

ALASKA LEGISLATURE COMMITTEE FILES 1987-1988 8672
5026 HRES SB 410 - SB 430

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THE PRIVATE NONPROFIT HATCHERY PROGRAM

Background

The 1974 Alaska State Legislature authorized the Commissioner of ADF&G to issue permits to PNP corporations for the operation of salmon hatcheries for ocean ranching. The intent of the program was to allow private ownership of salmon hatcheries that would contribute to the state's salmon fisheries. The cost of constructing and operating these hatcheries was to be derived from the sale of a portion of the returning fish.

The PNP Program is administered by ADF&G, FRED Division, in cooperation with the department's fisheries management divisions, to carry out statutory and regulatory responsibilities pertaining to public and private aquaculture in Alaska.

The PNP Program is responsible for:

- o strategic salmon production planning;
- o administration of the permitting process for PNP salmon hatcheries, scientific/educational aquaculture programs, and private shellfish farms;
- o development of annual operations management plans for all public and private salmon hatcheries;
- o administration and coordination of the statewide fish transport permit system;
- o coordination of technical assistance to PNP hatcheries; and
- o coordinating the development of and ADF&G relations with qualified regional aquaculture associations.

Regional Associations

The 1976 Alaska State Legislature authorized creation of regional aquaculture associations by the Commissioner of ADF&G. Regional associations are comprised of representatives of commercial fishermen and other user groups in the region, including sport fishermen, subsistence fishermen, and members of local communities. Seven regional associations have been formed:

1. Southern Southeast Regional Aquaculture Association (SSRAA)
2. Northern Southeast Regional Aquaculture Association (NSRAA)
3. Prince William Sound Aquaculture Corporation (PWSAC)

4. Cook Inlet Aquaculture Association (CIAA)
5. Lower Yukon/Kuskokwim Regional Aquaculture Association (LY/KRAA)*
6. Bristol Bay Regional Aquaculture Association (BBRAA)
7. Kodiak Regional Aquaculture Association (KRAA)

These associations cooperate with the department in developing and maintaining regional salmon production plans and in the implementation of various salmon rehabilitation and enhancement activities.

Strategic Planning

The 1976 law authorized the Commissioner to designate regions of the state for the purpose of enhancing salmon production. This same law also established the formation of regional planning teams (RPT) to develop regional salmon plans. Each RPT consists of six voting members, with three department personnel appointed by the Commissioner and three appointed by the board of directors of the appropriate regional aquaculture association. The duties and responsibilities of the RPTs have been mandated in a formal charter from the Commissioner. The responsibilities of the RPTs in developing regional comprehensive salmon plans, including provisions for public involvement in the planning process, are described in regulations. The Commissioner may also request the involvement of representatives of other federal and state agencies.

The status of planning by region follows:

1. Southern Southeast

The southern Southeast regional plans have been approved, and the team is in the plan-maintenance process.

2. Northern Southeast

The northern Southeast regional plans have been approved, and the team is in the plan-maintenance process.

3. Yakutat

No formal salmon planning activities have occurred in Yakutat since the approval of the regional plan. The plan has been accepted by the USFS as a basis for the development of land management plans applicable to the region.

* Indicates inactive regional association

4. Prince William Sound

The Prince William Sound regional plans have been approved. The team has proceeded into the plan maintenance and updating process.

5. Cook Inlet

The planning team efforts in Cook Inlet are presently directed toward watershed system planning, with a goal of assessing the capacity of specific systems to sustain and maintain significant, naturally occurring salmon stocks. Watershed system planning also includes an identification of opportunities for salmon enhancement techniques designed to strengthen existing runs and create new runs. Provisions for user-group access and harvest preferences are given primary consideration in this planning process.

6. Kodiak

The Kodiak regional plans have been approved and the RPT has proceeded into the plan-maintenance process.

7. Bristol Bay

The Bristol Bay RPT has completed the final draft of the comprehensive salmon plan for Bristol Bay. The plan is unique in that, unlike plans for other salmon production regions in Alaska, it does not concentrate on fisheries enhancement through such strategies as hatcheries; rather, it emphasizes maintenance and restoration of fish habitat and effective management practices.

8. Lower Yukon/Kuskokwim

No formal salmon planning activities are presently occurring in the Lower Yukon/Kuskokwim region.

PNP Hatchery Funding

Since 1977, funding necessary for the implementation of salmon rehabilitation and enhancement activities by PNP corporations has been obtained primarily through the Fisheries Enhancement Revolving Loan Fund administered by the Alaska Department of Commerce and Economic Development (DCED). The loan program has gone through several modifications by the Legislature, the most recent occurring in 1987. The maximal loan amount available for an individual project is \$10 million, with a payback period of up to 30 years at approximately a 9.5% interest rate. Payments and accrual of interest on these loans can be deferred for 6 to 10 years. Loans for projects not endorsed by the regional aquaculture association may also have these terms, except that they are limited to a maximum of \$1 million. Loans are available for the purpose of planning, construction, and operation of salmon rehab-

ilitation and enhancement projects, primarily salmon hatcheries. These loans are secured through collateral that may include returning hatchery fish and assessments of commercial fishermen.

A cooperative agreement between ADF&G and DCED addresses an interagency/review and coordination process regarding PNP hatchery permit applications, the alteration of previously issued PNP hatchery permits, loans related to PNP hatchery operations, or other rehabilitation and enhancement activities.

Table 6 presents cumulative state loans secured by corporations for capital construction and operations, cumulative enhancement funds returned to the regional aquaculture associations, and revenue generated during 1987 by corporate sales of returning hatchery fish. Through July 1987, \$54.5 million has been borrowed by PNP corporations. Another \$20.1 million has been generated through assessments. In 1987, PNP operators sold fish worth more than \$6.5 million to recover the cost of building and operating their hatcheries.

Program Implementation

The application procedures and standards for issuance of PNP salmon hatchery permits are defined by regulations issued in 1985.

These regulations require the completion of a management feasibility analysis by ADF&G prior to the submission of a PNP hatchery application. This analysis must be completed within 30 days after the applicant provides the information requested in 5 AAC 40.130 of the regulations. The application process takes approximately 135 days and is designed to comply with the coastal zone consistency review process established by the Governor's Office of Management and Budget.

The appropriate RPT reviews each application and makes a recommendation to the Commissioner on the application's compatibility with the regional comprehensive plan. The RPT uses review criteria that are defined in the PNP regulations.

PNP permit holders may request alterations of their permits and basic management plans, based on accumulated experience and changing conditions. The RPT may review and make a recommendation to the Commissioner on a permit alteration request. The team's review is conducted in accordance with performance standards identified in the PNP regulations.

Since the inception of the PNP Program, 25 salmon hatchery permits have been issued, and 33 applications have been either denied or withdrawn. Eighteen of the permitted PNP hatcheries are in operation and 15 had returns of adult salmon during 1987. Currently, there are eight preliminary or final applications for PNP hatchery permits under consideration. In addition, 31 scientific/educational permits for PNP research projects or

school district aquaculture programs were issued in 1987 by the Commissioner. These permits are administered by the PNP Program.

Regulations and application forms for shellfish farm permits are in the final stage of development.

Locations of operational PNP programs and remote release sites are illustrated in Figures 7, 8, and 9.

Hatchery Production

In 1987, PNP corporations estimated that 19.1 million adult salmon originally released as juveniles from corporate facilities were either harvested in common-property fisheries or returned to hatchery special harvest areas (Table 7). In Prince William Sound, returns to PNP hatcheries were estimated by the operators to have contributed over 12.6 million pink salmon to the commercial fishery. SSRAA estimates its hatcheries at Neets Bay and Whitman Lake contributed over 280,000 chum, coho, and chinook salmon to the common-property fisheries in Southeast.

Statewide production data since 1975 for combined species, including adult returns and harvests, are presented in Table 8. Preliminary estimates by the PNP corporations indicate that common-property harvests of the 1987 return were over 13.4 million fish. This represents a 200% increase over 1986 in common-property harvests. Cumulative data for chum salmon produced by PNP corporations since 1975 are presented in Table 9. Similar data for sockeye, pink, coho, and chinook salmon are presented in Tables 10, 11, 12, and 13, respectively.

Egg takes and fry or smolt stocking are regulated by ADF&G through fish transport permits (FTP), which are administered by the PNP Program. During 1987, fry and smolt releases increased to 461 million juvenile fish, an increase of over 80 million (or 21%) from 1986 levels (Table 14). 1987 egg takes for PNP hatcheries totaled over 868 million green eggs, up 346 million (or 66%) from 1986 levels. The largest egg take of 1987 was at Esther Lake Hatchery where over 314 million green pink, chum, coho, chinook, and sockeye salmon eggs were taken for incubation (Table 15). This was followed by the Valdez Fisheries Development Association's (VFDA) Solomon Gulch Hatchery with over 167 million pink, chum, and coho salmon eggs, and the PWSAC's Armin F. Koernig Hatchery with over 125 million pink salmon eggs. In southeast Alaska, the SSRAA took nearly 82 million eggs of all five species for its three hatcheries, and DIPAC took nearly 62 million pink, chum, and coho salmon eggs for its three facilities.

Significant progress was made in initiating hatchery-originated sockeye salmon production from PNP hatcheries. Releases of juvenile sockeye salmon totaled 750,000 in 1987. Sockeye salmon egg takes totaled 1.3 million eggs, an increase of 270,000 over 1986 levels. Significant increases in pink, chum, and coho

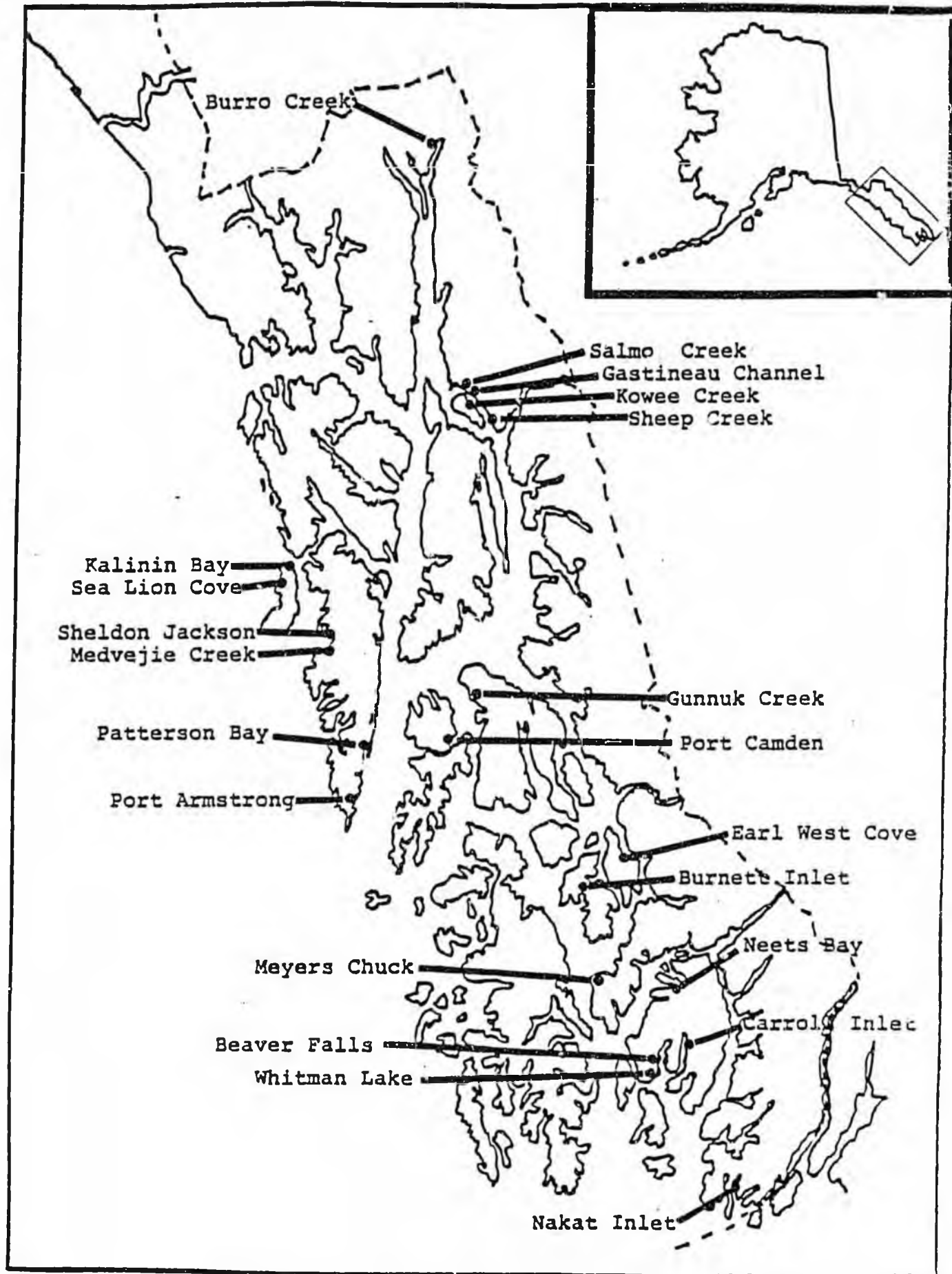


Figure 7. Locations of operational PNP hatcheries and remote release sites in southeast Alaska.

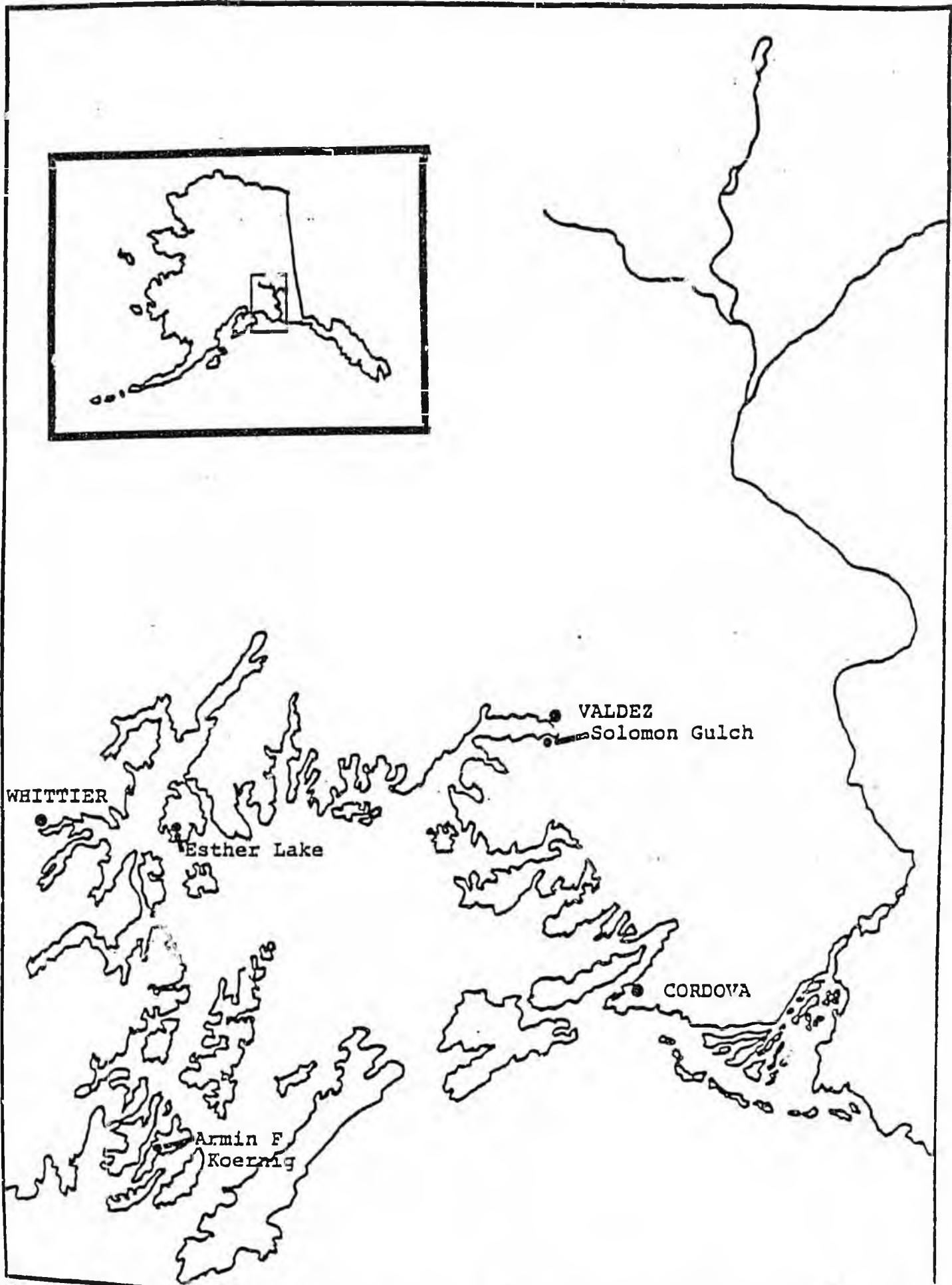


Figure 8. Locations of operational PNP hatcheries and remote release sites in Prince William Sound.

