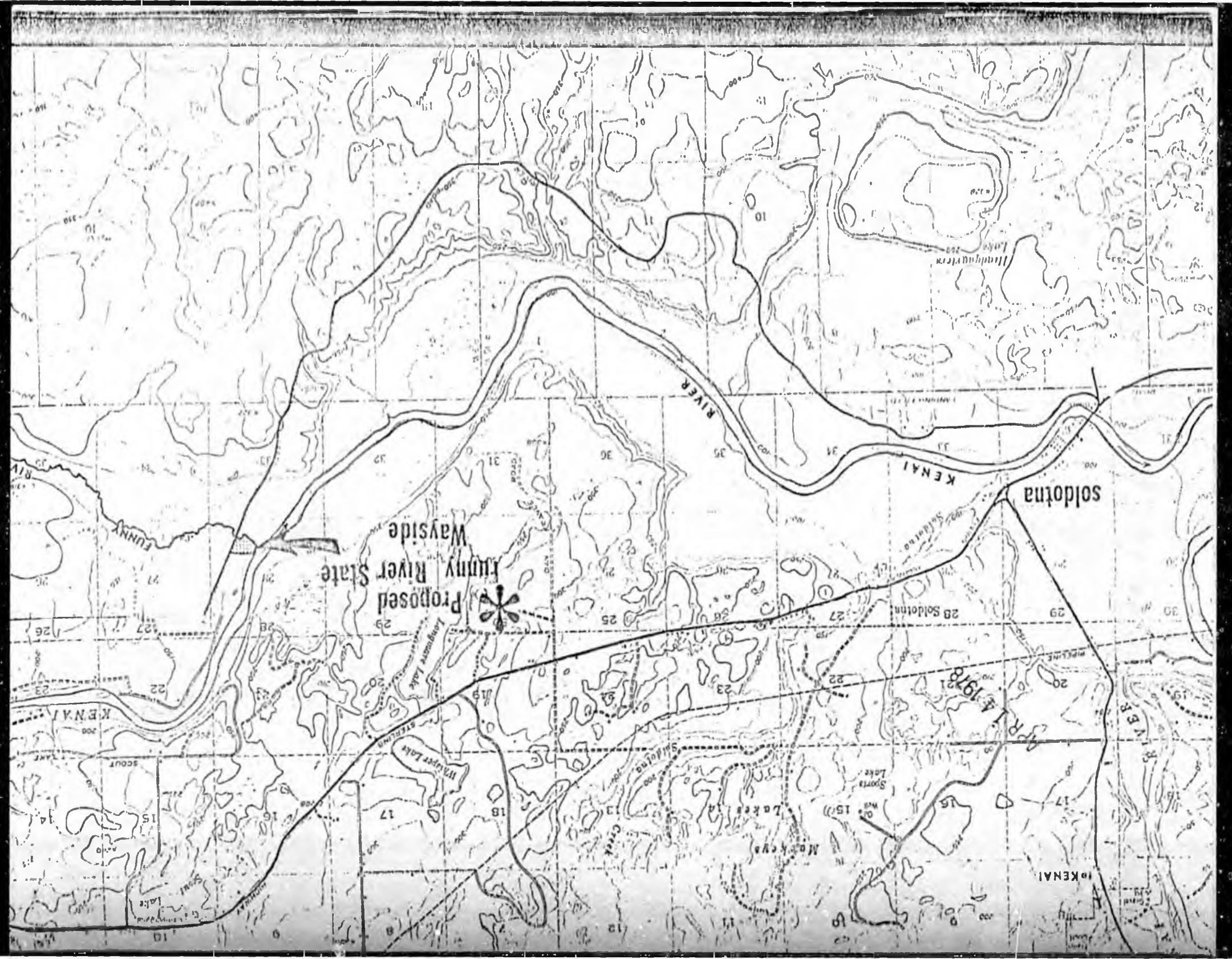
MSG REP HUGH MALONE

JUN

PLEASE CHECK WITH REPRESENTATIVE HUGH MALONE AND CO-
SPONSOR A BILL TO PROVIDE FUNDING FOR THE FUNNY RIVER
PROPERTY BEFORE FILING DEADLINE. THIS EXTREMELY
IMPORTANT KENAI RIVER ACCESS WILL PROVE TO BE A VERY
HIGH USE PUBLIC RECREATIONAL AREA AND IF NOT
FUNDED DURING THIS SESSION WILL BE LOST TO FUTURE
GENERATIONS OF ALASKANS FOREVER.

SAN E MCCOWELL, PRESIDENT ISAAC WALTON LEAGUE.





MEMORANDUM

State of Alaska
DEPARTMENT OF FISH AND GAME

NOV 14 1977

TO:

Russ Redick
Regional Supervisor
SF - Anchorage

DATE : November 8, 1977

FROM:

Sid Logan *SL*
Area Management Biologist
SF - Soldotna

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APR 14 1978
Al Mina
619 Washburn Drive
Suite 210
Anchorage AK
99501

Proposed Funny River State Wayside

size of parcel: 13.89 acres

Appraised value:\$110,000 (based on Alaska Division of Lands estimate of value)

Development potential: (prepared by Alaska Division of Parks)

While the site is capable of supporting a wide variety of recreational uses and development, the following appear most appropriate for the expected user groups and character of the site:

parking area for 40 vehicles
toilets (fiber-glass vault type)
single lane boat launch
water well
fishing trails along rivers

8 picnic sites
10 tent camping sites
interpretive display (salmon)
signs, road work, misc.

