

ALASKA LEGISLATURE COMMITTEE FILES 1983-1984 86/2
2764 HRES HJR 10 - HJR 40 2769

PASSED AND APPROVED this 30th day of April, 1982 by
the Borough Assembly.

KODIAK ISLAND BOROUGH

By R. David Herrnsteen
Borough Mayor R. David Herrnsteen

ATTEST:

By Shirley Miller, c.m.c.
Borough Clerk

Ayes 7 Nays 0

TESTIMONY TO THE NORTH PACIFIC FISHERIES MANAGEMENT COUNCIL
REGARDING
A MORATORIUM ON NEW ENTRIES INTO THE ALASKA HALIBUT FISHERY FOR 1983

R. David Herrnsteen
Mayor
Kodiak Island Borough

The Kodiak Island Borough encompasses the Kodiak Island group extending from the Barren Islands to the Trinity Islands and has a population of over 12,000 people. In 1981, and certain other previous years, the City of Kodiak ranked as the number one fishing port in the United States as measured by dock side value of fish landed. As our economy is dependent almost solely on fishing, we are concerned that our fish are properly managed biologically in our fisheries. In addition, as there is a natural turnover of participants in any fishery - some people get out - while new people get in. I am concerned that all our local residents have equal opportunity for present and future employment in our fisheries.

The Kodiak Island Borough's largest responsibility is education - the Assembly is responsible for building and funding the schools. We have an extensive program of fisheries education in our schools, including on-the-water experience for our high school students. I am concerned that our young people leaving school have a chance to find their niche in the fisheries, if they so desire. Some students try fishing halibut to help fund their college education - this moratorium would not allow new students to have this opportunity.

The Kodiak Island Borough includes six villages, five of which are second-class cities. Employment opportunities other than fishing are particularly few in the villages. There have recently been federal cutbacks in the various social and jobs programs. These villages have gone on record, through the Kodiak Area Native Association, as being opposed to the halibut moratorium. It's hard to have a resource in your front yard, watch others making good money, and not be able to have a crack at it. That's not fair and equitable.

Having lived in Alaska 22 years, and fished in Kodiak 17 years, I've seen where many times if a person gets quite comfortable financially, and particularly can make it in a short period of time, often they will tend to move Outside to a condo in Hawaii, a house in Seattle, or a farm in Missouri or Vermont (for example). That's their privilege, and I have no gripes if they are able to do it because they are good fishermen and can out-compete the others. But when they are able to do this because the government has restricted competition and allowed only a select few to profit from the increasing wealth of our fisheries, at the expense of employment opportunities of our local people, that's not equitable.

The workings of an economy are often very nebulous, it's hard to exactly describe on paper in dollars and cents, but it is still very real. Kodiak's economy over the past 15 years has been a slow, steady growth. After the king crab boom in the mid 60's, and the simultaneous reconstruction of Kodiak after the tidal wave of 1964 subsided, our economy had a pretty healthy growth. As the fisheries went up and down with the natural fluctuations of the fish stocks and fish prices, many fishermen moved back and forth among

fisheries. Those fishermen who stuck with one fishery benefited from the others having the ability to move out and into a more prosperous fishery.

In the late 60's and early 70's many halibut fishermen, particularly from Seattle, left the depressed halibut fishery and moved into the Alaska crab fishery. When the king crab fishery slumped in the early 70's many crabbers became combination boats and switched to the booming shrimp fishery; as shrimp declined in the late 70's many shrimpers switched to crab. And as salmon seasons have gone up and down over the years, many salmon fishermen switch back and forth among crab, shrimp and halibut to make a living.

Some areas of Alaska don't have as much continental shelf and aren't as blessed with the abundance of fisheries we have here, but we are generally an open town - people come here from Oregon, Washington, Southeast Alaska, Cook Inlet, and Westward Alaska to fish - some only seasonally, some move here. Some come only when they have a poor season at home. Usually we don't enjoy seeing the Outsiders who come and go, but it's been our freedom to move around and diversify that's been the secret of our success.

Certainly this system of mostly free entry has its problems. When you have a slump after a boom, it takes time for boats to move out of a fishery and into something else. And there are times when management of the fishery has to be more sophisticated and cautious. And it means the fisherman has to be cautious as a businessman at times. If he expands too heavily during a boom and isn't prepared for increased competition, or for a slump, he can feel a pinch. Or if he gets too high expectations during the "easy money" that occasionally accompanies a boom, he'll feel a shock when the reality of normal times hits. It's important for a fisherman to remember during a boom, or when he's "on a roll", that his earnings aren't normal or likely to continue that high.

If limited entry had been put on all our fisheries 10 or 12 years ago, I feel it would have been a disaster to the town as a whole - socially and economically. If we had locked everybody into their fisheries back when most crabbers fished just crab, and shrimpers just shrimp, etc. we would now probably have just a group of family dynasties harvesting our fish, and with many of them moving Outside. I think the town would have frozen or shrunk in size. You wouldn't have seen, every year, the new homes and steady expansion. It would have been feast or famine for many fishermen.

The price of halibut climbed from \$.18 in 1967 to as high as \$2 a pound, shrimp went from \$.04 to \$.28, king crab went from \$.10 to \$4.30, tanner crab went from \$.10 to \$1.80. Even though the quotas and harvests have fluctuated greatly, the overall seafood harvest values have climbed to a record \$130 million value to fishermen in 1981 in Kodiak. Instead of new people, new jobs, new blood and enthusiasm, you would have had a static or even declining number of men. It's very possible that the capital costs would be just as high because of write-offs, just fewer people dividing the pie. It's very possible that except within the family, crew jobs would have become salaried under some of the limited entry schemes.

Now I'm not eager to see how many people we can bring to Kodiak or Alaska, but we do need jobs for our young people. Many of our businesses and people's dreams are dependent on some growth. What concerns me most is that we have some fairness and equity in the allocation of the wealth of our fisheries.

Drive through our high school parking lot and see how many brand new 4-wheel drive pickups you see. Last summer was a slow season, so the number may be down a little. Some kids are able to afford them because they might fish with their dad who may be an exceptional fisherman. But if limited entry had been put on all fisheries 12 years ago, many kids would have those trucks solely because their dad happened to have received one of those lucky permits 12 years ago. We would have developed a privileged class, an elitest society that was determined by the roll of the dice - who was fishing when limited entry was imposed. I don't think that's healthy for society, or what Alaska and fishing is all about.

My own personal case is typical. In 1967 they closed the Kodiak salmon season for almost the entire summer, so I spent four months on a halibut schooner. For the next four years I continued to make halibut trips along with fishing on crab, shrimp and salmon boats. Halibut prices were down (as low as \$.17/lb.) and stocks were slumping (we fished 26 days on a highline schooner for 30,000 pounds in 1971 - my crew share was \$90 for the month). I crewed for eight years with many highliners in all four fisheries so that when I got my own boat I could be diversified.

In 1974 my wife and I made the big jump and bought our own 42 foot boat. For two years we fished entirely shrimp, then we branched into crab. In 1978 we sold our first boat and bought a slightly larger boat. When shrimp declined we tendered salmon along with crab fishing. Last year because of the salmon price slump we did not tender, so fished just crab - including dungeness.

Even though I haven't fished shrimp since June of 1978, I am still a shrimp fisherman and dependent on the shrimp resource to make my living. Even though I haven't fished halibut since July 1971 and then only as a crewman, I am still a halibut fisherman, and consider myself dependent on the halibut fishery. I've spent more hours at the roller, gaffed more halibut and baited more hooks than a large number of the fishermen who could qualify to fish under the proposed moratorium the next three years. I have a vessel and a reel that are suited for halibut. All of the skills I've developed as a skipper in finding crab and shrimp and running my business are applicable to finding halibut. The halibut, cod and pollock stocks are in an upward cycle, and are also preying heavily on crab and shrimp stocks. I am dependent upon my ability to move my business along with nature's cycles in order to make a living. The guidelines of the proposed moratorium are arbitrary and capricious. To exclude me because I never fished halibut since January 1, 1978 is not fair and equitable.

The Council needs to look at fisheries as a group and over time, taking into consideration dynamic environmental and market conditions. It is natural and healthy economically that as the halibut stocks and markets started booming in the late 70's, that participation increased. The same boats I crewed on in the early 70's, averaging a crew share of maybe \$1500 for a three week trip, by the late 70's were crewsharing \$1000 a day and better - \$60,000 man-shares in much shorter seasons. Instead of working off-season winter jobs, as many men did in the earlier years, many were able to lay back in the winters. There is nothing wrong with making big money- that's the thrill of fishing - that's the

dream that keeps you going. It's only wrong when you feel you deserve big money all the time, and need to exclude others in order to achieve it.

Obviously the Council's own actions have been a very large impetus in the increased fleet. Ever since 1978, the Council has been setting "cut-off dates for eligibility" for halibut limited entry - setting up work groups, funding studies, etc. All of these actions have helped create the often frantic rush to fish halibut, even if at a loss. If this moratorium should be approved, it will be a major government policy and will create a new rush to participate in all fisheries not under a limited entry system. The State of Alaska's enthusiasm for extending limited entry beyond salmon and herring definitely cooled in the late 70's and many Kodiak fishermen once again started making their decisions on when and what to fish, purely on business and personal reasons. A new government policy like a halibut moratorium would have a very major effect on participation in the other fisheries. It would start another frantic rush, would increase our costs by forcing us to participate unprofitably in certain fisheries so we could qualify for future permits. In addition, it would decrease our individual earnings because of the added participation. All these negative reactions would be very real and are not just imaginary. It would be an extremely unwise action for our industry. You cannot act on the halibut fishery without affecting the rest of the industry. The harvesting sections of our industry are just as interrelated as the fish in the ocean.

It is very likely that if future limited entry would be put to rest and the halibut moratorium be turned down, there would be less participation in the halibut fishery than if the moratorium would be enacted. A three year moratorium would bring people out of the woodwork who had already dropped out of the fishery, just so they could increase their qualifications for future permits, and wisely so. The Council has been saying periodically since 1978 that "next year's" participation won't count. So why should the Council be believed now if the Council should say participation during the next three years won't count. More than twice as many people (6,481 individuals) will be eligible to fish under the proposed moratorium than ever fished in any one year (2,800), and it seems certain that a large number of those who dropped out will re-enter the fishery, largely in the hopes of financial gain from ownership of a future share or permit. In addition, many of those who fished the past year or two, but were not financially successful and were considering quitting, will have a renewed incentive to remain active in the fishery during the moratorium.

A moratorium has such a nice allure to it. You kick out the fewest and postpone the disagreements about the various limited entry systems. However, during the enactment of Alaska's limited entry law (and ever since) government lawyers have told us that a moratorium is the most unconstitutional of all limited entry alternatives because it creates such a closed class without a means of entry. The halibut resource is in the best shape its been in decades and I believe there is no way you can justify "protection of the resource" as reason for a moratorium.

Certainly the moratorium will appeal to the fear all fishermen have of competition. It appeals to the greed in us. For the hobby or vacation halibut fisherman who has regular year-round shore-based jobs its real nice. But watch out - how can they be considered dependent on the fishery. For the successful fisherman who has fished mainly or solely halibut and had a taste of the big season, he thinks he'll be eliminating future competition.

The halibut commission has been telling fishermen for over a year that without limited entry they will lose halibut as a fishery. The commission can't justify its own existence if the season is too short, they say. Hogwash! The biologists just need to be used in the other fisheries, also if they have slack time. It seems to me that the halibut commission has a unique bureaucratic position in being separate from both ADF&G and NMFS, a situation which needs review.

Certainly the fishing industry has troubled times. I haven't been so concerned for a long time as to where I'll make it next season. But putting boxes around each fishery and each boat isn't the answer, There are no guarantees in fishing, and if someone wants one he's in the wrong business.

R. David Herrnsteen Jan 21, 1983

R. David Herrnsteen

Mayor

Kodiak Island Borough

HJR

19

COMMITTEE REPORT

HOUSE

FURTHER: RESOURCES

113473

Date: February 10, 1913

Mr. Speaker:

The HOUSE SPECIAL COMMITTEE ON
FISHING has had HELD

relating to United States observers on foreign fishing vessels.

under consideration and reports it back as follows:

- do pass do not pass
- do pass with attached amendments(s)
- replace with Ct for _____ same title
 new title
- and recommends do pass
- AND attaches a "Letter of Intent" New Fiscal Note
- reports it back without recommendation Zero Fiscal Note Attached
- referred to the _____ Committee

MEMBERS SIGNING
DO PASS

MEMBERS HAVING
OTHER RECOMMENDATIONS:



[Signature]

CHAIRMAN

"Letter Of Intent To Accompany House CS for SJR 10 (fisheries)"

It is the intent of the House Special Committee on Fisheries that a reopening of the United States/Canada Salmon Treaty negotiations would address the following topics of concern to the Alaska Fishing industry:

1. The chinook catch for commercial Southeast Alaska salmon fisheries needs to be raised to a minimum of 320,000 to insure the continued economic viability of the troll fishery. This figure should be adjusted annually to account for Alaska hatchery production.
2. The area off the West Coast of Vancouver Island (statistical areas 20 through 27) should be limited by a harvest lid for chinook salmon.
3. Size limits on king salmon cannot be allowed to increase under the treaty. If they did increase, the actual harvest numbers could remain within the limits while total poundage increased negating any benefits to escapement.
4. A provision should be added which would address Columbia River tribes treaty fishing rights, if any, for the term of the U.S./Canada salmon treaty.
5. On the Stikine River, Canadian sockeye salmon harvests should be limited to 35% and there should be no directed Canadian harvest of coho salmon.
6. On the Taku River, Canada should be held to the 1983 limits of 3000 sockeye salmon and 5000 pink salmon until enhancement efforts result in stronger returns.
7. The drift gill net fishery at Tree Point for sockeye salmon should be limited to 2800 boat days through ADF&G statistical week 31 or until the beginning of the pink salmon management plan rather than a catch limit until better tagging data is available. The catch limit of 130,000 leaves no means for the Alaskan gillnetters to benefit from enhancement efforts.
8. Annex IV, chapter 1, paragraph 1 deeming U.S. origin of 37.5 percent of the salmon originating in Canadian sections of transboundary rivers should be moved from the Annex portion of the treaty document.
9. The purse seine fishery at Noyes Island for sockeye salmon should be limited to 920 boat days through ADF&G statistical week 31 rather than a catch limit until better tagging data is available. The 160,000 leaves no means for the Alaskan seiners to benefit from enhancement efforts.
10. The Yukon River should either be deleted from this treaty and handled separately or the current wording should be changed so that any accounting of interceptions be done only after adequate research is completed.

Short Analysis of CSHJR 19

This resolution asks Congress to amend Section 201 of the Magnuson Fishery Conservation and Management Act to:

1. Provide that U.S. observers be stationed on all foreign catcher vessels and motherships operating in the FCZ;

Current FCMA provides that if the catch of a harvesting vessel will be transferred to a mothership where an observer is aboard, then the catcher need not have an observer. It is suspected that violations are heavy on these catcher vessels, and would not be as prevalent if observer were aboard all vessels fishing in the FCZ.

2. Require that the vessels provide adequate, safe and clean quarters for the observers.

Currently a fishing vessel may be waived the observer requirement if inadequate or unsafe quarters would jeopardize the observer. By requiring in law that vessels fishing the FCZ provide adequate quarters, this loop-hole would be closed.

3. Define the conditions, "beyond the control of the secretary" under which the observer requirement may be waived for a foreign vessel.

This answers the often misused loop-hole at subparagraph (2)(c) where the observer requirement may be waived if no observer is available, for reasons beyond the control of the secretary.

4. Require that vessels without observers report to a U.S. port for review of ship's log and catch after fishing in FCZ.

It was the consensus of the fisheries committee that if a vessel did manage to get the observer requirement waived, the least we should ask is that they report for an inspection of what they caught and where and when they caught it.

The addition of item 4 is the only change from the original HJR 19.

The resolution goes to President Reagan, Vice President Bush, Congressional leaders and members of the Alaskan delegation.

(1) FULL OBSERVER COVERAGE PROGRAM.

(1) Except as provided in paragraph (2), the Secretary shall establish a program under which a United States observer will be stationed aboard each foreign fishing vessel while that vessel is engaged in fishing within the fishery conservation zone.

(2) The requirement in paragraph (1) that a United States observer be placed aboard each foreign fishing vessel may be waived by the Secretary if he finds that

MOTHER SHIPS →
OBSERVER REQUIREMENT WAIVED

(A) In a situation where a fleet of fishing vessels transfers its catch taken within the fishery conservation zone to another vessel, aboard which is a United States observer, the stationing of United States observers on only a portion of the harvesting vessel fleet will provide a representative sampling of the bycatch of the fleet that is sufficient for purposes of determining whether the requirements of the applicable management plans for the bycatch species are being complied with;

(B) with respect to any foreign fishing vessel while it is engaged in fishing within the fishery conservation zone

TOO SHORT FISHING TIME →

(i) the time during which the vessel engages in such fishing will be of such short duration that the placing of a United States observer aboard the vessel would be impractical, or

INADEQUATE FACILITIES →

(ii) the facilities of the vessel for the quartering of a United States observer, or for the carrying out of observer functions, are so inadequate or unsafe that the health or safety of an observer would be jeopardized; or

NO OBSERVER AVAILABLE →

(C) for reasons beyond the control of the Secretary, an observer is not available.

(3) Observers, while stationed aboard foreign fishing vessels, shall carry out such scientific, compliance monitoring, and other functions as the Secretary deems necessary or appropriate to carry out the purposes of this Act; and shall cooperate in carrying out such other scientific programs relating to the conservation and management of living resources as the Secretary deems appropriate;

(4) In addition to any fee imposed under section 204(b)(10) of this Act and section 10(e) of the Fishermen's Protective Act of 1967 (22 U.S.C. 1980(e)) with respect to foreign fishing for any year after 1980, the Secretary shall impose, with respect to each foreign fishing vessel for which a permit is issued under section 204, a surcharge in an amount sufficient to cover all the costs of providing a United States observer aboard that vessel. The failure to pay any surcharge imposed under this paragraph shall be treated by the Secretary as a failure to pay the permit fee for such vessel under section 204(b)(10). All surcharges collected by the Secretary under this paragraph shall be deposited in the Foreign Fishing Observer Fund established by paragraph (5).

PERMIT SURCHARGE FOR OBSERVER COSTS

(5) There is established in the Treasury of the United States the Foreign Fishing Observer Fund. The Fund shall be available to the Secretary as a revolving fund for the purpose of carrying out this subsection. The Fund shall consist of the surcharges deposited into it as required under paragraph (4). All payments made by the Secretary to carry out this subsection shall be paid from the Fund, only to the extent and in the amounts provided for in advance in appropriations Acts. Sums in the Fund which are not currently needed for the purposes of this subsection shall be kept on deposit or invested in obligations of, or guaranteed by, the United States.

(6) If at any time the requirement set forth in paragraph (1) cannot be met because of insufficient appropriations, the Secretary shall, in implementing a supplementary observer program:

(A) certify as observers, for the purposes of this subsection, individuals who are citizens or nationals of the United States and who have the requisite education or experience to carry out the functions referred to in paragraph (3);

(B) establish standards of conduct for certified observers equivalent to those applicable to Federal personnel;

(C) establish a reasonable schedule of fees that certified observers or their agents shall be paid by the owners and operators of foreign fishing vessels for observer services; and

(D) monitor the performance of observers to ensure that it meets the purposes of this Act.

INSUFFICIENT APPROPRIATIONS

HUTR

28

Haines, Alaska
March 8, 1983

Senator Bill Ray
Pouch V
Juneau, AK 99811

Dear Senator Ray:

On Feb. 17, 1982, we wrote you a letter prior to the creation of the Forrest and Eagle Preserve (Senate Bill 796) in opposition to the Preserve reasons being the pending Native Allotments in and adjoining the proposed preserve, we felt once this was made into law we would have problems to acquire titles to these allotments. At that time some of these allotments were up for adjudication by the B.L.M., but were not adjudicated due to the creation of the preserve.

In March and April 82, we had meetings with John Katz, Commissioner of D.N.R., and Reed Stoops, Frank Rue and Tom Lawson all of D.N.R. at that time they promised that they would work out a process where the state would quit claim its interests on patented or tentatively approved lands, and would help fund the survey through this process. They promised this would be done within a month, as they would go to Washington and meet with James Watt and Bill Horn all this would be done if a Forrest and Eagle Preserve was adopted. They also promised that we would not be used as a pawn or blackmailed. Now its been a year since this all started and the whole matter has not moved towards being resolved. We think that this would be in the State's best interests if this issue were expedited.

It seems that the Attorney General of D.N.R. is not agreeable to this process. It seems we have had one bureaucratic delay after another.

Also during the creation of this Preserve, there was suppose to have been money set aside for surveying the allotments but it seems now that was lost in the shuffle at the last minute.

We have written to our representatives in Washington for funding for the surveying, but the B.L.M. claim they haven't the manpower or funds for surveying. This used to be their excuse on mining claims until pressure was put on Washington. Now the B.L.M. contracts this out to certified surveying contractors also when these surveys are made, the contractors hire locally.

Maybe the D.N.R. and the B.L.M. could go jointly on these surveys. We are enclosing a copy of a letter written to Senator Murkowski by the B.L.M. with our corrections on the bottom.

We would appreciate anything you can do for us at the State or Federal level as this is of great concern to us.

Sincerely,

Henry C. Jaeger

ALASKA FEDERATION OF NATIVES, INC.

