

ALASKA LEGISLATIVE COUNCIL FILED 1900/2

1893 SRES ROYALTY OIL 3/25/82 - TIMBER BRIEFING 1/30/81

COMMISSIONER WOULD ACTIVELY PURSUE A CONTRACT WITH DOYON AT WHICH TIME THEY WOULD BE READY TO GO FORWARD AND I'LL BRING UP SOMETHING I DON'T KNOW IF YOU REMEMBER IS IN THERE AND THERE ARE WORDS IN THE LEGISLATION THAT SAY THAT THE BOARD CAN DIRECT THE COMMISSIONER. WE'VE NEVER TESTED THAT WATER YET TO SEE WHAT WOULD HAPPEN IF WE DIRECTED YOU TO DO SOMETHING AND YOU DECIDED YOU DIDN'T WANT TO DO IT. BUT AT ANY RATE SPEAKING FOR MYSELF IF YOU DIDN'T WE WOULD URGE YOU TO DO THAT.

COMMISSIONER KATZ: I WOULD DO IT.

COMMISSIONER WEBBER: MR. CHAIRMAN.

CHAIRMAN LYON: COMMISSIONER WEBBER.

COMMISSIONER WEBBER: COMMISSIONER IN THE FAILURE TO HAVE FINANCIAL CAPABILITY HOW IS THAT OUTLINED?

COMMISSIONER KATZ: WELL I DON'T WANT TO SAY MORE THAN I - I'VE LEARNED SOME OF THIS IN A CONFIDENTIAL RELATIONSHIP SO I'M GOING TO SAY IT A LITTLE BIT AND HOPE IF AV GROSS THINKS IT'S APPROPRIATE HE MIGHT ELABORATE. IT MANIFESTS ITSELF IN THAT CONSTRUCTION FINANCING WHICH WAS CLEARLY COMMITTED AT THE TIME OUR CONTRACT WAS NEGOTIATED, NO LONGER EXISTS AND AT THE TIME THE CONTRACT WAS NEGOTIATED WE WERE PRIVY TO THE DETAILS OF THOSE FINANCIAL COMMITMENTS AND FELT COMFORTABLE WITH THEM FOR A NUMBER OF REASONS

APPARENTLY THOSE COMMITMENTS HAVE LAPSED SINCE THE TIME OF THE NEGOTIATION OF OUR CONTRACT. WE HAD NO NOTICE AT THE TIME OR POSSIBILITY OF NOTICE IN MY JUDGEMENT THAT THAT COULD OCCUR.

CHAIRMAN LYON: DO ANY OF THE OTHER MEMBERS HAVE QUESTIONS OF THE COMMISSIONER? WOULD YOU LIKE TO. . . SURE. AV GROSS.

AVRUM GROSS: DO YOU WANT ME TO COME DOWN THERE?

CHAIRMAN LYON: YES, IT'S A LITTLE EASIER TO HAVE YOU ON THE RECORD.

AVRUM GROSS: I'LL JUST SAY A BRIEF WORD ABOUT THIS. JOHN'S GIVEN A VERY ACCURATE ASSESSMENT I THINK, WE'VE TRIED ALL THROUGH THESE NEGOTIATIONS TO KEEP THE DEPARTMENT OF NATURAL RESOURCES CLOSELY INFORMED AND I THINK, I HOPE JOHN AND GEOFF AND BOB FEEL THAT WE'VE DONE AN ADEQUATE JOB IN TELLING THEM EXACTLY WHAT OUR PROBLEMS WERE WHEN THEY HAPPENED AND TRYING TO BE AS OPEN ABOUT IT AS WE COULD. IN ESSENCE IT BOILS DOWN TO THIS. THAT THERE WAS FINANCING IN PLACE FOR THE CONSTRUCTION OF THE REFINERY, THE FINANCING IS NO LONGER IN PLACE, FIRMLY. THAT HAS TO DO WITH ALOT OF THINGS, SOME INTERNAL DOYON MATTERS OF WHICH I REALLY HESITATE TO PUT ON THE RECORD FRANKLY AND SECOND OF ALL THAT DOYON SHIFTED ITS EMPHASIS MIDSTREAM TO HOPEFULLY NEGOTIATE AND PICK-UP THE MAPCO REFINERY IN FAIRBANKS. THERE WERE EXTENSIVE NEGOTIATIONS ON THAT. THEY FELL THROUGH AT THE LAST MOMENT FOR A NUMBER OF REASONS AND NOW WE ARE IN THE PROCESS OF TRYING TO PUT

BACK TOGETHER THE FINANCING FOR THE ORIGINAL REFINERY. NOW THAT'S BECOME A LITTLE BIT DIFFICULT - MORE DIFFICULT THAN ORIGINALLY BECAUSE ONE OF THE MAJOR PROBLEMS IN NEGOTIATING THIS IS TO DO WITH THE RETURN OIL AS YOU PROBABLY KNOW, AND THE CHEVRON CONTRACT HOPEFULLY WAS GOING TO COME BEFORE THE BOARD WOULD HAVE DISPOSED OF THAT PROBLEM FOR US. IT DIDN'T. THROUGH NO FAULT OF ANYBODY'S BUT IT DIDN'T AND NOW WE HAVE TO NEGOTIATE A DISPOSITION OF THE RETURN OIL. SO NOW IT'S NOT ONLY GETTING THE FINANCING FOR THE ORIGINAL PROJECT BACK IN PLACE BUT ALSO FIRST OF ALL FIGURING OUT WHAT TO DO WITH THE RETURN OIL WHICH FOR - IS BECOMING CRITICAL. I WANT TO TELL YOU THOUGH THAT THIS IS NOT MERELY A CONCEPT. YOU USED THE TERM, I REMEMBER WHEN I HEARD - DOYON HAS A SUBSTANTIAL AMOUNT OF ITS OWN MONEY ALREADY INTO THIS PROJECT - THE LAND ACQUISITION, THE ENGINEERING, THE ACQUISITION OF EQUIPMENT. . . .

CHAIRMAN LYON: IF I IMPLIED THAT, I CERTAINLY DIDN'T MEAN TO IMPLY THAT. I KNOW YOU ACTUALLY ACQUIRED EQUIPMENT AND GROUND AND OTHER THINGS AS WELL.

AVRUM GROSS: THIS IS A PROJECT, THIS IS A REAL PROJECT WHICH IS SORT OF HALTED ALONG THE WAY BECAUSE OF THE FINANCING SITUATION BUT NONETHELESS IS NOT SIMPLY TRYING TO GET THE OIL OUT AND SPECULATE WITH IT THIS IS A REAL PROJECT. YOU HAVE A DIFFICULT PROBLEM, AND I UNDERSTAND IT AND I'VE TALKED IT OVER WITH JOHN AT SOME LENGTH AND I ONLY WISH TO POINT OUT A COUPLE OF THINGS. WE ARE IN A CRITICAL STAGE OF NEGOTIATIONS. TIM WALLIS FOR DOYON

HAS BEEN MEETING WITH PEOPLE CONTINUOUSLY FOR THE LAST COUPLE OF WEEKS. HE'S MEETING WITH INVESTMENT BANKERS IN FAIRBANKS ON MONDAY. HE WAS MEETING WITH PEOPLE ON THE RETURN OIL PROBLEM DOWN IN SEATTLE YESTERDAY. THERE ARE ALOT OF THINGS GOING ON IN THE DOYON CONTRACT RIGHT NOW AND I THINK THE POINTS YOU'VE RAISED ARE EXTREMELY VALID. JOHN & I DISCUSSED THE POSSIBILITY OF - THE BOARD HAS TO DEAL WITH THE CONTRACT RIGHT NOW IN TERMS OF IS IT A GOOD CONTRACT OR IS IT A BAD CONTRACT AND THIS IS THE ONLY TIME YOU'RE GOING TO BE DEALING WITH IT. YOU WON'T BE ABLE TO FOLLOW IT DOWN THE LINE IN ESSENCE TO SEE WHAT HAPPENS WITH THE FINANCING AND I UNDERSTAND THAT AT THE SAME TIME IT WOULD HELP US A GREAT DEAL IN RATHER CRITICAL NEGOTIATIONS THAT ARE GOING ON IF YOU COULD APPROVE THE CONTRACT IN ESSENCE YOU'RE MAKING A RECOMMENDATION TO THE LEGISLATURE AND SAY THAT - HOWEVER YOU PHRASE IT, THAT THE CONTRACT IS A GOOD ONE FROM THE STATE'S STANDPOINT ASSUMING THAT YOU HAVE A REFINERY WHICH CAN USE IT AND YOUR RECOMMENDATION IS BASED ON THE ASSUMPTION THAT THERE IS GOING TO BE AN OPERATING REFINERY, WHICH THE LEGISLATURE WILL BE REVIEWING ITSELF PRIOR TO ITS ADJOURNMENT. NOW IF THE LEGISLATURE DOES NOT ACT ON THIS THEN THERE'S NOT GOING TO BE A CONTRACT, SO IF, IT SEEMS TO ME THAT IF YOU SAY, YES, WE APPROVE THE CONTRACT BUT IN TERMS OF TYING UP THIS OIL WE DON'T WANT TO SUGGEST THAT IT BE TIED UP IF THERE IS NO REFINERY TO USE IT AND WE THEREFORE, URGE THE LEGISLATURE WHEN IT REVIEWS THE CONTRACT TO REVIEW WHETHER OR NOT THERE IS FINANCING IN PLACE FOR THE REFINERY TO GO AHEAD AND IF THERE IS NO FINANCING IN PLACE IF IT'S JUST SIMPLY A CONCEPT AT THAT STAGE OR A HOPE, WISHFUL THINKING, THEN DON'T APPROVE IT AT

THAT STAGE. BUT THE CONTRACT ITSELF IS GOOD AND THE BOARD APPROVES IT UNDER THE ASSUMPTION THAT THERE WILL BE FINANCING, THAT WOULD BE A VERY POSITIVE STEP AS FAR AS DOYON IS CONCERN BECAUSE WE DO HAVE AS I SAY, THINGS ARE IN A RATHER CRITICAL SITUATION AND IF YOU TURN IT DOWN I THINK JOHN'S COMMENTS ARE WELL TAKEN IT'S GOING TO BE READ AS A REPUDIATION OF THE ARRANGEMENT.

CHAIRMAN LYON: WOULDN'T IT BE - I HOPE THIS ISN'T A GRACELESS THING TO - COULDN'T THE CONTRACT JUST BE PUT IN A STATE OF SUSPENSE RIGHT NOW. ONE OF THE PROBLEMS IS THAT IT'S BEFORE THE BOARD - I CAN'T IN GOOD CONSCIENCE VOTE FOR IT EVEN UNDER THOSE CIRCUMSTANCES AV. THAT'S THE PROBLEM I HAVE BECAUSE WE'RE TALKING ABOUT SOMETHING WHICH WILL LEGALLY BE IN PLACE AND IT'S PROBLEM-ATICAL. ADMITTEDLY AS THE COMMISSIONER SAID OUR VOTE IS NOT DETERMINANT IT'S ONLY A RECOMMENDATION TO THE LEGISLATURE AND I HAVE A DIFFICULT TIME RECOMMENDING THIS EVEN THOUGH I WAS NURTURED IN THE OIL BUSINESS AND I HAVE TO BELIEVE IN COMPETITION AND IT'S USEFUL TO THE PUBLIC CERTAINLY AND PROBABLY USEFUL TO THE MANUFACTURERS - IT KEEPS THEM ALOT SHARPER. BUT I HAVE A TOUGH TIME WITH THIS ONE AND THE OTHER THING FROM JUST SPEAKING - FROM THE CONTRACT ITSELF I PERHAPS SHOULD GET SOME FEEDBACK FROM YOU. THE FOUR YEAR MORATORIUM IN THE RESERVATION FEE REALLY TROUBLES ME BECAUSE I THINK COMMISSIONER KATZ HAS MADE A HONEST, DIRECT, STRAIGHTFORWARD EFFORT TO KEEP THE STATE IN A POSITION OF MARKETPLACE NEUTRALITY AND I DON'T THINK THIS DOES AND THAT BOTHERS ME. HERE'S SOMETHING IN TODAY'S WORLD THIS IS THE ONLY WAY YOU CAN GET THIS PARTICULAR SUPPLY OF CRUDE AS FAR AS THE DEPARTMENT IS CONCERNED AND YET WE'RE SAYING NOW IT'S NOT TRUE IN THIS CASE BECAUSE WE

DIDN'T HAVE A SIMILAR FEE ON - FOR EARTH RESOURCES. WELL EARTH RESOURCES STARTED FUNCTIONING BEFORE THERE WAS STATE CRUDE OIL AVAILABLE TO IT.

AVRUM GROSS: WELL I CAN'T - I DID NOT NEGOTIATE THE MORATORIUM CLAUSE AND JOHN OF COURSE DID, AND I ASSUME THEY BELIEVED AS THE PEOPLE FOR DOYON BELIEVED, IT WAS IN THE BEST INTEREST OF BOTH THE STATE AND DOYON AND THE PROJECT TO DO SO IN AN EFFORT TO ENCOURAGE COMPETITIVE ACTIVITIES IN THAT AREA. BUT I THINK I SHOULD BEST LET THEM DEFEND THEIR TERM. MY ONLY POINT IS THAT IF YOU BELIEVE THE CONTRACT IS A GOOD CONTRACT AND IF YOU DON'T BELIEVE IT'S A GOOD CONTRACT THEN YOU'LL VOTE AGAINST IT BUT ASSUMING YOU DO THINK IT'S A GOOD CONTRACT IT SEEMS TO ME YOU COULD EITHER DISAPPROVE IT BECAUSE THE FINANCING IS NOT PERMANENT NOW OR YOU CAN APPROVE IT SUBJECT TO THERE BEING FINANCING IN PLACE AND ALL I'M TRYING TO COMMUNICATE TO YOU IS IT WOULD BE A MUCH MORE POSITIVE STEP IN THE PROJECT'S INTEREST TO APPROVE IT SUBJECT TO THE FINANCING COMING INTO PLACE WITH THE LEGISLATURE BEING IN A POSITION TO REVIEW THAT, THAN TO DISAPPROVE IT SUBJECT - WITH THE FINANCING NOT IN PLACE THEN LET THE LEGISLATURE SAY WELL NOW THE FINANCING IS IN PLACE NOW WE SHOULD APPROVE IT. EITHER ONE IT SEEMS TO ME DOES THE SAME THING ASSUMING THAT YOU LIKE THE CONTRACT IN THE FIRST PLACE AND THE FORMER WOULD BE A MUCH MORE POSITIVE STEP IN ASSISTING US TO GO AHEAD AND GET THE FINANCING SOLIDLY IN PLACE AND IT IS TIPPY RIGHT NOW. I MEAN WE'RE TRYING OUR BEST AND LITTLE THINGS DO HELP AND HURT. BUT IN TERMS OF THE RESERVATION FEE, I SUPPOSE I REALLY SHOULD REFER TO JOHN.

COMMISSIONER WEBBER: MR. CHAIRMAN. ONE THING YOU MENTIONED WAS IF THERE WAS NO ACTION TAKEN HERE AND FINANCING CAME IN THE BOARD THEN WOULD BE ABLE TO TAKE ACTION AND THIS THING COULD STILL GO TO THE LEGISLATURE BUT THERE'S A TIMING PROBLEM. I'M WONDERING IF THE SCENARIO WHICH YOU VERY SILENTLY MENTIONED IS AT ALL POSSIBLE. IS IT POSSIBLE TO LOOK AT THIS MATTER AGAIN IF THE FINANCING COMES INTO PLACE WHILE THE LEGISLATURE IS STILL IN SESSION.

