ALASKA LEGISLATURE COMMITTEE FILES 1985-1986 8672

3599 HRES SB 309 - SB 334

475

Excerpts from Lease Form DL-1
Pertaining to the Pricing of Royalty Products

11. ROYALTY ON PRODUCTION. Except for oil and gas used on said land for development and production or unavoidably lost, Lessee shall pay Lessor as royalty the following:

(a) On oil 12-1/2 percent in amount or value of the oil produced and saved and removed or sold from said land.

(b) On gas 12-1/2 percent in amount or value of the gas produced and saved and sold or used off said land or used for the extraction of natural gasoline or other products therefrom.

(c) On associated substances 12-1/2 percent in amount or value of such substances produced and saved and removed or sold from said lands.

15. ROYALTY IN VALUE. At the option of Lessor, which may be exercised from time to time upon not less than six months' notice to Lessee, and in lieu of royalty in kind, Lessee shall pay to Lessor the field market price or value at the well of all royalty oil and/or gas. All royalty that may become payable in money to Lessor shall be paid on or before the last day of the calendar month following the month in which the oil or gas is produced. The payments shall be accompanied by copies of run tickets or other satisfactory evidence of sales, shipments, and amounts or gross production.

16. PRICE. The field market price or value of royalty oil or gas shall not be less than the highest of: (1) The price actually paid or agreed to be paid to Lessee at the well by the purchaser thereof, if any; or (2) The posted price of Lessee in the field for such oil or gas at the well, if any; or, (3) The prevailing price received by other producers in the field at the well for oil of like grade and gravity or gas of like kind and quality at the time such oil or gas is removed from said land or run into storage, or such gas is delivered to an extraction plant.

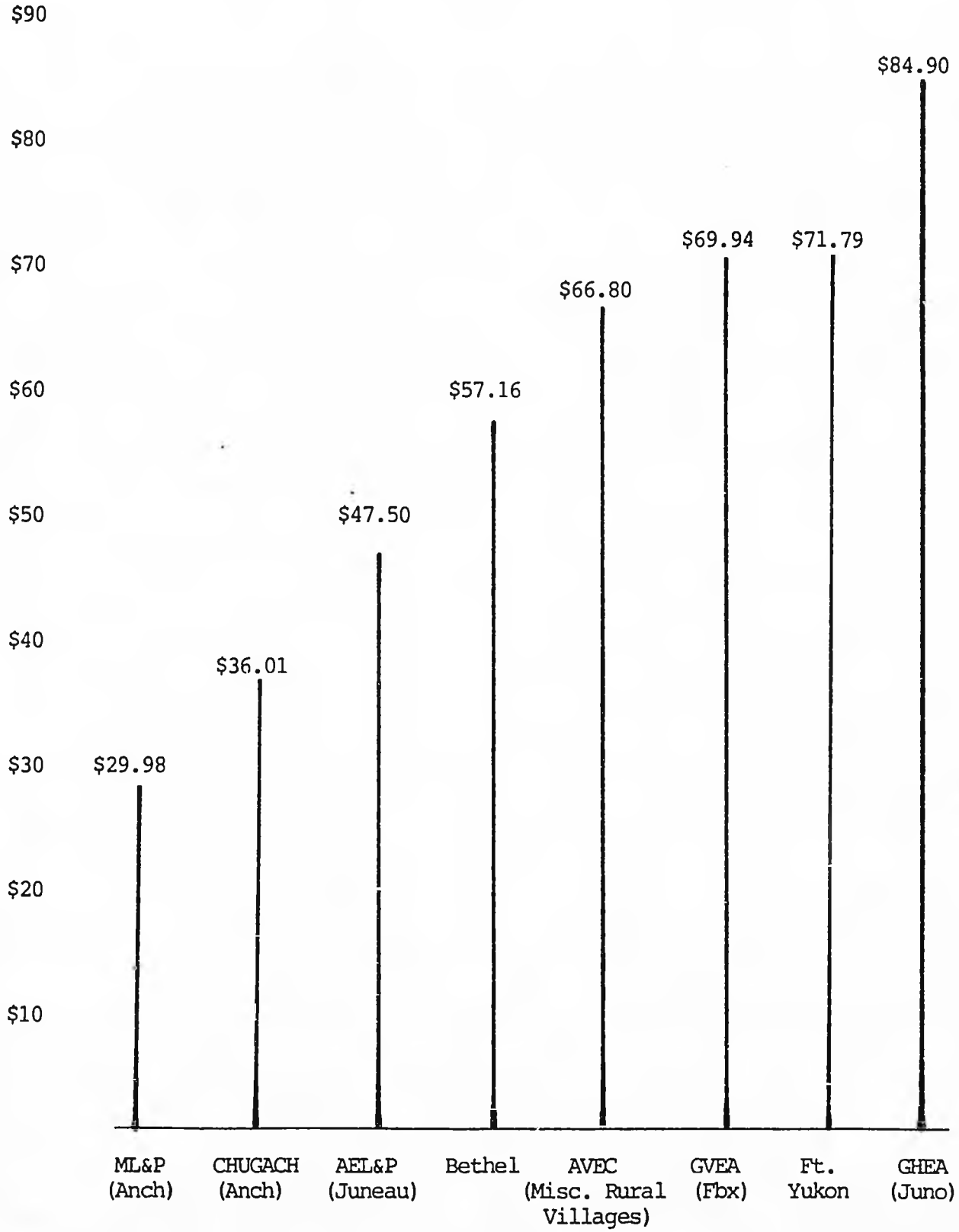
RECENT CONTRACTS AND PURCHASE AGREEMENTS

	Purchaser	Field or Seller	Starting Base Price
1977	Pac Alaska	Cook Inlet	$1.46 per mcf
1982	Enstar	Beluga River	$2.32
1982	Enstar	Beaver Creek Field	$2.32
1982-83	Chugach (Peaking Gas)	Beluga River	$1.40-1.60
1983	Chugach	Cannery Loop	$1.80
1984	Enstar	Lewis River	$1.80
1985	Tesoro	Marathon	$2.01
1985	AEG&T (Homer Electric)	Enstar	$2.04
1985	ML&P (Anchorage)	Enstar	$1.60

February 6, 1986

Representative Residential Electrical Rates for 500 KWH

Assumes: Residential rate, non-demand, hot water heater, winter season.
Power Cost Equalization payments have been subtracted.



Source: Alaska Public Utility Commission, except GHEA rates, which were obtained from GHEA.

STATE OF ALASKA 1986 LEGISLATIVE SESSION
FISCAL NOTE

Revision Date : 2/20/86

REQUEST

Bill/Resolution No. : CSSB 309 (Res)
Title : Royalty gas contracts

Sponsor : Faiks
Requestor : Senate Resources
Date of Request : 2/19/86

FISCAL DETAIL

Agency Affected : Natural Resources
BRU :

Components :

EXPENDITURES/REVENUES : (Thousands of Dollars)

OPERATING	FY 86	FY 87	FY 88	FY 89	FY 90	FY 91
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	-0-	-0-	-0-	-0-	-0-	-0-
CAPITAL						
REVENUE						

FUNDING : (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER						
TOTAL	-0-	-0-	-0-	-0-	-0-	-0-

POSITIONS :

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS : Attach a separate page if necessary

The valuation provisions of this bill will be applied only for future long-term gas contracts, and there is no way to estimate any fiscal impact on the state. Any revenue losses should be balanced by savings in utility costs for consumers, according to the bill.

Prepared by : Ned Farquhar
Phone : 465-2400
Division : Commissioner's Office
Date : 2/20/86

Approved by Commissioner : Esther C. Wunnicke
Date : 2/20/86
Agency : Natural Resources

Distribution (by Agency preparing fiscal note) :
- Legislative Finance
- Legislative Sponsor
- Requestor
- Office of Management and Budget
- Impacted Agency(ies)

10/25/85

STATE OF ALASKA

POUCH V
JUNEAU, ALASKA 99811
(907) 465-4941

HOUSE SPECIAL COMMITTEE ON OIL AND GAS

Sectional Analysis
Proposed Oil and Gas Committee Substitute for CSSB 309 (Rules)

Sec. 1. Findings. It is in the best interest of the state to authorize the commissioner of DNR to establish the in-value royalty for gas sold to a gas or electric utility by using the contract price between the lessee of the state and the utility. This authorization applies only prospectively, and this Act does not apply to state policies regarding the sale of royalty oil.

Sec. 2. The commissioner shall enter into an agreement with a lessee to use the price established in a contract between the lessee and a gas or electric utility as the value of the state's royalty share of gas production, provided that:

a. the lessee and the utility are not related.
b. the agreement is requested in writing by the lessee.
c. the commissioner does not make a written finding that the contract price is unreasonably low and that a prospective reduction in royalty receipts would not be balanced by increased benefits to in-state gas and electric consumers.

This section states that a "gas or electric utility" includes electric cooperatives (such as Chugach, Matanuska, Homer, rural co-ops, and Golden Valley Electric), municipal utilities (such as Anchorage Municipal Light & Power), and gas utilities regulated under AS 42.05 (such as Enstar).

This section also states that, for purposes of this Act, the state's royalty share of gas production does not include gas production from mental health lands or school lands.

Sec. 3. Adds a new subsection to AS 38.05.183, which provides that the commissioner may sell royalty gas taken in-kind to a gas or electric utility at less than market value if the commissioner makes a written finding that the sale is in the best interest of the state. The same definitions for "gas or electric utility" and "royalty gas taken in kind by the state" found in sec. 2 of this legislation are also found in this section.

Sec. 4. Amends AS 38.05.810(a) to make this subsection consistent with the other provisions of the Act.

Sec. 5. Provides that AS 38.05.180(aa), which would be enacted by sec. 2 of this legislation, applies to agreements to establish the in-value royalties on gas production that are sold under a contract entered into, on or after the effective date of the act between the state's lessee and a gas or electric utility.

Sec. 6. Provides for an immediate effective date.

STATE OF ALASKA
DEPARTMENT OF NATURAL RESOURCES
OFFICE OF THE COMMISSIONER

BILL SHEFFIELD, GOVERNOR

FOUCH M
JUNEAU, ALASKA 99811
PHONE: 907-465-2400

The Honorable John Sackett
Co-Chair, Finance Committee
Alaska State Senate
Juneau, AK 99811

March 3, 1986

Dear Senator Sackett:

I am responding to your request for more information on the fiscal note and potential fiscal impact of CSSB 309 (Res), now before the Senate as CSSB 309 (Rules).

The fiscal note

The department has submitted a zero fiscal note for the bill, which will not directly affect the state's current royalty gas revenue stream. There are two reasons that it is not possible to identify future costs of the legislation:

- the department is not able to predict how often the new valuation mechanism will be applied in the future, nor can we predict future gas contract prices and quantities; and

- market values for Alaska natural gas (particularly Cook Inlet gas now sold for instate consumer uses and most immediately affected by the proposed statute) are unpredictable, as is the possible disparity (positive or negative) between contract price and market value.

Even though there is no direct fiscal impact that can be assigned to the bill, enactment of the legislation will indirectly affect state royalty income from existing production in Cook Inlet. The state has entered into an agreement with Chugach Electric to value the state's royalty share from Beluga Field production purchased by Chugach under existing contracts at $0.75/mcf if the legislation passes. This value is one-half the state's January offer to settle the pricing dispute at $1.50/mcf, which was rejected by the Beluga producers who sell to Chugach. If the dispute had been settled at $1.50/mcf under existing state law, the

state would have received approximately $1.9 million/year in new royalty income from the Beluga field. Settlement at $0.75/mcf, as will occur if CSSB 309 (Rls) is passed, will increase state royalty revenues from Beluga production by about $810,000/year, according to our calculations, because the state's share of this production is currently valued at $0.21/mcf by the producers. This increase in state royalty revenues is less than would have been expected if 1) the state's $1.50/mcf settlement offer had been accepted, or 2) the state had successfully pursued its legal arguments regarding the value of the state's royalty share under the existing lease terms, based on existing law.

Future costs to the State

As stated above, the department has submitted a zero fiscal note because it is unable to predict future market conditions and contract terms for Alaska natural gas. It is important for the Legislature to consider that market value in the future could either exceed or remain below long-term contract prices for instate consumer gas purchases. The present situation in the Beluga field is an example of how long-term contract prices (Chugach at an adjusted $0.26/mcf and Enstar at an adjusted $2.05/mcf) can be above or below "market value" simultaneously in the same field.

