

ALASKA LEGISLATURE COMMITTEE FILES, 1987-1988 8672
4881 HRES ANWR LAND TRADES: DOI, ANCSA, STATE ~~153~~

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May 14, 1987

via FACSIMILE

Representative Adelheid Herrmann
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 Representative Mike Navarre
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 Representative Lynn Hoffman
 Representative Richard Shultz
 House Resource Committee
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 Juneau, Alaska 99811

Dear Ladies & Gentlemen:

On behalf of Akhiok-Kaguyak, Inc., we request your support of State House Resolution SJR-7, as it was passed by the State Senate last week. As Senator Frank Murkowski apply pointed out in his recent editorial opinion published in the Anchorage Times, it is of the utmost importance that the State of Alaska be united in its effort to obtain the opening of the Coastal Plain of the Arctic National Wildlife Refuge for oil and gas exploration and development. Conversely; divided, Alaska will fail.

SJR-7 represents a fair effort to address a broad array of Alaskan concerns and should form the catalyst for obtaining the necessary united support. Since the U.S. Congress may well act before the State Legislature meets again next year, we

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respectfully request your committee to act expeditiously in sending SJR-7 to the floor of the State House for consideration.

AKHIOK-KAGUYAK, INC.

By Ralph Eluska
Ralph Eluska, CEO

RE/JKW:jlw
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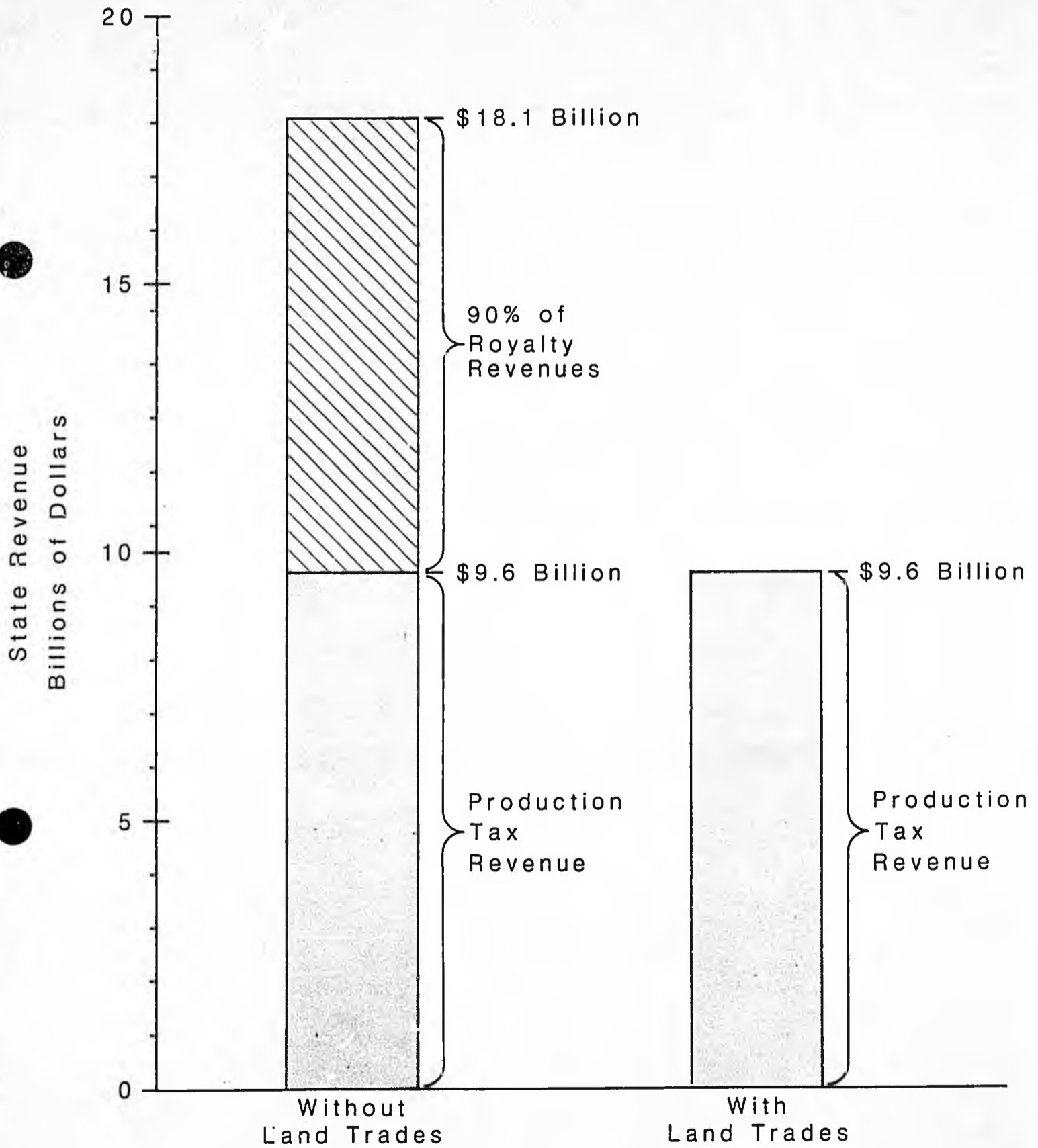
EXPLANATION FOR PRUDHOE BAY ANALOGY

1. The Division of Oil and Gas would not make any projections of the fiscal impact from ANWR exchanges simply because there are insufficient data to calculate reserves and, hence, future revenues so they looked at Prudhoe Bay as if it had been owned by the Department of the Interior and traded to Native Corporations.
2. Picked Prudhoe Bay because it has been suggested by many that ANWR could produce a Prudhoe Bay size field.
3. Not scientific, not ANWR, merely a way of showing possible impact of trades on State revenues.
4. Bonus revenue, corporate income taxes, and property taxes were not included in the numbers on the chart.
5. Prudhoe Bay numbers are as follow:

Royalty.....	9.5 billion dollars
90% of Royalty.....	8.55 billion dollars
Production Tax.....	9.6 billion dollars
Property Tax.....	1.1 billion dollars
Corporate Income Tax.....	About 800 million

6. Note that 543.8 million dollars have already been negotiated in ANWR "bonuses" and "future royalties". We cannot estimate the real value of the bonuses and royalties that would be foregone if the land trades go through. More importantly, neither can the Department of the Interior.

Potential Revenue Impact of ANWR Land Exchanges: A Prudhoe Bay Analogy



Prudhoe Bay Field - First 10 Years of Production
(5.5 Billion Barrels Produced)

ANWR Exchange Chronology *

1980 - 1983

Legislation is introduced in Congress which provides for the acquisition of about 300,000 acres of refuge lands on Kodiak Island by the U.S. Government. In return, Koniag, Inc. would receive "OCS Bid Credits", in an amount equal to the value of these lands, to be accepted by DOI in payment of lease bonuses and other amounts due under federal leases of oil and gas interests. In 1983 the Koniag Board of Directors withdrew its support of this legislation and it was subsequently dropped by the Senate after having passed the House of Representatives.

August 9, 1983

Recommendation by then Deputy Under Secretary Bill Horn for Secretary of the Interior James Watt to adopt the Chandler Lake exchange agreement between ASRC and the United States. Adoption and execution of the agreement by Secretary Watt and ASRC.

1984 - 1985

Koniag broaches subject of possible ANWR land trades with former USFWS Regional Directors Keith Schreiner and Bob Putz. Informal discussions then ensue with Alaska's congressional delegation and DOI's Bill Horn.

Fall, 1985

USFWS appraisers appear in DNR's Anchorage office and ask for state comparable information on recent large land sales. At no time do they mention a possible ANWR land trade.

October, 1985

DNR completes initial geological and geophysical evaluation of the ANWR coastal plain. The data used and the resultant analysis are confidential.

November, 1985

Governor Sheffield is approached by Bill Horn concerning possible state participation in ANWR land trades.

* NOTE: As compiled from Division of Oil and Gas records. This chronology is not complete because of the limited records available.

December 3, 1985 John Katz informs the Alaska Congressional delegation that DOI has commenced ANWR land exchange discussions with various Native corporations. The state has not been consulted by DOI, nor has the state developed a position on the wisdom of the trades.

December, 1985 DNR, over a two-week period, completes a Resource Appraisal Simulation for Petroleum (RASP) study of the ANWR coastal plain, that assesses the hydrocarbon potential of the area. Through an agreement with DOI, results of this study are to be kept confidential until DOI presents the report of their findings to Congress.

January, 1986 Governor Sheffield requests DNR to initiate the state's participation in trade negotiations in order to find out the details of exactly what is being proposed. It is hoped that this information will allow the state to decide if the trades are in in the best interest of all Alaskans.

January 21, 1986 Dick Mylius of DLWM provides DLWM Director Tom Hawkins with a memorandum which identifies approximately 12 million acres of state land identified by ADF&G which might be used for trade. These lands have habitat attributes which should be of interest to USFWS.

January, 1986 Tom Hawkins meets with Bob Gilmore of USFWS to discuss ANWR trade prospects. Gilmore provides only superficial information regarding Native trades but agrees to consider a formal state trade proposal.

February 5, 1986 Tom Hawkins meets again with Bob Gilmore and delivers a letter which asks for more information regarding the details of Native trade discussions and offers the 12 million acre pool of candidate state exchange land for USFWS consideration.

February, 1986 Anchorage Daily News article reporting that the State has proposed trading some 12 million acres of land to obtain subsurface rights in ANWR.

February 17, 1986 Governor Sheffield writes the commissioners of DNR, DEC, DF&G, Commerce, Revenue, as well

as Bob Grogan (OMB/DGC), Hal Brown (AGO) and John Katz to assign numerous issue analysis tasks related to ANWR. DNR is to monitor the progress of the exchanges, ascertain the desirability and opportunities for exchanging state lands.

February 17, 1986

Governor Sheffield writes DOI Secretary Hodel to request information related to ongoing trade discussions between DOI and Native Corporations and to express the state's interest in the ongoing trade negotiations. He specifies that, as a sovereign state, Alaska should be consulted and meaningfully involved in any trade deliberations.

March 12, 1986

Gilmore replies to Hawkins letter of February 5, 1986, and states that the majority of the state lands are simply not a priority for acquisition. Only the land in the Tetlin NWR is identified as a high USFWS acquisition priority. Gilmore suggests that adequate protection for some areas might be achieved through cooperative management agreements. Gilmore makes no reference to the proposed Native trades.

April 2, 1986

DOI Assistant Secretary Bill Horn responds to the Governor's February 17 letter to Secretary Hodel. Horn says that the trade negotiations with Native corporations are still very preliminary and that DOI has reached no tentative agreements, including a decision on whether an exchange proposal will be forwarded to Congress. He assures the state that "should this effort progress beyond the speculative stage, the State of Alaska will be kept informed of further developments and be welcome to participate in any exchange negotiations..."

May 16, 1986

Tom Hawkins sends detailed ANWR land exchange memo to Bob Arnold, DNR Deputy Commissioner. The memo describes the land exchange progress and concludes that the USFWS response to the state's trade proposal calls for further state action.

July 8, 1986

Bob Grogan issues a memo which outlines state policy regarding management of ANWR. Attached is executive support material for the policy. The policy includes the

statement that "the DOI has assured us that the state will be kept apprised of any proposed land exchange under consideration and will be consulted before any final decision is made." The summary says the state will continue discussions with USFWS concerning the state's land exchange proposal.

- August 15, 1986 Letter from Senate Committee on Energy and Natural Resources to Secretary Hodel, signed by eleven committee members, urging him to suspend the ANWR land exchange negotiations until Congress decides the future management of the area.
- September 11, 1986 Tom Hawkins and Gary Gustafson brief the House Special Committee on Oil and Gas on the ANWR land trades. They report the tepid response from USFWS. The meeting is reported in the Anchorage Daily News the next day.
- September 26, 1986 Representative Don Clocksin requests a briefing on the specifics of the ANWR land trades from Commissioner Wunnicke.
- October, 1986 Commissioner Wunnicke discusses the land trades in Washington, D.C. with Bill Horn. Horn seems interested in state participation in the exchange and assures John Katz and the commissioner that DOI will keep the state advised of the Native trade efforts.
- October 30, 1986 Commissioner Wunnicke and staff brief representative Clocksin and others on the state involvement in the land trades, the USFWS' reluctance to accept the state's proposed trade acreage, and the state's intention to continue the trade efforts.
- November 4, 1986 Gary Gustafson meets with Margie Sagerser, Mike Smith and Mark Rindner of the Native Land Group, a CIRI sponsored ANWR exchange participant. He learns the exchange proposal is much further advanced than previously thought. Draft exchange documents have been distributed, and an ANWR tract selection process is contemplated within several months. For the first time the state learns the identity of all the Native corporation participants and that a DOI ANWR exchange team has been assembled.

- November 12, 1986 Memo from Gustafson to Commissioner Wunnicke outlining the status of the exchange negotiations and recommending creation of an ANWR exchange team. The general methodology DOI intends to use for awarding the ANWR tracts and a suggested timeframe are discussed.
- November 14, 1986 John Doebel (USFWS), in a meeting with Gustafson and Sharmin Piper (Representative Cotton's office), provides some details on the status of the Native trades but stresses that the exchanges are still considered speculative.
- November 14, 1986 Hawkins again writes to Bob Gilmore to renew the trade discussions, proposing to include all lands of interest to USFWS and indicating the state's willingness to consider trading lands of interest to other federal agencies such as the National Park Service. Hawkins says the state is ready to draft a preliminary exchange agreement as a first step towards negotiations, and requests an update on negotiations with the Native corporations. No response has been received to this letter.
- November 17, 1986 Commissioner Wunnicke sends an ANWR Trade Issues Paper to Governor Sheffield. She describes the lack of interest on the part of USFWS in trading for state lands and efforts of the Native corporations to accelerate the trades.
- November 17, 1986 Hawkins meets with Bob Gilmore and John Doebel while delivering his letter to Gilmore. They reconfirm that Native land trades are still in a very preliminary stage and that they will reexamine the state's trade proposal.
- November 19, 1986 Commissioner Wunnicke again provides Governor Sheffield with an update on the ANWR trades. She states that the staff continue to advance a trade package, but USFWS finds it difficult to justify acquisition of certain lands because they feel the state already provides a sufficient level of protection. She relates that USFWS has no interest in giving up ANWR land to benefit the NPS. Governor-elect Cowpar receives a copy of the memo.

- November 24, 1986 Memo from DNR Commissioner Wunnicke to the directors of DMGGS and DO&G, requesting a detailed hydrocarbon resource assessment of recoverable reserves and an economic evaluation on a tract specific basis of the estimated resources in ANWR for the purpose of evaluating potential land exchange.
- December 1, 1986 Tom Hawkins, Gary Gustafson, Norm Cohen (ADF&G) and staff from John Katz' office participate in the DOI sponsored ANWR land exchange negotiations in Washington, D.C. The state first learns the details and timing of the proposed trades.
- December, 1986 Additional ANWR briefings are provided to the Governor, his staff and others. The state continues to advance its' trade package by conducting appraisals of 1.45 million acres. The USFWS conceptually approves about 250,000 state acres for trade.
- December 8, 1986 Memo from directors James Eason (DO&G) and Laurel Murphy (DMGGS) stating that there are insufficient data to accomplish a dollar valuation on individual ANWR tracts that would provide a reasonable degree of reliability. They recommend use of a ranking scheme which would use all the geologic and seismic data to high-grade and rank tracts according to their overall perceived potential.
- December 17, 1986 Memo from Eason and Hawkins to Lt Gov. McAlpine recommending that if the State decides "...to pursue exchanges, we will need to develop a position on the methodology to be used in evaluating exchange options and the timing of tract selections." The underlying theme of this memo is that the state's interests must be protected.
- December 29, 1986 Letter to Sharon Allender (Lawyer for DOI) from Eric Laschever (Assoc. Dir. for Fisheries and the Environment in the Governor's D.C. Office) within which he states that "...geophysical data available for ANWR are not sufficient to enable a reliable tract specific valuation for tracts of the dimension selected...", "The state has reservations over the Department's proposed process to enhance the fair market appraisal

value..." and "The state is concerned that participants in any exchange are expected to select tracts before it is known which tracts are available for leasing..."

- January, 1987 Gustafson goes to Washington, D.C. for second round of ANWR trade negotiations.
- January 15, 1987 State releases Professional Report 90, DNR's assessment of the hydrocarbon potential of the ANWR coastal plain as determined by using the Resource Appraisal Simulation for Petroleum (RASP) method.
- February 1, 1987 Gustafson goes to Washington, D.C. for trade negotiation meetings.
- February 14, 1987 Gustafson goes to Washington, D.C. for additional trade negotiations.
- February 13, 1987 Sen. Murkowski, in a talk before the Alaska State Legislature, remarks that he will not embrace any particular land exchange unless it's in the State's best interest. At the same time he states that the State should be a part of these negotiations.
- February, 1987 Telegram to Cowper from Roy Huhndorf concerning State's position on the land exchanges. In referring to a communique from the Governor to CIRI on January 29, 1987, Mr. Huhndorf states that it is imperative that the State receive more information on the trades before issuing a policy statement, especially in opposition, and asking that the Governor wait until February 12, 1987 to make a policy decision, as the Alaska Federation of Natives Board of Directors meets in Juneau on the 11th, and will be considering a formal resolution for his consideration.
- February, 1987 Governor Cowper travels to Washington, D.C. to talk to congressional leaders about opening the ANWR coastal plain to responsible exploration and development.
- February 27, 1987 Governor Cowper directs the state's representatives to withdraw from the land exchange negotiations. Governor Cowper states that Alaska "...has participated in these land trade negotiations in good faith to determine whether it was possible to

structure the trades in a manner favorable to state and national interests." He is convinced that is not possible under the current circumstances, and claims the trades are premature, add a layer of complexity to the primary goal of opening ANWR and are not in the best interest of the broadest spectrum of Alaskans.

March 19, 1987

Trustees for Alaska, the Northern Alaska Environmental Center and five other national environmental groups file a lawsuit against Secretary Horn and others. The lawsuit charges the defendants with violation of Section 102 of the National Environmental Policy Act (NEPA), ANILCA, the Wilderness Act and a number of other procedures by "actively pursuing exchange negotiations involving (ANWR) and committing federal personnel and financial resources before Congress decides whether to allow oil and gas development in that area; and by ...proceeding on an expedited basis without preparing an environmental impact statement." The plaintiffs ask for injunctions against any further trade negotiations until Congress enacts opening legislation. An opinion has not been rendered as of January 1, 1988.

April, 1987

State responds to pro-trade lobbying efforts by initiating a series of discussions with the media and various resource and development groups in Anchorage. Commissioner Brady and DNR staff describe the problems with the timing and structure of the DOI trade proposals and discuss various alternatives that would alleviate these problems.