411 W. 4th Avenue, Suite 1A • Anchorage, Alaska 99501 • Phone 907-274-3611



March 15, 1983

Representative Adelheid Herrmann
ALASKA STATE LEGISLATURE
Pouch V
Juneau, Alaska 99811

Dear Adelheid:

The Alaska Federation of Natives, Inc. supports House Joint Resolution No. 28. We believe that the mandate of Congress should be funded and accomplished by the Bureau of Land Management, Department of the Interior so that Alaska Natives can receive their allotments. This process is important so that Native corporations can receive clear title to all of their land as intended by Congress.

Thank you for your interest and support of Alaska Native affairs.

Sincerely,

Janie Leask
President

REPRESENTATIVE
ADELHEID HERRMANN
P.O. BOX 63
NAKNEK, ALASKA 99833
(907) 246-4495

While In Juneau
POUCH V
JUNEAU, ALASKA 99811
(907) 465-4942, 465-4943

Alaska State Legislature



CHAIRMAN
SPECIAL COMMITTEE
ON FISHERIES

MEMBER
TRANSPORTATION
COMMITTEE

House of Representatives

DISTRICT 26

ADAK
AKUTAN
ALEKNAGIK
ATKA
BELKOFSKI
CLARK'S POINT
COLD BAY
DILLINGHAM
DUTCH HARBOR
EGEGIK
EKUK
EKWOK
FALSE PASS
IGIUGIG
ILIAMNA
KING COVE
KING SALMON
KOKHANOK
KOLIGANEK
LEVELOCK
MANOKOTAI
NAKNEK
NELSON LAGOON
NEWHALEN
NEW STUYAHOK
NIKOLSKI
NONDALTON
PEDRO BAY
PILOT POINT
PORT ALSWORTH
PORT HEIDEN
PORT MOLLER
PORTAGE CREEK
SAND POINT
SOUTH NAKNEK
SQUAW HARBOR
ST. GEORGE
ST. PAUL
TOGIAK
TWIN HILLS
UGASHIK
UNALASKA

MEMORANDUM

March 24, 1983

To: Representative John Ringstad
From: Representative Adelheid Herrmann
Subject: SSHJR 28

Although the issue of native allotments is very complex with many legal ramifications and the involvement of federal, state, and local organizations of all kinds, the intent behind SSHJR 28 is quite simple. The message I want to send to Congress is this: BLM has received inadequate financial support for the processing and surveying of claims, and it's time to get moving. This lack of commitment on the federal level is holding up the progress of our state and is causing hardship for thousands of individuals. I am no expert on land claims, but I have received the message from throughout my district that something needs to be done. Here's what I know about the situation:

In 1906 the Native Allotment Act provided for selection of parcels up to 160 acres, but not many people knew about the Act until the late 1960's. Most claims were filed in 1970 and 1971. The Alaska Native Claims Settlement Act repealed the 1906 Act but allowed for the processing of applications pending on or before December 18, 1971.

Filed applications are reviewed by BLM and many are subject to an adjudication requirement which means BLM must investigate whether the claim is valid and is properly described. There are over 6,000 native allotments statewide that require adjudication. According to an article in the 8-15-82 Anchorage News, BLM has adjudicated only 10-15% of the claims which require adjudication.

After a claim has been processed, the site must be surveyed. Surveying costs approximately \$8-10,000 per parcel. So far BLM has surveyed only 750 allotments. It has been estimated that there are 14,000 parcels which will have to be surveyed.

You can see that things are really bogged down. This not only affects private individuals, but native corporations, municipalities, and the state as well. Until the issue of native allotments is resolved, thousands of acres of land will remain in

limbo. It affects development in rural Alaska since land status must be determined before any improvements can be made.

If passed, SSHJR 28 tells Congress that this is a statewide priority and we wish it to be recognized as such by the federal government. One way to attack the problem is with more money - money for the processing of the claims and money for the surveys. That is what this Resolution requests.

I introduced the Sponsor Substitute because the original Resolution contained a statement which could not be substantiated. The SS removes lines 16 and 17 which stated that an informed source said that it would be 70 years for applications to be processed. Removing this "whereas" does not effectively change the Resolution in any way.



THE ALASKA NATIVE FOUNDATION

411 WEST 4th AVENUE, SUITE 314 • ANCHORAGE, ALASKA 99501 • PHONE (907) 274-2541

83-133

March 10, 1983

Rep. Adelheid Herrmann
Alaska State Legislature
Pouch V (MS 3100)
Juneau, AK 99811

Dear Ms. Herrmann:

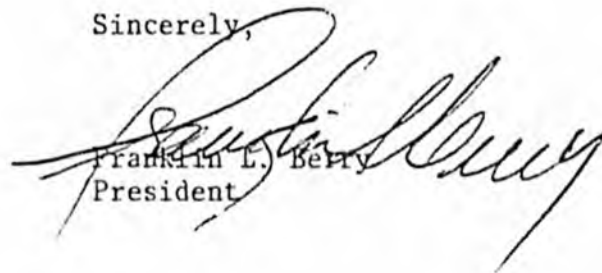
HJR No. 28 relating to the processing of Alaska Native Allotments certainly receives the full endorsement of the Alaska Native Foundation.

The ANF, through the assistance and involvement we have with villages, has been aware of the tremendous delays involved with the entire process. It concerns us that many village corporations may be denied title to their lands without a speedy process on the individual allotments.

Please keep me informed of any progress in the matter.

Keep up the advocacy. . .

Sincerely,


Franklin L. Berry
President

ds

Haines, Alaska
March 8, 1983

Senator Bill Ray
Pouch V
Juneau, AK 99811

Dear Senator Ray:

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Sincerely,

Henry C. Johnson

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March 15, 1983

Representative Adelheid Herrmann
ALASKA STATE LEGISLATURE
Pouch V
Juneau, Alaska 99811

Dear Adelheid:

The Alaska Federation of Natives, Inc. supports House Joint Resolution No. 28. We believe that the mandate of Congress should be funded and accomplished by the Bureau of Land Management, Department of the Interior so that Alaska Natives can receive their allotments. This process is important so that Native corporations can receive clear title to all of their land as intended by Congress.

Thank you for your interest and support of Alaska Native affairs.

Sincerely,

A handwritten signature in cursive script, appearing to read 'Janie Leask', written in dark ink.

Janie Leask
President

Calista Corporation

518 Denali Street, Anchorage, Alaska 99501 (907) 275-5516

March 22, 1991

The Honorable Adelheid Herrmann
House of Representatives
Pouch V
Juneau, Alaska 99811

Re: House Joint Resolution No. 28

Dear Representative Herrmann:

This letter is to inform you that Calista Corporation is in full support of the intended results of the House Joint Resolution No. 28, relating to the processing of Native Allotments.

While we are supportive of this resolution, we feel that the first "WHEREAS" should be amended as follows: beginning with line 10, the words "Alaska Native Claims Settlement Act of 1971" should be deleted and in-lieu of add "Native Allotment Act of 1906". Rationale:

The Native allotments were applied for pursuant to the authorities granted by the terms of the Native Allotment Act of 1906.

The new language would read as follows:

Whereas, the Bureau of Land Management of the United States Department of the Interior has been given the responsibility for processing the applications for allotments granted under the Native Allotment Act of 1906.

In our humble opinion, we feel this language would not only strengthen the intent of House Joint Resolution No. 28 but further clarify its intent.

Rep. Adelheid Herrmann

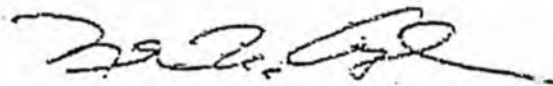
March 22, 1983

Page 2

Thank you for your kind consideration. If you have any questions per this letter, please contact us.

Sincerely,

CALISTA CORPORATION



Nelson H. Angapak
Executive Vice President

WNA:slb

LAW OFFICES OF
ALASKA LEGAL SERVICES CORPORATION
615 "H" STREET, SUITE 100
ANCHORAGE, ALASKA 99501
TELEPHONE (907) 272-9431

March 14, 1983

Ms. Beth Robinson
c/o Representative Adelheid Herrmann
Pouch V
Juneau, AK 99811

Dear Ms. Robinson:

In response to your request for information regarding the need for the federal government to allocate additional funds for processing Native Allotments, I am enclosing several newspaper articles. I believe that the figure 30 years is probably the best current estimate. The 70 years which you mentioned was an estimate made by a BIA employee in a letter to an applicant. I have spoken with that individual and have been informed that he now believes the true figure to be closer to 30 years.

You should be aware that this time period is derived from an estimate of the time required to survey the allotments. It assumes that the applicants' entitlement to the allotments will be adjudicated at a faster rate. While this is true with respect to the "easy" cases -- such as those subject to automatic approval under section 905 of ANILCA -- those allotments which the BLM intends to deny must go through a "Pence" hearing. The Office of Hearings and Appeals of the Department of the Interior has only been able to complete about six hearings per year. If there were a thousand of these, you can see that it would take a considerably longer period of time to finish processing the applications. Similarly, there are between 50 and 100 Aguilar applicants who will have to go through a lengthy procedure.

I have also enclosed for your information an article regarding the potential impact of allotments on such major state projects as the Fairbanks-Anchorage intertie. On a lesser scale, I have included an article dealing with an allotment in the small boat harbor in Bethel. While all allotments are not so strategically placed, these demonstrate the potential problems which may result from a failure to process the allotments in a timely manner.

If I can be of further assistance, please do not hesitate to contact me.

Sincerely,
ALASKA LEGAL SERVICES CORPORATION

Craig J. Tillery

Craig J. Tillery

CJT/bh
Enclosures

Rural Alaska Community Action Program, Inc.

10 March 1983

Representative Adelheid Herrmann
State Capitol
Pouch V
Juneau, Alaska 99811

Dear Representative Herrmann:

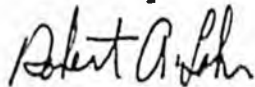
I am writing to express wholehearted support for HJR 28, relating to the processing of Native allotments.

As your proposed resolution so capably states, Congress charged the Bureau of Land Management with responsibility for processing Native Allotments over 10 years ago, and Alaska Native applicants have been waiting all that time can ill afford to wait any longer to receive clear title to their land.

Years ago, RuralCAP was involved in helping Alaskan Natives deal with the complicated allotment application process. Those efforts, as well as our continued close connection to rural residents, have made us keenly aware of the serious impacts of this unreasonable delay, both on individuals and village corporate landowners.

We must not accept inadequate funding as an excuse for putting the legal rights of Alaskans on the back burner. Hopefully, passage of this resolution will help correct this injustice. A formal statement of position on this issue by the State Legislature on behalf of its citizens is long overdue. We strongly endorse and encourage passage of HJR 28 as that positive step forward.

Sincerely,



Robert A. Lohr
Executive Director

Southcentral

•Obituaries
•Tell It To Bud



Land acquisition: a sticky wicket for Susitna

by A.J. McClanahan
Times Writer

Native land ownership and claims could be a stumbling block, or at least the subject of complex negotiations, in the massive \$5-billion Susitna dam project.

Negotiations to acquire almost 50,000 acres — about 78 square miles — for the two-dam hydro project are expected to start this summer, says Alaska Power Authority spokesman George Gleason.

But it's going to be a tough battle, despite general support for the project by native corporations involved.

"We were pushed into selecting that land . . . So if somebody wants to say we want all of the land, that's fine. But if they want some of the land, that's a different story," said Roy Goodman, business consultant for the Knik village corporation, Knik Atnu Inc.

Goodman also works as a consultant for the native regional corporation Ahtna Inc., which manages land for the village of Cantwell within the area of an access route.

Natives point out that the Talkeetna area was one of those withdrawn by the U.S. Department of Interior for "deficiency"

claims. Those are areas offered to natives who were unable to get enough land in the areas of their villages or regions because of already existing private or public land ownership.

Others say, however, that the natives saw the future dam site as a way to make money.

Whatever the case, the Alaska Power Authority is going to have its hands full in negotiating for the land.

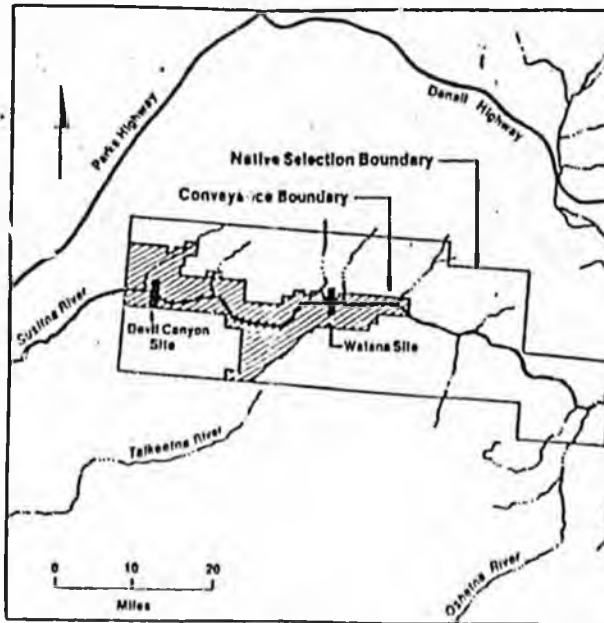
Others who own land in the area, or who have claims to land there include Tyonek, Chickaloon, the Anchorage-based native regional corporation Cook Inlet Region Inc., and possibly some of the other villages within the CIRI area.

Acquisition of the land by the power authority can't start officially until the massive two-dam project has been approved.

But both the Alaska Power Authority, which is administering the project, and affected natives for the last two years already have been considering just how negotiations could proceed.

In the meantime, an argument between some villages and native regional corporations over who owns sand and gravel underneath native lands could further complicate Susitna.

The project will require at



Map shows property boundary lines for proposed Susitna dam project

least 62 million cubic yards of fill material, said Gleason. Officials say the cost could range anywhere from 25 cents to \$1 for each cubic yard.

The power authority has hired a consultant whose work will include a study of the sand and gravel issue to figure out just who owns specific parcels of land

which could be used for sand and gravel extraction.

Depending on who owns land under which sand and gravel are located, much of the money could go to native corporations because they have claim to much of the land in the project area, Gleason said.

Under federal law and court rulings, sand and gravel resources are considered "subsurface estate," which means they are owned by the regional corporations.

A number of villages disagree, however. So it could become a critical issue for the villages that have claim to land in the Susitna project area.

Sen. Ted Stevens, R-Alaska, recently issued a statement supporting the villages' position. He urged villages and regional corporations to iron out their differences and offer a proposal to Congress.

Gleason said the money to pay for the sand and gravel probably will be put into a trust account, where it will remain until the natives agree on who owns the resource.

Another land claim in the dam area is by a native group called Gold Creek Inc., which is recognized in the Alaska Native Claims Settlement Act as a po-

tential native group. That of about 14 people is claim about two square miles of the Intertie corridor, a claim is pending before the U.S. Department of Indian Affairs and the U.S. Department of Land Management.

And some of the land area — claims for a handful of parcels within the area of the Intertie/Fairbanks Intertie being claimed by individuals "native allotments." Such were authorized under a law of Congress. Under that law, natives could file for title to parcels of up to 160 acres any time after the act.

Although it was repealed the Alaska Native Claims Settlement Act of 1971, the Bureau of Land Management is still to process thousands of permit applications.

The power authority have the authority to acquire land for the project itself. Bruce Bedard, a native specialist for the power authority, says it will be a tricky business to acquire land, because it will involve negotiations with the BIA.

Because the BIA holds native allotment lands in trust for natives until the land is conveyed, condemnation would involve much more red tape.

Day-surgery



Sea sanctuary plan

HARBOR from page 29

the ground. Boyette said that the City also agreed to compensate Crow for any damage done to the vessels during the attempted move.

In the interim, Andy Hicks, a marine surveyor working for B.J. Logan and Associates of Anchorage, came to Bethel to evaluate the two barges. Boyette described Mr. Hicks' crawling through the vessels to arrive at an estimated value of \$18,000 for the two: \$15,000 for the Widow Maker and \$3,000 for the Akiak.

After two days of un-

successful efforts at thawing the ground around the barges, the city crew brought in a Terex to attempt to lift the barges out of their frozen slough bank. When that didn't work, the crew brought on their D-S Caterpillar tractor, to try to shove the vessels out of the ice. This attempt also failed, with the result that the barges broke into pieces.

The City crew gathered the broken wood into a pile and faced with the choice of collecting it all and hauling the shards to the dump, or burning the wrecked hulks

on site, the crew elected to burn the boats.

Fire Chief Mark Barker was not informed of the burning, nor were any fire department personnel involved in the blaze.

According to Boyette, he informed Alice Crow and Myron Angstman as soon as he heard the news of the burning. Bruce Crow, he said, was in Chauthbaluk that Friday. When he returned, finding his barges burned, Crow reportedly called the police.

Negotiations between the City and Crow continue. "The City did it," said Boyette. "The City accepts responsibility," he said.

Buttcane claims City is being "extorted" by feds

The mood of the Bethel city council was indignant Friday afternoon, at a special council meeting to settle a question of a new Native allotment filing on

the site of the small boat harbor, now under construction.

"I feel as though we're being bribed, blackmailed

Please turn to page 19

Tundra Drums
2/3/83

City News from page 1

and extorted," said councilman Bob Buttcane after a brief executive session, "but for the sake of the small boat harbor, I'm willing to give into the demands made." Buttcane said he found it appalling but could not do otherwise.

Councilman Buttcane's remarks came in response to a negotiated list of land options from the local BIA land office and the allottee, James Nicolai of Akmouthluak.

Council was informed in mid-week that a several acre Native allotment was recently accepted for filing by the BLM and BIA within the 57-acre small boat harbor boundary. The original seven-and-one-half acre Nicolai Allotment was either recorded in error with the wrong coordinates or had eroded, leaving only about 100 feet of riverfront

property on the N.N. Ne quarter of Section 16. This situation was recently realized by BLM and with the authority to adjust allotments, they did so by redrawing Mr. Nicolai's land allotment filing within the harbor.

Late last year land for the small boat harbor was conveyed by BNC to the City of Bethel under the 14c3 provisions of the Alaska Native Claims Settlement Act. The filing came as a complete surprise to both BNC and to the City.

At the advice of BIA Realty Specialist, Mr. Nicolai agreed initially (see related story LOST ALLOTMENT on page 1) to the following land options.

-1. Condemnation by the Corps of Engineers. Expedited procedures can

Please turn to page 22

EXTORTED

from page 19

allow condemnation to take place in a relatively short period of time.

-2. State condemnation. Same as above.

-3. Land exchange for 4.5 acres of city land for the boat harbor site, plus, cash—\$30,000.

-4. Straight out purchase of the 4.5 acres

required.

-5. Scrap the project for the time being. This would cause the Corps to pull out and also cause Knik to sue the Corps and the City for damages.

-6. Land exchange of 9 acres for the required 4.5 acres plus a cash exchange of \$5,000.

Tundra Drums
2/3/83

Lost allotment, boat burning plague harbor project

by Richard Goldstein

Two thorny legal problems involving the City of Bethel's small boat harbor project have surfaced recently. The first of these initially could have caused a shutdown of the entire project, when the Army Corps of Engineers threatened to pull out their participation.

The second does not have quite the same negative potential, and will probably require that the City pay an as yet to be determined amount of money for damages.

The first problem came to light in mid-January when Glen Watson, the Bethel Native Corporation's land planner, discovered a 'lost' Native allotment, occupying a small portion of the project site, across Brown Slough, in Louse Town.

BNC had received interim conveyance on that entire parcel of land from the Bureau of Land Management and had reconveyed about 40 acres to the City under auspices of section 14c3 of the Alaska Native Claims Settlement Act. BNC could not have done so if the land had been encumbered by any conflicting allotment.

Watson informed the AVCP realty office, which in turn contacted Richard Honey, manager of the Bureau of Indian Affairs' realty office in Bethel.

Upon investigation, the valid Native allotment application of Jimmy Nicolai of Atmauthluak was produced, showing Mr. Nicolai with a legitimate

see turn to page 29

HARBOR

from page 1

claim to about four and one half acres of land, most of which, however being situated in the Kuskokwim River, several hundred yards upriver from Crow and Sons' fishing operations.

Only about 100 square feet of the allotment appeared to fall within the harbor project boundaries.

Russell Blome, a realty specialist from the Bureau of Land Management was notified and flew to Bethel. On January 21, Blome, Honey and Nelson Nicolai, the allottee's son, toured the allotment area and staked out the boundaries. Nelson Nicolai however, informed the two government agents that the land described in the allotment document did not conform to what his father had intended when the elder Nicolai filed his application in 1972.

Honey and Blome then re-drew the allotment to conform to Nelson Nicolai's specifications, increasing the size of the area to seven and one half acres, about four and one-half acres of which now falls within the small boat harbor project. The federal government then informed the City and the Corps, partners in the \$3 million project.

By the end of last week, the Corps was threatening to pull out of the project altogether if the City did not resolve its problem with the allotment holder. Acting quickly, the City drafted six alternative solutions to the problem, all of which were acceptable to Mr. Nicolai and to the BIA.

One of the six alternatives proposed an acre-for-acre land swap with an additional \$30,000 added on for Mr. Nicolai.

In return for conveyance of the allotment to the City, the City would grant

to Mr. Nicolai a four-and-one-half acre parcel of City-owned land lying just west of Ptarmigan subdivision.

According to several estimates compiled by City Capital Projects Director Dan Boyette, the current value of that parcel of land is approximately \$200,000.

The deal was supposed to have been arranged on Monday, but at the last minute, the government backed off, claiming that City by-laws prevent the direct conveyance of land without a hearing and without bids submitted.

But City Planner Tony Stigall disputes that assertion, claiming that the by-laws allow for the city to convey land to the state, to the federal government or to any political subdivision of the state. He cited several precedents within the City's history to support his claim.