Section 2. The fiscal impacts of Section 2(aa) of CSSB 309 (Rls) will largely depend on future market and contract conditions in Cook Inlet, unless there is a commitment of North Slope natural gas by the producers for instate use. The natural gas market for instate energy use will be affected by the costs of thermal and hydroelectric energy alternatives, including new or expanded coal development; production from new or shut-in gas sources; geothermal development (which has been discussed in connection with Beluga coal development); hydroelectric construction; export projects for coal, gas, or oil; and the price of fuel oil and diesel as alternative fuel sources. There have been some projections of Cook Inlet gas prices by other agencies that this department has disputed on grounds that the Cook Inlet market remains largely controlled by local factors rather than world gas or oil prices or exports. If North Slope natural gas is brought to market its pricing and availability will also become an important factor in the fiscal impact of this bill (Section 2(bb)). Because the eventual marketing arrangements for Prudhoe Bay gas would

probably have to be less diverse and more stable than are marketing arrangements for Cook Inlet gas, it is likely that there would be less disparity between Prudhoe Bay contract price and market value, although the fiscal impact of accepting the contract price as the state's royalty value (given the magnitude of the Prudhoe Bay gas resource) might be larger, either positively or negatively affecting the state's revenues.

Section 3. This section gives the commissioner authority to make below-market-value gas sales for instate energy use. Because the Legislature reviews long-term royalty oil and gas contracts before their implementation by the Department, the fiscal impact of this section will be considered by future Legislatures reviewing such below-market-value gas sales by the state. Without knowledge of how often or at what cost the state will exercise this option, there is no way to estimate the fiscal impact of enacting this statute.

Please contact me if you have any further questions or comments. I am providing copies of this letter to other members of the Senate in anticipation of the floor debate on CSSB 309 (Rls) this morning. Thank you for your interest in this issue.

Sincerely,

Esther C Wunnicke

Esther C. Wunnicke
Commissioner

cc: All Senators
Dr. Joyce Murphy, Chugach Electric

DNR 3-3-86

SUMMARY OF CSSB 309 (RULES)

The Bill will allow the state to provide certainty in royalty gas valuation for Alaska consumer uses and North Slope gas development.

Specifically, the Bill would:

- Authorize the Commissioner of the Department of Natural Resources to accept a contract price between a state lesses (gas producer) and a gas or electric utility as the value of the state's royalty share of production.

- Authorize the Commissioner of the Department of Natural Resources to sell the state's royalty gas to a gas or electric utility at a price below market value. The Legislature reviews long-term sales under existing law.

- Establish a royalty valuation procedure which will facilitate financing for a North Slope gas pipeline.

"Gas or electric utility" includes cooperative electric utilities (such as Chugach, Matanuska, Homer, rural coops, and Golden Valley Electric), municipal utilities (such as Anchorage Municipal Light and Power), and a gas utility regulated under AS 42.05 (such as Enstar).

The Act would apply only to future contracts between a lessee and a purchaser.

A preliminary settlement agreement between the Department of Natural Resources and the Board of Directors of Chugach Electric, which would settle pending litigation over the value of the state's royalty share of Beluga gas now pruchased by Chugach at $0.26/mcf, is contingent on passage of the bill. The preliminary settlement agreement sets the price of Beluga royalty gas under the existing Chugach contract at $0.75/mcf.

Revenue Impact: Section 3 of the Bill, which authorizes the Commissioner to sell royalty gas taken in kind to a gas or electric utility at a price below market value, could result in lower state revenues in the future if this discretionary authority is exercised. The amounts of potential revenue loss cannot be precisely calculated, but would be identified at the time of the sale, when legislative review would occur. The state could also lose or gain revenue by any disparity between contract prices and market values, but this fiscal impact is not predictable.

DNR 3-3-86

Section-by-Section Analysis of CSSB 309 (Rules)

Section 1 of the Bill makes several findings:

- The best interest of the state will be served if the commissioner of Natural Resources is authorized to establish the in value royalty for gas sold to a gas or electric utility by using the contract price between the state lessee and the utility;

- It is in the best interest of the state to give the commissioner explicit discretionary authority to sell in kind royalty gas to a gas or electric utility at a price below market value;

- The proper exercise of discretion conferred by the Act will support and complement the other energy programs of the state;

- The state should adopt a policy for the sale of royalty gas to gas or electric utilities for in-state consumer use and in-state generation of electricity that is fundamentally different from the policies of the state for the sale of royalty oil and for the sale of royalty gas for export from the state or for uses other than in-state consumer use and in-state generation of electricity; and

- It is in the state's best interest to facilitate the financing and construction of a pipeline and increased gas production from the Prudhoe Bay reservoir by establishing a procedure by which the state could commit itself to a royalty valuation methodology for as long as the state takes its royalty share of gas production in value.

Section 2 adds new subsections to AS 38.05.180:

- Subsection (aa) provides that within 90 days after the written request of a lessee, unless the commissioner makes a written finding based on clear and convincing evidence that the contract price is unreasonably low and that a prospective reduction in royalty receipts would not be balanced by increased benefits to in-state gas and electric consumers, the commissioner shall enter into an agreement with the lessee to use the price established in a contract between the lessee and a gas or electric utility as the value of the state's royalty share of gas production, if the lessee and the utility are not related. "Gas or electric utility" includes an electric cooperative organized under AS 10.25, a municipal utility, and a gas or electric utility regulated under AS 42.05.

- Subsection (bb) provides that in the event of a contract between unrelated parties for the sale of gas from the Prudhoe Bay reservoir for delivery through a pipeline for export out of the state, the commissioner shall within 90 days after the written request of a lessee enter into an agreement with the lessee to use the price for gas established in the gas sales contract as the value of the state's royalty share of gas production, unless the

commissioner makes a written finding that the contract price does not assure the maximum benefits to the people of the state in return for the state's gas resources. The lessee shall have the burden of providing all information necessary for the commissioner to make an informed decision, and shall provide clear and convincing evidence that the value of the gas is reflected by the gas sales contract price rather than being attributed to transportation, marketing, or other profit or cost centers.

Section 3 adds a new subsection to AS 38.05.183:

- Subsection (h) provides that the commissioner may sell royalty gas taken in kind to a gas or electric utility at less than the market value of the gas, if the commissioner, after considering the consumer benefits, other benefits, and detriments of the sale, makes a written finding that the sale is in the best interest of the state. "Gas or electric utility" includes an electric cooperative organized under AS 10.25, a municipal utility, and a gas or electric utility regulated under AS 42.05.

Section 4 amends AS 38.05.810(a) to make it consistent with the other provisions of the Act.

Section 5 provides that the proposed AS 38.05.180(aa), which would be enacted by Section 2 of the Act, applies to agreements to establish the in value royalties on gas production that is sold under a contract entered into on or after the effective date of the act between the state's lessee and a gas or electric utility.

Section 6 provides an immediate effective date.

YUKON PACIFIC CORPORATION

March 18, 1986

Rep. Mike Davis
Pouch V - Mail Stop 3100
Juneau, AK 99811

Re: Position Paper/SB 309

Dear Mr. Davis:

1. Yukon Pacific Corporation is an Alaska-based company working to bring about the Trans Alaska Gas System (TAGS) a pipeline to tidewater for shipment of liquefied natural gas (LNG) to Asian markets.

2. Financing and construction of a multibillion dollar system requires the ability to make long-term contracts with certainty that the state will not later come along and change the price of the State's royalty gas. Pass-through provisions are not possible in the international market.

3. SB 309 in its original form would have addressed the problem by requiring the State to accept the price of the gas under long-term contracts when its royalty share is taken in value. SB 309 as passed by the Senate confirms the State's contention, now being challenged in court, that it does have the right to revalue gas under contract. The bill then makes certain "exceptions" to allow the state's utilities to have the certainty in long-term contract prices they believed they had before the Commissioner's decision in 1985 to raise Beluga in-value prices.

4. Yukon Pacific has sought language in SB 309 that would give it a similar "exception" to allow the Commissioner to agree to long-term contract prices if certain findings are made. The language contained in SB 309 would allow the Commissioner to see to it that producers could keep their price commitments to buyers of North Slope gas if the Commissioner was certain the transaction was both arms-length and did not unfairly diminish the value of the gas by attributing greater profits to transportation or marketing.

5. Yukon Pacific would urge the following changes to the legislation, if the issue is not first settled in court:

P.O. Box 101700 • Anchorage, Alaska 99510 • 907 279-1596 • Telex 25-340 Capt. Cook AHC
515 South Post Oak Road • Suite 225 • Houston, Texas 77027 • 713 960-1550

a. The so-called "exception" should be broadened to all new gas contracts so long as the state maintains the ability to prospectively take and sell its gas on an in-kind basis during the life of the contract.

   The state may be protected by agreeing to a formula for transportation and for processing charges up front, before the Commissioner makes the findings to go with the contract.

b. The arms length clause in the North Slope contract could prevent a contract price decision by the State if North Slope producers take any interest in a gas pipeline. In ANGTS this was the case and it is likely the case in TAGS.

   The State is protected by the parallel finding that the market value of the gas is appropriate. Had such a finding been made by the Commissioner before less-than-arms-length transactions were made to construct TAPS, the Phillips-Marathon LNG plant, and the Collier Chemical Plant, it is our belief that expensive and disruptive legal battles on appropriate values of wellhead oil or gas could have been avoided.

6. In conclusion, while Yukon Pacific believes this legislation may not have been necessary if the pending court cases were allowed to come to a conclusion, the company also believes that broadened legislation, removing the proscription on less than arms length transactions, could provide the stability in royalty policy necessary to sign long-term contracts and to finance new projects.

Please pass this information along to the Committee at the hearing on Wednesday, March 19.

With best regards.

Sincerely,

John Horn
Vice Chairman

JH:BH

MEMORANDUM State of Alaska

TO: Kay Brown, Director
Division of Oil and Gas
and Ned Farquhar, Special Assistant/
Legislative Liaison
Department of Natural Resources

DATE: March 19, 1986

FILE NO:

TELEPHONE NO:

FROM: Harold M. Brown
Attorney General

By: Mark P. Worcester
Assistant Attorney General
Oil, Gas and Mining-Anchorage

SUBJECT: Yukon Pacific's 3/18/86 letter on SB 309

I have the following comments on the Yukon Pacific position paper on SB 309, dated March 18, 1986, and addressed to Representative Mike Davis.

* The letter consistently confuses the terms "price" and "value". When the state takes royalty in value, it receives the value of the gas; when it takes royalty in kind, it receives a price. Accordingly, the state does not "change the price" of royalty on gas production taken in value. Rather, it merely enforces lease provisions which provide that value is not exclusively determined by the price established by the producer's sales contract. This is an essential distinction. For instance, Horn's confusion betweeen "price" and "value" is the predicate for his insinuation that "uncertainty" is attributable to the supposed vagaries of state administration, whereas the critical uncertainty is caused instead by the inability to predict the marketplace over time.

* The letter ignores the fact that Yukon Pacific has always had the ability to obtain "certainty" as to royalty contract "price" through a contract for in kind royalty gas paralleling any sale of working interest gas. Indeed, as indicated above, the only way the state can commit itself not to change a royalty "price" (as opposed to a royalty "value") is in the context of a sale of gas taken in kind.

* The insinuation that the state's legal case is weak is entirely false. If the producers and utilities had thought they had long-term contract prices controlled in value royalties, they would not have had "pass-through" clauses in their sales contracts. More explicitly, had Phillips, Marathon, Union, and Enstar really felt their litigation chances to be so favorable, they would not have all entered into settlements so clearly favorable to the state. Even the Chugach settlement will bring the state three times the amount of royalty that Chugach and the producers asserted was due.

* Up front agreement to a formula for apportioning price among the gas, processing costs and transportation costs for all sales contracts in unrealistic. The state still has not reached final resolution on TAPS charges, and the shipping charge issues for North Slope oil are in litigation in the Amerada Hess case. It took years to resolve these issues with Phillips and Marathon. It would be difficult for the department to make sound decisions on such apportionment "up front" - especially within a 90 day time frame.

* The present bill would not require the department to agree to a formula to apportion a North Slope gas contract price among pipeline, liquefication, shipping and the gas. For instance, the sales contract could be between the producers and Yukon Pacific at the North Slope, with Yukon Pacific marketing the gas in Japan. The bill does not require agreement as to an apportionment formula - only a finding that the value of the gas has not been diverted to transportation or other cost or profit centers.

* The apportionment issue will be a significant issue if the first sale of North Slope gas is directly to the Japanese. Mr. Horn worked with Phillips. Phillips argued in the Cook Inlet LNG litigation that under a "proper" (from Phillips' perspective) netback method, the value should be apportioned according to the amount invested in each segment. Since the pipeline, LNG facility and LNG tankers have great up front costs, this would have resulted in a very low netback value for the gas. In fact, the great profits of the Phillips/Marathon LNG plant came from an increase in the value of the gas: it was economic rent from the fortuitous worldwide escalation of energy prices that created the large profits. I am confident that any formula which Phillips would have proposed "up front" would have been designed to deprive the royalty owner from fully sharing in any fortuitous rise in the value of the gas. Any simple formula would inappropriately attribute rises in the value of the gas to liquification, pipeline and shipping, and would not account for the depreciation of the pipeline, liquefication and shippong facilities.

* It may be worth reiterating that the ability of the state to take its gas is kind is a safeguard of questionable value. The gas market is limited - especially on a day-to-day basis. More importantly, the state is in a very disadvantageous

marketing position. Not only must any contract go through administrative and legislative procedures which discourage potential buyers, but the state, unlike producers, cannot control the volume of gas under any in kind sale, since the state simply takes a percentage of what the amount produced under the lessees' sales contracts.