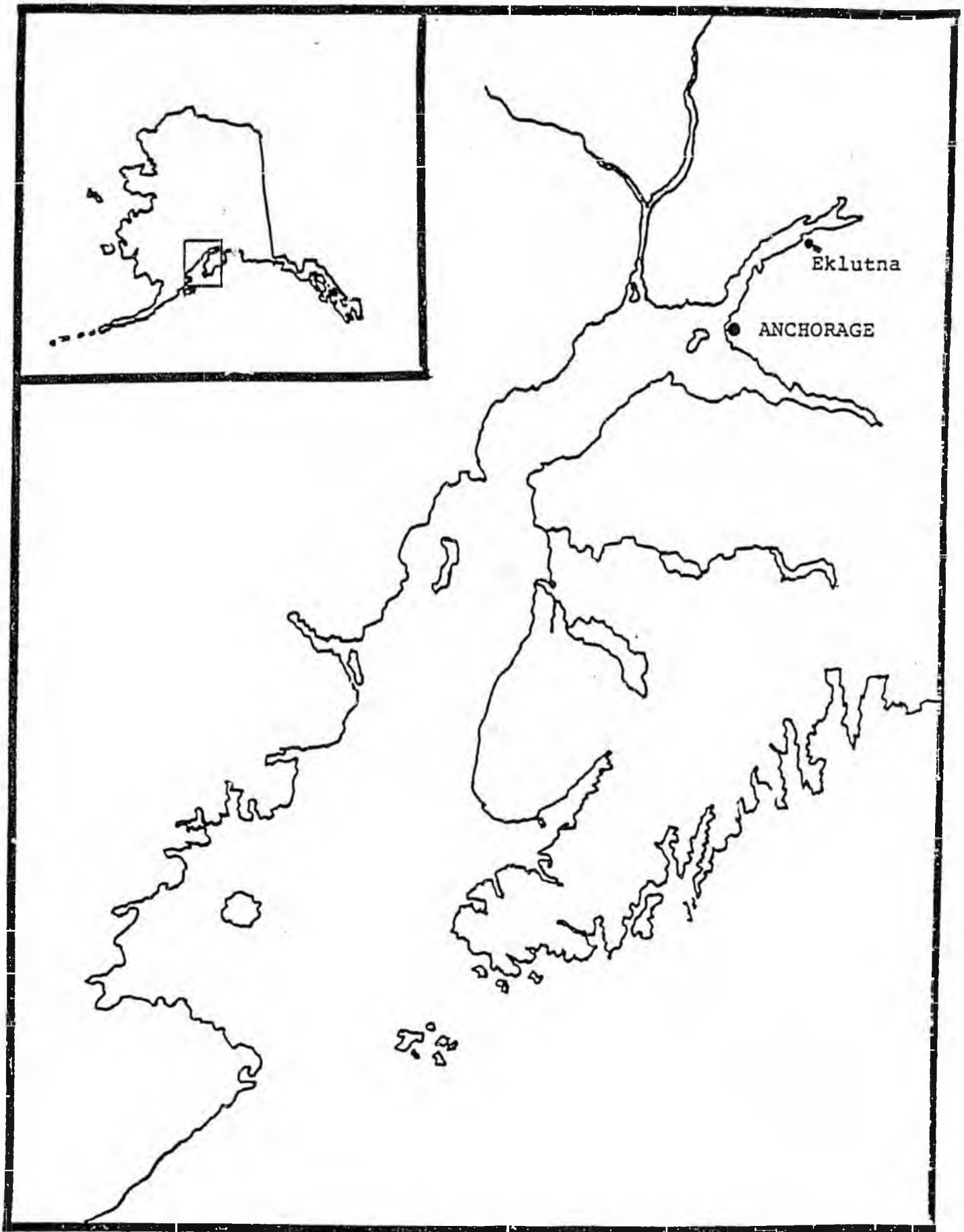


Figure 9. Location of operational PNP hatcheries in Cook Inlet.

salmon production also were made in 1987. Pink salmon egg takes increased by 293 million or 90% over 1986 levels as the Esther Lake, Solomon Gulch, and DIPAC facilities came up to capacity. Chum salmon egg takes increased by 53 million, or 29%, over 1986 levels; coho salmon egg takes increased by nearly 1.0 million, or 11%, over 1986 levels. Chinook salmon egg takes decreased for the first time in five years due to poor egg-take conditions in southeast Alaska.

Many PNP hatcheries are currently in the process of broodstock development and, consequently, have not reached their permitted capacities. Permitted capacities for PNP hatcheries now total over 1.26 billion eggs, an increase of over 129 million from 1986 levels (Table 16). Potential returns from statewide PNP hatchery-originated production at the 1.3 billion-egg level should exceed 20 million adults, assuming FRED standard assumptions of hatchery and marine survival. Exceptional marine survival, similar to that experienced during recent years, could boost adult production considerably over these estimates. Under the existing permits, approximately 52% of hatchery capacity is scheduled for pink salmon, 43% for chum salmon, and 5% for sockeye, coho, and chinook salmon.

For the 1988 season, projected returns to PNP facilities in southeast Alaska are expected to include approximately 43,000 chinook salmon, 240,000 coho salmon, 1,446,000 chum salmon, and 663,000 pink salmon, assuming standard survival conditions. Returns to PNP facilities in Prince William Sound are projected at 13,500,000 pink salmon, 343,000 chum salmon, and 14,500 coho salmon for 1988.

Significant hatchery special harvests are expected at the Armin F. Koernig, Esther Lake, Solomon Gulch, Sheldon Jackson College, Sheep Creek, Neets Bay, Port Armstrong, Burnett Inlet, and Medvejie Creek Hatcheries. Common-property terminal harvests by commercial gear groups are expected at the Neets Bay and Whitman Lake (Nakat Inlet, Carroll Inlet, and Earl West Cove) Hatcheries.

Annual Management Plans

The PNP regulations require that ADF&G prepare, in conjunction with PNP permit holders, an annual management plan (AMP) to guide hatchery operations for the succeeding calendar year.

AMPs will be developed for each state and PNP hatchery facility prior to the 1988 operating season. The AMPs will be reviewed by both the department and the RPTs before final approval by the Commissioner. The AMPs outline expected operational activities at each facility, including wild and hatchery egg takes, proposed fish and egg transports and releases, anticipated adult returns, anticipated impacts on the management of mixed-stock fisheries, and terminal-harvest management strategies. Also included are anticipated facility broodstock requirements and, in the case of PNP facilities, hatchery cost-recovery plans that identify legal

NSRAA



The five incubation boxes at 31 Mile Creek on the Klehini River have a capacity of 850,000 chum eggs. Egg to fry survival in 1986-87 was 95 per cent.



Photo by Carl Peterson



Photo by Hans Wienberg



**Northern
Southeast
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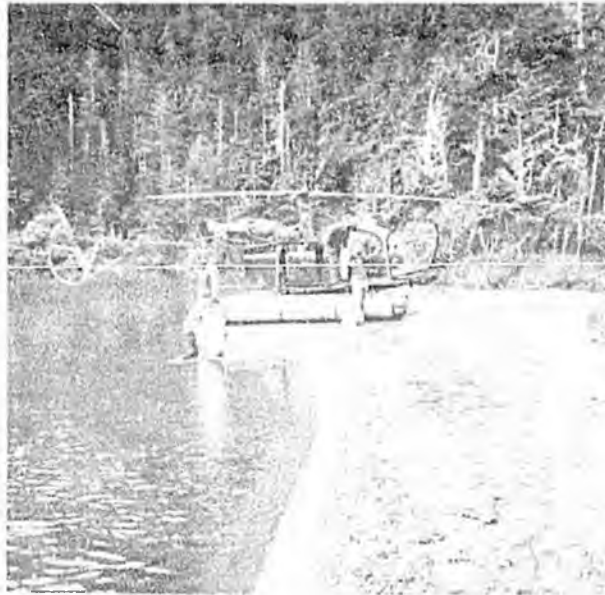
NSRAA Projects

Project	Projected Returns at Capacity
Medvejie Hatchery	25,000 chinook 90,000 chum
Deep Inlet Release Site.....	720,000 chum
Coho Lake Rearing.....	50,000 coho
Takatz Bay Release Site*.....	720,000 chum
Haines Spawning Channel.....	20,000 chum
Haines Incubation Boxes.....	8,000 chum
Port Camden Incubation Boxes	100,000 chum
Slippery Creek Stocking*.....	coho unknown
St. John Creek Stocking*.....	coho unknown
Redoubt Lake Incubation.....	sockeye unknown
Earl West Cove*	12,000 chinook 16,000 coho 240,000 chum

*Cooperative Projects

Northern Southeast Regional Aquaculture Association (NSRAA) is a private non-profit cooperative established to increase salmon returns to benefit commercial and other users. NSRAA was established through an election of limited entry salmon permit holders where the majority voted in favor of establishing the Association and taxing themselves 3 percent of their gross landings to support the organization. All limited entry permit holders in Southeast Alaska are members of NSRAA. Revenues collected through the enhancement tax are passed from the State to NSRAA.

NSRAA has a mix of enhancement projects designed to aid the gillnet, seine and troll fisheries of Northern Southeast Alaska (Petersburg north to Haines). These projects include the Medveje Hatchery near Sitka, the coho lake rearing program, the Takatz remote release project, the spawning channel near Haines, and remote incubation boxes near Haines and Port Camden. In 1987, NSRAA participated in the release of over 50 million fry and smolts.



The coho lake rearing program stocks coho fry in barriered lakes not otherwise accessible to anadromous fish. After rearing in the lakes for a year, the smolts migrate to sea, and in another year return for fishermen to catch.



Allen Edsall, a fish culturist for the Northern Southeast Regional Aquaculture Association, feeds chum fry shortly before their release last May from Deep Inlet. Photo by Bruce Bachen.



Medveje Central Incubation Facility near Sitka has a capacity for 825,000 chinook smolts; 1,280,000 coho fry for the lake rearing program and 28,000,000 chum eggs.

The enhancement projects undertaken by NSRAA are approved by a Board of Directors composed of commercial fishermen and other salmon user groups. User group representatives are appointed, while commercial fishermen (who compose a majority of the Board) are nominated and elected by limited entry permit holders. Funding for these projects comes from the enhancement tax, hatchery loans and from cost recovery. The State makes loan funds available to private non-profit hatcheries for hatchery construction and operation. Cost recovery involves the sale of a portion of the returning fish that enter a special harvest area near the release site. Cost recovery allows loan payback and the continuation of the project on a self-supporting basis.

All of NSRAA's activities are reviewed and approved by the Alaska Department of Fish & Game (ADF&G). As with all enhancement activities in the state, NSRAA works to find projects that are compatible with the continued health of wild stocks. Many projects are undertaken in cooperation with ADF&G, the U.S. Forest Service, and Southern Southeast Regional Aquaculture Association.

NSRAA's main office is located at 103 Monastery Street in Sitka. If you have questions about any of our activities, please contact us. Our phone number is (907) 747-6850.



The Haines Spawning Channel, located on a small tributary of the Chilkat River, near Mile 24 of the Haines Highway, provides ideal spawning habitat for chum salmon. In 1987 the first return to the channel showed 5,000 chums spawning there, compared to 1,500 in previous years.

CONFERENCE COMMITTEE REPORT

March 22, 1988 Date

Madam President:
Mr. Speaker:

The CONFERENCE COMMITTEE considered CS FOR SENATE BILL NO. 410 (Resources) "An Act relating to the operation of state hatcheries; and providing for an effective date" and HOUSE CS FOR CS FOR SENATE BILL NO. 410 (Resources) am H and recommends that

Conference CS for SB410
"An Act relating to the operation of state hatcheries; and providing for an effective date"

be adopted. A new zero fiscal note is attached.

W. Eliason
Senator Eliason, Chairman

Richard Zaroff
Senator Zaroff

Lloyd Jones
Senator Jones

Adelheid Herrmann
Representative Herrmann, Ch.

Peter Goll
Representative Goll

W. Pearce
Representative Pearce

RETURN ORIGINAL TO SENATE SECRETARY'S OFFICE WITH CONFERENCE BILL

Original sponsors: Eliason, Jones
and Kerttula

IN THE SENATE

BY THE CONFERENCE COMMITTEE

CONFERENCE CS FOR SENATE BILL NO. 410

IN THE LEGISLATURE OF THE STATE OF ALASKA

FIFTEENTH LEGISLATURE - SECOND SESSION

A BILL

For an Act entitled: "An Act relating to the operation of state hatcheries; and providing for an effective date."

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

* Section 1. AS 16.10 is amended by adding a new section to article 8 to read:

Sec. 16.10.480. CONTRACTS FOR THE OPERATION OF STATE HATCHERIES.

(a) If the department determines that it is unable to continue operating a state-owned hatchery or that it is in the best interest of the state to provide for the operation of the hatchery by another person or by another person in cooperation with the state, the department may enter into a contract for the operation or cooperative operation of the hatchery.

(b) Notwithstanding AS 36.30, when selecting a contractor under (a) of this section, the department shall give a preference to the regional association organized under AS 16.10.380 that is located in the region in which the hatchery is located. If the department determines that the preferred regional association does not meet the criteria established by the department for the contract, the department may not award the contract to the preferred regional association and shall procure the contract under AS 36.30 after considering the recommendations of the preferred regional association.

(c) A contract entered into under this section must provide that the hatchery will be operated under AS 16.10.400 - 16.10.445 and 16.10.460 - 16.10.470 and the regulations adopted under those

sections.

(d) The department may issue to a contractor who operates a hatchery under this section a permit to harvest adult salmon during the term of the contract in a quantity sufficient to allow the contractor to recover all or part of the contractor's costs of operating the hatchery.

(e) A contract under this section for the operation of a hatchery may not affect the state's ownership of the hatchery and does not affect the state's responsibility to manage the resource.