May 18, 1987

Article in Inside Energy with Federal Lands reporting on opposition to the land exchanges by environmentalists, the State, and several congressional members.

June 4, 1987

Governor Cowper testifies before U.S. Senate Energy Committee on ANWR. In addition to his testimony in support of oil and gas development within the coastal plain, he explains why the State chose to remove itself from the land trades negotiating table. Senator Bennett Johnson says he has independently come to the same conclusions as

the Governor as to why land exchanges should not be pursued at this time.

July 11, 1987

ANWR tract identification process held unannounced in a private suite in the Crystal City Gateway Marriott Hotel outside Washington, D.C. The final negotiated value of Native lands to be exchanged were arrived at through one-on-one meetings between Asst. Sec. Horn and a representative of each Native Corporation. No other DOI staff members were present, and no recording of these transactions took place. A journalist from the Wall Street Journal was denied entry to these procedures.

July 22, 1987

Article in Anchorage Daily News reports Rep. Miller's concern over the exchanges as "...a cynical attempt to put pressure on the Congress to vote to open the area for oil exploration and production".

August 10, 1987

Anchorage Daily News article published in which Lowenfels (attorney for Old Harbor) characterizes the land swaps as a "...wonderful money deal for Old Harbor." In this same article, John Doebel (associate Regional Director, USFWS) adds that such deals as Old Harbor's are "sweet" for Alaska Natives, and "They can have their cake and eat it, too."

October, 1987

John Doebel and representatives from the Native corporations involved in the trades conduct private briefings for the staff of House Congressional members serving on committees overseeing the ANWR issues.

October, 1987

Tommy Boggs is hired to lobby in Washington on behalf of the Native corporations in support of the land exchanges. Heavy lobbying efforts by Native corporations, industry partners, DOI and USFWS in Washington to get support for the ANWR land exchanges.

October 23, 1987

Governor Cowper sends a letter to Secretary Hodel outlining the states' view of the proposed trades as adverse to public policy. Governor Cowper states, "the spectre of these trades continues to divert attention and hinder our mutual goal of opening ANWR...". Governor Cowper suggests alternatives to the

- proposed trades and urges Secretary Hodel to take no further action at this time.
- October 28, 1987 DNR releases its critique of the land exchanges as an attachment to Governor Cowper's letter to Secretary Hodel.
- November 13, 1987 Letter from Rep. Cotton to Sen. Faiks asking the senate to reconsider the language in SJR 7, as passed last year, in which it endorsed the trades. Rep. Cotton strongly believes that "...the proposed land trades could do enormous violence to the general interests of the people of the State of Alaska".
- November 16, 1987 Native Corporations write letter to Sec. Hodel attacking DNR's released critique of the land exchanges, and offering their "Critique Of A Critique". At the same time this communique is released to the news media.
- November 20, 1987 DNR releases a response to the "Critique Of A Critique" pointing out a number of errors and misstatements contained in the document.
- November 25, ~
December 12, 1987 James Eason and Gary Gustafson, in conjunction with the staff of the Governor's Washington, D.C. office, presents the state's views on the proposed land exchanges to numerous members of Congress and their staffs over a two week period.
- November 26, 1987 Public Lands News article has DOI denying that every selection made overlies a structural trap. According to Susan Racco, deputy to Bill Horn, "...the majority of tracts selected by the natives were off structure and most of the tracts that were on structure would be available for leasing later."
- November 30, 1987 DNR releases Analysis of Valuation of Native Corporation Inholdings, specifying how land values were inflated through negotiation.
- December 7, 1987 Commissioner Brady and James Eason address the Interstate Oil Compact Commission (IOCC), a coalition of all the western energy-producing states. They present the state's position on ANWR, including the proposed land exchanges. The IOCC adopts resolutions in

support of the ANWR opening and opposing the proposed exchanges. Governor Cowper is named Chairman-Elect of the IOCC.

- December 31, 1987 During an address before the Fairbanks Chamber of Commerce, Sen. Stevens remarked he still believes land exchanges are in the State's best interest, but they should be placed on hold for the time being.
- December, 10 1987 Government Accounting Office (GAO) staff, in response to a request by Representative George Miller, arrive in Anchorage and meet with state representatives to investigate the propriety of the 1983 ASRC ANWR exchanges, as well as the proposed exchanges.
- December 11, 1987 Headline story in Anchorage Daily News reports contents of State's two critiques, stating that DOI undervalued ANWR lands and inflated the value of Native lands offered in exchange.
- December 17, 1987 Anchorage Daily News story reporting the Native Corporation's side of the issue, stating that "The Cowper administration 'made a monumental mistake' last February when it pulled out of negotiations...".
- December 20, 1987 Editorial in the Anchorage Times criticizes the State for not being a part of the land exchanges.
- December 20, 1987 Commentary by Tim Bradner in the Anchorage Daily News attacking the State's stand on the land exchanges.
- December 27, 1987 Editorial in Anchorage Times suggesting that the State heed Sen. Murkowski's advice and hush up about the land exchanges.
- December 31, 1987 During an address before the Fairbanks Chamber of Commerce, Sen. Stevens remarked he still believes land exchanges are in the State's best interest, but they should be placed on hold for the time being.
- January 5, 1988 Forum article in Anchorage Daily News by Emil Christiansen stating the State made a mistake in failing to negotiate an exchange and is now trying to cover up that mistake by sabotaging the successful participants.

- January 11-19, 1988 DNR staff brief Alaska state legislators in Juneau on the state's position on ANWR opening and the proposed land exchanges.
- January 14, 1988 Anchorage Daily News article points out that Sec. 22(g) of ANCSA may have been misconstrued by DOI during its valuation of Native in-holdings. Sec. 22(g) makes those refuge in-holdings subject to the laws and regulations governing the use and development of the refuge, and gives USFWS the right of first refusal in the event the land is ever sold.
- January 22, 1988 Excerpts from DOI "Budget Pass Back" Document issued by the Office of Management and Budget (OMB) to Secretary Hodel are published in the Wall Street Journal. The memo strongly criticizes DOI's land exchange initiative, stating "...this proposal is inconsistent with Presidential policy...", and "...the inholdings proposed for acquisition represent areas under no current threat of development or degradation and little expectations for future threats. As such, these inholdings would be considered to be low priority candidates for acquisition under any proposal." The memo directs DOI, due to the inconsistencies with existing Administration policy, to "...cease all actions which... assert a willingness on the part of the Department to proceed with the ANWR land exchange process..." and "...develop a strategy of next steps necessary to back out of the land exchange proposal altogether." The memo requests a response from DOI by January 22, 1988.
- January ? , 1988 The OMB directive was issued to DOI three weeks prior to its release in the newspaper. It was kept quiet by DOI during which time OMB was apparently convinced to allow DOI to continue its land trade activities.
- January, 1988 In The CIRI Newsletter, Roy Huhndorf claims "Hundreds of millions of dollars will be lost to the State's economy if the current direction of the State is maintained. Worse yet, the opening of ANWR may be postponed indefinitely if the positive element of adding additional lands to the federal refuge system is not included". In the article he

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incorrectly states that if the land exchanges are approved Alaskans would be receiving 100% of the royalties from these tracts (emphasis added). However, only members of the Native Corporations involved in the trade would benefit, not all Alaskans.

STATE OF ALASKA

DEPARTMENT OF NATURAL RESOURCES

DIVISION OF OIL AND GAS

STEVE COWPER, GOVERNOR

P.O. BOX 7034
ANCHORAGE, ALASKA 99510-7034

December 31, 1987

John Santori, Deputy State
Director for Minerals
Department of the Interior
Bureau of Land Management
Alaska State Office
P.O. Box 13
Anchorage, Alaska 99513

Dear Mr. Santori:

On behalf of the State of Alaska (State), I appreciate this opportunity to discuss the apparent differences between the State's and Interior's assessment of what can and what cannot be extrapolated from the geological and geophysical data which are currently available regarding the subsurface of the coastal plain of the Arctic National Wildlife Refuge (1002 Area). This letter first identifies what we believe are the areas of agreement and disagreement, then suggests how the issues should be resolved.

We think you will find that the BLM staff's geologic conclusions, as reported in the 1002 Report, support the State of Alaska's geologic conclusions. The one apparent exception concerns the analysis of how many of the tracts identified for the proposed trades overlie potential hydrocarbon-bearing structures. Yet, the 1002 Report, and conversations with your own staff, support the State's conclusions on that point. The major disagreements between the State and Interior focus on the policy choice to purport to extrapolate a "market value" of the entire oil and gas interest in particular tracts from the geologic data available to Interior.

Areas of Agreement and Disagreement

1. Adequacy of Resource Assessment.

The State of Alaska agrees that the Bureau of Land Management ("BLM") resource assessment methodology and conclusions as to the 1002 area are fully adequate to demonstrate the tremendous hydrocarbon potential of ANWR. It follows that the resource

assessment is also sufficient to allow Congress to make an informed geologic decision on the opening of ANWR to oil and gas exploration and development. The state's resource assessment, while not identical to BLM's, comes to the same general conclusions as to the prospectiveness of the 1002 area.

2. Adequacy of Tract Valuation.

This issue must be broken down into two parts: (1) adequacy for purposes of determining minimum bids where (a) there is a competitive bidding and (b) a royalty interest is reserved; and (2) adequacy for purposes of determining market value (a) for negotiated sale where (b) the entire oil and gas interest is sold. While we generally believe BLM's method is adequate for purposes of determining minimum acceptable bids at a competitive sale, we have some concerns that certain geological factors identified by BLM's own staff have not been considered in BLM's tract analysis to date. (See discussion in section 3 below). Of more immediate concern, however, is the state's conviction that Interior's tract valuation process is wholly inadequate for purposes of determining market value of entire oil and gas interests in individual tracts in noncompetitive sales. See, "Summary Of What The ANWR Data And The Resource Analysis Methodology Cannot Do." (attached).

3. Identification of Structural Traps.

While there seems to be some differences between the level of detail in the assessment of potential hydrocarbon-bearing structures in the Tertiary and Mesozoic trends of the 1002 area, it is clear that there is no dispute that these structures exist. BLM mapped 26 deep structures, but also mapped trends of structural culminations in the highly deformed Tertiary and Mesozoic rocks, and stated that within these trends there is a high probability for the occurrence of potential hydrocarbon trapping structures. Despite BLM's identification of these structures and structural trends, the State is concerned that these structural trends do not appear to have been considered when Interior set tract values for the proposed land trades. (Obviously, such structures should also be included when setting minimum bids in a competitive sale).

4. Summary of Agreements and Disagreements.

Our main area of disagreement with Interior is not with BLM's geologic assessment; it is with the policy-makers' inappropriate use of a resource assessment methodology to purport to make a tract by tract market value assessment. If the State has any

John Santori
December 31, 1987
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disagreement with the geologic assessment by BLM staff, it appears limited to BLM's possible failure to sufficiently pursue analysis of the Tertiary and Mesozoic structural trends which it has identified.

Proposal for the Resolution of the Issues.

My staff and I appreciate your offer to meet with us to discuss our apparent differences. As you suggest in your letter, it is our hope that we can determine those areas where we are in agreement and identify those areas where we have common goals.

As background for our meeting, however, I believe that it will be helpful for us to review the record, particularly the quotes attributed to Division of Oil and Gas representatives, as well as to certain Department of the Interior representatives, in the November 26, 1987 edition of Public Lands News. It is my understanding from subsequent conversations with Jim Hansen and Richard Kornbrath of my staff that it was in large part the contents of that article which prompted your letter. Since the article quotes only part of our conversation, I would like the opportunity to describe for you the context in which the comments were made.

First, we did not say that our maps were based only upon BLM's geophysical data, as is suggested in the Public Lands News article. I explained to the correspondent that the division's mapping and analysis relied upon those data, as well as upon confidential well and geophysical data from adjacent state uplands and submerged lands. It should have been clear to him, as it no doubt is to you, that we had access to data which were unavailable to you and your staff.

Similarly, you should be aware from the terms of the March 5, 1985 memorandum of understanding (MOU) that we cannot share confidential data or unabridged reports and maps based upon those data with BLM. Paragraph 5.2 of the MOU addresses Interior's access to oil and gas data from state and private lands which are required by state statute to be held confidential. It provides in pertinent part "...Nothing in this paragraph shall require DNR or any other Alaska state agency to disclose confidential data or information to Interior unless state law or the terms of permit or any agreement to which Alaska is a party permits such disclosure or a valid waiver of state confidentiality requirements has been obtained." None of these conditions for release to Interior have been met.

Notwithstanding our inability to share our confidential maps and their interpretations with you, I believe that we can still

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have a meaningful review of the sources of our apparent disagreement. Hopefully, as an adjunct to our discussions, we also can clear up some of the inconsistencies between the positions expressed by your technical staff, who prepared the resource appraisals for the 1002 Report and the reported positions of the Interior officials who are quoted in the Public Lands News article.

I have enclosed for your review two maps prepared by the Division of Oil and Gas. These maps are based upon BLM data originally published in the 1002 Report, as well as the reported results of the tract selections which were conducted for the proposed ANWR exchanges. The first map is simply an overlay of the selected tracts on a base comprised of the 26 deep structures mapped by BLM for its resource evaluation. The map's legend provides a color-coded cross reference for each corporation and its respective industry partner(s). The second map provides the same basic information as the first, but displays that data on a base which portrays the distribution of structural trends within highly deformed Tertiary and Mesozoic rocks identified in the 1002 Report.

The geologic observations made by BLM in the 1002 Report are in apparent conflict with the comments attributed to Assistant Secretary Horn and his deputy, Ms. Recce, in the Public Lands News article. Thus, I believe our discussions should focus on this conflict. I am presuming, of course, that their comments were accurately recorded, but if not, it would also be helpful to establish that fact for the record.

I refer specifically to the comments attributed to Ms. Recce, "...if the state had taken the time to touch base with BLM, they would have found that the majority of the tracts selected by the natives were off structure and most of the tracts that were on structure would be available for leasing later." Assistant Secretary Horn was quoted as saying the State's assessment that every one of the 73 tracts selected by the corporations and their industry partners lies above a structural trap "is patently false as far as tract identification is concerned."

These comments cannot be reconciled with the patterns reflected in BLM's own maps, with the recognition in the 1002 Report of the potential for structural traps in the Tertiary and Mesozoic trends in the western coastal plain, with oral comments made by members of your own staff after reading Mr. Horn's and Ms. Recce's statements, and with the selection patterns reflected by the corporations' industry partners during the tract selection sessions. Most importantly, however, they do not comport with the results of

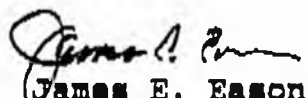
John Santori
December 31, 1987
Page 5

our confidential mapping -- all of which was concluded months before tract selection occurred. Fortunately you do not need our maps in order to see that the State's analysis is correct. Independent confirmation of our technical analysis is provided by your maps, your staff's conclusions expressed privately and in the 1002 Report, and the fact that industry would not commit money, or the attributed value of its corporation partner's surface lands, on tracts on which no structure is perceived.

In summary, I look forward to meeting with you and your staff to discuss our interpretations, as well as the data upon which the interpretations are based, to the extent allowed by state statutes and the terms of the MOU between the State of Alaska and the Department of the Interior. I do believe, however, that many of the apparent differences in our respective interpretations may be resolved beforehand by BLM's reconciliation of what appears to us to be fundamental differences of opinion between its technical staff and Interior policy staff in Washington, D.C. Any success which you may have in resolving these differences should make all our tasks easier, and should contribute measurably to the success of our meeting.

Please call my secretary, Ms. Roberta Keith, at 762-2547 to confirm a time which would be convenient for our meeting. Meanwhile, if you have additional questions or would like to discuss any particular issue before our meeting, please call.

Sincerely,


James E. Eason
Director

JEA/MW/so
Attachment

cc: Assistant Secretary William Horn
Richard Foland, BLM (w/o encl.)
Gary Brougham, BLM (w/o encl.)
Judith M. Brady, Commissioner, Department of Natural Resources
(w/o encl.)
John Katz, Special Counsel to the Governor (w/o encl.)
Maggie Moran (w/o encl.)
Rod Swope (w/o encl.)



United States Department of the Interior

BUREAU OF LAND MANAGEMENT

Alaska State Office
701 C Street, Box 13
Anchorage, Alaska 99513-0088



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DIVISION OF OIL & GAS
ANCHORAGE, ALASKA

Mr. James Eason, Director
Oil and Gas Division
Department of Natural Resources
State of Alaska
3601 C Street
Anchorage, Alaska 99510

Dear Mr. Eason:

Recent statements in the press attributed to you have indicated that you are in disagreement with our geological analysis of the 1002 area. The Bureau of Land Management (BLM), Division of Mineral Resources, recognizes that in any geological interpretation, there is room for alternate interpretations; however, these statements have indicated that you may have used proprietary oil company data which BLM does not have access to. If this is the case, then BLM respectfully requests that you give us access to this data under the Memorandum of Understanding, signed and dated on February 19, 1985, by Donald Hodel, Secretary of Interior, and on March 5, 1985, by Esther Wunnicke, the Commissioner of the Alaska Department of Natural Resources. Further, BLM requests a copy or review of the maps which you state contradict our assessment of the 1002 area. After BLM reviews your information, a meeting of the interested parties is requested to discuss differences in interpretation, areas of agreement, and common goals.

A mutually agreeable assessment of the 1002 area potential is a necessity if progress is to be made in planning the energy future of Alaska and the Nation. Your cooperation in the above request will help to ensure this common goal. I can be contacted at 271-3343.

Sincerely,

ALASKA DIVISION OF OIL AND GAS

RESPONSE TO

"CRITIQUE OF A CRITIQUE"

PREPARED BY

THE NATIVE LANDS GROUP, AKHIOK KAGUYAK, DOYON LTD.,

GANNA-A YOO LIMITED, OLD HARBOR NATIVE CORPORATION, AND

KONIAG, INC.

November 20, 1987

The November 16, 1987 letter and attached critique entitled, "Critique of A Critique" from the Native Lands Group, Akhiok-Kaguyak, Doyon Ltd., Gana-A Yoo Limited, Old Harbor Native Corporation, and Koniag, Inc. (the corporations) to Secretary of the Interior Hodel can only be characterized as a deliberate distortion and mischaracterization of the public record. Using entirely conclusory and undocumented statements, the authors attempt to discredit the ANWR Exchange Critique prepared by the Alaska Division of Oil and Gas.

Fortunately, the public record itself rebuts most of the unsubstantiated claims and allegations contained in the corporations' documents. In combination, the public record, the terms of the publicly available proxy statements of Koniag, Inc. and Old Harbor Native Corporation, as well as the candid public comments of Old Harbor and Department of the Interior representatives effectively debunk the remainder of their arguments.

