

ALASKA LEGISLATURE COMMITTEE FILES 2001-2002 8672

10397 HOUSE RESOURCES

# Consolidated Balance Sheets

MDU Resources Group, Inc.

December 31,	2000	1999
<i>(In thousands, except shares and per share amount)</i>		
<b>Assets</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 36,512	\$ 77,504
Receivables	342,354	169,560
Inventories	64,017	64,608
Deferred income taxes	8,048	15,600
Prepayments and other current assets	29,355	24,424
	480,286	351,696
<b>Investments</b>	41,380	43,128
<b>Property, plant and equipment</b>	2,496,123	2,042,281
Less accumulated depreciation, depletion and amortization	895,109	794,105
	1,601,014	1,248,176
<b>Deferred charges and other assets</b>	190,279	123,303
	\$2,312,959	\$1,766,303
<b>Liabilities and Stockholders' Equity</b>		
<b>Current liabilities:</b>		
Short-term borrowings (Note 4)	\$ 8,000	\$ 14,693
Long-term debt and preferred stock due within one year	19,695	4,428
Accounts payable	171,929	81,262
Taxes payable	10,137	6,842
Dividends payable	14,423	12,171
Other accrued liabilities, including reserved revenues	59,989	67,931
	284,473	187,327
<b>Long-term debt (Note 5)</b>	728,166	563,545
<b>Deferred credits and other liabilities:</b>		
Deferred income taxes	281,000	213,771
Other liabilities	121,860	115,627
	402,860	329,398
<b>Preferred stock subject to mandatory redemption (Note 6)</b>	1,400	1,500
<b>Commitments and contingencies (Notes 11, 13 and 14)</b>		
<b>Stockholders' equity:</b>		
Preferred stocks (Note 6)	15,000	15,000
<b>Common stockholders' equity:</b>		
Common stock (Note 7)		
Authorized - 150,000,000 shares, \$1.00 par value		
Issued - 65,267,567 shares in 2000 and 57,277,915 shares in 1999	65,268	57,278
Other paid-in capital	518,771	372,312
Retained earnings	300,647	243,569
Treasury stock at cost - 239,521 shares	(3,626)	(3,626)
Total common stockholders' equity	881,060	669,533
<b>Total stockholders' equity</b>	896,060	684,533
	\$2,312,959	\$1,766,303

The accompanying notes are an integral part of these consolidated statements.

# Consolidated Statements of Common Stockholders' Equity

MDU Resources Group, Inc.

Years ended December 31, 2000, 1999 and 1998

	Common Stock		Other Paid-in Capital	Retained Earnings	Treasury Stock		Total
	Shares	Amount			Shares	Amount	
<i>(In thousands, except shares)</i>							
<b>Balance at</b>							
December 31, 1997	29,143,332	\$ 97,047	\$ 76,526	\$212,723	-	\$ -	\$386,296
Net income	-	-	-	34,107	-	-	34,107
Dividends on preferred stocks	-	-	-	(777)	-	-	(777)
Dividends on common stock	-	-	-	(40,470)	-	-	(40,470)
Issuance of common stock (pre-split)	5,842,697	19,456	139,253	-	-	-	158,709
Treasury stock acquired	-	-	-	-	(159,681)	(3,626)	(3,626)
Three-for-two common stock split (Note 7)	17,493,014	58,252	(58,252)	-	(79,840)	-	-
Issuance of common stock (post-split)	793,908	2,644	13,959	-	-	-	16,603
<b>Balance at</b>							
December 31, 1998	53,272,951	177,399	171,486	205,583	(239,521)	(3,626)	550,842
Net income	-	-	-	84,080	-	-	84,080
Dividends on preferred stocks	-	-	-	(772)	-	-	(772)
Dividends on common stock	-	-	-	(45,322)	-	-	(45,322)
Reduction in par value of common stock	-	(124,126)	124,126	-	-	-	-
Issuance of common stock	4,004,964	4,005	76,700	-	-	-	80,705
<b>Balance at</b>							
December 31, 1999	57,277,915	57,278	372,312	243,569	(239,521)	(3,626)	669,533
Net income	-	-	-	111,028	-	-	111,028
Dividends on preferred stocks	-	-	-	(766)	-	-	(766)
Dividends on common stock	-	-	-	(53,184)	-	-	(53,184)
Issuance of common stock	7,989,652	7,990	146,459	-	-	-	154,449
<b>Balance at</b>							
December 31, 2000	65,267,567	\$ 65,268	\$518,771	\$300,647	(239,521)	\$(3,626)	\$881,060

The accompanying notes are an integral part of these consolidated statements.

# Consolidated Statements of Cash Flows

MDU Resources Group, Inc.

Years ended December 31.	2000	1999	1998
<i>(In thousands)</i>			
<b>Operating activities:</b>			
Net income	\$ 111,028	\$ 84,080	\$ 34,107
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation, depletion and amortization	110,888	81,818	77,786
Deferred income taxes and investment tax credit	36,530	15,704	(17,256)
Write-downs of natural gas and oil properties (Note 1)	-	-	66,000
Changes in current assets and liabilities, net of acquisitions:			
Receivables	(117,449)	(12,310)	(10,464)
Inventories	9,578	(13,460)	1,718
Other current assets	(3,514)	(4,190)	(547)
Accounts payable	61,021	12,492	14,094
Other current liabilities	(3,821)	(8,972)	(19,805)
Other noncurrent changes	2,701	(289)	(7,187)
<b>Net cash provided by operating activities</b>	<b>206,962</b>	<b>154,873</b>	<b>138,446</b>
<b>Investing activities:</b>			
Capital expenditures including acquisitions of businesses	(408,826)	(170,510)	(191,154)
Net proceeds from sale or disposition of property	11,000	16,660	4,275
Net capital expenditures	(397,826)	(153,850)	(186,879)
Sale of natural gas available under repurchase commitment	-	1,330	7,727
Investments	2,102	(99)	(22,945)
Additions to notes receivable	(5,000)	(35,907)	-
Proceeds from notes receivable	4,000	-	-
<b>Net cash used in investing activities</b>	<b>(396,724)</b>	<b>(188,526)</b>	<b>(202,097)</b>
<b>Financing activities:</b>			
Net change in short-term borrowings	(7,242)	(6,585)	3,933
Issuance of long-term debt	192,162	154,546	209,890
Repayment of long-term debt	(29,349)	(18,714)	(113,600)
Retirement of preferred stock	(100)	(100)	(100)
Issuance of common stock	47,249	3,184	32,922
Retirement of natural gas repurchase commitment	-	(14,296)	(17,105)
Dividends paid	(53,950)	(46,094)	(41,247)
<b>Net cash provided by financing activities</b>	<b>148,770</b>	<b>71,941</b>	<b>74,693</b>
<b>Increase (decrease) in cash and cash equivalents</b>	<b>(40,992)</b>	<b>38,288</b>	<b>11,042</b>
Cash and cash equivalents - beginning of year	77,504	39,216	28,174
Cash and cash equivalents - end of year	\$ 36,512	\$ 77,504	\$ 39,216

The accompanying notes are an integral part of these consolidated statements.

NOTE 1  
Summary of  
Significant  
Accounting Policies

#### Basis of presentation

The consolidated financial statements of MDU Resources Group, Inc. and its subsidiaries (company) include the accounts of the following segments: electric, natural gas distribution, utility services, pipeline and energy services, natural gas and oil production, and construction materials and mining. The electric and natural gas distribution segments and a portion of the pipeline and energy services segment are regulated. The company's nonregulated operations include the utility services, natural gas and oil production, and construction materials and mining segments, and a portion of the pipeline and energy services segment. For further descriptions of the company's business segments see Note 9. The statements also include the ownership interests in the assets, liabilities and expenses of two jointly owned electric generation stations.

The company's regulated businesses are subject to various state and federal agency regulation. The accounting policies followed by these businesses are generally subject to the Uniform System of Accounts of the Federal Energy Regulatory Commission (FERC). These accounting policies differ in some respects from those used by the company's nonregulated businesses.

The company's regulated businesses account for certain income and expense items under the provisions of Statement of Financial Accounting Standards No. 71, "Accounting for the Effects of Regulation" (SFAS No. 71). SFAS No. 71 requires these businesses to defer as regulatory assets or liabilities certain items that would have otherwise been reflected as expense or income, respectively, based on the expected regulatory treatment in future rates. The expected recovery or flowback of these deferred items are generally based on specific ratemaking decisions or precedent for each item. Regulatory assets and liabilities are being amortized consistently with the regulatory treatment established by the FERC and the applicable state public service commissions. See Note 2 for more information regarding the nature and amounts of these regulatory deferrals.

In accordance with the provisions of SFAS No. 71, intercompany coal sales, which are made at prices approximately the same as those charged to others, and the related utility fuel purchases are not eliminated. All other significant intercompany balances and transactions have been eliminated in consolidation.

#### Property, plant and equipment

Additions to property, plant and equipment are recorded at cost when first placed in service. When regulated assets are retired, or otherwise disposed of in the ordinary course of business, the original cost and cost of removal, less salvage, is charged to accumulated depreciation. With respect to the retirement or disposal of all other assets, except for natural gas and oil production properties as described below, the resulting gains or losses are recognized as a component of income. The company is permitted to capitalize an allowance for funds used during construction (AFUDC) on regulated construction projects and to include such amounts in rate base when the related facilities are placed in service. In addition, the company capitalizes interest, when applicable, on certain construction projects associated with its other operations. The amount of AFUDC and interest capitalized was \$5.2 million, \$1.7 million and \$1.4 million in 2000, 1999 and 1998, respectively. Property, plant and equipment are depreciated on a straight-line basis over the average useful lives of the assets, except for natural gas and oil production properties as described below.

#### Goodwill and other intangible assets

The excess of the cost over the fair value of net assets of purchased businesses is recorded as goodwill and is amortized on a straight-line basis over estimated useful lives. Goodwill was \$91.4 million, net of accumulated amortization of \$12.0 million as of December 31, 2000 and was \$46.7 million, net of accumulated amortization of \$5.1 million as of December 31, 1999. Goodwill amortization expense was \$7.0 million, \$2.0 million and \$1.4 million for 2000, 1999 and 1998, respectively. The weighted average amortization period for goodwill as of December 31, 2000 was 25 years.

#### Impairment of long-lived assets and intangibles

The company reviews the carrying values of its long-lived assets, including goodwill and identifiable intangibles, whenever events or changes in circumstances indicate that such carrying values may not be recoverable. The determination of whether an impairment has occurred is based on an estimate of undiscounted future cash flows attributable to the assets, compared to the carrying value of the assets. If an impairment has occurred, the amount of the impairment recognized is determined by estimating the fair value of the assets and recording a loss if the

carrying value is greater than the fair value. In 2000, the company experienced significant changes in market conditions at one of its energy marketing operations, which negatively affected the fair value of the assets at that operation. Due to the significance of the decline, the company recorded an impairment charge against goodwill of \$3.9 million after tax in the fourth quarter of 2000. The amount related to this impairment is included in "Depreciation, depletion and amortization" in the company's Consolidated Statements of Income. Excluding this impairment and the write-downs of natural gas and oil properties as discussed herein, no other long-lived assets or intangibles have been impaired and accordingly no other impairment losses have been recorded in 2000, 1999 and 1998. Unforeseen events and changes in circumstances could require the recognition of other impairment losses at some future date.

#### Natural gas and oil

The company uses the full-cost method of accounting for its natural gas and oil production activities. Under this method, all costs incurred in the acquisition, exploration and development of natural gas and oil properties are capitalized and amortized on the units of production method based on total proved reserves. Any conveyances of properties, including gains or losses on abandonments of properties, are treated as adjustments to the cost of the properties with no gain or loss recognized. Capitalized costs are subject to a "ceiling test" that limits such costs to the aggregate of the present value of future net revenues of proved reserves and the lower of cost or fair value of unproved properties. Future net revenue is estimated based on end-of-quarter prices adjusted for contracted price changes. If capitalized costs exceed the full-cost ceiling at the end of any quarter, a permanent noncash write-down is required to be charged to earnings in that quarter.

Due to low natural gas and oil prices, the company's capitalized costs under the full-cost method of accounting exceeded the full-cost ceiling at June 30, 1998 and December 31, 1998. Accordingly, the company was required to write down its natural gas and oil producing properties. These noncash write-downs amounted to \$66.0 million (\$39.9 million after tax).

#### Natural gas in underground storage

Natural gas in underground storage for the company's regulated operations is carried at cost using the last-in, first-out method. The portion of the cost of natural gas in underground storage expected to be used within one year is included in inventories and amounted to \$11.0 million and \$26.1 million at December 31, 2000 and 1999, respectively. The remainder of natural gas in underground storage is included in property, plant and equipment and was \$43.6 million and \$46.8 million at December 31, 2000 and 1999, respectively.

#### Inventories

Inventories, other than natural gas in underground storage for the company's regulated operations, consist primarily of materials and supplies of \$20.4 million and \$15.9 million, aggregates held for resale of \$22.7 million and \$15.6 million and other inventories of \$9.9 million and \$7.0 million as of December 31, 2000 and 1999, respectively. These inventories are stated at the lower of average cost or market.

#### Revenue recognition

The company recognizes utility revenue each month based on the services provided to all utility customers during the month. For its construction businesses, the company recognizes construction contract revenue on the percentage of completion method. The company recognizes revenue from natural gas and oil production activities only on that portion of production sold and allocable to the company's ownership interest in the related well. The company generally recognizes all other revenues when services are rendered or goods are delivered.

#### Advertising

The company expenses advertising costs as incurred and the amount of advertising expense for the years 2000, 1999 and 1998, was \$2.0 million, \$1.3 million and \$1.0 million, respectively.