(f) The operation of a hatchery under a contract authorized by this section shall be conducted in accordance with the fisheries management and production goals of the department, and must be consistent with the Comprehensive Regional Salmon Plan approved under AS 16.10.375. During the term of the contract, the department may order changes in the operation of the hatchery that are necessary to ensure consistency with the production goals of the Comprehensive Regional Salmon Plan. The contract must specify the species to be raised and the production goals for each species, and these specifications must comply with the Comprehensive Regional Salmon Plan. The department may terminate a contract if the contractor fails to operate the hatchery in accordance with the requirements established by and under this subsection.

* Sec. 2. AS 16.10.400(a) is amended to read:

(a) The commissioner or a designee may issue a permit, subject to the restrictions imposed by statute or regulation under AS 16.10.400 - 16.10.470, to a nonprofit corporation organized under AS 10.20, after the permit application has been reviewed by the regional planning team, for

(1) the construction and operation of a salmon hatchery;

(2) the operation of a hatchery under AS 16.10.480.

* Sec. 3. AS 16.10.400(b) is amended to read:

(b) The application for a permit under this section shall be on a form prescribed by the department and be accompanied by an application fee of \$100. The commissioner may waive the submission of an application for a permit to operate a hatchery under AS 16.10.480.

* Sec. 4. AS 16.10.400(e) is amended to read:

(e) A qualified regional association formed under AS 16.10.380, if it has become a nonprofit corporation under AS 10.20, has a preference right to a permit under (a)(1) of this section if its proposed hatchery is provided for in the comprehensive plan for that region developed under AS 16.10.375 and the fresh water source exceeds one cubic foot per second minimum flow. Another [ANY OTHER] local nonprofit hatchery corporation approved by a qualified regional association has an identical preference right.

* Sec. 5. AS 16.10.410(c) is repealed and reenacted to read:

(c) The hearing shall be conducted by the department. At a hearing for a permit under AS 16.10.400(a)(1), the applicant shall present a plan for the proposed hatchery, describing the capacity of the hatchery and other relevant facts that may be of interest to the department or the public. Interested members of the public shall be afforded an opportunity to be heard.

* Sec. 6. AS 16.10.450 is amended to read:

Sec. 16.10.450. SALE OF SALMON AND SALMON EGGS BY HATCHERY.

(a) Except as otherwise provided in a contract for the operation of a hatchery under AS 16.10.480, a [A] hatchery operator who sells salmon returning from the natural waters of the state, or sells salmon eggs to another hatchery operating under AS 16.10.400 - 16.10.470, after utilizing the funds for reasonable operating costs, including debt

retirement, expanding its facilities, salmon rehabilitation projects, fisheries research, or [FOR] costs of operating the qualified regional association for the area in which the hatchery is located, shall expend the remaining funds on other fisheries activities of the qualified regional association.

(b) Fish returning to hatcheries and sold for human consumption shall be of comparable quality to fish harvested by commercial fisheries in the area [,] and shall be sold at prices commensurate with the current market.

* Sec. 7. This Act takes effect immediately under AS 01.10.070(c).

CONFERENCE COMMITTEE ON:

CS FOR SENATE BILL NO. 410 (Resources)

"An Act relating to the operation of state hatcheries; and providing for an effective date."

HOUSE CS FOR CS FOR SENATE BILL NO. 410 (Resources) am H

"An Act relating to the operation of state hatcheries; and providing for an effective date."

(Meeting held in Beltz Committee Room, March 22, 1988 at 3:12 p.m.)

SENATOR ELIASON: The meeting will come to order. Present are Senator Eliason, Senator Zharoff, Senator Jones and from the House side, Representative Herrmann, Representative Goll, Representative Pearce. Let me apologize for this hastily called meeting. There's going to be members out of town for a few days and we would like to start work on this because I think it's important that we go forward as quickly as possible to resolve this issue. Representative Herrmann, do you have anything to say.

REPRESENTATIVE HERRMANN: No, not yet.

SENATOR ELIASON: We have before the committee -- to sort of summarize what has happened, the Senate sent over a bill relating to operation of state hatcheries and providing for an effective date. The purpose of the bill, of course, is just to expedite the contract between the regional associations and the State of Alaska to operate, I believe, four specific fish hatcheries. It was what you might a --

it is quite the right term -- but it's an end runner on the Procurement Act because as you'll recall last year, the Department of Fish and Game was instructed to look into the possibility of leasing some of the state hatcheries to other entities, namely the regional associations and PNP's, so as a result of that letter of intent, they proceeded with that plan in mind and they were in the process of negotiating with at least one regional association, maybe more, and then they found that we passed the Procurement Act which prohibited them from doing it that way. So rather than go back into the lengthy process, which would delay the transfer of those hatcheries beyond the time that the regional association would be able to benefit by the terminal fisheries, it was recommended that we take legislative action in order to expedite it. So, what we sent over to the House is something different than we got back. We got two amendments; one was made in House Resources, which in my opinion, is quite an extensive amendment. It's changing the policy of the direction of how we handle those particular hatcheries. And there was also an amendment made on the floor of the House which is in the bill also. So at this point, I think we have Roland Shanks here to offer any testimony that the committee would like to have, so I will open it up to discussion.

REPRESENTATIVE HERRMANN: Mr. Chairman, I realize what you guys are trying to do with the bill, you know I think the

issue is well stated by you before us, but I'm just wondering, philosophically, we were concerned about people outside of the state being able to be contracted to run these hatcheries and that was a real big concern of ours in committee. You know, I think like from what I understand from Roland and from other people that if we didn't we have this language in there then what would stop somebody coming from Weyerhaeuser or anywhere out of state to operate a hatchery in state, and I don't know if I want that. I think that was our concern.

SENATOR ELIASON: I'm sure we all share that concern, but I think that, you know, close examination of the statutes pretty well puts the final approval in the hands of the Department of Fish and Game, specifically the commissioner. I certainly wouldn't have any problem with going back and reviewing the procedures how it relates to PNP's. Maybe they do need tightening up, maybe they don't -- I don't know. But it is a whole new subject and I think it deserves some in-depth discussion, but not only on the House side but on the Senate side. If we did nothing today, that wouldn't stop that from happening. It's going to happen -- then, of course, the Fish and Game department will go out with their list of bids, I suspect that is how it would operate and these people to assume the operation of those hatcheries, so the point being, if we are going to expedite the transfer for this contract, we should probably

do it at this particular time and then maybe address those other issues. I'm certainly am not opposed to looking at how that is handled, and if there is a reason to tighten it up for Weyerhaeuser or other large corporations, would not be the beneficiaries of that [indisc.]. I frankly don't think that at the present time that that would happen, but there is a concern out there and I think maybe there are ways we could stop that. But, of course, our concern is that, you know, we're on a real short deadline here, and certainly, the bill can't wait until the end of session. If it does, there is no point in having a bill because we've missed our deadlines.

SENATOR JONES: My concern is that we turn these things over, if we turn them over, we turn them over to someone that has the ability to run them and it seem to me like we have a lot of out-of-state corporations in the fisheries, in the timber, in the mining, oil, and tourism. It doesn't matter where we go, we find out-of-state corporations involved in instate operations of all of our industries. And my concern is that we turn these over to someone that really knows how to run them, and I think that is the first priority. I want to make sure that those things produce fish in the right manner, and I guess that is number one for our fishermen out there.

SENATOR ELIASON: There is one further aspect that I think which might not be too comfortable with members of either body, is the fact that if we restrict the ability of the Department of Fish and Game to deal with maybe two different associations like this bill proposes now. In other words what we're saying, that the Fish and Game could certainly go out and lease the operation of a hatchery, but the only person they can lease it to is this specific group. If this specific group does not want the hatchery, then the option is back whether we should close or not. However, that specific group might -- it puts the commissioner in a very difficult situation where he is dealing with a group he has to deal with and he is going to have to probably give a lot more of the state resources in order to sign that contract because the regional associations, in effect, would have a big hammer because they know that a commissioner that they were the only group that the commissioner could deal with. I think that's sort of another serious question.

SENATOR ZHAROFF: I think, Mr. Chairman, -- I guess I sort of concur with you on this here on this concern with the [indisc.] In the House version, we're looking at the only entity to be able receive and to operate the hatchery would be the regional association, aquaculture association, and we have areas in the state where we do not have regional aquaculture associations. We have areas in those states

that also include hatcheries. Now I don't know what -- you know, we're going to do everything we can to keep the hatcheries open, particularly in those areas where they have proven to be successful and have actually added to the local stocks, and if come down to the point where you're going to have to make the decision, and that point may be coming very soon, that we're going to have to make the decision maybe that, are we going to close this hatchery or are we going keep it open, and at what expense are we going to be able to keep it open. And if the decision is to close that hatchery down, and you don't have an aquaculture association in that area -- and I'm thinking basically right now of Russell Creek, we don't have an aquaculture association there to continue the operation of that hatchery -- and if the decision should cut or should reduce the operation of that facility where it is no longer efficient or operable, or to simply close it down, then I think we've lost everything that we've gained or as a potential of gaining over the next couple of years in that particular fisheries. Simply limiting that to an aquaculture association, I think, is counterproductive to the intent of carrying the operations of these hatcheries over to private enterprise, I guess if you want to call it that. And I think even if we have in the bill itself -- in the rest of the bill I think we have sufficient oversight by the Department of Fish and Game on the operation of those hatcheries -- whoever the recipient is, you're going

to have the control [indisc.] unless Mr. Shanks thinks I'm wrong -- I don't know about that. That is just my general feeling; if there are enough safeguards in here to ensure that we aren't going to be releasing disease and [indisc.] out there into the wild.

ROLAND SHANKS: The restrictions in the bill and in addition to that under the contract, are still far beyond not raising the game stocks and you go down to what stocks will be produced, what levels of productions will be undertaken, where will diseased stocks be derived, how would the eggs be transported, how will the fry be transported, where would they be released, when would they be released, all those types of things would require action by the department before the contract could be carried on out. So the way this is set up, the department is retaining a very heavy hand in the generalization, as far as the contracts -- what their final output is.

SENATOR ELIASON: I think if we're going to address the other amendment, which deals with the operation of the hatcheries, I think that what we have in Section (f) there on page 2 pretty well identifies, outlines the procedures that will be used whether it's Weyerhauser or anybody else leasing the hatchery. It says that the conduct in accordance with the fisheries management and production goals of the department, and must be consistent with the

Comprehensive Regional Salmon Plan, which also, you know, has a lot involved in that. And during the term of the contract, the department may order changes in the operation of the hatchery, so it appears to me that with that particular language in there identifying what shall be done and what can not be done and what the authority of that department has over the PNP's or the regional associations, pretty well limits the ability of any large corporation to come in under whatever pretext and take over.

REPRESENTATIVE GOLL: Thank you, Mr. Chairman. Under the bill in either form -- I guess it could be relevant in the form you're recommending without the [indisc.] would the department be required to accept the low bid.

ROLAND SHANKS: Since we're not really talking in terms of a bid in monetary sense, we're talking about essentially a contract whereby they operate the facility and then cost recover out of the fishery, the requirement doesn't so much revolve around low bid; it revolves around the ability to operate and the ability to meet the requirements.

REPRESENTATIVE GOLL: So, you would not be forced into taking any particular entities in the contract?

ROLAND SHANKS: No.

REPRESENTATIVE GOLL: You'd use the best of interest of the state as your guide. The other question is what is your position as a department on the competitive issue that Senator Eliason raises. Is that valid, is it correct to say that essentially we'd not be able to negotiate terms?

ROLAND SHANKS: Well, it does make it kind of awkward when there is only one vender available, and, basically, whether you're dealing with hatchery contracts or whether you're, you know, trying to acquire tape recorders, if there is only one vender available, they've kind of got you at a competitive disadvantage when it comes time to negotiate terms.

REPRESENTATIVE GOLL: Finally, could you restate for the record whether it is the department's understanding, as it was mine, that not withstanding the phrase "transfer" was used in this hearing, what we're talking about is the contract for personnel to operate these state owned and operated facilities.

ROLAND SHANKS: The only intention is that the facility stays in state ownership and we're basically talking about a contract in the operation.

REPRESENTATIVE GOLL: So we're talking about contracting for staff; we're not talking about transferring hatcheries to the private sector, or to [indisc.], or to anybody else.

ROLAND SHANKS: No, we're talking about the operations.

REPRESENTATIVE GOLL: Thank you, Sir. Thank you, Mr. Chairman.

SENATOR ELIASON: Representative Herrmann, you have any comments?

REPRESENTATIVE HERRMANN: Yeah, I guess I'm still not clear on RFP's. Like if you put out RFP's, you know if you did it soon after this bill is done and you had the request for a proposal out there, people that could bid on it would be anybody in state and then you'd have to look at out of staters -- is there some criteria that stops you, or that you could use to say, o.k. there's an instate preference. I don't even know if that's [indisc.].

ROLAND SHANKS: I guess to kind of clarify where we're at, without this bill, we have the ability to put these out to RFP's. Under legislative intent, we were directed to negotiate with the regional nonprofits. We discovered that under the Procurement Act that was passed last year we couldn't give them a preference so we came back seeking

legislation that would allow us to give the regionals a preference. Basically, without this legislation, the regionals won't have that preference and everybody will be back on the flat playing field if we have to go to RFP's with these things.

REPRESENTATIVE HERRMANN: Who else would be bidding on something like this.

ROLAND SHANKS: I suspect that the other main competition, if there were any competition to enter into this, would be some of the mom and pop nonprofit hatcheries in the state. For the most part, I really can't think of anybody much past the regionals who would be very interested in getting very involved, mainly because they are not designed to be profit-making entities; they are designed to be fish-making entities;

REPRESENTATIVE HERRMANN: So now the question about out of state -- could you guys do anything to stop people from out of state to bid on it? Is there anything in our procurement code that gives instate preference?

ROLAND SHANKS: There are some instate preferences as far as bidding preference goes, where like if we we're buying something, we can give instate bidders a preference -- I think it is either five or ten percent, I think it varies

depending upon what the item is -- but anyhow, when you can give instate bidders a preference, the problem is that in this situation because they're not really bidding money, it would be difficult to assess. Basically, what you have is a backstop. It is the ability of the commissioner either to issue a contract or to choose to issue no contract. The problem we might be in at that point is it might mean the difference of having a hatchery open and not having a hatchery open.

REPRESENTATIVE GOLL: I am correct that if you felt it was not in the best interest of the state to award to an out of state offering, if you will, you could simply say that you don't feel that offering is in the best interest of the state?

ROLAND SHANKS: Yes.

REPRESENTATIVE GOLL: Now, this allows you to give a preference to that private nonprofits, which under current law you don't have, is that correct?

ROLAND SHANKS: There is nothing in current law that allows us to give them preference.

REPRESENTATIVE GOLL: But this bill would provide you with that opportunity. Even without this particular

controversial language you would be able to give that preference and start right out saying, "hey, this is where we want it to go," and if, and only if that doesn't work out, then it allows you to move on to second choices.

ROLAND SHANKS: Yes.

SENATOR ZHAROFF: Mr. Shanks, would village or regional nonprofit corporations be excluded from submitting proposals for operation of these facilities.

ROLAND SHANKS: They wouldn't be precluded, they might have to reorganize themselves, and if they were a village profit-making corporation, they would have to establish a nonprofit and they would have to meet all the criteria in the RFP's as far as, you know, technical knowledge and expertise and fiscal ability to bid, but there wouldn't be anything to preclude them from bidding.