* The suggestion that "expensive" litigation could have been avoided had SB 309 been on the books sooner is incredible. Certainly, it has been expensive to litigate TAPS and the Phillips LNG cases. However, it has primarily been "expensive" to the oil companies, since they have been required to pay huge sums to the state. Moreover, it is disingenuous to suggest that the Phillips/Marathon LNG disputes could have been avoided if SB 309 had been in place when that project was built. Phillips and Marathon both strenuously argued that the Japan sales price could not be used to determine their royalty obligation. Instead, they argued that their royalty was controlled by the local market price (which they acknowledged could change over time). Union's dispute also could not have been resolved by a SB 309, since it does not sell its gas, but rather transfers it from its production to its chemical division. The only reason that John Horn is touting a netback for Yukon Pacific, after he adamantly opposed a netback when working for Phillips, is because the market is now different, and Yukon Pacific believes the royalty will be lower using a netback from the Japan price (especially if they can manipulate the netback "formula") than it would be if the royalty were controlled by local market values. This illustrates that the most consistent "principle" guiding the industry's stance on royalty policy is that royalties should be minimized.

* It now looks like a real push will be made to amend the (bb) subsection in SB 309 - at least to remove the restriction to arm's-length contracts. I have an additional suggestion on possible amendments. I believe that it would be important that the commissioner have the power to <u>conditionally</u> approve the use of contract price. I think that the power exists now, since a commissioner could reject a proposal, and in the decision accompanying the rejection state the changes which would make the proposal satisfactory. However, it may be difficult for a commissioner to take such actions because of political pressures not to "obstruct" significant projects. It may be easier for a commissioner to insist upon changes to protect the state's

royalty interest if the authorizing statute expressly comprehended that the commissioner's role would go beyond merely taking or leaving an oil company proposal. This kind of authority would be especially important where the proposal called upon the commissioner to agree to apportionment of a destination price among the gas, pipeline, shipping and liquefication segments.

ENSTAR Natural Gas Company
3000 Spenard Road
P.O. Box 6298
Anchorage, Alaska 99502
(907) 277-5551

April 25, 1985

Dear Senator Faiks:

The State has announced it intends to increase the price paid for royalty gas which we receive pursuant to a contract entered into in 1960 and last renegotiated in 1974, with Marathon and Union, our suppliers at the Kenai gas field. The Administration says it is compelled to take this action in order to get a fair market value for its royalty gas and stop a "subsidy". The Administration's statements are misleading. The State is receiving fair value. There is no subsidy. There is no requirement for the Administration to take such action. Without proposing regulations, holding hearings, or giving those affected an opportunity to be heard, the Administration would use the State's monopoly power to exact an excessive price from the consumers.

The Fair Value of Gas Committed to a Long-Term Contract Is The Arm's Length Negotiated Price

Historically, the value of the royalty share of gas committed to a long-term contract has been considered to be the price established by the contract, if that price was set by unrelated parties in arm's length negotiations. Since gas transmission systems require massive capital investments, long-term contracts for production are a characteristic of the business. Without long-term contracts, pipelines would not have been built. In order to assure the marketability of the pipeline's out put, good business practice requires a pricing mechanism that will deliver the product at a competitive price. The free market system basically has dictated the business practices we have followed.

Royalty owners in a number of states have attacked the long followed principle that fair value is determined by arm's length negotiated prices, with mixed results. Courts in Alaska have not ruled on the issue, but ENSTAR believes that the prevailing and equitable view is that fair values are determined by arm's length negotiations, not by bureaucratic edict.

Our Customers Are Not Being Subsidized by the State

The Administration claims there is a subsidy because the price the State is receiving under ENSTAR's long-term contract is less than the price ENSTAR is paying for gas we more recently negotiated to purchase. That purchase covers fifteen years, cannot be terminated, and has known pricing terms. The State's royalty can be terminated on six months notice (and then taken "in kind"). The State maintains it can unilaterally "reprice" its gas at any time while taken as royalty-in-value. No willing buyer would purchase gas from the State under such conditions.

During the 1960's ENSTAR was subjected to criticism in Juneau because some politicians believed ENSTAR paid too much under the very same contract on which DNR now says ENSTAR is paying too little. We (our customers) paid the price necessary to get the commitment of half a trillion cubic feet of gas for 20

years. We (our customers) took the risk that gas prices would go down, not up. The State received what was then considered to be a high price, guaranteed for the life of the contract.

Our customers paid the market price for the risk they took. Gas prices have gone up, not down. Now the State in effect would confiscate the values the consumers paid for. Now the State maintains that without this confiscation, it is subsidizing the consumers. Baloney.

The State is Using Monopoly Power
to Exact an Excessive Price from the Consumers

Alaska is unique in that the Federal and State governments control substantially all royalty. The governments have a monopoly and it is not possible to negotiate royalty valuation terms of lease agreements. Terms are dictated, not negotiated. This is effectively a monopoly action at work, not a free market. DNR admitted in an internal memorandum that its present pricing proposal would "further its relations with the ANCSA corporations... and lend support to current federal royalty litigation...". If business corporations made pricing decisions in concert with or to accommodate other suppliers, they probably would be subject to prosecution.

When we, as purchasers, enter into a long-term contract with a producer, we are not assured of the royalty share since the State retains the right to take its gas in kind. Yet we must take the royalty share, no matter what price may be exacted. Obviously, if a free market prevailed, we simply would not purchase State royalty on such terms. The concept of the State receiving fair value for its resources does not mean it can use its monopoly power to squeeze the last bit of revenue from the consumer. It does mean receiving the value that would be arrived at in a free market system. That is exactly what arm's length negotiations do.

For 25 years the State has accepted arm's length negotiated pricing as royalty value. We believe it is unfair and probably unlawful for the State to reverse this acceptance in the present situation, with no regulations, no public hearings, and no court decisions.

We are trying to work with the State Administration and others to develop a legislative or administrative solution to this problem, and are preparing to inform the public as to its scope and effect in the event these efforts are not successful.

Cordially,

ENSTAR Natural Gas Company

Bill B. Hickman
Executive Vice President

BBH/dms

ENSTAR

ENSTAR Natural Gas Company
3000 Spenard [illegible]
P.O. Box 6288
Anchorage, Alaska 99502
(907) 277-5541

December 12, 1984

The Honorable Jan Faiks
Alaska State Senator
1024 West 6th Avenue, Suite 202
Anchorage, Alaska 99501

Dear Jan:

I have your September 6 letter and will try to respond in writing, somewhat as to the handout you requested. We have been quite busy through this week, but should have some time after that for the meeting with the Anchorage Caucus if that is still desired. (Jury duty December 16-21).

I will respond in this letter to the "subsidy" allegation, and relate the history of gas in Cook Inlet in a memorandum, attached. The allegation is that our price (and Chugach's) payable to the producers for gas negotiated and contracted many years ago is below the price at which gas would be negotiated at present, and that the price differential, applied to the State's royalty interest in that gas, constitutes a subsidy from State residents who are not users of that gas (or electricity made from it) to those State residents who do use the gas (or electricity made from it).

Those who allege a subsidy appear not to comprehend the character of the natural gas business, and I hope this letter will be of some help in that respect. Natural gas, unlike oil, requires a relatively large investment for delivery to market. The investment is for relatively large pipelines and compressors, (cryogenic processing, storage, and ships in the case of LNG, liquefied natural gas). The investment cannot be made without long term contracts at known pricing, generally well below the then prevailing delivered price of oil in order to assure a market against that competition. Essentially many major users of natural gas can literally switch to oil whenever oil can be obtained for less than gas. The producers run this risk in developing natural gas production, and the pipeline/utility system is exposed to relatively much greater risk because its investment per unit is normally much greater than the producer's. For both, however, long term contracts at known pricing are essential and traditional in the industry. When such contracts are abrogated, as with Canadian production since the early 70's, great distress and severe reaction develops. The experience there is an object lesson for Alaska: Canadian gas was arbitrarily repriced, and lost its market in the Pacific Northwest to OPEC oil. It was followed by depression in both Canada and the Pacific Northwest and by devaluation of Canadian money and in turn the defeat of the decades-old Canadian administration, this year.

Admittedly there has been and will be litigation on the sanctity of contracts and the "rights" of royalty interest owners, as with all controversies both private and public. The State has recently settled with Phillips on North Cook Inlet gas used in its LNG plant, and that in turn has enabled us to gain access to a portion of that gas, for standby purchases in times of high demand.

It is my opinion that a majority of Alaskan legislators and the administration and the courts will acknowledge the sanctity of contracts as to our purchase of Cook Inlet gas. In my opinion, the allegations of subsidy of gas ratepayers are advanced in order to justify admitted State subsidy to non-railbelt electric users, as enacted this year and may be increased next year.

It is worth noting that the State's royalty interest in Cook Inlet gas we buy is really rather small (about 1/6th of 1/8th, or 2% of the 26 million mcf annual production). The spread between the price we currently pay and the State's negotiated settlement with Phillips is not nearly as wide as would be inferred from statements by some political figures and other royalty interest owners. It is in the range of $1 million per year, a far cry from the admitted State subsidy to non-railbelt power users.

Jan, I hope the foregoing and the attached memorandum will be of some interest to the Anchorage Caucus. Frankly, I would prefer not to appear before your group at this time, because we are quite likely to become embroiled in the lawsuit involving CIRI, MMS (old USGS) and Union Oil Company. It would be embarrassing to me personally to respond with no comment or otherwise appear evasive, when I would really like to make announcements to the world.

Cordially,

* ENSTAR Natural Gas Company

Dale Teel
President

DT/dms

* The same Anchorage Gas Corporation, Anchorage Natural Gas, Alaska Gas and Service Company, Alaska Pipeline Company, et . etc.

ENSTAR

ENSTAR Natural Gas Company
COMPANY

Inter-Company Correspondence

To: File

Location:

From: Cale Teel

Date: December 12, 1984

Subject: History of Cook Inlet Natural Gas
Prepared in Response to Request from Senator Jan Faiks of September 6, 1984

File:

The history of Cook Inlet gas begins, I believe, with the 1959 discovery of the Kenai gas field by Union and Marathon. It was this discovery, I believe, which enabled Anchorage Gas Corporation to win the franchise referendum election in the fall of 1959. I didn't participate in the 1959 negotiations or the franchise campaign and didn't make my first visit to Alaska until January of 1960. I was told however, that the owners of Anchorage Gas Corporation had had in mind to bring me to Alaska (from Honolulu) to organize Anchorage Gas Corporation as an operating company in 1959, even prior to the Kenai discovery, when they were planning to distribute propane or manufactured gas in Anchorage in anticipation of a discovery. The Swanson River oil field had been discovered (1957 or 1958), with gas shows but not commercial quantities. My background then was in propane/butane and manufactured gas, in Hawaii, and I am a graduate chemical engineer.

We built the first marine pipeline in Alaska, across Turnagain Arm, in 1960-61, and turned on gas service in Soldotna and Anchorage in August of 1961. Our first wellhead cost was 32 cents per Mcf (thousand cubic feet), well above the nationally regulated price of 16 cents or so. For a time we believed this cost could compete against coal at Chugach's Knik Arm steam plant (now being moth-balled), and the power/heating plants at Elmendorf and Fort Richardson. Coal was then roughly 55 cents per Mcf equivalent. We were in part relying on the better efficiency and labor cost savings from gas to be competitive with coal. The conversion of these plants, all funded by the federal government, became a hot political issue, and it was not until 1968 that we won out against the politics and the government inertia.

In the meantime, Chevron and Texaco vigorously defended their fuel oil business in Anchorage. They cut their price from 24 cents per gallon to 20 cents per gallon soon after gas became available, and did heavy advertising and took other actions against the introduction of gas. One weekend they hired students to deliver a small bag of peanuts to each house in Anchorage with a flyer saying -- "If you're thinking of converting to gas, think again. Peanuts is all you'll save, so we have decided to give you the peanuts and let you save the cost of conversion." This and many other un-funny competitive actions forced me to appeal to Union and Marathon to cut the Kenai wellhead price to 24 cents (25% reduction) to enable us to remain viable without the large users (power plants) or the large commercial who were burning heavy oil from Chevron.

In 1963 or so the Beluga gas field was discovered, and Chevron and the other producers signed a 20-year contract with Chugach at 16 cents. This fact, and the City's installing its first gas turbine, led me once again to appeal to Union and Marathon for a wellhead price reduction. They agreed that any gas I could sell above 1.6 bcfy (billion cubic feet per year) to the City would be priced at 16 cents, while holding the 24 cents on the remainder. In this way we encouraged the City to add more gas turbines and compete with Chugach.