As the negotiations began to break down, Richard Honey, the local BIA representative for realty, suggested that his client would accept a straight cash settlement of \$6 a square foot, or about \$1.2 million for his land.

Although this was one of the six alternatives agreed to by all parties, the buy-out price was quite a bit more than the City had bargained for.

As a result of the lapse, Honey and Bruce Landon, an attorney from the Solicitor General's Office of the Department of the Interior, met on Tuesday in Anchorage with Stigall and with Joe Powell, from the office of Rick Garnett, the City attorney.

According to Dan Boyette, "things look good" for a settlement, as of Tuesday night.

Meanwhile, work on the project continues, with Knik

Construction excavating the harbor site.

And according to Mr. Boyette, the Corps has been mollified and has withdrawn its deadline for resolution of the allotment dispute.

The second incident came about when the City, on its own initiative, burned two barges belonging to Bruce Crow, both of which were located within the project boundaries.

Crow has retained Bethel attorney Myron Angstman. According to Angstman, Crow wants the two 60-foot-by-16-foot wooden craft replaced.

According to Dan Boyette, Crow's family was notified in late August that the two vessels, the Widow

Maker and the Alciak, had to be moved, as both were lying on ground slated for excavation.

Boyette said that he contacted Crow's son Sam, and that his daughter Alice indicated that her father was upriver moose hunting at the time, but that she would see what she could do about moving the barges. The barges remained unmoved.

Boyette said that Bethel Police Chief Tom Varnell also informed the family about the same time, and City Planner Stigall took a map of the proposed project to show to two members of the Louse Town Development Corporation: Louie Andrev and

Bruce Crow.

In addition, according to Boyette, Public Works Director Gary Volkman also told the Crow family that the barges had to be moved.

Through his lawyer, Crow maintains that he wasn't informed about the need to move the barges until late September, after the last of the high water, when the vessels were finally grounded up the Louse Town Slough.

With the start-up of work imminent, an agreement was finally reached between the City and Crow, in which the City offered to attempt to move the vessels, now frozen in

Please turn to page 30

City, BIA reach agreement on land entanglement

by Richard Goldstein

Arctic Reader - 10/13

An agreement has been reached between the City of Bethel and a Native allotment holder whose land was found to be located within the City's small boat harbor project, in Louse Town.

Under terms of the agreement settlement,

Jimmie Nicolai of At-mutluk will be paid \$380,000, the money coming out of project funds. The money will be held by the City for Mr. Nicolai, accruing interest at 13 percent a year.

In return, Mr. Nicolai

has signed over to the City a four acre portion of his Native allotment located within the harbor construction site.

The money will be used as Mr. Nicolai's bid in the auction sale of a 6.02 acre site located near Ptarmigan

subdivision. The City has taken steps to auction off that portion of property within nine months of the effective date of the agreement, signed on Monday, February 7.

If the property is not successfully sold within nine months, or if Mr. Nicolai is not the successful high bidder, he will be paid the \$380,000 and the interest.

Please turn to page 29

If Mr. Nicolai's bid is

BIA from page 1

The small boat harbor project was begun in earnest last year when the Bethel Native Corporation granted a 58 acre parcel of land to the City under auspices of Section 14c3 of the Alaska Native Claims Settlement Act, which regulates land conveyance from Native corporations to local municipalities.

In conveying the land, BNC was under the impression that it had clear title, and apparently was unaware of the Native allotment which had been top-filed by Mr. Nicolai in August, 1970. The allotment was only discovered by BNC land planner Glen Watson subsequent to BNC's having conveyed the parcel to the City, and following an agreement between the City and US Army Corps of Engineers for construction of the harbor.

When news of the discovered allotment was aired, the Corps felt its position was compromised and initially threatened to walk off the project unless a deal was quickly agreed to settling the land ownership issue within the project's boundaries.

But assurances were obtained, the land agreement was struck, and the Corps has continued to oversee the project, with Krik Construction still excavating the site.

But with one problem solved, the City still has to grapple with another harbor-related problem: replacing the two 60 foot by 16 foot wooden barges belonging to Bruce Crow which the City's public works crew burned two weeks ago.

The two barges, reportedly used by Crow during his summer fish buying and processing business, were parried, high and dry, up the Louise Town Slough, squarely in the middle of the proposed harbor.

Having received permission to attempt to move the barges from the harbor site, and assuming the responsibility for any ensuing damage, the City crew began to work at extricating the vessels from the frozen slough bank. But neither heat, nor Terex, nor D-8 Caterpillar could pry the boats loose, at least in one place. While pushing on the barges with the Cat, the barges began to break up. The crew pushed the wooden hulks into a heap and reportedly burned the fragments.

Neither the Bethel Fire Department, nor Crow himself were told beforehand of the plan to burn the barges.

Through his attorney, Myron Angstman, Crow has indicated that he wants the City to replace the barges by break-up.

A marine surveyor hired by the City to assess the worth of the barges before they were burned

\$18,000. Whether the City can replace the two vessels for that amount of money is

few replacement barges available in the Delta at present.

Natives take land claims to high court

by A.J. McClanahan
Times Writer

Southeast Alaska natives are attempting a last-ditch effort to gain title to more than 200 parcels of land they believe are rightfully theirs.

The government says they are out of luck because the land is in the Tongass National Forest.

The natives have lost once at the U.S. District Court level and twice in the Ninth Circuit Court of Appeals. Even so, Alaska Legal Services Attorney Craig Tillery thinks the 200 or so natives have a chance of winning in the U.S. Supreme Court.

To the natives, the stakes are high.

The case involves land secured under the 1906 Native Allotment Act which authorized natives to obtain restricted title to parcels of up to 160 acres for each person. Title was for land they traditionally used for hunting, fishing, trapping or homesites.

Under the act, natives got the land under a trust arrangement. See Lands, page A-4

A-4 The Anchorage Times, Friday, March 4, 1983

Lands

(Continued from page A-1)

with the Bureau of Indian Affairs. The allotment land essentially belonged to the natives, but they needed to obtain BIA approval for most transactions.

By the same token, they didn't have to pay taxes on the land.

The act was repealed by the Alaska Native Claims Settlement Act of 1971, but statewide there are 7,421 applications for about 14,000 parcels ranging from 40 to 160 acres each. The applications remain pending before the Bureau of Land Management.

Getting the Supreme Court to take the case is no easy task.

"You not only have to convince them you're right, but that it's important," Tillery said.

It is to the natives.

If the Supreme Court does not rule in their favor they will lose their claim to the land, Tillery said. "They're also losing their link with their past, their heritage," he added.

The case involves approximately 32,160 acres of land in Southeast Alaska, located in the Tongass National Forest. That amount of land is substantially less than 1 percent of the 17-million-acre forest, which is the largest national forest in the nation.

The suit was filed on behalf of Albert Shields Jr. of Juneau in a class action suit for about 200 natives. It stems from a native allotment application filed by BIA for Albert Shields Sr. in 1972.

Two years after the application, the Bureau of Land Management made a field examination of the application and found that the land was within the Tongass National Forest. The bureau's report stated that

Shields had used the land extensively, but that his use did not predate the forest.

The U.S. Forest Service said Shields had to prove that his use of the land predated the forest, which was created in 1902. In 1909 the forest was increased to include most of Southeast Alaska.

The Alaska Legal Services filed suit on Shields' behalf on Feb. 23, 1977, to fight the decision. He died Nov. 13 of that year, but the court allowed his son Albert Shields Jr. to be substituted as plaintiff.

The government says that natives must establish personal — not just ancestral — use and occupancy of the land from before the land was put into the forest.

The case was made into a class action suit three years later.

In 1981, the court ruled against the natives, so they appealed to the Ninth Circuit, which ruled against them twice.

Tillery said the case also will affect natives who have allotments in the Chugach National Forest.

The natives' brief will be filed with the U.S. Supreme Court by the end of next month. Tillery said he expects word on whether the high court will hear the case by early this summer.

In a related development, nine Democratic state representatives have introduced a resolution in the legislature, calling on Congress to increase BLM financing so that allotments can be conveyed within 10 years.

BLM officials have said in the past that it could take 30 or more years to convey the land.

The resolution was introduced by Reps. Adelheid Herrmann, D-Bristol Bay; Albert P. Adams, D-Kotzebue; John G. Fuller, D-Nome; Peter Goll, D-Haines; Vernon L. Huribert, D-Sleetmute; Tony Vaska, D-Bethel; Fred F. Zharoff, D-Kodiak; Ben Grussendorf, D-Sitka; and Don Clocksin, D-Anchorage.

Welcome 1982 AFN Convention

50¢

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Times

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October 20, 1982

INSIDE'S
Banquet plans
Page 7
OCT 20 1982
LIBRARY

Allotment conveyance may take 20 years

By LINDA LOP JENKINS
Tundra Times

Last week the good news for Native land allotments was that the "Fanny Barr" class action suit against the United States had been settled in favor of the allotment seekers.

The bad news this week is that, at the present rate of land surveying, it will take 20 years to clear up all the allot-

ment petitions awaiting resolution in federal Bureau of Land Management files.

One skeptical allotment watcher said cryptically after hearing of the Fanny Barr settlement, "Your children and children's children will be in college before all these allotments are conveyed, they're in such a mess."

The Fanny Barr decision

centered on the allotment petitions filed by an unknown number of Alaska Natives with volunteers during an early-1970s allotment drive.

Under terms of the settlement, any Alaska Native who filed an allotment form with a Rural CAP volunteer or employee before the Dec. 18, 1971 deadline and who believes that the request never

was passed on to the BLM or BIA, should write a letter to the District Court Clerk stating that that had happened.

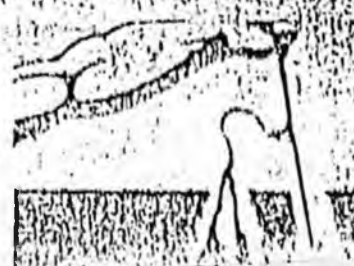
Their letter must be received by the court clerk by Nov. 22 and would put into effect a process in which the petitions would be investigated and acted upon by the government.

The bad news is the length

of time necessary to survey each land petition and the limited amount of financial and staff resources available to conduct those surveys.

Frances Eickboesh, chief of the Division of Cadastral (land surveying) Studies for BLM, estimates that if the land surveys are conducted at this year's rate, 40 years will

(Continued on Page Eleven)



Struggling in the shadow

AROUND ALASKA

No money, long process stall conveyances

(Continued from Page One)
 pass before all the surveys are conducted.

If the surveys are conducted at the rate planned for next year, Eickbush said 20 years could elapse.

The cadastral office has altered and made more efficient the methods it uses to conduct surveys for the coming years. Eickbush said that his surveyors plan on surveying 500 parcels in the Point Hope, Galena, Anvik, and Eagle-Northway areas in the coming year.

Until this year, the surveyors tended toward a more scattered approach and surveyed parcels throughout the state as those parcels were cleared for survey by the DLM's adjudication office.

The regional survey method will allow the cadastral office to get 'more for its money' by focusing on general areas and saving travel costs and time.

In nine years, the cadastral office has conducted surveys on 1,663 parcels of land. Allotment requests have been filed by about 9,000 people who are seeking about 13,381 land parcels.

Under the 1906 Land Allotment Act, petitioners can seek up to 160 acres of land divided in up to four different parcels.

Eickbush says that it takes from one to four days to sur-

Another problem fouling up the works in the land allotment conveyance procedure is the State of Alaska which filed blanket appeals to thousands of Native allotment petitions after the passage of the Alaska National Interest Lands Act (ANILCA), according to one attorney.

Don Mitchell, a former Alaska Legal Services Corp. attorney who worked on ANILCA passage in Washington D.C., and now works for the Alaska Federation of Natives, said that ANILCA stipulated that allotments which were not appealed by anyone within 180 days of ANILCA's passage would be cleared to survey and no challenge could be filed.

The State violated the intent of the ANILCA legislation, however, when it filed blanket appeals to the 4,000

to 5,000 allotments on day 180 of the appeal deadline, he says.

ANILCA also required that the agency appealing the allotment specify his, her or its reasons for objections but the state obviously couldn't nor did it specify in each case, he says.

No one, however, has taken the State to court over this matter, Mitchell said.

More than 8,000 people filed allotment petitions during the 1970s allotment drive — an amazing number of requests which were brought about by the efforts of the Rural Alaska Community Action Program under the direction of Byron Mallott, then John Shively.

Many of the allotments were filed with volunteers from the villages who were trained by Rural CAP employees.

Unfortunately, says Shively who now works with NANA Development Corp., in such a massive effort, with so many volunteer workers, problems will crop up and more than 100 petitions were found in three villages several years after the allotment drive was ended and the deadline for filing allotment petitions was long past.

The allotments couldn't be filed after the signing of the Alaska Native Claims Settlement Act on Dec. 18, 1972.

Three groups of petitions were found in the attic of a building, which formerly

housed a Nome Rural CAP office; in the home of one volunteer in Quinhagak, and others were sent back to the village of Akiachak with the promise that Rural CAP or BIA workers would follow to help straighten them out. The workers never showed up and the petitions were kept in village files for years.

When the petitions were brought to light, the Alaska Legal Services filed a class-action suit on behalf of Fanny Barr, one of the Shishmaref petitioners whose request was lost in an attic, and others.

MOVING FUR SALE ALL MUST GO

YOUR SHAREHOLDERS

ment-Act; petitioners can seek up to 160 acres of land divided in up to four different parcels.

→ Eickbush says that it takes from one to four days to survey an average parcel, depending on the type of terrain to be surveyed.

Each survey costs about \$8,000 to just survey with the total field examination, adjudication and paperwork running about \$30,000 per allotment for all parcels, he estimates.

The age-old problem of lack of funds also crops up daily in the office. According to testimony presented at many hearings on the allotments for the past four decades, Congress rarely has funded the allotment process to anywhere near the amount needed to sufficiently carry it out.

Previous allotment officers testified that requests for additional money were generally ignored.

The reason that RURALCAP became involved in the allotment drive was because neither the BIA or BLM had sufficient money to go out to work on the allotment requests.

Today is no different.

Eickbush says that his office requested \$15 million for the current federal budget year but received only \$8 million for the year. That \$8 million must also pay for office surveys of Alaska state land withdrawals, village withdrawals and many other programs so the piece of the "budget pie" remains insufficient to get the job done.

Eickbush said that if more money were to be allocated — and with the federal budget belt-tightening the way it is, that doesn't look likely — he would contract with private surveyors to do the work.

ALL MUST GO

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HJR

38

ANALYSIS OF HOUSE JOINT RESOLUTION NO. 38

"Supporting alternatives for the marketing of North Slope Gas."

This resolution is a signal of strong support for a transportation system to be constructed for Alaskan North Slope Gas. It supports and encourages sales of Alaskan gas to all probable markets at home and abroad, and calls for all state, federal, and Congressional agencies to give equal support and assistance to any system that will carry our gas to market.



UNITED STATES DEPARTMENT OF COMMERCE
The Under Secretary for International Trade
Washington, D.C. 20230

RECEIVED MAR 14 1983

MAR 7 1983

Honorable John J. Cowdery
State Representative
State Capitol
Juneau, Alaska 99801

Dear Mr. Cowdery:

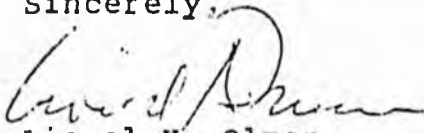
Thank you for your cable to President Reagan regarding Alaskan resources. The White House has asked me to respond.

During Prime Minister Nakasone's January visit to the United States, President Reagan and the Prime Minister agreed to form a U.S.-Japan Working Group on Energy to examine many of the issues raised in your telegram. Secretary Shultz later met with Foreign Minister Abe to begin the arrangements on the structure and agenda of the first Working Group meeting. Discussions will include a wide range of issues including coal, oil and natural gas, and their respective roles in the energy security and development of both nations.

Japan, through the Ministry of International Trade and Industry (MITI), has been active in performing assessments of Alaska's coal reserves and has expressed interest in the possibility of importing Alaskan oil. The other Pacific Rim nations are also potential markets because of proximity and the desire to deal with the United States as a reliable supplier of both coal and oil.

The export of Alaskan oil is restricted, but there has been much discussion in the Administration and Congress about removing these restrictions. The export of Alaskan oil involves a trade-off of insuring the adequacy of domestic oil supplies, and the economic incentive to export commodities not in short supply. We have sought to balance these objectives while administering the short supply regulations of the Export Administration Act (EAA). We will pay close attention to this issue during the 1983 reauthorization of the EAA. This Administration is committed to increasing the energy security and interdependence of our allies and trading partners.

Sincerely,


Lionel H. Olmer





RECEIVED MAR 2 1983

Department of Energy
Washington, D.C. 20585

March 2, 1983

Honorable John J. Cowdery
State Representative
State Capitol
Juneau, Alaska 99811

Dear Mr. Cowdery:

President Reagan has asked the Department of Energy to review and respond to your telegram of January 18, 1983, in which you urged the President to encourage Japan to look toward the energy resources available in Alaska.

The President has recently initiated a cooperative effort with Japan to explore opportunities for enhancing energy investment and trade between our two nations. During Japanese Prime Minister Nakasone's recent visit to Washington, President Reagan proposed, and the Prime Minister agreed to, the establishment of a U.S.-Japan Working Group on Energy. The focus of the group's work will be on identifying and resolving impediments to private investment and free trade in energy in various sectors: oil, coal, gas and synthetic fuels.

In support of this effort, the U.S. Government will be examining the potential for increased U.S. energy trade with Japan and the legislative, technical, and economic constraints to such trade. In the course of our discussions with the Japanese Government, we plan to make every effort to keep the private sector and the legislature informed of the course of these deliberations at appropriate junctures.

We welcome your interest in further development of U.S. energy resources and in such cooperative efforts as we now have undertaken with Japan.

Sincerely,

George Bradley

George Bradley
Principal Deputy Assistant Secretary
for International Affairs

Introduced by: King
Date: Feb. 1, 1983
Vote: Unanimous
Action: Adopted

KENAI PENINSULA BOROUGH

RESOLUTION 83-34

APPROVING AND ENCOURAGING CONSTRUCTION OF THE TRANS ALASKA GAS PIPELINE.

WHEREAS, the Trans Canada Gas Pipeline for delivery of Alaskan gas to Midwest markets has not proved feasible so as to get necessary construction financing; and

WHEREAS, the result is that the gas is not being sold to the detriment of the Alaskan people and the State of Alaska; and

WHEREAS, the Governor's Economic Committee has filed a report dated January 1983, setting forth the economics of a Trans Alaska Gas System as an alternative for North Slope gas which would result in construction of a pipeline for gas to tidewater in the Nikiski area; and

WHEREAS, the oil and gas infrastructure is already in place in that area which could be developed to utilize gas from the North Slope; and

WHEREAS, use of this gas within the State and preparation of gas within the State for shipment would be beneficial to the State of Alaska through increase of employment and increase of taxes as well as giving a market for North Slope gas; and

WHEREAS, it is in the national interest to allow marketing of this gas in the Pacific rim areas of Japan, Korea, and Taiwan, as well as the west coast of the United States in order to reduce the deficit in our balance of trade with those nations and to bolster the United States economy;

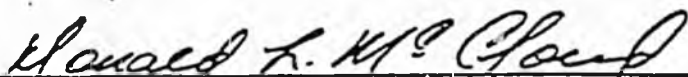
NOW THEREFORE, BE IT RESOLVED BY THE ASSEMBLY OF THE KENAI PENINSULA BOROUGH:

Section 1. That the Kenai Peninsula Borough hereby approves, encourages, and urges rapid action to approve and activate construction of a pipeline for North Slope gas from the Prudhoe Bay area to tidewater in the Nikiski area of the Kenai Peninsula Borough as envisioned in the report by the Governor's Economic Committee.

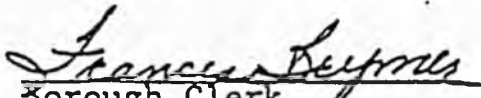
Section 2. That the Clerk of the Kenai Peninsula Borough distribute copies of this resolution to President of the United States Ronald Reagan, U. S. Senators Ted Stevens and Frank

Murkowski, Representative Don Young, Governor of Alaska William J. Sheffield, and to all members of the Alaska Legislature immediately after its adoption.

ADOPTED BY THE ASSEMBLY OF THE KENAI PENINSULA BOROUGH ON
THIS 1st DAY OF February, 1983.


Donald L. McCloud, Assembly President

ATTEST:


Borough Clerk



NEWS

ALASKA CONGRESSIONAL DELEGATION

Senator Ted Stevens
Senator Frank Murkowski

March 14, 1983

FOR IMMEDIATE RELEASE

WASHINGTON--Senators Frank Murkowski and Ted Stevens have urged Commerce Secretary Malcolm Baldrige to recommend revisions in the Export Administration Act's restrictions on the export of Alaskan crude oil.

Baldrige is currently reviewing the act, which is set to expire in September, and the Administration will soon be forwarding to Congress its recommendations for renewal.

"While I have yet to endorse any specific proposal, I recognize that now is the time to begin the lengthy process of removing federal restrictions and preparing for the possibility of future exports of Alaska's oil," said Murkowski.

"Under the existing Export Administration Act, any oil export faces an uphill battle for approval in Congress. Revising the law will remove the first roadblock, but we still face the restrictions included in the TAPS Authorization Act," Murkowski added.

Sen. Stevens said, "The administration's public support in exploring these issues before Congress would be an important step toward the release of Alaska's oil to the free market."