#### Natural gas costs recoverable through rate adjustments

Under the terms of certain orders of the applicable state public service commissions, the company is deferring natural gas commodity, transportation and storage costs which are greater or less than amounts presently being recovered through its existing rate schedules. Such orders generally provide that these amounts are recoverable or refundable through rate adjustments within a period ranging from 24 months to 28 months from the time such costs are paid.

Note 7  
(Continued)

#### Income taxes

The company provides deferred federal and state income taxes on all temporary differences. Excess deferred income tax balances associated with the company's rate-regulated activities resulting from the company's adoption of SFAS No. 109, "Accounting for Income Taxes," have been recorded as a regulatory liability and are included in "Other liabilities" in the company's Consolidated Balance Sheets. These regulatory liabilities are expected to be reflected as a reduction in future rates charged customers in accordance with applicable regulatory procedures.

The company uses the deferral method of accounting for investment tax credits and amortizes the credits on electric and natural gas distribution plant over various periods which conform to the ratemaking treatment prescribed by the applicable state public service commissions.

#### Earnings per common share

Basic earnings per common share were computed by dividing earnings on common stock by the weighted average number of shares of common stock outstanding during the year. Diluted earnings per common share were computed by dividing earnings on common stock by the total of the weighted average number of shares of common stock outstanding during the year, plus the effect of outstanding stock options and restricted stock grants. Common stock outstanding includes issued shares less shares held in treasury.

#### Comprehensive income

For the years ended December 31, 2000, 1999 and 1998, comprehensive income equaled net income as reported.

#### Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles in the United States requires the company to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates are used for such items as property depreciable lives, tax provisions, uncollectible accounts, environmental and other loss contingencies, accumulated provision for revenues subject to refund, costs on long-term construction contracts, unbilled revenues and actuarially determined benefit costs. As better information becomes available, or actual amounts are determinable, the recorded estimates are revised. Consequently, operating results can be affected by revisions to prior accounting estimates.

#### Cash flow information

Cash expenditures for interest and income taxes were as follows:

Years ended December 31,	2000	1999	1998
<i>(In thousands)</i>			
Interest, net of amount capitalized	\$41,912	\$30,772	\$26,394
Income taxes	\$30,930	\$32,723	\$34,498

The company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

#### New accounting pronouncements

In June 1998, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS No. 133), amended by Statement of Financial Accounting Standards No. 137, "Accounting for Derivative Instruments and Hedging Activities - Deferral of the Effective Date of FASB Statement No. 133" and Statement of Financial Accounting Standards No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities" (all such statements hereinafter referred to as SFAS No. 133). SFAS No. 133 establishes accounting and reporting standards requiring that every derivative instrument (including certain derivative instruments embedded in other contracts) be recorded in the balance sheet as either an asset or liability measured at its fair value. SFAS No. 133 requires that changes in the derivative's fair value be recognized currently in earnings unless specific hedge accounting criteria are met. Special accounting for qualifying hedges allows derivative gains and losses to offset the related results on the hedged item in the income statement, and requires that a company must formally document, designate and assess the effectiveness of transactions that receive hedge accounting treatment.

The company plans to utilize certain derivative financial instruments to manage a portion of the market risk associated with fluctuations in the price of natural gas and oil. The company intends to designate these contracts as hedges of the underlying purchases or sales and will record derivative assets and liabilities on its balance sheet based on the fair value of the contracts. Such amounts are expected to be substantially offset by an amount that will be recorded in "Accumulated other comprehensive income" on the company's Consolidated Balance Sheets. The fair values of derivative instruments will fluctuate over time due to changes in the underlying commodity prices.

The company adopted SFAS No. 133 on January 1, 2001. SFAS No. 133 will likely impact the company's financial position and could increase volatility in earnings and accumulated other comprehensive income. Based on the contracts outstanding as of January 1, 2001, pretax unrealized gains on derivatives of \$2.2 million and pretax unrealized losses on derivatives of \$12.3 million would be recognized as assets and liabilities, respectively, on the balance sheet with the offsetting amounts being recorded as a component of accumulated other comprehensive income.

In December 1999, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 101, "Revenue Recognition" (SAB No. 101), which provides guidance on the recognition, presentation and disclosure of revenue in financial statements. The company adopted SAB No. 101 in the fourth quarter of 2000. The adoption of SAB No. 101 did not have a material effect on the company's financial position or results of operations.

**Note 2**  
**Regulatory Assets**  
**and Liabilities**

The following table summarizes the individual components of unamortized regulatory assets and liabilities included in the accompanying Consolidated Balance Sheets as of December 31:

	2000	1999
<i>(In thousands)</i>		
Regulatory assets:		
Long-term debt refinancing costs	\$ 8,125	\$ 9,514
Plant costs	2,668	2,835
Natural gas contract settlement and restructuring costs	1,562	3,000
Postretirement benefit costs	833	1,742
Deferred income taxes	263	7,274
Other	5,490	6,789
Total regulatory assets	18,941	31,154
Regulatory liabilities:		
Taxes refundable to customers	11,656	11,504
Natural gas costs refundable through rate adjustments	8,772	2,579
Plant decommissioning costs	7,601	6,989
Reserves for regulatory matters	6,087	24,231
Deferred income taxes	3,554	6,785
Other	1,193	710
Total regulatory liabilities	38,863	52,798
Net regulatory position	\$(19,922)	\$(21,644)

As of December 31, 2000, substantially all of the company's regulatory assets, other than certain deferred income taxes, are being reflected in rates charged to customers and are being recovered over the next 1 to 16 years.

If, for any reason, the company's regulated businesses cease to meet the criteria for application of SFAS No. 71 for all or part of their operations, the regulatory assets and liabilities relating to those portions ceasing to meet such criteria would be removed from the balance sheet and included in the statement of income as an extraordinary item in the period in which the discontinuance of SFAS No. 71 occurs.

**Note 3**  
**Risk Management**  
**Activities and**  
**Financial Instruments**

**Derivatives**

The company utilizes derivative financial instruments, including price swap and collar agreements, to manage a portion of the market risk associated with fluctuations in the price of natural gas and oil. The company's policy prohibits the use of derivative instruments for speculating to take advantage of market trends and conditions and the company has procedures in place to monitor compliance with its policies. The company is exposed to credit-related losses in relation to financial instruments in the event of nonperformance by counterparties, but does not expect any counterparties to fail to meet their obligations given their existing credit ratings.

Note 3  
(Continued)

The swap and collar agreements call for the company to receive monthly payments from or make payments to counterparties based upon the difference between a fixed and a variable price as specified by the agreements. The variable price is either a quoted natural gas price on the New York Mercantile Exchange (NYMEX), Colorado Interstate Gas Index or other various indexes or an oil price quoted on the NYMEX. The company believes that there is a high degree of correlation because the timing of purchases and production and the swap and collar agreements are closely matched, and hedge prices are established in the areas of operations. For the years ending December 31, 2000, 1999 and 1998, gains or losses on the swap and collar agreements were matched and reported in operating revenues on the Consolidated Statements of Income as a component of the related commodity transaction at the time of settlement with the counterparty.

The following table summarizes hedge agreements entered into by certain wholly owned subsidiaries of the company, as of December 31, 2000. These agreements call for the subsidiaries to receive fixed prices and pay variable prices.

*(Notional amount and fair value in thousands)*

	Weighted Average Fixed Price (Per MMBtu)	Notional Amount (In MMBtu's)	Fair Value
Natural gas swap agreements maturing in 2001	\$ 4.45	5,461	\$(12,311)
	Weighted Average Fixed Price (Per barrel)	Notional Amount (In barrels)	Fair Value
Oil swap agreements maturing in 2001	\$28.80	593	\$ 2,261

The fair value of these derivative financial instruments reflects the estimated amounts that the company would receive or pay to terminate the contracts at the reporting date, thereby taking into account the current favorable or unfavorable position on open contracts. The favorable or unfavorable position is not recorded on the company's Consolidated Balance Sheets as of December 31, 2000 and 1999. Favorable and unfavorable positions related to commodity hedge agreements are expected to be generally offset by corresponding increases and decreases in the value of the underlying commodity transactions.

In the event a derivative financial instrument does not qualify for hedge accounting or when the underlying commodity transaction matures, is sold, is extinguished, or is terminated, the current favorable or unfavorable position on the open contract would be included in results of operations. The company's policy requires approval to terminate a hedge agreement prior to its original maturity. In the event a hedge agreement is terminated, the realized gain or loss at the time of termination would be deferred until the underlying commodity transaction is sold or matures and is expected to generally offset the corresponding increases or decreases in the value of the underlying commodity transaction.

#### Energy marketing

The company has energy marketing operations that are exposed to risks, including risks relating to changes in natural gas prices and counterparty performance (credit risk), associated with natural gas forward purchase and sale commitments. These commitments involve the purchase and sale of natural gas and related delivery of such commodity. The energy marketing operations seek to match natural gas purchases and sales on specific contracts so that a margin is obtained on the transportation of such commodity as distinguished from earning a margin on changes in market prices. In addition, the energy marketing contracts are generally entered into on a seasonal basis with contracts of a duration generally not exceeding 12 months. Contracts related to these activities are valued at fair value and changes in fair value are recorded as assets or liabilities on the company's Consolidated Balance Sheets. The net change in fair value representing unrealized gains and losses resulting from changes in market prices on these contracts is reflected in earnings on the company's Consolidated Statements of Income. Net unrealized gains and losses on these contracts were not material in 2000, 1999 or 1998. In general, market risk is the risk of fluctuations in the market price of the commodity

being marketed and is influenced primarily by supply and demand. The company monitors and manages its exposure to market risk through a variety of risk management techniques. Such procedures include monitoring commitments and positions, evaluating sensitivity to changes in market prices and market volatility, and reporting to senior management. Credit risk is the risk of loss from nonperformance by counterparties of their contractual obligations. The company maintains credit procedures, which management believes significantly minimize overall credit risk. The company seeks to mitigate credit risk by applying specific eligibility criteria to prospective counterparties and may require letters of credit or similar security to secure payment on such sales contracts. However, despite mitigation efforts, defaults by counterparties may occur. To date, no such defaults have had a material effect on the company's financial position or results of operations.

#### Fair value of other financial instruments

The estimated fair value of the company's long-term debt and preferred stock subject to mandatory redemption is based on quoted market prices of the same or similar issues. The estimated fair value of the company's long-term debt and preferred stock subject to mandatory redemption at December 31 is as follows:

	2000		1999	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<i>(In thousands)</i>				
Long-term debt	\$747,761	\$772,127	\$567,873	\$555,730
Preferred stock subject to mandatory redemption	\$ 1,500	\$ 927	\$ 1,600	\$ 1,418

The fair value of other financial instruments for which estimated fair value has not been presented is not materially different than the related carrying amount.

#### Note 4 Short-Term Borrowings

The company and its subsidiaries had unsecured short-term lines of credit from a number of banks totaling \$75 million at December 31, 2000. These line of credit agreements provide for bank borrowings against the lines and/or support for commercial paper issues. The agreements provide for commitment fees at varying rates. Amounts outstanding on the short-term lines of credit were \$8 million at December 31, 2000, and \$14.7 million at December 31, 1999. The weighted average interest rate for borrowings outstanding at December 31, 2000 and 1999, was 6.60 percent and 6.97 percent, respectively. The unused portions of the lines of credit are subject to withdrawal based on the occurrence of certain events.

#### Note 5 Long-Term Debt and Indenture Provisions

Long-term debt outstanding at December 31 is as follows:

	2000	1999
<i>(In thousands)</i>		
First mortgage bonds and notes:		
Pollution Control Refunding Revenue Bonds, Series 1992, 6.65%, due June 1, 2022	\$ 20,850	\$ 20,850
Secured Medium-Term Notes, Series A at a weighted average rate of 7.59%, due on dates ranging from October 1, 2004 to April 1, 2012	110,000	110,000
Total first mortgage bonds and notes	130,850	130,850
Senior notes at a weighted average rate of 7.65%, due on dates ranging from January 2, 2001 to October 30, 2018	294,300	151,400
Commercial paper at a weighted average rate of 6.93%, supported by a revolving credit agreement due on September 29, 2003	261,350	223,169
Revolving lines of credit at a weighted average rate of 9.36%, due on dates ranging from November 1, 2001 through December 31, 2002	46,302	45,300
Term credit agreements at a weighted average rate of 7.65%, due on dates ranging from March 15, 2001 through July 1, 2016	12,731	13,970
Pollution control note obligation, 6.20%, due March 1, 2004	2,800	3,100
Other	(572)	(516)
Total long-term debt	747,761	567,873
Less current maturities	19,595	4,328
Net long-term debt	\$728,166	\$563,545

Note 5  
(Continued)

Centennial Energy Holdings, Inc., (Centennial) a direct wholly owned subsidiary of the company, has a revolving credit agreement with various banks on behalf of its subsidiaries that supports \$315 million of Centennial's \$325 million commercial paper program. Under the Centennial commercial paper program, \$261.4 million and \$223.2 million were outstanding at December 31, 2000 and 1999, respectively. The commercial paper borrowings are classified as long term as Centennial intends to refinance these borrowings on a long-term basis through continued commercial paper borrowings supported by the revolving credit agreement due September 29, 2003. Centennial intends to renew this existing credit agreement on an annual basis.

Centennial has an uncommitted long-term master shelf agreement on behalf of its subsidiaries that allows for borrowings of up to \$200 million. Under the master shelf agreement, \$150 million was outstanding at December 31, 2000 and none was outstanding at December 31, 1999. The amount outstanding is presented in senior notes in the preceding table.