Later in 1967 or so, we amended the Kenai wellhead price again, to put the first 8 bcfy at 24 cents and all above 8 bcfy at 16 cents. By this time we had recovered from the 1964 earthquake and found good acceptance in the community. With various sales tools we were rapidly gaining customers and the coal suppliers (Evan Jones) had shut down so that coal was coming from Healy at a much higher price than gas. Until this time Union and Marathon had owned half of our common stock (non-voting), but in 1967 our owners offered a public sale of stock (Alaska Interstate Company) and bought out the Union and Marathon interest.

Our annual gas volume grew rapidly as we displaced coal at all three power plants and the City continued to install gas turbines. In turn, Union/Marathon wanted to raise the wellhead price and dedicate their gas to other markets -- ammonia (Union) and LNG (Marathon). They had made an agreement with Chevron to "rent" Kenai field gas for 8 cents per mcf, but to pay the State royalty at 16 cents, which had become the "market price" via the Beluga sale as well as our negotiations with them. I believe (but do not know) that 8 cents was the wellhead value necessary to make the ammonia and LNG feasible, so pricing the Kenai royalty at 16 cents was a subsidy to the State from Union/Marathon.

In 1967 we renegotiated Kenai gas to 21 cents and scheduled future escalations, in order to get a firm commitment of 550 bcf over a new 20 year term, to 1992, and in 1974 we again negotiated to add a 19.4 cent charge to get firm deliverability through 1985 of 160 million cubic feet per day and 700 psig delivery pressure. Firm deliverability is the right to obtain gas on any day at the contracted level despite a much lower average daily take -- in our case only 72 million cubic feet, or a "swing" of 222%. The federally regulated price at that time was about 40 cents, for 110% "swing". Thus we felt that adding the deliverability charge gave us long term protection and assurance of supply including peak demands. It was well that we did so, because from 1973 or so OPEC began to bring chaos to the price of oil, followed by the embargo and the Iranian actions which took oil (and gas, nationally) to catastrophic levels.

In 1977, again running short of deliverability, we negotiated with the State to buy the State's royalty interest from the North Cook Inlet gas field operated by Phillips. We were aware that this gas price was variable and escalating, but we considered that we could meet the escalating price on condition that we had no obligation to take that gas and would do so only to enable our customers to avoid using oil at an even much higher price. We continued using State royalty gas until we were able to negotiate the needed deliverability from Marathon (at the Beaver Creek gas field). Beaver Creek gas was initially priced at $2.32 and included assured long term deliverability, but is indexed up or down to the price of turbine fuel (oil) at the Tesoro refinery, so that its present price is $2.19. This year we began buying gas from the Lewis River gas field with negligible take or pay, at $1.80.

Clearly, the wellhead value of gas in Alaska does not have a direct correlation to the world price of oil, or even to inflation. There has been, and is, a surplus supply of gas available in the Cook Inlet area, and its real value is determined by negotiations of a willing buyer and a willing seller. We are entrusted by the Alaska Public Utilities Commission with the responsibility to behave prudently in these negotiations and to make the best deals we can for the interest of our custom-

ers and our owners. There is perhaps an art, but very little science, in deciding when to make a deal and on what terms. We have been complimented by many of our associates in the industry, by our customers, and by the APUC. We have been criticized by experts at various times that we have paid too little or too much. But a deal is a deal in the real world, and I am proud of having the lowest gas rates in the country and among the best long term supply. Where we had no customers in 1960, we now serve nearly 70,000 and the benefits extend to all of railbelt Alaska through interconnects of electric power, from Homer and Seward through the Matanuska Valley and soon to Fairbanks. There is no subsidy to our customers, or to these others, although they, in total, are saving hundreds of millions of dollars per year as compared to what they would be spending for oil if we had not developed natural gas in Alaska.

We are aware of efforts by CIRI and MMS (old USGS) to collect retroactive royalty and to set artificial wellhead values for gas used by Union/Marathon in their ammonia-LNG plants. These conditions do not attach to our purchases, all of which were made at arms-length and establish the real market, the only true value of the gas we buy for our customers.

DT/dms

STATE OF ALASKA
DEPARTMENT OF NATURAL RESOURCES
DIVISION OF OIL AND GAS

ESTIMATED PRODUCTION AND SALES FOR NORTH SLOPE ROYALTY OIL (9)

YEAR	ESTIMATED TOTAL PRODUCTION (BARRELS PER DAY) (1) TOTAL PRUDHOE	(1) TOTAL KUPARUK	(1) TOTAL LISBURNE	(1) TOTAL ENDICOTT	(1) TOTAL MILNE PT.	TOTAL	ESTIMATED ROYALTY (BARRELS PER DAY) PRUDHOE ROYALTY	KUPARUK ROYALTY	LISBURNE ROYALTY	ENDICOTT ROYALTY	MILNE PT. ROYALTY	TOTAL ROYALTY	ESTIMATED SALES OF ROYALTY OIL (BARRELS PER DAY) AAPCO	(2) GVEA	(3) TESORO (OLD)	(4) TESORO (NEW)	(5) CHEVRON	(6) COMPETITIVE SALE 12-11-84	(7) PETRO/CHEVRON (PROPOSED)	(8) COMPETITIVE SALE 2-4-86 (PROPOSED)	ROYALTY IN VALUE
1985	1,350,000	180,000			3,000	1,733,000	193,750	22,500			375	216,625	35,000	5,167	47,533	26,867	18,600	65,000			18,458
1986	1,550,000	220,000			30,000	1,800,000	193,750	27,500			5,400	226,650	35,000	5,167	47,533	26,867	18,600	65,000	6,000	10,000	27,483
1987	1,550,000	220,000	50,000		30,000	1,850,000	193,750	27,500	6,250		5,400	232,900	35,000	5,167	47,533	26,867	18,600		6,500		93,233
1988	1,376,000	220,000	60,000	50,000	30,000	1,736,000	172,000	27,500	7,500	7,000	5,400	219,400	35,000	4,587	42,197	23,851	16,512		6,500		99,753
1989	1,183,000	220,000	70,000	100,000	25,000	1,598,000	147,875	27,500	8,750	14,000	4,500	202,625	35,000	3,943	34,278	20,504	14,196		6,500		84,202
1990	1,010,000	187,000	80,000	100,000	20,000	1,405,000	127,250	23,375	10,000	14,000	3,600	178,225	35,000	3,393	31,218	17,646	12,216		5,525		73,227
1991	928,000	159,000	90,000	100,000	15,000	1,292,000	117,000	19,875	11,250	14,500	2,700	163,825	35,000	3,093	28,458	16,086	11,136		4,698		65,354
1992	846,000	135,000	100,000	100,000	15,000	1,196,000	105,750	16,875	12,500	14,000	2,700	151,825	35,000	2,820	25,944	14,664	10,152		3,989		59,256
1993	772,000	122,000	100,000	85,000	10,000	1,089,000	96,500	15,250	12,500	11,900	1,800	137,950	35,000	2,573	23,674	13,382	9,264		3,605		50,452
1994	706,000	109,000	100,000	75,000	10,000	1,000,000	88,250	13,625	12,500	10,500	1,800	126,675	35,000	2,353	21,650	12,238	8,472		3,220		43,741
1995	646,000	98,000	90,000	70,000	10,000	914,000	80,750	12,250	11,250	9,800	1,800	115,850	35,000						2,895		77,355
1996	591,000	89,000	80,000	65,000	0	825,000	73,875	11,125	10,000	9,100	0	104,100	35,000						2,630		64,470
1997	541,000	80,000	72,000	60,000	0	753,000	67,625	10,000	9,000	8,400	0	95,025	35,000								60,825
1998	498,000	72,000	65,000	55,000	0	690,000	62,250	9,000	8,125	7,700	0	87,075	35,000								52,875
1999	458,000	65,000	58,000	50,000	0	631,000	57,250	8,125	7,250	7,000	0	79,625	35,000								44,625
2000	421,000	58,000	52,000	45,000	0	576,000	52,625	7,250	6,500	6,300	0	72,675	35,000								37,675
2001	387,000	52,000	47,000	40,000	0	526,000	48,375	6,500	5,875	5,600	0	66,350	35,000								31,350
2002	357,000	47,000	42,000	20,000	0	466,000	44,625	5,875	5,250	2,800	0	58,550	35,000								23,550
2003	328,000	42,000	38,000	10,000	0	418,000	41,000	5,250	4,750	1,400	0	52,400	35,000								17,400
2004	302,000	38,000	34,000	0	0	374,000	37,750	4,750	4,250	0	0	46,750									46,750
2005	278,000	34,000	31,000	0	0	343,000	34,750	4,250	3,875	0	0	42,875									42,875
2006	255,000	31,000	28,000	0	0	314,000	31,875	3,875	3,500	0	0	39,250									39,250
2007	235,000	28,000	25,000	0	0	288,000	29,375	3,500	3,125	0	0	36,000									36,000
2008	216,000	25,000	20,000	0	0	261,000	27,000	3,125	2,500	0	0	32,625									32,625
2009	199,000	20,000	15,000	0	0	234,000	24,875	2,500	1,875	0	0	29,250									29,250
2010	183,000	15,000	10,000	0	0	208,000	22,875	1,875	1,250	0	0	26,000									26,000
2011	168,000	10,000	0	0	0	178,000	21,000	1,250	0	0	0	22,250									22,250
2012	155,000	0	0	0	0	155,000	19,375	0	0	0	0	19,375									

(1) DOE ESTIMATE OF FIELD PERFORMANCE, DECEMBER 1985.

(2) GVEA'S TEN-YEAR CONTRACT COMMENCED JULY 1, 1985. QUANTITY IS 2.667% OF DAILY PRUDHOE ROYALTY OIL.

(3) TESORO'S CONTRACT IS CURRENTLY AT ITS MAXIMUM QUANTITY OF 24.533% OF DAILY PRUDHOE ROYALTY OIL. THE CONTRACT EXPIRES JANUARY 1995.

(4) ON OCTOBER 1, 1985 TESORO COMMENCED DELIVERIES UNDER 12/9/83 PRUDHOE CONTRACT WHICH HAS A MAXIMUM QUANTITY OF 13.86% OF DAILY PRUDHOE ROYALTY OIL AND EXPIRES JAN. 1, 1995.

(5) CHEVRON'S CONTRACT CALLS FOR A MAXIMUM QUANTITY OF 9.6% OF DAILY PRUDHOE ROYALTY OIL. THE CONTRACT EXPIRES JANUARY 1, 1995.

(6) DELIVERIES COMMENCED APRIL, 1985 FOR 50,000 BPD OF PRUDHOE BAY UNIT ROYALTY OIL AND 15,000 BPD OF KUPARUK RIVER UNIT ROYALTY OIL, AND WILL CONTINUE FOR ONE YEAR AS A RESULT OF THE DEC. 11, 1984 COMPETITIVE SALE AND THE SUBSEQUENT KUPARUK SOLICITATION. PRIOR TO THAT TIME THIS OIL REMAINED "IN VALUE."

(7) A PROPOSED PETRO STAR/CHEVRON CONTRACT WILL BE SUBMITTED TO THE LEGISLATURE FOR APPROVAL OF A SALE OF 6,500 BPD ROYALTY OIL FROM THE KUPARUK RIVER UNIT. PETRO STAR/CHEVRON INITIALLY WOULD PURCHASE 6,000 BPD. THE CONTRACT IS EXPECTED TO COMMENCE IN LATE 1986 AND EXPIRE SEPTEMBER 30, 1996.

(8) ON FEBRUARY 4, 1986 THE STATE WILL SELL BY COMPETITIVE BID APPROXIMATELY 10,000 BPD FOR A SIX-MONTH TERM COMMENCING JUNE 1, 1986.

(9) Includes only fields in, or planned for production in the near future.