MISCHARACTERIZATIONS WITHIN THE LETTER

The corporations suggest that there is limited opposition to the proposed exchanges. They claim "...The only two groups that seem to consistently raise the exchanges in the recent hearings have been the environmental groups, who have publicly acknowledged their fear that the proposed exchanges will influence Congress to open ANWR, and the representatives of the Governor's administration."

Since there have been no Congressional hearings to specifically consider the proposed exchanges and in light of Interior's agreement to defer them, it is not unusual that discussion of them has temporarily subsided. However, this fact in no way implies that there is not widespread and vocal opposition to the proposed exchanges.

For example, in the July 22, 1987 edition of the Anchorage Daily News, Representative George Miller, Chairman of the Interior Water and Power Resources Subcommittee, expressed his view that "These exchanges are a cynical attempt to put pressure on the Congress to vote to open the area for oil exploration and production." Earlier, in an August 15, 1986 joint letter to Interior Secretary Hodel ten members of the Senate Committee on Energy and Natural Resources voiced the opinion that "...the proposed exchange will complicate and possibly prejudice a decision by this Congress regarding the fate of those lands." More recently, Senator Bennett Johnson who chairs the Senate Energy Committee has been an outspoken critic of the proposed exchanges.

The corporations claim that the reason for the state's opposition to the exchanges has changed over time. They maintain "...he (Cowper) opposed the exchanges and withdrew the State from further participation in the negotiations with the Department for entirely different and inconsistent reasons. It was his belief then that the state lacked sufficient information to determine the actual location and value of any petroleum reserves, and that, therefore, the state could not obtain desirable tracts. (emphasis added)

Response to "Critique of a Critique"
November 20, 1987
Page 2

In fact, the state's position has been entirely consistent throughout since Governor Cowper first publicly expressed opposition to the exchanges. The record reflects that Governor Cowper has consistently and repeatedly explained in detail the several reasons for his position, one of them being the inability for anyone to select desired tracts, not just the state, as alleged by the corporations.

In a written public statement on the exchanges dated February 27, 1987 Governor Cowper described his reasons for withdrawing state representatives from the exchange negotiations. Cowper explained "...First, land trades add a layer of complexity to the ANWR issue. By further complicating this already difficult matter, Congressional attention is diverted from the State's central concern which is the opening of the refuge...Second, the State and federal government's understanding of the actual location and value of the petroleum reserves is not good enough to assure that either the State will obtain desirable lands, or that highly prospective tracts are not traded away without sufficient compensation...Another major factor to consider is that land exchanges are not in the best interest of the broadest spectrum of Alaskans..."

Later, in his testimony before the Senate Energy Committee on June 4, 1987, Governor Cowper explained "...although available geologic and geophysical data clearly demonstrate the hydrocarbon potential of the region, the State and Federal government's understanding of the actual location and value of the petroleum reserve is not precise enough to assure that highly prospective tracts are not traded away without the Federal government receiving adequate compensation." (emphasis added) Thus, the record clearly establishes that the Governor's concern always has been and continues to be that the exchange valuation procedures are inadequate to establish reliable subsurface values, and thus do not assure the federal government's receipt of fair market value for the resources. This is precisely the conclusion of the Division of Oil and Gas Critique, which is supported by literally hundreds of pages of memoranda and testimony spanning more than eighteen months preceding the release of the division's critique.

The corporations claim in their letter to Secretary Kodel that the procedures followed by BLM to determine tract values for the exchanges are "...the same ones used by the United States to determine the values for other dispositions of oil and gas interests..."

In fact, as the Division of Oil and Gas Critique describes in great detail, resource analysis procedures are not used by the federal government to determine the actual value of oil and gas leases. Instead, the procedures are used to establish probabilistic ranges of potential values, and in some cases, a minimum bonus bid, or floor price which, in conjunction with other criteria including a reserved royalty and rental interest, will fairly compensate the federal government for competitively leasing the resources. The important distinctions between the determination of actual value (through reserves analysis or competitive sale) and highly subjective estimates of the range of

potential values should be clear to the corporations, as they surely are to their respective industry partners.

In describing the former exchange between Arctic Slope Regional Corporation and Interior, the corporations claim "...the Department was able to acquire valuable inholdings in the National Park System at no additional cost to the United States." (emphasis added)

The concern over the equity of this exchange and its potential costs to the federal government has prompted a request from one member of Congress that the General Accounting Office conduct an independent investigation of that exchange, as well as the proposed exchanges (an investigation which is now underway). In their claim that there was no additional cost to the United States, the corporations apparently discount both the foregone bonus revenues and the "value" received by ASRC from its industry partners for allowing them to drill the KIC well before Congress decides whether to open ANWR. In addition, they also discount the "value" of having the information from that well to achieve competitive advantages in both the non-competitive, negotiated exchanges, as well as in any subsequent federal leasing within ANWR. Surely the corporation would not claim that in a competitive lease sale the KIC lands would not have attracted substantial cash bonuses.

The corporations attempt to downplay the opposition to the proposed exchanges within the Alaska Legislature by referencing some support for the exchanges within the Senate, while remaining silent about the very vocal and widespread opposition expressed by others in the Senate and by members of the House of Representatives.

In fact, there is very strong opposition to the exchanges within the Alaska House of Representatives. An indication of the seriousness of this opposition is provided by a November 13, 1987 letter to Senator Jan Faiks, President of the Senate, from Representative Sam Cotten (Co-Chair, House Resources Committee). In that letter, Representative Cotten expressed his view that "...the Legislature failed to pass a resolution supporting oil and gas leasing in the coastal plain of the Arctic Refuge for one reason: the leadership of the Senate insisted that the resolution include language endorsing coastal plain land trades...I believed then, and believe even more strongly now, that the proposed land trades could do enormous violence to the general interests of the people of the State of Alaska, even though they might benefit oil companies and the involved ANCSA corporations..."

Representative Cotten concluded his letter by noting "...I know that the Senate majority endorsed the trades last year in SJR 7. Yet it seems incomprehensible to me that any Alaska public policymaker would continue to hold this position in light of the many revelations this summer."

If, as they claim, the corporations cannot "...agree with nor understand the Governor's opposition to the proposed exchanges..." perhaps they

could achieve a better understanding of them by reading Representative Cotten's letter in its entirety.

Representative Cotten continues to describe the bases for his concerns by saying "...I also believe, despite the arguments to the contrary last session, that the proposed trades have diverted and stalled discussion of the larger issue before the U. S. Congress. They certainly have not smoothed the progress of coastal plain legislation on Capitol Hill. In fact, influential U. S. representatives and senators have told the Interior Department to hold off on further trade actions and have requested an investigation of the trades by the General Accounting Office. Fortunately the trades are inactive at present, despite expensive lobbying effort by some ANCSA corporations in Washington. (Notably the Anchorage Public Policy Forum was not able to come up with a proponent of the trades for a public meeting last week. I understand from APPF that state senators who had included the pro-trade language in SJR 7 were not willing to speak on the issue, and ANCSA corporations were unwilling to have a representative defend the trades at the meeting.") (emphasis added)

CRITIQUE OF THE CORPORATION'S CRITIQUE

In prefacing their specific comments on the Alaska Division of Oil and Gas Critique of the Proposed ANWR Land Exchanges, the corporations express their desire "...to address the more fundamental inaccuracies and misstatements contained in the document." According to the corporations, "These inaccuracies go to the heart of the analysis and cast very substantial doubts on its validity." However, rather than identifying and documenting inaccuracies, the corporations have instead merely mischaracterized the Division of Oil and Gas analysis. Even a casual reading of the Division of Oil and Gas Critique, in light of the criticisms, reveals where the inaccuracies actually lie.

ASRC Exchange:

The corporations claim that the division's critique "...clearly misstates the impact of the proposed exchanges by including with them as an integral part of its analysis the 1983 Arctic Slope Regional Corporation ("ASRC") Exchange." They also assert that "...the author of the Critique repeatedly includes these ASRC lands in his analysis, resulting in over a 50% overstatement of the acreage actually involved in the proposed exchanges."

Contrary to these claims, the division's critique explicitly differentiates between the two exchanges in its discussions of the former ASRC exchanges and the proposed exchanges. There is no misstatement of fact and no attempt to confuse the issues behind the two exchanges whatsoever. The opening paragraph

of the "Executive Summary" of the Critique, which is repeated verbatim below, speaks for itself.

"When combined with the 1983 ASRC exchange, the Department of the Interior's (DOI) most recent proposed ANWR land exchanges result in the non-competitive conveyance of more than a quarter of a million acres of the most prospective lands within the Coastal Plain of ANWR for a TOTAL VALUE OF ONLY \$543.8 MILLION (the appraised value of the exchange lands tendered to DOI). In the ASRC exchange, DOI received surface estate appraised at \$5.6 million in exchange for the subsurface rights to approximately 92,000 acres of highly prospective mineral estate beneath lands owned by the Kaktovik Inupiat Corporation in the Coastal Plain of ANWR. The currently proposed exchange would convey the subsurface rights to an additional 166,278 acres of the remaining most highly prospective lands to six Native Corporation groups and their industry partners in exchange for 891,000 acres of surface estate with an appraised value of \$538.7 million." (emphasis added)

Contrary to the corporations' claim that the critique results "...in over a 50% overstatement of the acreage actually involved in the proposed exchanges", the Oil and Gas Critique explicitly cites the acreage involved in the currently proposed exchange to be 891,000 surface acres for 166,178 subsurface acres, precisely the acreage involved--no more and no less.

Valuation:

The corporations claim that "...the State's analysis of the valuation process is equally flawed", and maintain that "The procedure utilized to arrive at the value of these rights with respect to the tracts utilizes the standard methodology followed by BLM (and to some degree the State of Alaska as well) in determining whether the compensation offered to the United States is fair for granting such rights in a lease sale. There was, however, one important departure from the application of this methodology in the case of the valuations for the exchanges. In arriving at the exchange values BLM added a second amount to the amount it determined to be fair compensation for the tract. That amount was the net present value of the right of the United States to receive a royalty from any production." (emphasis added) "...It should be noted that most of the participants for whatever reason were not as successful as Old Harbor in passing on that risk."

As mentioned earlier in the review of the corporations' cover letter to Secretary Hodel, there are substantial and fundamental differences between the purposes for which the BLM and the State of Alaska resource evaluation methodologies are normally used and the misapplication of those methodologies which BLM has adopted to appraise the proposed exchange tracts. The BLM methodology is inadequate to determine beforehand (pre-drilling and delineation) the actual volume of recoverable reserves that may underlie ANWR

tracts, much less to calculate a "second amount" which represents "the net present value to the United States" of the future royalties from those reserves.

One need not rely solely on the division's critique to judge whether the corporations' claims in this instance are reasonable. There are several independent indicators of whether or not BLM has accurately estimated the fair value of the exchange tracts--as the corporations claim. The terms of the proxy statements from Old Harbor and Koniag provide one indication of the "value" of the ANWR exchange tracts to the respective corporations and their industry partners. Whether or not these terms are uniquely favorable, as the corporations now imply, cannot be judged because the remaining corporations and their industry partners have scrupulously avoided exposing the details of their agreements.

The monetary provisions of both the Old Harbor-Texaco contract and the Koniag-Chevron/Phillips contract independently substantiate the deficiencies of the DOI exchange valuation procedures. DOI placed the total value of Old Harbor's exchange lands, and thus the value of the ANWR tracts which it was allowed to select at \$45.7 million. Yet, under the terms of the Old Harbor - Texaco agreement, if ANWR is opened and Texaco proceeds with its plans to explore the Old Harbor lands, the corporation will receive a total cash payment of at least \$45.7 million plus a 14 percent royalty on any oil and gas produced from those lands. In addition, it will receive a 1.5% royalty on production from any other ANWR lands acquired by Texaco. If in fact DOI added the net present value of the future royalties to the "value" of these tracts before agreeing to exchange them (as claimed by the corporations and BLM), the net present value of the 14 percent royalty retained by Old Harbor must be zero as far as BLM was concerned. An absurd conclusion, at best, but one which follows from the logic of BLM's and the corporations' claims.

The Koniag exchange contract clearly shows that Koniag, as well, stands to receive substantially more from exploration of the ANWR tracts which it selected than DOI has determined those lands to be worth. The value of Koniag's exchange lands, and thus the value of the ANWR tracts it selected, was placed at about \$77.4 million by DOI. However, Koniag's industry partners, ~~the~~ Chevron Group and Phillips are committed to pay Koniag a minimum of \$58.3 million plus a 20 percent royalty on any oil and gas produced from those lands.

In addition, Koniag can convert the 20 percent royalty to a 30 percent net share of profits once production proceeds exceed all the exploration and development costs incurred by its industry partners. After those proceeds exceed twice the development expenditures plus interest, Koniag has the additional option to convert to a 40 percent share of net profits. Further, Koniag will retain a 0.51 percent royalty interest in any oil and gas production from ANWR lands acquired by its industry partners within six miles of the Koniag tracts, and a 0.255 percent royalty interest in any production

from ANWR lands not recommended by its industry partners for selection by Koniag but which corner on or are contiguous with the Koniag leases.

In other words, at least three oil companies, Texaco, Chevron and Phillips, obviously estimated the value of the exchanged lands to be substantially higher than the federal government's estimated value including the present value of foragone royalties. These examples alone should raise questions as to the validity of the federal estimates. It should be apparent that a competitive lease sale of the same lands would generate significantly higher revenues.

In an August 10, 1987 interview published in the Anchorage Daily News, Old Harbor's attorney, Mr. Jeff Lowenfels provides another (and very revealing) independent assessment of the reasonableness of DOI's valuation. In describing the Old Harbor-Texaco contract terms Mr. Lowenfels said "...the village could receive \$45 million even if Texaco doesn't find a drop of oil or a whiff of gas...Putting aside the cultural questions as to whether a sale of Native land is a good deal or not, this is a wonderful money deal for Old Harbor." In the same article, Mr. John Doebel, Associate Regional Director for the U. S. Fish and Wildlife Service observed that land swaps such as Old Harbor's are "sweet" for Alaska Natives and noted that "They can have their cake and eat it too."

Rescission:

The corporations claim "Another incorrect inference suggested by the Critique is that Native Corporations have the right to rescind the exchange and reacquire their refuge inholdings if the exploration efforts are unsuccessful, thereby depriving the United States of the consideration it received for granting these rights."

Rescission is only mentioned once in the division's critique of the proposed exchanges. The verbatim language in that reference is explicit and unambiguous, and more importantly, it in no way implies or suggests what the corporations now claim. The language is abstracted below from the division's critique:

"For example, one of the exchange contracts currently contains a rescission clause which enables the corporation to relinquish title to its subsurface estate in ANWR in exchange for the reconveyance of a portion--rumored to be as high as 65 percent of the surface estate which it has traded for the ANWR lands. In light of the total uncertainty surrounding whether the ANWR lands have oil and gas reserves, this provision was created to enable the corporations to regain title to a portion of their former surface inholdings should exploration by their industry partners prove nonproductive." (emphasis added) One can contrast this statement with that of the corporations that "...While it is true that at this time one participant has negotiated a

limited right to rescind the exchange with respect to a portion of its lands in consideration for the payment to the United States of an overriding royalty...", and decide independently whether "substantial doubts" have been cast on the validity of the division's analysis.

Structures:

The corporations attempt to discredit the critique's assessment that DOI has failed to accurately identify and map many of the potential hydrocarbon-bearing structures within the Coastal Plain. They exclaim, "What is even more surprising and calls into question the accuracy of these assertions is that a little more than seven months ago the Governor, in giving his reasons for withdrawing the State from the exchange negotiations, stated that a major reason for his action was the unreliability of the available data and the lack of sufficient data for the State to be able to make selections." They also remark, although it is surprisingly to their detriment that they do so, that "The one participant whose industry advisors had the data from the KIC well, however, selected on the structures mapped by DOI."

Again, the corporations attempt to mischaracterize the public statements of the Governor and to recast a voluminous written record which memorializes the thoughtful development of the Governor's decision to oppose the exchanges. As described earlier in this document, the Governor's public statements reflect and are totally consistent with the opinions reflected in the Division of Oil and Gas Critique--that there are insufficient data to value the tracts for exchange purposes. The data were insufficient in February when the Governor first addressed the issue publicly, and they remain insufficient today.

While there are insufficient data to determine the actual value of the ANWR tracts, there are sufficient data to proceed with competitive leasing. In fact, the available geophysical data are sufficient to identify many larger subsurface traps in ANWR, and to allow the corporations and their industry partners to high-grade those structures in their non-competitive selections--facts clearly supported by the selection patterns which have emerged.

It was no coincidence that Koniag and its industry partners, the Chevron Group (which has access to the KIC well data) and Phillips, were willing to expend the full appraised value of Koniag's exchange lands to purchase only 3183 acres overlying a single prospect. The fact that DOI has mapped a basement structure beneath that acreage is irrelevant to the division's claim that DOI failed to map all identifiable structures in the Coastal Plain during its exchange valuation analysis. What is relevant is the implication this selection pattern has in documenting the additional "value" already received by those involved from the earlier ASRC exchange.

The corporations find it "incredible" that the Division of Oil and Gas was able to identify structures which DOI, by its own admission in the 1002 Report, was unable to map properly for its recoverable resource estimates. However, the facts remain that it did so, and that its maps were completed more than six months before the exchange selection patterns were revealed. Moreover, a direct overlay of the division's maps with the selection pattern map confirms the correlation of subsurface structures beneath each selection approved by DOI. It is inconceivable that the corporations and Interior would argue that only 34 of the 73 tracts selected overlie structures--even in light of the fact that the corporations and their industry partners were willing to exchange valuable cash advances and the corporation-owned surface lands for the opportunity to explore the tracts?

DOI apparently experienced technical difficulties in its attempt to map the structures involving the younger rock units over which many of the selections in the western part of the coastal plain occur. In the Draft 1002 Report, DOI states that "...no prospects were adequately resolved within the detached and highly deformed Mesozoic and Tertiary rocks." It further said "...the probability of traps occurring in the subsurface in this structural setting is high, although determining their location on the basis of existing seismic data is difficult." As anyone familiar with resource analysis should know, if one cannot locate and accurately map a prospect, one certainly cannot produce an accurate appraisal of the value of the overlying tracts.

Pre Lease Exploration:

The corporations challenge the critique because they believe that it downplays "...the advantages of the United States having the down-hole data from such activities (drilling of exchanged tracts)..."

What the corporations do not acknowledge is the commercial value to them and their respective industry partners of the opportunity to "have the first look" and to have gained that opportunity noncompetitively and at the expense of the public treasury. The fact remains that if ANWR is opened to leasing, a finite number of exploratory wells will be required to either confirm or condemn the area's petroleum potential--something that cannot be determined a priori from BLM's analysis.