CHAIRMAN LYON: WHAT I'M SAYING IS THEY HAVE A VERY DIFFICULT TIME WITH ANY QUESTION COINED IN TERMS OF - WE MUST DECIDE BEFORE THE LEGISLATURE ADJOURNS BECAUSE ALASKA'S GOING TO GO ON LEGISLATURE IN SESSION OR NOT IN SESSION. THE KIND OF PROJECT YOU'RE TALKING ABOUT IS PRECISELY THE REASON THE ROYALTY STATUTE WAS ADOPTED BY THE LEGISLATURE.

AVRUM GROSS: YOU MAY HAVE A DIFFERENT VIEW OF THIS, I PERSONALLY THINK IT WOULD BE RATHER DIFFICULT TO GET THE LEGISLATURE BACK IN SPECIAL SESSION PURELY TO APPROVE A CONTRACT OF THIS NATURE, NOW YOU MAY HAVE A DIFFERENT ASSESSMENT OF THAT.

CHAIRMAN LYON: WELL I DON'T PRETEND TO BE AN EXPERT ON THE LEGISLATURE.

AVRUM GROSS: I DON'T THINK ANYONE IS.

CHAIRMAN LYON: I'VE WATCHED IT FOR MORE THAN 20 YEARS BUT I'M NOT AN EXPERT.

COMMISSIONER KATZ: THERE ARE NO EXPERTS. BUT I WOULD SHARE AV'S  
- TO THE EXTENT THAT THE GOVERNOR WOULD HAVE TO CALL THAT SPECIAL  
SESSION I THINK IT'S VERY QUESTIONABLE HE WOULD FOR ONE ROYALTY  
OIL CONTRACT.

AVRUM GROSS: THE ONLY POINT I'D REALLY LIKE TO MAKE TO THE BOARD  
IS THAT DOYON HAS A GREAT DEAL OF ITS OWN FUNDS INTO THE PROJECT  
AND THIS IS NO SPECULATIVE TRANSACTION. THEY ARE TRYING VERY HARD  
TO CONTINUE WITH THIS REFINERY. THEY WANT TO DO IT AND IT'S IN THEIR  
INTEREST TO DO IT IN EVERY WAY AND IT SEEMS TO ME SO LONG AS THE  
LEGISLATURE IS AVAILABLE IN THE END TO REVIEW THE FINANCES AND  
NEEDS FROM THE BOARD A REVIEW OF THE CONTRACT ITSELF IT IS  
ALWAYS THE CONTROL OVER WHAT YOU'RE CONCERNED ABOUT WHICH IS SOME-  
BODY GOING OUT AND WAVING AROUND A ROYALTY OIL CONTRACT AND  
SPECULATING WITH IT. THAT WON'T HAPPEN IN THIS INSTANCE.

TRIPLEHORN: WOULD YOU BE RECEPTIVE TO AN AMENDMENT CHANGING THE  
WORDING ON WHAT WOULD NOW BE - WE'VE ELIMINATED THE FIRST TWO -  
THE NEW "B" WHICH PERHAPS INCORPATING WORDING TO THE EFFECT - THE  
WAY IT STANDS NOW - WE ELIMINATED "A" AND "B" SO WE'RE DOWN NOW  
TO SAYING IN THIS RESOLUTION THAT WE RECOMMEND BASICALLY DISAPPROVAL  
BECAUSE DOYON ADMITS THE PROPOSED PROJECT IS ON "HOLD" AND "B" SAYS  
THE BOARD BELIEVES THAT WHEN DOYON IS READY TO PROCEED WITH THAT  
PROJECT THEY SHOULD REQUEST ROYALTY OIL IF IT'S STILL IN THEIR  
INTEREST. COULD WE MODIFY THAT LAST ONE TO THE BOARD - TO THE  
EFFECT - YOU HAVE THIS RESERVATION ABOUT THE OTHER CLAUSE. COULD

WE SAY SOMETHING TO THE EFFECT THAT OTHERWISE WE THINK THAT THIS IS A GOOD CONTRACT AND WHEN THE PROJECT IS READY TO PROCEED. . .

CHAIRMAN LYON: WELL I - OKAY YOU NO LONGER HAVE A SECOND IN YOUR PRESENCE - YOU'RE GOING TO HAVE TO DO IT WITH AN AMENDMENT. THE, I JUST HAVE A REAL PROBLEM WITH THIS RESERVATION FEE. MAYBE WE SHOULD JUST GET THAT ON THE TABLE AND DISCUSS IT MORE TO SEE IF MY CONCERN - I - WE'RE NOW DOWN TO THE HEART OF THE PROBLEM WITH THE ROYALTY OIL CONTRACT. I'M NOT GOING TO NEGOTIATE IT EVEN IF SOMEBODY ASKS ME TO AND YET HERE YOU HAVE A POINT THAT I LIKE TO SEE IN-STATE FACILITIES ESTABLISHED AND I THINK THIS IS A VERY LOGICAL THING FOR DOYON TO DO - THIS KIND OF THING. I'M NOT SURE THAT IF I WE'RE DOYON IF I'D WANT TO BUILD A REFINERY IN ALASKA BUT I HAVE NEVER DONE A MARKET ANALYSIS ON IT, IT MAY BE A VERY SMART PLACE TO DO IT. BUT IT CERTAINLY MAKES SENSE FOR DOYON TO BE IN THE NATURAL RESOURCES BUSINESS IN SOME PLACE AND , BUT THIS THING SCEWS THE THING IN IT'S NOT IN TESORO'S CONTRACT AND YET HERE IT IS IN THIS ONE AND I GUESS THAT PART BOTHERS ME TOO.

COMMISSIONER KATZ: I THINK THIS IS A VERY APPROPRIATE - I KNOW MR. CHAIRMAN ABOUT YOUR RESERVATIONS ABOUT GETTING INTO SPECIFIC WORDS AND TERMS AND PHRASES IN THE CONTRACT BUT THIS IS NOT THAT - THIS IS OBVIOUSLY THE CLASH OF SEVERAL VERY IMPORTANT POLICIES ALL OF WHICH IN ISOLATION WE WOULD ALL ADHERE TO BUT JUST LET ME RUN THROUGH VERY BRIEFLY MAYBE GEOFF WILL CHOOSE TO ELABORATE THE PROCESS WHICH INFLUENCED US HERE. FIRST, WE HAD A POLICY VERY CLEAR POLICY THAT PARITY ON MAJOR ELEMENTS OF A CONTRACT EXIST

BETWEEN ALL THOSE WE WERE NEGOTIATING WITH NOW. WE COULDN'T BE RESPONSIBLE FOR THE PAST - MAPCO GOT A CONTRACT THAT GOT - THAT WE WOULD NOT HAVE NEGOTIATED TODAY BUT THAT'S IRRELEVANT. WE WANTED TO ACHIEVE PARITY AMONG THE PEOPLE THAT WERE INVOLVED IN THIS SOLICITATION. SECONDLY, WE FELT VERY STRONGLY THAT THERE WAS AN OPPORTUNITY COST INHERENT IN THE STATE'S COMMITMENT OF OIL AND THAT PERHAPS IN THE PAST THAT OPPORTUNITY COST HAD NOT ALWAYS BEEN RECOGNIZED BUT ONCE WE COMMIT OIL TO A PROJECT THAT PUTS A CLOUD ON IT THAT REDUCES THE NUMBER OF OPTIONS AVAILABLE TO THE STATE. THIRD, THERE'S A CLEAR POLICY WE THINK IN FAVOR OF PROMOTING COMPETITION AND NEW ENTRY INTO THE MARKET AND AS I INDICATED BEFORE ANOTHER VERY IMPORTANT ASPECT TO US WAS NOT A SLAVISH ADHERENCE TO THE OPPORTUNITY COST PRINCIPLE AFTER WE HAD FINISHED NEGOTIATING WITH TESORO AND OTHERS THE OPTION FEE WAS NOT AS IT WAS IN ITS PRISTINE FORM AND I DON'T FEEL SORRY FOR THAT, I THINK WHAT WE CAME OUT WITH WAS A GOOD APPROACH. ALSO, I DID NOT PERSONALLY FEEL AT LEAST THAT THE OPTION FEE WOULD IN ITS FINAL FORM REALLY JEOPARDIZE EXISTING PEOPLE VERY MUCH. IF AT ALL. FINALLY, IT IS TRUE FOR ONE REASON OR ANOTHER EVEN THOUGH THE CONTRACTS WERE FOUGHT AND NEGOTIATED VERY FIRMLY AND AMONG VERY COMPETENT PARTIES. AT THE TIME IT IS TRUE THAT WHEN TESORO ENTERED THE MARKET THERE WAS SOMETHING THAT AT LEAST IN RETROSPECT WE PERCEIVED AS A SIGNIFICANT BENEFIT. WHEN MAPCO ENTERED THE MARKET SIMILARLY NOW A FEW YEARS LATER WITH THE BENEFIT OF 20/20 HINDSIGHT, WE SEE SOME THINGS THAT WERE SIGNIFICANT BENEFIT. AND WE FELT IN SUMMARY THAT IN THE CLASH OF ALL THOSE POLICIES WHICH ARE VERY IMPORTANT IN ISOLATION THAT THE POLICY OF FOSTERING NEW ENTRY IN THE INTERIOR FOR ALL THE

BENEFITS THAT WE FELT MIGHT EXIST BOTH THERE AND IN OTHER PARTS OF THE STATE OVER-RODE POLICIES THAT WE FELT AT LEAST IN THIS CONTEXT WERE LESS SIGNIFICANT IN THEIR OPERATION IN THE RELATIONSHIP BETWEEN A NEW REFINERY AND THE EXISTING FACILITIES.

GEOFFREY HAYNES: THE ONLY THING I'D ADD TO THAT IS, THE REAL COMPLICATION WAS THE EXISTING MAPCO CONTRACT WHICH GIVEN THE CHANGES AND THE CIRCUMSTANCES WE WOULD NOT NEGOTIATE TODAY AND THEY HAVE NO RESERVATION FEE SYSTEM AND THEIR COMPETITION IN THE FORM OF DOYON DIRECTLY ACROSS THE STREET. AT A TIME WHEN BOTH PARTIES WOULD ADMIT THERE WOULD BE VERY CUT-THROAT COMPETITION AND DOYON WOULD BE PAYING THIS RESERVATION FEE AND MAPCO COULD LOOK ACROSS THE STREET AND LOOK AT THE RESERVATION FEE DIVIDED INTO THE NUMBER OF BARRELS AND KNOW HOW MUCH TO UNDERCUT THEM. AND WE FELT THAT THERE WAS SUBSTANTIAL AMOUNT TO THAT ARGUMENT. BUT THAT I WOULD SAY THAT AND THE TERM ISSUE WITH DOYON WERE THE HARDEST PARTS OF THE NEGOTIATIONS CONCEPTUALLY BECAUSE YOU HAVE THIS NEW ENTRANT ENHANCING COMPETITION VERSUS EXACT PARITY AND PROTECTING THE VALUE OF INCUMBANCY. IT'S VERY DIFFICULT.

CHAIRMAN LYON: BUT GEOFF THE PROBLEM IS YOU BIAS THE THING THAT GIVES DOYON THE INCENTIVE TO GET EXACTLY THE NUMBER OF BARRELS THAT THEY REALLY FEEL THEY WANT - NOTHING IS TO PREVENT THEM FROM SHOOTING FOR A SMALLER TARGET UNTIL SUCH TIME AS THEY WANT MORE CRUDE OIL. FROM A PRACTICAL STANDPOINT ANYBODY IN THE CRUDE OIL BUSINESS IN ALASKA IS GOING TO UNFORTUNATELY LOOK AT THE STATE AS THE SUPPLIER OF CHOICE BASICALLY BECAUSE ONLY THE STATE

WILL TALK IN TERMS OF ANY KIND OF LIFE. NOBODY ELSE WANTS TO COMMIT HIMSELF FOR 8 - 10 - 12 -22 -27 YEARS. SO IT SEEMS TO ME THAT THE OFFERORS OUGHT TO HAVE AN INCENTIVE TO BE AS CORRECT AS THEY CAN BE. GRANTED THAT YOU WANT TO MOVE INTO A RISING MARKET AS TESORO HAS FOUND OUT.

GEOFFREY HAYNES: WELL I GUESS THE ONLY OTHER THING I'D ADD IS EITHER PAYING OR NOT PAYING THE RESERVATION FEE AGAIN IS SOMETHING FROM OUR STANDPOINT WE DID NOT THINK REALLY WOULD EFFECT THE VIABILITY OF A PROJECT IT'S REALLY A WAY OF COVERING THE OPPORTUNITY COST OF THE OIL AND A WAY OF DISCOURAGING PEOPLE FROM TAKING MORE OIL AT ONE TIME THAN THEY REALLY NEED BUT WHEN YOU HAVE A SITUATION POTENTIALLY AS INTENSIVE IN THE FORM OF COMPETITION AS IT WOULD BE IN FAIRBANKS. UNDER THE CIRCUMSTANCES IT'S ESPECIALLY HARD TO JUDGE RIGHT AT THE BEGINNING. FRANKLY I MIGHT ADD MY OWN OPINION IT'S, IT PROBABLY GOES BEYOND OUR OWN ABILITY TO ANALYZE GIVEN THAT WE'RE A FOUR PERSON OIL COMPANY.

CHAIRMAN LYON: WELL I MAY BE THE ONLY ONE THAT'S TROUBLED, I DON'T KNOW. BOB.

BOB MAYNARD: I MIGHT ADD TO YOUR CONCERN ABOUT THE INCENTIVE TO ACCURATELY TAKE HOW MUCH OIL YOU NEED, THERE ARE GOOD FAITH TAKING PROVISIONS THAT DO SPEAK TO THAT. I AGREE THEY'RE NOT TOTALLY. . . .

CHAIRMAN LYON: WHEN YOU'RE IN A POSITION OF THE OFFEROR TO THAT CLASSIC NEGOTIATION POSITION YOU WANT JUST AS MUCH AS YOU CAN GET FOR AS LITTLE AS YOU CAN PAY FOR IT AND I DON'T THINK ANYBODY FEELS BAD ABOUT THAT. YES AV.

AVRUM GROSS: JUST LET ME SAY ONE MORE THING AND I'LL GET OUT OF YOUR HAIR.

CHAIRMAN LYON: YOU'RE NOT IN MY HAIR, IT'S HARDER TO GET INTO THAN YOU THINK.

AVRUM GROSS: I HOPE YOU UNDERSTAND THAT DOYON IS LITERALLY BREAKING IT'S NECK TO PUT THIS TOGETHER. THIS IS NOT A SPECULATIVE DEAL. THEY'RE REALLY TRYING HARD. THE TWO THINGS THAT YOU COULD DO FOR US, ASSUMING THAT YOU DO FIND THE CONTRACT ACCEPTABLE AND THAT I SUPPOSE THE BEST WE CAN HOPE IS THAT YOU APPROVE THE CONTRACT SUBJECT TO LEGISLATIVE REVIEW AS TO THE STATUS OF FINANCING THE TIME THE CONTRACTS COME BEFORE THE LEGISLATURE. IF THE CONTRACT ITSELF IS ALRIGHT BUT YOUR CONCERNS LIE IN THE ABILITY OF THE COMPANY TO GO AHEAD WITH THE PROJECT IN THAT THAT SHOULD BE THE LEGISLATIVE FOCUS AT WHICH TIME THE LEGISLATURE DOES REVIEW THE CONTRACT AND THE SECOND THING IS THAT AN INDICATION HOPEFULLY IN YOUR FINAL ORDER THAT IF AT THE TIME THE LEGISLATURE DOES CONSIDER THE CONTRACT FINANCING IS NOT YET IN PLACE SO THAT YOU WOULD NOT RECOMMEND IT TO THE LEGISLATURE APPROVING IT SOME INDICATION THAT IN THE FUTURE WHEN AND IF THE FINANCING DOES COME IN PLACE THEN THE BOARD WOULD FAVOR A SALE TO DOYON UNDER SIMILAR

TERMS. NOW THAT IS SOMETHING THAT AT LEAST CAN BE DEALT WITH IN THE EVENT THAT WE CAN PUT THIS TOGETHER BY THE TIME THE LEGISLATURE ENDS. YOUR APPROVAL WOULD HELP US DO THAT IN THE EVENT THAT WE FAIL IN THAT IT WOULD AT LEAST BE SOME INDICATION THAT WE CAN DEAL WITH IN NEGOTIATING WITH OUR BANKERS IN THE FUTURE. THOSE ARE THE TWO THINGS THAT WOULD HELP US THE MOST AND I REALIZE NOW THERE'S NO RESOLUTION ON THE TABLE THAT SAYS THAT AND IT WOULD TAKE SOME TIME TO DRAFT ONE.