-more-

"We have urged Secretary Baldrige to make an early recommendation on lifting the oil export ban. Any final proposal on the export of Alaska oil to Japan will have to include a provision that only United States ships can carry oil from the Prince William Sound area," Stevens said. "It is also apparent that substantial revisions in Japanese export policies will have to take place before the export of Alaska oil will be acceptable to Congress."

The Export Administration Act was amended by Congress in 1979 to tighten restrictions on resource export. Under the law, any new oil export must be expressly approved by both houses of Congress.

The Trans-Alaska Pipeline System Authorization Act requires the U.S. Senate and the House of Representatives to disapprove, rather than approve, any new export within 60 days after being proposed by the President.

In their letter to Baldrige, the Senators said that the factors which led to the tightening of the Export Administration Act ban on foreign sales of crude oil are not the same today. Murkowski and Stevens said that the interest in crude oil export expressed by the U.S.-Japan Energy Working Group, as well as changing world oil supply and demand dynamics point to a possible change in the Administration's position on oil export.

"If a consensus develops in the near future that favors export, we would not want consideration of this issue to become inflexible because the existing Export Administration Act was already underway," the Senators wrote. "We hope your recommendations regarding the Export Administration Act will have flexible parameters and ample latitude for far-ranging and complete discussions of this issue," they concluded.

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For further information: Jane Robbins (202) 224-6665

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that dogged the earlier oil pipeline. But its main problems have been a sharp jump in cost estimates, from an original \$10 billion, to \$43 billion or more, and the consequent need to pass these costs on to customers.

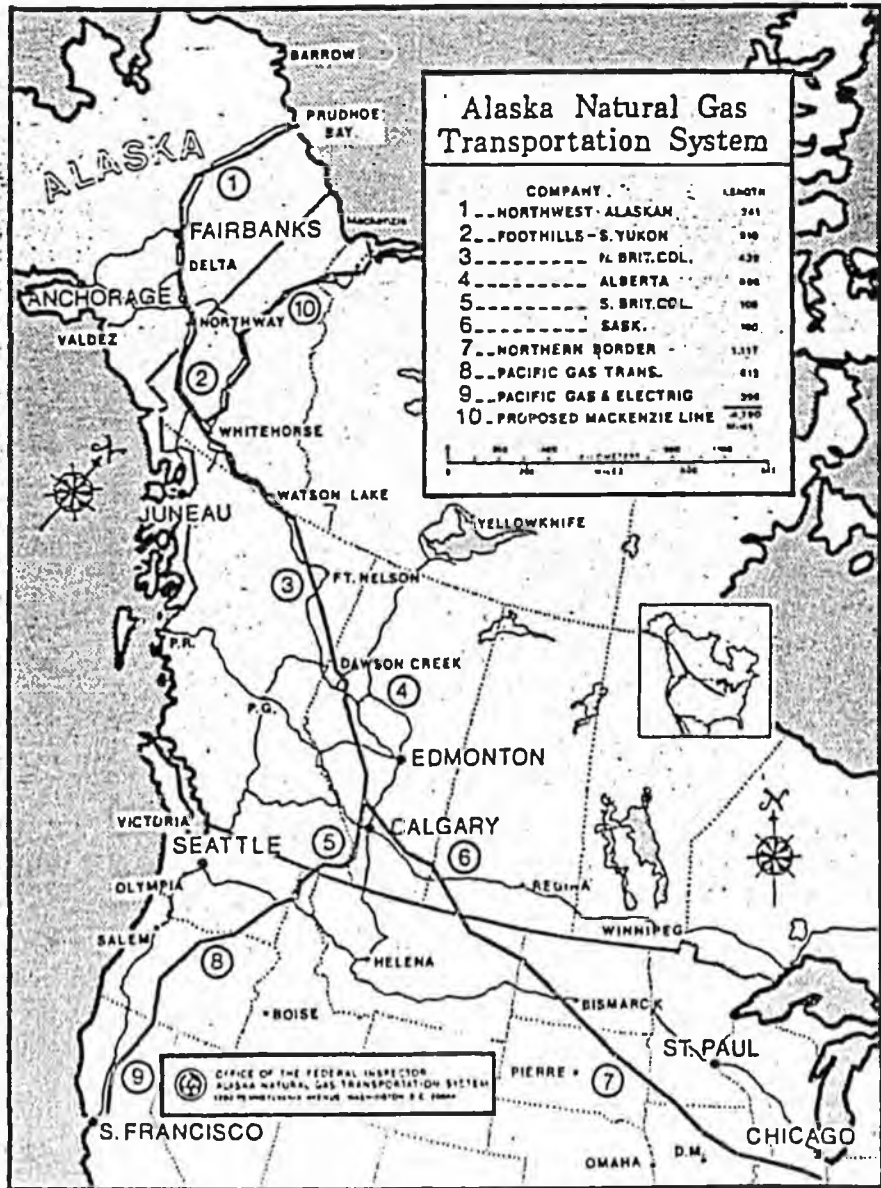
In part, this has been addressed by the companies and Alaska in a variety of plans to make the cost of gas relatively stable throughout the project rather than "front-loading" the capital cost. According to state officials, this could cut the often-cited price of \$18 a thousand cubic feet by 60 percent initially. Then, the costs would be spread over years.

"Everybody has to be a participant in this leveling process," one oil company official said, implying that producing companies would probably have to make concessions on the wellhead price they received for their gas as they asked banks to wait longer for their financing profits.

Companies are also devising ways to reduce costs of conditioning the gas and building pipelines. Nonetheless, a growing body of opinion seems to hold that the pipeline may be dead.

"When ANGTS was approved, the nation was suffering a severe natural gas shortage brought on by wellhead gas price controls," said a recent report prepared for Alaska by Booz, Allen & Hamilton. "Consequently, there was strong interest in bringing Alaskan gas and other supply supplements to market. Now, however, the domestic natural gas supply-demand picture has changed."

Accordingly, two former governors of Alaska, Walter J. Hickel and William A. Egan, are pushing an alternative under the aegis of a special committee appointed to suggest solutions. They advocate



building an 820-mile pipeline from Prudhoe Bay to the port of Kenai, Alaska, and then liquefying the gas for shipment to Japan by tanker. According to this view, Alaskan gas can probably never be competitive in the lower 48, and its natural market is Japan.

Advocates of this plan say it will lessen the United States' \$20 billion payments deficit with Japan, prevent the Soviet Union from capturing a large chunk of the Japanese gas market—as it has in Europe—and cost \$18 billion less than the line through Canada.

Perhaps most important from

Alaska's perspective, the advocates say, the state could finally profit from what is perhaps its richest resource. This is an especially important argument because Alaska's oil revenues will begin to decline sharply at the end of this decade as the recovery of Prudhoe crude becomes more difficult.

"They've been talking about the potential of Alaska for 150 years now," Hickel said in an interview. "You have to make something happen, or a potential is just a broken promise."

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ALASKA

STATE LEGISLATURE

MEMORANDUM

28 March, '83

TO: Rep. John Cowdery

From: Merrill Sikorski

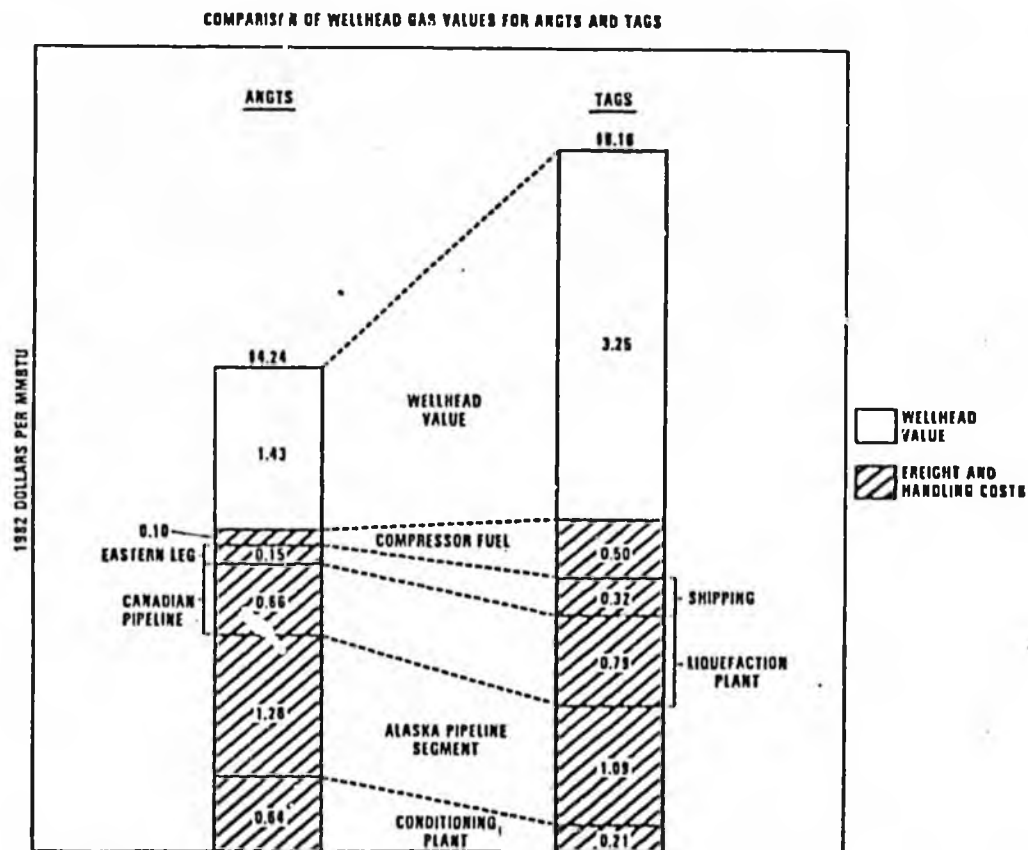
RE: Information & costs of delivered NS gas.

With capital costs being passed on to the consumers, the latest estimates for ANGTS gas to the midwest, is \$18 a thousand cu. ft. (three times the current market rate) As shown in the attached graphic from the Booze, Allen & Hamilton report, TAGS is estimating in 1982 dollars the price to Japan at \$5.67 MMBTU.

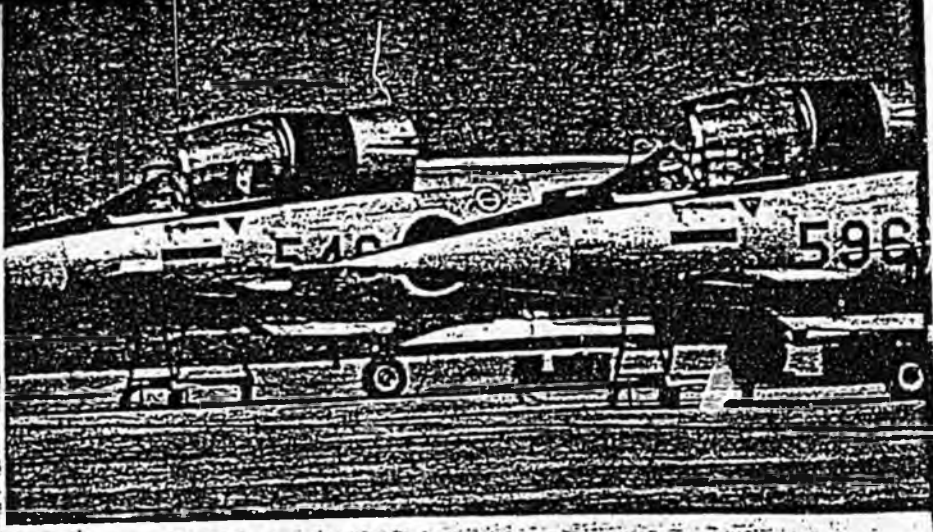
John, another factor that seems apparent after reading the article on "Rearming of Japan", in last weeks U.S. Business Report, is our national security. Nakasone is pushing toward rearming his country. If Japan is as effective as they are at everything else they do, they may have quite a military capability by the end of this decade. This is the same time that their energy needs will call for additional LNG, which will also be available from the U.S.S.R. within that time frame. It would behove this nations security to have a technologically advanced nation such as Japan, with new military capabilities, dependant on the U.S. for its energy supplies, rather than the Soviet Union.

CONCLUSIONS . . .

THE MAJOR ECONOMIC ADVANTAGE OF TAGS IS THE HIGHER VALUE OF ITS TARGET MARKET -- LNG USE IN THE PACIFIC RIM



BUT, BOTH TAGS AND ANCTS ARE VULNERABLE IN SEVERAL WAYS . . .



SPECIAL REPORT

REARMING JAPAN

Reagan prods, U. S. business worries, and many Japanese fume



For 40 years, the issue of defense in Japan has been buried in the radioactive ashes of Hiroshima and Nagasaki. Stunned by a devastating military defeat in World War II and humbled by the American occupation, the Japanese have spent the past decades concentrating on business and trade, leaving the defense of their country almost

entirely in the hands of their conqueror, the U.S. For most Japanese, pacifism became the only acceptable alternative when militarism failed.

But 38 years after General Douglas MacArthur accepted its surrender on the deck of the USS Missouri, Japan is debating whether it should turn once again to arms. In fact, rearmament is destined to be one of the key Japanese foreign policy issues of the 1980s.

More than anyone, it is the Reagan Administration, with an eye toward the Soviet Union, that is pushing Tokyo to increase military spending and assume a much heavier defense role. "Japan is just not bearing its share of the defense load," complains a high State Dept. official. "The U.S. is not willing, or able, to carry all these burdens alone." If the Pentagon has its way, Japan would shoulder responsibility for bottling up the entire Soviet Pacific fleet within the Sea of Japan, while helping to patrol vital sea lanes to Guam and the Middle East (map, page 108).

Although Washington has

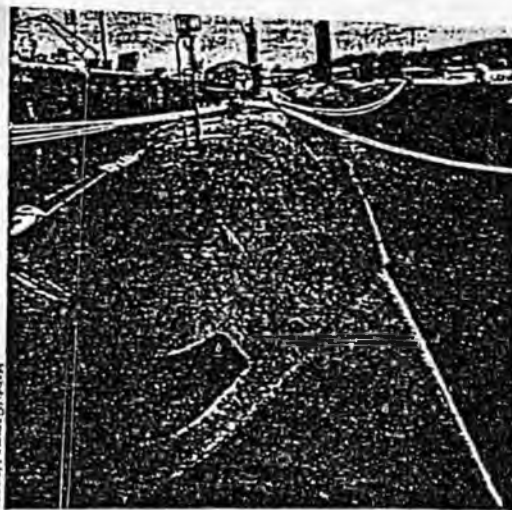
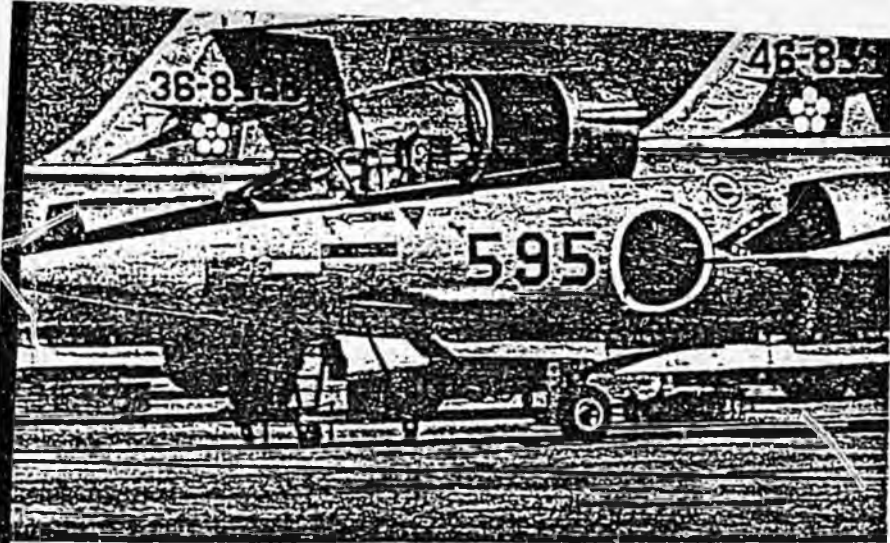
been grumbling for years about Japan's "free ride," it now has a receptive listener in Yasuhiro Nakasone, who became Prime Minister last November. One of Japan's most articulate hawks, Nakasone is a former Defense Minister who believes a country as economically powerful as Japan should play a larger role in its own defense. Unlike his predecessors, who bowed to the deep postwar pacifism of the Japanese, Nakasone is ready to challenge all the taboos on rearmament and military spending. His promise, during his January visit with President Reagan, to turn Japan into "an unsinkable aircraft carrier" was a bone-rattling shock to a Japanese population used to oblique statements from its political leaders.

Yet that was just one part of Nakasone's rearmament campaign. In mid-January, he led the ruling Liberal Democratic Party (LDP) in calling for a new national constitution that would tear up the "peace constitution" written for Japan by MacArthur and do away with Article 9, reviled by conservatives, under which the Japanese pledge to "forever renounce war" and to "never maintain any war potential." The same week, Nakasone pushed through Cabinet approval of a technology-transfer agreement with the U.S., which Washington had sought for years. Just days after that, he persuaded the LDP to begin reviewing Japan's policy of restricting the export of weapons—a key change if Japan is going to rearm in a big way. Most important, Nakasone is

Japan's forces are poorly commanded and ill-equipped.



3/14/83



Weapons made in Japan: To build its arms industry, Tokyo would have to break its own guideline that limits military spending to 1% of GNP.

hinting at breaking the most important of all Japan's self-imposed guidelines—the limitation of military spending to 1% of gross national product. Many expect him to break through that limit in the next two years, opening up the possibility of much higher government financial support for the armed forces. "We are now approaching the ceiling," says Kazuo Tanikawa, director general of Japan's Self-Defense Agency. "Perhaps we are at a point where we have to reconsider [the 1% limit]."

That prospect may win applause in the White House and on Capitol Hill, but it alarms a great many people in Asia, including the Filipinos, who have searing memories of Imperial Japan's Greater East Asia Co-Prosperity Sphere. The growing discomfort with Washington's sponsorship of Japan's rearmament goes beyond remembrances of World War II, however. U.S. businessmen are wondering if Japan will repeat its successes in exporting autos, televisions, semiconductors, and VCRs with a new series of military exports. Japan's electronics abilities could make it a strong exporter of electronic weapons.

Others fear that technology the U.S. transfers to Japan for a military buildup may return home in commercial goods (page 109). Already, Mitsubishi Heavy Industries Ltd., the country's largest defense contractor, assembles F-15s and executive jets in Japan—in adjoining hangars. The specter of a repeat on a huge scale of that kind of technical transfer haunts many U.S. executives. "Do I think it is an eventual threat? You better damned well believe I do," says a U.S. defense industry executive in Tokyo. "Whatever they do, they do well."

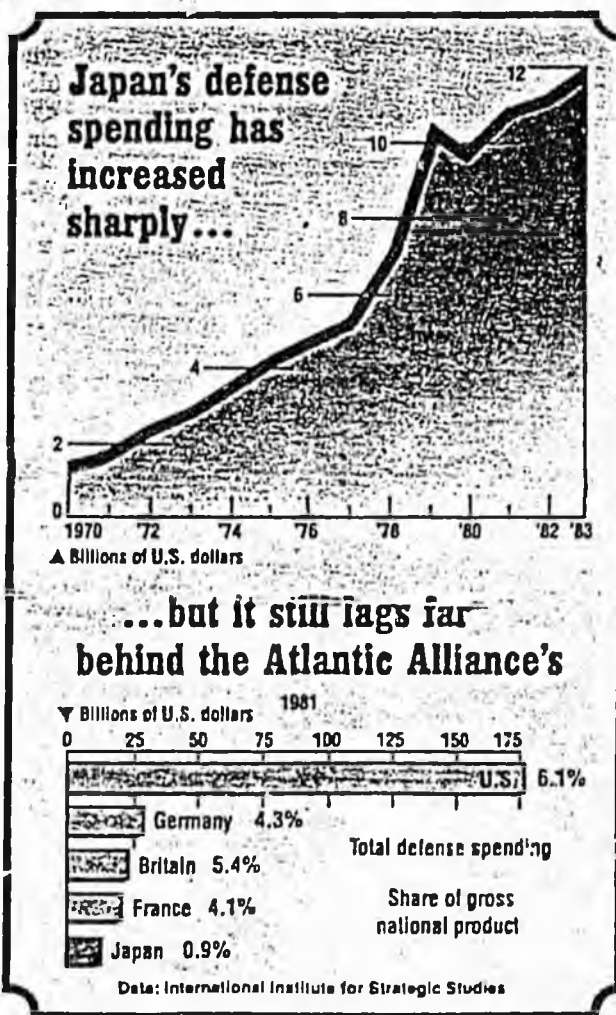
None of this yet worries most officials of the Reagan Administration. Washington is focusing on Japan's enormous economic strength and its failure to carry

out any major military or aid programs in defense of the Western alliance. "Forty years after the war, it is... anachronistic to continue the present situation of total Japanese dependence on us," says a high-level State Dept. official.

Washington discounts the possibility that bolstering Japanese military spending might rebound to hurt American exports. "I don't see much impact on our commercial policy," says another Administration official. In fact, some Administration experts believe that the U.S. can tap into advanced Japanese technology in semiconductors, fiber optics, and robotics by tying Japan into American military programs. A key defense specialist contends that U.S. efforts to persuade Tokyo to increase its military budget are aimed "at getting them to let more of their technologies come here."

Moreover, the Reagan Administration is confident that it can control any tendency toward rebirth of a Japanese militarism reminiscent of the 1930s. "Some people, to be sure, feel that there may be some danger of the Japanese reverting to militarism," says one Administration source. "Kissinger worries about this. But we are confident that that can be managed."