Under the revolving lines of credit, the company and certain subsidiaries have \$48.2 million available as of December 31, 2000. Amounts outstanding under the revolving lines of credit were \$46.3 million and \$45.9 million at December 31, 2000 and 1999, respectively.

The amounts of scheduled long-term debt maturities for the five years following December 31, 2000 aggregate \$19.6 million in 2001; \$50.4 million in 2002; \$282.7 million in 2003; \$21.6 million in 2004 and \$69.9 million in 2005.

Substantially all of the company's electric and natural gas distribution properties, with certain exceptions, are subject to the lien of its Indenture of Mortgage. Under the terms and conditions of the Indenture, the company could have issued approximately \$295 million of additional first mortgage bonds at December 31, 2000. Certain other debt instruments of the company and its subsidiaries contain restrictive covenants, all of which the company and its subsidiaries are in compliance with at December 31, 2000.

Note 6  
Preferred Stocks

Preferred stocks at December 31 are as follows:

	2000	1999
<i>(Dollars in thousands)</i>		
Authorized:		
Preferred -		
500,000 shares, cumulative, par value \$100, issuable in series		
Preferred stock A -		
1,000,000 shares, cumulative, without par value,		
issuable in series (none outstanding)		
Preference -		
500,000 shares, cumulative, without par value,		
issuable in series (none outstanding)		
Outstanding:		
Subject to mandatory redemption -		
Preferred -		
5.10% Series - 15,000 shares in 2000 and 16,000 shares in 1999	\$ 1,500	\$ 1,600
Other preferred stock -		
4.50% Series - 100,000 shares	10,000	10,000
4.70% Series - 50,000 shares	5,000	5,000
	15,000	15,000
Total preferred stocks	16,500	16,600
Less sinking fund requirements	100	100
Net preferred stocks	\$16,400	\$16,500

The preferred stocks outstanding are subject to redemption, in whole or in part, at the option of the company with certain limitations on 30 days notice on any quarterly dividend date on certain series of preferred stock.

The company is obligated to make annual sinking fund contributions to retire the 5.10% Series preferred stock. The redemption prices and sinking fund requirements, where applicable, are summarized below:

Series	Redemption Price(a)	Sinking Fund	
		Shares	Price(a)
Preferred stocks:			
4.50%	\$105(b)	-	-
4.70%	\$102(b)	-	-
5.10%	\$102	1,000(c)	\$100

(a) Plus accrued dividends.

(b) These series are redeemable at the sole discretion of the company.

(c) Annually on December 1, if tendered.

In the event of a voluntary or involuntary liquidation, all preferred stock series holders are entitled to \$100 per share, plus accrued dividends.

The aggregate annual sinking fund amount applicable to preferred stock subject to mandatory redemption for each of the five years following December 31, 2000, is \$100,000.

#### Note 7 Common Stock

At the Annual Meeting of Stockholders held in April 1999, the company's common stockholders approved an amendment to the Certificate of Incorporation increasing the authorized number of common shares from 75 million shares to 150 million shares and reducing the par value of the common stock from \$3.33 per share to \$1.00 per share.

In May 1998, the company's Board of Directors approved a three-for-two common stock split effected in the form of a 50 percent common stock dividend. The additional shares of common stock were distributed on July 13, 1998, to common stockholders of record on July 3, 1998. Common stock information appearing in the accompanying Consolidated Statements of Income and Notes to Consolidated Financial Statements give retroactive effect to stock split.

The company's Automatic Dividend Reinvestment and Stock Purchase Plan (Stock Purchase Plan) provides participants the opportunity to invest all or a portion of their cash dividends in shares of the company's common stock and to make optional cash payments of up to \$5,000 per month for the same purpose. Holders of all classes of the company's capital stock, legal residents in any of the 50 states, and beneficial owners, whose shares are held by brokers or other nominees through participation by their brokers or nominees, are eligible to participate in the Stock Purchase Plan. The company's Tax Deferred Compensation Savings Plan(s) (K-Plan(s)), which were merged effective January 1, 1999, pursuant to Section 401(k) of the Internal Revenue Code are funded with the company's common stock. Since January 1, 1989, the Stock Purchase Plan and K-Plan(s) have been funded primarily by the purchase of shares of common stock on the open market, except for a portion of 1997 where shares of authorized but unissued common stock were used to fund the Stock Purchase Plan and K-Plan(s) and from October 1, 1998 through March 31, 1999, when shares of authorized but unissued common stock were used to fund the Stock Purchase Plan. At December 31, 2000, there were 8.1 million shares of common stock reserved for original issuance under the Stock Purchase Plan and K-Plan.

In November 1998, the company's Board of Directors declared, pursuant to a stockholders' rights plan, a dividend of one preference share purchase right (right) for each outstanding share of the company's common stock. Each right becomes exercisable, upon the occurrence of certain events, for one one-thousandth of a share of Series B Preference Stock of the company, without par value, at an exercise price of \$125 per one one-thousandth, subject to certain adjustments. The rights are currently not exercisable and will be exercisable only if a person or group (acquiring person) either acquires ownership of 15 percent or more of the company's common stock or commences a tender or exchange offer that would result in ownership of 15 percent or more, in the event the company is acquired in a merger or other business combination transaction or 50 percent or more of its consolidated assets or earnings power are sold, each right entitles the holder to receive, upon the exercise thereof at the then current exercise price of the right multiplied by the number of one one-thousandth of a Series B Preference Stock for which a right is then exercisable, in accordance with the terms of the rights agreement, such number of shares of common stock of the acquiring person having a

Note 7  
(Continued)

market value of twice the then current exercise price of the right. The rights, which expire on December 31, 2008, are redeemable in whole, but not in part, for a price of \$.01 per right, at the company's option at any time until any acquiring person has acquired 15 percent or more of the company's common stock.

The company has stock option plans for directors, key employees and employees, which grant options to purchase shares of the company's stock. The company accounts for these option plans in accordance with APB Opinion No. 25 under which no compensation expense has been recognized. The option exercise price is the market value of the stock on the date of grant. Options granted to the key employees automatically vest after nine years, but the plan provides for accelerated vesting based on the attainment of certain performance goals or upon a change in control of the company. Options granted to directors and employees vest at date of grant and three years after date of grant, respectively, and expire ten years after the date of grant. In addition, the company has granted restricted stock awards under a long-term incentive plan, deferred compensation agreement and a restricted stock agreement totaling 348,021 shares, 105,250 shares and 21,135 shares in 2000, 1999 and 1998, respectively. The restricted stock awards granted vest to the participants at various times ranging from three years to nine years from date of issuance but certain grants may vest early based upon the attainment of certain performance goals or upon a change in control of the company. The weighted average grant date fair value of the restricted stock grants was \$20.81, \$22.91 and \$23.24 in 2000, 1999 and 1998, respectively. Compensation expense recognized for restricted stock grants was \$1.6 million, \$722,000 and \$123,000 in 2000, 1999 and 1998, respectively. Under the stock option plans and long-term incentive plan, the company is authorized to grant options and restricted stock for up to 4.3 million shares of common stock and has granted options and restricted stock on 2.1 million shares through December 31, 2000.

Had the company recorded compensation expense for the fair value of options granted consistent with SFAS No. 123, "Accounting for Stock-Based Compensation," net income would have been reduced on a pro forma basis by \$529,000 in 2000, \$498,000 in 1999, and \$820,000 in 1998. On a pro forma basis, there would have been no effect on basic earnings per share for 2000, and diluted earnings per share would have been reduced by \$.01. On a pro forma basis, basic and diluted earnings per share for 1999 and 1998 would have been reduced by \$.01 and \$.02, respectively.

A summary of the status of the stock option plans at December 31, 2000, 1999 and 1998, and changes during the years then ended are as follows:

	2000		1999		1998	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Balance at beginning of year	1,427,262	\$19.46	1,516,808	\$19.17	594,180	\$12.07
Granted	74,000	20.54	22,500	23.31	1,225,920	21.12
Forfeited	(84,135)	21.18	(57,966)	20.38	(37,875)	21.05
Exercised	(192,168)	11.84	(54,080)	11.95	(265,417)	11.98
Balance at end of year	1,224,959	20.61	1,427,262	19.46	1,516,808	19.17
Exercisable at end of year	129,763	\$18.11	301,681	\$13.89	333,261	\$12.94

Exercise prices on options outstanding at December 31, 2000, range from \$10.50 to \$23.84 with a weighted average remaining contractual life of approximately 7 years.

The fair value of each option is estimated on the date of grant using the Black-Scholes option pricing model. The weighted average fair value of the options granted and the assumptions used to estimate the fair value of options are as follows:

	2000	1999	1998
Fair value of options at grant date	\$5.07	\$4.82	\$2.40
Weighted average risk-free interest rate	6.76%	5.98%	4.78%
Weighted average expected price volatility	23.55%	22.03%	16.27%
Weighted average expected dividend yield	3.84%	4.22%	5.13%
Expected life in years	7	7	7

Note 8  
Income Taxes

Income tax expense is summarized as follows:

Years ended December 31,	2000	1999	1998
<i>(In thousands)</i>			
Current:			
Federal	\$27,865	\$29,574	\$ 28,256
State	5,188	3,874	5,880
Foreign	67	158	605
	33,120	33,606	34,741
Deferred:			
Income taxes -			
Federal	29,323	12,902	(14,214)
State	8,060	3,690	(2,067)
Investment tax credit	(853)	(888)	(975)
	36,530	15,704	(17,256)
Total income tax expense	\$69,650	\$49,310	\$ 17,485

Components of deferred tax assets and deferred tax liabilities recognized in the company's Consolidated Balance Sheets at December 31 are as follows:

	2000	1999
<i>(In thousands)</i>		
Deferred tax assets:		
Accrued pension costs	\$ 10,325	\$ 10,898
Regulatory matters	7,650	14,562
Accrued land reclamation	1,941	2,803
Deferred investment tax credit	1,697	2,028
Other	18,213	16,892
Total deferred tax assets	39,826	47,183
Deferred tax liabilities:		
Depreciation and basis differences on property, plant and equipment	264,635	218,355
Basis differences on natural gas and oil producing properties	36,763	17,163
Regulatory matters	3,554	6,785
Other	7,826	3,051
Total deferred tax liabilities	312,778	245,354
Net deferred income tax liability	\$(272,952)	\$(198,171)

The following table reconciles the change in the net deferred income tax liability from December 31, 1999, to December 31, 2000, to the deferred income tax expense included in the Consolidated Statements of Income:

	2000
<i>(In thousands)</i>	
Net change in deferred income tax liability from the preceding table	\$ 74,781
Change in tax effects of income tax-related regulatory assets and liabilities	(150)
Deferred taxes associated with acquisitions	(38,101)
Deferred income tax expense for the period	\$ 36,530

## Notes to Consolidated Financial Statements

MDU Resources Group, Inc.

Note 8  
(Continued)

Total income tax expense differs from the amount computed by applying the statutory federal income tax rate to income before taxes. The reasons for this difference are as follows:

Years ended December 31,	2000		1999		1998	
	Amount	%	Amount	%	Amount	%
<i>(Dollars in thousands)</i>						
Computed tax at federal statutory rate	\$63,237	35.0	\$46,686	35.0	\$18,057	35.0
Increases (reductions) resulting from:						
State income taxes, net of federal income tax benefit	8,044	4.4	5,921	4.4	2,312	4.5
Investment tax credit amortization	(853)	(.5)	(888)	(.6)	(975)	(1.9)
Depletion allowance	(1,631)	(.9)	(1,300)	(1.0)	(1,571)	(3.0)
Other items	853	.5	(1,109)	(.8)	(338)	(.7)
Total income tax expense	\$69,650	38.5	\$49,310	37.0	\$17,485	33.9

Note 9  
Business Segment  
Data

The company's reportable segments are those that are based on the company's method of internal reporting, which generally segregates the strategic business units due to differences in products, services and regulation.

The company's operations are conducted through six business segments. Substantially all of the company's operations are located within the United States. The electric business generates, transmits and distributes electricity and the natural gas distribution business distributes natural gas. These operations also supply related value-added products and services in the Northern Great Plains. The utility services business consists of a diversified infrastructure construction company specializing in electric, natural gas and telecommunication utility construction as well as interior industrial electrical, exterior lighting and traffic signalization. Utility services has engineering, design and build capability and provides related specialty equipment sales and rental services throughout most of the United States. The pipeline and energy services business provides natural gas transportation, underground storage and gathering services through regulated and nonregulated pipeline systems and provides energy-related marketing and management services. The natural gas and oil production business is engaged in natural gas and oil acquisition, exploration and production activities primarily in the Rocky Mountain region of the United States and in the Gulf of Mexico. The construction materials and mining business mines and markets aggregates and related value-added construction materials products and services in the western United States, including Alaska and Hawaii, and also operates lignite coal mines in Montana and North Dakota.

On September 28, 2000, the company announced an agreement to sell its coal operations to Westmoreland Coal Company for \$28.8 million cash, excluding final settlement cost adjustments. The agreement is subject to various closing conditions and therefore will not be finalized unless and until the parties are satisfied that those conditions are met.