CHAIRMAN LYON: WELL, WE CAN, ONE OF THE THINGS WE DID THIS TIME FOR THIS MEETING WAS TO PLAN AND IT MIGHT BE NECESSARY IN FACT TO DRAFT OTHER FINDINGS TO INCLUDE IN THE RESOLUTION AND WE CAN CERTAINLY DO THAT I DON'T HAVE ANY PERSONAL PROBLEM WITH THAT. I'VE EXPRESSED THE PARTS OF IT THAT DO CAUSE ME SOME CONCERN AND THE COMMISSIONER'S BEEN VERY CAREFUL AND I THINK SKILLED DRAWING EVERYBODY ALONG AS MUCH AS ALL THE APPLICANTS COULD BE DRAWN ALONG AND IF THE RULES CHANGE PART WAY THROUGH THEN IT'S KIND OF DIFFICULT. YES DON.

DONALD WOLD: I JUST WANTED TO ASK ONE THING. DO YOU REALLY - DOES THE BOARD REALLY WANT TO PERHAPS INVOLVE ITSELF IN RECOMMENDING TO THE LEGISLATURE THAT THE STATE LEGISLATURE BECOME INVOLVED IN FINANCING OF A PROJECT LIKE DOYON. I THINK THAT CALLING THAT TO THE ATTENTION OF THE LEGISLATURE SEEMS THAT THIS WOULD INVOLVE THEM INTO THE PROCESS FOR DOYON. . . MORE TROUBLE.

AVRUM GROSS: NO, NO I DON'T MEAN THAT DON. WHAT I MEANT WAS THAT

IF THE BOARD FINDS THE CONTRACT DESIRABLE BUT WHAT IT DOESN'T WANT IS TO APPROVE THE CONTRACT TO HAVE WITH BASICALLY NO PLANS IN MIND FOR DOYON JUST HAVE THEM TAKE OUT A CONTRACT AND WAIVE IT AROUND IN THE OPEN MARKET. I THINK THAT IT'S ENTIRELY WITHIN IT'S STATUTORY POWER TO BASICALLY MAKE THAT POINT IN THAT IT IS APPROVING THE CONTRACT BUT THAT IT IS APPROVING IT UNDER THE ASSUMPTION THAT THE FINANCING CAN BE PUT TOGETHER AND THAT THE LEGISLATURE SHOULD ADDRESS ITSELF TO THAT POINT WHEN AND IF THE LEGISLATURE CONSIDERS THE CONTRACT THAT'S ALL, RATHER THAN DISAPPROVE ON THE SAME GROUNDS WHICH IS REALLY WHAT YOU'RE DOING - THE ALTERNATIVE AND I MEAN IT'S GOING TO COME UP ANYWAY - IT'S REALLY NOT THE. . .

CHAIRMAN LYON: I REALLY DON'T WANT US TO BE IN A POSITION OF PENALIZING DOYON FOR THEIR CANDOR, IT WOULD BE UNFAIR. THERE ARE THOSE IN THIS ROOM WHO MIGHT WANT TO POINT OUT THAT THE ALPETCO FINANCING APPARENTLY WASN'T IN PLACE WHEN IT WAS APPROVED BY THIS BOARD TOO.

COMMISSIONER WEBBER: MR. CHAIRMAN PERHAPS ONE THING I CAN DISCUSS JUST FOR A MOMENT IS THE NEGOTIATION THAT TOOK PLACE WITH THE OTHERS REALLY DID NOT ALLOW THEM TO HAVE FUTURE FINANCING TO PUT IN PLACE. THIS IS A SPECIAL CIRCUMSTANCE WITH AN ORGANIZATION HERE IN ALASKA BUT I'M VERY SENSITIVE TO THE FACT THAT NEGOTIATIONS WERE HELD WITH A DIFFERENT SET OF CRITERIA THAN WE WOULD RENDER TO THIS ONE AND IF THAT CAN BE RESOLVED IT WOULD BECOME MUCH MORE FLEXIBLE SO I REALLY HAVE TO GO BACK TO THE NEGOTIATORS TO FIND OUT HOW STRINGENTLY THAT WAS ADHERED TO, WERE THERE OTHER EXCEPTIONS

MADE TO GIVE IT ANY KIND OF FUZZ THAT WE CAN SAY HERE THE TENDENCY WAS TO HOLD FIRM BUT NOT THAT FIRM BECAUSE WHAT THIS THING HINGES ON IS WHETHER OR NOT WE HAD VALID NEGOTIATIONS IN THE PAST, WOULD THIS TEND TO CORRUPT THOSE NEGOTIATIONS.

COMMISSIONER KATZ: LET ME TRY TO RESPOND TO THAT AND I'LL ASK BOTH GEOFF AND BOB TO (UNCLEAR) THE DEPTHS OF THEIR RECOLLECTION AND SEE IF THEY DISAGREE. WITH OUT TRYING TO OFFER RATIONALIZATION FOR WHAT I CHOOSE TO DO, I DO BELIEVE THAT THE DOYON PROPOSAL WAS SIGNIFICANTLY FURTHER ALONG THAN ANY OTHER PROPOSAL THAT WE REJECTED ON THE GROUNDS THAT WE DIDN'T SEE ALL THE NECESSARY ELEMENTS IN PLACE. THERE WAS NO OTHER PROPOSAL THAT HAD GONE SO FAR AS TO PURCHASE THE EQUIPMENT THAT I CAN RECALL, THE SITE ACQUISITION, THE FINANCING AT THAT POINT IN HISTORY ACTUALLY IN PLACE. THERE ARE OTHER PROJECTS WHICH, THAT'S PARTICULARLY TRUE IN THE CASE I THINK OF IN-STATE PROJECTS, THERE WAS ONE INVOLVING A METHANOL FACILITY NEAR FAIRBANKS AND I THINK OVER TIME IT MIGHT BE VERY PROMISING, BUT THEY'RE - THEY WERE NOT NEAR WHERE DOYON IS IN TERMS OF THE OUT OF - THE EXPORT PROPOSALS, PROBABLY THE ONE THAT'S FURTHEST ALONG NOW IS PROVIDENT AND THEY HAVE BROKEN GROUND FOR THEIR REFINERY, BUT IN SOME OTHER RESPECTS THEY'RE NOT AS FAR ALONG AS DOYON SO I'D SAY THE COMBINATION OF LOOKING FIRST AND FOREMOST AS YOU WOULD COMMISSIONER AS YOUR QUESTION IMPLIED THAT IN-STATE PEOPLE AND SEEING THE STATUS OF EACH ONE THERE IS ON THAT GROUND A SOUND RATIONALE FOR DIFFERENTIATING DOYON FROM THE OTHERS. HOWEVER, OF COURSE WE HAD THE THRESH-HOLD POLICY IN ALL INSTANCES OF HAVING REALLY FIRM PROPOSALS THAT WERE GOING TO GO IN AN

JMMINENT PERIOD IN THE FUTURE.

AVRUM GROSS: THIS PROJECT WAS PUT TOGETHER COMMISSIONER WEBBER AS OPPOSED TO ANOTHER THAT WASN'T AND AS I SAY WE HAVE TRIED TO BE COMPLETELY CANDID BECAUSE WE DID NOT WANT - I SUPPOSE WE COULD HAVE LEFT THAT IMAGE HANGING UP IN THE AIR THAT IT WAS STILL ALL TOGETHER BUT IN AN EFFORT TO BE CANDID WE CAME TO THE COMMISSIONER MID-WAY THROUGH AND SAID THE FINANCING IS NO LONGER IN PLACE WE ARE NOW TRYING TO PUT IT BACK TOGETHER AND BUT IT IS A COMPLETED - AT THE TIME THE NEGOTIATIONS TOOK PLACE AT LEAST IT WAS A COMPLETED PROJECT AND NOW HOPEFULLY IT WILL BE AGAIN SHORTLY BUT THE FINANCING HAS CHANGED SINCE THE TIME WE DISCUSSED IT.

TRIPLEHORN: MR. CHAIRMAN.

CHAIRMAN LYON: YES.

TRIPLEHORN: I'D LIKE SOME RESPONSE TO YOU AND COMMISSIONER WEBBER AND I'M GOING TO SUGGEST AN AMENDMENT AGAIN BUT SOME POSSIBLE WORDING - THE WAY THE THING READS NOW THAT THERE IS A BOARD FINDING #1 IS THAT THE COMMISSIONER HAS GONE THROUGH THE PROPER PROCEDURES AND JUST AS A POSSIBILITY LET ME SUGGEST SOMETHING LIKE THIS, THAT #2 THAT THE BOARD IS SUPPORTIVE OF DOYON PLANS TO CONSTRUCT A NEW REFINERY AND BELIEVES THAT THE CONTRACT NEGOTIATED WOULD BE A GOOD ONE SUBSTANTIALLY IN THE BEST INTEREST OF THE STATE AND THEN #3 HOWEVER, THE TIMING OF THE PROPOSED PROJECT IS CURRENTLY UNCERTAIN AND IT IS NOT IN THE STATE'S BEST INTEREST TO CONCLUDE THE CONTRACT UNLESS AND UNTIL THE PROJECT

IS READY TO MOVE FORWARD. WOULD THAT BE A REASONABLE THING TO DO? IT FOCUSES ON THE TIMING QUESTION - DICK HAS OTHER CONCERNS AND I USED THE WORD SUBSTANTIALLY RATHER THAN COMPLETELY, IN OTHER WORDS WE MIGHT WANT TO EITHER VERBALLY OR OTHERWISE ADD SOME CONCERNS ABOUT THAT. YOU'RE NOT RECEPTIVE TO THAT I CAN TELL.

CHAIRMAN LYON: NO, I DON'T HAVE ANY PROBLEM THERE, I STILL HAVE THE OTHER PROBLEM. WHAT MIGHT BE WELL IS WE COULD TAKE ABOUT A TEN MINUTE BREAK - WE'VE BEEN DOING THIS FOR A COUPLE OF HOURS NOW. PERHAPS WE COULD TAKE ABOUT A TEN MINUTE RECESS AND THEN YOU CAN DRAFT SOMETHING ELSE.

THE MEETING WAS RECESSED.

CHAIRMAN LYON: COMMISSIONER WEBBER INFORMS ME THAT THIS BOARD IS BACK OUT OF THE BUDGET SO CAN WE FINISH THIS MEETING?

COMMISSIONER WEBBER: I DON'T KNOW, IT MAY BE NOT FOREVER - WHATEVER.

CHAIRMAN LYON: THIS MAY BE OUR LAST MEETING. ALRIGHT WE'VE BEEN DISCUSSING - THERE'S A RESOLUTION ON THE - BEFORE US TO RECOMMEND TO THE LEGISLATURE THAT DOYON I CONTRACT BE DISAPPROVED BY THE LEGISLATURE. THAT'S BEEN THE SUBJECT OF DISCUSSION IN OUR, DURING OUR RECESS WE TRIED TO DRAFT UP SOME AMENDMENTS TO THE RESOLUTION WHICH MAY MAKE IT ACCEPTABLE OR ALLOW US TO ABANDON IT IN FAVOR OF A DIFFERENT RESOLUTION. I WOULD LIKE TO PROPOSE AN AMENDMENT OR CAN I - I CAN I GUESS - IT'S ONLY IN HIGH SCHOOL

YOU CAN'T DO THAT. BECAUSE I WANT TO FOCUS ON MY CONCERN WHICH I FEEL JUST CAUSES ME A - TROUBLE AND I SIMPLY HAVE TO VIEW IT AS A FATAL FLAW IN THE CONTRACT FROM MY PERSPECTIVE BECAUSE PRODUCT FROM THE PROPOSED DOYON REFINERY WOULD COMPETE WITH EXISTING REFINERIES IN ALASKA AND ONE WAY OR ANOTHER WE WOULD CREATE A SITUATION WITH THE DELAYED PAYMENT ON THE RESERVATION FEE. WE WOULD - THE MARKETPLACE WOULD SEE A DIFFERENCE IN PRODUCTS COMING INTO IT BETWEEN ALASKA'S CRUDE OIL MOVING THROUGH THE DOYON REFINERY AND ALASKA'S CRUDE MOVING THROUGH OTHER REFINERIES INCLUDING THE TESORO PRODUCT WE JUST DISCUSSED. I JUST HAVE TO BELIEVE THAT THAT'S NOT PROPER FOR THE STATE TO CREATE THAT SITUATION SO I WOULD PROPOSE THAT THE RESOLUTION CONTAIN AS, I GUESS WE CAN MAKE IT "C" THE FOLLOWING STATEMENT THAT SAYS, THE PROVISION FOR DELAYED PAYMENT OF THE RESERVATION FEE ACCORDING TO PARAGRAPH 2.10 OF THE CONTRACT CREATES AN UNACCEPTABLE BIAS AGAINST COMPETITORS. I THINK THAT'S AT THE HEART OF WHAT'S BOTHERING ME ABOUT IT. THAT WE HAVE TWO DISSIMILAR CONTRACTS IN THAT REGARD AND I KNOW THAT THE DEPARTMENT HAS TRIED VERY HARD TO GET THE MAJOR PROVISIONS AS SIMILAR AS POSSIBLE, THIS ONE IS I'LL ADMIT IS NOT ALOT OF DOLLARS, BUT MY RECOLLECTION IN THE OIL BUSINESS IN THE MARKETING END OF IT IT'S KIND OF WHAT YOU'RE DEALING WITH - IT'S A GAME OF THE VERY SAME NUMBERS - SOMETIMES NEGATIVE. BUT IN ANY EVENT NO MATTER WHAT THE THING - THE NUMBER OF DOLLARS, THE PRINCIPLE IS CORRECT. I WOULD MOVE THAT THE RESOLUTION BE SO AMENDED.

TRIPLEHORN: SECOND.

CHAIRMAN LYON: OKAY, IS THERE DISCUSSION ON THIS AMENDMENT?  
OKAY, I WILL CALL FOR THE QUESTION. WE CAN AMEND IT WITHOUT  
SIGNING IT. WE CAN JUST HAVE A VOICE VOTE. THOSE IN FAVOR  
SIGNIFY BY SAYING AYE.

BOARD MEMBERS: AYE.

CHAIRMAN LYON: OPPOSED? THE MOTION CARRIES UNANIMOUSLY.

TRIPLEHORN: MR. CHAIRMAN.

CHAIRMAN LYON: DR. TRIPLEHORN.