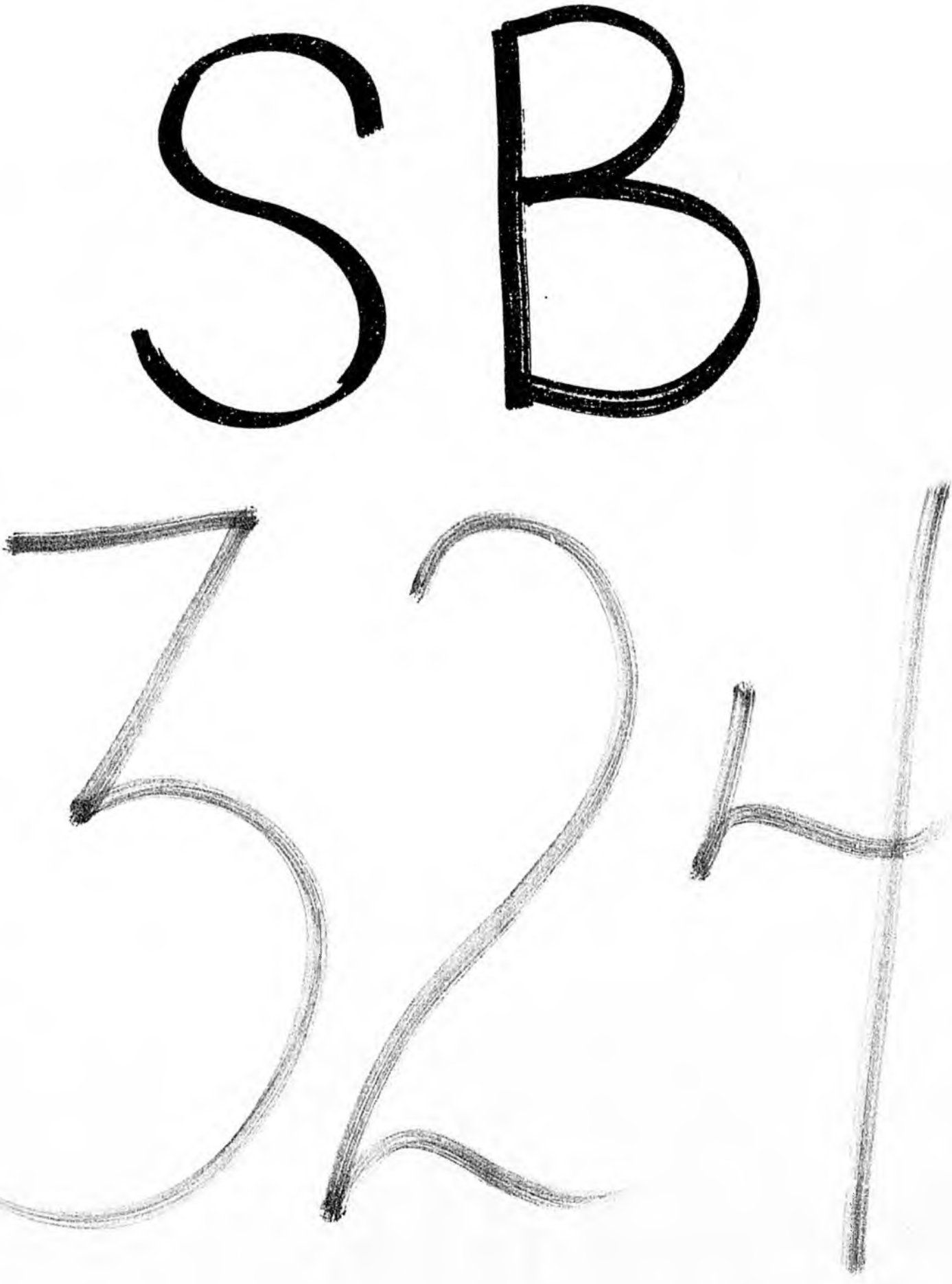
RECORDS CERTIFICATION

I, the undersigned, an employee of the State of Alaska, do hereby certify that the microfilm images on this microform are accurate reproductions of the original records of the State of Alaska as accumulated during the regular course of business, and that it is the established policy and practice of this State to microfilm its records and to dispose of the original records after microfilm reproductions have been made.

James O. Smith
Signature of Camera Operator

9/5/89
Date

02-519 (REV 8/78)


SB
324

* Sec. 2 AS 46.03.030 is amended by adding a new subsection to read:

(f) The department may make a grant to a municipality for the eligible costs of programs and facilities for enhancing or protecting the water quality of streams, lakes, waterways, and other bodies of water if the costs are incurred after July 1, 1986. The grant may not exceed 50 percent of the eligible costs unless the department finds that the program or facility is needed to avert an immediate hazard to health, in which case, the grant may be up to 100 percent of the eligible costs. Eligible costs are those not financed by the federal government and include costs of testing, research, education, enforcement, and clean-up programs for the purpose of discovering and solving existing or potential water pollution problems. A grant may be made under this subsection only for a water enhancement program approved by the department.

HOUSE

COMMITTEE REPORT

5/11

(9)

Date referred: 5/10/86

FURTHER REFERRALS: Rules

DATE: May 11, 1986

The RESOURCES Committee has considered SB 324

"An Act relating to grants for water quality enhancement programs; and providing for an effective date."

and recommends:

[ ] do pass

[ ] do not pass

[ ] do pass with attached amendment(s)

[ ] no recommendation

[XX] replace with HCS SB 324 (Res) [XX] same title

[ ] new title

and recommends do pass

[ ] further referral to the _____ Committee

and attaches:
[ ] letter of intent
[ ] first fiscal note
[ ] new fiscal note
[ ] zero fiscal note

SIGNING DO PASS:

Shultz Dick Shultz

Herrmann Edmund Herrmann

Miller M.W. Miller

Sund

Pearce

Thompson David W. Thompson

Jenkins Roger Jenkins

Cato Bill Cato

SIGNING OTHER RECOMMENDATIONS:

Dick Shultz
Co-Chairman Shultz

IN THE SENATE BY THE RESOURCES COMMITTEE

HOUSE CS FOR SENATE BILL NO. 324 (Resources)

IN THE LEGISLATURE OF THE STATE OF ALASKA

FOURTEENTH LEGISLATURE - SECOND SESSION

A BILL

For an Act entitled: "An Act relating to grants for water quality enhancement programs; and providing for an effective date."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

* Section 1. AS 46.03.030(c) is amended to read:

(c) There is a <u>water quality enhancement,</u> water supply, sewerage, and solid waste facilities fund created in the department to carry out the purposes of this section.

* Sec. 2. AS 46.03.030 is amended by adding a new subsection to read:

(f) The department may make a grant to a municipality for the eligible costs of programs and facilities for enhancing or protecting the water quality of streams, lakes, waterways, and other bodies of water if the costs are incurred after July 1, 1986. The grant may not exceed 50 percent of the eligible costs unless the department finds that the program or facility is needed to avert an immediate hazard to health, in which case, the grant may be up to 100 percent of the eligible costs. Eligible costs are those not financed by the federal government and include costs of testing, research, education, enforcement, and clean-up programs for the purpose of discovering and solving existing or potential water pollution problems. A grant may be made under this subsection only for a water enhancement program approved by the department.

* Sec. 3. This Act takes effect July 1, 1986.

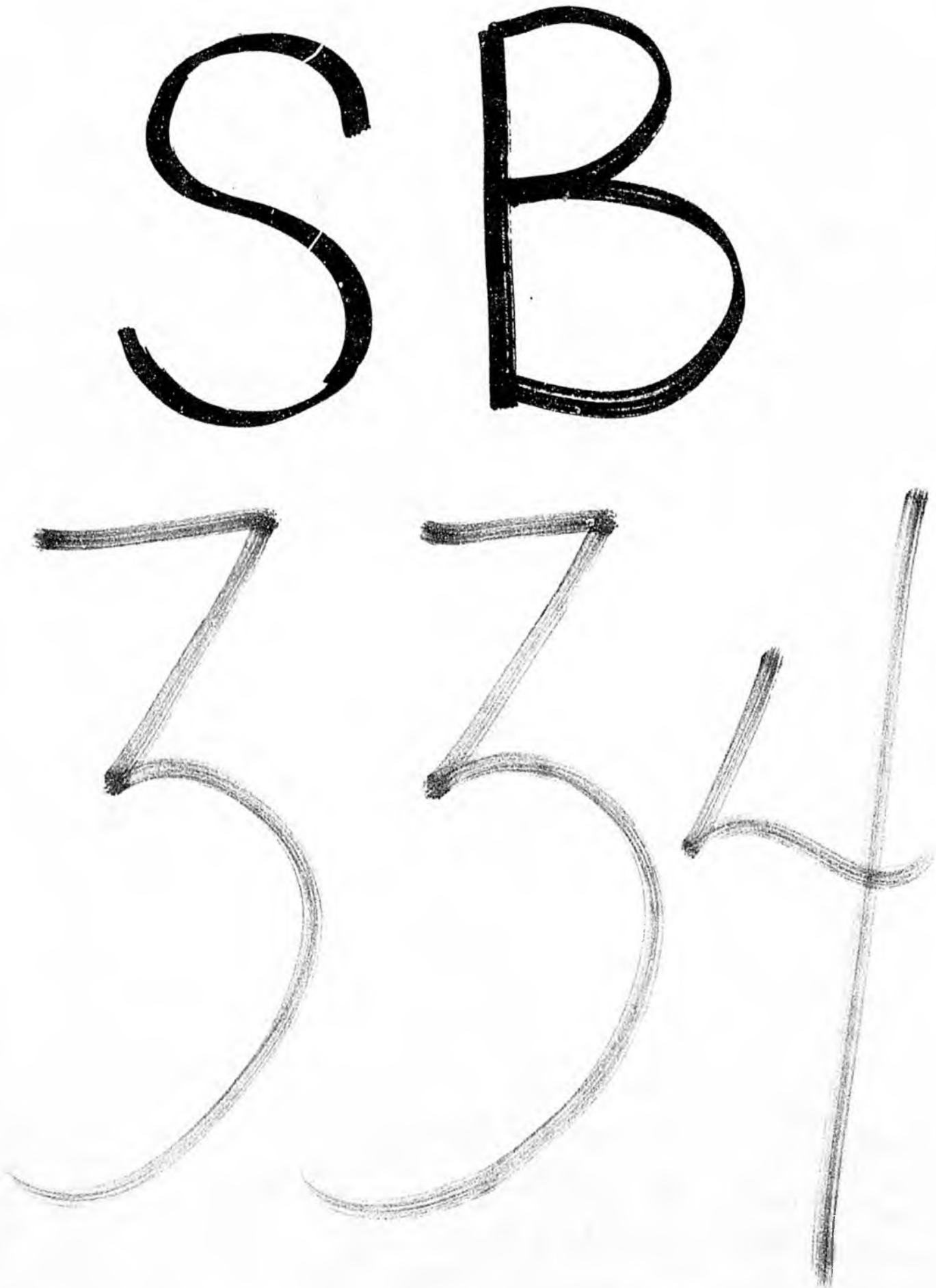
RECORDS CERTIFICATION

I, the undersigned, an employee of the State of Alaska, do hereby certify that the microfilm images on this microform are accurate reproductions of the original records of the State of Alaska as accumulated during the regular course of business, and that it is the established policy and practice of this State to microfilm its records and to dispose of the original records after microfilm reproductions have been made.

James O. Smith
Signature of Camera Operator

9/5/89
Date

02-519 (REV 8/78)


SB
334

HOUSE

COMMITTEE REPORT

(9)

Date referred: 5/8/86

5/11 Rules

FURTHER REFERRALS:

DATE: May 11, 1986

The RESOURCES Committee has considered CSSSSB 334(Res)

"An Act relating to Hatcher Pass Public Use Area."

and recommends:

[XX] do pass

[ ] do not pass

[ ] do pass with attached amendment(s)

[ ] no recommendation

[ ] replace with _____ [ ] same title
[ ] new title

and recommends _____

[ ] further referral to the _____ Committee

and attaches: [ ] letter of intent
[ ] first fiscal note
[ ] new fiscal note
[ ] zero fiscal note

SIGNING DO PASS:

tz

er

psor

SIGNING OTHER RECOMMENDATIONS:

Jenkins

Co-Chairman Shultz


Montana Peak
Idaho Peak
Arkadia Peak
Ridge
Wishbone Hill
T20N
T19N

Hatcher Pass acreage:

Total acres = 5,130

State owned = 5,075

private = 55

Total Length = 12.8 mi.

Distance along stream = 11.8 mi.

Distance along ROAD = le mi.

MEMORANDUM | FROM: LANCE Key | LOCATION SCRO R/L

TRANSMITTING CN/SPEED | DATE 5-1-86 | TIME 1:30+/

PHONE FOR PROBLEMS-NAME/NUMBER 762-2270

COMMENTS

TO: Ned Farquhar
Commissioners Office

FILE NO:

TELEPHONE NO:

FROM: Lance E. Key LEK
Southcentral Region
DLWM

SUBJECT: Hatcher Pass Trespass Action

Here is a quick synopsis of the what has happened in Hatcher Pass.

1. Initial field inspection of the Lou Sackett Slippery Rock claim conducted by Bill Betlach (SCR) on 7-19-82 in conjunction with the Hatcher Pass Mngt Plan. A second report was submitted by Pat Beckley (SCR) on 11-30-82.

2. A field inspection of all the Little Susitna claims was conducted by the SCR on 2-20-85. Photos taken and field report filed.

3. All claims along the Little Su (approx. 10-12) were sent Notices of Confirmed Unauthorized Use. They were told to:

   - remove "No Trespassing" and "Private Property" signs and
   - file Annual Placer Mining Applications to justify surface use improvements and use as residences.

   Notices sent on 8-28-85. Miners given until 10-31-85 to comply with removal or file APMA's.

4. Majority of claims complied with removal of signs. Four claims had improvements, equipment, residences and trash on their sites. Three filed APMA's to justify their surface use. They were:

   - Hungry Dog claim, Dan Lepke (date of filing not available)
   - Slippery Rock claim, Lou Sackett (filed 10-22-85)
   - Adeline claim, Mike McDannel (filed 9-27-85)

5. Between 12-17-85 and 12-24-85 these three APMA's were reviewed by DOM and denied (copies attached).

6. DLWM in conjunction with DOM then notified these three claim owners that their improvements, residences, garbage and equipment were in violation of the regulations governing the surface use of mining claims. They were to remove the signs and cease residence immediately and remove the equipment, improvements and garbage by 5-15-86. These notices went out between 3-7-86 and 4-4-86.