SENATOR ZHAROFF: Under the House amendments, would they be precluded?

ROLAND SHANKS: Yes.

SENATOR ZHAROFF: O.K. Under the Senate version?

ROLAND SHANKS: They would be essentially in the second tier of bidders.

SENATOR ZHAROFF: Right. But at least they would be ...

ROLAND SHANKS: They would be available to them.

SENATOR ELIASON: Thank you. I would like to make a suggestion that we delete the language that was put in the Resources Committee and accept the floor amendment to the bill, so in other words what we're doing is there has been two major amendment made to the bill on the House side. We're willing to accept the floor amendment which was passed by their membership. Does anybody care to comment on that suggestion?

SENATOR ZHAROFF: Are you talking about the current bill?

SENATOR ELIASON: We're talking about the CS for SB 410. What we're doing is on page 1, the language on line 18 (b), which is the language that was put in the House Resources, that language would be deleted from the bill and then we'd leave the language on page 2, section (f), which was a House amendment, which was an amendment made on the floor of the House. We'll leave that one in and delete the other one. It's a suggestion.

SENATOR ZHAROFF: And reinsert the original Senate version section (b)?

SENATOR ELIASON: Right. That gives a preference and that would allow native corporations with PNP's to come into it they wanted to by reorganizing.

REPRESENTATIVE GOLL: Just to make sure I understand, so basically what we're doing is taking the bill that passed the House floor and we're eliminating this section here from the House Resources Committee, section (b) on page 1 and replacing it with the original Senate language for that section.

SENATOR ELIASON: Right, that and accepting the floor amendment.

SENATOR ZHAROFF: We're leaving your floor amendment on page 2.

SENATOR ELIASON: That's the recommendations.

SENATOR ZHAROFF: Could we have that drafted and then brought back so that we could look at it?

REPRESENTATIVE GOLL: I can accept it conceptually.

REPRESENTATIVE PEARCE: I can go ahead and accept it conceptually. I understand what you are doing and I support that. I won't be here to sign it ...

SENATOR ELIASON: Would somebody make a motion on that?

SENATOR ZHAROFF: Mr. Chairman, I would move that we accept the HCS CSSB 410 (Resources) am H with the deletion on page 1, lines 18 through 21, with the reinsertion of the Senate language, lines 18 through 26 of the original Senate bill which went to the House which is CSSB 410 (Resources). Mr. Chairman, I would also add to that motion that we accept in the House amended version on page 2, all of section (f).

REPRESENTATIVE HERRMANN: Mr. Chairman, on the motion, I just have a quick question on the reinstating of (b) where it says here on line 23, "the department may not award the contract to the preferred regional association if it doesn't meet the criteria and shall procure the contract under AS 36.30 after considering the recommendations of the preferred regional association." So that means if the regional association doesn't get it, then they're supposed to tell the state, "O.K. we're not going to get it, but we think these people should get it." Is that, I mean it seems a little awkward that they're getting turned down and yet they make a ...

ROLAND SHANKS: Well, it allows them to make a recommendation and that's [indisc.].

REPRESENTATIVE GOLL: On that note, I understand that basically they just get a chance to make their recommendation, but under 36.30 that doesn't limit the answers you gave earlier about [indisc.]

SENATOR ELIASON: It's a recommendation by the group [indisc.].

SENATOR ZHAROFF: It just says, after considering the recommendations. I would ask unanimous consent.

SENATOR ELIASON: Motion carried. Meeting adjourned.
Thank you very much.

HOUSE COMMITTEE REPORT

(9)

Date referred: 2/26/88

FURTHER REFERRALS:

3/10/88

DATE: _____

The Resources Committee has considered CSSB 410(Res)

"An Act relating to the operation of state hatcheries; and providing for an effective date."

RECOMMENDS:

- replace with H¹ 303 SB 410 (Resource) the same title
- attached amendment(s) a new title
- do pass
- do not pass
- no recommendation
- individual recommendations
- additional referral to the _____ Committee

ADOPTS: Senate _____ letter of intent

ATTACHES NEW FISCAL NOTE(S):

- fiscal impact same as previous fiscal note published _____
- zero fiscal note same as previous zero fiscal note published _____
- zero with analysis

SIGNING DO PASS:

Adelheid Herrmann Herrmann
Jim Cotten Cotten
Mike Navarre Navarre
John Sund Sund
Dick Shultz Shultz
Cliff Davidson Davidson

SIGNING OTHER RECOMMENDATIONS:

Adelheid Herrmann
 Chairman's signature

FISCAL NOTE

REQUEST:

Revision Date: 2/22/88
Title: An Act relating to the operation of state hatcheries
Sponsor: Eliason
Requestor: Eliason

Agency Affected: Fish and Game
BRU: FRED
Components: _____

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 88	FY 89	FY 90	FY 91	FY 92	FY 93
PERSONAL SERVICES	0	0	0	0	0	0
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	0	0	0	0	0	0
CAPITAL	0	0	0	0	0	0
REVENUE						

FUNDING: (Thousands of Dollars)

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

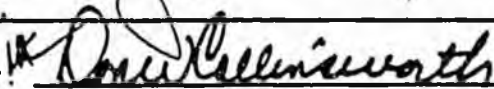
POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS : (Attach a separate page if necessary)



Prepared by: _____ Phone: 465-4160
Division: F.R.E.D. Date: 2/22/88

Approved by Commissioner:  Date: 2/22/88
Agency: Fish and Game

Distribution (by preparer):

- Legislative Finance
- Legislative Sponsor
- Requestor
- Office of Management and Budget
- Impacted Agency(ies)

LETTER OF INTENT FOR CS SB 410 (RESOURCES)

Offered by Sen. Eliason & Sen. Duncan

It is the intent of the Legislature to encourage any entity which enters into a contract with the state to operate a state hatchery, to hire the employees who were laid off from the hatchery as a result of assumption of operation by the contractor.

Senate adopted 2/25/84

Original sponsors: Eliason, Jones
and Kerttula

1 IN THE SENATE BY THE RESOURCES COMMITTEE
2 HOUSE CS FOR CS FOR SENATE BILL NO. 410 (Resources)
3 IN THE LEGISLATURE OF THE STATE OF ALASKA
4 FIFTEENTH LEGISLATURE - SECOND SESSION

5 A BILL

6 For an Act entitled: "An Act relating to the operation of state hatcher-
7 ies; and providing for an effective date."

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

9 * Section 1. AS 16.10 is amended by adding a new section to article 8
10 to read:

11 Sec. 16.10.480. CONTRACTS FOR THE OPERATION OF STATE HATCHERIES.

12 (a) If the department determines that it is unable to continue op-
13 erating a state-owned hatchery or that it is in the best interest of
14 the state to provide for the operation of the hatchery by another
15 person or by another person in cooperation with the state, the depart-
16 ment may enter into a contract for the operation or cooperative opera-
17 tion of the hatchery.

18 (b) Notwithstanding AS 36.30, when contracting under (a) of this
19 section, the department may not contract with a person other than the
20 regional association organized under AS 16.10.380 that is located in
21 the region in which the hatchery is located.

22 (c) A contract entered into under this section must provide that
23 the hatchery will be operated under AS 16.10.400 - 16.10.445 and
24 16.10.460 - 16.10.470 and the regulations adopted under those sec-
25 tions.

26 (d) The department may issue to a contractor who operates a
27 hatchery under this section a permit to harvest adult salmon during
28 the term of the contract in a quantity sufficient to allow the con-
29 tractor to recover all or part of the contractor's costs of operating

1 the hatchery.

2 (e) A contract under this section for the operation of a
3 hatchery may not affect the state's ownership of the hatchery and does
4 not affect the state's responsibility to manage the resource.

5 * Sec. 2. AS 16.10.400(a) is amended to read:

6 (a) The commissioner or a designee may issue a permit, subject
7 to the restrictions imposed by statute or regulation under AS 16.-
8 10.400 - 16.10.470, to a nonprofit corporation organized under
9 AS 10.20, after the permit application has been reviewed by the re-
10 gional planning team, for

11 (1) the construction and operation of a salmon hatchery;

12 (2) the operation of a hatchery under AS 16.10.480.

13 * Sec. 3. AS 16.10.400(b) is amended to read:

14 (b) The application for a permit under this section shall be on
15 a form prescribed by the department and be accompanied by an applica-
16 tion fee of \$100. The commissioner may waive the submission of an
17 application for a permit to operate a hatchery under AS 16.10.480.

18 * Sec. 4. AS 16.10.400(e) is amended to read:

19 (e) A qualified regional association formed under AS 16.10.380,
20 if it has become a nonprofit corporation under AS 10.20, has a prefer-
21 ence right to a permit under (a)(1) of this section if its proposed
22 hatchery is provided for in the comprehensive plan for that region
23 developed under AS 16.10.375 and the fresh water source exceeds one
24 cubic foot per second minimum flow. Another [ANY OTHER] local non-
25 profit hatchery corporation approved by a qualified regional asso-
26 ciation has an identical preference right.

27 * Sec. 5. AS 16.10.410(c) is repealed and reenacted to read:

28 (c) The hearing shall be conducted by the department. At a
29 hearing for a permit under AS 16.10.400(a)(1), the applicant shall

1 present a plan for the proposed hatchery, describing the capacity of
2 the hatchery and other relevant facts that may be of interest to the
3 department or the public. Interested members of the public shall be
4 afforded an opportunity to be heard.

5 * Sec. 6. AS 16.10.450 is amended to read:

6 Sec. 16.10.450. SALE OF SALMON AND SALMON EGGS BY HATCHERY.

7 (a) Except as otherwise provided in a contract for the operation of a
8 hatchery under AS 16.10.480, a [A] hatchery operator who sells salmon
9 returning from the natural waters of the state, or sells salmon eggs
10 to another hatchery operating under AS 16.10.400 - 16.10.470, after
11 utilizing the funds for reasonable operating costs, including debt
12 retirement, expanding its facilities, salmon rehabilitation projects,
13 fisheries research, or [FOR] costs of operating the qualified regional
14 association for the area in which the hatchery is located, shall
15 expend the remaining funds on other fisheries activities of the qual-
16 ified regional association.

17 (b) Fish returning to hatcheries and sold for human consumption
18 shall be of comparable quality to fish harvested by commercial fisher-
19 ies in the area [,] and shall be sold at prices commensurate with the
20 current market.

21 * Sec. 7. This Act takes effect immediately under AS 01.10.070(c).
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31

HOUSE COMMITTEE REPORT

(9)

Date referred: 2/26/88

FURTHER REFERRALS:

3/10/88

DATE: _____

The Resources Committee has considered CSSB 410(Res)

"An Act relating to the operation of state hatcheries; and providing for an effective date."

RECOMMENDS:

- replace with HCS HCS SB 410 (Resource) the same title
- attached amendment(s) a new title
- do pass
- do not pass
- no recommendation
- individual recommendations
- additional referral to the _____ Committee

ADOPTS: Senate letter of intent

ATTACHES NEW FISCAL NOTE(S):

- fiscal impact
- zero fiscal note
- zero with analysis
- same as previous fiscal note published _____
- same as previous zero fiscal note published _____

SIGNING DO PASS:

Adelheid Herrmann Herrmann
John Cotten Cotten
Mike Navarre Navarre
Al Sund Sund
Dick Shultz Shultz
Cliff Davidson Davidson

SIGNING OTHER RECOMMENDATIONS:

Adelheid Herrmann
 Chairman's signature

FISCAL NOTE

REQUEST:

Revision Date: 2/22/88
Title: An Act relating to the operation of state hatcheries
Sponsor: Eliason
Requestor: Eliason

Agency Affected: Fish and Game
BRU: FRED
Components: _____

EXPENDITURES/REVENUES: (Thousands of Dollars)

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CAPITAL	0	0	0	0	0	0
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REVENUE						
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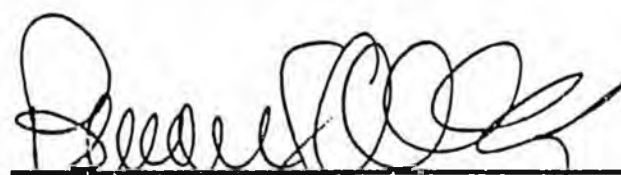
FUNDING: (Thousands of Dollars)

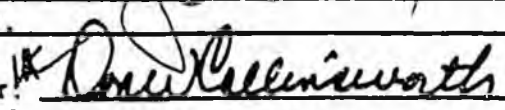
GENERAL FUND						
FEDERAL FUNDS						
OTHER						
TOTAL	0	0	0	0	0	0

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS : (Attach a separate page if necessary)

Prepared by: 
Division: F.R.E.D.
Phone: 465-4160
Date: 2/22/88

Approved by Commissioner: 
Agency: Fish and Game
Date: 2/22/88

Distribution (by preparer):
Legislative Finance
Legislative Sponsor
Requestor
Office of Management and Budget
Impacted Agency(ies)

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Senate adopted 2/25/84

Original sponsors: Eliason, Jones
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BY THE RESOURCES COMMITTEE

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3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 FIFTEENTH LEGISLATURE - SECOND SESSION

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Alaska State Legislature

Committees:

Chair-State Affairs
V. Chair-Judiciary
Telecommunications
Special Ethics
Legislative Council
Finance Subcommittee
for the University of Alaska
Joint Committee
on Economic Recovery



PO. Box V
Juneau, Alaska 99801
(907) 465-4947

REPRESENTATIVE FRAN ULMER

MEMORANDUM

March 21, 1988

TO: Representative Kay Brown, Chair
Commerce Budget Subcommittee

FROM: Representative Fran Ulmer

SUBJECT: State Hatchery Funding
and the FY 89 Loans Budget Priorities

Thank you for a copy of your memo proposing a joint hearing on Hatchery funding and the FY 89 Fisheries Enhancement Loan Program. I would appreciate the opportunity to participate in the proposed hearing to share information about a private hatchery project in Juneau.

The Gastineau Hatchery is an economic development project currently under construction in Juneau. The project has a construction budget of \$6.0 million, with \$1.5 million expended during FY 88 and \$4.5 million required to complete the project in FY 89.

Funding for construction is a loan through the Fisheries Enhancement Loan Program, Division of Investments, Department of Community and Regional Affairs. Completion funding for Gastineau Hatchery is included as an "A" ranked loan in the division's proposed FY 89 budget.

The Gastineau Hatchery is a project of Douglas Island Pink and Chum, Inc., (DIPAC), a private non-profit corporation that has been in business for over ten years, and currently operates two hatcheries.

- * According to the Alaska Department of Fish and Game, 1,144,000 pink salmon returned to DIPAC in 1988.
- * DIPAC is current or ahead on all loan payments with the Division of Investments.
- * The PNP loan program overall yields \$1.8 million return for every \$1.0 million investment--an estimated \$40

million income and 1,100 jobs, according to an ADF&G report using the Institute for Social and Economic Research model.

- * DIPAC does not receive revenue from enhancement taxes. All funding for DIPAC results from successful production of salmon and the state loan program.
- * The Gastineau Hatchery is supported by commercial and sports fishermen and the City and Borough of Juneau.
- * The Hatchery will produce an estimated 2.5 million returning pink and chum salmon and over 60,000 kings and cohos. This will generate an estimated \$4.5 million in revenue for fishermen, and provide the base for additional processing and employment in Southeast Alaska.