Segment information follows the same accounting policies as described in the Summary of Significant Accounting Policies. Segment information included in the accompanying Consolidated Balance Sheets as of December 31 and included in the Consolidated Statements of Income for the years then ended is as follows:

	2000	1999	1998
<i>(In thousands)</i>			
External operating revenues:			
Electric	\$ 161,621	\$ 154,869	\$147,221
Natural gas distribution	233,051	157,692	154,147
Utility services	169,382	99,917	64,232
Pipeline and energy services	579,207	334,188	132,826
Natural gas and oil production	99,014	63,238	51,750
Construction materials and mining	617,564	455,939	331,988
Total external operating revenues	\$1,859,839	\$1,265,843	\$882,164
Intersegment operating revenues:			
Electric	\$ -	\$ -	\$ -
Natural gas distribution	-	-	-
Utility services	-	-	-
Pipeline and energy services	57,641	49,344	47,906
Natural gas and oil production	39,302	15,156	10,092
Construction materials and mining (a)	13,832	13,966	14,463
Intersegment eliminations	(96,943)	(64,500)	(57,998)
Total intersegment operating revenues (a)	\$ 13,832	\$ 13,966	\$ 14,463
Depreciation, depletion and amortization:			
Electric	\$ 19,115	\$ 18,375	\$ 18,129
Natural gas distribution	8,399	7,348	7,150
Utility services	4,912	2,591	1,669
Pipeline and energy services	15,301	8,248	6,972
Natural gas and oil production	27,008	19,248	23,304
Construction materials and mining	36,153	26,008	20,562
Total depreciation, depletion and amortization	\$ 110,888	\$ 81,818	\$ 77,786
Interest expense:			
Electric	\$ 10,007	\$ 9,692	\$ 9,979
Natural gas distribution	4,142	3,614	3,728
Utility services	2,492	812	325
Pipeline and energy services	10,029	7,281	5,800
Natural gas and oil production	5,160	3,405	3,039
Construction materials and mining	16,415	11,202	7,402
Intersegment eliminations	(212)	-	-
Total interest expense	\$ 48,033	\$ 36,006	\$ 30,273
Income taxes:			
Electric	\$ 10,048	\$ 8,678	\$ 7,767
Natural gas distribution	3,544	1,443	2,681
Utility services	6,027	4,323	2,437
Pipeline and energy services	9,214	13,356	12,579
Natural gas and oil production	23,906	10,032	(23,134)
Construction materials and mining	16,911	11,478	15,155
Total income taxes	\$ 69,650	\$ 49,310	\$ 17,485
Earnings on common stock:			
Electric	\$ 17,733	\$ 15,973	\$ 13,908
Natural gas distribution	4,741	3,192	3,501
Utility services	8,607	6,505	3,272
Pipeline and energy services	10,494	20,972	18,651
Natural gas and oil production	38,577	16,207	(30,501)(b)
Construction materials and mining	30,113	20,459	24,499
Total earnings on common stock	\$ 110,262	\$ 83,308	\$ 33,330

## Notes to Consolidated Financial Statements

MDU Resources Group, Inc.

Notes 9  
(Continued)

	2000	1999	1998
<i>(In thousands)</i>			
Capital expenditures:			
Electric	\$ 15,788	\$ 18,218	\$ 13,035
Natural gas distribution	21,336	9,246	8,256
Utility services	42,633	16,052	18,343
Pipeline and energy services	69,006	35,123	17,603
Natural gas and oil production	173,441	64,294	100,572
Construction materials and mining	218,716	105,098	172,108
Net proceeds from sale or disposition of property	(11,000)	(16,660)	(4,275)
Total net capital expenditures	\$ 529,920	\$ 231,371	\$325,642
Identifiable assets:			
Electric (e)	\$ 305,099	\$ 307,417	
Natural gas distribution (e)	192,854	131,294	
Utility services	123,451	67,755	
Pipeline and energy services	362,592	302,587	
Natural gas and oil production	410,207	255,416	
Construction materials and mining	874,299	655,499	
Corporate assets (d)	44,457	46,335	
Total identifiable assets	\$2,312,959	\$1,766,303	
Property, plant and equipment:			
Electric	\$ 589,700	\$ 581,090	
Natural gas distribution	227,742	185,797	
Utility services	39,865	21,876	
Pipeline and energy services	369,834	308,409	
Natural gas and oil production	513,419	343,157	
Construction materials and mining	755,563	601,952	
Less accumulated depreciation, depletion and amortization	895,109	794,105	
Net property, plant and equipment	\$1,601,014	\$1,248,176	

(a) In accordance with the provision of SEAS No. 71, intercompany coal sales are not eliminated.

(b) Reflects \$39.9 million in noncash after-tax write-downs of natural gas and oil properties.

(c) Includes, in the case of electric and natural gas distribution property, allocations of common utility property.

(d) Corporate assets consist of assets not directly assignable to a business segment (i.e., cash and cash equivalents, certain accounts receivable and other miscellaneous current and deferred assets).

Capital expenditures for 2000, 1999 and 1998, related to acquisitions, in the preceding table include the following noncash transactions: issuance of the company's equity securities and the conversion of a note receivable to purchase consideration of \$132.1 million in 2000; the issuance of the company's equity securities of \$77.5 million in 1999; and the issuance of the company's equity securities, less treasury stock acquired, in 1998 of \$138.8 million.

Notes 11  
Acquisitions

In 2000, the company acquired a number of businesses, none of which was individually material, including construction materials and mining businesses with operations in Alaska, California, Montana and Oregon; a coal bed natural gas development operation based in Colorado with related oil and gas leases and properties in Montana and Wyoming; utility services businesses based in California, Colorado, Montana and Ohio; a natural gas distribution business serving southeastern North Dakota and western Minnesota; and an energy services company based in Texas. The total purchase consideration for these businesses, consisting of the company's common stock, cash and the conversion of a note receivable to purchase consideration was \$286.0 million.

On April 1, 2000, WBI Production, Inc., an indirect wholly owned subsidiary of the company, purchased substantially all of the assets of Preston Reynolds & Co., Inc. (Preston), a coal bed natural gas development operation, as previously discussed. Pursuant to the asset purchase and sale agreement, Preston may, but is not obligated to purchase, acquire and own an undivided 25 percent working interest (Seller's Option Interest) in oil and gas leases or properties acquired and/or generated by Redstone Gas Partners, LLC, a limited liability company controlled by the company. The Seller's Option Interest commences April 1, 2002 and terminates six months thereafter and requires Preston to pay WBI Production 25 percent of its capital investment, during the two year period subsequent to April 1, 2000, in the oil and gas leases or properties. WBI Production has the right, but not the obligation, to purchase Seller's Option Interest from Preston for an amount as specified in the agreement.

In 1999, the company acquired a number of businesses, none of which was individually material, including construction materials and mining companies with operations in California, Montana, Oregon and Wyoming; and utility services companies based in Montana and Oregon. The total purchase consideration for these businesses, consisting of the company's common stock and cash, was \$81.9 million.

In March 1998, the company acquired Morse Bros., Inc. and S<sup>2</sup> - F Corp., privately held construction materials companies located in Oregon's Willamette Valley. The purchase consideration for such companies consisted of \$98.2 million of the company's common stock and cash. Morse Bros., Inc. sells aggregate, ready-mixed concrete, asphalt, prestressed concrete and construction services in the Willamette Valley from Portland to Eugene. S<sup>2</sup> - F Corp. sells aggregate and construction services.

The company also acquired a number of other businesses in 1998, none of which was individually material, including construction materials and mining businesses in Oregon, utility services construction and engineering businesses in California and Montana and a natural gas marketing business in Kentucky. The total purchase consideration, consisting of the company's common stock and cash, for these businesses was \$62.7 million.

The above acquisitions were accounted for under the purchase method of accounting and accordingly, acquired assets and liabilities assumed have been preliminarily recorded at their respective fair values as of the date of acquisition. Final fair market values are pending the completion of the review of the relevant assets, liabilities and issues identified as of the acquisition date on certain of the above acquisitions. The results of operations of the acquired businesses are included in the financial statements since the date of each acquisition. Pro forma financial amounts reflecting the effects of the above acquisitions are not presented as such acquisitions were not material to the company's financial position or results of operations.

Table 11  
Employee Benefit  
Plans

The company has noncontributory defined benefit pension plans and other postretirement benefit plans. There were no additional minimum pension liabilities required to be recognized as of December 31, 2000 and 1999. Changes in benefit obligation and plan assets for the years ended December 31 are as follows:

	Pension Benefits		Other Postretirement Benefits	
	2000	1999	2000	1999
<i>(In thousands)</i>				
Change in benefit obligation:				
Benefit obligation at beginning of year	\$180,997	\$ 187,665	\$65,939	\$70,338
Service cost	4,561	4,894	1,307	1,451
Interest cost	14,174	12,573	4,946	4,720
Plan participants' contributions	-	-	677	617
Amendments	7,111	3,612	-	3,691
Actuarial (gain) loss	9,535	(17,134)	928	(11,047)
Benefits paid	(15,498)	(10,613)	(4,330)	(3,831)
Benefit obligation at end of year	200,880	180,997	69,467	65,939
Change in plan assets:				
Fair value of plan assets at beginning of year	276,459	251,194	47,147	39,543
Actual return on plan assets	875	35,874	(1,078)	5,223
Employer contribution	28	4	4,630	5,595
Plan participants' contributions	-	-	677	617
Benefits paid	(15,498)	(10,613)	(4,330)	(3,831)
Fair value of plan assets at end of year	261,864	276,459	47,046	47,147
Funded status	60,984	95,462	(22,421)	(18,792)
Unrecognized actuarial gain	(76,417)	(108,593)	(15,228)	(21,299)
Unrecognized prior service cost	16,271	10,206	-	-
Unrecognized net transition obligation (asset)	(3,387)	(4,402)	28,532	30,910
Accrued benefit cost	\$ (2,549)	\$ (7,327)	\$ (9,117)	\$ (9,181)

# Notes to Consolidated Financial Statements

MDU Resources Group, Inc.

Note 11  
(Continued)

Weighted average assumptions for the company's pension and other postretirement benefit plans as of December 31 are as follows:

	Pension Benefits		Other Postretirement Benefits	
	2000	1999	2000	1999
Discount rate	7.50%	7.75%	7.50%	7.75%
Expected return on plan assets	8.50%	8.50%	7.50%	7.50%
Rate of compensation increase	5.00%	5.00%	5.00%	5.00%

Health care rate assumptions for the company's other postretirement benefit plans as of December 31 are as follows:

	2000	1999
Health care trend rate	6.00%-7.50%	6.00%-8.00%
Health care cost trend rate - ultimate	5.00%-6.00%	5.00%-6.00%
Year in which ultimate trend rate achieved	1999-2004	1999-2004

Components of net periodic benefit cost for the company's pension and other postretirement benefit plans are as follows:

Years ended December 31.	Pension Benefits			Other Postretirement Benefits		
	2000	1999	1998	2000	1999	1998
<i>(In thousands)</i>						
Components of net periodic benefit cost:						
Service cost	\$ 4,561	\$ 4,894	\$ 4,509	\$ 1,307	\$ 1,451	\$ 1,502
Interest cost	14,174	12,573	12,248	4,946	4,720	4,848
Expected return on assets	(19,927)	(17,489)	(15,892)	(3,267)	(2,807)	(2,395)
Amortization of prior service cost	1,047	842	848	-	-	-
Recognized net actuarial gain	(2,907)	(995)	(621)	(799)	(200)	(169)
Settlement gain	(700)	-	-	-	-	-
Amortization of net transition obligation (asset)	(997)	(997)	(994)	2,378	2,377	2,458
Net periodic benefit cost (income)	(4,749)	(1,172)	98	4,565	5,541	6,244
Less amount capitalized	(397)	(87)	79	369	463	628
Net periodic benefit expense (income)	\$ (4,352)	\$ (1,085)	\$ 19	\$ 4,196	\$ 5,078	\$ 5,616

The company has other postretirement benefit plans including health care and life insurance. The plans underlying these benefits may require contributions by the employee depending on such employee's age and years of service at retirement or the date of retirement. The accounting for the health care plan anticipates future cost-sharing changes that are consistent with the company's expressed intent to generally increase retiree contributions each year by the excess of the expected health care cost trend rate over 6 percent.

Assumed health care cost trend rates may have a significant effect on the amounts reported for the health care plans. A one percentage point change in the assumed health care cost trend rates would have the following effects at December 31, 2000:

	1 Percentage Point Increase	1 Percentage Point Decrease
<i>(In thousands)</i>		
Effect on total of service and interest cost components	\$ 216	\$ (196)
Effect on postretirement benefit obligation	\$2,716	\$(2,627)

In addition to company-sponsored plans, certain union employees of Hawaiian Cement, an indirect wholly owned subsidiary of the company, are covered under a multi-employer defined benefit plan administered by a union. Amounts contributed to the multi-employer plan were \$947,000, \$818,000 and \$755,000 in 2000, 1999 and 1998, respectively.

The company has an unfunded, nonqualified benefit plan for executive officers and certain key management employees that provides for defined benefit payments upon the employee's retirement or to their beneficiaries upon death for a 15-year period. Investments consist of life insurance carried on plan participants which is payable to the company upon the employee's death. The cost of these benefits was \$3.5 million, \$3.3 million and \$2.7 million in 2000, 1999 and 1998, respectively.

The company sponsors various defined contribution plans for eligible employees. Costs incurred by the company under these plans were \$6.1 million in 2000, \$4.4 million in 1999 and \$3.1 million in 1998. The costs incurred in each year reflect additional participants as a result of business acquisitions.

**Note 12**  
**Jointly Owned**  
**Facilities**

The consolidated financial statements include the company's 22.7 percent and 25.0 percent ownership interests in the assets, liabilities and expenses of the Big Stone Station and the Coyote Station, respectively. Each owner of the Big Stone and Coyote stations is responsible for financing its investment in the jointly owned facilities.

The company's share of the Big Stone Station and Coyote Station operating expenses is reflected in the appropriate categories of operating expenses in the Consolidated Statements of Income.