7. Miners are still living on the claims, and some signs are still up on several of these claims. If compliance does not occur by 5-15-86, DLWM will ask the AG's office to begin civil action to ensure compliance.

End of current situation.

Lance E. Key
762-2277

MEMORANDUM State of Alaska

DEPARTMENT OF NATURAL RESOURCES
DIVISION OF MINING

TO: Lance Key
DLWM

DATE: December 17, 1985

FILE NO:

TELEPHONE NO: 561-2020

FROM: Jerry Gallagher
Geologist V

SUBJECT: Lepke, APMA #852605

I have reviewed the request by Mr. Daniel Lepke (Annual Placer Mining Application #852605) to live on the Hungry Dog Camp #1 and Hungry Dog Camp #2 mining claims (ADL's 355538 and 502829), store equipment and post no trespassing signs on these claims. Comment specific to the application was made by the Alaska Department of Fish and Game, DNR-DLWM (Matsu Office) and the Alaska Center for the Environment. Mr. Lepke's requests have been judged against the standards found in 11 AAC 86.145.

According the APMA #852605, Mr. Lepke's mining operation consists of a 2" suction dredge and portable sluice box. A "truck/camper" is used for processing and black sand storage. Three people work the claims all year according to Mr. Lepke. Living quarters include a 16'x26' canvas quonset hut, an outhouse, a propane storage shed, an equipment storage shed, and a guard shack.

A review of annual labor affidavits filed by Mr. Lepke for 1983 and 1984 for the Hungry Dog Claim #1 indicate work was conducted between the first day of May and the last day of September each year. No 1985 affidavit has been received by this office to date. A field inspection of the site conducted Oct. 9, 1985 by Lance Key and review of the photo's from that inspection show little surface evidence of a mining operation (tailings, disturbed ground, etc.) and only a small suction dredge that appears inoperative.

A review of APMA 852605, affidavits of annual labor, agency and public comment and field inspection photographs support the following conclusion:

1) The Hungry Dog claims are located within 12 to 15 miles of either Wasilla or Palmer where adequate living facilties are available.

2) Access to the Hungry Dog claims is provided 12 months per year by a state maintained road.

3) The past, present and proposed mining activity requires only portable equipment.

4) The trash, miscellaneous equipment, tents, sheds, etc. are not related to any mining activity.

5) Equipment on site, ground disturbed, and affidavits of annual all indicate only a small, part time mining operation is conducte on the Hungry Dog claims.

Based upon the above information, conclusion, and 11 AAC 85.145, the Division of Mining approves the following actions:

1) The applicaton by Mr. Lepke to live on the Hungry Dog claim is denied. The close proximity to town, year round access, level of mining activity, and portable mining equipment do not necessitate living on the claim. Mr. Lepke does not meet the requirements of 11 AAC 86.145(2).

2) All "no trespassing" signs, "keep out" signs, and other signs which restrict public access must be taken down. The signs are in violation of 11 AAC 86.145(1)A and B.

3) A small storage shed not to exceed 6' x 4' will be allowed on the claim to store mining equipment during the summer mining season. The shed may be locked and posted with a "keep out" sign during the period May 1 to September 30. No equipment may be stored during the periods October 1 to April 30. To minimize vandalism and prevent unauthorized use, the storage shed must be sited so it is not visible from the Hatcher Pass road, have no windows and no heat source.

4) All existing tents, sheds, trash, garbage, and equipment must be removed from the area immediately. The area must be left in a clean and safe condition.

JG/jd/1492v

MEMORANDUM

State of Alaska

DEPARTMENT OF NATURAL RESOURCES
DIVISION OF MINING

TO: Lance Key
DLWM

DATE: December 17, 1985

FILE NO:

TELEPHONE NO: 561-2020

FROM: Jerry Gallagher
Geologist V

SUBJECT: McDannel, APMA #31056

I have reviewed the request by Mr. Michael McDannel (Annual Placer Mining application #31056) to live on the Adaline No. 1 and 2 mining claims (ADL's 505708 - 505709). Mr. McDannel states in his application for permanent living quarters that "the claim is under 24 hour security due to vandalism". Comments specific to this application for permanent living quarters have been received by the Alaska Department of Fish and Game, Department of Natural Resources (DLWM-Mat Su office), and the Alaska Center for the Environment. Mr. McDannel's request has been judged against the standards found in 11 AAC 86.145.

According to APMA #31056, Mr. McDannel's mining operation consists of a 2" suction dredge and hand tools. Two people are used to work the claim from April through November. Although not specified on the APMA, a house, outhouse, camper and other equipment is now on the claim.

The Adaline claims were staked on May 3, 1984 and annual labor has not yet been entered into the mining casefile. No previous Annual Placer Mining Application has been submitted by Mr. McDannel. A field inspection of the site conducted October 9, 1985 by Lance Key and review of the photos from that inspection show the presence of a 2" suction dredge and a small settling pond.

Reveiw of APMA #31056, agency and public comment, and field inspection photographs support the following conclusions:

1) The Adaline claims are located within 10 to 15 miles of either Wasilla or Palmer where adequate livng facflities are available.

2) Access to the Adaline claims is provided 12 months per year by a state maintained road.

3) The past, present and proposed mining operation require only portable equipment.

4) The house and miscellaneous equipment, except for the suction dredge, are not related to any mining activity.

5) The equipment on site and ground disturbed suggest only a small, part time mining operation is conducted on the Adaline claims.

Based upon the above information, conclusions and 11 AAC 86.145, the Division of Mining approves the following actions:

1) The application by Mr. McDannel to live on the Adaline claims is denied. The proximity to town, year round access, level of mining activity, and portable mining equipment do not necessitate living on the claim. Mr. McDannel does not meet the requirements of 11 AAC 86.145(2).

2) All "No Trespassing" signs, "Keep Out" signs, and other signs which restrict public access must be removed. These signs are in violation of 11 AAC 86.145 (1)A and B.

3) A small storage shed, not to exceed 6'x4', will be allowed on the claim to store mining equipment during the summer mining season. The shed may be locked and posted with a "Keep Out" sign during the period May 1 to September 30. No equipment may be stored on the claim during the period October 1 to April 30. To minimize vandalism and prevent unauthorized use, the shed should have no windows and have no heat source.

4) The existing house, camper, outhouse and all assorted equipment, garbage and trash must be removed from the area immediately. The area must be left in a clean and safe condition.

JG/jd/1494v

MEMORANDUM

State of Alaska

DEPARTMENT OF NATURAL RESOURCES
DIVISION OF MINING

TO: Lance Key
DLWM

DATE: December 24, 1985

FILE NO:

TELEPHONE NO: 561-2020

FROM: Jerry Gallagher
Geologist V

SUBJECT: Sackett, APMA 852932

I have reviewed the request by Mr. Lloyd Sackett to live on the #8, #9 and #10 Below Discover mining claims, commonly known as the Slippery Rock Mine (ADL 80055 - 80057), store equipment and restrict public access. Comments specific to this application were made by the Alaska Department of Fish and Game, Department of Natural Resources (DLWM-Mat Su Office) and the Alaska Center for the Environment. Mr. Sackett's requests have been judged against the standards of 11 AAC 86.145.

According to APMA #852932 and a letter dated Oct. 9, 1985 attached to the APMA, Mr. Sackett's mining operation includes 3 suction dredges (2 1/2" to 4"), a D-6 cat, backhoe, a 10x55' trailer work shop, a 10x40' trailer for living, an 8x16 trailer for food storage, and a series of 2 vans, 2 campers and 2 pick-up trucks for equipment storage. Mr. Sackett state "I'm not living on my claims, I'm safeguarding the equipment I've taken years to accumulate".

The Slippery Rock claims were staked in 1973 and a partial list of annual labor affidavits provided the following data:

Year	Total Days Worked	Period Worked
1976	30	6/23 - 9/6
1977	15	8/5 - 8/25
1978	12	4/26 - 5/25
1979	--	--
1980	90	6/1 - 8/30
1981	30	2/9 - 5/30
1982	60	5/10 - 7/30
1983	60	5/15 - 7/15
1984	45	5/1 - 8/15
1985	180	5/1 - 10/1

Records indicate that Mr. Sackett filed placer mining applications in 1980 and 1984, in addition to the current application under consideration. There is little evidence in our records to suggest Mr. Sackett actually does very much mining. Field inspections by ADF&G (see memo dated Nov. 15, 1985), DNR-DLWM (See memo dated Nov. 14, 1985) and field inspection by Lance Key (Oct. 9, 1985) failed to note evidence of surface disturbance (tailings, disturbed ground, etc.) which substantiates significant and continued mining. In addition, the suction dredges claimed as mining equipment are very small in relation to the D-6 cat, backhoe and extensive camp facilities. Suction dredges in this size range generally do not require such heavy support equipment.

Mr. Sackett has advertised and conducted a "yard sale" on his mining claim during at least the summer of 1985. Miscellaneous trailers and equipment are for sale and DNR photographs taken October 9, 1985 clearly show prices affixed to such items.

Review of APMA 852932, agency and public comment, and field inspection photographs support the following conclusions:

1) The Slippery Rock claims are located within 10 to 15 miles of either Wasilla or Palmer where adequate living facilities are available.

2) Access to the Slippery Rock claims is provided 12 months per year by a state maintained road.

3) The mining plan states the use of a 4" suction dredge, but the exact use of the heavy equipment, specifically the D-6 cat and the back hoe remain unclear. The dredge is portable on a daily basis and the heavy equipment can be moved seasonally.

4) The numerous trailers and miscellaneous equipment are not directly related to the mning operation. The D-6 cat and backhoe may be used for mining on a limited basis but the few past APMA submittals and various field reports suggest only a very limited amount of actual mining is conducted at Slippery Rock.

Based upon the above information, conclusions and 11 AAC 85.145, the Division of Mining approves the following actions:

1) The application by Mr. Sackett to live on the Slippery Rock claims is denied. The proximity to town, year round access, level of mining activity, and portable mining equipment do not necessitate living on the claim. Mr. Sackett does not meet the requirements of 11 AAC 86.145(2).

2) All "No Trespassing" signs, "Keep Out" signs, and other signs which restrict public access must be removed. These signs are in violation of 11 AAC 86.145 (1)A and B.

3) A small storage shed, not to exceed 6'x4', will be allowed on the claim to store mining equipment during the summer mining season. The shed may be locked and posted with a "Keep Out" sign during the period May 1 to September 30. No equipment may be stored on the claim during the period October 1 to April 30. To minimize vandalism and prevent unauthorized use, the shed should have no windows and have no heat source.

4) As required for mining purposes, non-portable heavy mining equipment may be parked on the mining claim during the summer mining season from May 1 to September 30 if it is used in the mining operation. This equipment is limited to a D-6 Cat and a backhoe. During the period from October 1 to April 30, storage of this heavy equipment on the claim is not approved. Any use of this equipment must be approved prior to use through the Annual Placer Mining Application process.

5) The existing trailers, step vans, campers, storage sheds, smoke house, outhouse, living quarters, garbage and trash must be removed from the area. The area must be lift in a clean and safe manner.

JG/jd/1499v

Similar notice sent to Lepke & McDannel.

March 7, 1986

CERTIFIED MAIL 140 343 623
RETURN RECEIPT REQUESTED

Lloyd Sackett
6820 A-1
Palmer, Alaska 99645

Re: Surface Use of the "Slippery Rock" Mining Claim
ADL 80055-57

Dear Mr. Sackett:

The Division of Land and Water Management has recently reviewed the decision of the Division of Mining concerning your Annual Placer Mining Application (APMA #852932) requesting approval of certain surface uses of your mining claims. As noted in a copy of the decision, which is attached, your requests have been judged as not in accordance with the standards of 11 AAC 86.145.

Based on this decision, the Division of Land and Water Management hereby issues this NOTICE AND ORDER OF CONFIRMED UNAUTHORIZED USE.

YOU ARE HEREBY NOTIFIED that the Division of Land and Water Management and the Division of Mining have determined the surface use of your mining claim (Slippery Rock 1-3) are in violation of Alaska Statute 38.05.255 (Surface Use of Land and Water) and 11 AAC 86.145.

YOU ARE HEREBY ORDERED to take the following corrective action.

1. Due to the proximity to town, year round access, level of mining activity and equipment utilized, no further residential use of the claim will be allowed. All residential use of your claim shall cease immediately upon receipt of this notice.

2. All "No Trespassing", "Keep Out", and other signs which restrict public access shall be removed immediately upon receipt of this notice.

3. All miscellaneous equipment excluding a 6' x 4' or smaller storage shed shall be removed from the claims no later than May 15, 1986. The shed may be locked and posted with a "Keep Out" sign during the period May 1 to September 30 each year and may be kept on the claim year-round. No equipment shall be stored on the claim during the period October 1 to April 30 each year.