Phase II of the Gastineau Hatchery project is ready to proceed and will provide immediate jobs for construction as well as hatchery employment in the long term. Gastineau Hatchery is important to the economy of Southeast Alaska, not only from the direct benefits of increased employment, but also from the significant impact for enhancing both commercial and sport fisheries.

cc: Representative Pat Pourchot
Representative John Sund
Representative Sam Cotten
Representative Peter Goll

/x



Alaska State Legislature

HOUSE OF REPRESENTATIVES

Committee on Finance

Official Business

P.O. Box V
State Capitol
Juneau, Alaska 99811

Sam - p. 2 - Kay
asks Peter + Mike
if they want a
meeting on hatchery

TO: Representative Peter Goll, Chair
ADF&G Budget Subcommittee

Representative Mike Navarre, Chair
Economic Recovery Resources Committee

FROM: Representative Kay Brown, Chair
Commerce Budget Subcommittee *Kay*

DATE: March 18, 1988

SUBJ: Hearing on State Hatchery Funding
and the FY 89 Loans Budget Priorities

YES

The purpose of this memorandum is to propose a joint meeting of the budget subcommittees for the Department of Commerce and Economic Development, the Department of Fish and Game, and the Economic Recovery Resources Committee to consider issues relating to the state's hatchery program and the FY 89 loans budget.

In general, I would like to note that I fully appreciate the significance of fishery enhancement efforts to the state economy. While there are many proposals for economic recovery, I am increasingly convinced that further expansion of the state's fishing and tourism economies offer our best opportunities.

Estimates of the economic merit of the hatchery program effort suggest that the overall program has a very attractive cost-benefit ratio of approximately 1.4:1.0. In terms of economic impact, the Institute of Social and Economic Research (ISER) has developed modeling studies which suggest that the FRED hatchery programs have two to four times the impact of a typical expenditure in the state capital or operating budget. ISER's model estimates that over 900 Alaskans are employed in the current program and that over \$30 million in personal income is produced for all sectors of the Alaska economy. These figures are exclusive of the sport and recreational fishery benefits attributable to hatchery programs.

With regard to the FY 89 loans budget, the Governor has requested an appropriation of \$9 million for the Fisheries Enhancement Revolving Loan Fund administered by the state Division of Investments (DOI). The \$9 million appropriation would allow funding of approximately 11 loans as indicated by the attached listing of DOI Priority Loans. Four of these "priority" loans are the FRED hatcheries which are proposed to be contracted out in FY 89. Recent conversations with the FRED Division suggest that several of these these loans may not, in fact, be needed in FY 89.

During the Division's initial budget overview to the House Finance Committee, and in subsequent correspondence with the Division, questions have been raised about the process by which the Division has established its proposed funding priorities. The division has responded with the observation that it has not been necessary in the past to comparatively rank projects but rather to review individual project proposals for their financial and biological feasibility.

Notwithstanding this observation about past practices, budget funding choices are increasingly competitive. The fact that loan "demand" identified by the division exceeds the \$9 million budget proposed requires a ranking effort of some kind. At this point, the criteria and process used by the Department remains unclear. Further, the fact that a single "priority" project on the division's list is proposed for funding at \$4.5 million means that other projects will not be funded. In response to inquiries from both Representative Pourchot and me, the division has suggested a work session to address this issue.

I suggest that we have a joint work session to review the enhancement loans budget proposal in the overall context of state economic development efforts. The work session would involve both a review of the economic impact of the hatchery program to the state economy as well as specific consideration of the FY 89 loans budget and the development of the division's funding priorities.

If you concur that such a meeting would be useful, Eric Myers of my staff will make the necessary arrangements.

cc: Representative Pat Pourchot
Representative John Sund
Representative Sam Cotten
Representative Fran Ulmer

DOI PRIORITY LIST FOR FE LOANS

RANK	CORPORATE NAME	PROJECT NAME	LOAN TYPE	CAPITAL	OPERATING	CUMULATIVE TOTAL
A1	ALASKA AQUACULTURE, INC.	BURNETT INLET	EXISTING		450000	450000
A2	ARMSTRONG-KETA, INC.	PORT ARMSTRONG	EXISTING		285000	735000
A3	KAKE NONPROFIT FISHERY CORP.	GUINNUK CREEK	EXISTING		445000	1180000
A4	NORTHERN SE REG AQUACULTURE ASSN.	MEDVEJIE	EXISTING		400000	1580000
A5	SOUTHERN SE REG AQUACULTURE ASSN.	NEETS BAY	EXISTING		600000	2180000
A6	KAKE NONPROFIT FISHERY CORP.	GUINNUK CREEK	EXISTING	326000		2506000
A7	DOUGLAS ISLAND PINK & CHUM	GASTINEAU CHANNEL	EXISTING	4500000		7006000
B1	KRAA	KATOI	NEW(FRED)	175000	50000	7231000
B2	COOK INLET AQUACULTURE ASSN.	TRAIL LAKES	NEW(FRED)		400000	7631000
B3	NORTHERN SE REG AQUACULTURE ASSN.	HIDDEN FALLS	NEW(FRED)		650000	8281000
B4	PRINCE WM SOUND AQUACULTURE CORP.	CANNERY CR.	NEW(FRED)	500000	600000	9381000
C1	IRAA	ADMINISTRATIVE	NEW REGION		250000	9631000
D1	PRINCE WM SOUND AQUACULTURE CORP.	A. F. KORNIG	EXISTING	500000		10131000
D2	COOK INLET AQUACULTURE ASSN.	EKLUTNA	EXISTING	500000		10631000
D3	NORTHERN SE REG AQUACULTURE ASSN.	MEDVEJIE	EXISTING	100000		10731000
D4	ALASKA AQUACULTURE, INC.	BURNETT INLET	EXISTING	216000		10947000
D5	VALDEZ FISHERIES DEV'T ASSN.	SOLOMON GULCH	EXISTING	500000		11447000
D6	SHELDON JACKSON COLLEGE	INDIAN RIVER	EXISTING	1000000		12447000
E1	SOUTHERN SE REG AQUACULTURE ASSN.	WHITMAN LAKE	NEW(US/CAH)	500000		12947000
F1	ALASKA AQUACULTURE, INC.	BURNETT INLET	NEW	800000	250000	13997000
F2	ARMSTRONG-KETA, INC.	PORT ARMSTRONG	NEW	200000		14197000
F3	ANGOON	ANGOON	NEW	1500000		15697000
F4	AQUA. INC	CRITTENDEN CREEK	NEW	450000	95000	16242000
F5	GRO FISH INC	SANTA ANNA CREEK	NEW	100000	50000	16392000
F6	MYERS CHUCK	MEYERS CHUCK	NEW	75000	75000	16542000

NOTE: Numeric designation is for reference only. The letter groups, i.e., A B C, etc., indicate the priority categories the projects. Therefore all projects of the A group are of equal priority.

STATE OF ALASKA

DEPARTMENT OF FISH AND GAME

OFFICE OF THE COMMISSIONER

STEVE COWPER, GOVERNOR

P.O. BOX 3-2000
JUNEAU, ALASKA 99802-2000
PHONE: (907) 465-4100

March 24, 1988

*Send copy to
SUAER AS FYI*
*put back
in file (this one)*

The Honorable Sam Cotten
Alaska State Legislature
P. O. Box V
Juneau, AK 99811

Dear Representative Cotten:

The purpose of this letter is two-fold; first, I would like to respond to your request for information concerning fisheries enhancement opportunities in lower Cook Inlet and, second, I would like to address the Trail Lakes Hatchery situation since there has been some recent confusion in that regard.

Lower Cook Inlet Fisheries Enhancement

The FY 89 budget contains funding for the Tutka Hatchery as well as the maintenance of the successful sockeye salmon enhancement program (Leisure Lake, Chenik Lake, etc.) in lower Cook Inlet. The following opportunities are not currently within the FY 89 budget:

Prioritized

Cost

1. English Bay Sockeye Salmon Rehabilitation \$23,800

This project includes limnology and pathology sampling for English Bay sockeye salmon. Methodology for an egg take and the development of a rehabilitation strategy will be worked out. Optimum lake-stocking levels and prefertilization information will also be determined.

2. Refinement and Maximization of Sockeye Salmon Production at Chenik Lake \$36,000

Smolt production and lake limnology will be closely evaluated for this important lower Cook Inlet sockeye salmon enhancement project. We have not been able to monitor this project as closely as the Leisure Lake project and would like to more fully evaluate it such that we can be assured that adult sockeye salmon production from the lake is being maximized. Fry stocking for this project is currently being provided by the division.

3. Develop Additional Saltwater Rearing Capability in Tutka Bay to Maximize Pink Salmon Survival \$42,000

In order to maximize the productivity of the Tutka Hatchery, it is necessary to develop additional saltwater rearing capabilities. This proposal would provide saltwater rearing pens to allow us to rear 24 million fry to 1 gram prior to release. The incubation capacity of Tutka Hatchery has been increased. Additional saltwater rearing pens will allow us to maximize the survival of hatchery-released fish. At projects across the state, short-term saltwater rearing of pink and chum salmon normally improves survival by two- to four-fold.

4. Develop the Potential for Additional Sockeye Salmon Lake Stocking in Lower Cook Inlet \$10,000

Two unnamed lakes in the Kirschner Area will be sampled to allow us to evaluate their potential as sockeye salmon producers. These lakes do not produce sockeye salmon at the present time. Lake stocking and pre-fertilization studies would be conducted.

5. Evaluate Factors which may have Caused the 1987 Lower Cook Inlet Pink Salmon Run Failure (both wild and hatchery stocks) \$94,600

The 1987 pink salmon run failure was a surprise and we have not been able to adequately explain why it happened. We are currently doing what we can to prevent it from happening again with Tutka Hatchery stocks. It is obvious that additional evaluation work could be very helpful in allowing us to prevent this from happening again at the hatchery and allowing us to index when it may occur in the wild.

The following evaluation projects are proposed in priority order:

- | | |
|---|-----------------|
| 1. Rearing investigations and tagging | \$13,000 |
| 2. Predation studies | \$22,600 |
| 3. Reinstate estuarine sampling program | \$43,000 |
| 4. Reinstate preemergent fry sampling to lower Cook Inlet streams | <u>\$16,000</u> |
| TOTAL | \$94,600 |

6. Develop Additional Potential for Sockeye Salmon Lake Stocking in Lower Cook Inlet \$7,000

Nuka Island Lake would be sampled to allow us to evaluate its potential as a sockeye salmon producer. Lake stocking and prefertilization studies would be conducted.

In addition to these opportunities, you should note that the Fisheries Rehabilitation, Enhancement and Development (FRED) Division Jobs Bill request included \$2.1 million for the Paint River Fish Pass project. It was proposed that this money be passed through to the Cook Inlet Regional Aquaculture Association. It is my understanding that the most recent estimate for the construction cost of this project is somewhat less than the amount originally requested.

Trail Lakes Hatchery

You have expressed concern about the Trail Lakes Hatchery. Apparently, this concern is based on comments you received from constituents in the Seward/Kenai Peninsula areas. Unfortunately, there is confusion related to contracting-out the operation of state hatcheries to regional aquaculture associations. I would like to explain the FY 89 budget strategy for Trail Lakes Hatchery as well as to discuss the program there to help clear up this confusion.

A recent article in the Seward newspaper focused on the closure of the hatchery. Contrary to that article, the administration's position is not to close any hatcheries if it can be avoided; the hatchery program is very successful and should be maintained. Unfortunately, the General Fund dollars for the FRED Division have been reduced by more than 30 percent since FY 85. As a result, the division is facing a serious funding shortfall. In the absence of full funding for hatcheries, the division's short-term and incremental approach is to contract operations of selected state hatcheries to the private sector. The FY 89 budget proposes that four of the state's 19 hatcheries be contracted to the private sector; these are the Trail Lakes Hatchery, the Kitoi Bay Hatchery near Kodiak, the Cannery Creek Hatchery in Prince William Sound, and the Hidden Falls Hatchery in Southeast.

Under the proposed FY 89 budget, a contract would be written which stipulates that production at the Trail Lakes Hatchery be maintained. The contract would address continuing both the commercial and sport fish production at the facility. In addition to assuring that fish production is maintained, the contract would contain language to protect the state's investment in the hatchery building and state equipment.

The department intends to negotiate the contracts with regional aquaculture associations because of their experience and performance record of operating high-production-level fish hatcheries.

However, an amendment to Title 16 of the Alaska Statutes must be approved by this 1988 Legislature before contracts can be negotiated. Since negotiations cannot presently occur, the department cannot at this time come to a firm and binding agreement with an aquaculture association to assure that it would pay the costs of producing fish at Trail Lakes for the sport fishery. Because of the concern of various parties in the Seward and Cook Inlet areas that the sport fishery production continue, Dr. Brian J. Allee, FRED Division Director, has been cooperating with your staff and Governor Cowper's staff to request \$39,304 in the department's budget to fund sport fish production at Trail Lakes. (Enclosed is a line-item, sport fish budget for Trail Lakes.)

The Trail Lakes Hatchery was designed as a central incubation facility allowing for production of fry and smolts utilizing several species of salmon. A diverse and broad-based production program has evolved to support commercial and sport fisheries enhancement projects. The following table summarizes the projects currently in place at the facility:

<u>Species</u>	<u>Broodstock</u>	<u>Release Location</u>	<u>Number</u>	<u>Enhancement of fishery/area</u>
Sockeye	Hidden Lake	Hidden Lake	6 million (fry)	Commercial/Cook Inlet
Sockeye	Packers Lake	Packers Lake	4 million (fry)	Commercial/Cook Inlet
Coho	Bear Lake	Bear Lake	250,000 (fingerlings)	Sport/Seward
Coho	Bear Lake	Lowell Creek	65,000 (fingerlings*)	Sport/Seward
Coho	Bear Lake	Seward Lagoon	130,000 (fingerlings*)	Sport/Seward
Coho	Bear Lake	Homer Spit	130,000 (fingerlings*)	Sport/Homer
Coho	Crooked Creek	Caribou Lake	150,000 (fingerlings)	Sport/Homer
Coho	Crooked Creek	Ingram Creek	80,000 (fingerlings)	Sport/Cook Inlet
Coho	Crooked Creek	Mat/Su Valley	75,000 (fingerlings)	Sport/Palmer/Wasilla
Coho	Crooked Creek	Seldovia Lake	80,000 (fingerlings)	Sport/Homer
Coho	Crooked Creek	Kasilof River	100,000 (fingerlings**)	Sport/Soldotna
Chinook	Crooked Creek	Summit Lake	100,000 (smolts)	Sport/Cook Inlet

* Fingerlings are transferred to the Elmendorf Hatchery for continued rearing and released as smolts.

** Fingerlings are transferred to the Crooked Creek (Kasilof) Hatchery for continued rearing and released as smolts.

The Packers Lake sockeye salmon project was begun in 1987 in cooperation with the Cook Inlet Aquaculture Association to support enhancement of the Packers Lake system on Kalgin Island in Cook Inlet.

Trail Lakes Hatchery provides an important support link for projects at the Elmendorf Hatchery in Anchorage and the Crooked

Creek Hatchery near Soldotna. Because of physical limitations of the water supplies at these two hatcheries, Trail Lakes serves as an interim-rearing facility to maximize production at the other facilities. The smolt production programs at Elmendorf and Crooked Creek have been expanded and enhanced by using Trail Lakes for incubation and early rearing of coho salmon. Previously, these facilities suffered relatively high losses of coho salmon during the early fry stage.

Until just recently, the commercial fish program at Trail Lakes Hatchery has centered around the production of sockeye salmon fry for stocking into Hidden Lake near Soldotna. In 1987, the Hidden Lake program yielded an estimated commercial catch of 104,000 sockeye salmon for Cook Inlet commercial fishermen. The ex-vessel value of this catch was approximately \$750,000.

