

ALASKA LEGISLATURE COMMITTEES 1901-1902 8072

1892 SRES ROYALTY OIL CONTRACTS 3/25/82

192

this legislature, or waiving that process and trying to get a contract out this time, which is within the legislature's prerogative to do.

CHAIRMAN HALFORD: Well, if we could move on, just by way of summary: You are going to provide us with a cost-benefit analysis ...

MR. KATZ: We'll do the best we can on that.

CHAIRMAN HALFORD: ... on -- well, not only Tesoro?

MR. KATZ: Yes.

CHAIRMAN HALFORD: Okay, and your recommendation is that we approve Tesoro, approve Doyon if they can get a financing package together, and your recommendation is in favor of the four-year holdover on any fee for commitment of royalty oil, basically?

MR. KATZ: Yes, sir. That's an accurate summary.

CHAIRMAN HALFORD: And your recommendation is that we do it by two separate bills?

MR. KATZ: Yes.

CHAIRMAN HALFORD: Okay, I would appreciate it if we get that back. The next thing that we had on the schedule was a legal review now. Bob, of course, has been here answering legal questions all the way along. If we could just take about five minutes maybe and have Bob Maynard and Tom Sumphe [ph], we'll get a look at it from the legislative attorney's perspective, and it's not really the same perspective as a policy decision,

but just go through and maybe an interchange between the two of you could explain legal provisions of the contract.

MR. KATZ: Mr. Chairman, would it be helpful to you in what you call the legal portion of this to -- Jeff has gotten real good at providing a very quick summary of the two contracts. I don't know if that's what ...

CHAIRMAN HALFORD: That would be fine. Yes.

MR. HAYNES: Okay. I'll just try to do it in about five minutes here, and I'll stick primarily with the highlights of the contracts. We just mentioned some of the ... [indiscern.] ... so I won't go into The Tesoro contract is for the sale of 46,000 barrels a day. Again, our total production right now is about 187,500 of Prudhoe production, another 10,000 from [indiscern.], and about 28,000 barrels is under current contract to Mapco, so it's 46,000 barrels a day that Tesoro has got - their refinery charge the maximum they can run through. The only catch in that is that Tesoro also has a current contract for all of the state's Cook Inlet royalty crude, which is about 8,500 barrels a day now. The amount of Cook Inlet crude they are getting from us at any given time is subtracted from the ANS that they would be getting from us. Cook Inlet is [indiscern.], so it's predominantly ANS crude. Tesoro is not required to take all 46,000 at any given

time. They can vary it up or down, up to 46,000 on nine months notice, and after five years the state is permitted to permanently decrease their maximum volume under the contract to the highest amount actually taken. It's kind of a conservation measure on our part. Tesoro is also permitted to permanently decrease the volume under their contract ... [indiscern.; coughing] ... nine months notice. The price term, as the commissioner mentioned, is the producers' weighted average field price subject to the outcome of the Amerada Hess case, and any amounts owed to us would be paid to us at the higher of the state's treasury rate or the prime rate plus three percent. The term of the contract is twelve years. The contract requires that the oil be processed in state, although in the case of Tesoro, in all the contracts, there is an exchange provision that permits them to exchange royalty oil for other oil on basically an equal value basis, recognizing that in their refinery they cannot physically run one hundred percent ANS crude oil through that refinery. The exchange provision is on an equal basis, so it's not a profit-generating venture. They do have to run it through the Nikiski refinery and there are some standards in the contract on how much in the way of products they have to use their best efforts to produce. Now, Tesoro is also committed to at least

continue their feasibility studies regarding expansion - other refineries including especially a petroleum coker. We've retained an option - the state has - on all the residual oil coming from the refinery as well as any petroleum coke produced, which is assignable on our part, so if there were opportunities to use that for coal blending or something we would be able to take that. The performance guarantee and reservation fee structure is basically a fee that is paid to us on the barrels that are permitted to them under contract but not used at any given time, recognizing that we have that oil tied up and can't really do anything else with it. Without going into all the details, there is about fifteen cents per barrel per day on the amount that is not being used at any given time.

CHAIRMAN HALFORD: Okay. Just to interrupt. This is the feature that is not included in the Doyon contract?

MR. HAYNES: It's there, but it's deferred for four years the first four years of the twelve years of the contract.

CHAIRMAN HALFORD: What is the value of this feature?

MR. HAYNES: The value depends on how much ...

CHAIRMAN HALFORD: Over a four-year period at 40,000 barrels.

MR. HAYNES: Well, it depends on how much they are taking. It's not on the whole 40,000. Let's say if they're taking -- their contract volume is 46,000 and they were

taking only 36,000, then that reservation fee would apply to the 10,000, which is the difference, so it would be fifteen cents a barrel a day on 10,000 barrels for however long that unuse of that was ...

OFF RECORD: [Committee members calculating reservation fee; mostly indiscern.]

MR. HAYNES: Okay, but again, part of the reason we were doing that, is we don't really have the ability to go in and look at how much a refinery can physically run, so we're trying to encourage people to buy only what they can use.

The delivery terms, which is of interest to you primarily for security reasons, does make the purchaser responsible once they take custody ... [indiscern.] ... risk and they're responsible for transportation and they have an absolute obligation to take custody of the oil and to pay us, regardless of any force majeure situation that might come up. There is a statutory recognition of the preference that's in section .183 that I read earlier in response to Senator Gilman's question. The security terms -- they have provided us with a letter of credit worth two months of the oil, which has been the approach that we have used recently but not included in the older contracts. That means we

have that amount actually in the bank, and if something happens we can collect on it. There's a local hire provision that represents what the attorney general's office feels is the constitutional limit that we can go to currently. Then there are a number of boiler plates relating to default, billings, payments, assignments, force majeure, dispute resolution, records, and legal remedies, and things like that.

The Doyon contract, and I'm calling this the Doyon I contract, because there were two, one of which was withdrawn. The Doyon I contract is aimed at building a new refinery. The Doyon II contract, which was withdrawn, was contingent on their acquiring the Mapco refinery. Those negotiations are dead; they have withdrawn that contract. The volume under this contract is 50,000 barrels a day. Originally, with that exchange, or that return oil, provision in there it would have been a net 19,000 barrels a day, but since we have no downstream purchaser, it's going to be the gross volume which is 50,000. Price term and the [indiscern.] are the same as in the Tesoro contract. The in-state processing provision is similar. The only difference is that there is a sort of a definition there of how much they have to run and how many days of the year, whatever, that we offered to the other party that didn't take it. It's basically, again, the

standards for in-state processing to make sure that we get the benefit of the bargain. Under this contract they are required to build and open and operate a new refinery by December 1 of 1983, and if they do not, the contract automatically terminates. There is also a provision in here which recognizes that at some stage conceivably Doyon might acquire another refinery or royalty contract. That's basically on the likelihood or contingency that it might be Mapco's, and we have some provisions in there to cover us under those circumstances, since Mapco also has an existing royalty contract in the state, and it would basically mean that they'd acquired two contracts. They would have to terminate one of them, and their volume, if they took the Mapco oil under this contract, which would be permitted, would be the maximum capacity of both facilities. It would be subject to the reservation fee structure, then, because the new entry then would no longer be the case. [Indiscern.] ... state access to the return oil on a one-time basis. Again the boiler plate is all the same.

CHAIRMAN HALFORD: Senator Fahrenkamp.

SENATOR STURGULEWSKI: Jeff, just one question. There was a lot of criticism during the [indiscern.] contract about the state making a determination as to whether the terms of the contract were actually being adhered to,

and it involved a lot of difficulty. What -- Do you feel that these contracts, particularly the Doyon, which has quite a number of conditions that have to be met -- Do you feel that these contracts that you are proposing have a mechanism in there for the state to see that there are -- the contracts adhered?

MR. HAYNES [Not at microphone]: Again, one of the problems with the Alpetco contract was that there were a lot of ... [indiscern.] ... arranging the financing, arranging the construction contract, and so forth, that were very difficult to ... [indiscern.]. In the case of the Doyon contract, ... [indiscern.] ... so it's not something ... [indiscern.] ... not a world-class refinery ... [indiscern.].

MR. MAYNARD: Plus, Senator, there's one thing that Jeff ... [indiscern.] ... boiler plate that I think is a significant addition to prior contracts. Usually, as a matter of contract law, if we disagreed with Alpetco, and there was an argument that, you know, that the ... [indiscern.] ... an equal shot at what our arguments were. These contracts have a clause in it that if an ambiguity arises, or a disagreement about a term, that the commissioner gets the first shot at interpreting that after hearing the other person's argument, and the buyer is required to follow the commissioner's determination of that, unless there's substantial evidence

otherwise, basically like a review of an administrative regulation or whatever.

SENATOR STURGULEWSKI: And there's no role for the legislature other than the initial approval, then ... [indiscern.] ... arrangements

MR. MAYNARD: That's correct. Right.

CHAIRMAN HALFORD: Okay, that's got it. I think that's probably a pretty good review of the terms of the contracts. If we don't need to go into a legal -- We have in the packet a copy of a request that I made to Tom Sumple [ph] that just went through some of the details of the contracts. I think we can review that from the packet. At this time if we can go on to the Doycn contract, then.

REP. COTTEN: Mr. Chairman, are you going to quit at seven o'clock?

CHAIRMAN HALFORD: We were planning on quitting at seven. I hate to have this many people come in and not go -- I'll stay, but it's up to the pleasure of the committees.

REP. COTTEN: Well, I don't want to miss anything, but if you're going to quit at seven, it seems like we're almost there, and to get -- You might want to break with these guys and then come back in. I had a couple of more questions I wanted to hit these guys with, but

I could wait, I suppose, if you'd rather get something else finished. Are you going to ...

OFF RECORD: [Discussion about how long to continue the meeting and when to reconvene.]

CHAIRMAN HALFORD: Okay. We'll come back in at 8:15 in the morning in this room.

CONTINUATION OF JOINT MEETING
ON ROYALTY OIL DISPOSITION

March 26, 1982

CHAIRMAN HALFORD: Will the joint meeting of the House Oil and Gas Committee and the Senate Resources Committee please come to order? Present we have Senator Fahrenkamp, Senate Resources Committee chairman, and Senator Gilman and Senator Sturgulewski. Present on the house side are Representative Cotten, Representative Rogers, Representative Randolph, and myself; I'm Representative Halford.

Last night we were down to the consideration of the Doyon contract. What I'd like to do at this time to make that go as fast as possible is to put Av Gross in front of us as Doyon's representative, and then go back and forth between Doyon, the royalty board, and

the Department of Natural Resources, so that we've got the forum for the differences of opinion right at the cable in front of us and just run through that, so if all three of you will come to the table together we'll go ahead and let Av Gross start it off.

MR. GROSS: Mr. Halford and other members of the committee, I'm Avrum Gross, and I'm general counsel for Doyon. Let me say at the outset that I was not the party who negotiated this contract for Doyon. That was done by Dick Edwards, an Anchorage attorney, and Marco Pigialberi from Doyon. They carried the major negotiating burden, and what my purpose is is to bring you up to date on the status of the Doyon refinery, and hopefully ask your indulgence for a little while on the actual in-depth analysis of the contract, because of the present status. The present status is simply this, that since its inception, Doyon has worked rather hard to put together a competing refinery in Fairbanks with the North Pole refinery. They have acquired the land; they have acquired the equipment to build a refinery; they have done their engineering work and the land acquisition work; and are prepared to go ahead. At the same time they were of course negotiating this contract with the state which took I think roughly five to six months of fairly constant negotiations. I mention that so that when you deal with the individual terms of the

contract you will realize that they are all inter-related and the results of rather hard bargaining over long periods of time between the parties, all of whom were advancing their own interests, including the state of course. In the -- I became involved in the project in early January. At that point, for a number of reasons Doyon, through its financial advisors and on the advice of its financial advisors and others was afforded the opportunity to negotiate to purchase the North Pole refinery. They entered into negotiations to purchase the North Pole refinery. We advised the state of that fact in the middle of our contract negotiations, and as a result, we immediately switched in the negotiations with the state to negotiating not one contract but two. That was Doyon I and Doyon II. The Doyon II would have covered what would have happened had Doyon proceeded to purchase the North Pole refinery. Those negotiations took place for roughly a period of a month and a half; rather extensive negotiations with North Pole. The parties were extremely close. In the last, closing hours of the negotiation they collapsed. As a result, Doyon was back again dealing with the construction of its own refinery on the so-called Doyon I contract. Then the -- By that time, the situation had somewhat changed in relation to the construction of Doyon's refinery. The financing

had become less certain than it had been in the past due to a number of features, one of which was that the bank which originally had made the commitments to finance were now less certain about the carrying through of those commitments for a numbers of reasons. One of them was that they were -- I think they had pushed Doyon I think to try to pick up the North Pole refinery. Another one was the royalty oil, the return oil, which is the major problem in this transaction. As you probably know, for every 30,000 barrels a day you put through the refinery, 20,000 come out the other side, and in crude oil, which goes back into the pipeline and under the terms of the contract with the state has to be disposed of by Doyon, and selling 20,000 barrels of crude oil today is not the easiest thing in the world to do without a substantial loss. North Pole has had a great deal of trouble I think disposing of its own return oil, and now Doyon is in a position of having to dispose of its return oil because originally under the contract the state would have made a contract with Chevron where Doyon would have been able to dispose of all of its return oil to Chevron. Now, the Chevron contract fell through and Doyon was left with a substantial amount of return oil to dispose of. That is the major snag in the continued financing of the Doyon project at the present time. When that became

apparent, Doyon made enormous efforts and is continuing to make those efforts to arrive at a contract for the disposal of the return oil. Tim Wallis, who is the president of the company, has been in a series of meetings with oil companies and such to try to make some contract by which the return oil can be released, and that is the major, I think, actively the major financial snag to continuing with the project. Doyon has, as I'm sure you know, a good deal of [indiscern.] funds in the contract. It has every incentive to continue with the contract. I would say that within the next two to three weeks, we will have a much clearer picture as to the ability to get rid of the return oil and make the project a successful one at this time. This is not, obviously, a good time in the world oil market to be dealing with 20,000 barrels of crude oil. The state's having enough problems, much less Doyon. In any event, we are doing that at the present time.