4. Non-portable heavy mining equipment may be parked on the mining claims during the summer mining season from May 1 to September 30 if required for use in the mining operation. This equipment is limited to a D-6 sized or smaller bulldozer and a backhoe. No heavy mining equipment shall be stored or parked on the claims from October 1 to April 30 each year. Use of this equipment on the claim must be approved prior to use through the Annual Placer Mining Application process.

5. All existing trailers, step vans, campers, storage sheds, smokehouses, outhouses, living quarters, garbage, trash and other personal effects must be removed from the claim no later than May 15, 1986. The area must be left in a clean and safe condition.

These corrective steps must be completed within the time-frames listed above. Failure to comply with these requirements will result in the Department of Natural Resources taking appropriate action to bring the surface activities on your claims into compliance with the law. Any costs incurred by such enforcement action will be charged against the claim owner to the extent permitted by law.

Attached find the Department of Natural Resources regulations setting out your right to request reconsideration of this decision or to appeal this decision. Please note that you have 30 days from your receipt of this decision to take such action; otherwise this decision is final and you will have no right to request reconsidaration or to appeal.

Tom Hawkins

Tom Hawkins, Director
Division of Land and Water Management

5 March 86
Date

Pedro Denton

Pedro Denton, Director
Division of Mining

3/6/86
Date

Matanuska-Susitna Borough

BOX B. PALMER, ALASKA 99645 • PHONE 745-4801

BOROUGH ASSEMBLY

APR 10 1986

April 7, 1986

Honorable Bill Sheffield, Governor
State of Alaska
Pouch A
Juneau, AK 99811

RE: Hatcher Pass Recreation Area

Dear Governor Sheffield:

The Matanuska-Susitna Borough Assembly has gone on record in the past and continues to strongly support the concept of development of the Hatcher Pass Recreation Area. A copy of Resolution No. 86-10 adopted on February 4. 1986 and Resolution No. 86-21 adopted February 18, 1986 are enclosed for your information.

The Matanuska-Susitna Borough Assembly feels a recreation area such as Hatcher Pass would definitely aid towards a more stable economic future for the Valley. They feel this is a viable project and have further funded $15,000 for a feasibility study for a ski area at Hatcher Pass by adoption of Ordinance No. 86-20 (enclosed). The public participation and interest generated with this issue has been overwhelmingly in support of this development and the Borough's position remains unchanged, except perhaps for a stronger support of the concept.

If you should have any questions or need additional information, please feel free to contact my office.

Sincerely,

Dorothy Jones as

Dorothy A. Jones, Mayor
Matanuska-Susitna Borough

DJ/cls
Enclosures

cc: Commissioner, Department of Natural Resources
Representative Ron Larson
Representative Katie Hurley
Senator Jalmer Kerttula
Senator Edna DeVries

Presented by: Mayor Jones
Introduced: 02/18/86
Drafted by: G.L.S.

MATANUSKA-SUSITNA BOROUGH

Resolution Serial No. 86-21

A RESOLUTION OF THE MATANUSKA-SUSITNA BOROUGH ASSEMBLY SUPPORTING THE MULTIPLE USE CONCEPT FOR THE AREA WITHIN THE PROPOSED HATCHER PASS MANAGEMENT PLAN.

WHEREAS, the Department of Natural Resources made a presentation on a proposed Hatcher Pass Management Plan to a joint meeting of the Matanuska-Susitna Borough Assembly and Planning Commission on February 10, 1986, and

WHEREAS, said plan was represented as an attempt to provide for the sound development of the several natural resources and potentials of the area, including, but not limited to, recreation, tourism, mining, hunting, fishing and wildlife management, and

WHEREAS, the public comments regarding use of the Hatcher Pass area indicated the area is susceptible to multiple use development including preservation of scenic quality, enhancement of recreational and historical uses, hunting, fishing, trapping, camping, skiing, hiking, grazing, and mineral development, and

WHEREAS, the Hatcher Pass Management Plan, Subunit Description of Resource Values dated December 1985 indicates many of the subunits contain moderate to high mineral potentials, and

WHEREAS, the area should be developed in such a manner as to maximize its recreational and economic benefits to the people of the state of Alaska and the Matanuska-Susitna Borough, and

WHEREAS, the multiple use approach to the management of the Hatcher Pass area should be clearly set out in the Plan;

NOW, THEREFORE, BE IT RESOLVED BY THE ASSEMBLY OF THE MATANUSKA-SUSITNA BOROUGH:

1. That it supports the multiple use concept presented to it by the Department of Natural Resources for the management of the Hatcher Pass area.

2. That it strongly recommends the Department of Natural Resources clearly incorporate in the Hatcher Pass Management Plan the multiple use approach to the management

of the various Hatcher Pass potentials and resources such as recreation, tourism, mining, timber, agriculture, hunting, fishing and wildlife management.

PASSED AND APPROVED this 18th day of February, 1986.

Dorothy A. Jones, Mayor

ATTEST:

Chris Seagraves
Borough Clerk

(SEAL)

READ AND APPROVED:

Gary Thurlow
Borough Manager

NON-CODE

INTRODUCED BY: ASSEMBLYMAN CYPR

MATANUSKA-SUSITNA BOROUGH

ORDINANCE SERIAL NO. 86-20

AN ORDINANCE OF THE ASSEMBLY OF THE MATANUSKA-SUSITNA BOROUGH APPROPRIATING $15,000 FROM THE LAND MANAGEMENT FUND BALANCE TO FUND 820 FOR A FEASIBILITY STUDY OF A SKIING FACILITY AT GOVERNMENT PEAK IN THE HATCHER PASS AREA.

BE IT ENACTED:

Section 1. Classification. This is a non-code ordinance.

Section 2. Appropriation Source. There is hereby appropriated $15,000 from the Land Management Fund Balance to Fund 820 Feasibility Study.

Section 3. Effective Date. This ordinance shall take effect upon adoption by the Borough Assembly.

Introduction: March 18, 1986

First Reading: 3-18-86

Public Hearing: 4-1-86

ADOPTED by the Assembly of the Matanuska-Susitna Borough this 1st day of April, 1986.

Dorothy A. Jones, Mayor

ATTEST:

Chris Seagraves, Borough Clerk

(SEAL)

Presented by: Assemblyperson Cypra
Introduced: 01/21/86
Drafted by: S.C.

MATANUSKA-SUSITNA BOROUGH

RESOLUTION SERIAL NO. 86-10 (Substitute)

A RESOLUTION ENDORSING THE HATCHER PASS, WILLOW AND TALKEETNA MOUNTAIN AREAS AS POTENTIAL WINTER OLYMPIC SITES.

WHEREAS, the Hatcher Pass, Willow and the Talkeetna Mountain areas are recognized for their high recreational value, and

WHEREAS, Hatcher Pass, the Willow and Talkeetna Mountain areas are located in the vicinity of the Municipality of Anchorage, and

WHEREAS, the Municipality of Anchorage has sought and received nominations as the Winter Olympic site in 1992, and

WHEREAS, the U.S. Cross Country Ski Team has recognized Hatcher Pass as having high potential and uses this area for training, and

WHEREAS, the Hatcher Pass, Willow area and Talkeetna Mountains receive considerable use by the Anchorage skiing community, and

WHEREAS, there is high unemployment in the Matanuska-Susitna Borough, and

WHEREAS, the current snowfall in the state of Alaska indicates the Hatcher Pass, Willow and Talkeetna Mountains can be relied upon as good sites for Winter Olympic sports,

NOW THEREFORE BE IT RESOLVED BY THE ASSEMBLY OF THE MATANUSKA-SUSITNA BOROUGH:

That the Assembly of the Matanuska-Susitna Borough endorses the Hatcher Pass, Willow and Talkeetna Mountain areas as potential Olympic sites for cross country skiing and any other appropriate activities.

PASSED AND APPROVED this 4th day of February, 1986.

Dorothy A. Jones, Mayor

ATTEST:

Chris Seagraves
Clerk

SEAL

REVIEWED AND APPROVED:

Gary Thurlow
Borough Manager

Matanuska-Susitna Borough

SUMMARY OF MINERAL RESOURCES

By

Daniel E. Renshaw, P.E.
Renshaw Consulting Engineers

July, 1983

A summary of notable past production and probable future development of metallic and industrial mineral resources within the Matanuska-Susitna Borough.

Produced by The Mapmakers, Palmer, Alaska

years, no great production was ever recorded. With the discovery of the lode gold occurrences beginning in 1909, interest in the placer waned. It was not until the late 30's that any substantial additional placer production occurred.

Several attempts at placer mining are recorded on Willow Creek extending several miles downstream from Grubstake Gulch and on the Little Susitna River below the mouth of Fishhook Creek. These activities were uniformly unsuccessful because of the distributive nature of the gold in the gravels, the small gold particle size, and, particularly in the case of the Little Susitna River, the tremendous amount and size of boulders involved. In the early 1960's several churn-drill holes were drilled into the bottom of Willow Creek in the vicinity of the mouth of Grubstake Gulch. It is reported that these determined that the placer gravels extended to a depth of nearly 100 feet; indicating the existence of a buried canyon filled with probably pre- and inter-glacial gold bearing gravels.

Mining operations have continued over the past 20 years near the confluence of Grubstake Gulch. In recent years, with the addition of modern mining equipment, these operations have apparently been successful. With the dramatic increase in the price of gold in the late 1970's considerable renewed interest was also shown in both the placers on Willow Creek and on the Little Susitna River. Many claims were staked and several mining attempts have been made, but the only apparent viable operation remains that of William Mrak and the Herman Brothers at the confluence of Willow Creek and Grubstake Gulch.

Placer occurrences are also known to be present on Wet Gulch, the next tributary stream to the west, and on Willow Creek upstream from Grubstake Gulch. In the late 1930's and early 40's there was an active placer mining pit on the hillside below the road where Upper Willow Creek is crossed. Coarse gold can still be panned from the hillside gravels in that vicinity. Other operations had previously been attempted on Willow Creek within the five miles reach below Grubstake Gulch.

Much of the Little Susitna River and Reed Creek have been staked for placer mining purposes. Although flour gold can be consistently panned along these two streams, the extremely bouldérous character of the gravels render it doubtful that any viable placer mining operation will be possible on those streams. Several previous attempts have also been made to mine near the mouth of Fishhook Creek.

The first lode discovery is credited to Robert Hatcher on September 16, 1906. This discovery, and others which followed the next year, was high on the ridge separating Upper Willow Creek and Fishhook Creek. These claims were later acquired by the Alaska Free Gold Mining Company and much later became a portion of the consolidation known as the Independence Mine. Most of the other important mining properties, in addition to many prospects, were discovered during the period of 1908 through 1918. Rapid development followed close upon the initial discoveries and by 1914 there were three producing mines equipped with seasonally operated water powered stamp mills, and in at least one instance, a Chilean or Lane-type mill. These early mills were inefficient at separating the gold from the ore below about 40 mesh screen size. As a consequence the finer sands were retained in ponds and their gold values later recovered by chemical leaching.

Many of the early mining discoveries are credited to the Bartholf brothers. However, some sources indicate that certain of these properties may have actually been discovered as a result of Russian explorations. This is doubtful. Though undocumented, there is some likelihood that the Gold Bullion, and perhaps other discoveries, had initially been made by a group of alien Japanese, who had then been encouraged to go search elsewhere.

In the early years the difficulty of access, short seasons and insufficient water for power limited the milling of ores to the summer months. Later, as access was improved and more substantial equipment acquired, underground development work was pursued during the winter months as well as the summer, and the ore stockpiled for summer milling. When substantial improvements had been made to the access roads, more modern machinery was installed, improved facilities for year-round living quarters were built, and diesel-electric engines acquired for the production of power, year-round mining and milling was practical.

Many of the discoveries within the district were founded on the second or largely non-productive sets of veins. Consequently, relatively few of the properties, and only those on the productive sets of veins, ever became viable. Among those of particular importance (progressing from west to east) are the following:

P.O. Box 45 • Palmer, Alaska 99645

Greater Palmer Chamber of Commerce

May 2, 1986

Senator Jan Faiks
PO Box V
Juneau, AK 99811

MAY 8 1986

CSSSSB 334 - HATCHER PASS PUBLIC USE AREA

This is to let you know that the board of directors of the Greater Palmer Chamber of Commerce supports you in your effort to establish the Hatcher Pass Public Use Area.

Sincerely,

GREATER PALMER CHAMBER OF COMMERCE

Brigitte Lively
President, Board of Directors

cc: Senator Jay Kerttula

COOK INLET
AQUACULTURE ASSOCIATION

RT. 2, BOX 849
SOLDOTNA, AK 99669
(907) 283-5761

Copy of letter to all Sen Res Comm also Betty

April 9, 1986

Senator Jalmar M. Kerttula
Alaska State Legislature
Pouch V (MS 3100)
Juneau, Alaska 99811

APR 14 1986

Dear Senator Kerttula:

The Cook Inlet Aquaculture Association supports the passage of SB No. 334. Establishment of the Hatcher Pass Public Use Area would increase the degree of water quality and habitat protection afforded to the headwater streams of the Little Susitna River. Protection of water quality and habitat will ensure the continued productivity of the River's fish populations.