At December 31, the company's share of the cost of utility plant in service and related accumulated depreciation for the stations was as follows:

	2000	1999
<i>(In thousands)</i>		
Big Stone Station:		
Utility plant in service	\$ 50,029	\$ 49,889
Less accumulated depreciation	31,381	29,611
	\$ 18,648	\$ 20,278
Coyote Station:		
Utility plant in service	\$122,111	\$121,919
Less accumulated depreciation	63,741	60,350
	\$ 58,370	\$ 61,569

**Regulatory Matters**  
**and Revenues**  
**Subject to Refund**

In June 1995, Williston Basin Interstate Pipeline Company (Williston Basin), an indirect wholly owned subsidiary of the company, filed a general rate increase application with the Federal Energy Regulatory Commission (FERC). As a result of FERC orders issued after Williston Basin's application was filed, Williston Basin filed revised base rates in December 1995 with the FERC. Williston Basin began collecting such increase effective January 1, 1996, subject to refund. In July 1998, the FERC issued an order which addressed various issues including storage cost allocations, return on equity and throughput. In August 1998, Williston Basin requested rehearing of such order. In June 1999, the FERC issued an order approving and denying various issues addressed in Williston Basin's rehearing request, and also remanding the return on equity issue to an Administrative Law Judge for further proceedings. In July 1999, Williston Basin requested rehearing of certain issues which were contained in the June 1999 FERC order. In September 1999, the FERC granted Williston Basin's request for rehearing with respect to the return on equity issue but also ordered Williston Basin to issue interim refunds prior to the final determination in this proceeding. As a result, in October 1999, Williston Basin issued refunds to its customers totaling \$11.3 million, all from amounts which had previously been reserved. In December 1999, a hearing was held before the FERC regarding the return on equity issue. On April 27, 2000, the Administrative Law Judge issued an Initial Decision regarding the remanded return on equity issue. On August 15, 2000, Williston Basin filed a stipulation and agreement for the purpose of resolving the rate and refund matters at issue with the FERC. On November 21, 2000, the FERC issued its order accepting the August 15, 2000 stipulation and agreement. As a result, on December 28, 2000, Williston Basin issued refunds to its customers totaling \$13.0 million, all from amounts which had previously been reserved.

In December 1999, Williston Basin filed a general natural gas rate change application with the FERC. Williston Basin began collecting such rates effective June 1, 2000, subject to refund.

Reserves have been provided for a portion of the revenues that have been collected subject to refund with respect to pending regulatory proceedings and to reflect future resolution of certain issues with the FERC. Based on the November 21, 2000 FERC order referenced above, Williston Basin, in the fourth quarter of 2000, determined that reserves it had previously

Note 13  
(Continued)

established exceeded its expected refund obligation and, accordingly, reversed reserves and recognized in income \$6.7 million after tax. Williston Basin, in the second quarter of 1999, determined that reserves it had previously established in relation to a 1992 general natural gas rate change application and the 1995 general rate increase application exceeded its expected refund obligation and, accordingly, reversed reserves and recognized in income \$4.4 million after tax. Williston Basin believes that its remaining reserves are adequate based on its assessment of the ultimate outcome of the application filed in December 1999.

Note 14  
Commitments and  
Contingencies

## Litigation

In March 1997, 11 natural gas producers filed suit in North Dakota Northwest Judicial District Court (North Dakota District Court) against Williston Basin and the company. The natural gas producers had processing agreements with Koch Hydrocarbon Company (Koch). Williston Basin and the company had natural gas purchase contracts with Koch. The natural gas producers alleged they were entitled to damages for the breach of Williston Basin's and the company's contracts with Koch although no specific damages were stated. A similar suit was filed by Apache Corporation (Apache) and Snyder Oil Corporation (Snyder) in North Dakota District Court in December 1993. The North Dakota Supreme Court in December 1999 affirmed the North Dakota District Court decision dismissing Apache's and Snyder's claims against Williston Basin and the company. Based in part upon the decision of the North Dakota Supreme Court affirming the dismissal of the claims brought by Apache and Snyder, Williston Basin and the company filed motions for summary judgment to dismiss the claims of the 11 natural gas producers. The motions for summary judgment were granted by the North Dakota District Court on July 3, 2000. The company is awaiting entry of a final judgment on the July 3, 2000 order granting the motions for summary judgment.

In July 1996, Jack J. Grynberg (Grynberg) filed suit in United States District Court for the District of Columbia (U.S. District Court) against Williston Basin and over 70 other natural gas pipeline companies. Grynberg, acting on behalf of the United States under the Federal False Claims Act, alleged improper measurement of the heating content or volume of natural gas purchased by the defendants resulting in the underpayment of royalties to the United States. In March 1997, the U.S. District Court dismissed the suit without prejudice and the dismissal was affirmed by the D.C. Circuit Court in October 1998. In June 1997, Grynberg filed a similar Federal False Claims Act suit against Williston Basin and Montana-Dakota and filed over 70 other separate similar suits against natural gas transmission companies and producers, gatherers, and processors of natural gas. In April 1999, the United States Department of Justice decided not to intervene in these cases. In response to a motion filed by Grynberg, the Judicial Panel on Multidistrict Litigation consolidated all of these cases in the Federal District Court of Wyoming (Federal District Court). Oral argument on motions to dismiss was held before the Federal District Court on March 17, 2000. Williston Basin and Montana-Dakota are awaiting a decision from the Federal District Court.

The Quinque Operating Company (Quinque), on behalf of itself and subclasses of gas producers, royalty owners and state taxing authorities, instituted a legal proceeding in State District Court for Stevens County, Kansas, against over 200 natural gas transmission companies and producers, gatherers, and processors of natural gas, including Williston Basin and Montana-Dakota. The complaint, which was served on Williston Basin and Montana-Dakota in September 1999, contains allegations of improper measurement of the heating content and volume of all natural gas measured by the defendants other than natural gas produced from federal lands. In response to a motion filed by the defendants in this suit, the Judicial Panel on Multidistrict Litigation transferred the suit to the Federal District Court for inclusion in the pretrial proceedings of the Grynberg suit.

Williston Basin and Montana-Dakota believe the claims of Grynberg and Quinque are without merit and intend to vigorously contest these suits.

The company is also involved in other legal actions in the ordinary course of its business. Although the outcomes of any such legal actions cannot be predicted, management believes that there is no pending legal proceeding against or involving the company, except those discussed above, for which the outcome is likely to have a material adverse effect upon the company's financial position or results of operations.

## Environmental matters

In December 2000, Morse Bros., Inc. (MBI), an indirect wholly owned subsidiary of the company, was named by the United States Environmental Protection Agency (EPA) as a Potentially Responsible Party in connection with the cleanup of a commercial property site, now owned by

MBI, and part of the Portland, Oregon, Harbor Superfund Site. Sixty-eight other parties were also named in this administrative action. The EPA wants responsible parties to share in the cleanup of sediment contamination in the Willamette River. Based upon a review of the Portland Harbor sediment contamination evaluation by the Oregon State Department of Environmental Quality and other information available, MBI does not believe it is a Responsible Party. In addition, MBI intends to seek indemnity for any and all liabilities incurred in relation to the above matters from Georgia-Pacific West, Inc., the seller of the commercial property site to MBI, pursuant to the terms of their sale agreement.

#### Electric purchased power commitments

Through October 31, 2006, Montana-Dakota has contracted to purchase 66,400 kW of participation power annually from Basin Electric Power Cooperative. In addition, Montana-Dakota, under a power supply contract through December 31, 2006, is purchasing up to 55,000 kW of capacity annually from Black Hills Power and Light Company.

#### Note 15

#### Quarterly Data (Unaudited)

The following unaudited information shows selected items by quarter for the years 2000 and 1999:

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
<i>(In thousands, except per share amounts)</i>				
<b>2000</b>				
Operating revenues	\$371,989	\$362,979	\$530,834	\$607,869
Operating expenses	342,559	321,900	454,811	537,414
Operating income	29,430	41,079	76,023	70,455
Net income	13,364	21,126	39,992	36,546
Earnings per common share:				
Basic	.23	.35	.63	.57
Diluted	.23	.35	.63	.56
Weighted average common shares outstanding:				
Basic	57,051	59,987	62,975	64,289
Diluted	57,188	60,212	63,345	64,817
<b>1999</b>				
Operating revenues	\$259,046	\$290,267	\$375,591	\$354,905
Operating expenses	233,585	254,619	321,535	310,319
Operating income	25,461	35,648	54,056	44,586
Net income	12,721	17,796	29,098	24,465
Earnings per common share:				
Basic	.24	.33	.53	.43
Diluted	.23	.33	.52	.42
Weighted average common shares outstanding:				
Basic	53,147	53,373	54,995	56,898
Diluted	53,420	53,603	55,278	57,127

Certain company operations are highly seasonal and revenues from and certain expenses for such operations may fluctuate significantly among quarterly periods. Accordingly, quarterly financial information may not be indicative of results for a full year.

#### Note 16

#### Natural Gas and Oil Activities (Unaudited)

Fidelity Exploration & Production Company (Fidelity), an indirect wholly owned subsidiary of the company, is involved in the acquisition, exploration, development and production of natural gas and oil resources. Fidelity's operations include the acquisition of producing properties with potential development opportunities, exploratory drilling and the operation of natural gas production properties. Fidelity shares revenues and expenses from the development of specified properties located primarily in the Rocky Mountain region of the United States and in the Gulf of Mexico in proportion to its interests.

Fidelity owns in fee or holds natural gas leases for the properties it operates in Colorado, Montana and North Dakota. These rights are in the Bonny Field located in eastern Colorado, the Cedar Creek Anticline in southeastern Montana and southwestern North Dakota, and in the Bowdoin area located in north-central Montana. In 2000, coal bed natural gas reserves in the Powder River Basin of Wyoming and Montana were acquired. These acquisitions include over 210,000 net acres under lease.

The information that follows includes the company's proportionate share of all its natural gas and oil interests held by Fidelity.

# Notes to Consolidated Financial Statements

MDU Resources Group, Inc.

Note 16  
(Continued)

The following table sets forth capitalized costs and accumulated depreciation, depletion and amortization related to natural gas and oil producing activities at December 31:

	2000	1999	1998
<i>(In thousands)</i>			
Subject to amortization	\$416,881	\$319,448	\$266,301
Not subject to amortization	94,856	23,464	22,153
Total capitalized costs	511,737	342,912	288,454
Less accumulated depreciation, depletion and amortization	155,198	129,211	111,472
Net capitalized costs	\$356,539	\$213,701	\$176,982

NOTE: Net capitalized costs as of December 31, 1998, reflect noncash write-downs of the company's natural gas and oil properties as discussed in Note 1.

Capital expenditures, including those not subject to amortization, related to natural gas and oil producing activities are as follows:

Years ended December 31,	2000	1999	1998
<i>(In thousands)</i>			
Acquisitions	\$ 68,858	\$30,842	\$ 63,419
Exploration	34,839	11,010	15,976
Development	69,051	21,822	21,148
Total capital expenditures	\$172,748	\$63,674	\$100,543

The following summary reflects income resulting from the company's operations of natural gas and oil producing activities, excluding corporate overhead and financing costs:

Years ended December 31,	2000	1999	1998
<i>(In thousands)</i>			
Revenues	\$128,217	\$75,327	\$ 61,831
Production costs	33,919	25,402	19,419
Depreciation, depletion and amortization	26,739	19,136	23,050
Write-downs of natural gas and oil properties (Note 1)	-	-	66,000
Pretax income (loss)	67,559	30,789	(46,638)
Income tax expense (benefit)	25,835	11,815	(19,268)
Results of operations for producing activities	\$ 41,724	\$18,974	\$(27,370)

The following table summarizes the company's estimated quantities of proved natural gas and oil reserves at December 31, 2000, 1999 and 1998, and reconciles the changes between these dates. Estimates of economically recoverable natural gas and oil reserves and future net revenues therefrom are based upon a number of variable factors and assumptions. For these reasons, estimates of economically recoverable reserves and future net revenues may vary from actual results.

	2000		1999		1998	
	Natural Gas	Oil	Natural Gas	Oil	Natural Gas	Oil
<i>(In thousands of Mcf/barrels)</i>						
Proved developed and undeveloped reserves:						
Balance at beginning of year	268,900	14,700	243,600	11,500	184,900	14,900
Production	(29,200)	(1,900)	(24,700)	(1,800)	(20,700)	(1,900)
Extensions and discoveries	51,300	1,600	21,800	800	21,300	200
Purchases of proved reserves	23,200	100	38,200	700	56,600	2,000
Sales of reserves in place	-	(100)	(9,300)	(400)	(100)	-
Revisions to previous estimates due to improved secondary recovery techniques and/or changed economic conditions	(4,400)	700	(700)	3,900	1,600	(3,700)
Balance at end of year	309,800	15,100	268,900	14,700	243,600	11,500
Proved developed reserves:						
January 1, 1998	163,800	14,500				
December 31, 1998	193,000	10,700				
December 31, 1999	213,400	13,300				
December 31, 2000	263,400	14,200				

All of the company's interests in natural gas and oil reserves are located in the United States and in the Gulf of Mexico.