I want to point out that this contract -- The
of Alpetco keeps stalking the legislative halls,
I simply want to point out that this is not an
Alpetco contract in any sense of the word. This is not
a contract by which Doyon can take oil and basically
market it as it sees fit. The contract is quite clear
that Doyon must construct a refinery. It does not have

a right to take the oil until it does take a refinery or build a refinery, and that refinery must be completed by December 1 of 1983. The thing that was pointed out to me this morning by someone - I think it was the royalty board - very wisely, was that this is a new project, it's -- we're trying to get a competitive refinery going in Fairbanks, which I think is what the Department of Natural Resources was in favor of, and I think the legislature is in favor of as well. It's not easy to do. It's not a simple thing to get together. We're talking about basically a hundred-million-dollar investment in a world oil situation which is not conducive to major investments at the present time, and it isn't easy, and it's not surprising that everybody isn't rushing to buy the return oil and come forward with all the money [indiscern.] if necessary. We're working very hard on it. What I would like to suggest, if at all possible, is that since you have at least, I assume, a month and maybe longer in session, that on the Doyon contract you sort of put it on hold for a couple of weeks, until the president, Mr. Wallis, and Dick Edwards, who negotiated the contract, can come down. Mr. Edwards can take you through it term by term if you would like, and Mr. Wallis can bring you up to date on basically what the status of the refinery is.

Beyond that, I think it would probably be better if I just could answer questions from the committee.

CHAIRMAN HALFORD: You've addressed yourself primarily to the financing question. There was another question brought out by the royalty board, that being the pre-commitment waiver for the first four years. I wonder if you could address yourself to that as well.

MR. GROSS: Just very briefly, I -- The presentation -- This was a term that frankly surprised me a little bit, Mr. Halford, for this reason: Mr. Wallis testified in Fairbanks at the royalty board hearing and he made a statement and to my knowledge he was asked no questions by the board. Yesterday, the board took up the issue and, at the suggestion of I think it was Mr. Lyon, felt that this was an unfair clause in the contract. All I can say about that, without having sat at the negotiations myself, is that as I said, these negotiations took place over five months. To get that term in the contract, Doyon gave up things. Moreover, if you're going to talk about whether that clause is anticompetitive, it seems to me the only way you could tell that would be to do an analysis of the Mapco refinery in Fairbanks, to determine whether or not this clause in reality would be seriously injurious to that company, or whether it would not be. What are the terms of the original Mapco contract? Is Doyon going to be

receiving oil under sufficiently beneficial terms that would compare with the original contract under which Mapco receives oil from the state? But to come out of the blue and basically pick one term out of a contract, without any analysis of it whatsoever, and say -- In our mind that seems a little unfair to other people. Without analyzing what other people have, or the circumstances under which the clause was negotiated, that seems to me a bit unfair, but as I say I was not in the negotiations. Mr. Haynes was. I think -- I doubt that he would have negotiated a term which he felt which was contrary to either the public interest or unfair to anyone else within the department felt, and I think it would be probably best if you let him explain that, and if you would like to have it in depth from Doyon's side, I think what you need is the negotiator who actually negotiated the term for Doyon. It was my understanding that this was going to be just a preliminary informational hearing - that you would not go through the terms one by one, and if you wish to do that, we could have someone here this afternoon if necessary, but as I say, I think due to the status of the project it might make more sense to try and hold it for a couple of weeks and then have it laid out for you in detail, not only as to the terms but as to the status of the project.

CHAIRMAN HALFORD: Because that particular term was brought into question -- It's the only other term that has been brought into question, and it's something that I think we probably want to pursue. Senator Fahrenkamp?

SENATOR FAHRENKAMP: Mr. Chairman, I understand that we'd [indiscern.] up or down on the contract. So, as far as I'm concerned, maybe that would help people to make their decisions, whether it's up or down or not. My question I guess to you, Av, is: Are you recommending then that we go ahead with putting the contract in to the bill status, and not just holding it in committee until we find out how the financing comes along?

MR. GROSS: Yes, and I think what you are going to have to do, I suppose, is make a judgment eventually, Senator Fahrenkamp, on whether you think that there is enough good faith commitment to this project, rather than just simply wishful thinking (tying the oil up), to favor it and let it go ahead. It's going to take your judgment as to whether all your interests in getting a competing refinery going, whether it's a desirable sale from the state's standpoint, whether the state would lose anything by letting them proceed. I don't see that it does, frankly, but when you know what the status of the contract is - in other words the status of the negotiations to get rid of the return oil, all these things - you'll have to make I suppose a judgment as to whether

you think that it is in fact a viable project, and I think you can get a little better picture of that a little further down the line.

SENATOR FAHRENKAMP: And as I understand it, then, in the interim, while the plant would be built - is being built, if it were built - the oil would still be going the 30 or how many ever barrels are concerned. Would the -- at that time still going through the line and being sold by whomever or somehow?

MR. GROSS: That's correct.

SENATOR FAHRENKAMP: And so the state is not in fact losing money doing that ...

MR. GROSS: Not a penny.

SENATOR FAHRENKAMP: Thank you very much.

CHAIRMAN HALFORD: Representative Randolph, you have a question?

REP. RANDOLPH: Yes. Av, yesterday we heard testimony from the department that at one point this financing was going to be all in place, and that they were satisfied that it was a go project, and now there's some problems with that, so what extent can you elaborate on that, as to who that was with and why it was firm enough at one point that DNR thought it was a go deal and still then how did it dissolve?

MR. GROSS: Well, I can tell you something about it, Representative Randolph. The financing was in place

with the Continental Bank in Chicago. As the negotiations shifted to the possibility of picking up the Mapco refinery directly and then the bank made a commitment on that one. At that point it backed off the commitment on the other one. Then, when it became clear that the Mapco negotiations might not go through again, then the bank was approached in terms of refinancing the original refinery. By this time, though, circumstances had changed sufficiently that they wanted to change the terms of the financing, and were seeking other involvement in the refinery project, or development by others. That was primarily due to the fact that the return oil posed a substantial risk at that point. The experience with North Pole has been that the major drain on their making a profit (since they have been making a profit, but keeping their profits down to only large levels) has been primarily the drain caused by the return oil. I think two years ago -- one year ago I read one article that they lost something like \$30 million on the return oil alone, and that was in a better market than I think you have today, so it is an enormous problem.

REP. RANDOLPH: Just one further question.

MR. GROSS: Sure.

REP. RANDOLPH: The commissioner - I think he used the term that he felt that the financing had become uncertain

inadvertently, not through purposeful action, but it was just something that just kind of slipped through the cracks. That's kind of what I got from it. Was that a fair understanding on my part of what he said, or can you elaborate on that, or what?

MR. GROSS: Well, I'm only the attorney for the company, Mr. Randolph, and I think when you get into the actual internal operations of Doyon and what happened, it would probably be better to talk directly to the chairman, Mr. Wallis, and he will be delighted, I'm sure, to appear here. It was -- I can say from what I know of it, and I was not there, that it was the result of a shift in emphasis as to what they were going to do and in the course of that, the original commitment, advertently or inadvertently, was lost; but I think that, knowing commitment letters from banks and the kind of commitment letters that I've seen, it really doesn't matter because most banks keep out in the end anyway, and they'll make a commitment to you should circumstances continue to warrant the project or something like that, so there's always some out for them. I don't think it really would help to assess blame as to why it happened, but the fact of the matter is that the original commitment on the Doyon refinery - on their own refinery - has now, from that bank at least, become modified. They are willing to -- When I

last spoke to them, they were willing to finance a large portion of the refinery, but now they are insisting on certain other provisions too: the involvement of others, different commitments of cash, and one thing or another. But mainly that causes a problem because we can't get rid of the return oil at the moment, and that's been the nature of the negotiations for the last few weeks. We can do that, and the negotiations on that have been extensive. I don't think there will be problems putting together the final package.

CHAIRMAN HALFORD: Representative Rogers.

REP. ROGERS: What is the status of the refinery itself? You said the land had been acquired, they began site preparation and purchasing their equipment. What's happening today?

MR. GROSS: Right now the equipment is being -- provisions are being made to store the equipment until the package can be finally put together.

REP. ROGERS: No work is proceeding at the site?

MR. GROSS: At the moment, to my knowledge, the site work has been shut down. At the moment. It was going until -- I mean very recently, but I think for the moment it has been stopped pending the final conclusion of the negotiations.

REP. ROGERS: December 1983 is a fairly tight time schedule, it seems to me, to build a refinery. If there is a point at which it is physically impossible to get there, do you know when that point is?

MR. GROSS: I believe that Doyon believed that could it continue construction this year -- All the preparation has been done, and what we're looking at now is the construction. I think Doyon was under the belief that if they could continue their work this year the refinery would be in place in December of 1982, so what we are talking about is a time lag of a year - a period of up till next -- during this year to put together the remaining portions of the project, and again I stress that Doyon can receive no oil until the refinery is constructed.

REP. ROGERS: I realize that the state's protected there, and even if -- I suppose if the refinery is a day late coming into operation, it's several tens of thousand of barrels short, but is what you're saying, if they could -- if they were able to continue this year the refinery would be done in December of this year, you're saying that -- No, he said December of '82.

MR. GROSS: If they had been able to proceed on schedule this year, the refinery would have been completed in December of '82. Now if ...

REP. ROGERS: So that if they can get financing by January of '83 they can finish the refinery in December of '83?

MR. GROSS: I think that's a fair assessment. Everything is ready to be put on the site.

REP. ROGERS: Okay, and ...

MR. GROSS: Probably sooner, Representative Rogers, because what you've done is you've lost all of -- you've lost a part of the construction season. They need the whole construction season to do it, so if they can use half of this construction season and half of the next construction season, you may see it done in the summer of next year.

REP. ROGERS: Well, it seems to me that the issue of financing is - in terms of the legislature approving this - because of the protection of the refinery having to be on line in December of '83, it seems like that's a fairly strong protection for the state, and obviously ... [indiscern.]. Thank you.

CHAIRMAN HALFORD: Representative Cotten, did you have a question?

REP. COTTEN: I just have one follow-up on that. Does that mean he can wait till next January to get the contract approved, and still have a successful ... [indiscern.]?

MR. GROSS: The problem is, Representative Cotten, that the contract itself is an integral part of putting together the package. When you go to bankers, and you're

discussing it with them, it's one thing to say that the state traditionally will furnish oil, or that the legislature is reasonable in the way it acts on oil contracts and one thing or another. It's another thing to actually have a contract for the provision of oil. Bankers are not -- they want to have all the pieces in place.

REP. COTTEN: Do you think that that's an advantage, that the other people wouldn't have been able to enjoy, or were there other firms that were seeking the oil, or trying to make a decision as to whether to build a refinery and go through with a project like this? If they had had a contract in hand -- I'm trying to decide or discover whether it was a competitive advantage, or whether there would be now a competitive advantage to somebody to have a contract in hand.

MR. CROSS: I think Mr. Haynes could probably elucidate on that better, but the kind of decisions they made in narrowing down the field -- My impression is that when Doyon approached the state this was not a speculative proposition. I mean, they have committed a good deal of their own funds to this already. They have purchased the equipment; they have purchased the land. This is a going project. It's not, give us a contract and we'll go out and put together a project. This is a specific project with commitment of funds, and all the

like. It's a contract -- It's a project which was solid. It's a little less solid now, but it's being put back ... [end of tape].