The Little Susitna River produces significant quantities of all five species of Pacific Salmon which are found in Alaska. Some of these fish are harvested commercially as they pass northward through Cook Inlet. The Little Susitna River salmon are also important to Matanuska-Susitna and Anchorage area recreational fishermen because the stream flows largely through public lands, is close to population centers, is accessible via the road system and is, in itself, picturesque.

The COOK INLET REGIONAL SALMON ENHANCEMENT PLAN lists the Little Susitna River as a site for fish stocking projects which will increase annual recreational fishing harvests by 10,000 coho salmon and 6,000 king salmon. In the future I would expect the Little Susitna River to become even more important to regional salmon harvesters and the creation of the Hatcher Pass Public Use Area through the passage of SB No. 334 would be a wise preparatory step toward that future.

Sincerely,

Thomas E Mears

Thomas E. Mears,
Executive Director

cc: All Senate Resources and Finance Committee Members

March 3, 1986

Senator Arliss Sturgulewski, Chairperson
Resources Committee
Pouch V
Juneau, Alaska 99811

Dear Senator Sturgulewski:

As a frequent user of the Hatcher Pass area, I am writing you as a supporter of Senator Jay Kerttula's "Hatcher Pass Public Use Area" Bill. It is my understanding that this bill will close the Little Susitna River Corridor to new mining and will additionally prohibit state land disposal within the use area.

I believe this bill is a needed piece of legislation. It is a balanced bill in that it won't affect existing valid mining claims, but it will stem the trend regarding squatters on the land in this area. It is clear that the Hatcher Pass area is one of those areas which has both a high tourist value, and yet attracts residents year-round because of its diverse recreational uses. But because squatters and persons on illegal mining claims are posting certain areas so as to prohibit access to the lands, the public in general is suffering. One can find "no trespassing" signs placed by miners in areas on state lands to which the public has a right of use. This should not be tolerated, especially in this area.

I urge you to give this bill your fullest support during the legislative session. I, along with many others, will be following the progress of this legislation.

Very truly yours,

John B. Salemi

4204 Cope St.
Anchorage, Ak. 99503
27 March 1986

Senator Arliss Sturgulewski
Senate Resource Committee
P.O. Box V
Juneau, Alaska 99811

Dear Senator,

I am writing urging you to support SB-334 which sets aside a corridor in the Little Susitna Valley which is withdrawn from mining claims. I am an active recreationalist, skier / kayaker and believe that some of the unique and charming values of this area should be preserved in the public interest. I am not opposed to mining per se, but am opposed to the State's lax stance (or non stance) in ~~reacting~~ not evaluating claim validity. Further, the State has shown little initiative in evaluating whether housing is necessary on the claim. In the case of the Little Susitna, which has good road access, housing is most definitely NOT necessary and is farther an eyesore and a nuisance to other valley users.

Please approve SB-334 as a start to resolving some of these problems. Thank you for your time.

Sincerely,

David Blanchet

Jan. 13, 1986
PO Box 2176
Palmer, Alaska 99645

Senator Arliss Sturgulewski
Senate Resources Committee
Box V
Juneau, Alaska 99811

Dear Senator Sturgulewski,

I urge you to support Senate Bill 334, establishing the Hatcher Pass Public Use Area, introduced by Senator Kerttula.

His bill protects public use of a popular area in two ways. First, the legislation disallows new mining on the Little Susitna River. As you know, the river is a tremendously valuable scenic resource to people in my community and visitors from out-of-state. On the other hand, it contains such small quantities of gold that all placer mining attempts have been failures. From the view of state resources management, there is no economic advantage to additional mining on the Little Su. Some of the current claim holders have created substantial eyesores on the stream, in violation of several state regulations. The proposed legislation will see to it that no additional squatters pre-empt the public from using the stream. As Chuck Hawley told me, "There is no gold there. That river should be for tourists."

Secondly, S.B. 334 prohibits state land disposals in the Hatcher Pass area. Private control of state land there fulfills no public needs, but in fact puts resources off-limits to the public now utilizing them there. Plenty of unsold private land lies near the proposed Public Use Area for people requiring a cabin site. At the recent public hearings, participants overwhelmingly objected to land disposals in the Hatcher Pass area.

Although S.B. 334 is valuable legislation, it has some room for improvement. The legislatively designated area should include the high mountains and meadows just to the northeast. This small area is a popular destination for skiers and mountaineers, and it therefore deserves the same legal consideration as the rest of the Public Use area.

I would like to come down to Juneau and talk to the Resources Committee about the bill when it comes up on your agenda.

Sincerely,

Mike Bronson

Mike Bronson

cc: Senate Resource
Committee members
Dorothy Jones
Esther Wunnicke

'86

Senator Arliss Sturgulewski
Senate Resource Committee
Box V
Juneau, Alaska 99811

Feb. 12, 1986

Dear Senator Sturgulewski,

I am writing you to ask for your support for SB 334, an Act creating a Hatcher Pass Use Area.

While I am currently on the Matanuska Susitna Borough Assembly and represent the area that the Use Area addresses, I am writing this as a private citizen.

There are numerous questions revolving around this bill, but I would like to share several of the things I have come to see as important.

Probably the two major concerns have been regarding mining in the area and whether SB 334 will conflict with the Hatcher Pass Management Plan. On the first concern, I do not believe this bill will establish a precedent miners should feel threatened with. On the contrary, most miners I know feel this area has little mining value and those who're using claims near the Little Susitna River are giving others a bad name. Of the second concern, that of the Hatcher Pass Plan, I have watched the planning process closely and from my perspective feel SB 334 will only strengthen both the public's desire and the Plan's goals.

One of the strongest personal concerns I have is building a diverse and healthly local economy. I believe SB 334 will protect the Little Susitna area for the things we desperately need the most: excellent recreational and tourist destinations.

Sincerely yours,

S.R. Cyora

Steven R. Cyora

cc: Senate Resource
Committee

Black Sands Mining Co.

Phillip D. Strange
P.O. Box 871478
Wasilla, Alaska 99687
(Placer - Gold)

FEB 1 1 1986

February 14, 1986

Dear Legislators:

I urge you to oppose S.B.334, creating the Hatchers Pass Public Use Area. This bill will force a mineral closure one half mile wide on each side of the Little Susitna River. This will be the beginning of another lock up of a very important mining didtrict. Should S.B.334 pass into law it will cause the loss of private investment for mineral exploration and development on state lands in the Hatchers Pass Area.

This area is of great economic importance for the vast mineral wealth that is there. The surface has barely been scratched on the mineral deposits of the Willow Creek Mining District. We need to develop this mineral wealth to bring new jobs and start an economically viable industry in the Mat-Su Valley.

The mining industry opened the Hatchers Pass Area and established the first roads into it, now that access is relatively easy, compared to 50 years ago. The people of Anchorage want to make it into their exclusive playground, but we do not need to close an area to mining because of the recreational wants and needs of urban Alaskans who know nothing about mining or the mining industry. With all the advances in mining and milling equipment we can mine lower grade ores at a higher profit with no detrimental effect on the environment.

I am presently working to develop the 200 foot level on a group of hard-rock claims not far from the Little Sustina River. Last year I invested fifty thousand dollars into rehabilitating the old crosscut and this year I plan to invest close to one hundred thousand dollars on development and exploration work. When I get it developed to the point where I can go into production, the cost of bringing in equipment will be very low because of the excellent road access into this mining area.

I believe that hte needs of both miners and those who wish to use the area strictly for recreational purposes can be met but feel that S.B.334 will discriminate against the mining interests of the area. Thank you for your time and consideration of this matter.

Sincerely,

Philip D. Strange

PDS/baf

FEB 10 1986

Knik Kanoers and Kayakers
3903 Arkansas Drive
Anchorage, Alaska 99503

February 5, 1986

Senator Sturgulewski
Resources Committee
Pouch V
Juneau, Alaska 99811

Dear Senator,

I am writing on behalf of the Knik Kanoers and Kayakers to urge you to support Senator Kertulla's Bill No. 334. The intent of the legislation is to protect the water quality and public use of the upper Little Susitna River. Kayakers use the Little Susitna on a regular basis. The proposed legislation creates the Hatcher Pass Public Use Area and protects our access to the river and surrounding lands.

The Little Su is an exceptional kayaking river. It is a clear warm water stream of unusual beauty and challenge. S.B. 334 is an important bill for Knik Kanoers and Kayakers. The bill would stop new mining on the stream and thereby the number of residents engaged in illegal placer mining there. A few of these miners have settled along the Hatcher Pass Road and accumulated junk in their yards and erected threatening signs along the road and river. Although they find little gold in the river they have significantly impacted the experience of kayakers paddling the river. Not only kayakers but also hikers, picnickers, fishermen, and motorists must be wary of these mining claims.

Sincerely Yours,

Alex Swiderski
President

JAN 2 2 1986

Jan. 18, 1986

Senator Arliss Sturgulewski
Resources Committee
State Senate
Juneau, Alaska

File

Dear Senator,

Please support Senate Bill 334, introduced by Senator Kerttula last week. This legislation seeks to put a stop to further unlawful squatting along the Little Susitna River near Hatcher Pass, and to clean up the area for the tourists.

It is important to me and other people in the area that the Hatcher Pass region be kept attractive. I and my family and our guests like to drive along the Little Susitna River to the old Independence Mine. At any season the area is a real attraction. One of the few detractions from the experience, however, is the trashy "mining" sites along the road. Squatters have erected threatening signs warning the public off their placer claims, and have created a series of small junkyards.

I have nothing against legitimate mining on state lands, however these people are taking unfair advantage of the rules. These "miners" take a couple of ounces of dust from the river each year, certainly an amount insufficient to justify such use of state land. I realize that the Division of Mining in DNR is starting to enforce the regulations on the river, and I encourage them to do so. Unfortunately, we have no assurance that they will persist. Where were they in the past? What enforcement are they pursuing in other areas occupied by squatters now? Can we trust the Department to enforce its regulations in the future under other state administrations?

Senate Bill 334 solves these uncertainties. Although the bill does not directly affect the current squatters, it does prevent the problem from growing. I would like to be assurred that the river corridor will be cleaned up and stay cleaned up by statute, rather than to depend on the whim of the bureaucrats in DNR. The bill is just good, basic resource management.

Sincerely,

John Koutsky

Box 871306
Wasilla, AK 99687

P.S. I personally hope you run for governor!

JAN 21 1986

549 E. Caribou
Palmer, AK 99645
15 January 1986

File in Hatcher Pass SB11

Senator Arliss Sturgulewski, Chairman
Senate Resources Committee
Alaska State Legislature
Pouch V
Juneau, Alaska 99811

Dear Senator Sturgulewski:

While a great many of us have benefitted from the State's and Federal Government's largess in dispensing land and privileges in Alaska--and these traditions must continue to provide opportunities to individual Alaskans--we need to insure public benefits, too.

Senator Kerttula has introduced a bill regarding land disposals and new mining claims in the Hatcher Pass Public Use Area. In a world where each citizen exercised a measure of respect for his neighbor's pursuit of happiness such a bill would be superfluous. But this is not the case in Hatcher Pass, and abominable abuses exist there already, coupled with an agonizing inability of some State agencies to enforce their own regulations and protect the public weal.

All summer long one finds a steady stream of Southcentral Alaskans and visitors driving over Hatcher Pass. Almost the sole reason for this exercise is the enjoyment and awe of the scenery. Serious excresences disfigure this scenery already, and Senator Kerttula is correct in wanting to save our most accessible alpine region while there is still hope of doing so.

Hatcher Pass is a State treasure that benefits most the less we do to it. Please support Senator Kerttula's efforts towards its continued existence.

Sincerely yours,

Joe Dawton

cc: Senate Resources Committee Members

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Box 6847 314 North Twentieth Street Colorado Springs, Colorado 80904 (303) 473-2466

Senator Arliss Sturgulewski
Resources Committee Chairman
Alaska State Senate, Box V
Juneau AK 99811

NORS BATTLES FOR BOATERS!
CURRENTS COVERS RIVER RUNNING!

Date: March 4, 1986

Dear Senator Sturgulewski:

It has come to my attention that the upper portion of the Little Susitna River, and its surroundings known as the Hatcher Pass Area, are the subject of a bill now before you, S.B. 334, which would make this a public recreational use area.

On behalf of our members in Alaska and elsewhere, I strongly urge you to help reserve this area for public recreational use. In recent years I have been amazed at the advances in technique and equipment for running rivers, and I can assure you that this river will carry increasing recreational use in coming years. Already there are not enough rivers to go around, resulting in waits of as long as ten years to get a permit for a trip on certain major rivers in the West. For the future of your state's tourism economy and the benefit of its citizens in general, I urge you to preserve this recreational area.

Sincerely,

Eric Leaper
Executive Director

EL/fa

cc: Senator Jan Faiks, Finance Committee