The real issues are whether the public treasury should benefit from the bonuses and rentals instead of the corporations, whether all industry representatives will have an equal opportunity to compete openly for the rights to explore and develop the area and, in the final analysis, whether trades negotiated in private among a select group of corporations and industry representatives to achieve collateral federal purposes will supplant a long history of competitive leasing of public resources which has successfully assured receipt of fair market value.

SUMMARY OF THE KONIAG-CHEVRON/PHILLIPS ANWR
LEASE ACQUISITION AGREEMENT

Source: Koniag, Inc. Proxy Statement, October 8, 1987

Koniag, Inc. may exchange the surface estate of approximately 112,564 acres of its land with an attributed value (negotiated by Koniag and Department of the Interior) of about \$77.4 million for the subsurface oil and gas rights to approximately 3,186 acres in ANWR, valued by DOI at about \$77.4 million.

Major Points

* The Chevron Group and Phillips make a total cash payment of at least \$58.3 million** to Koniag for the lease option. The final cash payment is likely to be in excess of \$60 million.

**note: For less than one-half interest (49%) in the Koniag leases, Phillips pays the bulk (about \$55 million) of the total cash payment.

* The Chevron Group and Phillips pay to Koniag:

- 1) a 20% royalty (which can later be converted to a 40% net profit share) on production from Koniag's ANWR leases.
- 2) a 0.51% royalty on production from any other leases acquired by the Chevron Group within six miles of Koniag's ANWR leases.
- 3) a 0.255% royalty on production from any ANWR leases acquired by the Chevron Group that were not recommended for selection by Koniag by the Chevron Group and which corner on or are contiguous to the Koniag leases.

* Koniag retains an easement to the surface lands it exchanges and subsistence rights to use those lands in perpetuity.

Specific terms

The Koniag lease acquisition agreement provides the Chevron Group with a 51% working interest and Phillips with a 49% working interest in the oil and gas exploration/development/production rights in Koniag's ANWR leases.

1. The Chevron Group makes an execution payment to Koniag of \$510,000.
2. The Chevron Group makes quarterly interest payments to Koniag on an assumed principal escrow account balance of \$2.55 million. To date, \$322,960 has been paid.
3. The Chevron Group makes four progress payments of \$255,000 each to Koniag upon the occurrence certain events, such as

reaching agreement with DOI on the exchange lands, shareholder approval and execution of the agreement by Koniag and the Secretary of the Interior.

4. The Chevron Group pays to Koniag approximately \$1.8 million upon lease issuance and satisfactory opening legislation (subject to downward adjustments based on prior overpayments).
5. The Chevron Group pays to Koniag "drilling premium payments" totalling about \$1.7 million (less prior credits) subject to the occurrence of actual drilling within an advantageous timeframe.
6. The Chevron Group pays to Koniag a "bonus differential payment" equal to 51% of the amount by which the average per acre bonus of any federal ANWR leases the Chevron Group acquires in lands proposed by the Chevron Group for selection by Koniag, exceeds three times the average per acre bonus amount the Chevron Group would have paid Koniag had such land been selected by Koniag.
7. The Chevron Group pays Koniag a 0.51% royalty interest on production from any lands acquired by the Chevron Group within six miles of the Koniag ANWR leases.
8. The Chevron Group pays Koniag a 0.255% royalty interest on production from any ANWR leases acquired by the Chevron Group that were not recommended for selection by Koniag by the Chevron Group which corner on or are contiguous to Koniag's ANWR leases.
9. Phillips pays Koniag \$1.0 million upon execution of the agreement.
10. Phillips pays Koniag \$7.25 million upon enactment of acceptable opening legislation.
11. Phillips pays Koniag \$27.5 million upon issuance to Phillips by Koniag of the Koniag ANWR leases.
12. Phillips pays Koniag \$19.25 million upon the third anniversary of lease issuance.
13. The Chevron Group and Phillips pay Koniag a 20% royalty on production from Koniag's ANWR leases. The 20% royalty can be converted by Koniag to a 30% net profit share at the time total proceeds from production exceed exploration/development expenditures, or a 40% net profit share when total proceeds exceed twice the lessees expenditures.
14. The Chevron Group and Phillips pay Koniag approximately \$29,000 in annual rental payments for the twelve years of the lease term.

SUMMARY OF THE OLD HARBOR-TEXACO ANWR
LEASE ACQUISITION AGREEMENT

Source: Old Harbor Proxy Statement, August 28, 1987

Old Harbor Native Corporation may exchange the surface estate of approximately 90,000 acres of its land with an attributed value (negotiated by Old Harbor and Department of the Interior) of about \$45.7 million for the subsurface oil and gas rights to approximately 58,000 acres in ANWR, valued by DOI at about \$45.7 million.

Major Points

- * Texaco makes a total cash payment of at least \$45.7 million to Old Harbor for the lease option.
- " Texaco pays a 14% royalty to Old Harbor on production from Old Harbor's ANWR leases and a 1.5% royalty from production on any other leases acquired by Texaco in ANWR.
- * Old Harbor retains an easement to the surface lands it exchanges and subsistence rights to use those lands in perpetuity.

Specific Terms

1. Texaco reimburses Old Harbor for expenses Old Harbor incurs in the land trade process.
2. Texaco pays Old Harbor \$5 million in a lump sum and \$50,000 quarterly payments immediately upon shareholder approval of the agreement. The quarterly payments run until the required opening legislation is passed, or December 31, 1993, whichever comes sooner.
3. Texaco pays Old Harbor \$2 million in a lump sum upon congressional passage of the required opening legislation.
4. Texaco pays Old Harbor \$38.7 million after opening legislation and lease acquisition.
5. Texaco pays Old Harbor a 14% royalty in any production from Old Harbor's ANWR leases.
6. Texaco pays Old Harbor 1.5% royalty on production from any other ANWR tracts which Texaco acquires.
7. Texaco agrees to make an effort to train and employ Old Harbor residents, and provide a \$10,000 annual scholarship fund for Old Harbor children.

THE ANWR LAND EXCHANGES

SUMMARY OF WHAT THE ANWR DATA AND RESOURCE ANALYSIS METHODOLOGY CAN DO

The Coastal Plain Data

The data collected from the coastal plain of ANWR and adjacent areas consist of about 1300 line miles of seismic surveys constituting a reconnaissance grid approximately 3 by 6 miles, other regional geophysical surveys, surface geologic information, and subsurface geologic information from wells drilled outside the coastal plain area.

The data are sufficient to support and defend the conclusion that the coastal plain of ANWR has extremely high potential for holding commercial quantities of petroleum.

The data are also sufficient to identify many of the larger, potential subsurface traps beneath the coastal plain, enabling informed groups to high-grade (in the non-competitive selections or in competitive bidding) the most prospective tracts based upon the current knowledge.

The selection pattern clearly indicates the correlation between the currently known, most prospective subsurface structures and the most desirable tracts.

Resource Analysis Methodology

This methodology is commonly used to provide a risked, probabilistic range of estimates of undiscovered, recoverable resources (in barrels of oil or cubic feet of gas) in potential hydrocarbon-bearing traps in the subsurface.

The methodology can be an effective management decision tool to help a company compare the relative prospectiveness of different frontier areas and specific regions within those broad areas.

The estimates of undiscovered, recoverable oil and gas, when combined with unknown, but estimated, future economic variables, can be used to define a minimum acceptable bid range (in dollar value) for the purpose of evaluating bids in a competitive lease sale.

THE ANWR LAND EXCHANGES

SUMMARY OF WHAT THE ANWR DATA AND THE RESOURCE ANALYSIS METHODOLOGY CANNOT DO

The Coastal Plain Data

Neither the precise location, the type nor the amount of petroleum resources beneath the ANWR coastal plain are known at this time. Although the KIC well data may provide tremendous additional insight, the geologic and geophysical data are simply insufficient to determine exactly what is there with a high degree of confidence.

Resource Analysis Methodology

This methodology cannot provide the actual dollar value of the subsurface oil and gas rights beneath individual 2,560 acre tracts in ANWR.

The methodology is inadequate for that purpose because it can, at best, only provide a range of estimates of value, not the actual value.

The actual value of each of the ANWR tracts will only be known after the reservoir(s), if there is one, has been fully produced. For only then will the geologic and economic variables (price of oil, cost of infrastructure, etc.) have revealed themselves.

DOI's ANWR tract values are merely one set of estimates based on one groups' assessment of numerous SUBJECTIVE input variables, such as size and exact location of the potential trap(s), thickness of potential productive reservoir rocks, gas/oil mix, percent fill of the trap(s), future price of oil, timing of development, transportation costs, etc.

There are no studies, to our knowledge, which show more than just a random correspondence between actual competitive bids and either BLM's or MMS' pre-sale, minimum acceptable bid estimates. The actual bids are generally much higher than the estimates.

DOI's single point estimates of value for each of the 576 individual ANWR tracts are not the actual value of those tracts-- however, perhaps more importantly, they are also not the FAIR MARKET VALUE of the ANWR tracts.

FAIR MARKET VALUE is established only in open, competitive bidding in a traditional competitive lease sale.

The terms of both the Old Harbor-Texaco and Koniag-Chevron Group/Phillips lease agreements indicate some measure of what the minimum fair market value for the ANWR tracts acquired in those agreements might be. It is a minimum value because the process was non-competitive, with only the partner companies involved.

THE ANWR LAND EXCHANGES

QUOTES CONCERNING THE RESOURCE ANALYSIS METHODOLOGY

Resource analysis methodology can neither determine the actual dollar value of the individual 2,560 acre ANWR tracts nor the true, fair market value of those tracts. The methodology is limited by the available ANWR data and by the fact that it can only provide a range of subjective estimates of tract value.

Quotes on Limitations of Methodology:

1. From Koniag, Inc. Proxy Statement, October 8, 1987, page 30:

"...there is substantial uncertainty as to the value of the Oil and Gas EDP (Exploration, Development and Production) Interests and the value of the contingent interests under the Lease Agreements." (emphasis added)

2. From Old Harbor Proxy Statement, August 28, 1987, page 10:

"...nor can there be any assurance that the values set by DOI fairly estimate the oil and gas potential in the ANWR tracts selected by Old Harbor."

3. From the Energy Information Administration Service Report, Potential Oil Production from the Coastal Plain of the Arctic National Wildlife Refuge, Revised Edition, October, 1987:

page 11: "Without the benefit of exploratory drilling on site, both kinds of estimates include significant subjective judgements; and, estimates of in-place and economically recoverable oil are both best described in terms of probability distributions."

page 19: "It should also be understood that any probabilistic assessment of recoverable crude oil reserves is basically judgmental -- in spite of the scientific appearance of complex computer models that may have been used in deriving it."

4. From attachment to memo to ANWR Land Exchange Negotiating Team from Bill Horn, June, 1987.

"Devoting sufficient resources to appraising the oil and gas development value of the ANWR is certainly an important ingredient in achieving fair market value for the public's resources." "...appraisals in and of themselves do not ensure receipt of fair market value. Receipt of fair market value can be ensured under adequate, open competition among willing but not obligated buyers and sellers."

5. From the Arctic National Wildlife Refuge, Alaska, Coastal Plain Resource Assessment, 1987, Volume 1:

"The existence of potential hydrocarbon formations or prospects is not known with certainty prior to exploratory drilling. Information concerning the existence of potential producing fields is derived from inferences, extrapolations and subjective judgments."..."No data are available on the nature and distribution of included hydrocarbons or whether hydrocarbons are present at all. An exact prediction of resource quantities under such conditions of uncertainty is impossible because the uncertainties in the input data translate to uncertainties in the answers." (emphasis added)

6. In Decision Analysis for Petroleum Exploratin, Paul D. Newendorp, 1975, page 368:

"...we must not fall into the error of believing that because we have attached a number to a chance that we have thereby made a successful issue more sure, or have in any way altered its probability. Further, we must be ever on the watch for that most insidious and widespread superstition that assumes that mathematical manipulation, if sufficiently accurate, involved and prolonged can transmute doubtful data into positive scientific fact."- Hayward, 1934.

THE ANWR LAND EXCHANGES

SUMMARY OF DOI'S FAILURE TO RECEIVE FAIR MARKET VALUE

In order to estimate the undiscovered recoverable oil resources for an area, it is necessary to produce maps of all of the individual prospects.

Many of the selections made by the Native groups and their industry partners in ANWR, by DOI's own admission, overlie prospects which DOI failed to map. Therefore, DOI would have been unable to estimate dollar value for the resources contained in these "unmappable" prospects.

Many of the selections overlie the elongated, northeast-southwest oriented structural trends that involve the Tertiary and Mesozoic rocks in major thrust-related folds.

DOI was unable to produce maps of these potential hydrocarbon-bearing structures, as illustrated in the following direct quotes from the final 1002 report.

However, DOI attributed a minimum value of about \$300 per acre to most of these tracts based on unknown considerations and methodology. The industry partners obviously attributed great value to these tracts since they were selected by them in the non-competitive selection process.

Quotes from the 1002 Report:

p.67: "No prospects were adequately resolved within the detached and highly deformed Mesozoic and Tertiary rocks."
"...the probability of traps occurring in the subsurface in this structural setting is high, although determining their location on the basis of existing seismic data is difficult."

p. 76: "The estimate of economically recoverable oil resources for the 1002 area represent an assessment of only the structural prospects which were identified on the basis of seismic interpretation." (emphasis added)

These quotes reveal that recoverable resources were estimated only for the 26 seismically mapped structures; none of the major Tertiary/Mesozoic structural trends (over which many selections were made) were adequately resolved to even attempt estimates of resources or dollar value.

As revealed in the Koniag-Chevron Group/Phillips and Old Harbor-Texaco lease acquisition agreements and in the fact that DOI assigned only a minimum value to many tracts where prospects could not be mapped or identified, the native corporations stand to receive substantially more from the exploration of the tracts which they selected than DOI has claimed those lands to be worth.

THE ANWR LAND EXCHANGES

SUMMARY OF THE IMPACT OF THE EXCHANGES

The Department of the Interior (DOI) in its press release on the land exchanges dramatically downplays the impact of the exchanges when it is quite clear that the selections, in effect, transfer the subsurface petroleum rights to the most prospective portions of the coastal plain to a few select companies and Native corporations in a non-competitive process.

The selection pattern, when overlain by the major structural trends maps (the trends that are likely to be traps or contain multiple traps), reveals that the most prospective ANWR tracts have been selected in either the 1983 ASRC exchange or the currently proposed exchange.

The selections target the structurally highest portions of the very large prospects #18 and #19 (from the 1002 report), as well as the prospects with a chance for closure aligned along the major Tertiary thrust fronts.

All tracts within the boundaries of the 26 structures identified in the 1002 report are not equally prospective. Those tracts which overlie portions of structures that exhibit closure in all directions, and those tracts which overlie the highest parts of the structures are the most favorable. These are, in large part the tracts that have been selected for exchange.

Questions for the ANWR Exploration Experts

One measure of the relative prospectiveness of the lands already exchanged or proposed for exchange is revealed in the answers to the following questions which can be asked of explorationists with specific knowledge of all the ANWR data:

1. Would you rather own the approximately 266,000 acres (about 100,000 acres in the previous ASRC exchange and about 166,000 in the currently proposed exchange) already exchanged and selected for exchange in ANWR, or the entire remaining acreage (approximately 1.25 million acres) of the coastal plain?
2. Disregarding the previous ASRC exchange lands, would you rather own the approximately 166,000 acres selected in the currently proposed exchange, or any other 166,000 acres of the coastal plain?
3. Again, disregarding the previous ASRC exchange lands, would you rather own the approximately 166,000 acres selected in the currently proposed exchange, or the entire remaining coastal plain acreage (approximately 1.25 million acres)?

THE ANWR LAND EXCHANGES

SUMMARY OF THE VALUE TO BE EXCHANGED

For the purpose of the 1983 ASRC ANWR land exchange, DOI originally estimated the subsurface mineral rights of the approximately 100,000 acres of the ANWR coastal plain to be conveyed to ASRC to be worth about \$388.5 million, of which \$111.8 million represented the bonus value and \$276.7 represented the royalty value.

Through a discounting process that considered Alaska's 90% statutory revenue share, and the application of risk factors related to the likelihood of opening and ultimate ownership, the original value of \$388.5 million was reduced downward to a final total value about \$5.9 million.

DOI conveyed the subsurface mineral rights to the approximately 100,000 acres of the coastal plain for the surface rights to about 100,000 acres in the Chandler Lake area which had an attributed value of \$5.1 million.

In the currently proposed exchanges, DOI stands to receive about 891,000 acres of refuge inholdings with a total NEGOTIATED value of about \$538.7 million. DOI retained no royalty interest in any of the ANWR exchange lands.

The Native groups and their industry partners stand to receive the subsurface mineral rights to about 166,278 acres of highly prospective coastal plain acreage, valued by DOI for the purpose of this exchange at about \$538.7 million.

The proxy statements of Old Harbor and Koniag, Inc. reveal that these Native corporations will transfer the oil and gas rights to their industry partners for cash payments which approximately equal the total value DOI attributed to the ANWR lands selected PLUS SUBSTANTIAL royalty interests in any production from those lands and certain other ANWR lands their partners may acquire.

Old Harbor stands to receive royalty payments of 14% on the lands it selected plus 1.5% on certain other ANWR lands their partner, Texaco may acquire.

Koniag stands to receive royalty payments of 20% (which can be converted to a 40% net profit share) on the lands it selected plus 0.51% and/or 0.255% on certain other ANWR lands their partners, the Chevron Group and Phillips may acquire.

The terms of the lease acquisition agreements between the other four Native entities and their respective industry partners are not known.

THE ANWR LAND EXCHANGES

SUMMARY OF THE BASIS FOR INDUSTRY BIDS IN A LEASE SALE

Historically, competitive lease sales, even in high potential areas, have drawn much interest from some oil companies, and very little from others. The bidding in a sale can be very diverse; some tracts, usually those perceived as having high potential, oftentimes receive a wide range of bids. On the other hand, certain other tracts may be highly attractive to some companies but of no interest to others.

Oil companies determine their specific bidding strategies based upon certain of the following considerations:

1. The company's resource evaluation based on geological and geophysical interpretation of the subsurface.
2. The company's current lease holdings adjacent to sale area.
3. The nearby production facilities the company operates.
4. The degree of competition anticipated from other oil companies for specific tracts.
5. The company's exploration budget allocation for bidding in the lease sale.
6. The company's current tax situation.
7. The terms of the lease sale (bonus variable, net profit, royalty, length of lease, etc.).