Development costs: 1978 dollars 195,600
1980 dollars 285,700

(note:these figures are based on the above facilities. 1980 dollars are used as this is the Division of Parks estimate as to when the construction of facilities could be undertaken)

APR 14 1978

MAR 29 1978

William Schrier
P.O. Box 1051
Soldotna, Alaska 99669

March 27, 1978

Rep. Hugh Malone
House of Representatives
Juneau, Alaska

Dear Hugh;

The south side of the upper Kenai needs an access point and House Bill 887 should provide this. I hope that the House and Senate will expedite this bill to provide funds to acquire this land.

I hope you will accept my letter to Senator Tillion for your use in the House.

Sincerely,

Bill

Bill Schrier

HB

898

PROJECT OUTLINES

1. Formation of non-profit corporation; application to IRS for non-profit status
2. Solicitation of member organizations and member processors
3. Review of submitted project proposals
4. Solicitation of funding for future projects
5. Appointment of executive director and setting up office in Anchorage

BUDGET SUMMARY

	<u>Cost</u>	<u>Government Contribution</u>	<u>Industry Contribution</u>
Start-up expenses (18 Committee members, 4 meetings)			
Printing (est.)	\$ 200.00		\$ 200.00
Travel		\$ 2,000.00	\$12,700.00
Professional services	\$18,000.00		\$18,000.00
Telephone (est.)	\$ 500.00		\$ 500.00
Note: to date memberships have contributed			\$ 285.00
Executive Director (salary 12 months)	\$54,000.00		
Secretary	\$14,400.00		
Travel	\$36,000.00		
Phone	\$ 9,600.00		
Legal Fees	\$12,000.00		
Office Rental and overhead (6 months)	\$15,000.00		
		\$236,250.00	

(Looking for state funding - \$10,000.00/\$15,000.00)

\$101,250 is requested for FY78 and \$135,000 is requested for FY79.

Funds out

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2. Solicitation of member organizations and member processors
3. Review of submitted project proposals
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Funds oct



Alaska State Legislature

House of Representatives

Committee on Resources

Pouch V
State Capitol
Juneau, Alaska 99811

Official Business

Al, should

24 March 1978

AGENDA

HB 811 Advisory vote on use of D-2 lands

HB 898 Appropriation for Alaska Fisheries Development Corp.

over head = daily
Dick Reynolds = Ind. Rec.

Revealing - ~~✉~~ —

Revealing Freds

Al,

Dick Eakins - get Eakins
Out

Alaska Fisheries Development Corporation (information)

BOX 969
CORDOVA, ALASKA 99574
(907) 424-3116

March 13, 1978

The Honorable Terry Gardiner
House of Representatives
State Capitol Building
Juneau, Alaska 99811

Dear Representative Gardiner,

The Alaska Fisheries Development Corporation (Corporation) is a not-for-profit Alaska corporation recently formed by members of the Alaska fishing industry. The organization has been carefully structured so that its voting membership will equitably reflect both the harvesting and the processing sectors of the industry. Since December 3, 1977, a representative group of fishermen and processors has worked cooperatively to both form the Corporation and to draft a comprehensive bottomfish proposal which would win industry's support. Both goals have been realized.

Though many factors have encouraged this promising effort on the part of historically opposed segments of the industry, the most persuasive has been the promise of 2.7 million dollars in federal funding which the industry was led to believe would be available from Saltonstall-Kennedy Fund monies for the development of the Alaska bottomfish industry. Because it was necessary to have a viable legal entity which could receive and manage such monies and programs, the industry was compelled to coordinate its efforts and form the corporation. The current bottomfish proposal is the first of the research and development projects which the Corporation anticipates it will undertake.

Though early indications from NMFS and NOAA are encouraging the Corporation has been informally advised that contrary to earlier agency assurances the full 2.7 million dollars is not available for Alaska. Concurrently a hard look is being taken at this somewhat surprising cooperative effort on the part of industry. Skeptics lurk at every corner despite the demonstrated ability of this organization to perform well and to be flexible as well as resourceful.*

*Though timely filed with NMFS the proposal was modified by industry at the urging of both NMFS staff and high-level NOAA personnel. The revised proposal includes the independently submitted proposal of the Aleutian-Pribilof Fisheries Cooperative additional supporting marketing and economic data and a change from a one to a two year time frame.

To date members of the industry have volunteered their time with the understanding that incurred travel, telephone and printing expenses will be reimbursed. Similar organizations in other areas of the United States have and are obtaining funding for such initial activities through federal channels. Alaska's request to NMFS for such seed money was denied, though the Alaska Sea Grant program donated \$2000 for travel expenses to insure that working sessions were attended by fishermen as well as processors.

The Corporation is aggressively seeking funding with a membership drive and from donations of supportive components of the industry. Though the response has been excellent the process is a slow one. In order to maintain interest in and commitment to the Corporation and the proposal and to attract future funding, it is imperative that the proposed projects are implemented as soon as the money is available. A qualified staff, a solid budget and a base of operations are all prerequisites to the successful management of the projects.

Thus the Corporation seeks a grant of \$100,000 from the State of Alaska. It is essential that such funding be appropriated immediately for two reasons: 1) to indicate to both federal agencies and the industry itself that the State endorses this activity and has confidence in the industry's ability to look after its own needs and 2) to insure that there is a management team in place as soon as possible.

It is crucial that the viability of the Corporation be insured; that it is poised to swing into action as soon as the allocation of S-K funding for Alaska is confirmed so that no momentum is lost. Delay could well result in denial of funding for 1979 and beyond, not to mention the impact that such failure would have on the development of this most important fishery.

Thank you in advance for considering this request for a grant for \$100,000. Your concern and support of the fishing industry in Alaska does not go unnoticed. It is the industry of the future for Alaska.

Respectfully,

The Board of Directors
Alaska Fisheries Development
Corporation



by:

Sara S. Hemphill

SSH:dd