The standardized measure of the company's estimated discounted future net cash flows of total proved reserves associated with its various natural gas and oil interests at December 31 is as follows:

	2000	1999	1998
<i>(In thousands)</i>			
Future net cash flows before income taxes	\$2,349,500	\$492,000	\$246,700
Future income tax expense	827,000	131,500	40,500
Future net cash flows	1,522,500	360,500	206,200
10% annual discount for estimated timing of cash flows	601,200	131,400	81,100
Discounted future net cash flows relating to proved natural gas and oil reserves	\$ 921,300	\$229,100	\$125,100

The following are the sources of change in the standardized measure of discounted future net cash flows by year:

	2000	1999	1998
<i>(In thousands)</i>			
Beginning of year	\$ 229,100	\$125,100	\$139,000
Net revenues from production	(94,300)	(49,900)	(42,400)
Change in net realization	861,700	123,100	(70,500)
Extensions, discoveries and improved recovery, net of future production-related costs	288,700	33,500	18,200
Purchases of proved reserves	93,200	57,700	51,000
Sales of reserves in place	(1,500)	(14,700)	(100)
Changes in estimated future development costs, net of those incurred during the year	3,400	(9,800)	(16,600)
Accretion of discount	31,200	16,700	18,600
Net change in income taxes	(412,300)	(59,800)	30,100
Revisions of previous quantity estimates	(79,200)	7,400	(1,600)
Other	1,300	(200)	(600)
Net change	692,200	104,000	(13,900)
End of year	\$ 921,300	\$229,100	\$125,100

The estimated discounted future cash inflows from estimated future production of proved reserves were computed using year-end natural gas prices and oil prices except in those instances where future natural gas or oil sales are covered by physical or derivative contract terms providing for higher or lower amounts. Future development and production costs attributable to proved reserves were computed by applying year-end costs to be incurred in producing and further developing the proved reserves. Future income tax expenses were computed by applying statutory tax rates (adjusted for permanent differences and tax credits) to estimated net future pretax cash flows.

The standardized measure of discounted future net cash flows does not purport to represent the fair market value of natural gas and oil properties. There are significant uncertainties inherent in estimating quantities of proved reserves and in projecting rates of production and the timing and amount of future costs. In addition, future realization of natural gas and oil prices over the remaining reserve lives may vary significantly from current prices.

# Operating Statistics

MDU Resources Group, Inc.

	2000	1999	1998*	1997	1996	1995	1990
<b>Selected Financial Data</b>							
<b>Operating revenues (000's):</b>							
Electric	\$ 161,621	\$ 154,869	\$ 147,221	\$ 141,590	\$ 138,761	\$ 134,609	\$124,156
Natural gas distribution	233,051	157,692	154,147	157,005	155,012	150,532	127,844
Utility services	169,382	99,917	64,232	22,761	-	-	-
Pipeline and energy services	636,848	383,532	180,732	87,018	71,580	67,186	103,711
Natural gas and oil production	138,316	78,394	61,842	77,916	75,350	53,505	35,038
Construction materials and mining	631,396	469,905	346,451	174,147	132,222	113,066	38,276
Intersegment eliminations	(96,943)	(64,500)	(57,998)	(52,763)	(58,224)	(54,652)	(83,781)
	\$1,873,671	\$1,279,809	\$ 896,627	\$ 607,674	\$ 514,701	\$ 464,246	\$345,244
<b>Operating income (000's):</b>							
Electric	\$ 38,743	\$ 35,727	\$ 32,167	\$ 31,307	\$ 29,476	\$ 29,898	\$ 32,221
Natural gas distribution	9,530	6,688	8,028	10,410	11,504	6,917	6,578
Utility services	16,606	11,518	5,932	1,782	-	-	-
Pipeline and energy services	28,782	40,627	33,651	25,822	27,697	24,043	17,464
Natural gas and oil production	66,510	26,845	(50,444)	27,638	26,786	15,255	14,421
Construction materials and mining	56,816	38,346	41,609	14,602	16,062	14,463	7,749
	\$ 216,987	\$ 159,751	\$ 70,943	\$ 111,561	\$ 111,525	\$ 90,576	\$ 78,433
<b>Earnings on common stock (000's):</b>							
Electric	\$ 17,733	\$ 15,973	\$ 13,908	\$ 12,441	\$ 11,436	\$ 12,000	\$ 14,280
Natural gas distribution	4,741	3,192	3,501	4,514	4,892	1,604	2,704
Utility services	8,607	6,505	3,272	947	-	-	-
Pipeline and energy services	10,494	20,972	18,651	9,955	1,649	7,804	(8,737)**
Natural gas and oil production	38,574	16,207	(30,501)	15,867	15,185	8,614	9,230
Construction materials and mining	30,113	20,459	24,499	10,111	11,521	10,819	9,632
	\$ 110,262	\$ 83,308	\$ 33,330	\$ 53,835	\$ 44,683	\$ 40,841	\$ 27,109**
Earnings per common share - diluted	\$ 1.80	\$ 1.52	\$ .66	\$ 1.24	\$ 1.04	\$ .95	\$ .63**
<b>Common Stock Statistics</b>							
<b>Weighted average common shares</b>							
outstanding - diluted (000's)	61,390	54,870	50,837	43,478	42,824	42,789	42,715
Dividends per common share	\$ .86	\$ .82	\$ .7834	\$ .7534	\$ .7333	\$ .7188	\$ .6311
Book value per common share	\$ 13.55	\$ 11.74	\$ 10.39	\$ 8.84	\$ 8.21	\$ 7.90	\$ 6.72
Market price per common share (year-end)	\$ 32.50	\$ 20.00	\$ 26.31	\$ 21.08	\$ 15.33	\$ 13.25	\$ 9.11
<b>Market price ratios:</b>							
Dividend payout	48%	54%	119%	61%	70%	76%	99%**
Yield	2.7%	4.2%	3.0%	3.6%	4.8%	5.5%	6.9%**
Price/earnings ratio	18.1x	13.2x	39.9x	17.0x	14.6x	13.9x	14.3x**
Market value as a percent of book value	239.9%	170.4%	253.2%	238.5%	186.8%	167.7%	135.6%
<b>Profitability Indicators</b>							
Return on average common equity	14.3%	13.9%	6.5%	14.6%	13.0%	12.3%	9.4%**
Return on average invested capital	9.5%	9.6%	5.5%	10.3%	9.5%	9.2%	7.8%**
Interest coverage	8.3x	7.1x	6.1x	6.0x	5.4x	3.9x	2.7x**
Fixed charges coverage, including preferred dividends	4.1x	4.3x	2.5x	3.4x	2.7x	3.0x	1.9x**
<b>General</b>							
Total assets (000's)	\$2,312,959	\$1,766,303	\$1,452,775	\$1,113,592	\$1,089,173	\$1,956,479	\$959,946
Net long-term debt (000's)	\$ 728,166	\$ 563,545	\$ 413,264	\$ 298,561	\$ 280,666	\$ 237,352	\$229,786
Redeemable preferred stock (000's)	\$ 1,500	\$ 1,600	\$ 1,700	\$ 1,800	\$ 1,900	\$ 2,000	\$ 2,500
<b>Capitalization ratios:</b>							
Common equity	54%	54%	56%	55%	54%	57%	54%
Preferred stocks	1	1	2	2	3	3	3
Long-term debt	45	45	42	43	43	40	43
	100%	100%	100%	100%	100%	100%	100%

\* Reflects \$39.9 million or 78 cents per common share in noncash after-tax write-downs of natural gas and oil properties.

\*\* Reflects a \$6.8 million or 16 cent per common share after-tax effect of an absorption of certain natural gas contract litigation settlement costs.

NOTE: Common stock share amounts reflect the company's three-for-two common stock splits effected in October 1995 and July 1998.

# Operating Statistics

MDU Resources Group, Inc.

	2000	1999	1998	1997	1996	1995	1990
<b>Electric</b>							
Sales to ultimate consumers (thousand kWh)	2,161,280	2,075,446	2,053,862	2,041,191	2,067,926	1,993,693	1,820,150
Sales for resale (thousand kWh)	930,318	943,520	586,540	361,954	374,535	408,011	285,564
Electric system generating and firm purchase capability - kW (Interconnected system)	500,420	492,800	489,100	487,500	481,800	472,400	451,600
Demand peak - kW (Interconnected system)	432,300	420,550	402,500	404,600	393,300	412,700	381,600
Electricity produced (thousand kWh)	2,331,188	2,350,769	2,103,199	1,826,770	1,829,669	1,718,077	1,674,648
Electricity purchased (thousand kWh)	948,700	860,508	730,949	769,679	809,261	867,524	573,099
Average cost of fuel and purchased power per kWh	\$ .016	\$ .016	\$ .017	\$ .018	\$ .017	\$ .016	\$ .016
<b>Natural Gas Distribution</b>							
Sales (Mdk)	36,595	33,931	32,024	34,320	38,283	33,939	28,278
Transportation (Mdk)	14,314	11,551	10,324	10,067	9,423	11,991	11,806
Weighted average degree days - % of previous year's actual	113%	95%	94%	85%	114%	105%	88%
<b>Pipeline and Energy Services</b>							
Pipeline:							
Sales for resale (Mdk)	-	-	-	-	-	-	19,658
Transportation (Mdk)	86,787	78,061	88,974	85,464	82,169	68,015	50,809
Gathering (Mdk)	41,717	19,799	9,093	9,550	8,983	9,651	1,324
Energy services:							
Natural gas volumes (Mdk)	149,823	131,687	58,495	14,971	4,670	3,556	1,853
<b>Natural Gas and Oil Production</b>							
Production:							
Natural gas (MMcf)	29,222	24,652	20,699	20,407	20,391	17,574	3,846
Oil (000's of barrels)	1,882	1,758	1,912	2,088	2,149	1,973	1,374
Average realized prices:							
Natural gas (per Mcf)	\$ 2.90	\$ 1.94	\$ 1.81	\$ 2.02	\$ 1.79	\$ 1.33	\$ 1.76
Oil (per barrel)	\$23.06	\$15.34	\$12.71	\$17.50	\$17.91	\$15.07	\$20.11
Net recoverable reserves:							
Natural gas (MMcf)	309,800	268,900	243,600	184,900	200,200	179,000	16,100
Oil (000's of barrels)	15,100	14,700	11,500	14,900	16,100	14,200	12,400
<b>Construction Materials and Mining</b>							
Construction materials (000's):							
Aggregates (tons sold)	18,315	13,981	11,054	5,113	3,374	2,904	-
Asphalt (tons sold)	3,310	2,993	1,790	758	694	373	-
Ready-mixed concrete (cubic yards sold)	1,696	1,186	1,021	516	340	307	-
Recoverable aggregate reserves (tons)	894,500	740,030	654,670	169,375	119,800	68,000	-
Coal (000's):							
Sales (tons)	3,111	3,236	3,113	2,375	2,899	4,218	4,439
Recoverable reserves (tons)	145,643	182,761	190,152	226,560	228,900	231,900	261,500

## Board of Directors

*Numbers indicate age and years of service ( ) on MDU Resources Group, Inc. Board of Directors as of December 31, 2000.*

### Audit Committee:

*Homer A. Scott, Jr., Chairman  
Dennis W. Johnson  
John L. Olson  
Harry J. Pearce*

### Compensation Committee:

*Harry J. Pearce, Chairman  
Thomas Everist  
Homer A. Scott, Jr.*

### Finance Committee:

*Richard L. Muus, Chairman  
Thomas Everist  
Robert L. Nance  
Dr. Joseph T. Simmons  
Sister Thomas Welder, O.S.B.*

### Nominating Committee:

*John L. Olson, Chairman  
Thomas Everist  
Robert L. Nance  
Dr. Joseph T. Simmons  
Sister Thomas Welder, O.S.B.*

### Board Changes:

*Martin A. White was named chairman of the board on February 15, 2001.*

*Harry J. Pearce was named lead director of the board on February 15, 2001.*

*Dennis W. Johnson was appointed to the board on February 15, 2001. He will stand for election to a three-year term at the 2001 Annual Meeting.*

*San W. Orr, Jr. retired as vice chairman and a director on November 14, 2000. John A. Schuchart retired as chairman of the board and a director on January 12, 2001. Richard L. Muus will retire as a director on April 24, 2001.*



**Martin A. White 59 (3)**  
Mandan, ND  
*Chairman of the Board,  
President and Chief Executive  
Officer of the corporation*



**Harry J. Pearce 58 (4)**  
Detroit, MI  
*MDU Resources Board  
Lead Director  
Vice Chairman and director,  
General Motors Corporation*



**Thomas Everist 51 (5)**  
Sioux Falls, SD  
*President and Chief Executive  
Officer, L.G. Everist, Inc.  
(Aggregate and construction  
materials company)*



**Dennis W. Johnson 51 (-)**  
Dickinson, ND  
*Chairman and Chief Executive  
Officer, TMI Systems Design  
(Manufacture of custom  
institutional furniture)*



**Douglas C. Kane 51 (10)**  
Bismarck, ND  
*Executive Vice President,  
Chief Administrative and  
Corporate Development Officer  
of the corporation*



**Richard L. Muus 71 (16)**  
Minot, ND  
*Retired, formerly President,  
Midwest Federal Savings Bank*



**Robert L. Nance 64 (8)**  
Billings, MT  
*President and Chief Executive  
Officer, Nance Petroleum  
Corporation (Oil and natural  
gas exploration company)*



**John L. Olson 61 (16)**  
Sidney, MT  
*President and Chief Executive  
Officer, Blue Rock Products  
Company (Beverage bottling  
and distributing)*



**Homer A. Scott, Jr. 66 (20)**  
Sheridan, WY  
*Chairman of the Board and  
director, First Interstate Banc  
System, Inc.*



**Dr. Joseph T. Simmons 65 (17)**  
Vermillion, SD  
*Retired, formerly professor of  
accounting and finance at the  
University of South Dakota*



**Sister Thomas Welder, O.S.B.  
60 (13)**  
Bismarck, ND  
*President, University of Mary*



**David M. Heskett**  
Bismarck, ND  
*Chairman of the Board Emeritus  
Retired, former Chairman of  
the Board, President and  
Chief Executive Officer of the  
corporation*



**John A. Schuchart**  
Bismarck, ND  
*Chairman Emeritus Retired,  
former Chairman of the Board,  
President and Chief Executive  
Officer of the corporation*

## Corporate Officers Management Policy Committee

*Numbers indicate age and years of service ( ) as of December 31, 2000.*

**Martin A. White**  
*Chairman of the Board, President and Chief Executive Officer, 59 (9)*



**Martin A. White**  
*Chairman of the Board, President and Chief Executive Officer, MDU Resources Group, Inc., 59 (9)*

**Cathleen M. Christopherson**  
*Vice President - Corporate Communications, 56 (33)*

**Richard A. Espeland**  
*Vice President - Human Resources, 57 (11)*

**Douglas C. Kane**  
*Executive Vice President, Chief Administrative and Corporate Development Officer, 51 (29)*

**Lester H. Loble, II**  
*Vice President, General Counsel and Secretary, 59 (13)*

**Vernon A. Ralle**  
*Vice President, Controller and Chief Accounting Officer, 55 (20)*

**Warren L. Robinson**  
*Executive Vice President, Treasurer and Chief Financial Officer, 50 (12)*

**Robert E. Wood**  
*Vice President - Public Affairs and Environmental Policy, 58 (26)*



**John K. Castleberry**  
*President and Chief Executive Officer, WBI Holdings, Inc., 46 (18)*

Serves as chief executive officer and/or president of all subsidiaries of WBI Holdings. Previously held various executive and management positions with Williston Basin Interstate Pipeline Company and Montana-Dakota Utilities Co.