ANALYSIS OF VALUATION OF CORPORATION LANDS
TO BE ACQUIRED IN PROPOSED ANWR LAND EXCHANGE

STATE OF ALASKA
DEPARTMENT OF NATURAL RESOURCES

The U.S. Department of the Interior (DOI) and several Alaska Native corporations (Corporations) have entered into a tentative agreement whereby DOI would exchange oil and gas interests in certain tracts within the Coastal Plain of the Arctic National Wildlife Refuge (ANWR) for certain Corporation surface estate lands in several Alaska national wildlife refuges. The proposal calls for approximately 891,000 acres of Corporation refuge inholdings to be exchanged for approximately 166,000 acres of DOI oil and gas interests. The land and interests to be exchanged are valued by DOI at \$538.7 million.

The Alaska Department of Natural Resources has completed an analysis of the process used by the exchange participants to value the Corporation lands. This analysis reveals a disturbing departure from standard federal fair market land appraisal practices. The result is a negotiated value for these lands which exceeds by from three to almost nine times the federal fair market appraisal values.

Although fair market value appraisals were completed by DOI for the Corporation lands, the resultant values were not used as the basis for the proposed land exchange. Instead, DOI employed an additional set of subjective factors in an attempt to capture through negotiation an intangible "public interest" value for uses other than development on the subject lands. The final value assigned the Corporation lands, and used as the basis for acquisition of the ANWR oil and gas rights through exchange, was determined solely through negotiation between the Corporations and the DOI Assistant Secretary for Fish and Wildlife and Parks (Assistant Secretary). Unfortunately, the administrative record detailing this negotiation process is inadequate to determine all applicable considerations used by the parties in negotiating and assigning the final "public interest" values. Furthermore, the available record does not reveal how the parties may have addressed and discounted a number of individual factors which collectively influenced the valuation process, as described below.

1. DOI did not follow uniform federal land appraisal practices. Instead it substituted subjective factors through negotiation to inflate the final value of the Corporations' surface estate refuge inholdings.

DOI is required to adhere to the Uniform Appraisal Standards for Federal Land Acquisitions (1973) when conducting appraisals for purposes of an exchange of land. These standards require that fair market value appraisals be completed as a basis for subsequent land transactions. Furthermore, as described in the policy section of these standards, "in acquiring real property, or any interest therein, it is the policy of the United States

impartially to protect the interests of all concerned." This policy was reinforced by the U.S. Supreme Court, whereby the following appears Searl v. School District, Lake County, 133 U.S. 553, 562 (1890).

"Since public funds are involved, it is incumbent upon all who are employed to represent the public interest . . . it is the duty of the State in the conduct of the inquest by which compensation is ascertained, to see that it is just, not merely to the individual whose property is taken but to the public which is to pay for it."

Although the DOI completed fair market value appraisals of the Corporations land during 1985-87, at an estimated cost to the United States of more than \$350,000, these appraisals, with one exception (accessible land within the Kenai National Wildlife Refuge), were not used as the basis for land valuation in the proposed exchange. Instead, DOI chose to develop and engage a heretofore new, untried and subjective procedure to value the nonfederal lands acquired by DOI through exchange, and then failed to adhere to this procedure.

The new DOI land valuation procedure is outlined in a February 20, 1987 memorandum to the federal ANWR Exchange Negotiating Team from the Assistant Secretary. The procedure attempted to capture the environmental/public interests which may be associated with the lands. This information was then used by DOI to negotiate final values with the Corporations. However, the sole responsibility within DOI to negotiate final land values for the Corporation land resided with the Assistant Secretary.

Section 1302(h) of the Alaska National Interest Lands Conservation Act (ANILCA) does allow DOI to conduct land exchanges in Alaska for other than equal value, if it is determined they are in the public interest. However, Section 1302(h) of ANILCA does not absolve DOI from the responsibility of defining the "public interest" value in precise terms which can be examined by the affected public.

According to DOI officials and Corporation representatives knowledgeable about the valuation process, the Assistant Secretary met individually behind closed doors to negotiate and determine final Corporation land values. There is little or no written administrative or other public record to document the rationale used by the Assistant Secretary to determine these final values. It is reported that no other DOI official besides the Assistant Secretary was present at any of these final valuation meetings. As a result, the public record does not document the valuation adjustments which may have occurred. Therefore, there is no way to ascertain whether the negotiations between the Assistant Secretary and the various Corporations were handled

consistently with similar valuations and adjustments for land of similar type and character.

The only valuation evidence pertaining to the final stages of these negotiations which does exist, was produced by the Corporations. Between June 29, 1987 and July 2, 1987, each of the Corporations provided the Assistant Secretary with written summary reports detailing the acreage and land valuation figures which had been mutually negotiated. On July 6, 1987, the Assistant Secretary then signed each of the Corporation letters to denote that DOI concurred with each of the acreage and value figures specified therein. Two of the six letters were noted as either "confidential and proprietary pursuant to the Freedom of Information Act," or "confidential exempt from FOIA disclosure."

Figure 1 (attached) provides a comparison of the actual fair market land appraisal value completed by DOI from 1985-1987, and the final negotiated values for the Corporation land. The comparison is not exact, because more Corporation land was appraised by DOI than was ultimately included in the proposed exchange. However, most, if not all of the appraised areas included the land in the proposed exchange. In addition, the excess land included in the DOI appraisals was of very similar character and type to the exchanged land.

This comparison reveals that the average Corporation land \$/acre value as determined by DOI fair market appraisal was \$111.73. The average Corporation land \$/acre value as determined by negotiation between the Corporations and the Assistant Secretary was \$601.89. Therefore, the average \$/acre value of the Corporation land increased through negotiation by an average of \$490.16/acre, or approximately 439 percent. The range of the average \$/acre value differential among the Corporations land varied considerably. For example, the Akhiok-Kaguyak land increased in value through negotiation by approximately 200 percent, while the Doyon land increased by approximately 76 percent.

2. The negotiated values for the Corporation lands do not accurately account for the effect of Section 22(g) of ANCSA.

Section 22(g) of the Alaska Native Claims Settlement Act of 1971 (ANCSA) provides that land patented to a village corporation within a component of the National Wildlife Refuge System (existing in 1971) shall reserve to the United States the right of first refusal if the land is ever sold by the corporation. In addition, Section 22(g) requires that such land remain subject to the federal laws and regulations governing the use and development of such refuges.

Approximately 45 percent of the total Corporation land included in the proposed ANWR land exchange is subject to the provisions of Section 22(g). Section 22(g) affects all of the Koniag, and

Akhiok-Kaguyak land as well as about 99 percent of the Old Harbor land (located within the Kodiak National Wildlife Refuge) and over 50 percent of the Native Lands Group land (located within the Yukon Delta National Wildlife Refuge and the Kenai National Wildlife Refuge).

The effect of Section 22(g) on land use and resultant land value is profound. Land subject to Section 22(g) may only be used and developed if such uses will not materially impair the values for which the refuge was established. This development restriction has a substantial depressive effect upon the market value of land.

An example of this effect is contained in an independent report obtained by Koniag to review the DOI fair market value appraisal of its land. Koniag retained the Dirksen Appraisal Company of Anchorage, Alaska to review and analyze the methodology used in the DOI appraisal. In a September 24, 1987 letter to Koniag, Dirksen concluded that the USFWS appraisal overstated the market value of the Koniag lands by 40 to 45 percent. He further noted in the letter that the impact of Section 22(g) could reduce values from a low of 10 percent to a high of 90 percent, depending upon the land involved and the degree of control exercised by the U.S. Fish and Wildlife Service (USFWS).

The DOI administrative record fails to accurately describe the extent to which Section 22(g) resulted in a discount effect upon the Corporation land. Even the Corporation letters (cosigned by the Assistant Secretary) which identify the negotiated values are inconclusive. The Akhiok-Kaguyak letter fails to mention Section 22(g) entirely. The Old Harbor letter includes only a casual reference in a footnote to a 22(g) discount. The Koniag letter (June 29, 1987) refers to a 22(g) discount of 13 percent. However, this discount is described to apply to only 33 percent of the Koniag lands involved in the proposed exchange. The Native Lands Group land subject to Section 22(g) appears to have been discounted to a lesser (than 13 percent) extent.

3. **The negotiated values for the Corporation lands do not accurately account for the effects of the Corporation retention of subsistence access easements.**

Under terms of the proposed exchange, the affected village residents will retain certain easements on the land to be transferred to DOI. These easements will be retained for subsistence and access purposes. They grant in perpetuity the right of access for villagers to enter upon and cross the lands for the purpose of engaging in customary and traditional uses of wild and renewable resources for direct personal or family use and consumption. Also included is the right to make and sell handicraft items and continue customary trade from these lands.

The effect of these retained easements on the Corporation land

values was not consistently accounted for in the valuation process. The DOI fair market value appraisals failed entirely to deal with these easements, most likely because at the time most of the appraisals were completed, these easements were not yet part of the overall land exchange proposal.

According to the Koniag proxy statement, dated October 8, 1987, DOI and Koniag negotiated a value for the Koniag retained subsistence access easement equal to 2 percent of the gross value of the Koniag land. However, the DOI administrative record, including the Assistant Secretary's February 20, 1987 memorandum, includes no mention of a deduction for the retained subsistence access easements.

Doyon's letter to the Assistant Secretary (July 2, 1987) detailing final acreages and negotiated land values also identifies a 2 percent subsistence easement reduction. However, this reduction is shown to apply to only about 30 percent of Doyon's land included in the proposed exchange.

Therefore, it is difficult to determine whether DOI uniformly discounted this or other Corporation land values also subject to the subsistence access easements. The only other proxy statement published to date (Old Harbor, August 28, 1987), includes no mention of any valuation discount, even though there is specific reference to the retainment of these subsistence access easements. If there is an across-the-board 2 percent subsistence access easement deduction on all Corporation land subject to the easement, DOI has failed entirely to describe the rationale behind the deduction.

4. The negotiated values for the Corporation lands do not recognize the risk associated with the Corporation's retention of the subsurface estate.

All Corporation land proposed for exchange excludes the subsurface (mineral) estate, even though this estate (where owned by the Corporations) was potentially available for acquisition by DOI. Most of the Corporation areas proposed for exchange consist of Native village corporation surface estate land acquired under ANCSA. Outside of the village corporation land within those national wildlife refuges in existence in 1971, Native regional corporations acquired the subsurface estate under the village corporation lands (approximately 55 percent of the total Corporation land proposed for exchange).

According to DOI correspondence, it was determined early in the exchange process that the Corporation subsurface estate would not be acquired. The rationale for this decision appears to be that the additional cost to the U.S. to obtain these lands was not justified, nor necessary to protect refuge resources.

In a March 6, 1987 letter to the Co-Chair of the Alaska House Resources Committee, the Assistant Secretary suggested that including a subsurface estate component in the ANWR exchanges might have an adverse impact on federal efforts to acquire the Corporation in-holdings. He said the acquisition of the subsurface estate:

" . . . might work contrary to our exchange objectives (i.e. subsurface interests offer no wildlife values per se). In the context of the current exchange proposals, we are unaware of any significant subsurface resources that might be developed in the foreseeable future. If there are developable subsurface resources available, their exchange value, if high, may inhibit our exchange objectives by reducing the amount of ANWR interests that might otherwise be available for the acquisition of inholdings."

However, this finding is inconsistent with the facts. Under both state and federal law, the subsurface estate owner has the right to reasonably access and utilize the surface estate as part of his ownership interest. Therefore, the failure of DOI to acquire the subsurface estate leaves the threat of future exploration and development on these lands for locatable minerals, including oil and gas. Furthermore, under ANCSA, the subsurface estate is defined to include sand and gravel, a resource in high demand in many rural areas of Alaska. The residual subsurface ownership interest is yet another influence on the value of the surface estate which DOI failed to address.

It has been suggested that the DOI and Corporations may have purposefully excluded the Corporation subsurface estate from the proposed land exchange due to concern that it may trigger the revenue sharing requirements of Section 7(i) of ANCSA. Section 7(i) provides that ANCSA regional corporations (which own the subsurface estate under village corporation surface estate) must share with all other regional corporations 70 percent of the revenues derived from timber and the subsurface estate conveyed to them under ANCSA.

There is evidence to support this contention. On July 16, 1987, the Sealaska Corporation (an ANCSA regional corporation not involved in the proposed exchanges) initiated an arbitration against Koniag (an exchange participant) claiming that any revenues derived from ANWR oil and gas interests acquired by Koniag in the proposed exchange are subject to the revenue sharing provision of Section 7(i). There is as yet no ruling in response to this claim.

5. The negotiated values for the Corporation land do not reflect the title uncertainty associated with the land.

The Corporation land proposed for exchange includes many areas which are selected but not owned by the Corporations. Although the selections have been reviewed by the Bureau of Land Management (BLM), and are preliminarily determined to be valid, there can be no absolute claim of ownership to these lands until they are actually conveyed to the Corporations. All ANCSA land selections are subject to valid existing rights, including possible third-party interests (e.g. Native allotments, federal homesites, trade and manufacturing sites, etc.) and ownership claims by the State of Alaska to submerged lands under navigable waters.

Approximately 25 percent of the Corporation land proposed for exchange is selected, but not yet owned, by the Corporations. In this sense, DOI is proposing to exchange ANWR oil and gas interests, on an equal value basis, for some lands which are not owned, and in some cases, may never be owned, by the Corporations. For example, 143,344 acres (48 percent) of the Native Lands Group land proposed for exchange is not owned, rather is selected, by the Corporations.

The State of Alaska estimates there are dozens of waterbodies (rivers and lakes) within the areas proposed by the Corporations for exchange for which there has not yet been a navigability decision by BLM. The state asserts ownership to the submerged lands under navigable waters (lakes and streams) by virtue of the Alaska Statehood Act and the Equal Footing Doctrine. A BLM navigability or court decision on these waterbodies is required to determine ownership to the submerged land under navigable waters. Therefore, DOI may have included in the proposed exchange, and paid for, land which is owned by the state.

Another title uncertainty exists with respect to the survey status of the Corporation land. A substantial portion of the total Corporation land proposed for exchange has not yet been surveyed for purposes of patent. Survey status of land has a significant influence upon land title and value. Prior to survey, the amount of land owned by a particular Corporation can only be estimated. Second, the survey will meander (exclude) waterbodies which are owned by the state.

In addition, patented (surveyed) lands are generally considered more valuable in the market place than are unpatented (unsurveyed) lands. Financial institutions in Alaska will generally not allow real estate mortgage loans on unpatented ANCSA lands.

Another consideration is the presence of several hundred federal access easements reserved by the BLM on land conveyed to the Corporations under authority of Section 17(b) of ANCSA. These easements are generally 25 feet or 60 feet in width and may also include numerous one acre sites for public use associated with

access to adjacent public land.

Finally, there appears to have been no consideration during negotiations of the Alaska Land Bank program included in Section 907 of the Alaska National Interest Lands Conservation Act (ANILCA). The Alaska Land Bank program allows DOI, acting through the USFWS, to enter into a written agreement with the Corporations which ensures that the Corporation land would be managed by the Corporation in a manner compatible with the adjoining USFWS land use management plan.

This means that Corporation land included in the Alaska Land Bank program may not be developed unless such development is consistent with the purposes of the applicable USFWS land use plan for refuge management. Most of the Gana-A'Yoo land (56,000 acres) included in the proposed land exchange is entered into the Alaska Land Bank program. However, DOI has negotiated an average \$/acre value for the Gana-A'Yoo land which is approximately 8 1/2 times greater than the DOI fair market appraised average \$/acre value (Figure 1). This is surprising, given that these particular lands are already under the exclusive management control of the USFWS by virtue of their inclusion in the Alaska Land Bank.

12/30/87

FIGURE 1

COMPARISON OF USFWS APPRAISAL VALUES AND THE
DOI NEGOTIATED VALUES FOR CORPORATION LAND

<u>Corporation</u>	<u>Appraised¹ Acreage</u>	<u>Negotiated² Acreage</u>	<u>Appraised³ Value</u>	<u>Negotiated⁴ Value</u>	<u>Appraised \$/Acre</u>	<u>Negotiated \$/Acre</u>
1. Doyon	950,133	220,545	\$60,641,620	\$121,696,139	\$63.82	\$551.8
2. Gana-a 'Yoo	61,745	57,397	\$4,432,945	\$35,031,355	\$71.79	\$610.33
3. Native Lands Group	420,151	298,815	\$67,876,000	\$184,113,203	\$161.56	\$616.14
4. Koniag	164,619	112,564	\$26,763,000	\$77,442,711	\$162.58	\$687.99
5. Old Harbor	97,090	90,355	\$9,882,940	\$45,733,814	\$101.79	\$506.16
6. Akhiok-Kaguyak	190,729	115,947	\$41,036,000	\$75,048,516	\$215.15	\$647.27
TOTAL	1,884,467⁵	895,622	\$210,632,505⁶	\$539,065,738	\$111.72	\$601.89

¹Acreage totals based upon DOI fair market value appraisal records.