TRIPLEHORN: THE WORDING. THIS THING IS GETTING MESSY - THE  
WORDING NOW IS RATHER AWKWARD I THINK THE WAY IT READS NOW  
IS THAT THERE IS SECTION 2 - THE BOARD DISAGREES AND THEN IT  
GOES ON "A" DOYON ADMITS THAT THE PROPOSED PROJECT IS CURRENTLY  
ON HOLD. I THINK THAT THAT'S RATHER CLUMSY WORDING AND I WOULD  
PROPOSE THE FOLLOWING SUBSTITUTE FOR THAT, THAT THE TIMING OF THE  
PROPOSED PROJECT IS CURRENTLY UNCERTAIN AND IT IS NOT IN THE  
STATE'S BEST INTEREST TO CONCLUDE THE CONTRACT UNTIL THE PROJECT  
IS READY TO GO FORWARD.

CHAIRMAN LYON: ALRIGHT, I'LL SECOND THAT PROPOSED AMENDMENT.

TRIPLEHORN: THAT WILL NOW BE "A".

CHAIRMAN LYON: OKAY, IS THERE DISCUSSION ON THAT.

COMMISSIONER KATZ: MR. CHAIRMAN.

CHAIRMAN LYON: YES, MR. KATZ.

COMMISSIONER KATZ: THE ONLY THOUGHT I WOULD HAVE WHETHER WE COULD MAKE THE AUTHOR OF THE MOTION - WOULD CONSENT TO MAKE A SPECIFIC REFERENCE TO THE FINANCING ISSUE.

TRIPLEHORN: I HAVE NO OBJECTION.

CHAIRMAN LYON: WHY DON'T YOU TRY TO DRAFT US SOMETHING DON.

COMMISSIONER KATZ: BECAUSE I THINK THAT IS THE PRINCIPLE OBSTACLE ON THAT COUNT AND I THINK IT WOULD BE OF BENEFIT TO EVERYBODY TO BE AS PRECISE AS POSSIBLE.

TRIPLEHORN: HOW ABOUT WORDING SUCH AS THIS MR. COMMISSIONER, THAT THE FINANCING AND THEREFORE THE TIMING OF THE PROJECT.

COMMISSIONER KATZ: THAT'S FINE.

TRIPLEHORN: COULD WE INSERT THAT?

CHAIRMAN LYON: AS FAR AS I'M CONCERNED.

TRIPLEHORN: FINANCING AND THEREFORE THE TIMING.

CHAIRMAN LYON: IN THAT REGARD I GUESS ANOTHER ONE OF THE THINGS THAT'S TROUBLESOME IN AN INCOMPLETED PROJECT IS THAT THE - WHOEVER PROVIDES THE MONEY FOR THE PROJECT IS DISCUSSING THE NATURE AND THE OPERATION OF THE FACILITY AND IT'S CERTAINLY POSSIBLE THAT THAT FACILITY ITSELF COULD CHANGE DURING THE PROCESS OF NEGOTIATING THE FINANCING. IN FACT DURING THE PROCESS OF NEGOTIATING OTHER THINGS. I DON'T KNOW HOW IT COULD COME TO THE POINT WHERE THE BOARD WOULD FIND IT, LET'S SAY UNACCEPTABLE BUT NONETHELESS WE'RE TALKING NOW ABOUT SOMETHING WHICH IS LITERALLY A MOVING TARGET.

COMMISSIONER KATZ: SOME SOLACE THE BOARD HAS IN THAT REGARD IS THAT IT IS OUR UNDERSTANDING THAT DOYON HAS ACTUALLY PURCHASED THE EQUIPMENT AND I THINK ALTHOUGH THAT - EQUIPMENT CAN BE RE-FIGURED IT IS SOMEWHAT CONSTRAINING ON WHAT THE FACILITY MIGHT LOOK LIKE.

TRIPLEHORN: OKAY, I THINK I'M THE ONLY ONE WHO REALLY UNDERSTANDS HOW THIS IS WORDED, BUT ANYHOW I'D LIKE TO INSERT A POSITIVE NOTE IF I COULD AND AS A POSSIBILITY LET ME SUGGEST THIS, WHAT WE NOW HAVE IS A #1 WHICH SAYS THE COMMISSIONER'S DONE A GOOD JOB, DONE THE PROPER JOB AND THEN #2 WHICH SAYS WE DISAGREE FOR THOSE TWO REASONS AND WHAT I WOULD PROPOSE WOULD BE TO INSERT IN BETWEEN THOSE SOMETHING POSITIVE, AND WHAT I HAD IN MIND WAS, THAT THE BOARD FAVORS INCREASED USE - INCREASED IN-STATE USE OF

THE ROYALTY INTERESTS SUCH AS CONSTRUCTION OF A NEW REFINERY.  
JUST TO INDICATE THAT WE ARE IN FAVOR OF INCREASED IN-STATE USE -  
IT'S KIND OF A MOTHERHOOD SORT OF THING. I WOULD LIKE SOMETHING  
THAT WOULD BE POSITIVE. IS WHAT I'M AFTER I'M NOT SURE THAT'S  
THE BEST WAY OF SAYING IT.

CHAIRMAN LYON: I THINK THAT'S FINE. I WOULD SECOND THAT.

TRIPLEHORN: THAT WOULD THEN BECOME #2.

CHAIRMAN LYON: DO YOU WISH TO PUT BOTH OF THOSE AMENDMENTS -  
OR BOTH OF THOSE THINGS IN THE SAME AMENDMENT.

TRIPLEHORN: BOTH OF WHAT.

CHAIRMAN LYON: YOU'VE COMPOSED ONE CHANGE HERE AND YOU'RE  
COMPOSING ANOTHER ADDITION. DO YOU WISH TO MAKE THAT AS ONE  
AMENDMENT?

TRIPLEHORN: I THOUGHT I JUST PROPOSED ONE. THE WAY I UNDERSTAND  
THIS THING READS NOW IS THAT THIS IS ALL - THIS IS "A" AND YOURS  
IS "B".

CHAIRMAN LYON: IS THAT LETTER "B" OR WHAT. . .

DONALD WOLD: THAT'S "C".

CHAIRMAN LYON: "C".

TRIPLEHORN: WELL BASICALLY THEN WHAT I'D LIKE TO DO IS ELIMINATE  
- PROPOSED THAT WE ELIMINATE THE SECTION THAT READS THE BOARD  
BELIEVES THAT WHEN DOYON IS READY BECAUSE THAT'S INCORPORATED NOW.

BOB MAYNARD: MR. CHAIRMAN.

CHAIRMAN LYON: BOB.

BOB MAYNARD: I THINK I MAY BE GETTING CONFUSED HERE. YOU HAVE  
ONE CLAUSE THAT SAYS THE TERM OF THE CONTRACT IS UNACCEPTABLE. . .

CHAIRMAN LYON: YES.

BOB MAYNARD: BECAUSE OF THE FOUR YEAR - BUT THE CONTRACT WOULD BE  
ACCEPTABLE IF THEY GOT FINANCING.

TRIPLEHORN: WE DIDN'T REALLY SAY THAT.

CHAIRMAN LYON: NO.

BOB MAYNARD: OKAY, THAT'S WHAT I MEAN.

TRIPLEHORN: WHEN WE GET THIS ALL PUT TOGETHER I THINK WHAT WE'LL  
HAVE TO DO IS READ THROUGH THE WHOLE THING.

CHAIRMAN LYON: YES, THE RESOLUTION IS - WELL, YOU'RE PROPOSING  
AN AMENDMENT DOWN HERE SUB-PARAGRAPH "A". . .

TRIPLEHORN: YES, THAT'S WITH THE THING REGARDING THE TIMING  
WOULD BE. . .

CHAIRMAN LYON: THAT'S "A".

TRIPLEHORN: AND MY INTENT WAS THAT YOURS WOULD BE "B".

CHAIRMAN LYON: OKAY.

TRIPLEHORN: AND THAT WE ELIMINATE THE ONE WHICH IS NOW REDUNDANT  
WHICH SAYS THAT WHEN DOYON IS READY. DO WE NEED A FORMAL MOTION  
TO DO THAT? IT'S GETTING SO CONFUSED.

CHAIRMAN LYON: YES, I THINK WE DO.

TRIPLEHORN: ALRIGHT. I MOVE THEN THAT WE STRIKE WHAT ON THE  
ORIGINAL RESOLUTION WAS 2(d). SIMPLY STRIKE THAT.

CHAIRMAN LYON: OKAY, WE HAVE ALREADY STRIKEN "A" AND "B" AND  
YOU'RE PROPOSING AMENDMENT OF WHAT USED TO BE "C" AND YOU'RE  
RE-LABELING IT "A".

TRIPLEHORN: RIGHT.

CHAIRMAN LYON: OKAY, EVERYBODY UNDERSTAND THAT?

COMMISSIONER WEBBER: WELL I THINK BEFORE WE GET TOO MUCH FURTHER WE OUGHT TO GET THE WHOLE THING WRITTEN DOWN AND GO THROUGH IT LIKE IT'S PROPOSED BECAUSE IT'S A SUBSTANTIAL. . .

COMMISSIONER KATZ: WOULD YOU BE WILLING TO READ IT?

CHAIRMAN LYON: YES, SURELY.

TRIPLEHORN: WELL I WAS ALSO PROPOSING THAT WE INSERT SOMETHING UP BETWEEN #1 and #2 IN WHICH CASE WE'D HAVE A NEW #2 AND THIS ONE WOULD BECOME #3.

COMMISSIONER KATZ: THIS IS AN IQ TEST.

TRIPLEHORN: AS I SAY I THINK I'M THE ONLY ONE THAT UNDERSTANDS IT.

CHAIRMAN LYON: THEY HAVE LITTLE GAMES ON COMPUTERS NOW, THE KID TOUCHES THE BUTTON IN RESPONSE TO THE. . .

COMMISSIONER WEBBER: LET'S WRITE IN #2.

TRIPLEHORN: DO YOU HAVE ANY OBJECTION TO THE EFFECT THAT THE BOARD FAVORS INCREASED IN-STATE USE OF ROYALTY INTERESTS SUCH AS CONSTRUCTION OF A REFINERY? IT'S KIND OF A MOTHERHOOD THING BUT IT IS POSITIVE.

COMMISSIONER WEBBER: I HAVE NO OBJECTION TO IT - I THINK IT'S

ALREADY. . .

TRIPLEHORN: YOU WANT TO READ IT?

COMMISSIONER WEBBER: NO, I HAVE NO OBJECTION TO IT.

TRIPLEHORN: WELL THAT WOULD BECOME #2 THEN.

COMMISSIONER WEBBER: THE WORDING AGAIN.

TRIPLEHORN: THAT THE BOARD FAVORS INCREASED IN-STATE USE OF ROYALTY INTERESTS SUCH AS CONSTRUCTION OF A NEW REFINERY.

CHAIRMAN LYON: IT'S KIND OF HARD TO ARGUE.

TRIPLEHORN: YES, IT'S A MOTHERHOOD THING.

CHAIRMAN LYON: IS THAT ITSELF AN AMENDMENT?

TRIPLEHORN: THAT WOULD BE YES, THAT WOULD BECOME . . .

CHAIRMAN LYON: I THEN WILL SECOND THAT. ARE WE READY TO VOTE ON THAT AMENDMENT?

DONALD WOLD: BOARD FAVORS INCREASED USE OF ROYALTY OIL FOR IN-STATE REFINING.

CHAIRMAN LYON: IT'S ROYALTY INTERESTS - IT'S GENERAL, IN-STATE USE OF ROYALTY INTERESTS, BECAUSE THEY'D PROBABLY SAY ROYALTY OIL AND GAS INTERESTS.

COMMISSIONER WEBBER: THEN THE REST OF IT AFTER INTERESTS WAS WHAT?

TRIPLEHORN: SUCH AS CONSTRUCTION OF A NEW REFINERY.

DONALD WOLD: THAT'S #2.

TRIPLEHORN: THAT WILL NOW BE #2.

DONALD WOLD: THE BOARD FAVORS INCREASED USE OF IT'S ROYALTY.

CHAIRMAN LYON: INCREASED IN-STATE USE.

TRIPLEHORN: YES, THAT'S THE CRITICAL WORD.

DONALD WOLD: OF IT'S ROYALTY INTERESTS SUCH AS CONSTRUCTION OF A NEW REFINERY.

COMMISSIONER WEBBER: ALRIGHT THEN, UNDER #3 THERE ARE SOME CHANGES, A NEW #3.

TRIPLEHORN: RIGHT. NEW #3. #3(a) WOULD BE AS FOLLOWS,  
FINANCING AND THEREFORE THE TIMING OF THE PROPOSED PROJECT IS  
CURRENTLY UNCERTAIN AND IT IS NOT IN THE STATE'S BEST INTEREST  
TO CONCLUDE THE CONTRACT UNTIL THE PROJECT IS READY TO MOVE  
FORWARD. GOT THAT ONE?

WEBBER: ONE MORE TIME.

TRIPLEHORN: FINANCING AND THEREFORE THE TIMING OF THE PROPOSED  
PROJECT IS CURRENTLY UNCERTAIN AND IT IS NOT IN THE STATE'S BEST  
INTEREST TO CONCLUDE, I THINK IT WOULD BE BETTER TO SAY THIS  
CONTRACT.

CHAIRMAN LYON: OKAY.

TRIPLEHORN: TO CONCLUDE THIS CONTRACT UNTIL THE PROJECT IS  
READY TO MOVE FORWARD.

CHAIRMAN LYON: I WOULD OBJECT TO THAT BECAUSE I - OUR OTHER  
OBJECTION - PART OF THE (TAPE RUNS OUT)

TRIPLEHORN: YES, THAT'S GOOD.

COMMISSIONER WEBBER: CONTRACT UNTIL WHEN?

TRIPLEHORN: UNTIL THE PROJECT IS READY TO MOVE FORWARD. IT'S

WORDY BUT I THINK IT DOES THE JOB.

CHAIRMAN LYON: IT'S SHORTER THAN THE ORIGINAL.

TRIPLEHORN: AND THEN "B" WILL BE YOUR. . .

CHAIRMAN LYON: YES.

COMMISSIONER WEBBER: IT'S ALREADY DONE.

DONALD WOLD: AND THE CURRENT #2 IS OUT?

TRIPLEHORN: THE #2 THAT'S THERE NOW BECOMES #3 DON. NOW WITH THAT THE BOARD DISAGREES AND THEN WE HAVE THE REASONS UNDER THAT ARE "A" AND "B" THAT WE'VE JUST DISCUSSED.

DONALD WOLD: MR. CHAIRMAN.

CHAIRMAN LYON: YES DON.

DONALD WOLD: IF THIS IS WHERE YOU'RE GOING TO END, PERHAPS YOU COULD HAVE SANDY TAKE A CLEAN COPY OR THE ORIGINAL COPY AND PENCIL, THAT IN SO YOU'LL HAVE SOMETHING TO SIGN BEFORE YOU LEAVE. SANDY HAS A HANDWRITING THAT IS READABLE.

CHAIRMAN LYON: SOMEBODY HAS WRITTEN ALL OVER MY ORIGINAL. DO YOU HAVE ANOTHER COPY DON? TYPING THE RESOLUTION IS ACADEMIC ISN'T IT - THE RESOLUTION IS A MATTER OF RECORD - CLEARLY IN

THE RECORD. IT CAN BE TYPED LATER, OR SHOULD IT BE WRITTEN OUT NOW AND SIGNED.

ANNE PREZYNA: IT CAN BE WRITTEN OUT NOW AND TYPED LATER.

DONALD WOLD: YOU'LL WANT TO HAVE SOMETHING TO TAKE. . .

CHAIRMAN LYON: WELL IT PROBABLY SHOULD BE TYPED TO GIVE TO THE LEGISLATURE WE CAN HANDLE THAT CAN'T WE?

DONALD WOLD: BUT YOU'LL WANT TO READ THOSE THINGS. WHATEVER.

COMMISSIONER KATZ: I HAVE TO LEAVE IN A COUPLE OF MINUTES FOR A MEETING, COULD YOU READ THE THING IN IT'S FINAL FORM?