REP. COTTEN: Well, from listening to you, it sounds like the financing probably will come along. You seem optimistic about that, but you dwell on the fact that there is an enormous problem with the disposition of the return oil ...

MR. GROSS: There is.

REP. COTTEN: ... and it's difficult for me to understand or to determine how successful you're going to be, where you are in that regard. It sounds like Chevron's contract not going through really played a heavy role here and it may or may not have, but it doesn't look like Chevron's contract is going to be even considered by the royalty board in the time the legislature could approve it, so that's one thing that's gone, right?

MR. GROSS: Correct.

REP. COTTEN: So maybe you don't have an answer as to what's on the horizon. What is your next move as far as disposition?

MR. GROSS: Well, I can tell you that Mr. Wallis has been negotiating with a number of oil companies. He was in Seattle last week trying to get a contract with them for the disposition of the return oil, with a number of oil companies. I don't want to use the names if I can:

avoid it, but I can assure you that the negotiations have been very serious. The problem is, as you know, there is a glut of oil on the market right now, and I think Doyon is in the position where it's not interested necessarily in making a profit on the return oil. It just wants to avoid a loss on it. I think it would be best to have him tell you directly the negotiations that he has undergone, because I have not undertaken those negotiations. He's done them directly. I can tell you they are intensive.

REP. COTTEN: You say Mapco lost what? Isn't it a losing proposition? So it seems like it's going to be even more difficult for Doyon to improve on that situation.

MR. GROSS: They did lose a substantial amount of money. They have cut those losses enormously. They have certain contracts, which I'm not at liberty to disclose, for the disposition of the oil right now which has changed that situation substantially, and it would -- I think it is not impossible to get rid of the return oil, but the Chevron situation obviously made it much easier, and when you went to bankers and they said, you know, what are you going to do with the return oil, we were in a position to say, well here's a contract with Chevron which is going to take, you know, all the oil we produce, and get rid of it. When that fell through now we have got -- I mean the state basically provided

that market for us, and now that the state is unable to provide that market, through no fault of them, we have to find our own, and it's more difficult. That's all I can tell you.

SENATOR GILMAN: I don't want to take up the whole time, but I was wondering if you were having the other people at the table make observations on the same topic, or ...

CHAIRMAN HALFORD: What I had intended to do is to see if we had any questions for Av first and then we'll go back to the whole table.

SENATOR GILMAN: All right. I don't have anything.

CHAIRMAN HALFORD: Are there any other questions before we move on to the next thing which is to go ahead and have Jeff Haynes respond to the same line that Av presented?

MR. HAYNES [Not at a microphone]: Mr. Chairman, members of the committee, my name is Jeff Haynes, Deputy Commissioner of Natural Resources, and I'd like to talk about three things. Number one is the four-year deferral on the reservation fee. Number two, I'd like to talk about the return oil, and number three, about the financing. It's hard to recapture six months of negotiations with twenty-seven different companies and explain why you did something at any given time, but the fact that we did make this one concession to Doyon as a new entrant is something that we're still ... [indiscern.]. The most difficult philosophical part of

these negotiations was reconciled ... [indiscern.] ... and on the other hand you've heard from the competition ... [indiscern.] ... what we'll probably spend more time now in thinking about and negotiating than anything else. In the case of the Doyon contract, the bottom line is the Mapco contract, because although Doyon or any Fairbanks refiner is to some degree competing with other in-state refiners and suppliers, the company that is going to be right across the street is the one they are most directly in competition with. Now, I don't mean to say anything disparaging about the Mapco contract, but it is ... [indiscern.] ... was the same as the Alpetco contract, and there are some provisions in that contract that since then we would no longer negotiate as a matter of state's interest. One is the term, ... 2,004 ... [indiscern.] well beyond Prudhoe ... just call on future royalties in that contract. The security arrangement is ... [indiscern.] security ... sixty-day letter of credit and naturally, Doyon, in order to compete with Mapco would prefer to have their contract. Certainly it would have been easiest for us if we xeroxed the Mapco contract and handed it in ... and said sign here ... we could not do that. Consequently, we had to assess, on the one hand, what was in the state's interest as far as the royalty contracts, and concurrently what was necessary - and I

mean absolutely necessary - for a new entrant such as Doyon to be able to compete with ... [indiscern.]. I can tell you that throughout the negotiations we were under intense pressure with Doyon and that is, again, to make lots of concessions in the contract ...

[indiscern.]. On virtually all of those we made no concessions. They have to -- There is a provision in there requiring a letter of credit - sixty-day letter of credit. For that much oil - 50,000 barrels of oil - that's a lot of money. That's cash outlay to get a letter of credit, so that's something that puts them in some kind of competitive disadvantage ... [indiscern.]. They were wanting additional concessions from us, and just pulling down some of the things I remember, on the term, security provisions on the return oil, processing requirements, reservation fees, and so forth. The only one that we made any kind of a significant concession on was the reservation fee itself because Mapco ...

[indiscern.]. You remember also we were negotiating with Mapco ... period of time ... wanted us to supply them with ... complications ... [indiscern.]. I guess the bottom line is that we felt that that one concession was one that was justified. It was one we did not give until we had talked with them for five months about it, and I ... [indiscern.].

I also want to talk about the return oil. I will say that from time to time the return oil may be a problem, but I will also say that from time to time through the negotiations Doyon very much wanted the return oil; and I think if I was to [indiscern.] some of the times Mr. Gross made there, pointing out the principal reason for having a refinery in Fairbanks - the principal advantage of having a refinery in Fairbanks - is you have the Trans Alaska Pipeline which is a garbage can for the resale. You can ask any refiner anywhere in the United States or anywhere else what their biggest problem is, and the problem is getting rid of the heavy end of the barrel - the residual oil. That's what is driving a lot of the refineries out of business. On the West Coast especially, whether you're talking about California crude or Alaska North Slope crude, you have an excess of heavy ends unless you've got one of those fancy refineries that uses ninety-five percent of the barrel, which we're not talking about here. In the case of a refinery like Tesoro, they don't have a garbage can to put it in, so they have to make arrangements to ship it south and have it cracked or sold or whatever, and that's an economic inconvenience at best, so, frankly, although there are times when there's a market glut ... any heavy ends, whether it's in the form of return oil

or residual oil, it's going to be an economic problem. It's basically an advantage to have that Trans Alaska Pipeline there because at least you're selling, ultimately, virgin barrels of ANS after paying a quality differential [indiscern.] residual oil, which is a big problem. We tried to work out something with Chevron with respect to being able to use the oil twice. Under some circumstances that would be an advantage to Doyon, but on the other hand, in negotiating with Mapco I can tell you that they did not want to give up the absolute rights to return oil and that's what caused our agreement with them to fail; so, I think you can say the return oil can be [indiscern.] as valuable as well as it is in ... at least in terms of the arrangement that ... [indiscern.] ... Fairbanks with respect to the pipeline.

On financing, all I can really do is repeat what the commissioner said yesterday, and that is: The criteria that we used for selling oil to companies with solicitation was whether they were able to use that crude oil either now or imminently; in other words, whether they had made a commitment to build a facility to use the oil. Since the time when we pursued this contract the circumstances have changed for Doyon, and that imminency is not there at the moment because of the financing situation. I am certainly not privy to

exactly what Doyon is doing in terms of arranging financing. I may be optimistic. They're the ones to speak of that, but I feel constrained to point out that getting financing for a refinery these days is not easy. It's not a business people are rushing into. In many parts of the world, it's a business people are rushing out of in a hurry, and the only way that a refinery can really operate these days unless it's a highly sophisticated one, is if there's some kind of ... [indiscern.] ... on with it and take advantage of it. I think it's fair to say that that's what's going to happen ... [indiscern.] ... anybody who's financing that project, but we do feel that they ought to be given a chance here in the next few weeks it would take to look at that and see if there's something that they could come up with; but we also concur with the views of the royalty board, and if that is not apparent within a reasonable period during this legislative session we ... [indiscern.], but I still wish to distinguish ourselves from the royalty board on the reservation fee issue which is their second grounds for disapproval ... [indiscern.].

CHAIRMAN HALFORD: Senator Fischer?

SENATOR FISCHER: Subject to the financing, you're still satisfied, then, with the contract?

MR. HAYNES: Yes, sir.

SENATOR FISCHER: Now, Commissioner Katz yesterday said that the legislature should not enact a bill of approval of the contract until such time as everything is in place. I was wondering if it may, however, be appropriate to pass a bill if everything looked like it's coming together toward the end, even if isn't totally together, which makes the final determination - final implementation - of the act subject to a finding by the governor or by the commissioner with or without royalty board ... [indiscern.], so that the legislature can say, this contract is approved subject to. Do you feel that would be an appropriate action?

MR. HAYNES: Well, I guess that what I would encourage there is that, since we're submitting these contracts to the legislature we prefer to have the legislature make a judgment on that project. If the financing comes together, we're prepared to support it. If it does not, we're prepared to oppose it, and I think there's an important reason for that. To go back to I think some questions that were raised originally by Representative Cotten, one of the things we do not want to see I think particularly at this stage is to have somebody who has a supply contract with no deal put together - at least going through the financial markets for a long period of time trying to use the supply contract to put the thing together. That was one of

the problems that we had originally with the last oil company, and it's a problem I think you'll want to avoid. Circumstances here are a little bit complicated because the financing situation with respect to Doyon has at least deteriorated since the time we negotiated the contract but there's a possibility to [indiscern.] over a reasonable period of time. It's an Alaskan corporation and it's a project that conceptually we're in favor of; but again, I think we prefer to see that happen here in the course of this legislature - to find out one way or the other.

MR. GROSS: Senator Fischer, I wonder if I might say -- This contract of course has a built-in limitation on it. I think Jeff is absolutely right in the basic policy of not having people wandering through the financial markets waving royalty contracts around, but at the same time, this contract forbids Doyon from receiving any oil until their refinery is operative, and of course, with the construction season in Fairbanks being what it is, there is a built-in deadline on the contract that if this is not put together by the end of this year, as a practical matter they will be unable to have a refinery in Fairbanks by December 1 of '83, which means that the contract terminates; so, this is not some open-ended commitment by the state of royalty oil in some undefined project. This is a defined

project for which there has to be a refinery in Fairbanks operative by December 1 of '83 or the contract ends, and that means that it has to be in construction by early next year or it's not going to happen. It's impossible for it to.

SENATOR FISCHER: Mr. Chairman, my thought was it simply means that what happens during the interim -- now take for instance thirty days after the legislature adjourns, the financing all comes together, it wouldn't be very appropriate to have to wait until next February, March or April, whenever the legislature might get around, so if there could be some kind of a limited approval subject to expiring in January or whatever of '83 when the session starts again, that might be something to consider.

MR. GROSS: The point I'm making, Senator Fischer, is that even if the legislature doesn't have that power, which I don't want to get into anymore, having done it for six or seven years, the contract itself fills in that limitation, so if you approve it, you in essence have built that condition in through the approval of the way the Department of Natural Resources wrote the contract.

CHAIRMAN HALFORD: Senator Gilman, do you have a question?

SENATOR GILMAN: My question has partially been answered, Representative Halford, but as long as we're talking about -- I think I hear Mr. Haynes saying that at this

point in time it's the department's position that if there is no contract approved by this legislature, there probably isn't going to be a contract entered into. Is that correct?

MR. HAYNES: Um-hum.

SENATOR GILMAN: Yes.

MR. HAYNES: [Indiscern.].

SENATOR GILMAN: Pardon?

MR. HAYNES: You say if the contract is not approved ...

SENATOR GILMAN: If the contract is not approved by this legislature, then -- Maybe I should rephrase it. Any contract that would be consummated would wait for the next legislature? Is that your recommendation?

MR. HAYNES: That's correct.

SENATOR GILMAN: Okay. Then, but if we did approve it subject to some contract being consummated in the interim, would that also then force you into doing the same thing with other companies?

MR. HAYNES [Not at microphone]: Well, I think one of the points I was about to make is that at some point this stretches beyond the session, it becomes unfair to some of the other parties we are dealing with, because if our standard had been, we'll give you a contract, you've got a year to put together a deal for a project ... [indiscern.] ... in some cases ... and that's the thing -- The problem that we have here I think ...