The basic Administration strategy is to offer Japan a limited range of weapons, making Tokyo dependent on the U.S. for most of its military needs. The key tactic is to encourage industry-to-industry technology cooperation for specific defense items. Since Japan would coproduce these weapons under license to U.S. companies; it would need permission from Washington to export them. "It is in the interest of the Department of Defense to equip the Japanese with the weapons they need to defend themselves," says a key Defense official. "But we do not intend to provide them with offensive weapons or give them access



ALASKA

STATE LEGISLATURE

MEMORANDUM

March 9, 1983

TO: Oil & Gas Committee File

FROM: John J. Cowdery /c,

SUBJ: Joint Resolution Points

1. The State of Alaska has to take a strong stand to sell this gas. Ask those who say we shouldn't, "If we can't be strong, how can we expect the oil companies, the Japanese, or the federal government to be strong?"

2. Ask those who say we agree on results but disagree on how to go about it how they would go about it. We have to look at the competition. Indonesia, Canada, Australia, Thailand and the Soviet Union --our competitors-- all send their top government guys to Japan and other markets to make LNG projects happen. We need the same firepower.

3. Alaska will be treated like a stepchild as long as she behaves like a stepchild. We're not a stepchild, we're a sovereign state. We understand the problem in what is the national and international interest. We have to constantly ask the question: "How long can a sovereign state wait when America asks for its resources and refuses to take them?" It's our gas, and our whole state's economy depends on getting to market.

4. We could never give a tree away in Seattle after the Second World War when we wanted to get our timber industry going. We won't ever sell coal in Wyoming. And we're not going to compete with gas in Oklahoma. It's time to get tough. What is the state of Alaska waiting for?

On the resolution itself, I think it is essential that the first two "let it be resolved" clauses of the original draft resolution be included in the final joint draft. The resolution is virtually useless if it does not single out the Asian market and ask governments and businessmen in those areas to take advantage of the secure, long-term trading relationship purchase of Alaska's North Slope gas would offer.

A second, new suggestion would be to include the following resolution clause for the federal government:

"And be it further resolved that the federal government is urged to explore the prospect of making development of North Slope gas transportation facilities a National Interest Project of nations on both sides of the Pacific for its

long term benefits to this nation and its potential trading partners."

To explain, Japan has made projects in the Soviet Union "national interest projects" not because they are uneconomic but because the government has taken the long-term view that this trade would be beneficial to relations between both nations. Our government and Japan should be urged to do the same thing and that consideration will, I expect, be a part of the first joint energy task force talks on March 21.

Finally, we should make one more try to strengthen the joint resolution. Line up other, less committed members of the Senate - majority and minority- but timing is the priority. Even if they are not introduced together, its good to have a strong measure in both houses. Take strong stand, public reaction should be with us, should be easier to get a strong resolution through the Senate. Stand tough.

Pipeline Pains

Back in the midst of the late and unlamented "energy crisis" we kept writing that, even though the weight of the earth was finite, energy prices wouldn't go up and up forever. This fearless (at the time many thought reckless) prediction looks pretty good right now, with OPEC officially cutting its benchmark price to \$29 and probably facing further downward pressure.

Which reminded us to check up on another and more recent prediction: That the great Siberian pipeline would prove to be an economic turkey. When President Reagan was trying to get the Europeans to back out of their deal to finance the Soviet pipeline in response to the crackdown in Poland, we kept insisting that since it's not economic to pipe gas from Prudhoe Bay to Chicago, it can't be economic to pipe gas from Siberia to Bavaria. The Europeans kept insisting that even though they were lending the Soviets money at below-market interest rates (an average of 8.67% on the \$3 billion lent so far), they would make that back by receiving below-market gas prices when deliveries started. By now, with energy prices crumbling, it is totally apparent that if the Europeans had listened to Mr. Reagan, they would have saved themselves a bundle.

It's apparent, that is, to those who understand the complicated gas pricing contracts. This is not easy; if the contracts were understood by the man in the street, Europe would be awash in a consumer revolt. By way of explanation, take what has been published about the otherwise secret German contract, which is for the largest volume and set the standard for the other deals.

The contract has two prices: a base price and a floor price. The base price is around \$4.70 per million BTUs, but goes up and down with movements of an index of oil prices. This is the price the Europeans had in mind in claiming they had negotiated a good deal. However, to apply, the indexed base price must be above the set floor price.

The floor price, intended to give the Russians a minimum return on their investment, started out below the market but assumed a 3%-a-year increase in the real price of oil—producing a price of about \$5.70 per million BTUs in 1981 dollars by the end of the decade. This is about equivalent to the now vanished OPEC benchmark oil price of \$34 a barrel. Unless energy prices reverse themselves and return to this price plus inflation, the relevant price in the Siberian gas contract will be not the base price but the floor price. That is, the price will be well above the world energy price. The Europeans have given the Russians below-market loans for the privilege of buying above-market energy.

Worse yet, the contracts include a take-or-pay clause for 80% of the contracted gas volumes, meaning that whatever happens to energy prices,

the Europeans have guaranteed the Soviets the floor price for 80% of their scheduled deliveries. West Germany, France and Italy have placed dibs on 23 billion cubic meters of gas a year once the pipes are full, with deliveries starting next year and stretching through the end of the century. So they will be buying enormous amounts of gas at prices that may be enormously above the going rate. Perhaps this explains the otherwise cryptic remark by former German Chancellor Helmut Schmidt, whose government set the pipeline in motion in the first place, "I do not think that OPEC should be allowed to break down, certainly not."

Still worse, gas consumption in Europe isn't rising but falling. In its most recent annual report, Ruhrgas, the German supplier and lead contractor with the Soviets, blushing noted that higher prices had mysteriously led to less gas consumption than predicted. The European Community has just released figures showing that European natural gas consumption fell by 6% last year. Gas imports from outside the EC actually fell for the first time ever.

Ruhrgas denies rumors that negotiations are still taking place on one crucial aspect of the contracts, saying that the final contracts are signed and refusing to comment on their terms. The rumor has been that Ruhrgas would like to delay the "plateau phase" of the contract, when the pipelines would be full and the floor price would start to apply. It's easy enough to see how such ideas would arise; if Ruhrgas isn't trying to find a way out of its contract, it ought to be.

There are many reasons to explain why European governments and energy concerns fell prey to such bad economics. One is the general Chicken Little reaction to increased energy prices. On the one hand, this led potential sellers like Norway to keep their energy resources in the ground, where they will now remain for a long time to come. On the other, it led potential buyers into a lot of bad investments. Just as Exxon was collapsing its shale oil projects, though, the Europeans were defending the pipeline against Mr. Reagan's onslaughts. This myopia of course results because governments were involved, partly because they are inherently inflexible, partly because they wanted to subsidize European steel jobs, and partly because they wanted to keep "détente" alive by subsidizing the Soviets.

We hate to say we told you so, but as regular readers know, we did. In rebuffing Mr. Reagan, Europe lost its best and perhaps last chance to get out of a losing deal. Everyone else's energy prices will fall as the OPEC house of cartel cards collapses, but Europe will be stuck with a lot of high-priced Siberian gas. All the European consumers can hope for is that in the future their governments will take a closer look at Russians bearing bargains.



By Expected Drop in Output

By DOUGLAS MARTIN

Special to The New York Times

ANCHORAGE — Measured by the wind-chill factor, the temperature was 86 degrees below zero, driving snow made it impossible to see more than a few feet, and even the ravens seemed to be huddling from the cold. It was a typi-

cal March day at Prudhoe Bay, America's biggest oilfield.

"It's like working on the moon," K. C. Kilty, a production technician, said of the effort required to maintain the mammoth oil wells, each of which pumps more than 400 times as much oil as the average well in the lower 48 states.

Still, much of the hardship of searching for oil 250 miles north of the Arctic Circle has been ameliorated. And Alaska has grown into a leading petroleum province, the only one in the United States that can be mentioned in the same breath with the Persian Gulf kingdoms, the North Sea and Mexico.

But there is trouble on the Arctic horizon, which at this time of year is the color of rosé champagne. For within a few years — perhaps as early as 1985 — production from Prudhoe Bay is expected to decline sharply as the natural difficulties and costs of tapping its vast oil supply mount.

The trouble in getting the Prudhoe oil out of the ground, mainly the result of a decline in the underground pressures that force it to the surface, has long been anticipated and would have

caused less concern if world oil prices had continued to increase, as many experts were forecasting just a few years ago.

With prices dropping, however, it is beginning to be questionable whether the industry will either get the most out of Prudhoe with increasingly costly technologies or replace the lost production with costly new discoveries.

"Any way you look at it, there's not a chance that the present rate of production is going to continue beyond 1988," said C. V. Chatterton, chairman of the Alaska Oil and Gas Conservation Commission. "And I don't see how any new field can possibly be brought into production before the decline sets in for the Prudhoe Bay field."

To be sure, experts believe that Alaska still offers the nation's best opportunities for finding exceptionally large amounts of oil. A number of smaller fields have already been found, and opportunities offshore in the Beaufort and Bering Seas are judged excellent. But even so, the new finds are unlikely, the experts say, to make up the shortfall expected in Prudhoe's decline.

As of now, however, Alaskan oil is a major energy blessing. With only one-thousandth the number of wells drilled in Texas, the oil industry in Alaska is producing 1.7 million barrels of oil a day compared with 2.5 million in Texas, the nation's leading oil-producing state. Alaska's output could be far greater, but the 800-mile Trans-Alaska Pipeline System would not hold it.



The New York Times/March 17, 1983

Route of the 800-mile Trans-Alaska pipeline that transports oil from the Prudhoe Bay field.

Today, a fifth of American petroleum output flows from the North Slope, and experts believe that half the oil yet to be found in the United States is in Alaska. Matching that scale, however, are expense, technical challenges, and distances from supplies and markets.

"If you found a 50-million-barrel field in Alaska, you'd call it a dry hole and go on to the next thing," G. T. Wilkinso, vice president of the Arco Exploration Company, a unit of the Atlantic Richfield Company, said with a shrug. The reason: Larger fields can be found to better justify the huge cost of field development.

Even apparently rich prospects, however, are being subjected to closer scrutiny because of the sharply circumscribed cash flow of the oil companies. Petroleum Analysis Ltd., a consulting firm based in New York, calculates that the profits of major oil companies last year declined by 19.4 percent, which means they have less money to plow into the ground at a time when costs are continuing to rise. "There is a distinct slowdown in the availability of risk money looking for new fields," Mr. Chatterton said.

Prudhoe currently produces 1.5 million barrels of oil a day, more than the amount pumped by each of 10 of the 13

financially strained members of the Organization of Petroleum Exporting Countries. (Only Saudi Arabia, Iran and Venezuela produce more.) But Mr. Chatterton and others estimate that, starting in 1988, the annual decline in production will be between 15 percent and 20 percent; this means that, by 1995, Prudhoe Bay would be pumping only 120,000 barrels a day.

The more optimistic scenario is that the yearly rate of decline will be only 8 percent but will start three years earlier, cutting Prudhoe output to less than half present levels by 1995.

"You fall off a cliff, and you fall pretty flat," Paul Norgaard, president of Arco Alaska Inc., said.

'The Big Endowment'

The biggest losers will be the United States Government and the State of Alaska, which together receive two-thirds of the revenues generated by Prudhoe oil. "Prudhoe is the bonanza, the mother lode, the big endowment, the one-time shot," said Charles Logsdon, a petroleum economist with the state revenue department of Alaska.

The impact of the geological limitations is being magnified by falling oil prices. For Washington, each \$1 drop in the world oil price means \$547.5 million less in Alaskan "windfall profits" taxes each year.

For the state, the world's slackened appetite for energy and OPEC's recent 15 percent cut in prices mean the withering of an oil-fired dream.

A recent study by the University of Alaska estimates that by 1993, petroleum revenues — which account for more than nine-tenths of state spending — will be 70 percent less than forecast two years ago as a result of declining oil prices. The implications are that overall employment will grow 10 percent more slowly over the next decade than had been expected; that population will increase at a rate 8 percent less than expected, and that the state income tax — swept away by petroleum — will have to be reinstated.

Line

(Continued from page A-1)
and by \$356 million a year for the all-Alaska project.

Also, both projects would bring gas to consumers at about the same cost. But the target market for the all-Alaska project — Pacific Rim nations — likely would be better, the report said.

"From the state's perspective, there is no real difference between (the two projects) despite their significant economic and marketability differences," the report said.

The state should back both projects, it continued. "The gas producers, end-use markets, financial community and federal government will be deciding factors as to which project, if any, will proceed, based upon economic and market considerations."

The state also should support spinoff gas projects for Fair-

banks should either of the two major projects be built, the study said.

Under one of the spinoff projects, Fairbanks would tap the major pipeline to get gas to produce electricity. In the other spinoff, methanol would be produced in Fairbanks by tapping gas from the pipeline. The methanol would be exported.

Booz, Allen recommended against constructing a 480-mile small-diameter pipeline from the North Slope to Fairbanks for gas-fired power production. "The small diameter line requires a significantly higher tariff than tapping either of the major lines," Booz, Allen said.

The study concluded the Alaska Highway project involves the least legal and regulatory risks because it has political support and is nearer construction than the all-Alaska project.

Gov. Bill Sheffield said Saturday he has asked several Cabinet members and legislative leaders to review the Booz, Allen study.

Decontrol

(Continued from page A-1)

Reagan's plan was backed by the Natural Gas Supply Association, an industry group, and the Natural Gas Consumers Information Center, an organization representing industrial users of natural gas.

Under Reagan's proposal, gas companies and their suppliers could renegotiate their contracts. Beginning Jan. 1, 1985, any party to a contract could break the pact at will, to seek a better price arrangement elsewhere.

But, to protect consumers from prices regulated only, in effect, by competition in the marketplace, Reagan would order a cap on price increases charged to consumers. The companies could no longer pass along to consumers higher prices charged by producers, as they are now allowed to do.

The gas companies would be allowed to raise prices to keep up with inflation, but all other increases would need the approval of the Federal Energy Regulatory Commission. This provision would remain in effect until Jan. 1, 1986.

In 1980, when he ran for president, Reagan pledged to remove all price controls. But opposition in Congress — which the administration believes has been softened by recent price increases under the present controlled system — held him back.

Under a 1978 law, controls are being removed in stages from gas discovered after April 1977. But the "older gas," roughly half the nation's supply, was supposed to be kept under price ceilings.

One reason for the higher prices being charged this winter is the so-called "take-or-pay" contracts signed by many pipeline companies after the rough winter of 1976-77. Those agreements require payment for the

gas whether it is used or not; so pipelines keep on taking it while dropping their cheaper suppliers when demand falls, as it has done during the recession.

Addressing himself to "one of our major energy sources, natural gas, and what this administration proposes to do to ensure abundant supplies of it at reasonable prices," Reagan said:

"The American consumer is being hurt by government regu-

lations that actually contribute higher gas bills."

The president noted that "howls" of protest were raised when, two years ago, he removed oil price controls, and opponents predicted gasoline prices would rise.

"You don't have to go any further than the nearest filling station to see that prices have gone down, not up, since decontrol," he said.



Maria Luisa Faini

Neil Varon

Gas lines profitable, study says

by Bill White
Times Juneau Bureau

Juneau — State officials should let the market decide which of two multibillion-dollar gas pipelines can be built, because Alaska would benefit from either project.

That is the conclusion of a 76-page, \$150,000 draft study, which explored the best options to get the vast treasure of natural gas in Alaska's arctic to market.

About 26 trillion cubic feet of natural gas, about a fifth of the U.S. reserves, lie beneath Prudhoe Bay.

A proposed \$50 billion, 4,800-mile pipeline through Canada along the Alaska Highway is on hold because its backers cannot get financing to build it.

Last month, a task force headed by former Govs. Walter Hickel and Bill Egan recommended a \$32 billion, 820-mile pipeline be built from Prudhoe Bay to tidewater on the Kenai Peninsula. Gas liquids could be exported to Japan.

The new draft study, done for the state and released Saturday, looked at both those projects and others. It concluded that either of the major projects would bring huge benefits to Alaska.

Both projects would create thousands of construction jobs, the study said. After construction, hundreds of Alaskans would be employed to run the pipeline.

The state treasury also would get a shot in the arm, according to the study by Booz, Allen & Hamilton of Bethesda, Md. Tax and royalty returns would rise by \$220 million a year in 1982 dollars

Reagan seeks to open gas market

by James Gerstenzang
Associated Press

Washington — President Reagan said Saturday he will ask Congress to remove all controls from the natural gas market over the next three years "to ensure abundant supplies . . . at reasonable prices."

At the same time, the Reagan plan would place a cap on consumer prices through Jan. 1, 1986, allowing increases based only on inflation, unless a government agency approves higher fees. On the first day of 1986, all price controls would be removed.

Long-term high price contracts between pipelines and suppliers, which many analysts blame for recent price increases, could be broken at will after Jan. 1, 1985.

"The key to cheaper, more abundant energy for all Americans is a policy that combines consumer protection, incentives to produce, and efficient economic use of

our resources," the president said in his weekly radio address to the nation, broadcast from the Oval Office. "That's what our program will do."

The president said the Energy Department estimates that the plan will reduce prices 10 cents to 30 cents per 1,000 cubic feet of natural gas in the first year.

Larry Speakes, the chief deputy White House press secretary, said Reagan would send the proposal to Congress on Monday, and that Energy Secretary Donald Hodel has reported, on the basis of preliminary consultations, that congressional reaction "has been far better than expected."

"There seems to be a consensus that something has to be done," Speakes said, in reference to complaints about rapid increases in natural gas prices that have driven bills up 20 percent to 40 percent in some areas this winter.

However, Sen. Howard Metzenbaum,

D-Ohio, an opponent of decontrolling natural gas prices, said he believed Reagan's proposal would be defeated in the Senate. He called the Reagan plan was "absolutely off-base" and said he thought there were 10 to 20 senators who would join him in a filibuster against it.

He said a lengthy filibuster he led on gas legislation in 1977 "will be like a Sunday school picnic" compared to the one he expects now.

Metzenbaum also said the move would raise costs to homeowners and increase unemployment by hurting small business.

"The gas industry itself has estimated that decontrol will cost \$60 billion a year," he said.

And Rep. Bill Hefner, D-N.C., giving the Democratic Party response to Reagan's address, said the president's proposal would increase natural gas prices by 67 percent over the next four years.

Supporting the president, Sen. James

McClure, R-Id., chairman of the Senate Energy and Natural Resources Committee, said the proposed protections for the consumer would be "better than the current law."

When current legislation was passed, McClure said, "We faced a radically different energy market. Certainly nobody can be faulted for failing to foresee today's surpluses."

McClure said his committee would begin hearings on the president's bill March 9.

Ed Rothschild, head of the Citizen Labor Energy Coalition, an advocacy group, said a Wall Street study estimated that price decontrol would raise prices \$1 to \$1.50 per thousand cubic feet. He said the average home using natural gas burns 140,000 cubic feet per year, so if the estimated price increase is realized, the average yearly bill would rise by \$140 to \$210.

See Decontrol, page A

Alaska Proposing Japan Connection

Liquefied North Slope Gas Would Be Shipped From Kenai Peninsula

By ROGER LOWENSTEIN

Staff Reporter of THE WALL STREET JOURNAL

For six years oil companies in Prudhoe Bay on Alaska's North Slope, have been producing one billion cubic feet a day of natural gas. And every day, they painstakingly compress the gas and inject it hundreds of feet back into the frozen earth.

The gas is a byproduct of crude oil. But, while the crude oil is piped to the coast, Alaska hasn't found a way to transport and market its Prudhoe natural gas.

The federal government long has supported the idea of laying a gas pipeline across Alaska and Canada to the lower 48 states. But a pipeline consortium has never been able to raise enough funds.

So today, 15 years after the giant Prudhoe Bay field was discovered, a blue-ribbon Alaska state committee was scheduled to unveil what it claims is a better plan to build a shorter and less costly pipeline to Alaska's Pacific coast, convert the gas to liquid and ship it to Japan.

"Alaska's natural markets have always been in Asia," says Walter J. Hickel, the former state governor and U.S. secretary of interior in the Nixon administration, who heads the committee. "Whether it's fish, timber, or coal, it's difficult to trade backwards" with the continental U.S., he says.

At best, the plan would find a market for the gas; it would strengthen U.S.-Japanese relations, reduce the U.S. trade deficit with Japan and heighten the two nations' joint strategic interests in the Pacific.

But Before That . . .

Before any of that, Mr. Hickel's group would have to arrange billions of dollars in private financing. Even more important, it would have to convince the U.S. and Japanese governments to support the plan.

Thus, the timing of the announcement in Washington today is hardly coincidental. With Japanese Prime Minister Yasuhiro Nakasone due to begin a visit tomorrow, officials of both nations are looking for ways to reduce trade tensions.

Mr. Hickel already has been to Japan to pitch the plan "and he's been wandering around town ginning up support" in Washington, as a State Department official puts it.

The advantages, Mr. Hickel's group contends, are many. "One of the beauties of the Hickel proposal is the much greater market flexibility," says Joseph Chomski, an attorney for the Hickel committee, which was appointed by the governor of Alaska. He notes that the Hickel plan would bring the gas to the Kenai Peninsula. "Then, you can ship it to wherever the market is, and readjust as the market changes," he says.

The market in the foreseeable future most likely would be Japan. Alaska, which would gain from its 12.5% equity in the gas and from taxes on the pipeline, thinks it would fetch a better price in Asia than in the U.S., which is glutted with natural gas.