CHAIRMAN LYON: YES, I CAN DO THAT NOW WHILE WE'RE WRITING - WHILE WE'RE SIGNING IT COULD BE A LITTLE DIFFERENT. NOW, THE THEREFORE SAYS THE BOARD FINDS AS FOLLOWS:

1. THAT THE COMMISSIONER OF NATURAL RESOURCES HAS FOLLOWED THE BOARD POLICIES AND APPLICABLE STATUTES AND REGULATIONS RELATING TO THE DISPOSAL OF OIL AND GAS ROYALTY INTERESTS.
2. THAT THE BOARD FAVORS INCREASED IN-STATE USE OF ITS ROYALTY INTERESTS SUCH AS CONSTRUCTION OF A NE. REFINERY.
3. THAT THE BOARD DISAGREES THAT THE SALE OF THE ROYALTY OIL INTERESTS TO DOYON, LTD. AS PER THE AGREEMENT IS IN THE BEST INTEREST OF THE STATE BECAUSE

- (a) THAT FINANCING AND THEREFORE TIMING OF THE PROPOSED PROJECT IS CURRENTLY UNCERTAIN AND IT IS NOT IN THE STATE'S BEST INTEREST TO CONCLUDE A CONTRACT UNTIL THE PROJECT IS READY TO MOVE FORWARD.
- (b) THE PROVISION FOR DELAYED PAYMENT OF THE RESERVATION FEE ACCORDING TO PARAGRAPH 2.10 OF THE CONTRACT CREATES AN UNACCEPTABLE BIAS AGAINST COMPETITORS.

SHOULD ANYTHING ELSE BE INCLUDED? EVERYBODY UNDERSTAND THE RESOLUTION? THIS WILL BE THEN REDUCED TO WRITING AND SIGNED. OKAY, THOSE IN FAVOR OF THE MOTION AS PRESENTED SAY AYE.

TRIPLEHORN: IS THIS BY ROLL CALL?

CHAIRMAN LYON: DR. TRIPLEHORN.

TRIPLEHORN: AYE.

CHAIRMAN LYON: COMMISSIONER WEBBER.

COMMISSIONER WEBBER: AYE.

CHAIRMAN LYON: THE CHAIRMAN VOTES AYE. IT IS UNANIMOUS.

SUNEEL  
MARKETING  
Co. 4-18-81

# Alaska State Legislature

BETTYE FAHRENKAMP, CHAIRMAN  
VIC FISCHER, VICE-CHAIRMAN  
BRAD BRADLEY  
DICK ELIASON  
DON GILMAN  
BOB MULCAHY  
ARLISS STURGULEWSKI



POUCH V  
STATE CAPITOL  
JUNEAU, ALASKA 99811  
(907) 465-3834  
(907) 465-3835

## Senate

### Committee on Resources

April 16, 1981  
1:30 p.m.

Butro Room  
207 - Capitol

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#### MEMBERS PRESENT

Senator Fahrenkamp  
Senator Gilman  
Senator Sturgulewski  
Senator Mulcahy  
Representative Zharoff  
Representative Hurlbert

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The members were briefed by Tai Kyung Kim, Executive Vice President, Sun Eel Alaska Corporation, and Tae Il Kim, President, Sun Eel Shipping Company, Ltd., Korea. Bob LeResche, Commissioner of Natural Resources, also testified.

Tai K. Kim stated that Korea has few natural resources, and depends heavily upon imports. After the oil crisis, the Korean government began looking for a reliable sources of coal as an alternative. Alaskan coal was decided upon, for several reasons: (1) the U.S. is the most friendly nation to Korea, (2) the shipping time between Alaska and Korea is only 10 to 11 days, (3) Alaskans have been very open and cooperative and (4) many other sources of coal are heavily invested in by Japanese interests.

Mr. T. K. Kim stated that they had test-fired 28,000 short tons of Healy coal. It burns well, but the low calorific content of the coal lessens its competitiveness, although low transportation costs help make up the difference. There is the possibility of mixing petroleum coke from royalty oil with the coal, to produce a highly competitive high-calorie product.

Mr. T. K. Kim testified that from 1980 onward, no new oil-fired power generation plants will be built in Korea. There are 14 900 megawatt nuclear generation plants planned, but these require very large capital investments. When Korea acquires a secure long-term source of coal--and with the advent of larger ships--it will move towards much more extensive use of coal. Alaska could help develop this export market by providing for the infrastructure (railroad and port facilities) thus reducing the operation costs and making the coal more competitive.

Mr. T. I. Kim stated that the test shipment was satisfactory. They hope to have Korean coal-fired plants totally dependent on Alaskan coal.

SENATE RESOURCES COMMITTEE

April 16, 1981

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Commissioner LeResche testified that Alaska is on the threshold of becoming a major coal exporter. Only a small amount of financing is required. The state needs to do four things: (1) develop a small-scale interior coal export infrastructure immediately, (2) endorse a state policy in favor of promoting coal exports, (3) establish policy on coal severance tax and royalties and (4) establish an Alaska Surface Mining and Reclamation Act, designed to meet Alaskan criteria.

TAPS

LITIGATION

SETTLEMENT

5-7-82



# Alaska State Legislature

## SENATE Resources Committee

Official Business

BETTYE FAHRENKAMP, Chairman  
VIC FISCHER, Vice-Chairman  
BRAD BRADLEY  
DICK ELIASON  
DON GILMAN  
BOB MULCAHY  
ARLISS STURGULEWSKI

### TAPs LITIGATION SETTLEMENT HEARING

May 7, 1982  
4:00 p.m.

Governor's Conference Room

POUCH V  
STATE CAPITOL  
JUNEAU, ALASKA 99811  
(907) 465-3834  
(907) 465-3835

#### SENATORS PRESENT

Senator Fahrenkamp  
Senator Bradley  
Senator Colletta  
Senator Dankworth  
Senator Fischer  
Senator Gilman  
Senator Ker'illa  
Senator Mulcahy  
Senator Parr  
Senator Sturgulewski

#### REPRESENTATIVES PRESENT

Representative Halford  
Representative Adams  
Representative Brown  
Representative Bylsma  
Representative Cotten  
Representative Hayes  
Representative Malone  
Representative Randolph  
Representative Sutcliffe  
Representative Vaska

Wilson Condon, State Attorney General, outlined the six issues he sees in the settlement agreement:

1. The resolution of the rate issue between Prudhoe Bay and Fairbanks.
2. The tariff level from 1993 on, to address the objections of the U.S. Justice Department.
3. The letter from Dennis Melvin, FERC trial staff.
4. The likelihood of refunds.
5. The likelihood of lower tariffs in the future than what is in the settlement agreement.
6. The FERC decision-making process.

Robert Loeffler, Loeffler, Morrison, Foerester, D.C. Counsel to the Attorney General, in regard to Melvin's letter, explained that the FERC trial staff advocates the consumers' interest, and doesn't represent the views of the Commission. In addition, despite the recommendation Melvin made in his letter, he personally told Loeffler that he thought the FERC Commission would approve the settlement agreement. Loeffler stated that in making the settlement agreement, probabilities of different alternatives were judged, and the result is his best informed judgment. Noting that the burden of proof in this case is on the State, that the Commission could handle the case in a way that could lead to its dismissal, and that the possibility of getting a dollar settlement from FERC is not good, he urged the Legislature to accept the settlement agreement.

Condon explained that last year the minority members of the House urged that a settlement be negotiated. After meetings with many attorneys, a white paper was presented to the Governor, who then directed that a settlement agreement was appropriate. The Justice Department and FERC were also presented with the white paper.

Loeffler believes the pipeline companies will accept the settlement agreement, as it will bring their costly litigation to an end, and add certainty to the tariff issue. However, the settlement does expire in ten years, so a controversy on rate making methodology could begin anew at that time.

Representative Halford moved that the Committee go into Executive Session to discuss matters that directly affect the finances of the State. Unanimous consent was asked.

EXECUTIVE SESSION  
(NO MINUTES TAKEN)

Representative Randolph expressed concern over the Governor's direction that he will accept the settlement agreement unless the Legislature disapproves it. Randolph feels more time is needed to adequately decide the issue.

Condon stated that if the Legislature takes no action, the Governor can indeed accept the settlement, but stated he is committed to settling three issues prior to acceptance: 1) rates to Fairbanks 2) quality bank issue 3) opposition of the Justice Department to the settlement's 10-year life span. Condon sees little risk of losing the gains in the current settlement by not ratifying it right away.

Representative Cotten expressed concern over the affect of possible deregulation of pipelines on the settlement. Condon finds the possibility of deregulation low, which he considers a point in favor of the settlement agreement.

Jacob Billig, Billig, Sher & Jones, Counsel to MAPCO, representing North Pole Refinery, stated that North Pole's ability to compete in the refinery industry is dependent on the well head price of the oil and the TAPs tariff charge. The settlement agreement will have an adverse affect on North Pole, as the increase in the well head price will mean increased costs to the consumer, and the agreement fails to accord any refunds of the tariff charges paid by North Pole since 1977. Billig would like to see a lower transportation rate to Valdez, and an adjustment in the intrastate rate. However, if these matters are resolved, as the Attorney General has indicated they will be, North Pole Refinery would favor the settlement.

Representative Cotten stated that there is no real settlement for the Legislature to ratify until all loose ends are tied up, and that time is too short for the Legislature to have significant involvement in the settlement agreement.

Burt Sharp, Comptroller, Golden Valley Electric Association, Fairbanks, is concerned about the increased cost to the consumer the settlement agreement would provide. A tariff (transportation) reduction of \$1.35 per barrel is being realized in an equal increase in well head value. Because of the location of both the North Pole Refinery and GVEA along the pipeline, they pay a percentage rate of well head value, and any

increase in well head value increases the cost to consumers. He suggested that a mechanism be devised so that the Alaska users' cost of crude won't increase, and urged proper resolution of the quality bank issue.

Kevin McCarthy, Counsel, Joint House Oil and Gas Committee, expressed opposition to the settlement agreement, stating all the State has to lose if it doesn't accept the settlement is attorneys' fees. He cited as problems the 10-year life of the agreement, the risk of deregulation, and the fact that the attorneys representing the government in TAPs since 1977 (John Cleary, Ed Tumey, Terry Lindsner) have not presented their opinion on the settlement. He stated that cheap transportation is necessary to the future development of the North Slope, and views the long time frame of the litigation of the case as an opportunity for refunds to continue accumulating. McCarthy concluded by saying that if the Legislature disapproves this settlement agreement, they will probably have a better one before them in several months.

Jerry McCutcheon expressed opposition to the settlement, stating that the fact the State is negotiating is delaying FERC's settlement of the case.

Representative Halford suggested that the Committee go to the Governor to determine the potentials on deferring action, and asked that another meeting be held on the TAPs settlement, with Cleary, Tumey, and Lindsner present.

The meeting was adjourned at 6:50 p.m.

Joint Meeting  
of  
The Senate Resources Committee and the House Oil and Gas Committee  
to  
Review the Proposed TAPS Litigation Settlement

Thursday, May 12, 1982  
3 P.M.

House Finance Room, Capitol Building

Senate Resources Committee

Sen. Bettye Fahrenkamp - Chairman  
Sen. Bradley  
Sen. Eliason  
Sen. Fischer  
Sen. Gilman  
Sen. Mulcahy  
Sen. Sturgulewski

House Oil and Gas Committee

Rep. Rick Halford - Chairman  
Rep. Bylsma  
Rep. Cotten  
Rep. Montgomery  
Rep. Randolph  
Rep. Rogers  
Rep. Vaska

Agenda

1. Department of Law, Introduction of Counsel
2. Review of TAPS litigation, Phase I and Administrative Law Judge Kane's decision - by D.C. Counsel
3. Legislators - comments - motions
4. Executive Session
5. Adjournment

LAW OFFICES  
BILLIG, SHER & JONES, P. C.

JACOB P. BILLIG  
TERRENCE D. JONES  
STANLEY O. SHER  
JOHN R. ATTANASIO  
MARC J. FINK  
JEFFREY F. LAWRENCE  
MARK J. FRITZ  
ANTHONY J. CICCONE, JR.  
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May 13, 1982

The Honorable Bettye Fahrenkamph, Chairman  
Senate Resources Committee

The Honorable Rick Halford, Chairman  
House Oil and Gas Committee

Dear Senator Fahrenkamph and Representative Halford:

In reference to the written summary which has been prepared of the May 7, 1982 TAPS Settlement Hearings, we would like to request that the additional two points, not set forth in the summary, be indicated since they were part of our presentation of the position of the North Pole Refinery:

1. The intrastate tariff rate from Pump Station #1 to North Pole should be adjusted in a manner so that the delivered cost of crude oil does not increase as a result of the settlement.
2. The Quality Bank litigation be resolved.

We would request that this clarification be included in the official summary of the hearing. For the record, I am attaching a written copy of the text of my May 7 presentation.

Very truly yours,



Jacob P. Billig  
Counsel to North Pole Refinery

Enclosure

AGO 886264 +

MAY 7, 1982 STATEMENT OF JACOB P. BILLIG  
ON BEHALF OF THE NORTH POLE REFINERY  
TO THE ALASKA LEGISLATURE'S JOINT GAS PIPELINE COMMITTEE

We appear here today on behalf of North Pole Refinery which operates the only refinery in the Interior of Alaska at Fairbanks. As many of you are aware, this Refinery has been in operation since August of 1977. Since that time it has been furnishing refined products, including jet fuel, home heating oil and turbine fuel, to the citizens of the Interior of Alaska. In addition, the Refinery serves the outlying Bush areas and has recently begun selling jet fuel in the Anchorage market thus reducing the dependency of that market on West Coast suppliers.

The ability of any interior Refinery to compete in these markets is, substantially dependent upon two interrelated factors:

- (a) the well head price of the oil; and
- (b) its TAPS tariff charges.

We are appearing here today because both of these factors are affected by its proposed settlement of the Trans Alaska Pipeline case pending in Washington before the Federal Energy Regulatory Commission. Before addressing the merits of the proposed settlement agreement, I should point out that the North Pole Refinery transportation costs, and in turn the cost to consumers in the Interior of Alaska, are directly impacted by a variety of tariff rates and charges assessed by the TAPS carriers. Thus, in addition to the tariff charge for the transportation of oil from Pump Station 1 to Valdez which the Refinery pays with respect to some 30,000 barrels per day, it also pays a transportation rate with regard to the movement of oil from Pump Station 1 to the North Pole Refinery at Fairbanks. In addition, the carriers have assessed a so-called Quality Bank charge on the North Pole return oil movements. This charge is currently at a rate of 15 cents per degree API or approximately \$2.10 per barrel of product. Under the methodology which the carriers have proposed, the Quality Bank charge could exceed \$5 a barrel.

Since 1977, the North Pole Refinery has been seeking in various litigations to secure reasonable rates and charges for its movements

from the TAPS carriers. To a certain degree it has been successful before the Alaska Pipeline Commission, predecessor to the APUC, in securing a mileage-based rate for the movements to North Pole. However, that rate is presently being challenged by the carriers in court. With regard to the rate to Valdez, there has been an initial decision by the FERC Administrative Law Judge, Judge Kane. The Quality Bank case is pending before the same judge. Thus, in neither case has there been any final resolution by the FERC.

The settlement agreement proposes to deal with only one aspect of North Pole's transportation charges -- the rate to be assessed for the Valdez movement. It does not seek to settle the controversies still outstanding with the TAPS carriers with respect to the intermediate point rate to North Pole or the Quality Bank charge. The fact that the proposed settlement addresses only a small part of its problems with the TAPS carriers is a major difficulty which the North Pole Refinery has with it.