**Terry D. Hildestad**  
*President and Chief Executive Officer, Knife River Corporation, 51 (26)*

Serves as chief executive officer of all construction materials and mining subsidiaries of Knife River Corporation. Previously held management and executive positions in operations with Knife River.



**Douglas C. Kane**  
*Executive Vice President, Chief Administrative and Corporate Development Officer, MDU Resources Group, Inc., 51 (29)*

Serves on company board of directors and on the boards of major subsidiary companies. Previously served as president and chief executive officer of Knife River Corporation after holding a number of executive positions with that company.



**Lester H. Loble, II**  
*Vice President, General Counsel and Secretary, MDU Resources Group, Inc., 59 (13)*

Serves as general counsel and secretary for all major subsidiary companies. Engaged in the private practice of law prior to joining the company.



**Warren L. Robinson**  
*Executive Vice President, Treasurer and Chief Financial Officer, MDU Resources Group, Inc., 50 (12)*

Serves as the senior financial officer and member of the board of directors of all major subsidiary companies. Previously held executive and management positions in finance, corporate planning and development, with the company as well as several natural gas utility companies in the western United States.



**Ronald D. Tipton**  
*Chief Executive Officer, Montana-Dakota Utilities Co., Great Plains Natural Gas Co. and President Utility Services, Inc., 54 (17)*

Serves as chief executive officer of all utility services subsidiaries. Previously served as president of Montana-Dakota Utilities Co. and as president and chief executive officer of Williston Basin Interstate Pipeline Company and in various executive and management positions in their operations. Also served in executive and management positions with two other energy and natural gas corporations.

## Stockholder Information

**Dividend Reinvestment and Stock Purchase Plan**  
MDU Resources Group, Inc. (NYSE:MDU) Automatic Dividend Reinvestment and Stock Purchase Plan (Plan) allows any individual who is a legal resident of the nation's 50 states to buy MDU Resources common stock direct from the company without incurring any brokerage fees. The Plan allows interested investors across the United States to purchase MDU Resources common stock monthly with a minimum investment of \$50 and a maximum of \$5,000. Dividends on shares held in the plan will be automatically reinvested every quarter in MDU Resources stock. For further details including enrollment information, contact the stock transfer agent or the Treasury Services Department at MDU Resources.

MDU Resources is a participant in the National Association of Investors Corporation's (NAIC) Low Cost Investment Plan.

### Brokerage Accounts

Stock purchased and held for stockholders by brokers, is listed in the broker's name, or "street name." Annual and quarterly reports, proxy material and dividend payments are sent to you by your broker. Questions regarding mailings or dividend reinvestment should be directed to your broker.

### 2001 Key Dividend Dates\*

	Ex-Dividend Date	Record Date	Payment Date
1st Quarter	March 6	March 8	April 1
2nd Quarter	June 12	June 14	July 1
3rd Quarter	September 11	September 13	October 1
4th Quarter	December 11	December 13	January 1, 2002

\* Subject to discretion of the Board of Directors

### Electronic Dividend Deposit

Stockholders receiving dividend checks can arrange for direct electronic deposit to their individual checking or savings accounts on the dividend payment date. For information regarding this convenient program, contact the stock transfer agent or the Treasury Services Department of MDU Resources.

### Stockholder Services

Stockholders or others desiring information about MDU Resources should call *Arlene Stillwell* in the Treasury Services Department at 1.800.437.8000, extension 7621 or e-mail at [investor@mduresources.com](mailto:investor@mduresources.com). Information on the company may also be found on the web site at [www.mdu.com](http://www.mdu.com).

Communications regarding stock transfer requirements, lost certificates, dividends or change of address should be directed to the stock transfer agent.

### Annual Meeting

The Annual Meeting of Stockholders will be held on:  
Tuesday, April 24, 2001  
11 a.m. Central Daylight Time  
Montana-Dakota Utilities Co.  
Service Center  
909 Airport Road  
Bismarck, ND 58504

### Corporate Headquarters

MDU Resources Group, Inc.  
Schuchart Building  
Street Address: 918 East Divide Avenue  
Mailing Address: P.O. Box 5650  
Bismarck, ND 58506-5650  
Telephone (toll-free): 1.800.437.8000

### Transfer Agent and Registrar for all Classes of Stock and Dividend Reinvestment Plan Agent

Wells Fargo Bank Minnesota, N.A.  
Stock Transfer Department  
P.O. Box 64854  
St. Paul, MN 55164-0854  
Telephone: 651.450.4064  
Telephone (toll-free): 1.877.536.3553  
E-mail Address: [Stocktransfer@wellsfargo.com](mailto:Stocktransfer@wellsfargo.com)

### Transfer Agent and Registrar for First Mortgage Bonds

The Bank of New York  
Corporate Trust Department  
101 Barclay Street, 21st Floor  
New York, NY 10286

### Legal Counsel

Thelen Reid & Priest LLP  
40 West 57th Street  
New York, NY 10019-4097

### Independent Public Accountants

Arthur Andersen LLP  
45 South Seventh Street  
Minneapolis, MN 55402-1611

### Common Stock

Listed on New York Stock Exchange since 1948  
Listed on Pacific Stock Exchange since 1994  
Trading symbol: MDU

### Quarterly Common Stock Price Range

	High	Low	Close
<b>2000</b>			
First Quarter	\$21.44	\$17.63	\$20.75
Second Quarter	23.25	20.38	21.63
Third Quarter	30.06	21.56	29.75
Fourth Quarter	33.00	27.44	32.50
<b>1999</b>			
First Quarter	\$27.19	\$21.25	\$22.88
Second Quarter	24.38	20.31	22.81
Third Quarter	24.75	22.38	22.50
Fourth Quarter	24.38	18.81	20.00

**NOTE:** This information is not given in connection with any sale or offer for sale or offer to buy any security.

**Additional Information**

The company's 2000 Form 10-K (excluding exhibits) as filed with the Securities and Exchange Commission is available to stockholders without charge. Direct your request to the Treasury Services Department at the corporate office.

## MDU Resources Group, Inc.

Schuchart Building  
918 East Divide Avenue

Mailing Address  
P.O. Box 5650  
Bismarck, ND 58506-5650

Telephone  
701.222.7900  
1.800.437.8000

Trading Symbol  
MDU

[www.mdu.com](http://www.mdu.com)

**HJR**

**4**



**HJR**

**6**

## Bill History/Action Display



BILL: HJR 6

SHORT TITLE: ROADLESS POLICY

BILL VERSION:

SPONSOR(S): WILSON, Williams , Hudson , Scalzi , Dyson , James

CURRENT STATUS: (H) RES

STATUS DATE: 01/17/01

HEARING: (H) RES Jan 24 1:00 PM CAPITOL 124

TITLE: Relating to opposition to the inclusion of national forests in Alaska within President Clinton's Roadless Area Conservation rule and supporting the overturning of this inclusion by litigation, by congressional action, or by action of President-elect Bush.




Jrn-Date	Jrn-Page	Action
01/10/01	<u>0044</u>	(H) READ THE FIRST TIME - REFERRALS
01/10/01	<u>0044</u>	(H) TRA, RES
01/16/01	<u>0104</u>	(H) COSPONSOR(S): JAMES
01/17/01	<u>0109</u>	(H) TRA RPT W/AMENDMENT 6DP
01/17/01	<u>0109</u>	(H) DP: KAPSNER, KOOKESH, OGAN,
01/17/01	<u>0109</u>	(H) SCALZI, WILSON, KOHRING
01/17/01	<u>0109</u>	(H) FN 1: ZERO (H. TRA)
01/17/01	<u>0109</u>	(H) REFERRED TO RESOURCES

Similar Subject Match or Exact Subject Match

FORESTRY

HIGHWAYS

INTERGOVERNMENTAL RELATIONS


RESOURCES

Bill Root: 


BASIS HAS BEEN RE-PROGRAMMED THIS YEAR  
TO REPORT PROBLEMS WITH BASIS INQUIRY

[Return to Basis Main Menu \( 22 Legislature\)](#)

[Return to Legislature Home Page](#)



We believe that the Southeast Alaska Electrical Intertie may be built as long as a road is not needed. Recreation and tourism developments that do not require roads could be developed.

“Timber may be cut, sold or removed when appropriate for personal or administrative use (such as firewood cutting) or to implement a management activity not prohibited by the rule (such as building a power line).”

**Job Effects:** In the long-term (after 5 years), the FEIS estimates that for the private sector, 370 direct timber jobs and 370 indirect jobs on the Tongass National Forest could be affected. It also estimates that 52 road construction jobs could be affected after 5 years and 104 indirectly related to road construction.

We do not know how the new President might influence the decision on the Final Rule. Congress does have oversight authority on new regulations, and within a given time period could vote to over turn a rule, subject to Presidential approval.

We do not know the amount of timber available from land outside the Tongass National Forest that could support the local mills. Both the State Forester and the local Native Corporations could supply estimates.

.....

THE  
FOLLOWING  
DOCUMENT(S)  
ARE  
POOR  
ORIGINAL  
COPIES

Introduced by: Mayor  
Date: 01/23/01  
Action: Adopted as Amended  
Vote: 7 Yes, 2 No, 0 Absent

**KENAI PENINSULA BOROUGH  
RESOLUTION 2001-012**

**A RESOLUTION SUPPORTING THE ALASKA LEGISLATURE'S HOUSE JOINT  
RESOLUTION NO. 6 OVERTURNING THE ROADLESS AREA CONSERVATION  
RULE IN THE TONGASS AND CHUGACH NATIONAL FORESTS**

**WHEREAS,** the Kenai Peninsula Borough Assembly passed three resolutions in the past three months dealing with the Chugach National Forest Revised Land and Resource Management Plan; and President Clinton recently adopted the Roadless Area Conservation rule in the Tongass and Chugach National Forests and the Alaska State Legislature is considering House Joint Resolution 6 opposing this rule; and

**WHEREAS,** in Resolution 2000-108, adopted November 21, 2000 the Kenai Peninsula Borough supports continued public access to the Chugach National Forest for all recreational users and encourages the Federal Government to upgrade and improve trails and parking lots to increase public access; and a roadless policy will discourage the development of improved public access to public lands which will cause increased congestion amongst various user groups creating unnecessary and avoidable conflicts; and

**WHEREAS,** the Kenai Peninsula Borough Assembly passed Resolution 2000-112 on December 12, 2000 which supports timber harvest on the hundreds of thousand of acres of the Chugach National Forest within the Seward Ranger District which has been infested by the spruce bark beetle; and the Revised Land and Resource Management Plan for the Chugach National Forest contains only minimal provisions for the mitigation, harvesting, and reforestation of the hundreds of thousands of acres of trees impacted by the spruce bark beetle infestation within the 5.45 million acre Chugach National Forest; and a roadless policy will further affect the economic loss of millions of board feet of potentially valuable and already dead spruce trees which could otherwise have provided a vital part of the economic foundation for residents and businesses of the borough; and

**WHEREAS,** a roadless policy will effectively eliminate the feasibility of exploration for and development of new and existing mineral deposits that lie within the Chugach National Forest; and KPB Resolution 2000-112 also supports the adoption of provisions within the Proposed Revised Land and Resource Management Plan that will provide for new road access to newly discovered and existing mineral deposits that will allow for viable commercial and recreational ~~minerals~~ extraction; and

WHEREAS, the Kenai Peninsula Borough Assembly in passing Resolution 2001-005 on January 9, 2001 expressed its support of a complete and thorough legal review by the Office of General Counsel for the United States Forest Service or other appropriate agency to provide a legal determination that the Proposed Revised Plan is consistent with the provisions of the Alaska National Interest Lands Conservation Act and other appropriate federal laws;

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

SECTION 1. That the Kenai Peninsula Borough Assembly strongly supports the passage of HJR 6 by the Alaska State Legislature for all the reasons stated, but in particular for the portions of the resolution that pertain to the Chugach National Forest.

SECTION 2. That a copy of this resolution be sent to the Kenai Peninsula Borough State Legislative Delegation, the Governor of the State of Alaska, the Alaska Congressional Delegation, and the United States Forest Service.

ADOPTED BY THE ASSEMBLY OF THE KENAI PENINSULA BOROUGH THIS 23RD DAY OF JANUARY, 2001.