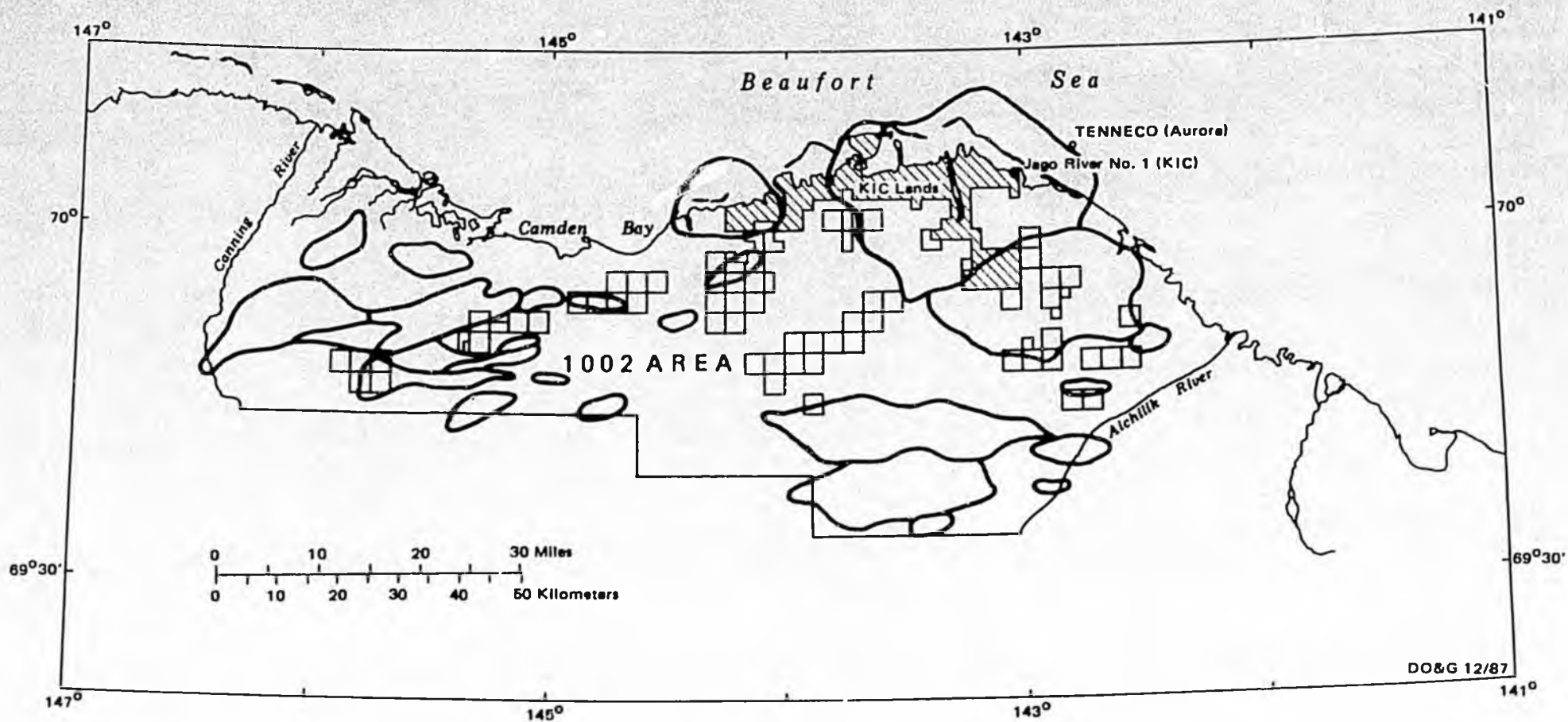
²Acreage totals based on legal descriptions submitted for approval by Corporations to DOI Assistant Secretary.

³Fair market value as determined by USFWS fee appraisers or contract appraisers between 1985 - 1987.

⁴As determined by DOI Assistant Secretary and used as basis of value for Corporation land proposed for ANWR land exchange.

⁵Includes approximately 988,845 acres that were not included in proposed ANWR land exchange.

⁶Includes appraised value for the 988,845 acres not included in proposed ANWR land exchange.

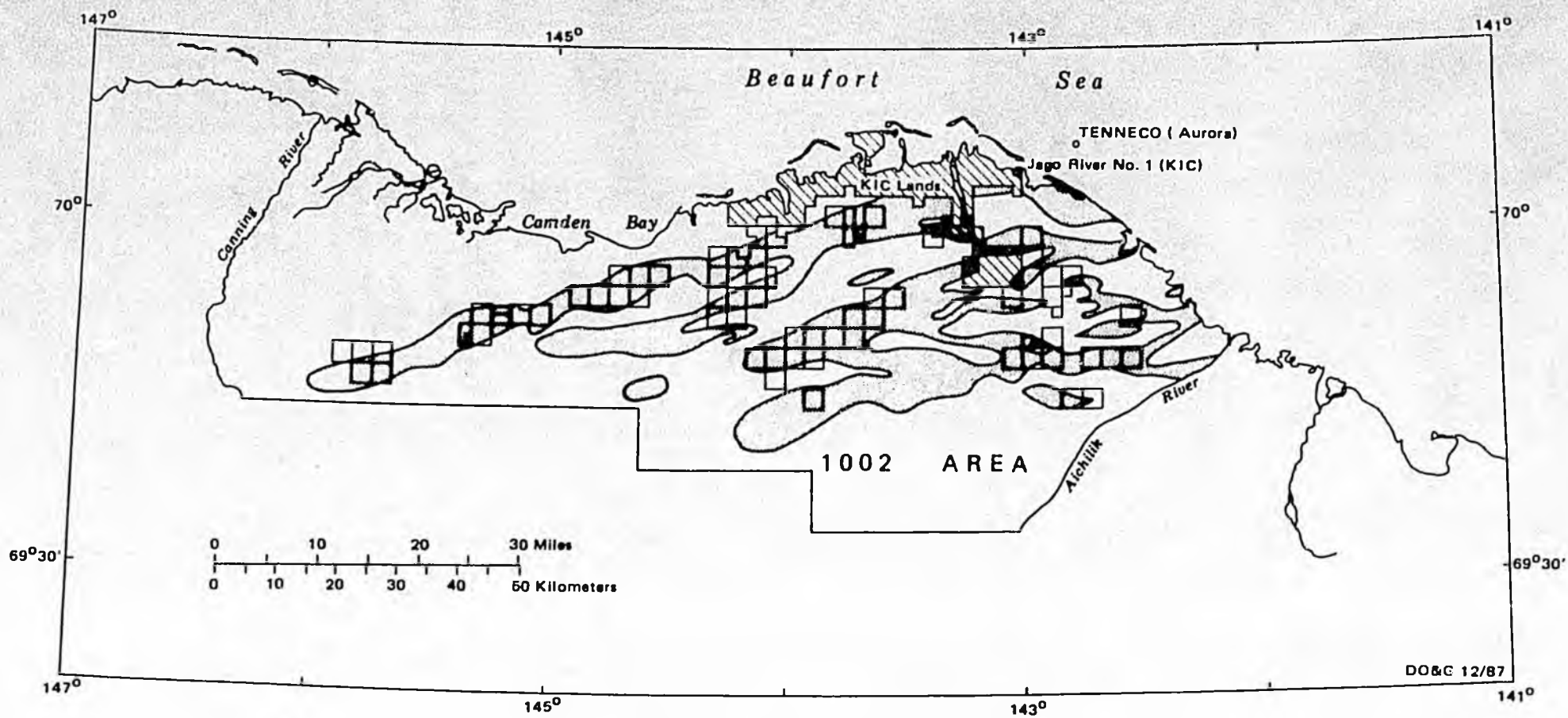


DO&G 12/87

PROPOSED LAND EXCHANGES

Department of the Interior Interpretation:

Seismically Mapped Prospects

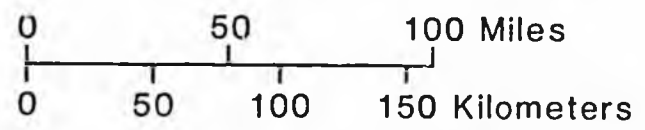
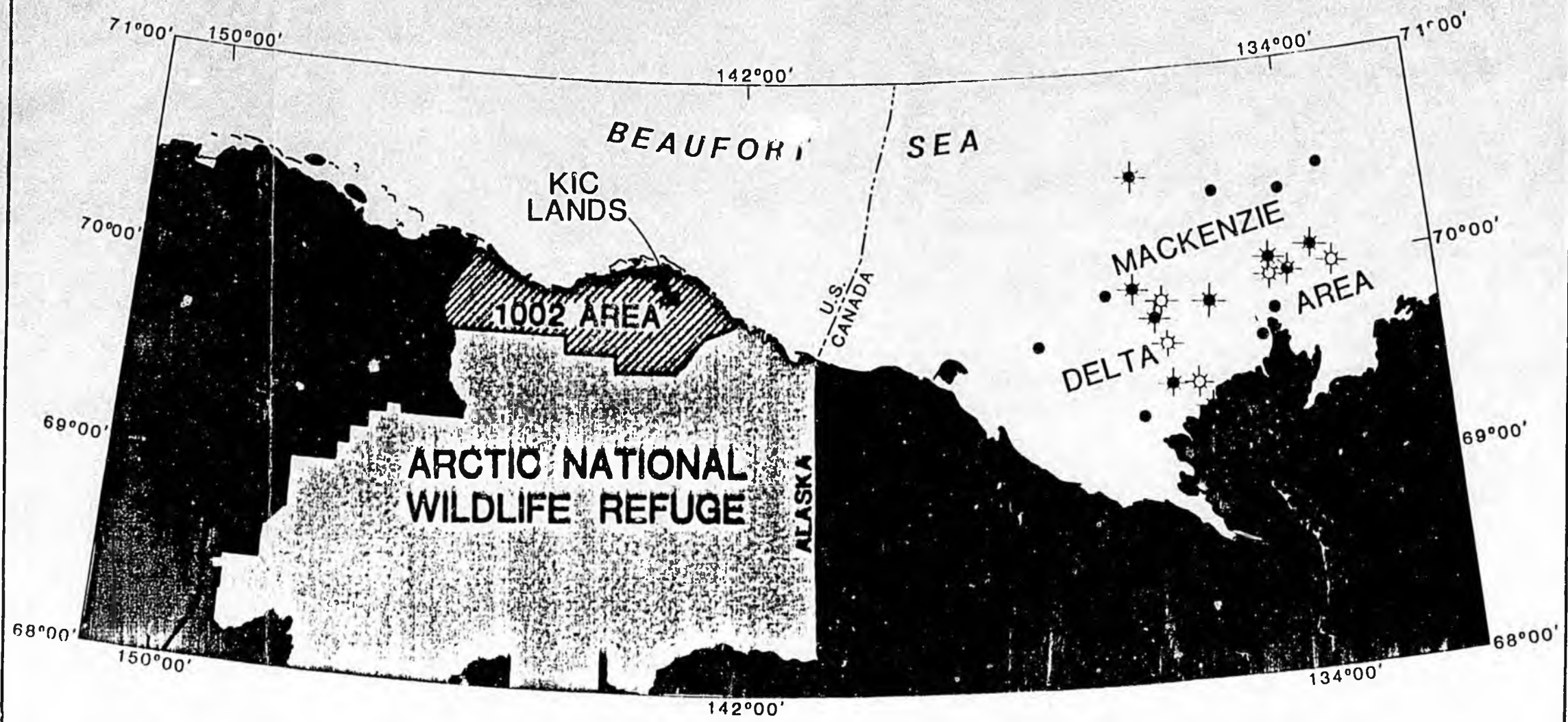


PROPOSED LAND EXCHANGES

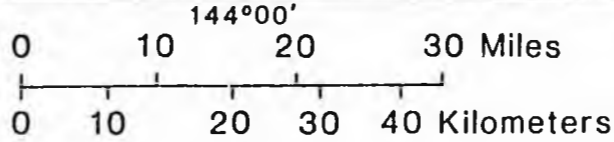
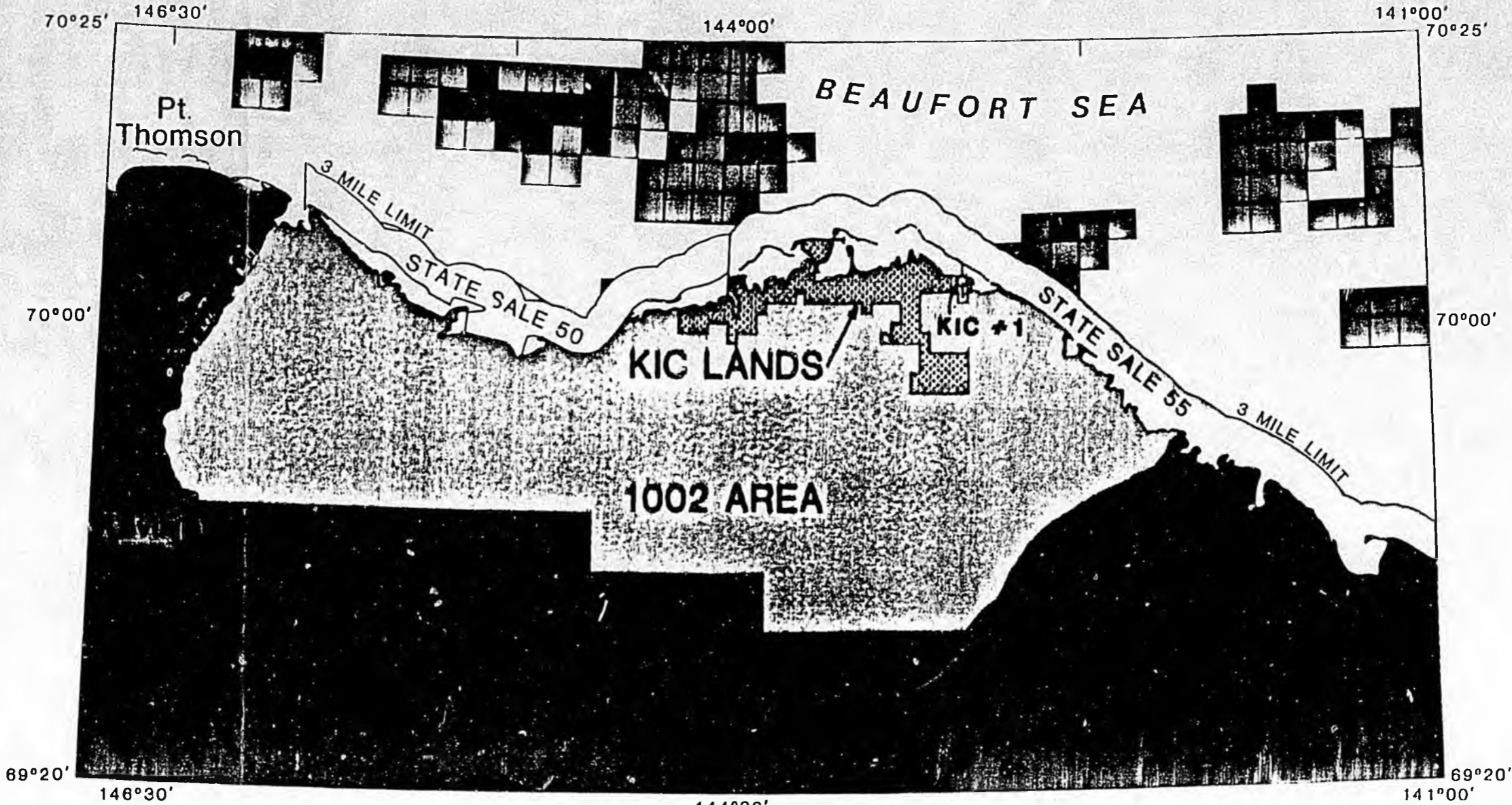
Department of the Interior Interpretation:

Trends of Highly Deformed Mesozoic and Tertiary Rocks

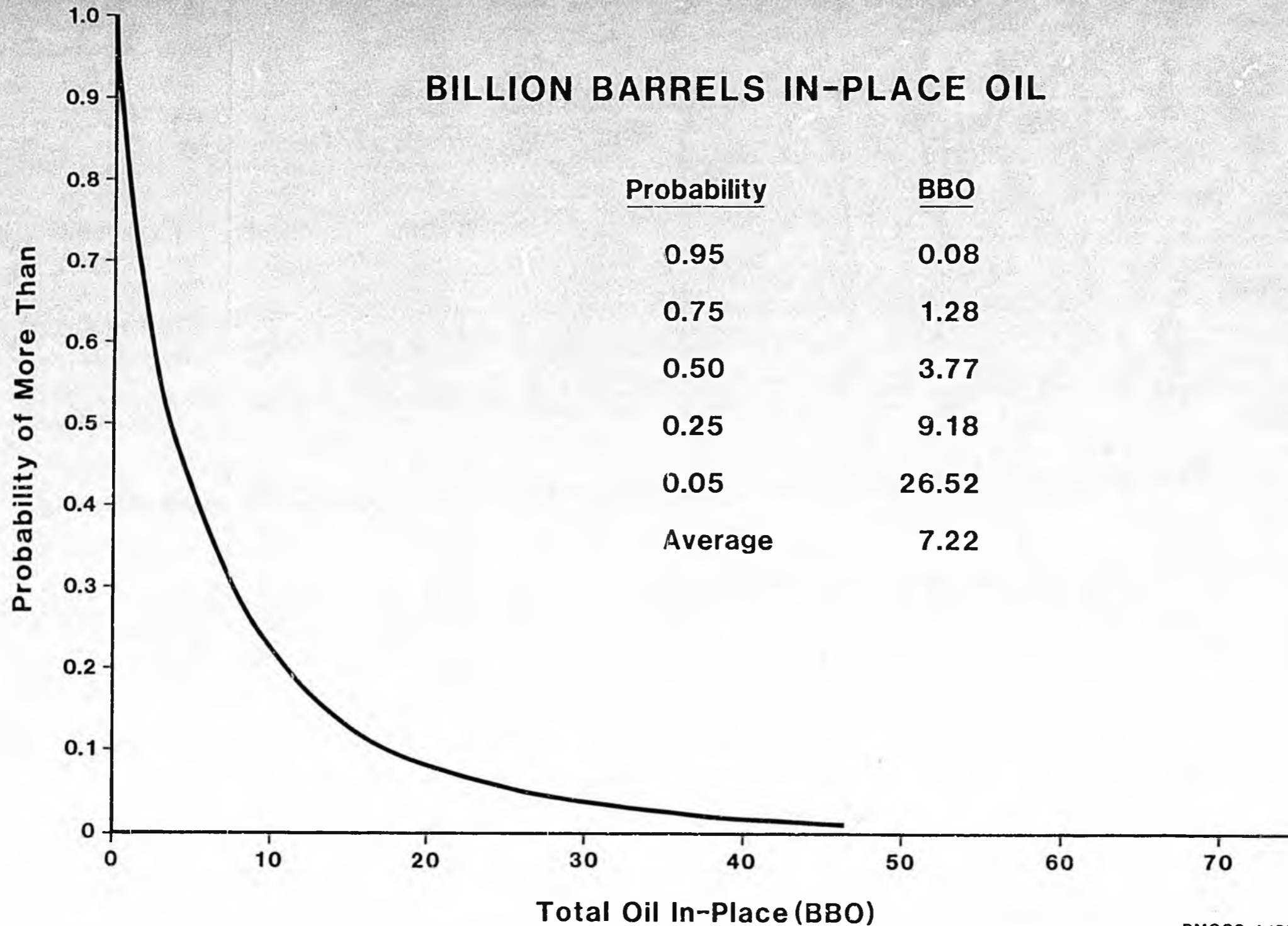
GEOGRAPHICAL LOCATION



EXPLORATION

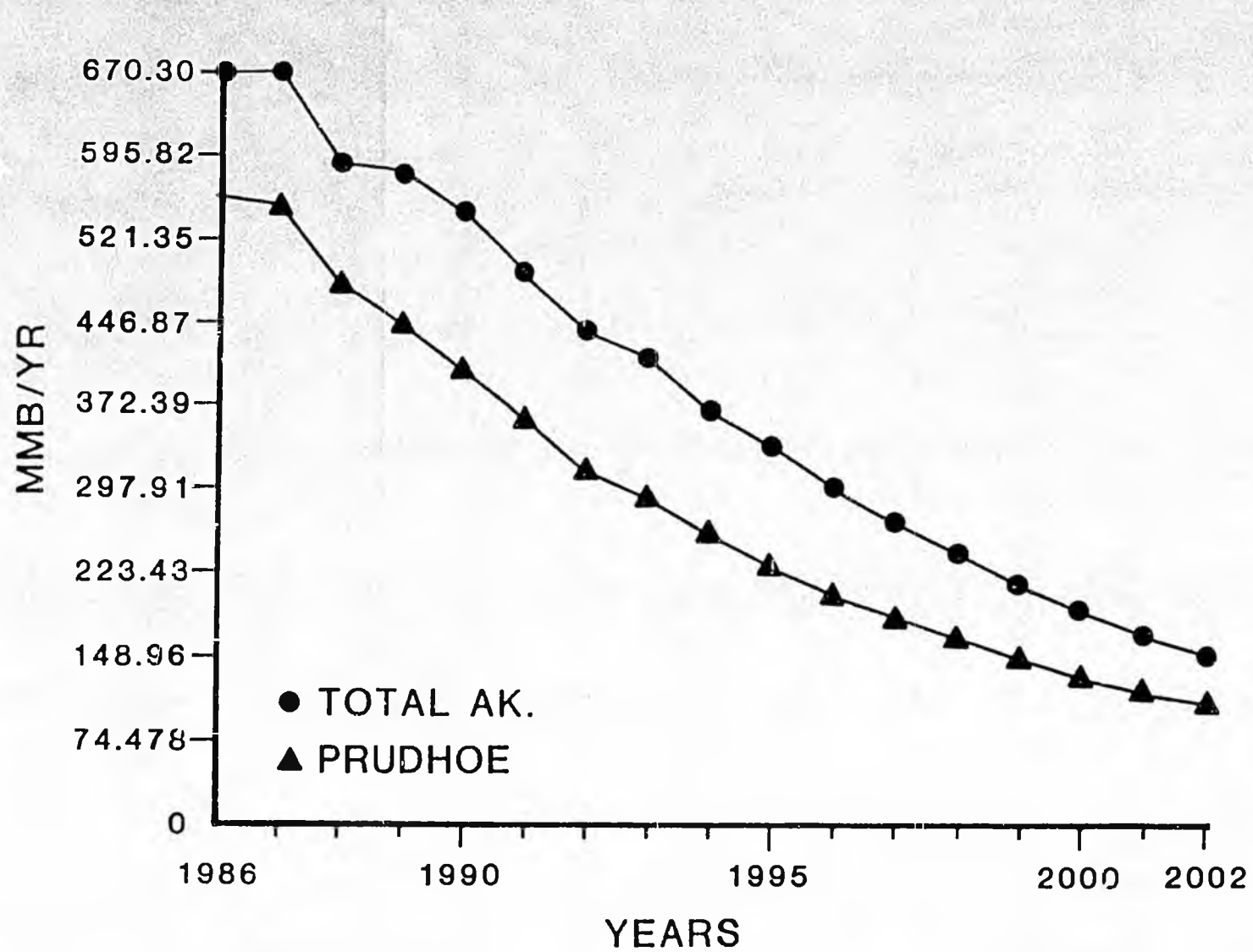


BILLION BARRELS IN-PLACE OIL



PROJECTED ALASKAN PRODUCTION

SOURCE: Dept. of Rev. March 1986 Quarterly Report



Values in Millions of Barrels

<u>YEAR</u>	<u>PRUDHOE BAY</u>	<u>TOTAL ALASKA</u>
1986	558.40	670.30
1987	549.36	669.95
1990	403.75	544.44
1995	229.36	335.52
2000	133.44	193.07
2002	107.55	151.59

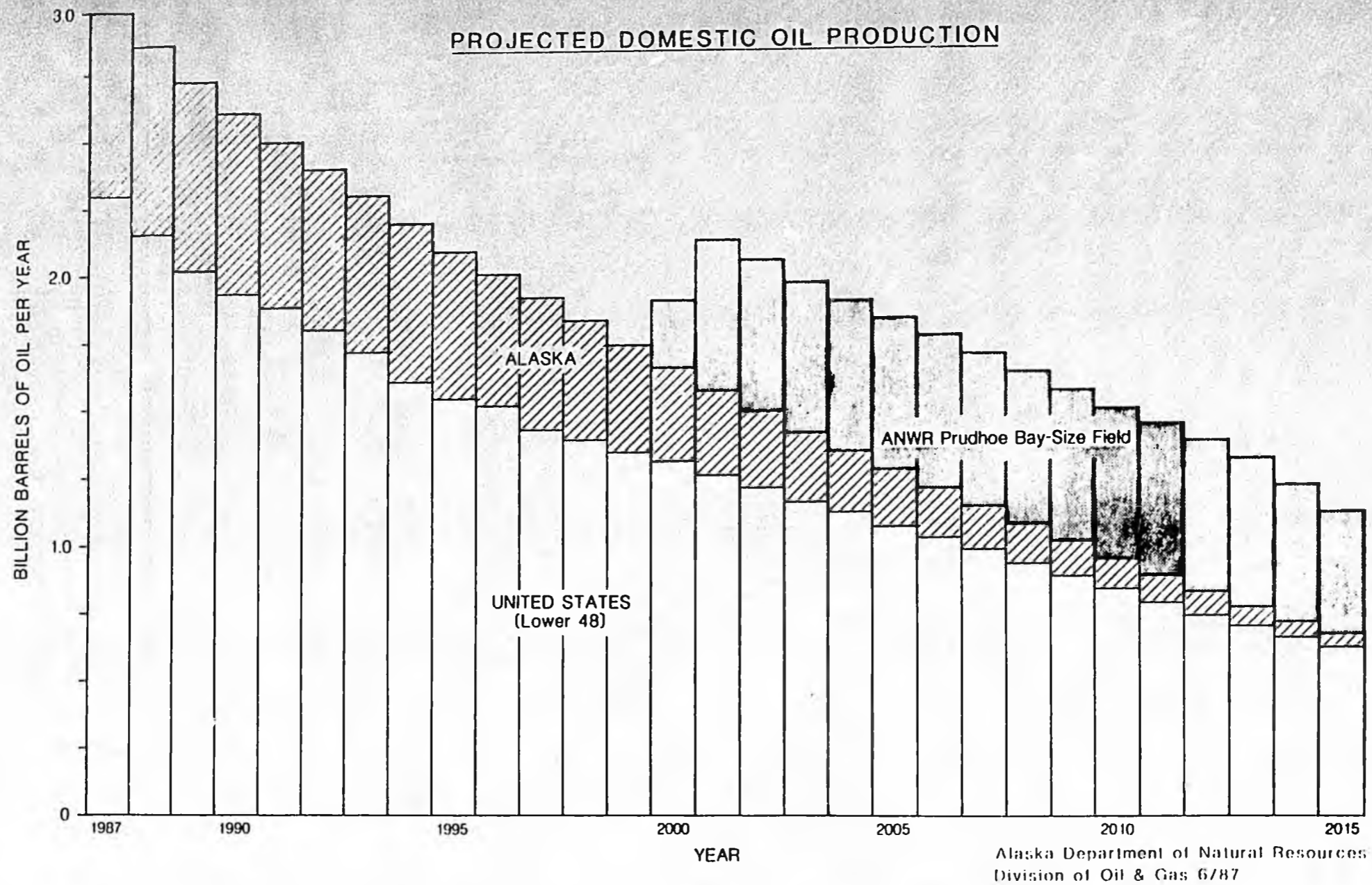
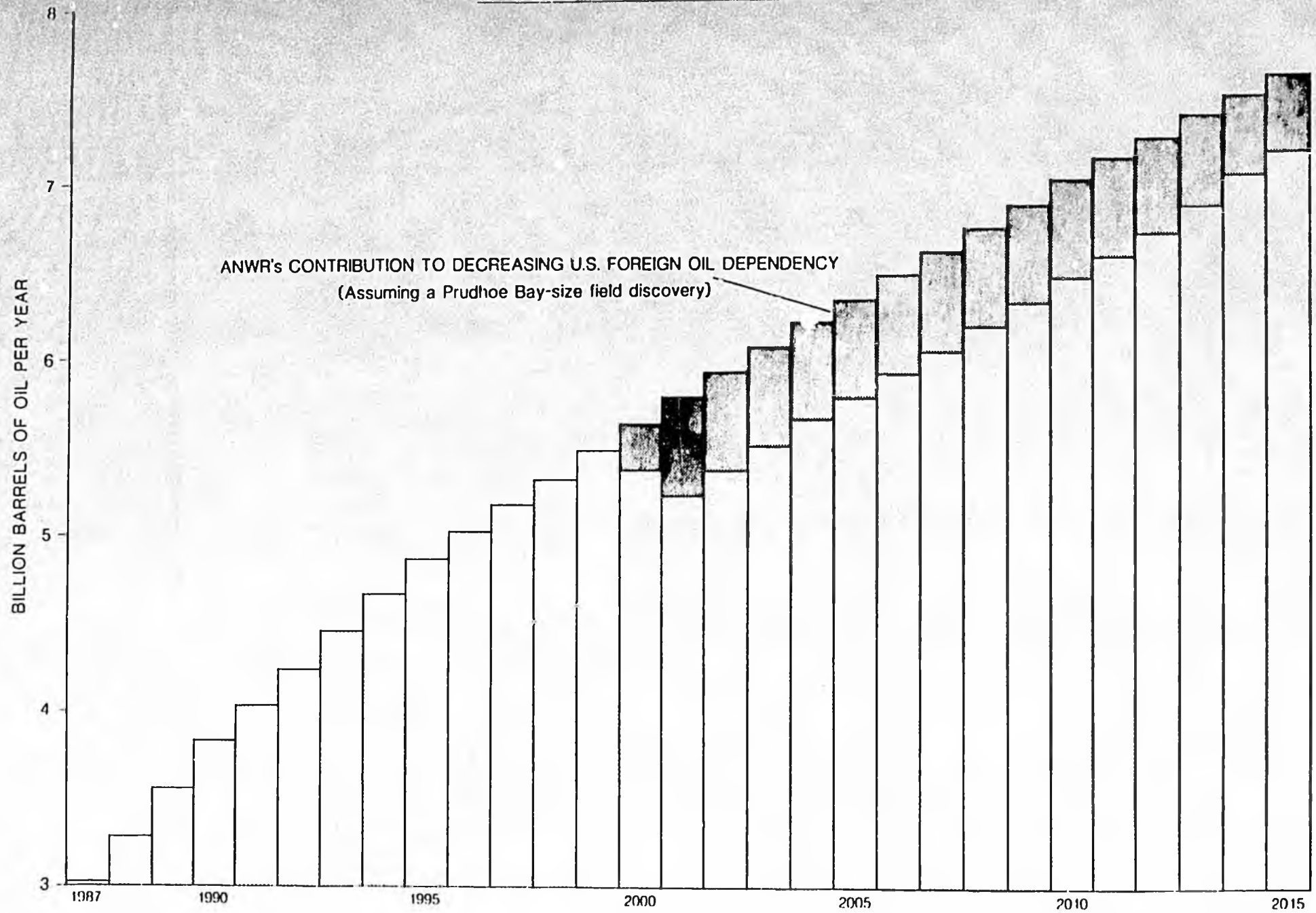


Figure 3. Projected Domestic Oil Production.

PROJECTED U.S. IMPORTED OIL



Alaska Department of Natural Resources
Division of Oil & Gas 6/87

Figure 4. Projected U.S. Imported Oil.

1983 Kaktovik Subsurface Valuation

Fair Market Value \$388,522,450

Value Adjustments

Value of State portion of
Bonuses and Royalties - \$319,340,859

Adjustment for Probability
of ANWR Closure - \$34,590,796

Adjustment for Probability of
Chandler Lake Exchange Not Occurring - \$28,666,146

Final Value of Federal Interest \$5,924,649

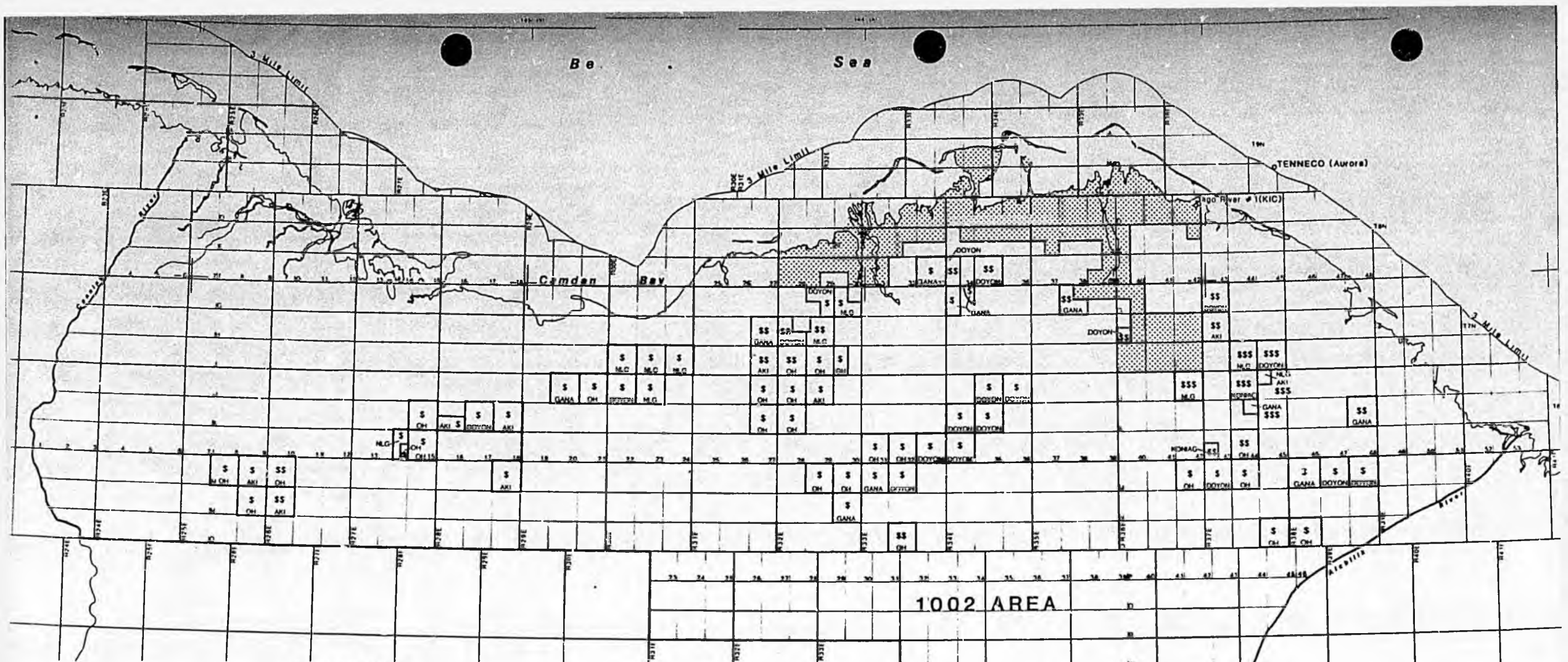
1983 ASRC Land Exchange

ASRC exchanged approximately 100,000 acres for subsurface rights to 92,000 acres in ANWR, valued by DOI at \$5.9 million.

Agreement with Chevron Group

1. Chevron Group paid ASRC \$25 million for the lease option.
2. Chevron Group will pay ASRC an additional \$12 million if Congress opens ANWR.
3. ASRC will receive 20% royalty plus a net profit share on production from its lands.

DO&G 12/87



EXPLANATION

Native Corporation

AHKIOK-KAGUYAK (AKI)

DOYON

GANA-A'YOO (GANA)

KONIAG

NATIVE LANDS GROUP (NLG)

OLD HARBOR (OH)

Industry Partners

AMOCO, SHELL

ARCO

ARCO

CHEVRON GROUP
PHILLIPS

CONOCO, EXXON

TEXACO

Dollar Value Per Acre

\$\$\$ \$19,000-\$34,000

\$\$ \$301-\$8,100

\$ \$300 (Minimum Bid)

ASRC/KIC Lands

Seismically mapped prospects

1002 AREA

PROPOSED LAND EXCHANGES

ANWR LAND EXCHANGES:

NEGOTIATED vs APPRAISED VALUES FOR NATIVE CORPORATION LANDS

<u>Corporation</u>	<u>Acreage</u>	<u>Appraised Dollar per Acre</u>	<u>Negotiated Dollar per Acre</u>	<u>Percent Increase Above Appraised Value</u>
Akhiok-Kaguyak	115,947	\$215.15	\$647.27	201%
Doyon	220,545	\$63.82	\$551.8	765%
Gana-a'Yoo	57,397	\$71.79	\$610.33	750%
Koniag	112,564	\$162.58	\$687.99	323%
Native Lands Group	298,815	\$161.56	\$616.14	281%
Old Harbor	90,355	\$101.79	\$506.16	397%

The ANWR Land Exchanges

Valued by DOI to be \$538.7 million

Exchanged

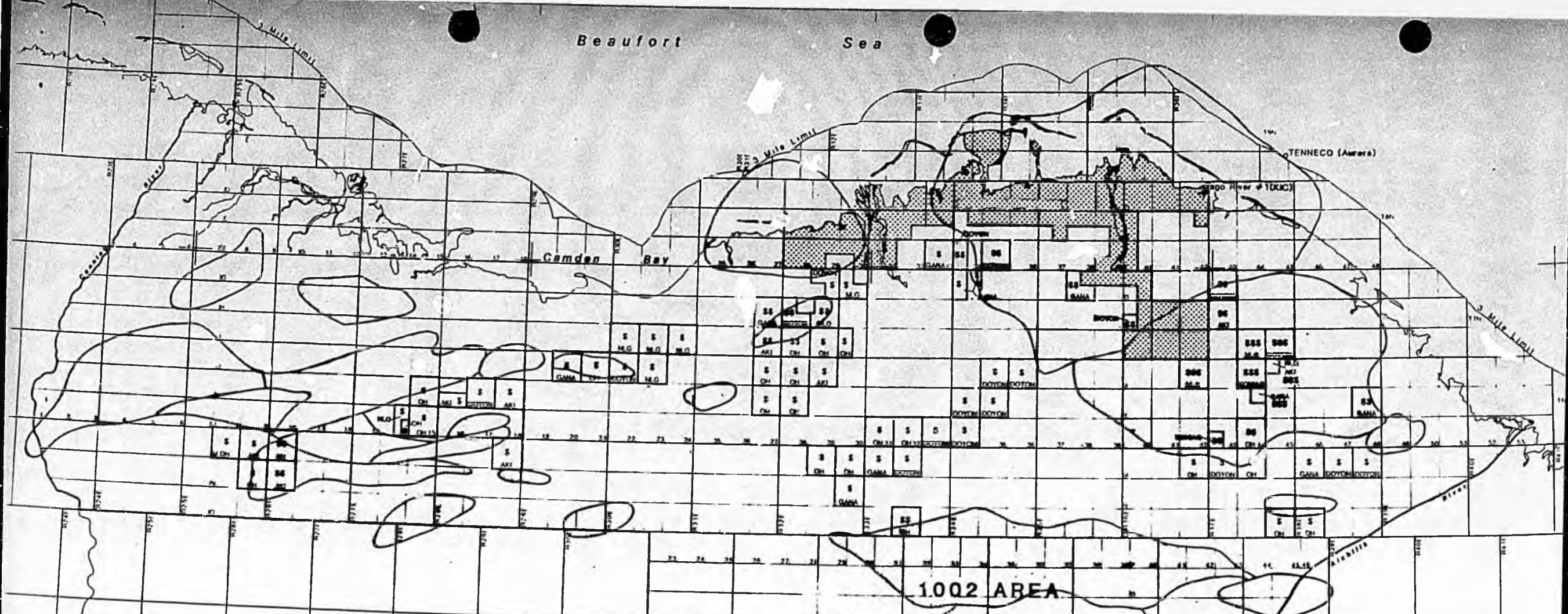
166,000 Acres – Subsurface Oil and Gas Rights in ANWR