Insofar as the Interior's interests are concerned, it is in any event clear that the effect of the proposed settlement upon the Refinery and its customers will be adverse. The Fairbanks rate is constructed as a percentage of the Valdez rates. An increase in the interstate Valdez rate thus would mean, if adopted for intrastate purposes as is likely, an increase in the intrastate Fairbanks rate. On the other hand, a decrease in the Valdez rate would also result in increased costs to the Interior since it would result in an increase in the well head price. In this respect, under the settlement which has been proposed, the cost per barrel of oil products will increase by \$1.37. This is a cost, unless there is a countervailing reduction in the intrastate Fairbanks rate, which would have to be borne by the consumers in the Interior of Alaska as well as in the Bush. It would also seriously disable efforts to supply needed fuels to the Anchorage market which are shipped on the Alaska Railroad.

Finally, the Refinery has difficulty with the proposed settlement because it fails to accord any refunds of tariff charges which have been paid by North Pole since the early part of 1978. As a public company with a duty to its stockholders as well as to its customers in maintaining a viable refinery operation, the North Pole Refinery cannot overlook these refunds.

The interests of the North Pole Refinery and the energy consumer in Alaska which I have described were initially not fully

Statement of Jacob P. Billig  
May 7, 1982  
Page 3

understood and taken into account in reaching the proposed settlement. We were pleased and gratified to hear today from the Attorney General that this will be rectified and that the issues I have outlined will be resolved as a condition to any acceptance of the settlement. Assuming that the rate and Quality Bank issues are resolved in a manner which meets Alaska energy needs, the North Pole Refinery will fully support the proposed settlement.

(In answer to a question from a member of the Committee, I clarified that North Pole's position is not that there must be higher rates to Valdez in order to serve its interests. I pointed out that while a lower rate to Valdez does disadvantage North Pole and the Interior in that it results in an increased well head price, we believed this could and should be handled by adjusting downward the intrastate rate to North Pole. In this respect, I noted that the movement of the "bottleneck" to a point south of the Refinery made it reasonable to accord such reduction.)

Jacob P. Billig

May 14, 1982

The Honorable Jalmar Kerttula  
President, Alaska State Senate

and  
The Honorable Joe Hayes  
Speaker of the House  
Alaska State Legislature  
Pouch V  
Juneau, Alaska 99811

Dear Mr. President and Mr. Speaker:

I previously sent you a letter concerning the settlement of the Trans Alaska Pipeline System (TAPS) rate case, which basically stated that I intended to proceed with the proposed settlement unless the Legislature passed a resolution disapproving the settlement. I stated that I still believed this proposed settlement was in the best interest of the State and that it would immediately increase State revenues by \$200 million per year. This was concluded to be better than the expected present value of the various possible outcomes of the litigation. Moreover it would give present certainty to a dispute that otherwise may very well continue into the next decade and in the process incur additional costs.

I asked for legislative participation because this issue has tremendous financial consequences to the State. The response thus far has been at best skeptical due, in large part, to the recently emerging opposition of various other parties in the litigation, such as the F.E.R.C. staff. Although that opposition arises as a result of the different and separate interests of those parties, it nonetheless has raised concerns for many legislators. In addition, even if a negating resolution is not passed, there will remain a substantial cloud over the settlement. Silence will not be seen as support.

I do not believe that the interests of the State are well served if an issue of this magnitude is settled with such a pall hanging over it. Moreover, unfortunately, because of the timing of the settlement process and the upcoming changes in both the administration and the Legislature, delay would likely simply substitute for abandonment.

AGO 886268

The Hon. Jalmar Kerttula  
The Hon. Joe Hayes

-2-

May 14, 1982

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The issue must be resolved one way or another this session. For me to approve it requires that the Legislature show support for the proposed settlement. My current perception of the legislative attitude is one of doubt. Whether that perception is accurate or even if the Legislature as a whole actually supports the settlement, I am now concerned that this perception will not be dispelled by the failure to pass an opposing resolution. Therefore, I have decided not to proceed with the settlement unless the Legislature passes a resolution supporting the settlement.

Several legislators have suggested that the matter be referred to an interim committee for two to three months and then have the committee report its decision to the executive branch. I do not think this is an acceptable alternative. It is most preferable to the State to have this case decided expeditiously if we cannot achieve a settlement. As long as the settlement process continues the F.E.R.C. will not seriously consider deciding the case. We already have direct knowledge that the F.E.R.C. has put the case on its "back burner" while our settlement discussions have been ongoing. Delay favors the pipeline companies. The longer the delay in resolving the case, the more difficult it will be for the F.E.R.C. to order the substantial refunds and the dramatically lower rates that would be the best possible outcome for the State.

A decision to pass for a potential big victory in the future or to take \$200 million per year now is a major public policy decision. It is as much an important policy decision as decisions on operating or capital budgets, spending limits, or other important State matters. As such, I believe legislative participation in this decision is most appropriate. While I remain confident that we have negotiated the possible settlement, I will not proceed unless you approve it.

Sincerely,

Jay S. Hammond  
Governor

bcc: Attorney General Wil Condon  
Susan Greene  
JSH:lsg

AGO 886269

# STATE OF ALASKA

## DEPARTMENT OF LAW

OFFICE OF THE ATTORNEY GENERAL

JAY S. HAMMOND, GOVERNOR

POUCH K - STATE CAPITOL  
JUNEAU, ALASKA 99811  
PHONE: (907) 465-3600

May 14, 1982

The Honorable  
Richard W. Halford  
House of Representatives  
Alaska State Legislature  
Pouch V  
Juneau, Alaska 99811

Dear Representative Halford:

Although there has not yet been a formal communication, I understand that the Joint Gas Pipeline Committee is inclined toward disapproving the proposed TAPS settlement. In addition, I understand that there is also a desire of many members to see Phase II settled by itself.

First, I would like to commend the committee for its handling of a very difficult and complex matter. Although I disagree with your conclusions, my staff and I were very impressed by the deliberation and care taken by members of the committee. The inquiry was thoughtful, the questioning intelligent, and the care taken was evident. The members are to be congratulated and thanked for the time invested at a point in the session when many other issues were pressing. Even though I do not concur with the result, the committee's decision was made in a very responsible and intelligent manner.

Although I will attempt to settle Phase II of the case, in my opinion, the possibility of getting a reasonable settlement with the companies is very slim.

Based on my discussion with their in-house counsel as recently as this week, I believe that they view Phase II as a means of delaying the ultimate resolution of Phase I. Since the "big dollars" are tied in with the Phase I issues, their perception is that dragging out the entire proceeding works to their advantage since they continue to collect a weighted average tariff of \$6.00 per barrel while the case continues. Nor do they see any significant litigation costs associated with this tactic. Since their Phase II case preparation has been completed, their major expenditure on the case is over. In short, they believe that time is on their side and that Phase II is our Vietnam. Whether or not their perception is correct, it is their present belief. Obviously, as long as they hold that view an acceptable

AGO 886270

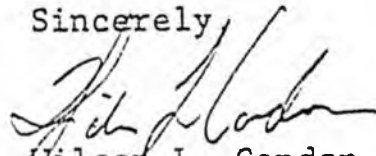
May 14, 1982

settlement is unlikely. Therefore, although I will make the attempt, I am not optimistic.

Without an overall settlement, the litigation will proceed and our present litigation request of \$4.5 million to fund the TAPS litigation to February 15 is now absolutely necessary. Moreover, I would urge the legislature to fund the TAPS litigation for the entire fiscal year, and thus restore the funding to the originally requested \$7,380,000. I do not think the State will be well served if the next Attorney General is placed in the position of having to fight for a TAPS supplemental as one of his or her first responsibilities.

Again, I wish to thank the committee for their care and thoughtful deliberation. You were faced with a difficult and complex decision that had to be made quickly. Although I disagree with your conclusion, I believe you acted responsibly.

Sincerely,



Wilson L. Condon  
Attorney General

WLC:mr



# Alaska State Legislature

## SENATE Resources Committee

Official Business

BETTYE FAHRENKAMP, Chairman  
VIC FISCHER, Vice-Chairman  
BRAD BRADLEY  
DICK ELIASON  
DON GILMAN  
BOB MULCAHY  
ARLISS STURGULEWSKI

### TAPs LITIGATION SETTLEMENT HEARING

May 7, 1982  
4:00 p.m.

Governor's Conference Room

POUCH V  
STATE CAPITOL  
JUNEAU, ALASKA 99811  
(907) 465-3834  
(907) 465-3835

#### SENATORS PRESENT

Senator Fahrenkamp  
Senator Bradley  
Senator Colletta  
Senator Dankworth  
Senator Fischer  
Senator Gilman  
Senator Ker' illa  
Senator Mulcahy  
Senator Parr  
Senator Sturgulewski

#### REPRESENTATIVES PRESENT

Representative Halford  
Representative Adams  
Representative Brown  
Representative Bylsma  
Representative Cotten  
Representative Hayes  
Representative Malone  
Representative Randolph  
Representative Sutcliffe  
Representative Vaska

Wilson Condon, State Attorney General, outlined the six issues he sees in the settlement agreement:

1. The resolution of the rate issue between Prudhoe Bay and Fairbanks.
2. The tariff level from 1993 on, to address the objections of the U.S. Justice Department.
3. The letter from Dennis Melvin, FERC trial staff.
4. The likelihood of refunds.
5. The likelihood of lower tariffs in the future than what is in the settlement agreement.
6. The FERC decision-making process.

Robert Loeffler, Loeffler, Morrison, Foerester, D.C. Counsel to the Attorney General, in regard to Melvin's letter, explained that the FERC trial staff advocates the consumers' interest, and doesn't represent the views of the Commission. In addition, despite the recommendation Melvin made in his letter, he personally told Loeffler that he thought the FERC Commission would approve the settlement agreement. Loeffler stated that in making the settlement agreement, probabilities of different alternatives were judged, and the result is his best informed judgment. Noting that the burden of proof in this case is on the State, that the Commission could handle the case in a way that could lead to its dismissal, and that the possibility of getting a dollar settlement from FERC is not good, he urged the Legislature to accept the settlement agreement.

Condon explained that last year the minority members of the House urged that a settlement be negotiated. After meetings with many attorneys, a white paper was presented to the Governor, who then directed that a settlement agreement was appropriate. The Justice Department and FERC were also presented with the white paper.

Loeffler believes the pipeline companies will accept the settlement agreement, as it will bring their costly litigation to an end, and add certainty to the tariff issue. However, the settlement does expire in ten years, so a controversy on rate making methodology could begin anew at that time.

Representative Halford moved that the Committee go into Executive Session to discuss matters that directly affect the finances of the State. Unanimous consent was asked.

EXECUTIVE SESSION  
(NO MINUTES TAKEN)

Representative Randolph expressed concern over the Governor's direction that he will accept the settlement agreement unless the Legislature disapproves it. Randolph feels more time is needed to adequately decide the issue.

Condon stated that if the Legislature takes no action, the Governor can indeed accept the settlement, but stated he is committed to settling three issues prior to acceptance: 1) rates to Fairbanks 2) quality bank issue 3) opposition of the Justice Department to the settlement's 10-year life span. Condon sees little risk of losing the gains in the current settlement by not ratifying it right away.

Representative Cotten expressed concern over the affect of possible deregulation of pipelines on the settlement. Condon finds the possibility of deregulation low, which he considers a point in favor of the settlement agreement.

Jacob Billig, Billig, Sher & Jones, Counsel to MAPCO, representing North Pole Refinery, stated that North Pole's ability to compete in the refinery industry is dependent on the well head price of the oil and the TAPs tariff charge. The settlement agreement will have an adverse affect on North Pole, as the increase in the well head price will mean increased costs to the consumer, and the agreement fails to accord any refunds of the tariff charges paid by North Pole since 1977. Billig would like to see a lower transportation rate to Valdez, and an adjustment in the intrastate rate. However, if these matters are resolved, as the Attorney General has indicated they will be, North Pole Refinery would favor the settlement.

Representative Cotten stated that there is no real settlement for the Legislature to ratify until all loose ends are tied up, and that time is too short for the Legislature to have significant involvement in the settlement agreement.

Burt Sharp, Comptroller, Golden Valley Electric Association, Fairbanks, is concerned about the increased cost to the consumer the settlement agreement would provide. A tariff (transportation) reduction of \$1.35 per barrel is being realized in an equal increase in well head value. Because of the location of both the North Pole Refinery and GVEA along the pipeline, they pay a percentage rate of well head value, and any

increase in well head value increases the cost to consumers. He suggested that a mechanism be devised so that the Alaska users' cost of crude won't increase, and urged proper resolution of the quality bank issue.

Kevin McCarthy, Counsel, Joint House Oil and Gas Committee, expressed opposition to the settlement agreement, stating all the State has to lose if it doesn't accept the settlement is attorneys' fees. He cited as problems the 10-year life of the agreement, the risk of deregulation, and the fact that the attorneys representing the government in TAPs since 1977 (John Cleary, Ed Tumey, Terry Lindsner) have not presented their opinion on the settlement. He stated that cheap transportation is necessary to the future development of the North Slope, and views the long time frame of the litigation of the case as an opportunity for refunds to continue accumulating. McCarthy concluded by saying that if the Legislature disapproves this settlement agreement, they will probably have a better one before them in several months.

Jerry McCutcheon expressed opposition to the settlement, stating that the fact th. State is negotiating is delcying FERC's settlement of the case.

Representative Halford suggested that the Committee go the Governor to determine the potentials on deferring action, and asked that another meeting be held on the TAPs settlement, with Cleary, Tumey, and Lindsner present.

The meeting was adjourned at 6:50 p.m.



# Alaska State Legislature

## SENATE Resources Committee

Official Business

BETTYE FAHRENKAMP, Chairman  
VIC FISCHER, Vice-Chairman  
BRAD BRADLEY  
DICK ELIASON  
DON GILMAN  
BOB MULCAHY  
ARLISS STURGULEWSKI

### TAPs LITIGATION SETTLEMENT HEARING

May 13, 1982  
3:10 p.m.

House Finance Meeting Room

POUCH V  
STATE CAPITOL  
JUNEAU, ALASKA 99811  
(907) 465-3834  
(907) 465-3835

#### SENATORS PRESENT

Senator Fahrenkamp  
Senator Bradley  
Senator Fischer  
Senator Gilman  
Senator Mulcahy  
Senator Parr  
Senator Sturgulewski

#### REPRESENTATIVES PRESENT

Representative Halford  
Representative Bettisworth  
Representative Brown  
Representative Bylsma  
Representative Cotten  
Representative Hayes  
Representative Malone  
Representative Randolph  
Representative Rogers  
Representative Vaska

-----  
Wilson Condon, Attorney General, reassured the Committee that the rate issue between Prudhoe Bay and Fairbanks would be resolved before acceptance of the settlement agreement.

Jacob Billig, Counsel to Mapco, stated he had prepared an addition to the minutes of the May 7, 1982 TAPs Litigation Settlement hearing that he would like included as part of the written record. (Copy attached.)

Terry Lindsner, D.C. Counsel, stated he had been retained to investigate any imprudent costs in the pipeline construction. He feels that the State has a very strong case in Phase 2 of the TAPs litigation, but supports the idea of a settlement to reduce the uncertainties, risks, and continued expense to the State and its citizens.

John Cleary, D.C. Counsel, stated that he has been active in the rate making methodology which led to Judge Kane's decision, and in determining the service life of the line. He stated that settling in favor of the client should always be sought.