[indiscern.] ... is that we are all interested in having a review ... and the department has bent over backwards to try to accommodate businesses ... Doyon and ... by several months. This was right at the end of our -- before we sent the contracts to the royalty board in the course of a week we negotiated a second contract with Doyon based on a brand new contingency, but, as I said, if the standard that we used throughout these negotiations was you've got to be able to use the oil now or you must have made a go decision on a facility [indiscern.], and if you haven't done that you will not [indiscern.], and what's happened is that at the time we signed the Doyon contract they made that decision and they were in that position. Since that time they are no longer in that position, so it just seems to us that unless that condition reinstates itself very soon, during this session, then we really shouldn't ... [indiscern.], because they don't have ... [indiscern.], but that doesn't prevent, you know, another solicitation later this year or whatever ... next session; but I think in fairness to the other parties that we dealt with to whom we said no, we will not sell you oil because you are not ... use it now ... I mean it's not fair to them.

SENATOR GILMAN: Could it come under the same solicitation if it's modified?

MR. HAYNES: Substantially, sir, yes, that's correct.

[Indiscern.] ... modified solicitation.

CHAIRMAN HALFORD: Okay, what I'd hoped to do was get a response from Dick Lyon to the same three questions, and if you want to ask some questions before that, go ahead ...

REP. ROGERS: I wanted to ask Jeff about ...

CHAIRMAN HALFORD: ... because they're all going to stay.

REP. ROGERS: You said that you're absolutely confident about the contract, that you're comfortable with the contract with the one exception of financing now, but unless this financing is in effect before the end of the legislative session, you're not comfortable with it. I'm curious. You don't think that the requirement of a refinery by December 1, '83 is enough of a protection for the state?

MR. HAYNES: Well, I think there are two [indiscern.]. One is the contract itself -- I mean the contract language ... [indiscern.] ... contract language is fine in terms of the [indiscern.]. The other question is the premises on which it is negotiated, and what I'm saying is that the premises on which it was negotiated, one major one is not currently in effect ... suspension, and that's financing ... basically this is an imminent project, and that is not the case now.

REP. ROGERS: And one of the purposes of the solicitation and one of the purposes of this round of royalty oil sales was to add a second refinery in Fairbanks?

MR. HAYNES: Well, our purpose was to ...

REP. ROGERS: To increase ...

MR. HAYNES: ... the premise that, you know, the preference of the royalty statute for in-state processing was to [indiscern.] proposals for ...

REP. ROGERS: Well, no. The commissioner said yesterday that one of them was increased competition in the domestic market, and ...

MR. HAYNES: Correct.

REP. ROGERS: ... that was one of the purposes, and that your department has generally taken the position that a second refinery in the railbelt would tend to serve that competitive situation. The only way right now that we have -- The only way we have prior to the next legislative session, and the only opportunity for that competitive situation - for increasing that competitive situation - is this royalty sale because there will be no other sales presented to the legislature. Is that right?

MR. HAYNES: Um-hum.

REP. ROGERS: And in your mind, not the royalty board's, the only impediment is the financing. I guess the question I would have, and following on Senator Fischer's

question, is: If the legislature were to approve the contract with a delayed effective date, with an effective date taking effect the day after the governor or the Commissioner of Natural Resources finds that the financing is in place (it would require a larger vote of the legislature, obviously, to approve a separate effective date clause), would that alleviate your concern, or do you still feel that the issue of having financing in place in the next two weeks is more important than the competitive advantage of having a second refinery?

MR. HAYNES: Well, again, I want to think about that a little bit, but the premise of the negotiation itself was imminency, and not -- Again, I don't know what Doyon's financing situation is, but I want to point out that, for the same reason, that the return oil is not necessarily easy to get rid of, that a crude oil supply contract is not going to make a refinery viable if that operation is not viable. I mean they have to have a supply contract, but that operation has to be profitable, and I think that there is a misconception that having a secure source of supply necessarily makes something economic, and it may not -- It isn't going to do that, and so I would not overemphasize the value of that supply contract as being, you know, an advantage in financing, so ...

REP. ROGERS: But what we've heard from Doyon today is that up until sometime late this year or early next year financing is in place, they can have a refinery by December 1 of '83, and maybe I understand the contract wrong, that - I'm not sure - can they take oil if they have the refinery built earlier than that?

MR. HAYNES: Yes.

REP. ROGERS: Okay, so it's possible that financing might be obtained a month after the legislature gets out of session and they could have refinery in place by July of '83, or October of '83, or sometime prior to December 1. If there's no contract with Doyon this session, or any other buyer, then there's no chance that there would be a second refinery built?

MR. HAYNES: No, I don't think that's true, because we only sell one-eighth of the oil. We aren't selling seven-eighths of the oil. We're not the only supplier of crude oil.

REP. ROGERS: Okay, but using, say, royalty oil, there would be none. It just seems to me that given the -- I mean if the only problem is the financing, and if the legislature gives you an okay subject to financing, I don't see what problem the department would have.

MR. HAYNES [Not at microphone]: Well, again we have to look at the other ... [indiscern.] ... and I'll get specific ... look at the other contracts we have before us, and

that's ... [indiscern.]. They wanted another 23,700 barrels ... expansion, but they had not decided for sure that they were going to go ahead ... [indiscern.] ... for them to do it. If they had that additional volume, then go into the market, maybe their financing might be easier, whatever. Chevron wanted an additional 7,000 barrels over what we sold them, for possible expansion. Mapco wanted additional barrels ... [indiscern.] ... above what they could use now contingent on some possible expansion. We told all of them no. In other words, the reason we told them no was at the time all four of those parties - Doyon, Mapco, Chevron, and Tesoro - plus at that time Sealaska, those were all in favor of refining projects, and the total volume of barrels that they wanted for both [indiscern.] use and expansion added up to I think 245,000 barrels a day, which is a little more than we have, and so we had to -- and there was also just a policy question of whether we ought to sort of sell to somebody on account as opposed to having something that is in fact in place; and I really think that if it extends beyond this session that we are really being unfair, especially to Tesoro which has a contract before you today - a very, very good contract; it's a very, very good project with very high benefit to the state - that we're being inconsistent in how we're

dealing with them. Again, we've tried to accommodate everything we can with Doyon. I don't think not approving the contract this session by any means destroys the project. The department has not rejected their project. It's signed the contract with them, and if circumstances change, [indiscern.], you know, they are treated favorably in the future. The fact is the project just is not coming together right now.

REP. ROGERS: Thank you, Mr. Chairman.

MR. GROSS: May I just point out in response, Representative Rogers, that this is not an issue of whether Doyon wishes to proceed. There's no question that Doyon has a commitment to proceed on this refinery and will do so if they can put the financing in place, and the return oil issue can be taken care of. It's not a judgment [indiscern.] more as far as Doyon is concerned. They have their own money into this project now as well, and plan to consider. You know, I'm a little hesitant -- I feel a little bad here because I think Doyon may be paying the price of candor. We have, I think as Jeff will testify, have kept the department completely aware of the entire status of the project ever since the first contract was negotiated, and the alternative was to sign the contract and never come back, and then come in ... [indiscern.; someone coughing] ... have everybody operate under the assumption that the refinery was

going to -- that the construction was going to start two weeks ago now, have the contract approved and walk away; and I think in an effort to be absolutely candid with the state and open, we have told the Department of Natural Resources every inch of the way as to the status of the project. It's not that we're backing off, but the problems that have come up in developing the project, and I'd hate to be penalized for that.

Thank you, Mr. Chairman.

CHAIRMAN HALFORD: Okay, if we can -- We're going to run out of time to go into Tesoro. If we can, I'd like to have Dick Lyon respond to the two basic questions: one the financing, and the other the pre-commitment, before we get anymore questions, unless you just have to catch a question on that [indiscern.]. Representative Cotten.

REP. COTTEN: There is a point there that I'd like to just go over and try to understand. There were two contracts that the state approved ... [indiscern.]. Pardon me?

MR. HAYNES: Yes, sir.

REP. COTTEN: With Doyon?

MR. HAYNES: That's right.

REP. COTTEN: And you put them both in front of the royalty board at the same time?

MR. HAYNES: That's correct.

REP. COTTEN: But according to Av, they had their financing in place with one, and then the [indiscern.; coughing]

pulled off and went with the other one, so this one didn't have the financial backing. After they switched from building a refinery to buying a refinery, the financing was not in place for the original contract. It never has been since.

MR. HAYNES: [Indiscern.]

REP. COTTEN: So this ...

MR. HAYNES: I'm not quite sure I understand. The Doyon II contract was the Mapco acquisition.

REP. COTTEN: Right.

MR. HAYNES: That fell through so that contract has been withdrawn.

REP. COTTEN: I know, but after -- According to Av, originally the financing was in place for the Doyon I, and then they got the commitment for Doyon II, but as a condition, they didn't have it for Doyon I anymore.

MR. HAYNES: Um-hum.

REP. COTTEN: So that contract's been faulty for quite some time.

MR. HAYNES: That contract has not been around. It was withdrawn last ... [indiscern.] ... I beg your pardon?

SENATOR FAHRENKAMP [?]: II.

MR. HAYNES: It was Doyon II.

REP. COTTEN: Doyon I.

MR. GROSS: You're correct, Representative Cotten. When the financing switched to the Doyon II contract, then the

[indiscern.] Doyon I and Doyon II were submitted to the board as basically options. Then, as soon as Doyon became clear on the fact that they were not going to acquire the Mapco refinery, they wrote a letter to the commissioner withdrawing Doyon II and refocused on Doyon I to put the financing back in place on Doyon I. That's where we are now, but when it was submitted the financing was not completely in place, that's correct.

CHAIRMAN HALFORD: Representative Rogers.

REP. ROGERS: I would like to follow up with the deputy commissioner, because it seems to me that if Doyon is able to put it together, your position would be to resubmit it next year, but there is going to be a change of administration between now and the next legislative session. That administration could pull out of the contract at that time, right? Even though -- I mean, if Doyon were to put it together I suppose the contract would still be tentatively before us until the new administration pulled it out. At that point it seems like Doyon is the victim of a short legislative session perhaps.

MR. HAYNES: [Indiscern.; simultaneous conversation.]

REP. ROGERS: I guess I don't understand why if the financing is the only issue ...

MR. HAYNES: The only thing I can say is the financing is a real big issue. I mean that may be the only issue, but

that's a pretty big issue, and if you're having trouble getting financing for your project, you have to ask what that means. Why is that? You know, I'm not going to presume to give a financial analysis of the Doyon refinery, because I really am not capable of it, but nevertheless, if it's just a matter of going out and getting financing, it's -- [indiscern.] nobody wants to finance the project right now. They haven't been able to put that together, and I think that's a pretty serious consideration as far as whether or not that project is going to go or not.

MR. GROSS: You meant the next regular legislative session.

REP. ROGERS: That's right. I suppose we do have opportunities with a special session.

SENATOR FAHRENKAMP: Not me. I'm excused. [Laughter.]

MR. HAYNES: Well, at some point you could make the same argument for Suneel, for Chevron, for Provident, and you could go on with the process forever, but it's been hard enough to get these contracts this far. We expected to see them a lot sooner in this session than we are seeing them.

REP. ROGERS: If the department had negotiated those contracts I'd be making the same argument.

CHAIRMAN HALFORD: Dick, could you basically respond to the financing question and also the pre-commitment question from the royalty board's perspective?

MR. LYON: Okay. From the royalty board's perspective the question of the financing simply has to do with, as Mr. Haynes said, the imminency of the project. Is this something that's really going to go forward, or is the state committing its crude oil to a use which will never be consummated? I think that's the basis of the concern. There has been some criticism in the past ... [indiscern.; coughing] ... Av Gross ... Alpetco contract ... useful way. I'm not convinced that the implication is correct. The Alpetco contract was a result of the third offering of crude oil by the State of Alaska - the third general offering. The first two general offerings had brought forth no respondents who were willing to say that they were willing to construct an in-state use of crude oil. Finally, in the third offering which resulted in the Alpetco contract, there were eight initial offerors, and through the process of negotiation the department came down to the Alpetco contract, so the fact that it failed I think doesn't mean that it shouldn't have started, and while people are of two different opinions, it's certainly possible that circumstances changed during the life of -- the brief life of the project. It didn't do what it intended to do, but nonetheless, that was -- We have to look at the world and say: Who wants to use the crude oil? The fact that there are a lot of offerors,

doesn't mean that there are going to be a lot of users. I mean Alpetco ... [indiscern.] ... as in this case. Both Tesoro and Doyon have reached the end - the finish line; so the concern the board has is that we don't want to commit the crude under any circumstances except to a project which is in fact moving forward.