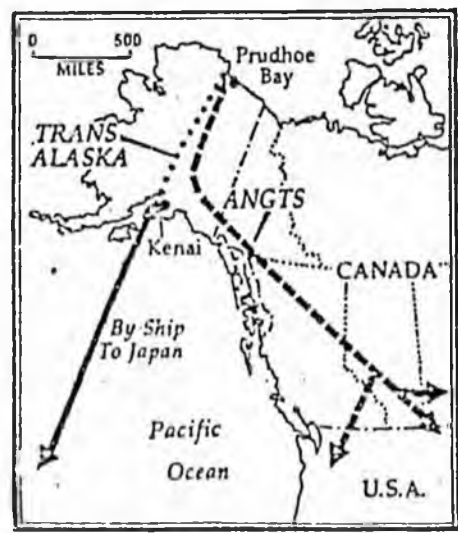
Moreover, Mr. Hickel says his plan is generally more economic. He says it would be geographic madness for Alaska to transport gas overland to the U.S., forcing Japan to carry out plans to import liquefied natural gas from Alberta, Canada.

A similar "inefficient circle" already exists in oil. Much of Alaska's crude oil is

"Strategically, it's a great idea," says a staff member on the National Security Council. The Japanese are said to be interested in the proposal as a means of lessening their troublesome trade imbalance with the U.S. Further, in return for financing and providing a market for Alaskan gas, Japan would hope to strengthen its ties to the U.S. It might, for example, seek access to much-coveted Alaskan crude oil. "There are all sorts of possible *quid pro quos* that could fit into the jigsaw of U.S.-Japanese relations," says a member of Mr. Hickel's staff.

To be sure, there are other proposals. They range from the esoteric and unlikely—shipping liquefied gas in submarine

OVER →



shipped through the Panama Canal to the Gulf of Mexico, while Mexican oil from the Gulf goes to Japan.

While Japan couldn't import Alaskan crude oil without congressional approval, it already imports some liquefied natural gas from southern Alaska. Japan could import gas from Prudhoe Bay merely by gaining the president's approval.

Mr. Hickel is sure to tell National Security Adviser William Clark, with whom he was to meet today, that there are political reasons for President Reagan to give his approval: Supplying Japan with gas would make it less dependent on the Soviet Union and the Middle East. If the Japanese helped finance the project, their appetite for investing in any Soviet pipeline might be reduced.

tankers beneath the polar icecap to Europe—to the more prosaic option of converting the gas to methanol, a liquid fuel, which could be marketed in the U.S. as well as abroad.

Committed to Other Plan

Moreover, the three oil companies that produce the gas, as well as the U.S. government, remain officially committed to the Alaska Natural Gas Transportation System, or ANGTS, pipeline to the lower 48. The ANGTS consortium includes Northwest Energy Co., the sponsor, and Atlantic Richfield Co., Exxon Corp. and Standard Oil Co. (Ohio).

However, the ANGTS project has been repeatedly delayed as costs have escalated to \$43 billion from \$10 billion and energy demand has softened. The project currently is on hold due to lack of financing. "You're stretching world capital markets," says one Chase Manhattan banker, who has little hope for the ANGTS project.

The Hickel group says their Trans-Alaska plan is more economically viable. Their pipeline would run 820 miles, compared to 4,800 in the ANGTS project. In the first stage, scheduled for completion in five years, the Trans-Alaska pipeline would carry only one billion cubic feet a day, half the total proposed by ANGTS. After completion, the Trans-Alaska system would carry nearly three billion cubic feet a day. The estimated cost is \$11.6 billion for the first phase and \$25.5 billion for the entire project.

Of course, Mr. Hickel has yet to prove that his project would work as he says it would. Moreover, while U.S. officials are clearly interested in hearing more, there are political obstacles that could keep Mr. Hickel's plan from getting off the ground.

Problems With Canada

Canada has been counting on using the ANGTS pipeline, if it's ever built, for transporting some of its own gas. State Department officials say the U.S. couldn't walk away from the ANGTS project without snubbing Canada, and the U.S. doesn't want to do that. Moreover, there are many in Congress who still feel that the U.S. shouldn't send its energy resources abroad if at all possible. Since funding for two projects is out of the question, the Hickel proposal would stand a better chance "when and if Congress believes the other project is really abandoned," says one Washington lobbyist.

Technically, congressional approval mightn't be needed. However, financing the project would be difficult even with government support; without it, Mr. Hickel concedes, the project wouldn't stand a chance.

While the oil companies say it is too soon to react to the proposal, they collectively have 26 trillion cubic feet of gas shut in Prudhoe Bay. Presumably, they will back any plan that enables them to market the gas.

The Japanese have contracted for all the gas they need until 1990, but they will need more after that. Japan already is making arrangements with Canada, Australia and others to satisfy that need. Therefore, Mr. Hickel says, "the window is open in Japan to a long-term energy arrangement with the U.S. but it won't stay open. If we don't sell the gas this time it will stay in the ground for years."



Associated Press

Former Alaska governor Walter Hickel yesterday outlines recommendations on an alternative natural gas pipeline for his state.

Alaska Gas Pipeline Advances

By Martha M. Hamilton
Washington Post Staff Writer

A commission appointed by the governor of Alaska yesterday recommended building a \$25.2 billion pipeline to transport the state's abundant natural gas to terminals on its southern coast, where the gas would be converted into liquefied natural gas and shipped to Japan.

The report of the committee chaired by former Alaska governors Walter J. Hickel and William A. Egan recommended the all-Alaska pipeline as an alternative to the Alaska Natural Gas Transportation System (ANGST), a project designed to move the gas to Canada and the United States.

The \$43 billion ANGST project, which had received support from President Jimmy Carter and from Congress, has been stalled indefinitely by an inability to arrange financing and a weaker natural gas market in the United States than anticipated.

According to the committee appointed last June by Gov. Jay Hammond, the Far East provides a far better market for Alaska's natural gas than the United States. That and lower construction costs argue in favor of the proposal, the report said.

"Prospects of available Canadian and Mexican gas . . . as well as less expensive production from a large

number of shut-in U.S. wells, leads the committee to conclude that North Slope gas does not have a ready market in the United States in the near term," according to the report.

But John McMillian, chairman and chief executive officer of the Northwest Alaskan Pipeline Co., the operating partner for ANGST, said the proposal "does not provide any meaningful solutions" to Alaska's natural gas marketing problem.

The committee recommended presidential and congressional action to smooth the project's course if Hammond adopts the recommendation. Otherwise, legal roadblocks might delay it, the report said.

THE WALL STREET JOURNAL

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REGIONS

Alaska, Peeved With the U.S., Vows to Fight for Its Interests

By EUGENE CARLSON

Staff Reporter of THE WALL STREET JOURNAL

ALASKA, you'll be pleased to know, probably won't secede from the United States. Alaska would, however, like a bit more respect from the rest of the country. Especially from the fiscally less fortunate states and their delegates in Congress, who tend to look at Alaska and its enormous oil wealth the way panhandlers eye the display windows at Tiffany's.

With \$3.8 billion in oil revenue in the last fiscal year and untold billions worth of oil and minerals still in the ground, Alaskans can afford to be feisty. Many residents feel their relationship with the U.S. has deteriorated in the 25 years since statehood. Two years ago, voters asked an 11-member statehood commission to explore the reasons why. The results are in.

Conclusion No. 1. Statehood has its problems (the federal government's sins against the state "would fill a catalog," the final report says), but it's better than anything else. The issue isn't frivolous. In setting up the commission, the legislature ordered it to study "alternative forms of association" with the U.S.

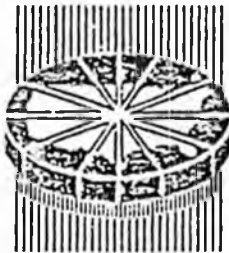
The Republic of Alaska? The state has only 401,000 people, fewer than Chattanooga, Tenn., but 30 members of the United Nations have smaller populations. As long as the oil holds out and oil prices stay high, the state could afford independence, the commission believes.

BUT IT'S NOT GOING TO HAPPEN. Each avenue—illegal secession, opting out of the Union by act of Congress, reversion to commonwealth or territorial status—raises impassable legal, political and emotional hurdles. More to the point, a majority of Alaskans wouldn't vote to leave the U.S., given the chance.

Conclusion No. 2. We're staying around but don't take us for granted. The message of Alberta's bitter fight with Canada's central government over oil prices, that led the western province at one point to begin shutting down oil production, wasn't lost on Alaska.

"The lesson is clear," the commission said in a preliminary report. "If Alaska wants to protect its resources, its revenues and its state prerogatives, the state government must vigorously defend against federal encroachments. It should not be afraid of suing, of mounting a national information campaign, of building political coalitions, or taking what otherwise might seem to be drastic steps, with the exception of secession. Let action force the issue."

Conclusion No. 3. The feds aren't Alaska's only foe. The Middle West and Northeastern states are an even bigger pain in the neck because of their fight to limit severance taxes—the taxes that resource-producing states like Alaska, Montana and Texas place on oil, coal and other minerals they export to other states. The industrial heartland may find severance taxes onerous in a recession, but these states trample on a fundamental tenet of federalism when they try to fiddle with a state's taxing power. The attack on severance taxes is "the most dangerous threat to this state and all the states," the commission says.



Anchorage Daily

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ANCHORAGE, ALASKA, TUESDAY, JANUARY 18, 1983

Hickel proposes gas line

By TIM MILLER
Daily News correspondent

WASHINGTON — Former Gov. Walter Hickel unveiled his all-Alaska natural gas pipeline proposal to an attentive Reagan administration Monday, but critics said the plan would have harmful domestic and international repercussions.

Hickel told high-ranking government officials of the proposal to forsake plans to pipe Alaska gas through Canada to the Lower 48 in favor of a plan to export the gas to Japan.

"There's been an enthusiasm and response more than what I expected," Hickel said after meeting with U.S. Interior Secretary James Watt and National Security advisor William P. Clark. Administration officials were not available for comment.



Anchorage Daily News/Paul Brown

Sen. Pat Rodey of Anchorage, leader of the state senate minority coalition, is sworn in with

Jan. 18, 1983

Hickel takes gas line plan to Washington

Continued from Page A-1

Hickel said the existing plan, the Alaska Natural Gas Transportation System (ANGTS) "died a natural death." He touted his proposal as a means of correcting the skewed U.S. balance of payments with Japan. He said it also would strengthen strategic ties with Asian countries.

The \$42 billion ANGTS system has been stalled by a lack of financing. Hickel said his \$25.5 billion program would be more easily financed.

Assuming annual inflation of 7 percent and 14 percent financing charges, the cost of the proposed all-Alaska gas-line system would be \$25.5 billion if the system were completed by 1992.

The estimated cost would provide for construction of an 820-mile pipeline from Prudhoe Bay to Nikiski, north of Kenai, plus conditioning and liquefaction plants at Nikiski. It would not include tankers or a receiving terminal (presumably in Japan) equipped to convert the LNG back to gas form.

Hickel has dubbed the project "TAGS" for Trans Alaska Gas System.

The first of three construction phases would take three years to build, making the system operational at a cost

of \$11.6 billion in 1988 dollars. The second and third phases of construction would give the system capacity to handle greater volumes of gas.

John McMillian, head of the Northwest Alaskan Pipeline Co., which organized the competing ANGTS project, said Hickel's plan is faulty.

"I do not believe it is in the national interest to design a project that proposes to export 26 trillion cubic feet of domestic natural gas — the nation's largest single gas reserve — to a foreign country," McMillian said in a prepared statement.

"There's one advantage to the (ANGTS) pipeline," McMillian said: "It finally puts the all-Alaska pipeline to rest. By so doing, it will now permit Alaska and its citizens to move ahead in support of the only transportation system approved by the U.S. Congress."

Hickel said McMillian's statement was "kind of silly."

"It shows where he's coming from," Hickel retorted. "He must be scared."

Hickel's proposal also was criticized by James Schlesinger, who was Secretary of Energy for the Carter administration when it helped develop the ANGTS system.

"I can understand the im-

patience of Alaskans and I share that impatience myself," Schlesinger said. "But as a practical matter, the overland pipeline is the only show in town."

Schlesinger questioned the economic assumptions that enable Hickel to predict that his proposal could cut the final costs of natural gas by more than half. He said Hickel's proposal may only cause further delay of ANGTS. He also said abandonment of the overland system would violate agreements between the United States and Canada.

"If we want to have raucous relations with Canada, proceeding down (Hickel's) route would be a certain way to do it," said Schlesinger. He predicted foreign relations committees in Congress would resist moves to abandon the ANGTS system, on which U.S. and Canadian officials have worked for years.

"We're still committed to the ANGTS project," said Patricia Lortie, a spokesman for the Canadian embassy.

Major Alaska oil producers were unenthusiastic about Hickel's proposal. Exxon Corp., a producer and an investor in ANGTS, released a statement saying Exxon still favors the overland route through Canada.

ESS

• Stocks

Alaskans seek oil export OK

by Betty Mills
Times Washington Bureau

Washington — Alaska Sens. Ted Stevens and Frank Murkowski have asked the Reagan administration to support lifting the ban on the export of Alaskan oil, and have appealed to their Capitol Hill colleagues to keep an open mind on the issue.

The administration is reviewing the issue and is expected to make a recommendation to Congress shortly. The Export Administration Act, which bars the sale of Alaskan oil overseas without prior Congressional approval, is up for renewal in September.

Previous attempts to lift the ban on Alaska oil exports have failed. A new bill to continue the ban has been introduced by Rep. Stewart McKinney, R-Conn., with nearly 100 co-sponsors. But the Japanese government is mounting a well-heeled lobbying effort to defeat the McKinney bill and allow Alaskan oil exports.

Although the lobbying has begun in earnest, no Congressional hearings have been scheduled. The House Foreign Affairs Committee had planned to hold a hearing on the issue this month, but postponed it until the White House makes its recommendations.

Murkowski, who heads the Senate Foreign Relations Subcommittee on East Asian and Pacific Af-

fairs, also is waiting for the administration position before conveying hearings.

On another front, the U.S.-Japanese energy working group has delayed its first meeting, from next week until early April. The group was formed following this winter's meeting between President Reagan and Japanese Prime Minister Nakasone. It will focus on the issue of Alaska oil and gas exports. Gov. Bill Sheffield has asked that an Alaskan be allowed to sit in on the April meeting here, and a later session in Tokyo.

Meanwhile, Stevens and Murkowski sent a letter to other members of the Senate Tuesday, urging them to keep an open mind on the Alaska export issue.

"It is our hope you will take the time to review the attached point paper . . . We urge you to remain uncommitted until sufficient information is available for a reasoned decision by the Congress," the senators said.

The senators said, "We are not prepared at this time to endorse any specific proposal until we have had a thorough analysis of the economic impact and effects of removing part or all of the restrictions. However, we would advocate lifting the restrictions if assured that national security, maritime, and oil industry concerns have been adequately addressed. For instance, it may be desira-

ble to protect our maritime industry by providing for carriage in U.S. tankers. There are strategic, economic and international trade reasons that merit your consideration before making a commitment on the issue."

In their letter to Commerce Secretary Malcolm Baldrige, the senators said conditions have changed dramatically since the ban on Alaska oil exports was strengthened in 1979.

"Changing world oil supply and demand dynamics, OPEC's recent series of meetings and decision to lower crude oil prices, and the newly discovered find in the Santa Maria basin of southern California necessitate a complete review of the crude oil export issue," Stevens and Murkowski wrote.

Murkowski said it is time to begin the lengthy process of removing federal restrictions and preparing for the future export of Alaskan oil.

"Under the existing Export Administration Act, any oil export faces an uphill battle for approval in Congress," Murkowski said.

Stevens said, "Any final proposal on the export of Alaska oil to Japan will have to include a provision that only U.S. ships can carry oil from the Prince William Sound area. It is also apparent that substantial revisions in Japanese export policies will have to take place before the export of Alaska oil will be acceptable to Congress."

Congressman renews pipeline deadline attempt

Times Washington Bureau

Washington — Rep. Thomas Corcoran, R-Ill., has renewed his efforts to place a December 1983 deadline on Northwest Alaskan Pipeline Co. as it attempts to gain private financing for its Alaska gas line project.

Corcoran has introduced a resolution that died in the last Congress, establishing a two-year time limit on the gas line waiver package. That package, enacted in December 1981, included several provisions sought by Northwest to expedite private financing of the project. Among the most controversial provisions of the waiver package is one allowing Lower 48 consumers to be billed before gas starts to flow through the line.

In a statement submitted for the Congressional Record last week, Corcoran said, "I strongly opposed those waivers, which had been recommended by the administration . . . Among the waivers granted was one that would allow the pipeline consortium to pre-bill natural gas ratepayers for natural gas they may never receive and may never need.

"Most objectionable, the price of the Alaska gas would be in the range of \$18 per thousand cubic feet. I viewed such a scheme as anti-consumer in 1981, and it would seem ever more inappro-

priate now in view of the outrage that natural gas consumers across the country are expressing about the increasing price of natural gas," Corcoran added.

The resolution also reaffirms the intent of Congress and the Reagan administration that no federal financial assistance will be forthcoming for the project.

Sponsors of the project, estimated to cost up to \$40 billion, still are seeking financial commitments from investment firms. Their failure to come up with a package has stalled the completion date for the project by two years.

The Corcoran resolution has 18 co-sponsors in the 435-member House, and has been referred to the House Energy and Commerce Committee and the House Interior Committee. There is no companion measure in the Senate.

The resolution is not expected to pass, according to Capitol Hill sources familiar with the pipeline issue.

Rick Agnew, an aide to Rep. Don Young, R-Alaska, said Thursday that Congress reaffirmed its support for the Alaska gas line project by adopting the waiver package.

"I don't think there is any substantive support to negate that," Agnew said.

What others say

Oil to Japan: 'a lot to recommend it'

From Business Week

UNDER EXISTING law, Alaskan oil cannot be exported, but the Reagan administration wants Congress to drop this restriction so that it can use the oil in its trade negotiations with Japan. One idea under consideration is to offer to sell Alaskan oil to Japan and replace it in the U.S. market with oil from Mexico. This maneuver, if carried out successfully, would make a healthy \$4 billion to \$6 billion dent in the U.S. trade deficit with Japan and, at the same time, give our southern neighbor foreign exchange earnings with which to repay its debts to U.S. banks.

It is an ingenious scheme but one that raises a number of critical problems. On balance, if the Administration and Congress can remedy those problems, the plan is worth a try.

THE MAJOR OBJECTION to selling oil to

Japan as a way of cutting our trade deficit is that it could easily mask the underlying cause of our trade difficulties with that country — its continued foot-dragging on allowing U.S. producers access to its domestic markets. The U.S. has repeatedly asked Japan to remove barriers that handicap U.S. companies trying to sell there, and Japan has promised repeatedly that it will do so. But so far results are scanty.

Any undertaking to sell Alaskan oil to Japan should be made conditional on that country's agreement to carry out specific moves to open up its markets.

IN SHORT, the Alaskan oil-sale plan will require careful structuring to protect other U.S. interests. But if that can be done, the proposal has a lot to recommend it.

What others say

It's time to allow oil shipments to Japan

From The Ketchikan Daily News

IT SEEMS Alaska has some friends in Seattle, at least on the editorial page staff of the Seattle Times. A recent Times editorial urged an end to the ban on exporting Alaskan oil and natural gas to Japan, and we heartily concur.

The Times quoted a recent Heritage Foundation report that listed the benefits of shipping some of our energy resources to Japan instead of artificially limiting our markets.

THOSE BENEFITS include:

- A \$1.5 billion cut in the nation's budget deficit;
- Improved balance of trade with Japan and other Far Eastern nations;
- Eliminate the need to build the \$2 billion Northern Tier pipeline;
- Increase Alaskan revenues, which have been

declining as OPEC oil prices drop;

— Help break down other trade barriers with Japan and further open the country to U.S. products, while aiding a close ally now dependent on Mideast oil;

THE STUDY ALSO POINTS out that shipping oil and gas to Japan poses "no threat whatsoever" to American security.

Alaska is already a major exporter to Japan, where markets for our fish and timber already exist. It's sad that trade barriers keep Alaska from further developing the relationship we have with one of the most productive countries in the world.

We appreciate the Times' support in ending the export ban, and we hope Washington State's congressional delegation listens to the Times' suggestion. The benefits are widespread.

Expert sees 'disastrous' gas prices

Associated Press

Washington — The head of the Federal Energy Regulatory Commission warned Saturday that unless Congress acts quickly to solve natural gas pricing problems, there "will be a disaster in the gas market" for both consumers and producers.

"Rules governing natural gas prices must be changed, and they must be changed soon," FERC chairman C.M. Butler III told the Senate Energy and Natural Resources Committee. The commission oversees the gas pricing system.

The panel finished four days of hearings on President Reagan's plan to remove all controls from natural gas by 1986, a plan Reagan says will cut prices and end the complaints of consumers who have been hit by price hikes of 40 percent to 50 percent a year.

But Reagan's plan faces stiff opposition in Congress, where more than 20 bills have been in-

See Natural, page A-10

Natural gas prices

Continued from page A-1

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The 1978 law, enacted at a time of gas shortages, lifts price controls on Jan. 1, 1985, from offshore gas and "new" gas discovered after April 1977. But it retains indefinitely price ceilings on "old" gas found before then and includes complex mechanisms that mandates 28 pricing procedures.

The Reagan plan would allow all pipelines and producers to renegotiate their existing long-term contracts. Backers of the plan argue that producers could then get higher prices for old gas while pipelines could get lower prices for new gas.

"The most urgent problem is that natural gas prices are now on average too high," Butler said. "Consumers are being required to pay prices that serve no rational economic purpose; producers with new supplies are finding it impossible to market their gas."

With the prices fixed by the law rather than changing with the natural fluctuations in the marketplace, Butler said, congressional action is needed or consumers will turn to less costly sources of energy. Producers will lose customers and may go

bankrupt, he said.