Sport fishery enhancement projects supported by production from the Trail Lakes Hatchery have also been very successful. During 1987, approximately 10,500 hatchery-produced coho salmon (46 percent of the catch) were harvested by sport fishermen in Resurrection Bay. Likewise, the coho salmon lake-stocking projects in Kachemak Bay are yielding substantial opportunities for sport anglers. Coho salmon catches in the Kasilof River system near Soldotna have also improved in recent years as a result of hatchery releases. More than 1,200 hatchery-produced coho salmon were harvested there by anglers in 1987, providing for an important and successful alternative to the late-run Kenai River chinook salmon fishery. Coho salmon enhancement projects in Whittier and Six-Mile Creek (Summit Lake) also provide for alternative angling opportunities for Anchorage area residents.

At the present time there are three permanent full-time staff stationed at the Trail Lakes Hatchery. Two of these staff members are fish culturists and one is a maintenance man. There are also several permanent seasonal staff who are employed there (permanent seasonal time totals 25 man months in FY 88). Given the FY 89 budget proposal to contract facility operations to the private sector, we are working hard to identify alternative employment opportunities for these employees. These opportunities could include employment by the contractor.

I trust that this letter will help clear up the confusion relative to the Trail Lakes Hatchery. If you have any questions, please contact Director Brian Allee at 465-4160.

Sincerely,

A handwritten signature in cursive script, appearing to read "Don W. Collinsworth", with a horizontal line extending to the right. The word "For" is written in small letters below the signature.

Don W. Collinsworth
Commissioner

Enclosure

FY 89 FRED DIVISION TRAIL LAKES SPORT FISH
BUDGET REQUEST

<u>Tasks</u>	<u>100</u>	<u>200</u>	<u>300</u>	<u>400</u>	<u>500</u>	<u>TOTAL</u>
Egg Take:						
Chinook	2,842	-0-	16	50	-0-	2,908
Coho	9,546	-0-	63	150	-0-	9,759
Incubation:						
Chinook	711	-0-	1,092	-0-	-0-	1,803
Coho	711	-0-	-0-	-0-	-0-	711
Rearing:						
Chinook	2,842	-0-	3,276	1,543	-0-	7,661
Coho	2,842	-0-	3,276	5,315	-0-	11,433
Mark & Tag:						
Chinook	-0-	-0-	-0-	-0-	-0-	-0-
Coho	1,608	-0-	-0-	925	-0-	2,533
Release:						
Chinook	-0-	80	78	51	-0-	209
Coho	-0-	80	105	102	-0-	287
Pathology:	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>2,000</u>	<u>-0-</u>	<u>2,000</u>
Subtotal	\$21,102	\$160	\$7,906	\$10,136	-0-	\$39,304

Total Chinook = \$12,581

Total Coho = \$24,723

GRAND TOTAL = \$39,304

FISCAL NOTE

REQUEST:

Revision Date: 2/22/88
Title: An Act relating to the operation of state hatcheries
Sponsor: Eliason
Requestor: Eliason

Agency Affected: Fish and Game
BRU: FRED
Components: _____

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 88	FY 89	FY 90	FY 91	FY 92	FY 93
PERSONAL SERVICES	0	0	0	0	0	0
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	0	0	0	0	0	0

CAPITAL	0	0	0	0	0	0
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REVENUE						
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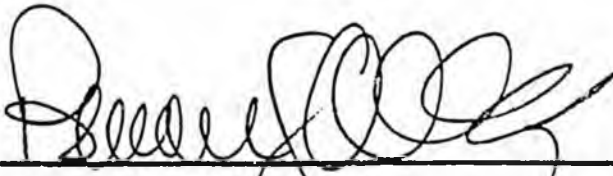
FUNDING: (Thousands of Dollars)

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

POSITIONS:


FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS : (Attach a separate page if necessary)

Prepared by: 

Division: F.R.E.D.

Phone: 465-4160
Date: 2/22/88

Approved by Commissioner: 
Agency: Fish and Game

Date: 2/22/88

Distribution (by preparer):
Legislative Finance
Legislative Sponsor
Requestor
Office of Management and Budget
Impacted Agency(ies)

LETTER OF INTENT FOR CS SB 410 (RESOURCES)

Offered by Sen. Eliason & Sen. Duncan

It is the intent of the Legislature to encourage any entity which enters into a contract with the state to operate a state hatchery, to hire the employees who were laid off from the hatchery as a result of assumption of operation by the contractor.

Senate adopted 2/25/84

Alaska Department of Fish and Game
FRED Division

CRITERIA

Criteria for operation of a state-owned hatchery by a regional aquaculture association via contract would include the following:

1. Previous experience with cost recovery harvests. The contract for operation would include agreement on an acceptable cost recovery plan designed to pay for the operation of the facility. However, the intent of the hatchery would continue to be maximizing contribution to the common property fishery.
2. Previous experience with multiple hatchery management and operations.
3. A regional aquaculture association board of directors would represent all gear groups that participate in the common property fishery in the region.
4. Follow statutory and regulatory requirements of the private nonprofit (PNP) hatchery program. The regulatory mechanisms currently in place include:

- PNP Hatchery Permit - requires extensive technical and public review prior to issuance. The permit includes a Basic Management Plan that is developed to define long-range operational requirements for the facility.
- Permit Alteration - address changes in the status of the permit or Basic Management Plan such as an increase in incubation capacity or the addition of a new species. Each alteration is subjected to technical review by the department and a review by the Regional Planning Team (RPT) for that area. If acceptable, the changes are reflected in the permit and Basic Management Plan.
- Annual Management Plans - developed annually to detail operational requirements, including plans for cost recovery harvesting.
- Fish Transport Permits - required for each species and stock of fish used at a hatchery to control the movement of fish and preclude the spread of disease.
- Scientific/Educational Permits - used for small-scale research projects not included in the hatchery permit, such as permission to collect samples of fish for disease screening.

- Cooperative Agreements - Allows the private sector to enter into cooperative enhancement and rehabilitation projects with ADF&G, federal agencies, and other PNPs.
5. An acceptable budget and economic plan for the annual operation of a state-owned hatchery, including a contingency plan in case of run failure or other disaster. In the case of regional aquaculture associations, they have revenue-generating abilities (salmon enhancement tax) that allow them to finance hatchery operations if cost recovery harvests are not adequate to cover operational expenses.
 6. Commitment to production levels previously established at the hatchery and that are consistent with the goals and objectives of the regional comprehensive salmon plans developed by RPTs and approved by the Commissioner. The RPTs are comprised of three representatives from the regional aquaculture associations and three representatives from the ADF&G fisheries divisions.
 7. Agreement on the qualifications and experience of key personnel required to operate the facility.
 8. Specific contract requirements including, but not limited to, maintenance, insurance requirements, surety deposits/bonding, termination, audit requirements, and hatchery inspections.

FISCAL NOTE

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BRU: FRED
Components: _____

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 88	FY 89	FY 90	FY 91	FY 92	FY 93
PERSONAL SERVICES	0	0	0	0	0	0
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	0	0	0	0	0	0

CAPITAL	0	0	0	0	0	0
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REVENUE						
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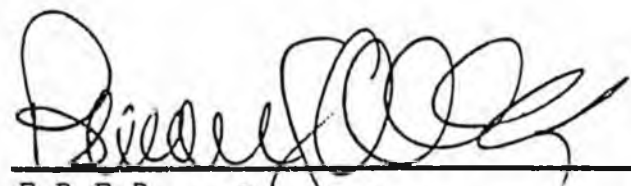
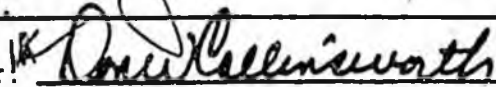
FUNDING: (Thousands of Dollars)

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

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS : (Attach a separate page if necessary)

Prepared by:  Phone: 465-4160
Division: F.R.E.D. Date: 2/22/88
Approved by Commissioner:  Date: 2/22/88
Agency: Fish and Game

Distribution (by preparer):
Legislative Finance
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Senate adopted 2/25/88

LIST OF OPERATIONAL STATE AND
PRIVATE NONPROFIT HATCHERIES

ALASKA DEPARTMENT OF FISH AND GAME
DIVISION OF FISHERIES REHABILITATION, ENHANCEMENT
AND DEVELOPMENT (FRED)

AREA	HATCHERY NAME, ADDRESS, PHONE NUMBER, & MANAGER	SPECIES
Ketchikan	Beaver Falls Hatchery 415 Main Street, Room 318 Ketchikan, AK 99901 <u>Manager:</u> Dave Bright <u>Phone:</u> (907) 225-6950	Sockeye salmon
Big Lake	Big Lake Hatchery P.O. Box 520455 Big Lake, AK 99652-0455 <u>Manager:</u> Dan Moore <u>Phone:</u> (907) 892-6816	Sockeye and coho salmon
Whittier (remote) (Northern Prince William Sound)	Cannery Creek Hatchery P.O. Box 788 Whittier, AK 99693-0788 <u>Manager:</u> Terry Ellison <u>Phone:</u> None	Pink and chum salmon
Clear (60 mi SW of Fairbanks)	Clear Hatchery P.O. Box 40219 Clear, AK 99704-0219 <u>Manager:</u> Dave Parks <u>Phone:</u> (907) 585-6347	Coho and chinook salmon, rainbow trout, Arctic grayling, and sheefish
Petersburg	Crystal Lake Hatchery P.O. Box 1088 Petersburg, AK 99833-1088 <u>Manager:</u> Jim Billi <u>Phone:</u> (907) 772-4772	Chinook, coho, and chum salmon, and steelhead trout
Ketchikan	Deer Mountain Hatchery 415 Main Street, Room 318 Ketchikan, AK 99901 <u>Manager:</u> Dave Bright <u>Phone:</u> (907) 225-6760	Chinook and coho salmon
Anchorage	Elmendorf Hatchery 716 Steel Street Anchorage, AK 99501 <u>Manager:</u> Darrell Keifer <u>Phone:</u> (907) 274-0065	Chinook and coho salmon, and steelhead trout
Anchorage	Fort Richardson Hatchery P.O. Box 5-337 Fort Richardson, AK 99505-0337 <u>Hatchery Manager:</u> Gary Wall <u>Rainbow Broodstock Project Leader:</u> Irv Brock <u>Phone:</u> (907) 428-1347, 1348	Rainbow trout, and chinook and coho salmon
Glennallen	Gulkana Hatchery P.O. Box 47 Glennallen, AK 99588-0047 <u>Manager:</u> Ken Roberson <u>Phone:</u> (907) 822-5520	Sockeye salmon

AREA	HATCHERY NAME, ADDRESS, PHONE NUMBER, & MANAGER	SPECIES
Sitka (remote) (Eastern Baranof Island)	Hidden Falls Hatchery P.O. Box 510 Sitka, AK 99835-0510 <u>Manager:</u> Jim Cochran <u>Phone:</u> (907) 788-3215	Chum and chinook salmon
Kasilof (Kenai Peninsula)	Kasilof (Crooked Creek) Hatchery Route 2, Box 430 Kasilof, AK 99610-0430 <u>Manager:</u> Bob Och <u>Phone:</u> (907) 262-4159	Sockeye and chinook salmon, and steelhead trout
Kodiak (remote) (Afognak Island)	Kitoi Bay Hatchery 211 Mission Road Kodiak, AK 99615-6399 <u>Manager:</u> Tim Joyce <u>Phone:</u> (907) 486-6559	Pink, chum, and coho salmon, and rainbow trout
Klawock (Prince of Wales Island)	Klawock Hatchery P.O. Box 101 Klawock, AK 99925-0101 <u>Manager:</u> Steve Hansen <u>Phone:</u> (907) 755-2232	Chum and coho salmon, and steelhead trout (changing to sockeye salmon)
Cordova (remote) (Western Prince William Sound)	Main Bay Hatchery Falls Bay via USPO Cordova, AK 99574 <u>Manager:</u> John Burke <u>Phone:</u> (907) 345-1160 (thru Trident Radio Service)	Chum and pink salmon
Cold Bay (Alaska Peninsula)	Russell Creek Hatchery P.O. Box 50 Cold Bay, AK 99571-0050 <u>Manager:</u> Clayton Brown <u>Phone:</u> (907) 532-2373	Chum salmon
Kotzebue (remote) (Noatak River)	Sikusuilag Springs Hatchery P.O. Box 686 Kotzebue, AK 99752-0686 <u>Manager:</u> Peter Rob <u>Phone:</u> (907) 485-2160	Chum salmon
Juneau (remote)	Snettisham Hatchery P.O. Box 20 Douglas, AK 99824-0020 <u>Manager:</u> Don Tripp <u>Phone:</u> (907) 586-3838	Chum, coho, and chinook salmon, Dolly Varden char, and rainbow trout
Moose Pass (Kenai Peninsula)	Trail Lakes Hatchery P.O. Box 49 Moose Pass, AK 99631-0049 <u>Manager:</u> Phil Ohlinger (acting) <u>Phone:</u> (907) 288-3606	Sockeye, chinook, and coho salmon, and steelhead trout
Homer (remote) (Kachemak Bay)	Tutka Hatchery 3298 Douglas Street Homer, AK 99603-1942 <u>Manager:</u> Peter Velsko <u>Phone:</u> (907) 235-8486	Pink and chum salmon

STATE OF ALASKA
OPERATIONAL PRIVATE NONPROFIT HATCHERIES

AREA	HATCHERY NAME, ADDRESS, PHONE NUMBER, AND REPRESENTATIVE/MANAGER	SPECIES
Ketchikan	Beaver Falls Hatchery c/o Southern Southeast Regional Aquaculture Association 1621 Tongass Avenue, #103 Ketchikan, AK 99901 <u>Rep:</u> Don Amend <u>Phone:</u> (907) 225-9605	Sockeye salmon
Wrangell	Burnett Inlet Hatchery c/o Alaska Aquaculture, Inc. P. O. Box 1288 Wrangell, AK 99929 <u>Rep:</u> Tod A. Jones <u>Phone:</u> (907) 874-2441	Pink, chum, coho, and chinook salmon
Skagway	Burro Creek Hatchery c/o Burro Creek Farms P. O. Box 455 Skagway, AK 99840 <u>Rep:</u> Eugene W. Richards <u>Phone:</u> (907) 983-2355	Pink, chum, and coho salmon
Soldotna (Matanuska Valley)	Eklutna Hatchery c/o Cook Inlet Aquaculture Association HC 2, Box 849 Soldotna, AK 99669-9707 <u>Manager:</u> Loran Waldron <u>Phone:</u> (907) 745-5692	Pink, chum, and coho salmon
Cordova	Esther Lake Hatchery c/o Prince William Sound Aquaculture Corporation P. O. Box 1110 Cordova, AK 99574 <u>Rep:</u> Bruce Suzumoto <u>Phone:</u> (907) 424-7511	Pink, chum, coho, chinook, and sockeye salmon
Kake (Kupreanof Island)	Gunnuk Creek Hatchery c/o Kake Nonprofit Fisheries Corporation c/o City of Kake P. O. Box 523 Kake, AK 99830 <u>Manager:</u> Steve Ardison <u>Phone:</u> (907) 785-6460	Pink and chum salmon