As to the competitive question, Av gave us a little bit of a red herring I think to say that it's just Mapco and Doyon, because you have before you two contracts which involve - each of which involves - about a million dollars a day worth of crude oil, and the Doyon contract is larger than the Tesoro contract. The way it's currently presented to you it's for about 50,000 barrels a day. So the crude lifted under those two contracts will be sold at dissimilar prices under essentially similar terms and conditions. If you were a private offeror, federal law would prevent you from doing that because you're selling it to competitors at different prices; and that troubles me as a business person. I think that you really shouldn't be doing that, because both Tesoro and the Doyon refinery will be serving the same market, at least in some regard. That's why I don't think that the fee should be waived, although I think it's the basis of the board's conclusion.

CHAIRMAN HALFORD: Wasn't there a tax incentive granted to Tesoro for the first ten years of their operation?

MR. LYON: Not to my recollection, and in fact, the Mapco - the North Pole refinery - was started on private crude. The state came in after the facility was already functioning.

SENATOR GILMAN [?]: Mr. Chairman, to clarify that point, the Chevron, or the Tesoro, refinery did not have a tax incentive. Of the three or four facilities that were on the Kenai, that was the one that did not have a tax incentive. It started after that ...

SENATOR STURGULEWSKI: Had expired.

SENATOR GILMAN [?]: ... had been repealed. Is that correct?

MR. HAYNES: That's right.

CHAIRMAN HALFORD: Okay, going back to the financing package, if, for example, it were the recommendation of these two committees that we introduce two bills and had them available, it might be two weeks before those bills were before a committee hearing. Is there a format through which the royalty board could look at a financing package and make some recommendation based on that financing package on that kind of notice?

MR. LYON: I think the only constraints we have are the -- The thirty-day limitation comes about because the Commissioner of Natural Resources desired to cooperate with the royalty board and certainly there's nothing to

prevent the royalty board from quickly assembling itself and passing judgment on whatever the legislature would like it to do. We are your -- We're functioning, hopefully, to give the legislature advice, which you're free to take or not take, but we'll respond to what you want.

CHAIRMAN HALFORD: It would seem that in order to give as much time as possible and yet still address it from this legislative session, that we should probably go forward with both proposals, and then get an assessment from both DNR and from the royalty board on any potential changes in the financing package as far as the Doyon contract is concerned.

MR. LYON: Well, we'd be happy to do that. We're lay people basically, just three public members and two commissioners, and I don't think we presume to be petroleum economists, but we'd be happy to ...
[indiscern.; coughing].

CHAIRMAN HALFORD: Representative, you have a question?

REP. COTTEN: I think in assessing this situation I think that having the royalty board having made its decision - the financing is a material aspect of this - that I think, and Dick would probably agree with me, that, knowing that, you're probably as good a judge as to whether the financing package is realistic as the royalty board is, and just to save time going back to the board and one

thing or another, I think a presentation could certainly be made to you, and I think what you're probably going to see is, you're going to see people coming in giving you the status of the financing situation, and you're going to have to make your own assessment as to whether or not that's coming together finally, or whether it's just a pipe dream, and I don't know, maybe Dick disagrees, but I think that -- I don't think there is any particular expertise in just judging the financing package [indiscern.] the royalty board as there is in this committee.

MR. LYON: Mr. Chairman, I think that the current function of the board is to provide as much public exposure as we can to the process, and to the extent the legislature finds it useful, I think the royalty board would be happy to cooperate. If you wish to accelerate things, I don't think the board would have any problem. We've stated where we stand on the contracts.

CHAIRMAN HALFORD: Do you have anything to add to that, Jeff?

MR. HAYNES: No, the only thing I would add is that the commissioner did say yesterday that within a reasonable period of time during the legislative session that Doyon should have the opportunity to put together the financing, and we're satisfied that that makes it an imminent project again and we would be prepared to say go ahead with it. But on the other hand, one of the

things we deliberately did not want to visit upon the legislature as a result of these solicitations was some rather complex show of, you know, [indiscern.] and bringing bankers through here and displaying circumstances it would be very difficult to handle under very short notice, not only for you, but for us. Now, ... [indiscern.] ... contract to go through, the financing has to be in place, and that a showing to that effect should be a clear concern and the caveat I would put on that is that we think rather than having or subjecting the committee to what amounts to an analysis process of the financial circumstances ... [indiscern.].

CHAIRMAN HALFORD: If we could go on, I think we've isolated the two questions with regard to Doyon. If we could go on, and just quickly switch from Doyon to Tesoro, and try and move as quickly as we can on that one so we can break by about quarter of. I think we'd like to have both the royalty board and DNR stay and just switch. Dick and Jeff, if you'd both come back to the table we're ready. If you want to go ahead, start on the Tesoro contract.

MR. JUREN: Representative Halford and Senator Fahrenkamp, and members of the committee, my name is Dennis Juren. I'm president of Tesoro Alaska Petroleum Company. I have here with me Mr. Jim Smith, who is president of Tesoro Crude Oil Company, Mr. Reed Williams, who is vice

president of the working [indiscern.]. In the event you have any specific questions on crude oil, I'll ask him to answer those. In the interests of conserving time and on the presumption that perhaps we'll have the opportunity during committee hearings in the future to go into greater detail on this, I'll just make very brief comments and ask you to ask me questions, and perhaps that communication dialogue would be the most efficient way.

Tesoro Alaska is a very formidable competitive force in Alaska. We supply or have the capacity to supply over a hundred percent of the gasoline that is required in the state currently. We started with an 18,000-barrel-a-day refinery in Kenai in 1969 and expanded it to almost 50,000 barrels a day currently. We did this on the basis of a relatively small Cook Inlet royalty contract, and each expansion thereafter was not accompanied by a request for any kind of subsidy, any kind of assistance, other than the opportunity to be able to buy royalty oil at a price competitive with what other in-state refiners were paying for royalty crude. This effort to get a royalty crude contract is not our first. As a matter of fact, we were a respondent in 1977 at the same time that North Pole Refining requested royalty crude - ANS royalty crude - and for a variety of reasons our

contract at that time was not approved and submitted for legislative review. The reasons for various. We did not press the issue at that time because conditions were not too dissimilar from conditions that exist today, and in our unwisdom we assumed that perhaps things that were weak would kind of remain weak for some time in the future and therefore we would have no crude supply problems in the future; so we really did not push the issue. In hindsight we should have. We were remiss in not having done so. The fact is that our rapid growth and our aggressive marketing strategy and penetration of the market in pretty substantial fashion have resulted in a creation of a very vulnerable atmosphere for us. We now, as I say, have the capacity to run at a rate approaching 50,000 barrels a day. As a matter of fact we've operated our refinery in excess of 50,000 barrels a day on numerous occasions; but our crude supply is now largely foreign and spot market based. We still have the Cook Inlet crude supply which is diminishing rapidly. The state forecast and our own forecast indicate that the fields are apt to be depleted by 1986, 1987. The depletion curve is dropping production at the rate of about -- in excess of one percent a month, so it's a very rapid decline in that availability. The first five months of this fiscal year we physically imported an average of

2,000 barrels a day of crude from Indonesia to run at our refinery. During that same period we imported 1,600 barrels a day of crude from other foreign sources to give to the existing Cook Inlet producers in exchange for their Cook Inlet supplies. The remainder of the Cook Inlet that we're processing we secure by buying crude in the Lower 48 from independent and major producers on short-term contracts, some of which - or most of which - are subject to about a thirty-day cancellation clause. So a large percentage of our crude supply is, number one, foreign based, therefore the economics are a reflection of foreign prices rather than domestic prices; and secondly, from domestic sources that are subject to very brief and abrupt interruptions. Now, that kind of condition makes the very nervous debater that we have become, and certainly considering the possibility of expanding our refinery further makes us think very, very seriously about the necessity to have a large percentage of our crude supply under contract from a source that is relatively secure and one that is not subject to the whims and wild price aberrations that we have found to exist from foreign suppliers. You may recall that in the '79-80 period the Libyans, the Algerians, and the Nigerians ran their prices up to in excess of forty dollars a barrel just because the market was demanding it. They

demanded it and they got the price. There wasn't any other oil available. The contract that is being proposed gives us the assurance of a long-term supply and gives us relative price stability. It probably will not be interrupted. The interruptions can occur just because of the whims of a host government. The government may change in Nigeria and they may decide they don't want to sell us crude anymore. It may be changed by our own government, and we had a poignant example of that just a couple of weeks ago when the president said no more imports of crude oil from Libya. Had we been a buyer of Libyan crude, we would have been deprived of that crude source. So that vulnerability at the size that we're currently operating and at the potential size that we might go to is extremely critical to us.

We do have crude supplies that have been brought up from time to time and questions raised about it and I think I'm compelled to answer those. One, as I mentioned we do produce crude oil in Indonesia. That production is currently slightly less than 4,000 barrels a day and we bring a lot of it to Alaska to physically run to augment our supplies. [End of tape] ... and we own 49.9. The government also owns a refinery on the Island of Trinidad and exercising their majority interest they have directed that that crude

oil is to be supplied to their refinery for supplying their own island needs, so we have never had and never in the future, for all practical purposes, will have access to that crude oil.

With respect to the possible expansion of our refinery, this is a project that we started working on in November of 1981. We did quite a bit of research on projected market growth in the State of Alaska to try to determine the size that we might go to. We tried to determine the kind of product mix that might be needed in the state in terms of diesel or turbine fuel or gasoline, and on the basis of that started doing the preliminary engineering for putting together a plant initially thought to be possibly at 70,000 barrels a day. That would be large in this market. It would be planning for like 1995, 1998 type of demands in the state. It is possible that we may settle out on a smaller capacity - something in the range of 55 or 60,000 barrels a day. We simply don't know yet. One of the key elements in our decision was what happened to the royalty board recommendation during this proceedings. Obviously, if Doyon were to build a refinery in Fairbanks, and build at capacity to market gasoline there, because it costs us eight or nine cents a gallon to railcar gasoline from Anchorage to Fairbanks, we would be effectively stopped from penetrating that

market. We would probably lose the interior market to Doyon, as has been the case with the diesel fuel and turbine fuel that's manufactured by North Pole Refining. So what happens here is of critical importance to us in determining what kind of plant and the capacity of that plant that we build at Kenai.

The other fact is that we have been trying to determine, as Mr. Haynes has pointed out, what to do about the bottom of the barrel: the residual fuel. All forecasts indicate that the West Coast utilities, who is the largest single user of residual fuel, are going to have abundant supplies of natural gas. They will have coal-powered electricity wheeled over from Arizona. Their nuclear programs may or may not come on stream, but will make some contribution. All those things have to be taken into consideration. Once you have done that, then you try to analyze what you do with that residual fuel. In our case, our decision is that we will probably have to destroy it in some fashion. We will either have to make petroleum coke out of it, or we will have to use a process - a hydrogenation process - that will convert it into additional turbine fuel and gasoline and diesel. We are currently running pilot plant operations on the feedstock from our refinery to make that decision. Union Oil Research is the licensor of our first

hydrocracker at Kenai. We are working with them as a potential licensor for the second one that would have to be built. We've engaged people like Graveaux [ph], who are materials handling specialists, to go to Kenai and do preliminary engineering on coke handling requirements, which incidentally are quite stringent and quite costly to operate in this environment to deal with the moisture content of coke that you have to deal with in the process of manufacturing. We have therefore made no decisions yet on which processes we should choose to enter into and which we should choose to build. Concurrently, our corporate finance group is meeting with financial institutions and banks to determine the form of and the best way and the most efficient way to handle the financing of these fancy projects. All these things will probably start coming together and decisions will be made sometime within this year. One of the obligations under our contract is to report to the Commissioner of Natural Resources from time to time on the progress of our evaluation and planning and development. This proposed ANS contract, as I say, will remove a lot of the vulnerability that we face now and will I think keep us a formidable competitor in the state. Besides the product that we market to our own brand of dealers we operate from service stations, we are a large supplier to the other

marketers in the State of Alaska, and as such we think we save them transportation costs they would otherwise incur, thereby permitting them to market, unfortunately competitive with us. We hope to become or hope to continue to be a formidable competitive force in the marketplace. I would say that there is a difference between ourselves and the other proposals that were received, and as has been our tradition all along, is that we're not proposing to do something in the future. We have done it. We are doing it. We built a sixty-million-dollar-hydrocracker reformer complex that was completed last year without anything ... [indiscern.; someone coughing] ... encouragement from the state, from the administration to go ahead and do it because the state is not going to let you hang out on the line if you really need some help; we encourage you to do it; we need the jobs, we want the tax base, we want all of the thing that that kind of a development will bring. And we have done it, so we're not asking for something to be done in the future - no pie in the sky. It's there and it's being done and if we do the modification and expansion that we're talking about, we'll simply kind of do it because it's a good, economically viable project, and not because it would give us an opportunity to get crude oil and not because of some subsidy that might be available to us. We don't

believe that if a project is not viable on its own merit, that creating a subsidy for it will do nothing for its long-term viability. As a matter of fact, you simply give it crutches and make it weaker and unable to compete in a competitive environment. We are in a competitive environment today and many people who have not been in the business very long have forgotten how to live and operate in this environment.