Condon stated that whether or not to settle is a judgment that must be made, first by the Attorney General, then by the Governor, then by the Legislature. This judgment depends on the pursuit of particular State policy goals. The D.C. Counsel is not involved in making this judgment, but in determining the likelihood of refunds, of the Kane decision being upheld or modified, and of what future tariffs might be. Condon

TAPs LITIGATION SETTLEMENT HEARING

May 13, 1982

Page 2

outlined four possible policy questions: being a trustee of public resources and seeking certainty; being a trustee but disagreeing with the evaluations; accepting that the State may always be involved in litigation with the oil companies; continuing with litigation as a way of avoiding the issue. Condon feels that a decision on the settlement agreement must be made soon, because the State will be injured by a delay.

Cleary relayed a statement made by FERC Chairman Butler regarding the TAPs case. Butler thinks the case is subject to a fairly definitive settlement agreement, and hopes FERC will not have to spend the time and resources deciding the case.

Condon's opinion is that certainty of income to the State is more important than a settlement of methodology issues. He stated that FERC is such a political body that it can have no "rules".

Senator Fahrenkamp moved and asked unanimous consent that the Committee go into Executive Session, as immediate knowledge of issues to be discussed would have an adverse impact on the finances of the State.

Representative Rogers moved and asked unanimous consent that the Committee meet first with the D.C. Counsel, and then separately with the Attorney General.

EXECUTIVE SESSION  
No Minutes Taken

Jacob Billig, D.C. Counsel to Mapco, reminded the Committee of the three issues that must be satisfied before North Pole Refinery would consider the settlement agreement satisfactory: the intrastate rate; the refunds potentially due North Pole; the quality bank issue. Since appearing before the Committee on May 7th, 1982, Billig has conferred with representatives of British Petroleum Pipeline, who informed him they were unwilling to discuss refunds or the quality bank issue. Due to this fact, North Pole finds the settlement agreement contrary to the public interest, and Billig urged that the Legislature disapprove the agreement and bring pressure on FERC to get on with the case.

Jerry McCutcheon expressed opposition to the settlement agreement, saying that the State would suffer a net loss of revenue if it accepts the settlement agreement.

The meeting was adjourned at 8:20 p.m.

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DOROTHY L. NICHOLS  
SANDRA L. RICHARDSON

TEL. (202) 223-8270  
CABLE: BISJO  
TELEX: 89-569

May 13, 1982

The Honorable Bettye Fahrenkamph, Chairman  
Senate Resources Committee

The Honorable Rick Halford, Chairman  
House Oil and Gas Committee

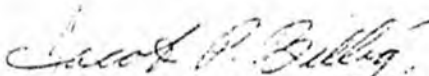
Dear Senator Fahrenkamph and Representative Halford:

In reference to the written summary which has been prepared of the May 7, 1982 TAPS Settlement Hearings, we would like to request that the additional two points, not set forth in the summary, be indicated since they were part of our presentation of the position of the North Pole Refinery:

1. The intrastate tariff rate from Pump Station #1 to North Pole should be adjusted in a manner so that the delivered cost of crude oil does not increase as a result of the settlement.
2. The Quality Bank litigation be resolved.

We would request that this clarification be included in the official summary of the hearing. For the record, I am attaching a written copy of the text of my May 7 presentation.

Very truly yours,



Jacob P. Billig  
Counsel to North Pole Refinery

Enclosure

AGO 886277-1

MAY 7, 1982 STATEMENT OF JACOB P. BILLIG  
ON BEHALF OF THE NORTH POLE REFINERY  
TO THE ALASKA LEGISLATURE'S JOINT GAS PIPELINE COMMITTEE

We appear here today on behalf of North Pole Refinery which operates the only refinery in the Interior of Alaska at Fairbanks. As many of you are aware, this Refinery has been in operation since August of 1977. Since that time it has been furnishing refined products, including jet fuel, home heating oil and turbine fuel, to the citizens of the Interior of Alaska. In addition, the Refinery serves the outlying Bush areas and has recently begun selling jet fuel in the Anchorage market thus reducing the dependency of that market on West Coast carriers.

The ability of any interior Refinery to compete in these markets is, substantially dependent upon two interrelated factors:

- (a) the well head price of the oil; and
- (b) its TAPS tariff charges.

We are appearing here today because both of these factors are affected by its proposed settlement of the Trans Alaska Pipeline case pending in Washington before the Federal Energy Regulatory Commission. Before addressing the merits of the proposed settlement agreement, I should point out that the North Pole Refinery transportation costs, and in turn the cost to consumers in the Interior of Alaska, are directly impacted by a variety of tariff rates and charges assessed by the TAPS carriers. Thus, in addition to the tariff charge for the transportation of oil from Pump Station 1 to Valdez which the Refinery pays with respect to some 30,000 barrels per day, it also pays a transportation rate with regard to the movement of oil from Pump Station 1 to the North Pole Refinery at Fairbanks. In addition, the carriers have assessed a so-called Quality Bank charge on the North Pole return oil movements. This charge is currently at a rate of 15 cents per degree API or approximately \$2.10 per barrel of product. Under the methodology which the carriers have proposed, the Quality Bank charge could exceed \$5 a barrel.

Since 1977, the North Pole Refinery has been seeking in various litigations to secure reasonable rates and charges for its movements

from the TAPS carriers. To a certain degree it has been successful before the Alaska Pipeline Commission, predecessor to the APUC, in securing a mileage-based rate for the movements to North Pole. However, that rate is presently being challenged by the carriers in court. With regard to the rate to Valdez, there has been an initial decision by the FERC Administrative Law Judge, Judge Kane. The Quality Bank case is pending before the same judge. Thus, in neither case has there been any final resolution by the FERC.

The settlement agreement proposes to deal with only one aspect of North Pole's transportation charges -- the rate to be assessed for the Valdez movement. It does not seek to settle the controversies still outstanding with the TAPS carriers with respect to the intermediate point rate to North Pole or the Quality Bank charge. The fact that the proposed settlement addresses only a small part of its problems with the TAPS carriers is a major difficulty which the North Pole Refinery has with it.

Insofar as the Interior's interests are concerned, it is in any event clear that the effect of the proposed settlement upon the Refinery and its customers will be adverse. The Fairbanks rate is constructed as a percentage of the Valdez rates. An increase in the interstate Valdez rate thus would mean, if adopted for intrastate purposes as is likely, an increase in the intrastate Fairbanks rate. On the other hand, a decrease in the Valdez rate would also result in increased costs to the Interior since it would result in an increase in the well head price. In this respect, under the settlement which has been proposed, the cost per barrel of oil products will increase by \$1.37. This is a cost, unless there is a countervailing reduction in the intrastate Fairbanks rate, which would have to be borne by the consumers in the Interior of Alaska as well as in the Bush. It would also seriously disable efforts to supply needed fuels to the Anchorage market which are shipped on the Alaska Railroad.

Finally, the Refinery has difficulty with the proposed settlement because it fails to accord any refunds of tariff charges which have been paid by North Pole since the early part of 1978. As a public company with a duty to its stockholders as well as to its customers in maintaining a viable refinery operation, the North Pole Refinery cannot overlook these refunds.

The interests of the North Pole Refinery and the energy consumer in Alaska which I have described were initially not fully

Statement of Jacob P. Billig  
May 7, 1982  
Page 3

understood and taken into account in reaching the proposed settlement. We were pleased and gratified to hear today from the Attorney General that this will be rectified and that the issues I have outlined will be resolved as a condition to any acceptance of the settlement. Assuming that the rate and Quality Bank issues are resolved in a manner which meets Alaska energy needs, the North Pole Refinery will fully support the proposed settlement.

(In answer to a question from a member of the Committee, I clarified that North Pole's position is not that there must be higher rates to Valdez in order to serve its interests. I pointed out that while a lower rate to Valdez does disadvantage North Pole and the Interior in that it results in an increased well head price, we believed this could and should be handled by adjusting downward the intrastate rate to North Pole. In this respect, I noted that the movement of the "bottleneck" to a point south of the Refinery made it reasonable to accord such reduction.)

Jacob P. Billig

Fahrenkamp: First of all I will call the Executive Session in order.

Halford: Madam Chairman.

Fahrenkamp: Yes.

Halford: Before we - if we're going to have a taping, and if we do have things arrive transcript to the public and the press I would hope we do that - we could go through it and maybe if the Attorney General's office can go through it and just check to make sure that what is provided is not - prejudicial to our case but other than that I would provide the entire tape, less any of those sections at least a transcript of it.

Fahrenkamp: Well I - I think everybody knows how all of us feel about executive sessions - but there are times where I ---- use as much information as possible. So would you please proceed.

Loeffler: Number one if we don't finish we will be happy to come back even next week if necessary. Let's - let me divide that into three big issues - what we think is going to happen with this rate methodology question, which is really the big bucks question; second, what's going to happen with this so-called rate-

base, the arguments of waste and mismanagement; and third what the Department of Justice said to us this week

Number one, as I said openly [i.e. in open session], Kane's decision was based on depreciated original cost. That's something we've earned. Mr. Melvin says, "Oh I can't see any anything happening to the depreciated ~~original~~<sup>original</sup> costs." There are four commissioners at the Commission. Three are republicans; one's a democrat. There's one democrat vacancy. On the general question, Williams case, as far as where the FERC will go on methodology, we know they are split between two choices, neither of which is what Mr. Melvin urges. These choices are the ICC valuation methodology and trended original cost.

It's no secret that companies have heard the same thing. It's been in the Trade Press. So, both of the alternatives for oil pipeline rate making generally are not the ones that the administrative law judge used for the Phase I interim decision or that Mr. Melvin bases his predictions on.

Representative Fred Brown:

Loeffler:

Levine:

Brown: :

Loeffler: - - - - -

Brown:

Fahrenkamp:

Loeffler: But there are also similar reports on the more general methodology in the Trade Press. So oil pipelines generally were seeing nothing like the law judge used. The bulk of those methodologies are a lot more favorable - to the industry.

Loeffler: Let me say one more sentence. You say -

Levine: The reason why is because then the rate base keeps shrinking so if you get say a 10% return or whatever your rate base, that is, your tariff, keeps going down. Under valuation its a combination, its partly depreciated original cost and partly replacement cost, which obviously goes up in inflationary times. So there the rate base stays constant or goes up a little bit so your tariffs go up a little bit. Under trended original cost the methodology involves adjusting the rate base every year for the rate of inflation. Now, eventually the rate base does begin to shrink because your accumulated depreciation eats it up, but only after the first 15-20 years do you reach a tipping point. The tariffs go up considerably - can go up - let me put it this way, faster than the tariffs provided for in the settlement, because the settlement tariffs only go up at 40% the rate of inflation, they don't go up at 100% inflation.

Cotten: Madam Chairman, can we kind of try to constrain ourselves to the material that is suppose to be a secret or whatever?

Loeffler: Point number one: there are both public and nonpublic sources of information that suggest the commissioners are going away from us.

There is the deregulation movement in Congress and maybe Senator Stevens can block that for TAPS and maybe he can't.

Four years from now,  
if you've got a new national administration that is very consumer-minded it might turn again. I can't - I'm just telling you what we know about the people who are on the Commission today.

In December, <sup>the</sup> one democrat on the Commission whom we thought was most favorable to our point of view and to the Judge's decision of law, came and gave a speech that was reported publicly saying that he wanted to go with one of these other formulas. It - it shook us up. That's number one.

Number two - the issue of waste and mismanagement: the Phase Two case. This one is currently being tried, there's no decision on it yet before the law judge. It's no secret the law judge doesn't like it. He said, walking out of the hearing room the other day, "I'm counting on the settlement to save me from this."

Special counsel Terry Lenzner has given us an estimate of what is the most he could win and what he believes is the likely result.

Halford:

Loeffler:

Levine:

Loeffler:

The third point, Department of Justice. Department of Justice staff, mainly Don Kaplan who has been on the case for five years as the litigation counsel

made arguments similar to the extreme position expressed in Dennis Melvin's letter. We did a lot of work responding to Kaplan's arguments. In fact, three weeks ago he said we might be violating the anti-trust laws, because we got our attorneys' fees back out of the settlement, it's a violation of the Elkins Act as a rebate or a dividend. In responding to the anti-trust problems and trying to get a fixed rate as far as the settlement, we - we've spent a lot of time doing a legal memo. We've locked in [Assistant U.S. Attorney General William] Baxter on Monday, He says,

I don't have any problem with the settlement except one - I want to know what happens in 1993. And all I need is a rate base number. I don't care what it is (within reasonable limits), so long as I can measure this rate of return for the whole project against it. The settlements is fine with me."

Now we're trying to satisfy the concerns of the Department of Justice by showing them on their own numbers that the rate of return on the investment over the life of the project will not exceed 8% real rate of return.

Again, you've got - I mean - I can make this sort of argument [i.e. the Melvin letter] just as well as Melvin has. It is the argument that we will make if we don't go ahead with the settlement.

But I don't want to be quoted publicly as saying,

We have finally!- I should have said this probably in the first place - the settlement has to be approved by the Commission. The standard is just and reasonable and in the public interest. Approval of the settlement is a public process in which everyone and their brother can make comments and object to the settlement. It goes up to the Commission and then it goes to the courts.

We have researched the law, there is a lot of law that says the value of certainty in a litigation that has been hotly contested makes sense in the public interest.

Parr: Maybe <sup>now</sup> they're answering the question I was trying to raise a while ago. We're ~~buying~~ <sup>letting</sup>, we've got ~~the~~ money on a horse, right?

Loeffler: That's right.

Parr: And your judgment is that we have bet enough money on that horse to go - to go to cop our bets and take - cut our losses and get out.

Loeffler: Right.

Parr: Is that what you're saying?

Loeffler: It's more like, "Quit while we're ahead." We're ahead, there's no question, we're ahead based on that law judge's decision. But several things have happened, interest rates have zoomed up - I mean he was talking about an 11.5 overall rate of return and now we see 15, 16, 17, and 18 coming out of the Commission. Even under his rate of return formula, that adjustment will occur automatically and increase the rates. What we fear, is that if we go to the Commission and we can ask them to decide it fast and maybe they will and maybe they won't - they are not going to take them judge's decision, but they are going to take something that's a lot less favorable to us.

On the part of the case that has not yet been decided, the Phase Two Cost Overrun, we've made a good case, there's no question of it.

Cotten: Well.

Fahrenkamp: Representative.

Cotten: Well, probably sounds like a real simple question, but don't those guys know it too. Doesn't BP know that it is sort of going the other way - you know - what makes them so anxious to settle.

Loeffler: Well it's the certainty. I mean I really think the interest isn't much different than us. They know, on the other hand, we can drag it out for a long time, depending upon whether the resources are committed to the case, I'm as good as the next fellow and so on - Terry Lenzner or John Cleary are both capable of stretching the case out. So they [the Pipeline Companies] live with uncertainty too.

Fahrenkamp: Are their further questions?

Cotten: Not just depreciated dollar thing you told me about earlier. Maybe I misunderstood something but, it is to the advantage to the pipeline owners to stretch it out, could they pay us off if they lose - depreciated dollars.

Loeffler: That's right.

Halford: It's to our advantage to settle now, cause we get the dollars at present dollars.

Loeffler: Who gets reduction.

Halford: Is that the point you were making a while ago?

Loeffler: Yes. We've - two things - we've got it now in the settlement agreement that the tariff drops. Right down to the

average rate is around \$6.00 that's being charged. It will drop as soon as the settlement is approved, I guess is their . . .

Levine: Immediately upon filing of the settlement, the tariff will drop to \$5.50. As soon as the settlement is approved the rate will drop still further to \$4.62.

Loeffler: Not - I don't want to overplay this because there are people who are going to oppose it, you can see that. Mr. Melvin - he can't take it to court. Department of Justice may decide to and they may decide not to. There are other people who can take it to court and it could be thrown out.

Unidentified legislator: I thought you said the Department of Justice . . . ?