March 9, 1988

AREA	HATCHERY NAME, ADDRESS, PHONE NUMBER, AND REPRESENTATIVE/MANAGER	SPECIES
Juneau	Kowee Creek Hatchery c/o Douglas Island Pink and Chum, Inc. P. O. Box 168 Juneau, AK 99802 <u>Rep:</u> Ladd Macaulay <u>Phone:</u> (907) 586-4041	Pink and chum salmon
Sitka	Medvejie Creek Hatchery c/o Northern Southeast Regional Aquaculture Association 103 Monastery Sitka, AK 99835 <u>Manager:</u> Dail Hurdlow <u>Phone:</u> (907) 747-5863	Chum, coho, pink, and chinook salmon
Cleveland Peninsula	Meyers Chuck Hatchery c/o Meyers Chuck Aquaculture Association 5001 Nottingham Way Anchorage, AK 99501 <u>Manager:</u> Robert M. Meyer <u>Phone:</u> (907) 261-4625	Pink salmon
Revillagigedo Island	Neets Bay Hatchery c/o Southern Southeast Regional Aquaculture Association 1621 Tongass Avenue, #103 Ketchikan, AK 99901 <u>Manager:</u> Dan Romey <u>Phone:</u> (907) 247-8790	Chum, coho, and chinook salmon
Baranof Island	Port Armstrong Hatchery c/o Armstrong-Keta, Inc. P. O. Box 21990 Juneau, AK 99802 <u>Manager:</u> Wm. Ritchie Phillips <u>Phone:</u> (907) 586-3443	Pink, chum, coho, and chinook salmon
Kake (Kuiu Island)	Port Camden Streamside Incubation Facility c/o Northern Southeast Regional Aquaculture Association 103 Monastery Sitka, AK 99835 <u>Rep:</u> Peter Esquiro <u>Phone:</u> (907) 747-6850	Chum salmon

March 9, 1988

AREA	HATCHERY NAME, ADDRESS, PHONE NUMBER, AND REPRESENTATIVE/MANAGER	SPECIES
Cordova (Evans Island)	Port San Juan Hatchery c/o Prince William Sound Aquaculture Corporation P. O. Box 1110 Cordova, AK 99574 <u>Rep:</u> Bruce Suzumoto <u>Phone:</u> (907) 424-7511	Pink and chum salmon
Juneau	Sheep Creek Hatchery c/o Douglas Island Pink and Chum, Inc. P. O. Box 168 Juneau, AK 99802 <u>Rep:</u> Ladd Macaulay <u>Phone:</u> (907) 586-3663	Pink, chum, and coho salmon
Sitka	Sheldon Jackson College Aquaculture Program P. O. Box 479 Sitka, AK 99835 <u>Manager:</u> Bill Davidson <u>Phone:</u> (907) 747-5209	Pink, chum, coho, and chinook salmon
Valdez	Solomon Gulch Hatchery c/o Valdez Fisheries Development Association P. O. Box 125 Valdez, AK 99686 <u>Manager:</u> Paul McCollum <u>Phone:</u> (907) 835-4874	Pink, chum, coho, and chinook salmon
Ketchikan	Whitman Lake Hatchery c/o Southern Southeast Regional Aquaculture Association 1621 Tongass Avenue, #103 Ketchikan, AK 99901 <u>Manager:</u> Rod Neterer <u>Phone:</u> (907) 225-2635	Chum, coho, and chinook salmon

5-1821X ✓
Bannister
3/4/88

Original sponsors: Eliason, Jones
and Kerttula

1 IN THE SENATE

2 HOUSE CS FOR CS FOR SENATE BILL NO. 410 ()

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 FIFTEENTH LEGISLATURE - SECOND SESSION

5 A BILL

6 For an Act entitled: "An Act relating to the operation of state hatcher-
7 ies; and providing for an effective date."

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

9 * Section 1. AS 16.10 is amended by adding a new section to article 16
10 to read:

11 Sec. 16.10.480. CONTRACTS FOR THE OPERATION OF STATE HATCHERIES.

12 (a) If the department determines that it is unable to continue op-
13 erating a state-owned hatchery or that it is in the best interest of
14 the state to provide for the operation of the hatchery by another
15 person or by another person in cooperation with the state, the depart-
16 ment may enter into a contract for the operation or cooperative opera-
17 tion of the hatchery.

18 (b) Notwithstanding AS 36.30, when contracting under (a) of this
19 section, the department may not contract with a person other than the
20 regional association organized under AS 16.10.380 that is located in
21 the region in which the hatchery is located.

22 (c) A contract entered into under this section must provide that
23 the hatchery will be operated under AS 16.10.400 - 16.10.445 and
24 16.10.460 - 16.10.470 and the regulations adopted under those sec-
25 tions.

26 (d) The department may issue to a contractor who operates a
27 hatchery under this section a permit to harvest adult salmon during
28 the term of the contract in a quantity sufficient to allow the con-
29 tractor to recover all or part of the contractor's costs of operating

1 the hatchery.

2 (e) A contract under this section for the operation of a
3 hatchery may not affect the state's ownership of the hatchery and does
4 not affect the state's responsibility to manage the resource.

5 * Sec. 2. AS 16.10.400(a) is amended to read:

6 (a) The commissioner or a designee may issue a permit, subject
7 to the restrictions imposed by statute or regulation under AS 16.-
8 10.400 - 16.10.470, to a nonprofit corporation organized under
9 AS 10.20, after the permit application has been reviewed by the re-
10 gional planning team, for

11 (1) the construction and operation of a salmon hatchery;

12 (2) the operation of a hatchery under AS 16.10.480.

13 * Sec. 3. AS 16.10.400(b) is amended to read:

14 (b) The application for a permit under this section shall be on
15 a form prescribed by the department and be accompanied by an applica-
16 tion fee of \$100. The commissioner may waive the submission of an
17 application for a permit to operate a hatchery under AS 16.10.480.

18 * Sec. 4. AS 16.10.400(e) is amended to read:

19 (e) A qualified regional association formed under AS 16.10.380,
20 if it has become a nonprofit corporation under AS 10.20, has a prefer-
21 ence right to a permit under (a)(1) of this section if its proposed
22 hatchery is provided for in the comprehensive plan for that region
23 developed under AS 16.10.375 and the fresh water source exceeds one
24 cubic foot per second minimum flow. Another [ANY OTHER] local non-
25 profit hatchery corporation approved by a qualified regional asso-
26 ciation has an identical preference right.

27 * Sec. 5. AS 16.10.410(c) is repealed and reenacted to read:

28 (c) The hearing shall be conducted by the department. At a
29 hearing for a permit under AS 16.10.400(a)(1), the applicant shall

1 present a plan for the proposed hatchery, describing the capacity of
 2 the hatchery and other relevant facts that may be of interest to the
 3 department or the public. Interested members of the public shall be
 4 afforded an opportunity to be heard.

5 * Sec. 6. AS 16.10.450 is amended to read:

6 Sec. 16.10.450. SALE OF SALMON AND SALMON EGGS BY HATCHERY.

7 (a) Except as otherwise provided in a contract for the operation of a
 8 hatchery under AS 16.10.480, a [A] hatchery operator who sells salmon
 9 returning from the natural waters of the state, or sells salmon eggs
 10 to another hatchery operating under AS 16.10.400 - 16.10.470, after
 11 utilizing the funds for reasonable operating costs, including debt
 12 retirement, expanding its facilities, salmon rehabilitation projects,
 13 fisheries research, or [FOR] costs of operating the qualified regional
 14 association for the area in which the hatchery is located, shall
 15 expend the remaining funds on other fisheries activities of the qual-
 16 ified regional association.

17 (b) Fish returning to hatcheries and sold for human consumption
 18 shall be of comparable quality to fish harvested by commercial fisher-
 19 ies in the area [,] and shall be sold at prices commensurate with the
 20 current market.

21 * Sec. 7. This Act takes effect immediately under AS 01.10.070(c).
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Chenoweth
4/14/88

1 IN THE HOUSE

BY THE RESOURCES COMMITTEE

2 HOUSE BILL NO.

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 FIFTEENTH LEGISLATURE - SECOND SESSION

5 A BILL

6 For an Act entitled: "An Act relating to the reduction or revocation by
7 the commissioner of the Department of Natural Re-
8 sources of oil or gas royalty obligation increases
9 made in connection with the institution or operation
10 of a cooperative or unit plan; and providing for an
11 effective date."

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

13 * Section 1. AS 38.05.180(p) is amended to read:

14 (p) To conserve the natural resources of all or a part of an oil
15 or gas pool, field, or like area, the lessees and their representa-
16 tives may unite with each other, or jointly or separately with others,
17 in collectively adopting or operating under a cooperative or a unit
18 plan of development or operation of the pool, field, or like area, or
19 a part of it, when determined and certified by the commissioner to be
20 necessary or advisable in the public interest. The commissioner may,
21 with the consent of the holders of leases involved, establish, change,
22 or revoke drilling, producing, and royalty requirements of the leases
23 and adopt regulations with reference to the leases, with like consent
24 on the part of the lessees, in connection with the institution and
25 operation of a cooperative or unit plan as the commissioner determines
26 necessary or proper to secure the proper protection of the public
27 interest. The commissioner may require oil and gas leases issued
28 under this section to contain a provision requiring the lessee to
29 operate under a reasonable cooperative or unit plan, and may prescribe

1 a plan under which the lessee must operate. The plan must adequately
2 protect all parties in interest, including the state. Notwithstanding
3 (j) of this section, the commissioner may reduce or revoke a royalty
4 obligation increase that was made by the commissioner in connection
5 with the institution or operation of a cooperative or unit plan, if
6 the commissioner determines that the public interest warrants the
7 reduction or revocation. When considering a royalty reduction, the
8 commissioner shall attempt to obtain the maximum economic return for
9 the state that is compatible with allowing a reasonable rate of eco-
10 nomical return for the lessee. If the commissioner reduces or revokes a
11 royalty obligation increase, the commissioner shall include a mecha-
12 nism to raise the royalty to a level not exceeding its former level in
13 the event that the lessee's market conditions improve or if the prof-
14 itability of a lessee's operation increases to a specified level. As
15 a condition of the reduction or revocation of a royalty obligation,
16 the commissioner shall require the lessee to comply with all valid and
17 applicable laws and regulations of the state that

18 (1) concern the hiring of state residents; and

19 (2) are in effect or take effect during the term of the

20 lease.

21 * Sec. 2. This Act takes effect immediately under AS 01.10.070(c).
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5-2016A
Bannister
3/1/88

1 IN THE HOUSE

2 HOUSE BILL NO.

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 FIFTEENTH LEGISLATURE - SECOND SESSION

5 A BILL

6 For an Act entitled: "An Act relating to state oil and gas royalty reduc-
7 tions."

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

9 * Section 1. AS 38.05.180(j) is repealed and reenacted to read:

10 (j) To prolong the economic life of an oil and gas field or to
11 encourage commercial production of oil or gas that would not otherwise
12 be economically feasible, the commissioner shall adopt regulations to
13 allow for the reduction of royalty on leases. Except as otherwise
14 provided in this subsection, the commissioner may not grant a reduc-
15 tion of royalty until the lessee requesting the reduction makes a
16 clear showing that the revenue from the lessee's share of all hydro-
17 carbons produced from the unit is or will be insufficient to produce a
18 reasonable rate of return with respect to the lessee's total invest-
19 ment in the unit. To encourage commercial development and production
20 of low-gravity oil, the commissioner may grant a lessee a reduction of
21 royalty if the lessee requesting the reduction makes a clear showing
22 that the reduction is necessary to obtain commercial production of
23 low-gravity oil and agrees to begin development within one year of the
24 reduction and production within ~~three~~ ^{four} years of the reduction. A
25 royalty reduction to encourage commercial development and production
26 of low-gravity oil may not begin later than 10 years after the
27 effective date of this Act. The commissioner may condition a reduc-
28 tion granted under this subsection on an increase in the price of oil
29 or gas and may restore the royalty in the event of an oil or gas

1 ^{ORIGIN} increase. When considering a royalty reduction, the commissioner
2 shall attempt to obtain the maximum economic return for the state that
3 is compatible with allowing a reasonable rate of economic return for
4 the lessee. In this subsection, "low-gravity oil" means oil whose
5 specific gravity measured in degrees on the American Petroleum Insti-
6 tute scale is less than 20 degrees.

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8 *EFFECTIVE DATE*
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STATE OF ALASKA
DEPARTMENT OF NATURAL RESOURCES

BILL SHEFFIELD, GOVERNOR

OFFICE OF THE COMMISSIONER

POUCH M
JUNEAU, ALASKA 99811
PHONE: (907) 485-2400

April 24, 1986

The Honorable Al Adams
Chairman, House Finance Committee
Alaska State Legislature
P.O. Box V
Juneau, AK 99811

Dear Representative Adams:

House CS for CS for Sponsor Substitute for SB No. 430 (Resources) is pending in the House Finance Committee. The bill would authorize the commissioner of the Department of Natural Resources to reduce or revoke a royalty obligation increase made in connection with the institution of a unit agreement.

The bill also provides that if the commissioner reduces or revokes a royalty obligation increase, the commissioner shall include a mechanism to raise the royalty to a level not exceeding its former level in the event that market conditions improve, or if the profitability of a lessee's operation increases to a specified level. Several questions have been raised by members of the Legislature regarding how this mechanism would work.

The mechanism we propose to implement the bill's intent is contained in the attached draft "Commissioner's Decision on Conoco's Application for Amendment of the Milne Point Unit Agreement," dated April 23, 1986. The decision as drafted would implement the bill in its present form.

Generally, the draft decision provides that the royalty rate to be paid by Conoco and the other affected Working Interest Owners would remain at 12 1/2% until the wellhead price reaches \$17.00 per barrel, at which point the royalty would be increased to 16-2/3%. The royalty rate would remain at that level until the wellhead price reached \$25.00 per barrel, at which point the royalty would be increased to 20%. In no case would the royalty rate fall below 12 1/2% or rise above 20%.

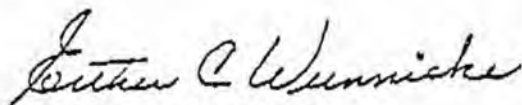
The Honorable Al Adams
Page 2
April 23, 1986

The threshold prices that would trigger the higher royalty rates are based on a preliminary staff analysis of the information previously submitted by Conoco. Before issuing a final decision, the staff and I will further evaluate available information to determine what specific threshold values would be appropriate to include in the final decision.

This mechanism would protect the state's interest by providing a higher royalty rate in the event that market conditions improve. This approach is administratively simpler and more straight-forward than any determination based on the profitability of the lessees' operations. After two year's of production from the field has occurred, the lessees would be eligible for consideration of a royalty adjustment under the provisions of AS 38.05.180(j).

If you or committee members have questions about the draft proposal, please feel free to contact me at 465-2400, or Kay Brown of my staff at 762-4241.

Sincerely,



Esther C. Wunnicke
Commissioner

cc: Representative Pourchot
Representative Cotten
Representative Sund
Senator Fahrenkamp

2001K

April 23, 1986

Commissioner's Decision on Conoco's Application
for Amendment of the Milne Point Unit Agreement
(to be issued pending passage of House CS for CS
for Sponsor Substitute for Senate Bill No. 430 [Resources])

Introduction

By application dated October 28, 1985, Conoco, Inc., Reading and Bates Petroleum Company, Champlin Petroleum Company, and Cities Service Oil and Gas Corporation (hereafter collectively referred to as the "Companies") requested the Commissioner to amend paragraph 14 of the Milne Point Unit Agreement to reduce the 20 percent royalty on certain of their Milne Point Unit oil and gas leases.¹

Commissioner's Authority and Duties

The Commissioner of the Department of Natural Resources is empowered to change the royalty requirements of unitized leases when proper to secure the public interest. AS 38.05.180(p) reads in part, "The Commissioner may reduce or revoke a royalty obligation increase that was made by the Commissioner in connection with the institution or operation of a cooperative or unit plan."