I think that Tesoro Alaska's record for integrity in its business dealings with the State of Alaska and the performance on the contract it has had with the state is a record that is totally unblemished, and it's our obligation and our intention to maintain that unblemished record in the dealings with the state on this contract and anything that may emerge from it. Thank you.

CHAIRMAN WALFORD: Senator Fahrenkamp.

SENATOR FAHRENKAMP: Dennis, we heard yesterday that there could be anywhere from a one to three cents a barrel - could be now, with the way the markets run et cetera. If you have this long-term contract that has some security of not having to mess with other governments and some type of security of having a source of supply, will there be any chance of that being reflected towards the people of the state at the pump, so that

the people of the state see this reflection and know we're here?

MR. JUREN: Well, I think you would probably either think me a fool or a liar if I pretended to say that I knew what prices in the future might be, because there are almost an imponderable number of variables that affect price, not the least of which of course is the cost of the raw material, but that is only one thing. There is also the cost of manufacturing, the price escalation of our natural gas that we use for refinery fuel, labor cost increases, and of course, the most important of all, competition. What does competition do to pricing? So to say that if you lower my cost ... [indiscern.; someone coughing] ... dollar that the price at the pump will drop a dollar . .

SENATOR FAHRENKAMP: Oh, I wouldn't say that.

MR. JUREN: ... no one can really, in all honesty, project that. I think what it would do for us is, as I mentioned there were times in the past where we have materially had to reduce runs. During the real tight market and very expensive market of '79-80 we had cut back around 38,000 barrels a day. It's not that there wasn't any crude. Crude shortages are really economic shortages, and not absolute shortages. If you wanted to pay a hundred dollars a barrel during the peak of the crisis you could have bought a barrel of crude, but

it doesn't mean that you could have refined it and profitably sold the product from it. So what we see this as having a tendency to do is to mitigate the abrupt price movements that occur in shortages and give us an opportunity to remain competitive in the marketplace and not lose our competitive position. If our crude cost goes up extraordinary, and we try to pass it through by holding prices higher than competition, we'll soon be out of business. People will simply not buy from you if you're consistently higher than your competitors. Currently we are very competitive on our pricing. In most cases we're below our competitors, and like to stay there because that gives us the advantage that we need to penetrate new markets that we're not into. That's the only way you can penetrate a new market is to lower the cost. Quality certainly is a factor but when you get right down to it price is the main determinant in buying or selling petroleum products, even on the streets. I didn't perhaps answer your question fully, but I'll say I don't think anyone - any reasonable person - would try to - he shouldn't because he simply cannot know all the imponderables - to say that X reduction in price will yield X reduction or a percentage of X reduction in the selling price on the street. I simply couldn't know that.

SENATOR FAHRENKAMP: As I understand your answer, then, you're saying that you will do whatever you can to stay competitive or [indiscern.] competitive ... [indiscern.; simultaneous conversation] ...?

MR. JUREN: Absolutely. Our intention is to grow. We're not content with being a 48,000-barrel-a-day refinery. We'd like to be a 100,000-barrel-a-day refinery if the market will let us.

CHAIRMAN HALFORD: [Indiscern.]

SENATOR GILMAN [?]: Dennis, in your gasoline marketing, what percentage do you sell to other suppliers? In other words, how much of the gasoline goes to Tesoro and Union - not Tesoro, but Texaco and Union?

MR. JUREN: This is of a public record from the state tax reports which we monitor to see what our market penetration is and we currently have somewhere between twenty-five to twenty-seven percent of the market. Tesoro Alaska does, direct. That would indicate that the remainder is supplied to people like Chevron and Union and Texaco and independent jobbers and distributors who don't market under our brand or don't market our product directly. As I mentioned, we have the capacity to supply the total requirement in the state, but from a practical purpose probably never will. The reason for that is - here in the southeast for example. This market can be more competitively supplied from

refiners in the Puget Sound area than it can by us hauling product by barge back around from Kenai. So of the total market, we simply can't capture it unless we can break the code on transportation costs to find out a way to get it down here competitively with those northwest refineries. It's the same with diesel fuel. As I mentioned before, the North Pole refinery has essentially captured the interior market. There's no way I can penetrate that paying the kind of transportation costs I've got to pay to get it from Anchorage to Fairbanks. In terms of the market we serve, which is the lower railbelt - Anchorage area, Kenai Peninsula area - as an example we supply about seventy-five percent of the aviation turbine fuel used at the Anchorage International Airport, which is a very substantial percentage. The fact that we don't supply a hundred percent of it either direct or through a Texaco or Chevron, is one of the driving forces to build a unit at the refinery to make more turbine fuel - simply because there is a vacuum that must be supplied either by North Pole hauling product down from Fairbanks, at great cost to them, or people actually importing products from the Lower 48 or from offshore to Alaska; so there is still a market vacuum in turbine fuel that we desire to fill, and we're nearest to that in efficiency

and it's logical that it would make good economic sense for us to do it.

SENATOR GILMAN [?]: The point that I was trying to make is, though, that you do sell the raw gasoline to the other companies and they then put their additives in it and market it.

MR. JUREN: Right.

CHAIRMAN HALFORD: One thing that's been brought up is the potential loss to the state in royalty and severance because of the possible offset in the future pricing system of West Coast to Gulf Coast, and I wonder if you could respond to that. That's something that I think some people might consider to be a subsidy although you actually pay the average price anyone else pays. There at least could be some reduction in revenue to the state, and I wonder if there's also another side to that question.

MR. JUREN: Yes, there's a multitude of facts to it. As Commissioner Katz yesterday explained, and Deputy Commissioner Haynes did, the penalty that they've illustrated - \$10 million - is representative of the market value that exists at a point in time, and this may be representative of market values that exist at this point in time. However, as I also explained, that's simply selecting somewhat arbitrarily a point and saying this is the way it's going to be forever.

That is not the way necessarily that it's going to be forever. Traditionally, Gulf Coast prices have been higher than West Coast prices. In glut conditions and surplus conditions prices tend to float around an equalized basis, especially since decontrol and the fact that U.S. crude prices and world crude prices are established in a somewhat equilibrium level. You could go back in time and analyze over a period of ten years and probably discover that there were periods in the past where the differential was the opposite of what was presented yesterday, and that there might be a significant benefit accruing from shipping to the Gulf Coast versus shipping to the West Coast. So, you've got a package of numbers and you can almost make any kind of projection that you in your own mind think is the most reasonable projection for the future, and come up perhaps with a penalty and come up perhaps with no penalty or come up with a benefit. I don't venture to say, again, that I can forecast the future or know what the future price might be of oil or what the relationship might be of that oil. I have no way to tell whether a barrel that we would take and trade would displace a West Coast barrel or would displace a Gulf Coast barrel. Obviously, if it displaced the Gulf Coast barrel it would have a positive impact rather than a negative impact. In the expansion that we just

completed, we added somewhere in the range of twenty or twenty-one new employees in the refinery and four or five professional people - chemical and mechanical engineers - and several staff members. Our employees make -- The top people in the refinery make in the magnitude of \$40-45,000 a year or more, and the lower level ones make \$18-20,000, and the average might be \$35,000, so we've got roughly a million dollars that we've added. If you use the old chamber of commerce multiplier of five to one, we've added \$5 million worth of benefit to the community through the expansion we just completed, notwithstanding the tax base that was created by a sixty-million-dollar improvement added to the refinery. So I presume the commissioner in going through his exercises would be able to document these things as far as the trade-off is concerned, but not notwithstanding those trade-offs, trying to project the future market values on the Gulf Coast or the East Coast or the West Coast or price F.O.B. Valdez is something that you simply can't do. If you told me in 1979, 1980, and we were a victim of our lack of foresight, we bid in the auction on the ANS royalty crude and we got an award at a premium of \$1.91 a barrel over the in-value price. As it turned out about the time delivery started a few months later, the market had fallen and we could have bought that same oil on the

spot market for four or five dollars a barrel less, so we didn't. We had a contract with the state which we performed against, and we paid the \$1.91 premium. The state was the beneficiary in its treasury to that extent, but our customers suffered a penalty because they could have been buying gasoline and diesel cheaper. Because we did not have the opportunity to buy the spot market oil to lower the cost of crude we were stuck with the higher priced oil. Conversely, had you told me then that there would have been a drop in the magnitude of the drop that's occurred that today you could buy North Slope crude delivered to the Gulf Coast for twenty-six dollars a barrel I would have told you then you were equally crazy. It's just almost impossible in the kind of world that exists today to try to forecast what it might be.

CHAIRMAN HALFORD: So basically, even at the worst case of West Coast displacement, your net benefit to the state substantially exceeds that worst case.

MR. JUREN: Yes.

CHAIRMAN HALFORD: For example, we've had an import tariff or some stabilization in the world market which has got to happen at some point. I don't think we'd look at a twelve-year contract where you can assume that we're going to be in the same kind of situation we are now. Production has to go down, and price has probably got

to adjust somewhere along the way. At that point, then the differential between West Coast and Gulf Coast isn't going to be there and that loss isn't going to be there - or that potential loss isn't going to be there - but the benefit which exceeds the maximum loss is going to be there throughout the entire period.

MR. JUREN: Yes. We share that feeling, incidentally.

Obviously, we would not be even attempting to get a long-term supply of crude if our attitude was that crude supplies would remain abundant and weak forever. In doing the research for our project, we engaged several consultants, one of whom incidentally does some work for the State of Alaska, Walter Levy and Company, and asked him to give us his projection of worldwide crude supply and demand balances. His conclusion was that there will be periods of surplus and periods of shortage but the periods of shortage would probably be more frequent and of greater amplitude and price movement than would the periods of depression and surplus, and I think that's somewhat the conventional wisdom of the people that are knowledgeable in petroleum economics and it's on that basis that we feel it's critical that we have a contract to support us.

CHAIRMAN HALFORD: We've got about ten minutes left in the session. Does anyone have any further questions?
Representative Cotten.

REP. COTTEN: Why are you in such a different position compared to Doyon when we talk about return oil? You don't seem to be very concerned about it.

MR. JUREN: Well, I'm very concerned about it. We have through either foresight - I like to think it's through astute management, but it's probably more luck than anything else - entered into a contract with San Diego Gas and Electric.

REP. COTTEN: Oh, you've already sold it?

MR. JUREN: We have ...

REP. COTTEN: You've already got a contract?

MR. JUREN: We have been selling them since 1972 and we have renewed the contract on about a three-year [indiscern.] period. The contract that we have will expire in 1984. The fact that if residual fuel markets do not strengthen, as forecasts now indicate they won't, we've got the same they've got, and our solution to that problem is to convert the refineries that process that bottom of the barrel into something else. We don't have access to the Trans Alaska Pipeline to serve as a place to physically put it. A guaranteed market -- We may not like the price but at least we've got a guaranteed market.

REP. COTTEN: I didn't realize you had a contract with them. I just have one other question. If you were to

purchase from one of the other producers today, wouldn't you have to pay more than the average weighted price?

MR. JUREN: Jim, do you want to respond to that? As I mentioned, Jim is president of our crude oil company.

MR. SMITH: Representative Cotten, I think that that all depends on which day that you tried to cover that contract. If today we were buying, and it would depend on the willingness of the producer to sell to us on a very short-term or a long-term basis, which the fact of the matter is is not going to be a viable opportunity, because they are not willing to sell the oil on a long-term basis ... [indiscern.; not at microphone] ... twelve years ... but we in fact are buying today spot crude oil - ANS crude oil - from Sohio and the price that we pay Sohio is higher than what we probably could buy it from either Arco or Exxon, but they ... price ... [indiscern.] ... station one; but they weren't willing to sell to us at that time, so I think the exhibits of the price relative to Sohio show that they are always - in most every case have been - a higher priced seller, a higher ... Pump Station One than anyone else, so I suspect that we're paying a higher price today to Sohio than we would pay to one of the other suppliers.

REP. COTTEN: What about in relation to the average weighted price?

MR. SMITH: Well, by virtue of their having the highest price and having the highest volume of oil in the average, their price would be higher than the weighted average price.

REP. COTTEN: Thank you.

CHAIRMAN HALFORD: If we haven't got any further questions, we're all going to have to go to our respective sessions. We thank you very much, and I hope DNR will be getting some more information back to us. Thank you.

[End of meeting.]

Royalty oil file

ALASKA ROYALTY OIL & GAS DEVELOPMENT ADVISORY BOARD
MARCH 25, 1982 MEETING
TRANSCRIPT - DISCUSSION OF THE DOYON, LTD. CONTRACT
(BEGINNING DISCUSSION IMMEDIATELY FOLLOWING INTRODUCTION OF
RESOLUTION BY DR. TRIPLEHORN)

COMMISSIONER KATZ: MR. CHAIRMAN?