Loeffler: They have one concern in that if we can meet their concern about having a rate base number or something that meets their standards might - after the settlement is over . . . The approach, like it or not, of everyone who has been involved in this is, "What's in it for me?" Department of Justice - well they spent a lot of time and money on this case so they want to get something out of it too. A ten-year settlement may be fine for the State of Alaska. The Department of Justice has weakened. Bill Baxter says, "After all," he says, "you give me a rate base number in 1993, and that's all I want."

Levine: We don't have it nailed down yet so that's why Mr. Loeffler conceded the possibility that the Department of Justice might challenge the settlement. Until we get that narrowed down.

Fahrenkamp: Representative Vaska.

Vaska: You - a couple of things you mentioned the federal antitrust division.

Fahrenkamp: Yeah.

Vaska: Now there use.

Loeffler: That's Department of Justice.

Vaska: Okay that's the Department of Justice.

Loeffler: They are a party to the case. Yeah, okay fine.

Vaska: And you said that they would take it away from the FERC?

Loeffler: The head of the antitrust division said he didn't believe the FERC would ever decide TAPS or Williams and that maybe <sup>he</sup> ought to find a way to take it away from them. None of us in the room knew what he meant. Legislation is the only obvious way to do that. There's not - you got to - its before the FERC by legislation - and it would take legislation to take it away.

Fahrenkamp: Representative Randolph.

Randolph: Charges moving with watch again, I don't think but I think its absolutely imperative that the folks - if we're going to stick with some of these time frame. Governor's original communication that these folks come back again next week and continue this.

Loeffler: You advise us and we'll come back.

Fahrenkamp: Okay, are there further questions before we go back into general - is that all you've got to say.

Levine: One small comment which I think is important. One of the things the staff of the legislature and Wilson and Mr. Melvin talked about in their memos is that there is nothing in the TAPS record that supports any methodology except valuation, which a lot of people think is nonsense, and original cost. That's right. And that means that one of the most likely things the Commission

ca do is to send the case back down to the Administrative Law Judge for a new round of hearings and evidence on these other methodologies. That adds three years onto all the estimates we've been giving you.

Fahrenkamp: Let me.

Loeffler: There are all sorts of ways to postpone a decision, especially for a bunch of people who don't want to make them.

Fahrenkamp: Are there any other questions in before we go back in general session. Is there anything else that they want to say. I think . . .

Loeffler: Let me look at my notes quickly.

Fahrenkamp: Because I think it is important there may be questions that we can't think of to ask right now that are should be brought out in the executive session. That -

Loeffler: There's one thing I want to say.

Fahrenkamp: Those in the executive session.

Loeffler:

Levine: The only rates on the table were 78-79 rates.

Loeffler: And then they dismissed those, they say that those were okay and then you got to come back in the next race. I mean it's not a very satisfactory process, but there's if the commission is predisposed not to face the hard issue then they take the easy out of saying the early rate was just and reasonable for various reasons - one might be because the state didn't prove its case well enough, or because the interest rates have changed and you look at it now and they look okay and you want any other number, And then you've got zero in the bank.

Parr: Ok no I guess the question comes back to me out not being an attorney you know but we're talking about 2 billion dollars, as far as I'm concerned belongs to the State of Alaska. And the costs by comparison of carrying this thing forward is obviously slight. So what you've got to do is figure

of carrying it forward against 3 billion let's say on one hand and the odds of success on the other. And that's what this gentleman can tell us in private

what are our chances of coming out on top of this thing. One in three - one in five.

Loeffler: I would say what we did - what we did was so-called decision tree analysis each outcome it wasn't a and I stick by those views but coming out on top for the what you call a 3 billion dollars off I would say there one in ten or less.

Brown: Okay, if there one in ten then how much will it cost.

What's the rule?

How much the litigation fees.

Yeah.

Boy you got about 15 million dollars.

Total cost of the case 35 million.

We spent

What do you tell them

23 billion, 35 million

Fahrenkamp: Representative Vaska.

Vaska: Thank you Madam Chairman. One more question. The affect of a settlement or a continued litigation on further development of oil and gas. Usually.

It doesn't touch - with comparatives.

Okay, what about all the other productions?

Loeffler: Our - I'll tell you what my feeling is, I feel that it helps in two respects. Number 1 Charged rate will drop this year \$1.60 or \$1.70 from what it is today. So new companies not those that  
up

breaking rates for the next ten years to figure out after transportation how much they get. So I think that helps. Because you're following your transportation. Number 2 I have to think that most people will differ with that removing this sort of open sore between the State and oil companies is favorable towards resources that's my personal judgment.

Fahrenkamp: Are there any further questions. Any thing else you want to bring to us before we

Brown: Okay - one more thing. Just to try and follow this down. You said less than one in ten, 35 million dollars, is the 3 billion dollar figure a discounted figure a present dollar value.

Loeffler: It's 1.7 is the net present value.

Levine: But.

everything assuming it happens

Brown: At what interest rate?

Levine: 6.25%.

Stoller: That is \$1.7 billion, discounted at 8%, in 1982 dollars. We have that figure from Milt Barker who did them today.

Brown: High this would be lower, and that assumes 6.25 % interest on it.

Loeffler: We've argued for a higher rate on refunds, and in other areas the commission does apply a higher rate, but the rate that's applied in these ones are according to an established rule for oil pipelines is 6.25.

Unidentified legislator: But what if it takes ten years instead of five years?

Levine: Net present value will go down 40%.

Unidentified legislator: So we're down to 1 million dollars ten years from now is the probably

Levine: That's off the back of my head rule of 72 I don't know.

You could figure it out, it's not difficult.

Fahrenkamp: Representative Brown.

Brown: Chair I'm sorry to be acting like it's the end of a Friday and not going through the chair but you now if the odds are ten to one against us, but the investment is two to a hundred, and my daddy taught me that when the amount of money that's offered you in the table is the inverse of the odds you're going to improve your hand, your going to stay in, you don't fold your cards.

Loeffler: That depends on your approach

Brown: I just ran out here, you know, so.

Loeffler: I-ultimately you have to make the judgment, I mean I - it's not my judgment, I'm a hired gun as is any lawyer. I can give you my chances and my thoughts

Careful.

Loeffler: here getting that much money. slip, you are getting money under the settlement, I mean so it's not - I don't know what you do.

Brown: Two dollars will get us a hundred and the odds against us are ten to one again.

Loeffler: Two dollars may get you a hundred.

Brown: Well yeah, the may is in the odds that will get us two to one against us. Any poker player stays in.

Loeffler: But, it depends, I don't play poker so maybe that.

Fahrenkamp: Rep. Halford.

Halford: Yeah - let me just try and follow that - not by asking not to say you said the best is ten to one - for one thing, and if its a billion dollars ten years down the road, what does the settlement get us pending ten years down the road? a billion dollar difference between the settlement and is a billion dollar difference.

Loeffler: In 1982.

Halford: Right.

Loeffler: between the settlement today and winning everything in 1992. That's.

As is less than one out of ten.

Loeffler: Yeah.

Fahrenkamp: Representative.

Cotten: Of course, this discussion of various probabilities of getting money back doesn't mean too much, because you got to care for various tariffs through to 1992 those to so that's a pretty superficial way of looking at it.

Loeffler(?): You don't have all the numbers in front of you.

Levine: numbers

I think the methodology is overworked too. But that's what

Loeffler: Excuse me but I've got to really run.

Fahrenkamp: Any objections?

Condon: Do you want them back next week? I'll bring them back.



# Alaska State Legislature

Official Business

Pouch V  
State Capitol  
Juneau, Alaska 99811

May 17, 1982

Wilson L. Condon  
Attorney General  
Department of Law  
Pouch K  
Juneau, AK 99811

Dear Wil:

The members of the House Special Gas Pipeline Committee and the Senate Resources Committee would like to thank you for your presentation on the TAPS settlement. Your attempted settlement of this long standing litigation is to be commended and certainly appreciated. Although a difficult decision, we do not believe that the state should proceed with the settlement.

We believe that the state should continue with the Phase I litigation in order to establish a methodology necessary for long term stability. Although the proposed settlement may be a reasonable compromise of the state monetary interests through this decade, we believe that it is only through litigation that we can establish a principle that may last through this century. The development of future North Slope reserves will be directly affected by pipeline tariffs. The present litigation is the best chance the state has of establishing a favorable methodology that will materially aid the development of these reserves. Although the matter is complex, it is our view that the policy of developing the future reserves of the state outweighs the present certainty of the revenues that the settlement would secure.

Even though we would not now accept a settlement of the Phase I issues, the committee would still consider a Phase II rate base deduction settlement as long as that consideration has no adverse impact on either the timing or the overall outcome of the Phase I tariff methodology decision.

Sincerely,

Rep. Rick Halford, Chairman  
House Special Gas Pipeline Committee

Sen. Bettye Fahrenkamp, Chairman  
Senate Resources Committee

RH/BF/ls

AGO 886307

ALASKA  
STATE LEGISLATURE  
**MEMORANDUM**

TO: File  
FROM: Sandra Schubert  
DATE: May 19, 1982  
RE: Tape of TAPs Hearing - May 7, 1982

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In the process of being duplicated, Tape I (5/7/82) broke. Although it has been spliced back together, a portion of the dialogue may have been inadvertently deleted.

AGD 886390

TIMBER

BRIEFING

1-30-81

# MEMORANDUM

# State of Alaska

DEPARTMENT OF NATURAL RESOURCES  
DIVISION OF FOREST, LAND AND WATER MANAGEMENT

TO: ROBERT LeRESCHÉ, Commissioner  
Department of Natural Resources

DATE: July 8, 1980

FILE NO.

TELEPHONE NO. 279-5577

FROM: THEODORE G. SMITH *TGS*  
Director

SUBJECT: Forest Practices  
Demands on State  
Lands

The attached is a summary of findings prepared by my staff since our June 25 Director's Meeting. As you will note the sustained yield of needed forest products may even now not be practical due to erosion of the State's land base through single use allocations and disposals. While the report sets forth acres by region, it would be satisfactory to retain similar acreages along transportation corridors elsewhere in the State whenever possible. Even though transportation may now be impractical by the year 2000 and in light of the impending Pacific Northwest timber shortage, hauling products long distances within the State should become economically desirable.

I encourage you to retain the State's remaining forested areas in categories encouraging multiple use forest management.

## Acreages Required by Area of the State to Meet Projected 20 Year Demand

Fairbanks - Current Demand is 34,000 cords of fuelwood and 80 active houselog operations per year. An increase in the percentage of homes using fuelwood as either a primary or secondary heat source coupled with the Borough's 10 year population increase projections increases the required annual fuelwood supply to 170,000 cords by the year 2000 [30% of homes use fuelwood now, 70% of homes will use fuelwood in 20 years; population will double within 10 years]. This will require a gross land area of 3,950,000 acres with the hardwoods allocated to fuelwood production for local needs from State-owned lands. This nearly 4.0 million acres should produce 22.5 million board feet of softwood sawlogs in addition to the fuelwood. On a sustained basis this is equivalent to the present Fairbanks vicinity houselog demand plus some 21.5 million board feet of softwood sawlogs which should be available for local commercial sawmills (present milling capacity of 23.0 million board feet).

Remote parcel disposals around the Northcentral District will add an additional 1.6 million acres to the houselog demand sustainable land base — in the immediate vicinity of the disposal sites. This acreage would also support the firewood needs of these disposals over the 20 year projection figure.

Fairbanks - The Native Corporations cannot be depended on for supplying local commercial sales due to the higher profits to be realized from export of the products surplus to their needs. Reasonably the natives might over the next 20 years develop their own milling capability as finished product values increase locally due to the realization of the impending raw material shortage in the Pacific Northwest.

In spite of this scenario I am confident that the local annual milling capacity for non-native material will increase from its current 23.0 million board foot level to 30.0 million board feet by the year 2000 (as a result of increased demand and higher product values.) With only 21.5 available from the four million acres the State would have to set aside another 1.5 million acres for sawlog production bringing the acreage for local consumption up to 5.5 million acres plus 1.6 million acres adjacent to remote parcel sites.

I must also point out that the actual production of the volumes stated shall require the application of such silvicultural treatments as precommercial thinning and genetics programs in order to offset the loss of acres due to wildlife buffers and recreational sites.

Delta Vicinity - Fuelwood, houselog and commercial milling capacities around Delta would indicate that 200,000 acres of land will meet the present need. With the development of the agricultural project and associated support services the milling capacity should rise to 5.0 million bd. ft. houselog permits and roughly 30,000 cords of fuelwood annually by the year 2000. With these "givens" the State will need to have set aside 935,000 acres of forest land to meet local demands.

Tanana Upstream from Delta Vicinity - Very little exact data on demands exists in this area. We do know that the annual milling capacity at the end of 1980 will be 4 million board feet. An area of 700,000 acres in the Tok/Tetlin/Dot Lake area would meet this commercial demand plus allow for fuelwood. An additional 100,000 acres would enable up to 45 houselog permits annually. We do not project an increase in demand for this area unless other areas are shorted.

Yukon River - Upstream from confluence of the Tanana\* - Current annual milling capacity of 3 million board feet is not likely to increase greatly so 600,000 acres should satisfy both the commercial needs and up to 30 houselog permits annually.

- Downstream from confluence of the Tanana\* - Current annual milling capacity of 5 million board feet is not likely to increase greatly. Commercial needs and up to 45 houselogs permits can be accommodated with 975,000 acres.

Bettles Vicinity - Current milling capacity of 1 million board feet will remain at no more than that level. Two hundred thousand acres should be sufficient to provide sawlogs plus 10 houselog permits and more than adequate fuelwood.

Kuskokwim Region\* - Current total milling capacity of 11.0 million board feet is likely not to increase during the projection period. To fulfill this need requires 1,925,000 acres of land. To allow for up to 80 houselog permits per year would add another 168,000 acres for a total of 2,093,000 acres in the region with roughly  $\frac{1}{2}$  in the Holitna/ Stony River area and the remainder spread upstream. The further the houselog area is downstream the greater the availability of houselogs to the Bethel population center. It may also be reasonable to anticipate development of a hardwood utilization scheme for the region by the year 2000.

Glennallen Vicinity - The current milling capacity of 5.0 million bd. ft. annual is not likely to increase due to a scarcity of raw materials. A reserved area of 1,043,000 acres would meet this commercial need plus allow 80 houselog permits and about 22,000 cords of fuelwood which would meet local demands.

Matanuska-Susitna Valley/Anchorage Area - Due to a lack of available raw materials the annual commercial capacity of 19 million board feet is not likely to increase. To maintain this level would require 3,325,000 acres which could supply 147,000 cords of firewood. When population growth projections and the State Disposal Program are included to estimate requirements to the year 2000 the figure would double to 6,650,000 acres producing 19 million board feet of sawlogs, 294,000 cords of fuelwood and 1,584 houselog permits on a sustained basis. Raw forested products are currently being brought into the Mat-Su Valley from as far away as the Yukon Territory.

Kenai Peninsula - Small mills on the Kenai Peninsula have an annual production capacity 42 million board feet. Even under the best possible management and assuming 40% from the Moose Range/USFS (unlikely) the State would need to maintain 328,000 acres of mostly forested land under management. This land would also provide 38,000 cords of fuelwood. To meet the houselog permit demand of 100 per year would add another 16,000 acres and provide for an additional 1,800 cords per year of fuelwood. This represents a necessity of importing more lumber while providing for adequate personal use and assumes no allocation to larger mills such as Seward.

Gulf of Alaska Region - If we totally discount small mills and native operations and concern ourselves solely with Haines, Tyonek, and Seward Mills we would need to locate between 165 and 205 million board feet of allowable cut. Using a cutting schedule on all currently available acres at Haines, Yakataga (Icy Bay to Cape Suckling) and Shuyak Island in comparison would yield the following chart:

\*Excludes all village mills.