The current gas glut, with prices artificially high, and the oil glut, with its decreasing prices, will mean a switch to oil, he predicted, "and the result will be a disaster in the gas market."

FERC supports Reagan's proposal and Butler said it will reduce prices because "the price of gas follows the price of oil."

But Sen. Howard Metzenbaum, D-Ohio, said FERC has "totally let down the consumers of this country" by its decisions on energy matters and said he looked "askance" at Butler's prediction of price decreases.

Several consumer groups told the committee that prices would increase under decontrol.

The National Association of Regulatory Utility Commissioners said consumers need to be protected during periods of oversupply and local producers need to have more options in selling their product.

"Today's prevailing prices for natural gas continue to increase even as demand is dropping and gas supplies are growing more abundant," said Laura Murrell, chairman of the Kentucky Public Service Commission, speaking for the commissioners' group.

"Demand-sensitive pricing of natural gas remains largely an unrealized dream," she said.

Quick solution to gas pricing urged

By TIM AHERN
The Associated Press

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Murkowski urges gas plan changes

By Lynn Peebles
Times Washington Bureau

Washington — Sen. Frank Murkowski, R-Alaska, Wednesday endorsed the deregulation of natural gas prices, but said changes must be made in the Reagan administration proposal to meet the unique situation in Alaska.

At a Senate Energy and Natural Resources Committee hearing, Murkowski said the administration bill is a good first step toward ending natural gas wellhead price regulation. But he said Alaska residents may face huge increases in their utility bills if the legislation is not revised.

"Alaska's unique conditions obviously were not taken into consideration when this bill was drafted," Murkowski said. "I agree that the free market approach is preferable when competition is available. However, in Alaska, where utilities may have only one source of gas and are not connected to any Lower 48 pipeline, there is no opportunity to shop around for a better price."

Murkowski said that without competition, there is no ceiling on the price producers could charge Alaska consumers for natural gas.

"Chugach Electric estimates that an increase in natural gas prices to \$3.50 per million cubic feet of gas would require it to seek a 100 percent increase in

electric rates," the senator said. Chugach Electric now pays as little as 21 cents per million cubic feet for natural gas.

Energy Secretary Donald P. Hodel, whose appearance kicked off lengthy hearings on natural gas deregulation, told Murkowski he will work with the Alaskan on a solution to the state's special problems.

Hodel also told Murkowski the federal government does not want to interfere with the role of state utility commissions in limiting wellhead prices in intrastate gas sales.

"Pointing again to Alaska's situation, it's essential that nothing in federal legislation preclude the Alaska Public Utilities Commission from exercising control over rates," Murkowski said.

In a statement to the committee, Murkowski said the administration bill provides "a framework within which we can begin to address the problems and distortions which have plagued natural gas consumers in recent years."

"I am a great believer in the free market. We must move toward decontrol where the market can work, while making spe-

cial and careful provisions in those instances where the market cannot work," Murkowski said.

Hodel told the committee the bill will "assure American consumers of an adequate supply of natural gas at a reasonable price. Under current market conditions, there is an excess supply of natural gas. Under such conditions, any first year economic student will tell you

prices should decline."

But prices are rising, Hodel said, "because the current Natural Gas Policy Act is distorting the market and creating artificial barriers."

Any move to lift all price controls on natural gas is likely to spark stiff opposition on Capitol Hill. Consumer groups fear control will lead to dramatic higher utility bills.

Oil export rule ease urged

The Associated Press

WASHINGTON — Sens. Ted Stevens and Frank Murkowski have urged Commerce Secretary Malcolm Baldrige to recommend revisions in the Export Administration Act to remove restrictions on the export of Alaskan crude oil.

The act expires in September, and it is currently undergoing an administration review before President Reagan forwards his recommendations to Congress for renewal.

The act was amended in 1979 to tighten restrictions on the export of resources. Oil

exports are prohibited expressly approved by Congress.

Murkowski said that is the time to begin a lengthy process of removing federal restrictions and preparing for the possibility of future exports of Alaska oil.

He said revising the act would remove only the roadblock to the export of Alaska oil, because that

faces restrictions contained in the Trans-Alaska Pipeline System Act.

Anchorage Daily News Wednesday, March

Major oil firms stand to gain from decontrol

By MILTON R. BENJAMIN
The Washington Post

analysis

WASHINGTON — President Reagan's proposal for removing federal controls from the price of natural gas would produce one certain winner: the major oil companies.

The administration bill would free "old gas," which accounted for about 56 percent of gas bought by the major interstate pipelines last year, from all controls as of Jan. 1, 1986.

The top 20 producers of such gas — led by Mobil,

Exxon, Texaco, Gulf and Shell — control more than 70 percent of it and stand to gain a \$40 billion windfall between now and 1990 if controls are lifted, according to industry analysts.

These producers now are selling old gas to the 20 largest interstate pipelines at an average of about \$1.38 per 1,000 cubic feet, according to the latest government figures.

See Back Page, MAJOR

Major oil firms stand to gain from decontrol of gas price

Continued from Page A-1

The rationale for the government controls that hold down the price of "old gas" from wells that were producing before 1977 is that where drilling and exploration costs have been recovered, the cost of continuing production is low.

"Many of these wells were brought in years ago. They were easy to find because they were in or near known gas-producing geological formations. They are shallow, so they didn't cost much," a government analyst said. The marginal cost of producing gas from some of these wells is only pennies."

But the bill lifting controls would enable the companies that own this old gas to double the average price for it. In some cases in which they are selling old gas for as little as 9 cents per 1,000 cubic feet, they may be able to boost their prices by 700 or 800 percent.

New gas is selling to interstate pipelines at an average of \$3.30 per 1,000 cubic feet, according to the latest government figures. Analysts say they believe that the present

market-clearing price where most gas sales would take place if no controls existed might now be as low as \$2.50.

But the Energy Department projects that the average price of gas under its proposal will rise from the present \$2.70 to \$3.60 in 1986, when the decontrol process would begin. Thus, the price of old gas after Jan. 1, 1986, could be expected to approach the \$3 level.

Moreover, producers of old gas would be able to demand this higher price immediately — even though some are locked into long-term contracts that run into the late 1980s and 1990s — because the administration bill would permit them to break every contract on Jan. 1, 1985.

"On Jan. 1, 1985, there will be a massive price shock as gas producers secure high prices for their old gas or exercise their newly granted market power to bring the natural gas market to its knees," said Rush Moody Jr., a member of the Federal Power Commission from 1971 to 1975.

Energy Secretary Donald P. Hodel, asked at a news conference to identify the

winners and losers under the administration proposal, conceded that producers of low-cost gas "are optimistic that they are going to get something better."

Hodel said producers of high-cost supplies, on the other hand, "are very fearful that their prices may be driven down."

But the highest cost gas — which comprises only about 5 percent of all domestically produced gas and has been selling at more than \$7 per 1,000 cubic feet — is "the domain of relatively small companies," according to a Federal Energy Regulatory Commission official.

Thousands of independent companies also provide a majority of the remaining new gas, which may or may not drop somewhat in price under decontrol. While the major companies also own a considerable amount of this new gas, industry analysts say their stakes are not nearly as high as in old gas.

"Old gas is overwhelmingly skewed to the majors," the commission official said.

These top 20 producers of old gas, according to a study performed by the Consumer

Federation of America contracts calling for supply 72.3 percent of gas purchased last year, nation's 15 largest pipelines, according to the federation.

The federation calculates that if decontrol were to take effect in 1983, a prospect that the administration would not occur until these top 20 natural gas producers "stand to gain a billion windfall from sales of old gas to only interstate pipelines for period 1983-1990."

While the federation has not updated its projections to take into account the different schedule of the new administration proposal, industry and government analysts say the White House plan could conservatively produce a billion windfall.

The top 20 old gas producers, in addition to the mentioned earlier, are: Texaco, Standard of Indiana, Standard of California, Phillips, Atlantic Richfield, Getty, Cities Service, Union, Superior, Sun, El Paso, Conoco, 1,000, Marathon and Colony, according to the consumer federation.

'disastrous' gas prices

Associated Press

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The Anchorage Times

Editorial

Narrowing choices

MUCH DOUBT has been cast on any eventuality that Northwest Alaskan Pipeline Co. will build a gas pipeline from Prudhoe Bay through Canada to the Midwest.

There have been years of delay in the \$43-billion project because Northwest has had problems finding financial backers. Some of the sponsors are in the process of protecting themselves by establishing reserves in case the project falls through.

The company said last October construction is less and less likely all the time because the Federal Energy Regulatory Commission would not allow it a sufficient rate of return. At best, the Canadian route could be considered to be on the back burner.

AN ALTERNATIVE all-Alaska route from the North Slope to tidewater has some popular support, particularly now that the Canadian route is doubtful. A move in the legislature to endorse of the Alaska line, however, has met opposition from a firm of consultants. They said the state should keep its options open.

The consultants, Booz, Allen & Hamilton, were commissioned by former Gov. Jay Hammond, whose anti-development philosophy is well known. They concluded that both proposals are on shaky ground and face huge obstacles and the chances are slim that either could ever be built.

Backers of the Canadian

route lack money. The Alaska route lacks federal authorization. And the current soft market for gas is a deterrent to both.

A TASK FORCE co-chaired by two other former governors, Walter J. Hickel and William A. Egan, has proposed the Alaska transmission system and it makes a lot of sense from the Alaska viewpoint. The gas would be moved by pipeline to the Kenai Peninsula, where it would be liquefied and shipped by tanker to Japan, other Pacific rim countries or markets on the west coast of the U.S.

The challenge to those who back the Alaska system is to get authorization from the federal government. Former President Carter chose the Canadian route several years ago and Congress ratified it. That ratification had no termination date, so Northwest has the federal blessing until the president and Congress withdraw it or the company throws in the towel.

A legislative endorsement of the all-Alaska gas line, which would follow the trans-Alaska oil pipeline route much of the way, would be helpful as a starting point in any drive to get congressional approval.

Since the Canadian project is viewed by many as dead, the only decision facing the state would appear to be whether or not to promote an all-Alaska line.

HJR

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April 15, 1983

Representative Mae Tischer
Alaska State Legislature
Pouch V
Juneau, Alaska 99811

Dear Representative Tischer:

The Resource Development Council advocates the removal of all unnecessary constraints on the wise and judicious development of Alaska's resources. It was, therefore, with great interest that we reviewed House Joint Resolution No. 40 which you have co-sponsored.

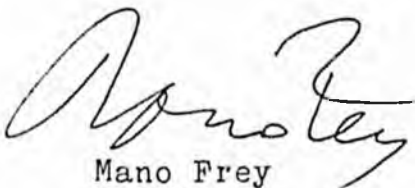
We believe that if Alaska is to have the economic growth and prosperity it needs, all impediments to the development of our resources must be evaluated and all that are unnecessary removed.

The existing price controls on natural gas do much to discourage the development and full use of Alaska's enormous natural gas reserves. Controls discourage the conduct of free enterprise and create artificial price structures which could eventually help insure a natural gas shortage for the nation. Decontrol of natural gas prices would help create a climate that encourages greater development and use of the reserves and provide long-term benefits to all users.

Your resolution appears to be supportive of our position and, to the extent that it embraces our concepts, we wholeheartedly endorse the resolution.

Sincerely,

RESOURCE DEVELOPMENT COUNCIL
for Alaska, Inc.



Mano Frey
President

encl.

EXXON COMPANY, U.S.A.

POUCH 6601 • ANCHORAGE, ALASKA 99502

PRODUCTION DEPARTMENT
ALASKA OPERATIONS

March 17, 1983

Representative Mae Tischer
Alaska State Capitol
Pouch V
Juneau, Alaska 99811

Dear Representative Tischer:

Last year a move by a number of consumer and supplier groups was begun to deregulate natural gas, the only primary U.S. energy source still under federal price controls. Unfortunately, the 97th Congress failed to address the issue. However, recently President Reagan proposed comprehensive natural gas legislation to the Congress that would achieve a free market at the wellhead by 1986. Congressional hearings are now being held on this important bill.

Exxon supports the decontrol of natural gas at the earliest possible date and believes that the best way to accomplish this is through a comprehensive, phased-in approach, such as that proposed by President Reagan. We do, however, believe that some modification of his proposal is needed to limit the definition of the so-called "gas cap" price, and to make more flexible the limitations on interstate pipelines' ability to "pass-through" gas cost increases. We believe that these would encourage the negotiation and renegotiation of contracts between producers and pipelines, which is one important element of the decontrol process.

Despite the claims by some in Washington, D.C., decontrol of natural gas will not doom the Alaska Natural Gas Transportation System. The truth is, decontrol will have no impact on the current planning for the ANGTS pipeline or the prospects for its completion. In fact, the move toward decontrol can be of benefit to the State of Alaska. The recent report by Booz, Allen and Hamilton to the State on alternatives for natural gas transportation and use details five independent studies of the nation's supply and demand situation for this fuel between now and the year 2000. All five studies show that, beginning in the 1990's, the Lower 48 demand for natural gas will outstrip Lower 48 supplies. The balance must be made up from Alaskan natural gas, imported liquified natural gas or other gas supplements. The anticipated shortfall in Lower 48 natural gas supplies is estimated to be approximately three times the amount of gas available from Prudhoe Bay. With decontrol, the value of Alaska's natural gas will be determined by the marketplace, not by artificial conditions imposed by

government control. We believe that the State of Alaska, its citizens, and those of us producing gas in the state will, in the long term, benefit from allowing market forces to prevail.

I hope that you agree with us on the benefits of natural gas decontrol and the need for some refinement of the President's proposal. If you do, I would urge you to let Frank Murkowski (who is on the Senate Energy Committee), Ted Stevens, and Don Young know of your support while the Congress is actively considering decontrol. You may find occasion to talk with them in person while they are home for the Easter recess, March 25 thru April 5. In any event, your contacts will be most effective if made during the next two or three weeks.

Thank you for your interest. For your information, I am enclosing a copy of a recent paper on the benefits of deregulation, published by the Natural Gas Consumers Information Center, an independent gas users coalition. I hope you'll take time to look it over. If I can provide any further information on this important issue, please let me know.

Sincerely,

A handwritten signature in dark ink, appearing to read "R. H. Weaver". The signature is stylized, with a large, looped "R" and a cursive "H" and "W".

R. H. Weaver
Alaska Operations Manager

R:HW/dag
Enclosure

FRANK H. MURKOWSKI

COMMITTEE ON ENERGY AND
NATURAL RESOURCES
COMMITTEE ON FOREIGN
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COMMITTEE ON VETERANS
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United States Senate

WASHINGTON, D.C. 20510

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April 19, 1983

The Honorable Mae Tischer
Alaska State Legislature
Pouch V
Juneau, Alaska 99811

Dear Mae:

Thank you for providing me with a copy of your resolution urging the decontrol of natural gas prices. I favor the elimination of price controls.

As you may know, the wellhead price of natural gas is regulated by a complex, 28-tier pricing system under which gas prices may vary as much as 3500%. This pricing system, established under the Natural Gas Policy Act of 1978, is so rigid that it will not allow gas prices to respond to market forces. Thus, despite the fact that we have a surplus of gas deliverability, prices are going up. I believe, therefore, we must move toward the free market in such a way as to allow gas prices to moderate in response to current decreasing demand and surplus of deliverability.

The President has proposed a plan designed to move us to the free market over a period of 2-3 years while providing the consumer some protection from increasing gas prices. This plan, if enacted by Congress, would effectively remove all Federal controls on the wellhead price of natural gas by January 1, 1986. The President's plan would attempt to provide consumer protection through a "price cap" and a limitation on the costs a pipeline may pass on to its consumers during the interim period prior to complete decontrol.

Although I feel the President's approach is an innovative one, it contains several elements that trouble me greatly. For instance, the President's plan would allow either party to a gas purchase contract to terminate that contract on January 1, 1985. For instance, if a large electrical utility has secured a long term, low price gas purchase contract and accordingly makes an investment decision to build a powerplant on or near the natural gas field from which the gas is bought, it is conceivable that the producers who sell the gas to the utility could refuse to honor the contract on January 1, 1985. The utility, in need of the gas from the field at which it has built its powerplant, would be in a position of having to pay whatever the producers

The Honorable Mae Tischer

April 19, 1983

felt the utility could bear. That cost, of course, would be passed on to consumers.

In the lower 48, this situation would be minimized by provisions in the President's bill which would allow the utility to buy gas elsewhere and arrange to have that gas brought to it through the existing interstate gas pipeline system in the lower 48. However, because Alaska is not interconnected with the lower 48 pipeline network, the ability of the utility to "shop around" for alternative gas is severely limited.

The example I have outlined exists in Alaska, where Chugach Electric built a powerplant on the Beluga gas field. Chugach's decision to build that powerplant was a sound investment decision based on a long term, low price contract. I do not believe we can "change the rules in the middle of the game" and ask Alaskan consumers to bear the potentially severe costs as the result of this legislation. Therefore, I will be proposing some changes to the President's bill during its consideration by the Energy Committee.

In general, I support decontrol. Continued price controls will only serve to create shortages in a rising market and distorted prices in a falling market. Where the free market can work, we must allow it to work. However, there must be provisions made for special situations such as the one I have outlined earlier, and I will continue to work with the President and the other members of the Energy Committee to address these issues in the context of the larger need to bring rationality and responsiveness to the nation's natural gas market.

Sincerely,



Frank H. Murkowski
United States Senator

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COMMITTEE ON APPROPRIATIONS
WASHINGTON, D.C. 20510

MAY 6 1983

May 2, 1983

The Honorable Mae Tischer
House of Representatives
Alaska State Legislature
Pouch V
Juneau, Alaska 99811

Dear Mae:

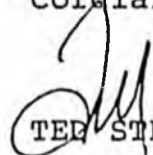
Thanks for sending me a copy of your letter to
R. H. Weaver of Exxon concerning natural gas decontrol.

One aspect of natural gas decontrol you are probably
aware of is that the market-out provisions in the Admin-
istration's bill, Section 303 of S. 615, could result in
significantly higher gas prices for states with no inter-
state pipelines, like Alaska. Senator Murkowski and I are
working to protect Alaska from that aspect of the market-out
provisions of S. 615.

Again, thanks for sending me a copy of your resolution.
I, too, support the over-all objectives of the Adminis-
tration's natural gas proposals.

With best wishes,

Cordially,


TED STEVENS

John Lichtblau advises:

Let's decontrol all natural gas

In everyone's best interest, we should

change the Natural Gas Policy Act so as to decontrol the wellhead price of gas

YOU MAY NOT BE AWARE OF IT (59 percent of Americans are not, a polling firm reports), but the price of natural gas is controlled by federal law. In fact, it is the only commodity still subject to price regulation in peacetime America.

Furthermore, natural gas prices have been regulated for a long time. The Natural Gas Act of 1938 said that companies transporting gas across state lines or selling gas for resale in interstate commerce were utilities and their rates would be fixed like those of the light company and the water works.

In 1954, the U.S. Supreme Court's lamentable "Phillips Decision" extended price controls all the way to the wellhead for natural gas sold for resale in interstate commerce, even though gas producers could scarcely be compared to utilities. (Gas sold by producers for consumption within the state of its origin remained free of controls.) In pricing natural gas, federal regulators set rates so low that gas pro-

ducers eventually were discouraged from looking for more. By the mid-1970s rates of production were declining, reserves were plummeting, and gas shortages were beginning to occur in states having no intrastate supply. Brownouts occurred. Gas-fueled factories shut down. Utilities were forbidden to hook up new customers.

Clearly, something had to be done. So, in 1978, Congress did something. It passed the Natural Gas Policy Act. The intent of NGPA was to decontrol new natural gas in time, but to protect consumers from a sudden leap in prices by doing it gradually. For the present, however, price controls were extended to the wellhead for all gas, and more than two-dozen categories were set up wherein some gas would be treated differently according to certain standards. "Old" gas (found before the passage of NGPA) would be regulated until gone. Most "new" gas (found after passage of NGPA) would be deregulated in 1985. New "deep" gas (found below 15,000 feet) would be deregulated earlier and allowed to seek its price on the free market beginning in 1979.

After four years of the NGPA, it has become quite clear that Uncle Sam has once again used his economic shotgun to

shoot himself in the foot. The search for shallow deposits of gas that might yield a less expensive product has been discouraged by price controls. On the other hand, the search for gas in deep horizons has been encouraged because it can be sold on the open market, even though it is a high-cost source. Price distortions abound; for customers in some regions, prices are woefully high, while in other regions, customers enjoy low prices. And while gas supplies are currently ample, many analysts see a shortage developing within a few years, even though the potential for finding more gas is good.

With a sense of *deja vu*, energy economist John Lichtblau observes that the government's efforts to "protect" consumers by controlling prices might serve as a textbook example of the economic truism that "new legislation passed to correct economic distortions caused by old legislation will, in turn, create new distor-

We have gas selling for as little as 50 cents per thousand cubic feet (mcf) in some fields and for as much as \$9 per mcf in other fields.

tions." Such is the case. Seeking to help consumers, Congress has hurt them in a different way.

"It is clear by now," Lichtblau advises, "that the NGPA is not achieving its intended goal. We should change it to permit phased decontrol of all natural gas over the next few years. And the sooner we make the change, the better."