For

891,000 Acres – Surface Only Inholdings in Alaska Refuges

Valuation Problems

- 1) ANCSA – Sec. 22(g)
- 2) Retained Subsurface Rights
- 3) Retained Subsistence Access in Perpetuity
- 4) ANCSA – Sec. 7(i) – No 70% Revenue Share



EXPLANATION

Native Corporation

AHKIOK-KAGUYAK (AKI)

DOYON

GANA-A'YOO (GANA)

KONIAG

NATIVE LANDS GROUP (NLG)

OLD HARBOR (OH)

Industry Partners

AMOCO, SHELL

ARCO

ARCO

CHEVRON GROUP
PHILLIPS

CONOCO, EXXON

TEXACO

Dollar Value Per Acre

SSS \$19,000-\$34,000

SS \$301-\$8,100

S \$300 (Minimum Bid)

ASRC/KIC Lands

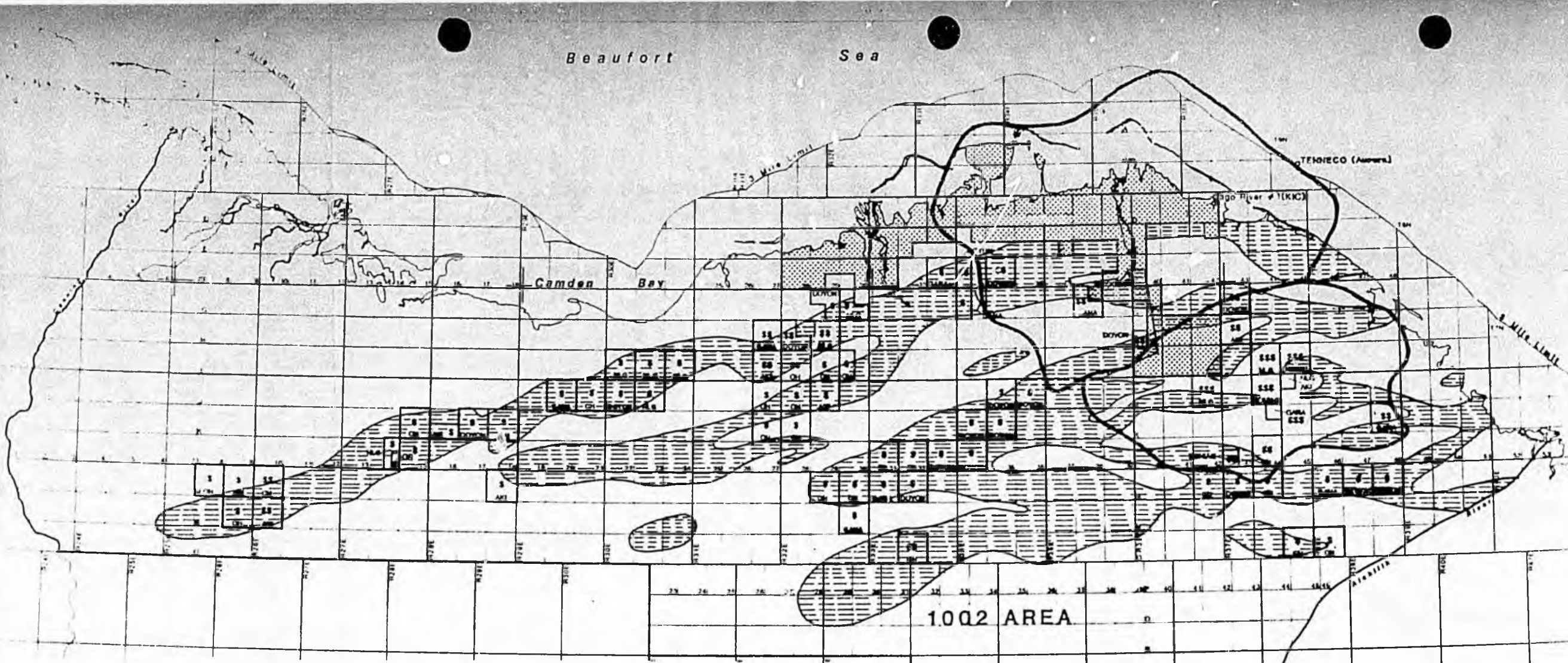
○ Seismically mapped prospects

**PROPOSED LAND EXCHANGES:
DEPARTMENT OF THE INTERIOR INTERPRETATION**

November 1987

Beaufort

Sea



EXPLANATION

Native Corporation

AHKIOK-KAGUYAK (AKI)

DOYON

GANA-A'YOO (GANA)

KONIAG

NATIVE LANDS GROUP (NLG)

OLD HARBOR (OH)

Industry Partners

AMOCO, SHELL

ARCO

ARCO

CHEVRON GROUP
PHILLIPS

CONOCO, EXXON

TEXACO

Dollar Value Per Acre

\$\$\$ \$18,000-\$34,000

\$\$ \$301-\$8,100

\$ \$300 (Minimum Bid)

ASRC/KIC Lands

Trends of highly deformed
Mesozoic and Tertiary rocks

Primary structural highs

**PROPOSED LAND EXCHANGES:
DEPARTMENT OF THE INTERIOR INTERPRETATION**

November 1987

Old Harbor Native Corporation Land Exchange

1. Old Harbor exchanges 90,000 acres for 58,000 acres in ANWR, valued by DOI at \$45.7 million.
2. Old Harbor retains easement and subsistence rights to the 90,000 acres.

Agreement with Texaco

1. Texaco pays Old Harbor \$45.7 million for the lease option.
2. Old Harbor receives 14% royalty on production from its leases and 1.5% royalty from production on any other Texaco leases in ANWR.

DO&G 12/87

Koniag, Inc. Land Exchange

1. Koniag exchanges 112,564 acres for 3,186 acres in ANWR, valued by DOI at \$77.4 million.
2. Koniag retains easement and subsistence rights to the 112,564 acres.

Agreement with Chevron/Phillips

1. Chevron Group pays Koniag \$58.3 million for the lease option.
2. Koniag receives 20% royalty on production from its leases and royalties from certain other Chevron Group leases in ANWR.
3. 20% royalty can ultimately be converted to a 40% net profit share.

OCS SALE 71 - OCTOBER 1982

<u>Tract</u>	<u>Lessee</u>	<u>Bonus</u>	<u>Royalty</u>
71-Y-332	MOBIL/TENNECO	\$71,793,250	16 2/3%
71-Y-333	MOBIL	\$148,871,130	16 2/3%
71-Y-334	MOBIL/SOHIO	\$227,173,250	16 2/3%
71-Y-335	SHELL	\$113,456,000	16 2/3%
71-Y-342	TEXACO, et al.	\$168,118,272	16 2/3%
71-Y-343	MOBIL	\$136,637,450	16 2/3%
71-Y-344	TEXACO, et al.	\$219,117,312	16 2/3%
71-Y-345	MOBIL, CHEVRON, et al.	<u>\$193,579,570</u>	16 2/3%
	Total Bonus	\$1,278,746,234	

STEVE COWPER
GOVERNOR



STATE OF ALASKA
OFFICE OF THE GOVERNOR
JUNEAU

December 7, 1987

The Honorable Robert C. Byrd
United States Senate
Washington, DC 20510-4801

Dear Senator Byrd:

Whether to permit oil and gas development on the Arctic National Wildlife Refuge (ANWR) is a major issue before the 100th Congress. The purpose of this letter is to set forth facts regarding ANWR development and to share the perspective of the State of Alaska on this matter.

Located in the northeastern corner of Alaska, ANWR comprises 19 million acres. The only area that would be open to oil and gas activity is the 1.5 million-acre coastal plain, or 8 percent of ANWR. However, according to the Interior Department, only 12,000 acres (less than 20 square miles) is likely to be affected by development. This area comprises only 0.8 percent of the coastal plain and 0.06 percent of ANWR.

Although there has been much debate about designating ANWR lands as wilderness, it should be noted that 42 percent of ANWR (8 million acres) is already established as wilderness. Included in this wilderness are 450,000 acres of the coastal plain and 30 miles of coastline. The 450,000-acre coastal plain wilderness adjoins Canada's 3 million-acre Yukon National Park.

The ANWR coastal plain lies between the oil-and-gas rich Canadian MacKenzie Delta and Prudhoe Bay. The Interior Department estimates there is a 5 percent chance of finding at least 9.2 billion barrels of recoverable oil under the coastal plain, perhaps the largest oil discovery in U.S. history. Thomas Marshall, a well-known Alaskan geologist who conducted a private study for the National Wildlife Federation, concluded that the federal estimates of hydrocarbon potential are conservative.

Senator Byrd
Page 3
December 7, 1987

Equally important to the environment is the manner in which development and production wastes would be disposed of. Time and experience with waste management in the Arctic over the last 20 years have provided vastly improved technology and management techniques. The state believes that the track records of both the industry and the government regarding development and the regulation of development on the North Slope provide a good foundation for opening ANWR to responsible oil and gas development, and we can assure you that Congress has at its disposal the technology and the regulatory tools necessary to protect the coastal plain's environment.

An essential element of any approach to mitigating impacts on fish and wildlife, as well as protecting the area's environmental quality, is cooperation between the federal and state governments and the industry. To this end, we believe that Congress should establish a joint state/federal interdisciplinary team to oversee and participate in project planning, project design review, permit actions, field monitoring and compliance. Similar joint state/federal teams have been used successfully in Alaska for large scale development projects such as the Trans-Alaska oil pipeline system and the preconstruction phase of the Alaska Natural Gas Transportation System.

Related to the issue of development is the matter of revenue disposition. The Alaska Statehood Act gives Alaska 90 percent of government revenues for mineral leasing on federal lands in Alaska. Congress approved the 90 percent allocation to compensate for the vast amount of land retained in federal ownership. This allocation to Alaska is consistent with allocations to other states. The Mineral Leasing Act of 1920 provides that 90 percent of government revenues from oil and gas leasing on public lands accrue to the states. In the lower 48 states, this dedication takes the form of a direct grant of 50 percent and a deposit of 40 percent in the Reclamation Fund, which is used to the benefit of the states.

It has been suggested that if ANWR is developed, the State of Alaska receive only 50 percent of the government revenues from mineral leasing. Not only would this treat Alaska differently from other states, but it would violate the Alaska Statehood Act. In Beecher v. Wetherby, 95 U.S.517, the Supreme Court ruled that an Act admitting a state is a specific compact between the United States and the new state and each term contained in the compact represents "an

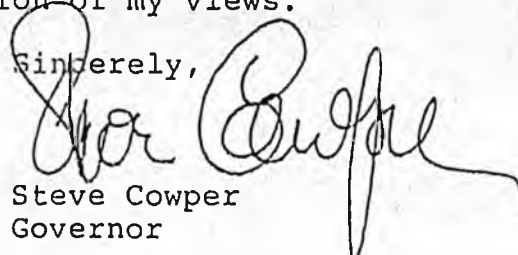
Senator Byrd
Page 5
December 7, 1987

For these reasons, the state believes that the proposed land exchanges be postponed until such time as the value of the land being exchanged can be determined with better certainty.

The state firmly believes that the coastal plain has the tremendous potential to contribute to this Nation's economic strength and energy security. If we work together, legislation can be passed that will open the area to exploration, development, and production. At the same time, we can provide the environmental measures necessary to protect and preserve the natural resources in the area. The State of Alaska strongly supports the opening of the 1002 area.

Thank you for your consideration of my views.

Sincerely,


Steve Cowper
Governor

SC/RS/JK/SS

1016

STATE OF ALASKA
OFFICE OF THE GOVERNOR
JUNEAU

STEVE COWPER
GOVERNOR

NEWS RELEASE



FOR INFORMATION CONTACT
David Ramseur
Press Secretary

Laury Roberts Scandling
Deputy Press Secretary

Office of the Governor
Box A, Juneau, AK 99811

Bus. Phone (907) 465-3500

FOR IMMEDIATE RELEASE
Feb. 15, 1988

COWPER COMMENTS ON ANWR LAND TRADES

JUNEAU--Gov. Steve Cowper today issued the following statement about proposed ANWR land trades:

"We've been working for more than a year to open ANWR to responsible development. We can't afford for that effort to be sidelined by a special deal for a handful of companies. The proposed land trades may be in the best interest of a few corporations and oil companies, but they are not in the best interest of all Alaskans."

OFFICE OF THE GOVERNOR
JUNEAU

STEVE COWPER
GOVERNOR



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October 28, 1987

The Honorable Donald P. Hodel
Secretary
Department of the Interior
Room 6151
C St. between 18th and 19th Sts., NW
Washington, DC

Dear Mr. Secretary:

During our meeting last winter in Washington, D.C., we discussed the future of the Arctic National Wildlife Refuge (ANWR). As you recall, I shared with you my assessment that the proposed ANWR land exchanges between the department and various Alaska Native corporations are not in the national or state interest.

Since our meeting, your subordinates have continued to advance the trade proposals, including participation in an ANWR tract selection and award process during early July. This tract selection process awarded the participant Native corporations more than 166,000 acres of limited oil and gas interests in ANWR, valued by the department at approximately \$538.7 million.

Based upon information regarding the selection process recently provided by the department, the State of Alaska continues to view the proposed trades as adverse to the public interest. Furthermore, as evidenced by recent events during congressional committee hearings on ANWR, the spectre of these trades continues to divert attention and hinder our mutual goal of opening ANWR to responsible petroleum production.

In order that there be no confusion regarding our stance in response to the proposed trades, I have outlined below the problem areas of greatest concern to the state.

First, I am concerned that the exchanges divert attention from the central issue of opening the Arctic National Wildlife Refuge. At least one U.S. Senator has said that his position on the central issue of opening ANWR would be decided on the issue of the land trades and that he would oppose development if the legislation included the exchanges. Precious time which could be spent on examining the relationship of ANWR to energy security has already been

lost as the key committees have responded to the land trades. Legislation in both houses clarifying congressional authority regarding the approval of the exchanges is the most tangible reflection of this diversion.

Given these uncertainties, I believe that the best way to ensure that the public receives proper compensation for the trade of specific tracts is to follow the competitive leasing process prescribed in the 1920 Mineral Leasing Act. Under this Act, competition and the system of royalties ensures that the public will be adequately compensated for the resources which have been leased.

Second, the exchanges propose to trade known surface values for unknown but highly prospective subsurface values. Although available seismic data indicate that ANWR is the most promising oil and gas frontier area in North America, these data are inadequate for purposes of a land exchange involving individual tract valuation. As a result, it is possible that extremely valuable tracts will be traded for inadequate compensation. Senator Johnston expressed this concern best when he said recently that he could not support this proposal because in the event that oil was discovered, he would be unable to explain why the U.S. exchanged mineral rights worth billions of dollars for land worth millions of dollars.

Further, I believe the public may well have been short-changed by the department's failure to also acquire Native owned subsurface estate (where available) as part of the proposed land trade. The retention by the Natives of the subsurface estate guarantees them the right to reasonable access and extraction of any minerals which may be present. This may well negate some of the public benefits claimed as a result of the proposal.

Finally, the proposed trades would unfairly deny the state its share of revenue under the 1920 Mineral Leasing Act. It is important to note that in 1983 the department traded subsurface lands in ANWR estimated as being worth \$5.6 million to the Arctic Slope Regional Corporation. As a result, the state received absolutely no consideration and as recent events evolve, the federal government may well have significantly undervalued this acreage to the detriment of the public.

Last summer, my administration outlined an alternative process to the current trade proposal. Our alternative is but one method by which the department could employ the

The Honorable
Donald P. Rode

- 3 -

October 28, 1987

usual competitive leasing process and still acquire the Native corporation refuge inholdings. Specifically, this alternative would award bid credits to the corporations equal to the value established by the department for their refuge inholdings. Each corporation could then use these credits to bid (as if they were actual dollars) in any competitive federal oil and gas lease sale (including those offshore or outside Alaska), or they might be independently sold to the highest bidder.

Although encouraged by your decision to temporarily put the entire exchange matter on hold, I sense that you intend to continue the process following further congressional briefings. While I would prefer that you end the process altogether, I am encouraged by your temporary hold order, as well as your public assurances that the trades will not be concluded administratively. I believe any attempt by the department to approve these trades administratively will only generate renewed enthusiasm and momentum for the ANWR wilderness bill.

In conclusion, I believe that the proposed trades hurt the national and state's interests, as well as our collective efforts to obtain congressional authorization for opening ANWR. Therefore, I support your decision to put this process on hold and strongly urge you to take no further action which would cloud the ANWR debate.

Sincerely,

S/S Steve Cowper

Steve Cowper
Governor

cc: Senator Ted Stevens
Senator Frank Murkowski
Congressman Don Young

SC/GG/j

100802

Comm'r Brady
AK DNR
4/23/87

ISSUES REGARDING ANWR LAND TRADES

- I. Any discussion of land trades must acknowledge that the fundamental goal is the opening of ANWR to responsible oil and gas exploration and development.

- II. Land trades must facilitate the opening of ANWR and not be counterproductive, requiring that certain criteria be met.
 - A. Any land trades must embody "good government" principles.
 1. The process must be open, not secret.
 2. All interested parties must be represented, including the state, Native corporations, conservation groups, the oil industry and the Department of the Interior.
 3. Fair value must be received by all parties; the procedures used to establish the value of exchange lands must be technically defensible and public while subsurface values in ANWR should be determined competitively in an open and free market.
 4. Environmentally and economically prudent development of ANWR oil and gas tracts must be ensured.