CHAIRMAN LYON: YES, COMMISSIONER KATZ.

COMMISSIONER KATZ: LET ME SPEAK A LITTLE BIT ON THAT RESOLUTION. I DON'T DISAGREE WITH THE CONCLUSION IN THAT RESOLUTION. I GUESS MY REASONS WOULD BE A LITTLE BIT DIFFERENT. FROM OUR POINT OF VIEW, ONE OF THE VERY MAJOR PREMISES THAT GOVERNED THE NEGOTIATION OF OUR CONTRACT WITH DOYON HAS CHANGED AND I'VE HAD A DISCUSSION WITH THE CHAIRMAN ABOUT THIS AND I WANT TO GET IT OUT ON THE TABLE. FOR ME THE ONLY ISSUE REALLY IS TIMING. WHEN WE NEGOTIATED THIS CONTRACT DOYON WAS MOVING FORWARD VERY RAPIDLY TOWARD THE CONSTRUCTION OF A REFINERY AND ALL OF THE COMPONENTS THAT WE SAW OR THAT WE THOUGHT WERE NECESSARY WERE THERE. SINCE THAT TIME VERY SERIOUS QUESTIONS HAVE ARISEN ABOUT THE FINANCING OF THE DOYON PROPOSAL. AT THE TIME WE NEGOTIATED THE CONTRACT CONSTRUCTION FINANCING WAS IN PLACE. THE EQUIPMENT HAD BEEN PURCHASED AND THE SITE HAD BEEN ACQUIRED. IN THAT SITUATION WE DID'NT FEEL THE NEED FOR BENCHMARKS OF THE TYPE THAT EXISTED IN THE ALPETCO ARRANGEMENT AND HAVE ALWAYS FELT THAT THE STATE WAS IN A DIFFICULT POSITION TO ACCESS REALLY WELL COMMERCIAL BENCHMARKS. BUT THE COMMITMENT OF A MAJOR ALASKAN COMPANY IN THE THREE RESPECTS THAT I MENTIONED WE FELT WAS ADEQUATE ASSURANCE BECAUSE THEY HAD AN ECONOMIC SELF-INTEREST IN PERCEIVING OVER AND ABOVE THE GOVERNMENT' SORT OF LOOKING OVER THEIR SHOULDER. I SHOULD EMPHASIZE THAT IN OUR JUDGEMENT WE'RE NOT CONFRONTING ANYTHING THAT APPROXIMATES THE ALPETCO SITUATION. THE STATE OF ALASKA IS PROTECTED AT THE FRONT AND BACK END OF

EVERY ONE OF THESE CONTRACTS WITH REALLY ADEQUATE SECURITY INTERESTS. BUT WHAT DOES CONCERN THE DEPARTMENT OF NATURAL RESOURCES IS HAVING ANYBODY WITH A ROYALTY OIL CONTRACT AND NO REALLY REASONABLE PROSPECT OF BEING ABLE TO FULFILL THAT CONTRACT WITHIN A SPECIFIED TIMEFRAME. AND THEREFORE THAT WOULD VIOLATE ONE OF THE MAJOR 13 OR 14 POLICIES THAT WE'VE TALKED TO THE BOARD ABOUT, WHICH IS THAT THE STATE SHOULD BE IN THE BUSINESS OF PROVIDING ROYALTY OIL ONLY TO ENTERPRISES THAT SEEM TO BE IMMINENT IN NATURE. FOR ME THE CRUCIAL ISSUE HAS BEEN ONE OF TIMING, AND THE BOARD HAS A DIFFERENT RESPONSIBILITY THAN I DO. HERE'S WHERE THE BOARD MUST SPEAK AND I CAN UNDERSTAND THAT EVERY MEMBER OF THE BOARD MAY WANT TO SPEAK NOW. THE COMMISSIONER OF NATURAL RESOURCES FOR BETTER OR WORSE MAKES THE TRANSITION NOW FROM HIS EX-OFFICIO MEMBERSHIP ON THE BOARD, TO PARTICIPATING VERY ACTIVELY IN THE LEGISLATIVE PROCESS. AND AS I ADVISED DOYON WHEN WE SENSED THAT THE FINANCING SITUATION HAD CHANGED, I FEEL MORALLY COMPELLED AT SOME POINT IN THE LEGISLATIVE PROCESS AND CERTAINLY BEFORE THE GOVERNOR TO APPRAISE THE LEGISLATURE AND THE GOVERNOR THAT THE CIRCUMSTANCES HAVE CHANGED. SO THE ONLY ISSUE FOR ME WAS ONE OF TIMING. I COULD LET THE PROCESS GO A LITTLE FURTHER AND STILL COMPLY WITH WHAT I THINK ARE MY STATUTORY OBLIGATIONS AND THE ROLE THAT I'D LIKE TO PLAY WITH THE LEGISLATURE. I CAN UNDERSTAND THAT YOU ARE IN A DIFFERENT ROLE, YOU MUST SPEAK NOW OR IN ESSENCE HOLD YOUR PEACE. I WILL SAY ONE OTHER THING, ALL THAT IS - ONLY TO SAY THAT WHILE I HAVE NO PROBLEM WITH THE CONCLUSION, I MIGHT STATE SOME OF THE FINDINGS A LITTLE BIT DIFFERENTLY. ONE OTHER THING WORTH MENTIONING, WE ARE NOT CERTAIN AND DID NOT TRY TO INDICATE AT ANY POINT IN THE JUNCTURE THAT TWO

REFINERIES ARE VIABLE IN THE FAIRBANKS AREA. THEY MIGHT BE. DEPENDING ON WHICH MARKETS THEY DECIDE TO EXPAND INTO, WHERE THEY COMPETE AND IT SHOULD BE NOTED THAT EVEN NOW THE COMPETITIVE MARKETPLACE FOR MAPCO FAR TRANSCENDS THE INTERIOR. THERE ARE OPPORTUNITIES TO CREATE MARKETS IN OTHER PARTS OF THE STATE SO I WOULDN'T SAY CATEGORICALLY THAT TWO REFINERIES COULD NOT COMPETE BUT THE PHILOSOPHICAL STANCE THAT WE BROUGHT TO THE ISSUE, JUST SO THAT IT IS OUT BEFORE THE BOARD TO CONSIDER, IS THAT PERHAPS THAT'S NONE OF THE GOVERNMENT'S BUSINESS. AS LONG AS THE GOVERNMENT IS PROTECTED IN ALL PHASES OF THE PROCESS THROUGH ADEQUATE SECURITY INTERESTS AND EVERYTHING ELSE, SHOULD WE SECOND GUESS THE DECISION OF A CAPITALIST OPERATING IN HIS OWN SELF-INTEREST. THAT A SECOND REFINERY IN FACT COULD BE VIABLE IN THE FAIRBANKS CONTEXT AND FOR THAT REASON WE CHOSE TO FOCUS OUR ATTENTION ON THE SECURITY INTERESTS AND OTHER ASPECTS. THE LAST THING I'LL MENTION AND DOYON'S ATTORNEY IS HERE AND CAN SPEAK TO THIS ISSUE, IS THAT I THINK THAT DOYON REASONABLY EXPECTED THAT AT LEAST SOME MEMBERS OF THE BOARD MIGHT HAVE A REAL CONCERN ABOUT IT'S CURRENT FINANCING SITUATION, BUT I FELT THAT IF YOU COULD ARTICULATE THAT VERY CLEARLY IN YOUR FINDINGS AS PERHPAS THE PRINCIPLE REASON FOR YOUR DECISION, THAT THAT MIGHT GIVE THEM A LITTLE BIT MORE TIME. AND THEY ARE VERY ACTIVELY ENGAGED NOW IN TRYING TO PUT THEIR FINANCING BACK TOGETHER. WHETHER THAT WILL BE POSSIBLE IS ANYBODY'S GUESS AND IS A LITTLE BIT PROBLEMATIC I THINK AT THIS POINT, BUT AT LEAST THAT WOULD IDENTIFY FOR THE LEGISLATURE YOUR CRITICAL CONCERN AND IF IN FACT THAT CONCERN WERE MET LATER IN THE PROCESS PERHAPS THE CONTRACT COULD GO FORWARD. THAT WORKS, WELL THEORETICALLY

THERE ARE SOME PROBLEMS WITH IT PARTICULARLY WITH THE BOARD BECAUSE YOU DON'T PARTICIPATE AS ACTIVELY AT SOME SUBSEQUENT JUNCTURES OF THE PROCESS ALSO, TIME IS TIGHT RIGHT NOW AND WE'RE NOT SURE - HOW DO WE ON A VERY EXPEDITED BASIS ASCERTAIN WHETHER THE FINANCING IS THERE OR NOT. BUT I JUST WANTED TO GET THEIR CONCERN OUT ON THE TABLE, BUT MORE IMPORTANTLY TO INDICATE FROM DNR'S POINT OF VIEW THAT THERE IS NO PROBLEM WITH THE CONCLUSION OF COMMISSIONER TRIPLEHORN'S RESOLUTION AND WE MIGHT QUERY ONLY A LITTLE BIT A COUPLE OF THE PRELIMINARY FINDINGS.

CHAIRMAN LYON: DON.

TRIPLEHORN: COUPLE OF POINTS MR. COMMISSIONER. I MOVED THIS IN PART FOR PURPOSES OF DISCUSSION, AND I WANT TO EXPLORE A COUPLE OF ASPECTS OF IT. BUT I THINK PERHAPS WE CAN CLEAR SOME OF THIS UP IN THE SENSE THAT MY MAIN CONCERN IS ONE OF TIMING AND IF I MAY AMEND MY OWN RESOLUTION, I WOULD LIKE TO DELETE A & B IN THAT I AGREE THAT IT'S NONE OF OUR BUSINESS THAT THIS JUNCTURE AND I'M NOT SURE THAT "B" IS ACTUALLY TRUE IN ANY CASE - THAT THEY HAVE NOT MADE ANY ATTEMPT, PERHAPS THEY HAVE MADE AN ATTEMPT. BASICALLY, I WOULD LIKE TO FOCUS ON THE TIMING ASPECT AND I WOULD LIKE TO DELETE A & B AND SO MOVE.

CHAIRMAN LYON: OKAY.

COMMISSIONER WILLIAMS: YOU'VE DONE IT. THERE IS NO OBJECTION FROM THE SECOND.

TRIPLEHORN: WHO SECONDED IT?

COMMISSIONER WILLIAMS: I DID THAT'S WHY THERE'S NO OBJECTION.
I HAVE NO OBJECTION MR. CHAIRMAN.

CHAIRMAN LYON: SO ORDERED THEN. FROM A METHOD STANDPOINT, I
THINK ENOUGH MEMBERS OF THE BOARD WILL BE HERE IN JUNEAU TOMORROW
IF WE NEED TO CARRY OVER THIS CONSIDERATION. I DON'T KNOW THAT
THAT'S NECESSARY. I - BOTH DR. TRIPLEHORN AND I ARE HERE, I
BELIEVE COMMISSIONER WEBBER'S LEAVING AND COMMISSIONER WILLIAMS
ARE YOU AROUND?

COMMISSIONER WILLIAMS: AROUND, BUT NOT NECESSARILY AVAILABLE.

CHAIRMAN LYON: OKAY. I'M GUESSING IT WON'T BE NECESSARY BECAUSE
I THINK WE CAN SPEAK TO THIS. DO YOU HAVE SOMETHING ELSE TO AMEND
IN YOU. . .

TRIPLEHORN: I MERELY WANTED TO EXPLORE THAT ASPECT IF I COULD.

CHAIRMAN LYON: CERTAINLY.

TRIPLEHORN: IF I COULD ASK THE COMMISSIONER. IN A WAY I'LL ARGUE
AGAINST MY OWN RESOLUTION BUT WOULD WE DO ANY HARM TO DOYON'S PROJECT
BY TURNING THAT CONTRACT DOWN OR WE COULD ANSWER THAT EITHER WAY.
WHAT WOULD BE THE IMPLICATIONS OF APPROVING THAT CONTRACT AND IF

THEY LET'S SAY, IS THERE A CHANCE OF THEM MEETING THE DEADLINE IN
HERE IS I THINK IT IS DECEMBER 1, IS THAT CORRECT? IS THERE ANY
CHANCE AT ALL THAT THEY COULD BE IN A POSITION TO TAKE THE OIL
DECEMBER 1.