The Department has promulgated regulations to guide the Commissioner in her determination of when an amendment to a unit agreement would be proper to protect the public interest. 11 AAC 83.385 makes unit agreement modifications subject to the Commissioner's approval, and 11 AAC 83.303(c) requires the Commissioner to consider several criteria when evaluating a request for approval of a unit agreement amendment. The Commissioner must find that the amendment will (1) promote the conservation of all natural resources, (2) promote the prevention of economic and physical waste, (3) provide for the protection of all parties of interest, including the State. 11 AAC 83.303(a). In evaluating those criteria the Commissioner must consider the following factors: (1) the environmental costs and benefits, (2) the geological and engineering characteristics of the reservoir, (3) exploration

¹The oil and gas leases are identified as ADL 47432, ADL 47433, ADL 47434, ADL 47437, ADL 47438 and ADL 47439 (hereinafter referred to as the "leases"). In October, 1979 lease ADL 47432 was divided (severed) into two separate leases - ADL 47432 and ADL 319717. Lease ADL 319717 has identical terms and conditions as lease ADL 47432, including the 20 percent royalty. Likewise, lease ADL 47439 was divided into two separate leases - ADL 47439 and ADL 315846 - both having identical terms including the 20 percent royalty. As such, leases ADL 319717 and ADL 315846 also will be considered in this decision and are to be included in any references to the "leases".

activities in the unit area, (4) the applicant's plans for development, (5) the economic costs and benefits to the state, and (6) any other relevant factors the Commissioner determines necessary or advisable to protect the public interest. 11 AAC 83.303(b). Further, the department has defined "conservation of natural resources of all or part of an oil or gas pool, field or like area" to mean "maximizing the efficient recovery of oil and gas and minimizing the adverse impacts on the surface and other resources." 11 AAC 83.395(1).

Abbreviated Unit History

By decision dated October 29, 1979, former Commissioner Robert E. LeResche approved the Milne Point Unit Agreement. Paragraph 14 of the Agreement stated in part that, "The State's royalty share due on leases ADL 47432, ADL 47433, ADL 47434, ADL 47437, ADL 47438 and ADL 47439 shall be one-fifth (20%)." Prior to the Commissioner's 1979 Decision, the royalty rate on the leases had been 12 1/2 percent.

The Companies' Application

The application filed by the Companies was supported by the following materials: (1) the Companies' Brief, (2) an affidavit of Alan Hastings, (3) an affidavit of David Uldrich, and (4) an affidavit of Lou L. Pai. The Companies also filed certain economic, geological, geophysical and engineering data with the application and requested that those data be held confidential. In the application the Companies argue that they cannot expect to earn a reasonable rate of return on their investments in the field if the royalty rate on the leases remains at 20 percent. In the application the Companies provide evidence to support their position.

Basis for the Decision

Under AS 38.05.180(p), I may grant a change in unitized lease royalty rates only when proper to protect the public interest. In this instance, I find that the public interest is best protected by a royalty change (reduction) which would promote maximum production under existing economic conditions yet provide for an automatic and specified increase in the royalty rate should market conditions improve.

AS 38.05.180(a)(1) states in part, "the Legislature finds that the people of Alaska have an interest in the development of the State's oil and gas resources to: (A) maximize the economic and physical recovery of the resources...."

Under existing and forecasted economic conditions and with a 20 percent royalty on the leases there is a high likelihood that both the economic and physical recovery of oil and gas at Milne Point will not be maximized for either the Companies or the State. Production of oil and gas from the developed reservoir (i.e., the Kuparuk River formation) will not be maximized; development and production of oil and gas from yet to be developed reservoirs (i.e., the Shallow Sands) likely will not occur at all. At a 20 percent royalty, the Companies have made a persuasive case that they cannot be reasonably assured an adequate rate of return on any future or incremental

investment. Given the further erosion of crude oil prices since the date the application was filed with the State, it is possible that current production will be halted if the royalty rate on the leases remains at 20 percent.

A careful review by staff of the data and analyses supplied by the Companies confirms that, under current and expected market conditions, the Companies likely will not receive an adequate rate of return on their current investments and that future investments in the Milne Point Unit also would yield a less than satisfactory return. It is also very likely that if current market conditions persist (or get worse), the field will be shut-in if the royalty remains at 20 percent. In addition, future development of the Milne Point Unit Shallow Sands (heavy oil and gas reservoirs, geologically equivalent to ARCO's West Sak-Ugnu reservoirs) is almost certain not to occur at a 20 percent royalty if current market conditions prevail.

It is acknowledged that a change in the royalty rate from 20 percent to 12 1/2 percent will result in a short term revenue decrease to the state of approximately 2 million dollars per year from the Milne Point Unit. However in the long term the state should be more than compensated for that loss by continued production from existing wells and development of the Shallow Sands reservoirs at Milne Point and the application of a royalty to that production. In addition, a change in the royalty rate also should result in a prolonged production life for the Kuparuk reservoir at Milne Point.

It is also acknowledged that as a result of amending the unit agreement as outlined in this decision, continued production and increased ultimate recovery of oil and gas at Milne Point are not guaranteed. However, there is a substantially greater likelihood that the benefits resulting from maximum production will be forthcoming if the royalty rate on the leases is 12 1/2 percent vis-a-vis 20 percent during periods of depressed world oil prices.

A fixed royalty, regardless of the percentage, is not sensitive to field operating costs or the overall profitability of the operation. In effect, there is no sharing of downside risk. In contrast, a royalty rate that changes in proportion to value of the oil produced is responsive to both relative increases and decreases in lessees' profits. There is a sharing of both downside and upside risks. A royalty rate that changes in response to changes in the value of the oil produced allows continued operation and development of the field during times of decreasing crude oil prices (and profitability), yet protects the public interest by increasing the State's royalty share of lease revenue during times of increasing crude oil prices (and profitability).

On balance, an affirmative decision to amend the unit agreement to change the fixed 20 percent royalty on the leases to a royalty that is responsive to changes in the value of the produced oil is necessary and advisable in the public interest and properly protects the public interest.

The Companies and the State shall proceed, as necessary, to amend the Milne Point Unit Agreement to include the terms and conditions necessary to implement this decision.

Decision

I find that a decision to amend paragraph 14 of the Milne Point Unit Agreement is necessary and advisable in the public interest. I further find that by including the terms and conditions cited below in the amendment, the amendment protects the public interest.

1. The royalty rate on the leases will be as follows:

When the value of the produced oil at the inlet to the Milne Point Pipeline is less than \$17.00 per barrel, the royalty rate will be 12 1/2 percent. When the value of the oil is \$17.00 per barrel or greater, but less than \$25.00 per barrel, the royalty rate will be 16.667 percent. When the value of the oil is \$25.00 per barrel or greater, the royalty rate will be 20 percent.

The state will limit its taking of royalty in kind from the leases to a maximum of 12.5 percent.

2. The Companies and the State will proceed to amend the Milne Point Unit Agreement to incorporate the provisions necessary to implement this decision.
3. This decision is effective _____ 1986. Royalty payments for the leases due the State in the month of _____, 1986 and thereafter shall be calculated using the royalty rate schedule specified above.
4. Article 30 of the Milne Point Unit Agreement will be amended as follows: The Unit Operator and lessees shall comply with all valid and applicable laws and regulations that concern the hiring of Alaska residents and that are in effect or take effect during the term of the leases.
5. It is acknowledged that this decision does not preclude the Companies from making future applications for royalty alterations or reductions under applicable Alaska statutes and regulations.
6. The Companies' simultaneous application for reconsideration/reopening of Commissioner LeResche's 1979 Decision is hereby denied. The Companies' simultaneous application for a royalty reduction pursuant to AS 38.05.180(j) also is denied.

Esther C. Wunnicke, Commissioner
Department of Natural Resources

Date

4551Z

Offered: 4/21/86
Referred: Finance

Original sponsor: Fahrenkamp

1 IN THE SENATE BY THE RESOURCES COMMITTEE
2 HOUSE CS FOR CS FOR SPONSOR SUBSTITUTE FOR SENATE BILL NO. 430 (Resources)
3 IN THE LEGISLATURE OF THE STATE OF ALASKA
4 FOURTEENTH LEGISLATURE - SECOND SESSION

5 A BILL
6 For an Act entitled: "An Act relating to the reduction or revocation by
7 the commissioner of the Department of Natural Re-
8 sources of oil or gas royalty obligation increases
9 made in connection with the institution or operation
10 of a cooperative or unit plan; and providing for an
11 effective date."

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

13 * Section 1. AS 38.05.180(p) is amended to read:

14 (p) To conserve the natural resources of all or a part of an oil
15 or gas pool, field, or like area, the lessees and their representa-
16 tives may unite with each other, or jointly or separately with others,
17 in collectively adopting or operating under a cooperative or a unit
18 plan of development or operation of the pool, field, or like area, or
19 a part of it, when determined and certified by the commissioner to be
20 necessary or advisable in the public interest. The commissioner may,
21 with the consent of the holders of leases involved, establish, change,
22 or revoke drilling, producing, and royalty requirements of the leases
23 and adopt regulations with reference to the leases, with like consent
24 on the part of the lessees, in connection with the institution and
25 operation of a cooperative or unit plan as the commissioner determines
26 necessary or proper to secure the proper protection of the public
27 interest. The commissioner may require oil and gas leases issued
28 under this section to contain a provision requiring the lessee to
29 operate under a reasonable cooperative or unit plan, and may prescribe

1 a plan under which the lessee must operate. The plan must adequately
2 protect all parties in interest, including the state. Notwithstanding
3 (j) of this section, the commissioner may reduce or revoke a royalty
4 obligation increase that was made by the commissioner in connection
5 with the institution or operation of a cooperative or unit plan. if
6 the commissioner determines that the public interest warrants the
7 reduction or revocation. If the commissioner reduces or revokes a
8 royalty obligation increase, the commissioner shall include a mecha-
9 nism to raise the royalty to a level not exceeding its former level in
10 the event that the lessee's market conditions improve or if the
11 profitability of a lessee's operation increases to a specified level.
12 As a condition of the reduction or revocation of a royalty obligation,
13 the commissioner shall require the lessee to comply with all valid and
14 applicable laws and regulations of the state

15 (1) that concern the hiring of state residents; and

16 (2) that are in effect or take effect during the term of
17 the lease.

18 * Sec. 2. This Act takes effect immediately in accordance with AS 01.-
19 10.070(c).

STATE TAX INCENTIVES: ALASKA

Recent events in Alaska suggest the general issue of tax incentives may receive considerable attention over the next year. Alaskan State Senator Falks has asked some oil companies to comment on possible exploration and production incentives. Key state officials have expressed an interest in resource industry incentives. And on the industry side, Conoco and Hess have proposed incentives specific to their interests. Thus, legislation may be introduced in the next legislative session.

Exxon's position on any proposed incentives in Alaska should be governed by four broad principles:

- Tax stability is the single most important incentive Alaska can provide. This applies not just to oil industry taxation but to general business taxes, for example the corporate income tax.
- In reviewing policies that might stimulate industrial activity, consideration should first be given to removing any current impediments and avoiding unjustified new cost burdens.
- If the state believes additional incentives should be pursued, a strategy which stimulates exploration and development of new reserves is most likely to increase oil industry activity and benefit the state over the long term.
- Government should not have to shoulder the traditional risks and costs associated with resource exploration and development. These are properly the responsibility of private industry.

Beyond these overarching principles, there are several considerations that come into play. Any proposed incentives should be:

- available to all industry participants without discrimination.
- directly tied to increased business activity.
- general, that is should avoid targeting specific conditions, geographic areas, or depths.
- aimed at rewarding successful efforts, avoiding policies that encourage companies to assume risks for purely tax reasons.
- non-refundable.
- simple to administer.

Exxon can support incentives consistent with these considerations. In addition, Exxon representatives will encourage the Alaska Oil and Gas Association to develop a position consistent with the above comments. When endorsing specific incentives, industry should avoid unrealistic statements of the likely impact of those incentives on oil activity in the state.

4/4/88

IN THE HOUSE

HOUSE BILL NO.

IN THE LEGISLATURE OF THE STATE OF ALASKA
FIFTEENTH LEGISLATURE - SECOND SESSION

A BILL

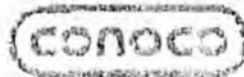
FOR AN ACT ENTITLED: "AN ACT RELATING TO OIL AND GAS
ROYALTY REDUCTIONS"

AS ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA

SECTION 1. AS AMENDED (j) is repealed and replaced by reading:

(j) To promote the economic development and production of low-gravity oil and to encourage conservation of production of oil and gas that would not otherwise be economically feasible, the commissioner shall adopt regulations to allow for the reduction of royalty on leases. Leases entered into with either lease royalty or net profits above royalty as a bid variable shall have two years of production before the lease is eligible for a royalty reduction under this subsection. Except as otherwise provided in this subsection, the commissioner may not grant a reduction of royalty under this subsection if the regulation makes a determination that the lease is in the leaseholder's state of oil production process for the unit or lease if the lease is not an eligible lease as defined in the regulation to produce a reasonable rate of return with respect to the leaseholder's investment in the unit.

The commissioner may grant a reduction of royalty on low-gravity oil from non-producing leases. The commissioner may grant a two-year reduction of royalty if the leaseholder provides the commissioner with a plan showing that the reduction is necessary to obtain commercial production of low-gravity oil and agrees to begin development within one year of the start of production within five years of the start of production. The royalty reduction to encourage leases for development of production of low-gravity oil may not begin later than 10 years after the effective date of this act. The commissioner may conflict a reduction granted under this subsection on



Tom Painter
Division Manager

Conoco Inc.
C/O, Direct
Suite 100
P.O. Box 10000

March 29, 1988

Mr. Matt Fry
APL-C10
2501 Commercial Bldg
Anchorage, Alaska 99501

Dear Matt:

Subsequent to our March 24 meeting, we have prepared a list of suggestions for establishing a new Alaska Division. The list is attached for your review. We are interested in your comments on the following items:

1. The amount of staff to be hired for the Alaska Division. The following are suggested: 1. 10-12 people.

2. Gross of Management. Would include 1 person for each of the following: about \$50,000 per year.

3. Specialized Equipment/Supplies. We estimate that we would need heavy equipment and supplies for the Alaska Division.

4. Specialized Technical/Professional. Some estimates are shown in the attached list for professional services.

An appropriate work order will be prepared for the Alaska Division. We will be glad to discuss the contract.

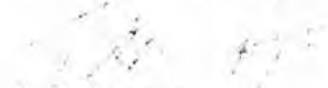
The above rates are intended to provide a rough estimate for the Alaska Division. We are not sure of the exact figures for Alaska. We will be glad to discuss the Alaska Wage Laws.

The following data are suggested averages for the Alaska Division. Alaska has a high cost of living. The Alaska Division will be a high cost area. We will be glad to discuss the Alaska Wage Laws. We will be glad to discuss the Alaska Division wage statistics.

Mr. Mann Frey
March 25, 1988
Page 2

The two year period was selected as a reasonable time period to review the results of this type of contract. The results of the study are shown in the following table for the period 1984-1985 at the end of the study.

Yours very truly,



F. H. Painter
Division Manager

AHJ:s

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