As president of the New York-based Petroleum Industry Research Foundation, Inc. (PIRINC), Lichtblau heads one of the nation's most influential independent study groups. Specializing in research and objective analysis of energy-related issues, PIRINC publishes studies on a wide range of subjects. Lichtblau's integrity and methods have earned him a level of respect that places him among the top experts in the world in his specialty. His views widely sought and his opinions much quoted, Lichtblau argues forcefully that price controls make no economic sense. In a recent interview, he explained why:

EXXON USA: *Is the natural gas market in trouble?*

LICHTBLAU: There are problems, but they are not as visible to the public as they were in past years because we don't have a shortage of gas just now. Demand has declined, and producers presently are able to meet demands. We'll probably consume between 19 and 20 trillion cubic feet of gas in 1982 compared to 22 trillion cubic feet in 1973. Why has demand fallen? Partly because of the increase in cost, which has caused consumers to use less, and partly because of the current business recession. The first has caused some consumers to switch to other fuels while others have sim-

ply-applied conservation measures so as to require less fuel. But the surplus is only temporary. One reason is the expected economic recovery. Another is that for years we have taken out of the ground substantially more natural gas than we have found. Even in 1981 when total usable gas reserves rose for the first time in 13 years, discoveries of new gas again fell short of production. But a more immediate problem is the tremendous price distortions the NGPA has caused. We have gas selling for as little as 50 cents per thousand cubic feet (mcf) in some fields and for as much as \$9 per mcf in other fields. Some regions get more of the lower priced gas than oth-

ers. You can imagine how this distorts competition between industrial consumers located in different regions. This is a direct result of the NGPA.

EXXON USA: *Wasn't the NGPA supposed to take care of such problems by gradual decontrol?*

LICHTBLAU: That may have been the intent. But actually, under NGPA, most of the "old" gas, which currently accounts for most of production, will never be decontrolled. Its share will of course decline, and eventually it will disappear. But by 1990 it may still account for about 20 percent of total domestic gas supplies. Thus, for the next 9 to 10 years, the U. S. gas market will remain substantially distorted by the NGPA. Congress opted for this partial decontrol because it feared that if all controls were removed, there would be a sudden "spike" or leap in the price which would be difficult for consumers to bear. In 1978, when the price of gas averaged 90¢ per mcf at the wellhead, equivalent to about \$5.50 per barrel of oil, while oil was actually selling for \$12 to \$13, this fear may have been real. So a transition system was developed. Congress wanted to protect consumers. But the system has created new distortions that are hurting consumers — and has not protected them from an increase of 175 percent in the average U. S. wellhead price since 1978. The system exempted from control all new deep gas found below 15,000 feet, but it controlled until 1985 new shallower gas and, of



As president of the Petroleum Industry Research Foundation, John Lichtblau is often asked to analyze and explain the economic aspects of petroleum supply and demand.

Jonathan Alkin

The plain fact is that producers, taken as a whole, are not getting enough money for their product because they are not recovering the replacement cost of it.

...kept controls on all old gas permanently.

CON USA: What did this do to the gas market?

BTBLAU: For one thing, it made it attractive to drill for very deep and more expensive gas. It also discouraged gas producers from maximizing investment technology for increasing production from existing gas fields. This means that these wells will have a shorter productive life than they would have in a free market. The plain fact is that producers, taken as a whole, are not getting enough money for their product because they are not recovering the replacement cost of it. The result is that supplies will probably continue to decline.

CON USA: How does this translate into consumer concerns?

BTBLAU: Right now, gas consumers in some regions are paying substantially more for gas than those elsewhere because most of their supplies come from those older and costlier wells. Others pay less for gas at present but will eventually have to pay proportionately more. If we were to move away from controls over the next few years, say by 1985, no consumer or company would then be favored over another because of different wellhead costs. There would be no sudden "spike" as prices would gradually rise to parity with other regions. It might be worth mentioning in this connection that the cost of gas at the wellhead is less than half of the cost to consumers. Transportation of gas from the wellhead to the utility and distribution by

A FEW FACTS ABOUT NATURAL GAS

What Is It?

Natural gas consists mostly of a simple hydrocarbon called methane. The recipe for methane is four atoms of hydrogen to one atom of carbon. In underground reservoirs, methane may be mixed with heavier hydrocarbon gases such as ethane or butane, with rare elemental gases such as neon or helium, and with impurities such as carbon dioxide, hydrogen sulfide, and salt water. Before it is sold as pipeline gas, methane is separated from these other elements and compounds.

Where and How Much?

Natural gas is America's leading source of domestically produced energy. Thirty-one states produce natural gas in commercial quantities for a total volume of about 19 trillion cubic feet per year. Texas and Louisiana lead, with more than half of the total production. They are followed in order by Oklahoma, New Mexico, Kansas, Wyoming, and California. The nation records some 200 trillion cubic feet of proved, recoverable gas reserves. Some authorities have suggested that as much as 2,000 trillion cubic feet of gas may exist in the United States, of which almost 600 trillion cubic feet might actually be recovered. About 26 percent of the energy that America consumes comes from natural gas.

Who Finds It?

Oil and gas are found by drilling wells, and they are often found together or

in similar geological formations. Consequently, most of the 19,200 companies that explore for and produce oil also explore for and produce gas. Last year, they produced natural gas from more than 189,000 gas wells and from tens of thousands of oil wells, as well. These companies are private enterprises risking private capital in the hope of making a profitable discovery.

Who Buys It from Producers?

Most natural gas is purchased at the wellhead from the producers by some 100 gas transmission companies. These companies transmit the gas to market through pipelines, which are subject to regulation as public utilities. There are more than 250,000 miles of gas transmission pipelines in operation in the U.S. All 50 states use natural gas, but it is transported to Hawaii in liquid form and to Vermont via pipeline from Canada. Most gas is sold through long-term contracts negotiated between producers and transmission companies. The latter contract for enough gas supplies to meet their customers' anticipated demands.

Who Distributes It?

In most instances, utilities buy natural gas from transmission companies and resell it to industrial, commercial, and residential users. Over 1,400 utilities distribute gas directly to almost 50 million customers through 700,000 miles of distribution mains. The cost of transmission and distribution today account for about half of the price of natural gas to the average residential customer.

Over half of any price increase for gas would go to federal, state, and local governments in the form of taxes.

the utility to consumers account for about 55 to 60 percent of the cost of residential gas.

EXXON USA: *What about charges that decontrol of gas prices will put an unfair burden on the poor?*

LICHTBLAU: Poverty is a social and political problem. It belongs in the area of welfare policy rather than energy policy. Poor people, by definition, do not have enough of the necessities of life and that includes not only energy for heat but also food, shelter, clothing, transportation, and medical care. The prices of these latter items are not controlled, nor should they be. Keeping prices artificially low for everyone out of consideration for the poor doesn't make economic sense; that applies also to the price of natural gas. This country has a long and good record of federal, state, and local programs to help underprivileged people. Price controls have not been a part of these programs, and correctly so.

EXXON USA: *Some say there's no natural gas left to find so there's no reason to encourage anyone to look for it? True?*

LICHTBLAU: Not true. There's lots of natural gas left in this country. In fact, the natural gas potential is quite possibly larger than the oil potential, because we haven't ever seriously looked for natural gas until quite recently. On the other hand, we've been looking for oil for 125 years. Why? Because, on the whole, it has been profitable to do so. It is largely a matter of drilling. At present, the NGPA gives excessive encouragement to the search for new gas in the very deep formations, to the detriment of other areas. But large volumes of gas remain to be found at shallower depths. The NGPA also discourages

investment in maximum recovery of gas from existing fields, because most of them remain permanently regulated at low prices.

EXXON USA: *Why can't oil companies use their oil profits to look for more gas?*

LICHTBLAU: In 1982, oil companies did not do well. No oil company has escaped sharp declines in profits. The money oil companies earned in 1979 and 1980 when oil prices went up has largely been spent on looking for more oil and gas. Now, demand has declined and oil prices have gone down. If you look at the earnings of companies, they are by no means excessive. Furthermore, alone among the industries, oil companies pay a huge excise tax called the "windfall profit tax." No other industry pays such a tax. It subtracts money from the search for both oil and gas.

EXXON USA: *Some politicians want to levy a "windfall profit tax" on gas. Does that make sense?*

LICHTBLAU: It would definitely be counterproductive. Gas producers need that money to look for new gas supplies, and they need the incentive of a market price and corresponding profit to maintain their search for new gas. Even without an excise tax on gas, over half of any price increase for gas would go to federal, state, and local governments in the form of taxes.

EXXON USA: *What about turning to alternatives for energy in place of natural gas?*

LICHTBLAU: A couple of years ago when

it seemed that oil prices would go to \$55 to \$60 a barrel by the mid-1980s, many expensive alternatives began to look attractive. But now this is no longer considered likely. Prices have actually declined since 1981. So the near-term economic picture for shale oil and solar thermal and other alternatives simply doesn't look good any more. For the foreseeable future, natural gas will remain a far more attractive fuel, provided we do not stifle its availability through regulatory constraints.

EXXON USA: *As a final question, in 1985, when the price control of new gas ends under the NGPA, will the price of gas to consumers be higher or lower than it would be if all gas were decontrolled?*

LICHTBLAU: Some respected studies suggest the price would be somewhat higher. In my view, the average wellhead price of gas would be approximately the same in both cases, since it will have reached parity with oil by then with or without the NGPA. This is why the claim of some "consumer advocates" that the prices would remain lower under the NGPA is wrong. However, there is a difference between the two scenarios. Under the NGPA the average price would consist of a variety of prices significantly above and below the parity price level while under full decontrol all prices would cluster around the parity level. Thus, the NGPA would perpetuate the existing distortions favoring some consumers and areas at the expense of others. Under phased decontrol, by contrast, the distortions will have ended by 1985, to be replaced by a more equitable as well as more efficient pricing system. On the whole, this is bound to benefit consumers of gas.

DOWNES MATTHE

NATURAL GAS CONSUMERS INFORMATION CENTER

JANUARY 1983

COMMENTARY ON DEREGULATION

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NATURAL GAS: HOW GOVERNMENT REGULATIONS AFFECT THE MARKET

New rules spur higher prices despite oversupply, conservation

By Kathleen Day
USA TODAY

When a store overstocks galoshes or grapes, or any other item, it usually cuts prices to entice customers. But that isn't happening with natural gas.

The 44.2 million U.S. consumers who heat homes with gas are watching bills soar as much as 70 percent over last winter's, even though the gas

Federal law makes it profitable to sell less of cheap gas and to concentrate on the most expensive natural gas.

industry has 15 percent to 20 percent more fuel than even the harshest winter would require.

What's going on?

The short answer is government regulation. Changes in federal law have made it profitable — even irresistible — for gas producers and suppliers to sell less of the cheap, easy-to-get gas and to concentrate instead on the most expensive natural gas they can find.

That has brought rising prices, although conservation and recession have reduced demand for gas. Residential natural gas use is down 20 percent since 1973, and business consumption down 12 percent to 15 percent.

Here's a breakdown of the factors behind today's natural gas market.

The producers: Since the 1950s, the federal government has regulated the price natural gas producers can charge to the interstate pipelines. The pipelines transport gas to utilities, which then deliver it to homes and businesses.

By 1975, the government-controlled price was so artificially low

that producers claimed they could not profit from finding and developing new gas sources.

Gas was cheap for customers who could get it. But it was scarce because producers had stopped drilling. The 20 major pipelines, which supply 90 percent of the nation's needs, were so strapped for new gas supplies that public service commissions in every state forbade utilities from taking on new natural gas customers. **By the winter of 1975-76, the country barely had enough natural gas to go around.**

That got the attention of Congress and President Jimmy Carter and resulted in the Natural Gas Policy Act of 1978. Intended to make

gas supplies plentiful by making production profitable, the act encouraged production of expensive, hard-to-get-at natural gas reserves locked in abundance under U.S. soil.

The act divided gas prices into three categories:

1 **Old gas** — from wells drilled before 1977 — **whose price would continue to be regulated forever.** Old gas is the cheapest (now costing from 20 cents to \$2.20 per thousand cubic feet), and accounts for about 57 percent of the supply available under contract to pipelines.

2 **New gas** — from wells drilled after 1977 — whose price will gradually be deregulated by 1985. Generally, price controls come off quickest for gas that's most expensive to produce. New gas costs from \$4.20 to \$6 per thousand cubic feet and accounts for 38 percent of supply.

3 **Deep gas** — from wells drilled after 1977 for gas below 15,000 feet — whose price was deregulated immediately. There is no federal price ceiling on deep gas, the most expensive gas to produce. It now costs about \$7.50 per thousand

Deregulate Natural Gas To Solve Consumer Problems

Natural gas regulatory problems — and the federal law that seems to be at the root of the problems — are explored in this publication.

Running through this collection of articles and commentary is the theme: deregulate natural gas to end market distortions, inequitable prices, and uncertain supplies.

The theme is expressed by journalists, policy analysts, and businessmen.

This background report is published by the Natural Gas Consumers Information Center as a service to consumers and to Congress. The Center is supported by a number of organizations whose members are major consumers of natural gas and who are on record favoring natural gas deregulation.

For more information, call or write NGCIC, Suite 900, 605 Fourteenth Street, NW, Washington, DC 20005. Telephone: (202/347-6200).

cubic feet and accounts for about 5 percent of supply.

Though not regulated by the Natural Gas Act, an important fourth category is imported gas, which costs from \$4.94 to \$7.18. In 1981, imported gas made up 5 percent of U.S. supply. For 1982 it's expected to climb to 10 percent.

The most expensive categories — deep gas and imported gas — account for only 10 percent to 15 percent of U.S. supply. But because they cost so much more, they have a major impact on consumers' bills.

That trend should continue: The natural gas act has succeeded in stimulating producers to aggressively drill for profitable gas — the deep gas that can be sold for whatever price the market will bear.

"If you were a producer in that situation," says Mary Novak, energy analyst at Data Resources Inc., "you would have done the same thing — drill for what you could make the most money on."

There have been charges that some producers are abandoning wells that could still produce older, cheaper gas, in order to produce gas from more profitable wells. But, the volume of gas that is being "shut-in" is small, according to Department of Energy officials.

The pipelines: Pipelines have assumed producers would continue to concentrate on expensive gas. Spurred by fears of the 1970s scarcity,

the pipelines madly contracted for as much gas as they could get — taking long-term contracts to buy expensive gas at whatever terms producers demanded.

And that's where things went wrong.

What the pipelines never anticipated was that the worldwide recession and an emerging oil glut would send other fuel prices down.

So pipelines suddenly found themselves stuck with long-term

natural gas contracts, most of which had clauses allowing price hikes that are way out of step with today's lowered inflation rate, reduced demand and better-priced alternative fuels.

"And unfortunately the clauses only allow prices to go up," says Robert Means of the Federal Energy

The new rule prohibiting pass-through of extra contract costs won't help consumers this winter and will only dampen next year's home heating bills by two percent, energy officials say.

Regulatory Commission. "If the escalator clauses allowed prices to float with the market — to go down as well as up — then today's situation could perhaps have been avoided."

Worse, many contracts have "take-or-pay" clauses; they require the pipelines to pay for the expensive gas supplies whether they take the gas or even need it.

"It was like a bunch of starving children let loose in a candy store," says one industry source. "The pipelines devoured everything in sight. Now it's the next morning and they don't feel so good."

And neither do consumers. Currently, virtually all the cheaper old gas is under contract. But, ironically, pipelines are some-

times opting not to exercise contracts to buy the cheaper gas and instead are buying the more expensive gas.

Why? For three reasons, according to the General Accounting Office:

❑ Pipelines are under contract to buy more gas than they can sell, forcing them to forfeit on some contracts. Because contracts for the more expensive new gas are likely to have stiffer forfeiture clauses,

pipelines lose less money by forfeiting on contracts for old gas.

❑ Pipelines may prefer to buy gas from their own affiliated producers or subsidiaries, rather than from unaffiliated producers — even if it's more expensive.

❑ If a pipeline pays for and gets

gas from a producer, it is allowed to pass along the extra costs directly to utilities. But if the pipeline pays for but forfeits the contract and does not take gas from a producer, it cannot recover those costs immediately; the government recently decided it would not allow such cost "pass-throughs" if old, cheaper gas

was available to the pipeline. But energy officials say the new rule won't help consumers this winter and will only dampen next year's home heating bills by 2 percent.

The utilities: Distributors — primarily utilities — are similarly hemmed in by long-term contracts with the pipelines, causing them to raise customer rates. Those rising prices have prompted industrial and residential customers to use less gas — creating revenue shortfalls for utilities that require further rate hikes.

For a while, it appeared the pipelines might deliberately break the high-priced contracts, forcing prolonged court fights. But, says a spokesman for Transcontinental Gas Pipe Line Co. — among the top 20 interstate transporters — the pipelines now want to negotiate, and producers may be willing.

(December 27, 1982)

This article appeared as a guest column in *Plant Energy Management* and is reprinted with permission.

SUPPORT BROADENS FOR DECONTROL

By Jack Elam

Chairman

Process Gas Consumers Group, Washington, D.C., and vice president and general counsel of Cone Mills Corporation, Greensboro, N.C.

Members of Congress who are weighing the natural gas decontrol issue should be impressed by the range of constituencies now favoring an end to some of the complex problems caused by the Natural Gas Policy Act.

There is growing agreement from many sectors that it is essential for Congress to open up the NGPA and clean up the regulatory mishmash which the 1978 law created.

Industrial users, such as the companies in the Process Gas Con-

sumers Group (PGC), are strongly in favor of Congressional action as soon as possible to deregulate natural gas. The U.S. Chamber of Com-

An impressive array of constituencies favor an end to some of the complex problems caused by the Natural Gas Policy Act.

more, the National Association of Manufacturers, the Chemical Manufacturers Association, the American Textile Manufacturers Insti-

tute, the Business Roundtable, the Petrochemical Energy Group and others representing industrial and business consumers of natural gas have all taken positions favoring decontrol.

In addition, the Natural Gas Supply Association and other producer-oriented interests support deregulation.

A business organization, the Committee for Economic Development, and an environmentalist group, the Conservation Foundation, delivered to Congress a joint report stating that "controlling energy prices has neither increased energy supplies nor made significant contributions to reducing poverty, curbing inflation, or achieving the wide variety of eco-

nomie and social goals that controlled energy prices have been supposed to aid." Keeping energy prices artificially low is a poor way to help low-income consumers and to fight inflation, the report says.

The National Governors' Association is also on record supporting price decontrol for new gas supplies.

The Texas Energy and Natural Resources Advisory Council, which is responsible for assessing that state's energy policy, told a Congressional hearing in August: "It is imperative, in the interest of all, that the Congress move with dispatch to reduce and eliminate the many disorders and uncertainties which make a market which is fair, and fair to all, an impossibility."

The American Farm Bureau says that "ultimately, our whole economy will benefit from total decontrol of natural gas."

PGC members — who require natural gas for uses for which there

price controls on natural gas by a time certain. While we are no more anxious than anyone else to see our gas bills increase, we are willing to pay true free-market prices for gas in anticipation that such prices will be more stable—and perhaps even lower in the long run—than would be the case if Congress fails to take action on the NGPA.

Members of Congress might do well to take another look at these growing constituencies as they make their legislative plans for the new Congress. There appears to be shaping up a broad platform of support for natural gas deregulation, requiring Congressional action early in 1983.

"There appears to be shaping up a broad platform of support for natural gas deregulation, requiring Congressional action early in 1983."

is no alternate fuel—are on record in favor of phasing out all wellhead

(December/January 1983)

This article is reprinted with permission of *The Washington Times*

OLD RULES, NOT DEREGULATION, PLAGUE NATURAL GAS

By Steven K. Beckner

It is probably asking too much to expect our legislators to respond to the current distortions in the market for natural gas by hastening and expanding its deregulation. But hopefully they will realize it would be the height of folly to move in the opposite direction, as many would like, and prolong or even increase regulation.

Indications are that Missouri Sens. Thomas Eagleton, a Democrat, and John Danforth, a Republican, once again will launch legislation to regulate natural gas more tightly. If it takes the same shape it did in the lame-duck session, their bill would temporarily freeze wellhead prices of gas, delay scheduled deregulation for two years and render unenforceable contracts between gas producers and gas pipelines where they don't suit the latter.

If such proposals are enacted, the result would be to return this country to the same situation that prevailed in the late 70s, when chronic gas shortages led to passage of the Natural Gas Policy Act of 1978. Once again exploration and production would be discouraged, homes would be left cold and factories would have to shift to dirtier, more expensive coal and oil, much of it from abroad.

The NGPA mandated a partial, phased deregulation of gas. "Old" (pre-1977) gas was left under per-

Hopefully, legislators will realize it is the height of folly to prolong or increase regulation.

petual control, while "new" gas was to be gradually deregulated by 1985. High-cost, "deep" gas, from wells below 15,000 feet, was decontrolled completely.

Within a short time, gas exploration increased and shortages disappeared. But meanwhile, pipeline

companies responded to the immediate shortage and perceived demand by aggressively entering "take-or-pay" contracts with producers at above-average prices that require them to pay whether or not they use the gas.

Then recession hit, and demand for gas fell sharply. Pipeline companies, which have typically committed themselves to buy gas at

government manipulated prices ranging from 29 cents up to \$9 per thousand cubic feet, found themselves locked into take or pay contracts for gas which they cannot sell.

As pipeline companies have passed their higher costs on to

utilities, which in turn have passed them on to consumers, demands have grown for political action—particularly in states like Missouri. But neither a price freeze nor abrogation of contracts is the answer.

On the contrary, the continuation of past regulations is the problem. Were it not for more than two dozen artificial prices for different vintages of "old" and "new" gas there would be only one market price. To the extent that increased producer prices of gas are to blame for higher heating bills, the cause is the NGPA's incentive to produce expensive "deep gas."

In fact, wellhead prices are not chiefly to blame. Nicholas J. Bush, president of the Natural Gas Supply Association, estimates only 39 cents of the 95-cent per million BTU increase in average residential gas prices that occurred over the year ending in July 1982 resulted from

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