COMMISSIONER KATZ: I THINK THAT THERE - I'LL TRY AND ANSWER BOTH
SIDES OF YOUR QUESTION. I THINK THAT THERE ARE TWO NEGATIVE ASPECTS
OF ACTUALLY APPROVING A CONTRACT. ONE IS THAT IN A SENSE THAT
WOULD BE UNFAIR TO OTHER PEOPLE THAT WERE INVOLVED IN THE
SOLICITATION BECAUSE WE SAID TO THEM YOUR PROJECT HAD TO BE
IMMINENT AND THAT YOU HAD TO BE ABLE TO PROVE TO US THAT THERE
WAS A REALLY GREAT LIKELIHOOD THAT IT WOULD MOVE FORWARD. FOR
EXAMPLE, TESORO HAD SOME EXPANSION PLANS THAT I THINK WOULD BE VLRV
MUCH IN THE STATE'S BEST INTEREST BUT THEY'RE STILL IN THE ACTIVE
CONSIDERATION PHASE AND WE WEREN'T WILLING TO COMMIT THE STATE'S
OIL NOW. CERTAINLY I THINK IT MIGHT BE IN THE STATE'S BEST INTEREST
LATER. SIMILARLY THERE WERE A COUPLE OF PROJECTS PRESENTED I THINK
VERY PROMISING CONCEPTUAL PLANS FOR THE USE OF STATE ROYALTY OIL,
BUT THEY WEREN'T THERE YET - ADMITTEDLY A LITTLE FURTHER AWAY
THAN DOYON MIGHT HAVE BEEN. ANOTHER NEGATIVE ASPECT IS IF THERE
IS NO REASONABLE LIKELIHOOD THAT THE DOYON PROPOSAL WILL GO FORWARD
WE ARE COMMITTING THE STATE ROYALTY OIL FOR A PERIOD OF TIME. A
CLOUD ON TITLE. NOW I DON'T AT THIS MOMENT FORESEE ANY GREAT
LIKELIHOOD THAT THAT PARTICULAR OIL COULD BE WELL UTILIZED FOR
ANYTHING ELSE IN FACT AS WE'VE DISCOVERED GOING THROUGH A
SOLICITATION IS VERY ARDUOUS AND TIME CONSUMING BUT NEVERTHELESS
THAT DOES EXIST. ON THE PLUS SIDE TO TRY AND RESPOND FULLY TO

YOUR QUESTION, DOYON IS VERY ACTIVELY ENGAGED NOW IN TRYING TO GET FINANCING AND AV GROSS CAN SPEAK TO THAT, I KNOW THAT THEY'RE IN TOUCH WITH ALOT OF PEOPLE IN AN EFFORT TO PUT IT TOGETHER I THINK THAT THEY FEEL THAT THEY WILL EITHER SUCCEED OR FAIL ON THE NEXT TWO OR THREE WEEKS AND I DO BELIEVE THAT IF THEY WERE SUCCESSFUL IN PUTTING IT TOGETHER AND BEING ABLE TO PROVE TO THE DEPARTMENT AND THE LEGISLATURE THAT THEY HAD IN FACT SUCCESSFULLY PUT THEIR FINANCING TOGETHER THAT IT WOULD BE IN THE STATE'S BEST INTEREST TO SEE THE CONSTRUCTION OF A NEW COMPETING REFINERY IN INTERIOR ALASKA NO MATTER WHETHER AT SOME SUBSEQUENT JUNCTURE ONLY ONE MIGHT ULTIMATELY EXIST. I SHOULD MENTION ONE LAST THING, ONE THING THAT GIVES US A LITTLE BIT OF TROUBLE ON THE NEGATIVE SIDE IS THAT WE FELT FOR VERY GOOD REASON AND I KNOW THAT AT LEAST ONE MEMBER OF THE BOARD WAS A LITTLE BIT CONCERNED ABOUT THIS POLICY THAT WE WOULD SUSPEND THE OPTION WEE POLICY FOR A PERIOD OF FOUR YEARS WHICH IS ROUGHLY THE TIME THAT MAPCO HAS HAD TIME TO PENETRATE THE MARKET. I FELT VERY COMFORTABLE ABOUT THAT POLICY IN AN EFFORT TO FOSTER THE ENTRY OF A NEW REFINERY. I FEEL LESS COMFORTABLE ABOUT IT IN THE CIRCUMSTANCE WHERE THERE ISN'T IMMIDENT PROGRESS TOWARD THE CONSTRUCTION OF THAT REFINERY.

TRIPLEHORN: I CAN'T SPEAK FOR THE OTHER MEMBERS OF THE BOARD, BUT PERSONALLY AND I THINK MOST PEOPLE WOULD AGREE WITH THAT WE WANT TO ENCOURAGE THE COMPLETION OF THE REFINERY AND WOULD LIKE TO SEE THAT AND I HOPE THAT IN NO WAY A NEGATIVE INDICATION HERE WOULD BE CONSTRUED AS BEING ANY KIND OF NEGATIVE FEELING ABOUT THAT PROJECT. THE MAIN CONCERN IS ONE OF TIMING AND IF IT CAN BE DONE

LATER THE THING THAT DOES BOTHER ME IS THE IDEA, I THINK YOU EXPRESSED IT WELL, OF AN'BODY HOLDING ANY KIND OF A CONTRACT FOR ROYALTY OIL. . . I'M HOPING THAT IF THEY'RE READY TO GO WITH THIS LET'S SAY NEXT YEAR THAT IN A VERY TIMELY MANNER WE COULD RE-EXECUTE . . . ARGUING THE OTHER SIDE MOMENTARILY, WOULD THERE BE MUCH VALUE LET'S SAY AS A POSITIVE INDICATION TO DOYON TO GO AHEAD AND APPROVE THIS, SAY IT DOES PUT A CLOUD ON SOME OIL BUT YOU COULD SAY REALISTICALLY WE'RE PROBABLY NOT GOING TO DO ANYTHING WITH THAT ANYHOW. WOULD THERE BE MUCH VALUE TO THAT OR WILL IT BE CONSTRUED AS A NEGATIVE INDICATOR IF WE TURN IT DOWN?

COMMISSIONER KATZ: THERE IS NO QUESTION THIS DEALS AS SCIENTIFIC AND IMPERICAL AS BANKERS AND EVERYBODY ELSE TRIES TO BE, THERE IS A PSYCHOLOGICAL VALUE ON EITHER SIDE. IF YOU WERE TO APPROVE THE CONTRACT I THINK THAT WOULD BE OF BENEFIT TO DOYON IT WOULD BE A PSYCHOLOGICAL BENEFIT AND PROBABLY A SUBSTANTIVE BENEFIT TOO. WE HAVE TRIED TO FOLLOW THE POLICY NOT PERMITTING PEOPLE TO OBTAIN STATE ROYALTY OIL FIRST AND THEN SORT OF USING THAT AS A VEHICLE OR A LEVERAGE TO FINANCE THEIR PROJECT BUT YOU KNOW A CONTRAVENING SITUATION IS IF WE'RE CORRECT IT WOULD REALLY BE OF VALUE TO THE INTERIOR AND POSSIBLY TO THE REST OF THE STATE BECAUSE OF THE WAY THAT COMPETITION EMANATES FROM EACH FIXED SOURCE IN ALASKA THEN MAYBE IT'S WORTH THAT ABROGATION OF THE POLICY IN CONSIDERATION OF ANOTHER VERY IMPORTANT POLICY WHICH IS TO PROMOTE COMPETITION TO THE MAXIMUM EXTENT POSSIBLE. I THINK TOO THAT IT WOULD HAVE A NEGATIVE EFFECT ON DOYON'S CHANCES, IF TO RESPOND FULLY TO YOUR QUESTION, IF IN FACT THE BOARD WERE TO DISAPPROVE IT NOT THAT

THAT'S DETERMINATIVE, AGAIN EVEN THOUGH YOU MIGHT VERY CAREFULLY CONFINED THE REASONS FOR YOUR DISAPPROVAL AND CENTER ON THE FINANCING MATTER, THERE IS NO QUESTION THAT THE BANKING COMMUNITY WOULD REACT I THINK MORE - WOULD REACT TO THE PSYCHOLOGY AS WELL AS TO THE IMPERIOUSNESS OF THAT PARTICULAR DECISION.

CHAIRMAN LYON: I THINK THE DIFFICULTY COMMISSIONER KATZ, AT THIS JUNCTURE IF YOU WERE TO MOVE AWAY FROM THE POSTURE YOU'VE HELD THROUGH THE NEGOTIATIONS WITH THE OTHER 21 APPLICANTS THAT WE'D HAVE KIND OF A LEGAL PROBLEM BECAUSE YOU'D SAID TO EACH OF THEM I THINK ALL THE WAY ALONG NOW WE WANT COMMITTED OFFERORS ONLY AND NOW YOU SAY WELL WAIT A MINUTE THAT'S NOT QUITE TRUE AND IF I HAD BEEN A DISAPPOINTED APPLICANT I THINK I'D COME BACK TO YOU AND SAY NOW WAIT A MINUTE LET'S LOOK AT THIS THING AGAIN. YOU'RE WILLING TO SEE TO DOYON ON THIS BASIS THEN I'D LIKE TO BUY ON THE SAME BASIS. THAT'S I THINK WHAT TROUBLES ME I DON'T LIKE TO HAVE TO BE IN A POSITION OF DOING SOMETHING WHICH MAY BE USELESS. I THINK THAT THE BOARD HAS BEEN PRETTY STEADFAST AND THE DEPARTMENT HAS BEEN PRETTY STEADFAST IN TRYING TO PROVIDE MATERIAL FOR BONA FIDE IN-STATE USERS. IT'S NOT ALWAYS SUCCESSFUL BECAUSE YOU CAN'T ALWAYS MAKE THE DEAL BUT IN THIS CASE YOU DON'T KNOW THAT THERE IS ONE.

COMMISSIONER KATZ: AS A FORMER LAWYER I MIGHT FIND ENOUGH POINTS OF DISTINCTION. BUT CERTAINLY I AGREE WITH THE THRUST OF EVERYTHING THAT YOU SAID AND IT HAS BEEN AN ADAMANT POLICY OF DNR AND YOU. PRIOR EXPERIENCE WE'VE HAD TO OBSERVE THAT WE (TAPE RUNS OUT)

I DO THINK THAT AS COMMISSIONER TRIPLEHORN INDICATED ONE OF OUR OTHER POLICIES NO MATTER WHAT THE BOARD DECIDES WILL INURE TO DOYON'S BENEFIT AND THAT IS WE WILL RETAIN A SIGNIFICANT AMOUNT OF UNCOMMITTED OIL AND FROM OUR POINT OF VIEW THE ONE REAL GLICHE WHICH DID NOT EXIST BEFORE BUT EXISTS NOW IS THE FINANCING ASPECT AND EVERYTHING ELSE BEING EQUAL IF WE WERE SUCCESSFUL IN NEGOTIATING THE SAME SORT OF CONTRACT IN THE FUTURE AND THE FINANCING HAD BEEN RESOLVED I THINK IT WOULD BE IN THE STATE'S INTEREST -- BEST INTEREST TO ENTER INTO A NEW CONTRACT. IF WE'RE RIGHT IN THE MERITS OF THAT CONCLUSION THEN ANY SUBSEQUENT LEGISLATURE, GOVERNOR, COMMISSIONER WOULD HOPEFULLY COME TO THE SAME CONCLUSION.

CHAIRMAN LYON: WE'RE TALKING ABOUT AN ENTERPRISE WHICH WOULD CONSUME LET'S SAY ON THE ORDER OF A MILLION DOLLARS A DAY WORTH OF CRUDE OIL - NOMINALLY. THAT BEING THE CASE, I WOULD THINK EACH OF US WHO PARTICIPATED IN THIS COULD EASILY JUSTIFY ASKING THE GOVERNOR TO REQUEST A SPECIAL SESSION. THIS IS A MAJOR THING. IT IS IF - I COULD BE UNPOPULAR IN MY HOME TOWN, BUT IF SAY BY JULY THEIR SITUATION HAS CHANGED I DON'T HAVE ANY DISCOMFORT, WE'VE ALWAYS AS A BOARD TRIED TO WORK OUR DOINGS AROUND THE LEGISLATIVE SESSION NOW I DON'T THINK THAT'S REALLY NECESSARY. IT'S MORE CONVENIENT BUT IT'S CERTAINLY NOT - IF WE HAVE SOMETHING THAT IS CENTRAL TO THE SUCCESS OF THIS PARTICULAR ENTERPRISE I THINK EACH OF US COULD JUSTIFY TAKING THAT APPROACH.

TRIPLEHORN: IT MAKES IT A TOUGH ONE THE WAY - IF WE SHOULD PERHAPS HAVE A NEGATIVE RECOMMENDATION IN THIS CASE I HOPE THAT THE