*Timothy Navarre*

Timothy Navarre, Assembly President

ATTEST:

*Linda S. Murphy*

Linda S. Murphy, Borough Clerk



Baseline:

Roadless

NOI, mid Oct. 1999

Scoping Info Meeting & "Hearing", Dec. 1999

DEIS Info Meeting, May-June 2000

DEIS "Hearing", May-June 2000

FEIS, November 2000

ROD, mid January 2001

15 months TOTAL

**58.5 million acres in 38 states (with vastly differing ecosystems)**

Comparison:

Luck Lake

NOI, July 1997

FEIS, June 2000

3 years total

**840 acres (12.9 mmbf timber sale offering)**

Woodpecker

Scoping, Fall of 1998

DEIS, June 1999

FEIS, July 2000

no ROD yet

2 years so far (not including pre-project analysis)

**1,140 acres (12 mmbf timber sale offering)**

3 Mile

NOI, March 1999

DEIS, January 2001

no FEIS yet

no ROD yet

2 years so far

**515 acres (14 mmbf timber sale offering)**

## North America at night; captured by satellite camera

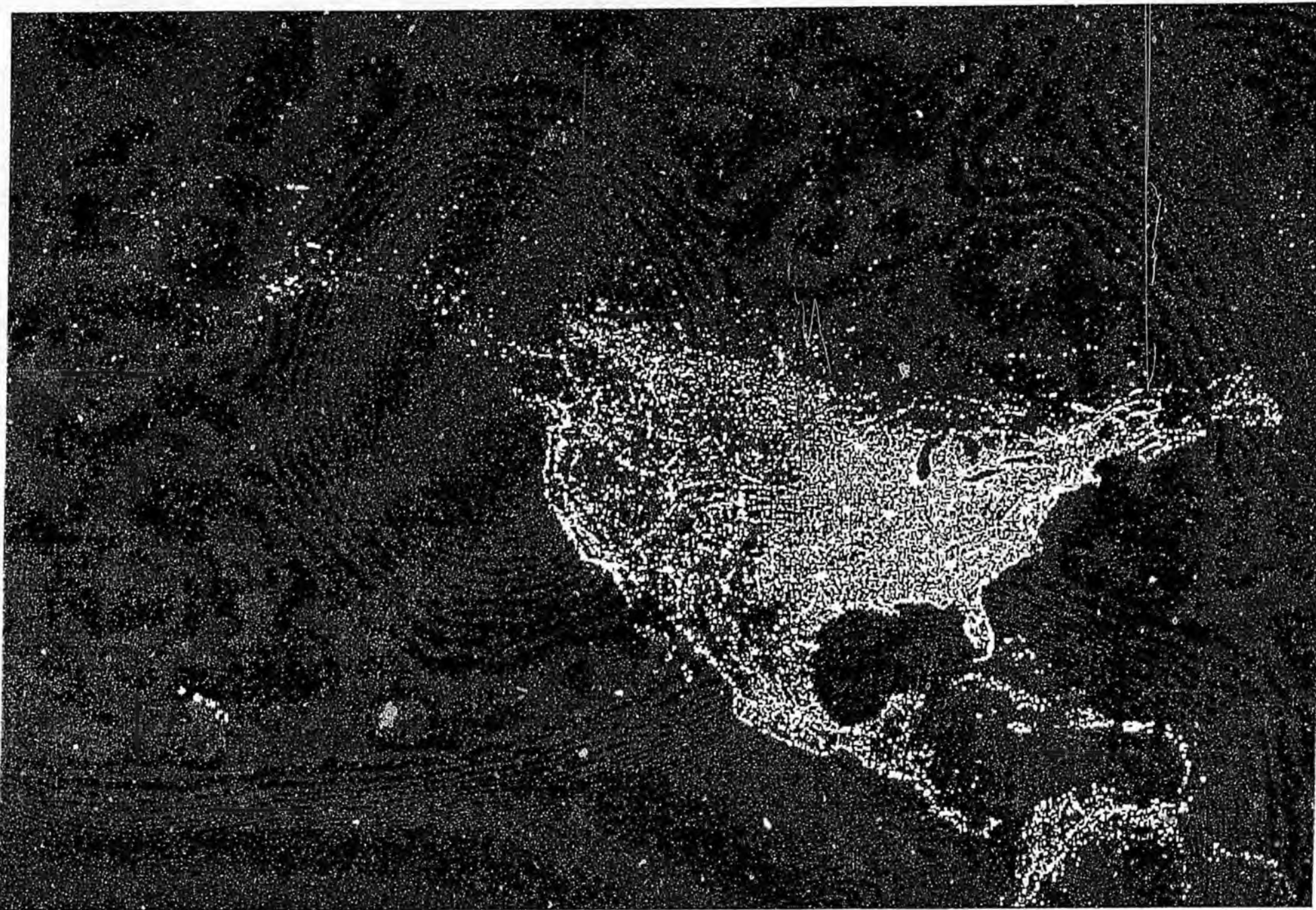


PHOTO CREDIT: NASA

*The lights from towns and cities across the United States, Canada and Mexico reveal the scope and density of these nation's populations. In contrast, the view of Alaska presents a clear reminder of our state's minimal development and its extensive wildlife habitat. Alaska's largest concentration of light is located in its major population centers, the Kenai peninsula, Anchorage and Fairbanks. Prudhoe Bay's industrial complex, including gas flares, is also visible. Foresters, geographers, biologists and others are making increasing use of satellite photography to inventory existing values when development is planned.*

**Testimony of Loren Gerhard, Executive Director, Southeast Conference  
House Resources Committee 1/24/01**

I will speak mainly to the issues in the Tongass National Forest, as those are the ones I am most familiar with, as our organization focuses on issues in Southeast Alaska, although some of this applies to the Chugach National Forest as well. Southeast Conference and the Southeast Conference of Mayors are very concerned with the negative impacts the ex president's action will have on our regional economy. We are still trying to deal with the impacts from the dramatic 75% decline in the timber industry occasioned by the Tongass Land Management Process. The future impacts of the Roadless designation, if it remains intact, will deal a death blow to that once significant portion of our regional economic base.

Over 96% of the total area of the Tongass National Forest was protected from further development before the Roadless proposal. The Roadless designation reduces available timber harvest on The Tongass National Forest by 2/3rds, to an amount which cannot even support the single veneer plant in Ketchikan, a valiant effort by business and the community of Ketchikan to salvage some kind of timber industry there. There are twelve sawmills operating in Southeast Alaska, all under a cloud of unknown future harvest levels. If this administrative action stands, 2/3rds of them will be gone in 5 years. This action will cost the region another 1000 jobs, direct and indirect. The large multinational timber companies are gone, what we are talking about now are Alaskans doing business in Alaska, and they will be put out of work by this action. The environmental advocates asked for a smaller scale, sustainable level of harvest, supporting a scaled back, value added processing industry, and that's what they got. The Roads ban goes way beyond that to an almost non existent industry, way below the known thresholds of sustainability.

The directive is an affront to the legal process mandated in federal law to manage the national forests. It ignores the National Forest Management Act, the law that mandated the Tongass Land Management Plan, which has been in process for over 10 years with 13 million dollars spent on it. The roads ban is the crowning achievement of an administration determined to lock up lands without the consent or involvement of the U.S. Congress.

Advocates for the roads ban reference heavy support in Alaska for this proposal, citing percentages of attendees at public meetings held in the state



# **GATEWAY FOREST PRODUCTS**

January 24, 2001

**TO: House Resources Committee**

**RE: GFP Testimony supporting House Joint Resolution No. 6**

Madam Chairman and distinguished Committee members:

My name is Cliff Skillings and I am testifying today on behalf of Gateway Forest Products and its 149 full time employees, urging you to support HJR 6 and seek expedited passage of this important Resolution.

Gateway Forest Products is a company of full time, year round employees operating a production Sawmill, a veneer mill, an operational sort yard and an industrial complex. Our mission is to provide a manufacturing process that best utilizes the lower quality sawlog from the Tongass and adds to the new integrated independent wood processing industry in Southeast. We are active participants in the Forest Service's independent/SBA timber sale program and rely on its continued existence at a level that supports not only our mill, but also the other independent wood products facilities located in Southeast.

The Clinton Roadless Initiative fails to recognize the fact that significant management initiatives have been applied to the Tongass. These include the Alaska National Interest Lands Act (ANILCA), the Tongass Timber Reform Act (TTRA) and continuously updated versions of the Tongass Land Management Plan (TLMP). Every one of these received a high level of commitment from regional Department of Agriculture employees, local citizens and time commitments from the United States Congress relative to ratification. In the 8 years of the Clinton Administration, Southeast Alaska has seen an ASQ that dropped from 550 million board feet (mmbf) to 267 mmbf (1997 TLMP ROD) to 187 mmbf (1999 TLMP Lyons ROD) and the loss of two production pulp mills and various independent sawmills.

This latest initiative offers no science but rather an emotional plea from national special interest groups and legacy opportunity for an outgoing Administration. You have heard the best probable numbers should this Initiative be applied to the Tongass: 50 mmbf board foot maximum harvest, further decrease in the manufacturing base in the region, etc. All of this is correct. Our present industry of 7 small independent sawmills will surely be decreased to two with implementation. Our veneer mill, although being able to

ADMINISTRATION  
PO BOX 779  
Ward Cove, Alaska 99828  
907-247-1647  
907-247-1846 (Fax)

INDUSTRIAL/MARINE  
P.O. BOX 779  
Ward Cove, Alaska 99828  
907-247-1651  
907-247-8660 (Fax)

MANUFACTURING  
P.O. BOX 779  
Ward Cove, Alaska 99828  
907-226-0126  
907-226-7824 (Fax)

**GFP Testimony on HJR 6  
House Resources 01/24/01**

run on one shift in this scenario, will do so at the cost of our sawmill that may at best operate on a part time basis if the supply is available.

The Tongass is fully capable of supporting a viable timber manufacturing industry to the ASQ stated in the 1997 TLMP decision and then condoned by the Governor that same year. This ASQ decision of 267 mmbf provides a level of harvest that maintains year round, family supporting jobs, healthy local economies and an industry that has the ability to plan ahead for operations and make investments in manufacturing processes.

Under present land management plans and historical legislative actions, areas identified as environmentally sensitive are protected. In actuality, the industry is already limited as to areas it can access and the quality of timber that can be extracted. Numerous areas that are available for harvest and have high volume/quality timber are inaccessible due to Habitat Conservation Areas (HCA) set around the profitable timber, giving industry access to the lower quality timber and allowing the higher volume HCA classified stands to blow down in these small, exclusive set asides.

The Roadless Initiative also ties the hands of land managers in the future relative to forest practices to improve forest health and denies access of our resource rich region to those visitors who may be bound by physical limitations and wish to see it first hand.

In closing, I do not believe that a "majority of Alaskan's" support this action as you may hear in opposing testimony. Local representation is hardly met by visitors who may sign a prewritten post card after being coerced into signing. Significant locals submitted letters and memos of opposition to the Clinton Administration relative to this Initiative and I do not believe that one can base the opinion of the region by those who chose to stand at microphone.

Gateway Forest Products and the timber industry of Southeast Alaska can ill afford to be subject to additional inaccessibility to the resource due to management decisions based on emotional appeals over sound science. We adamantly support your actions to ratify HJR6, opposing the Roadless Initiative and supporting the Governors litigative efforts, and hope that you do so in an expeditious manner.

Alaska State Legislature  
House Resources Committee

Public Testimony On HJR 6 —  
January 24, 2001

ROADLESS AREAS

Thank you for the opportunity to testify on Resolution HJR 6. For more than two decades, Alaskans have been held to a separate standard from the other 49 states regarding the way the Federal Government has approached the management of lands in Alaska. Each time Alaskans and the Federal agencies have reached an agreement on land management policies in our National Forests, we've been told, "This is it. There will be no more withdrawal of lands". Recently, I served with fourteen other Alaskans on Governor Knowles Timber Task Force. At that time, former Secretary of Agriculture Dan Glickman told the Governor and our task force that the 1997 record of decision should be viewed as a conclusive decision after spending \$13 million and taking eleven years to revise the Tongass Land Use Plan. But as we all know, months later Undersecretary Lyons made wide sweeping changes to the Record Of Decision with no input from the public. Reasonable Alaskans were irked because certain selfish federal bureaucrats had duped us again. At the same time, the Roadless proposal for our national forests was being evaluated across the nation. Alaskans were told both the Tongass and Chugach would be exempt from inclusion because land use plans had just been completed. We know the rest of the story. Not only are we included, but as late as this past December, the effective date was to be the year 2004, but in the end, we were included with the same effective date and the other national forests. This is not a roadless policy for the Tongass. This can only be described as a **dead end** road policy. It is a **dead end** road to the sustainability of a viable wood fiber industry in Alaska. This presidential order brings a **dead end** road to access routes for hydro sites and power line corridors. It is a **dead end** road for funding for local schools that would have come from future timber sales receipts. It is a **dead end** road for entrance into watersheds to access public drinking water systems. It is a **dead end** road for hard surface linkage of our cities and towns. It is a **dead end** road for employment opportunities and further strangles local economies by forcing families to move on to seek other jobs — usually in a completely different field. Sadly and most important, this latest effort is a **dead end**

road for integrity and commitment made to Alaskans by the federal government. When there is no longer any trust in what our federal officials do and say, we are fraying the cords that bind democracy together.

The Governor has every reason to be outraged at this eleventh hour decision. And so should every reasonable Alaskan. The former President's Roadless decision violates numerous federal laws and I trust the Attorney General and other groups will be successful in quickly overturning this action in the courts. It is time for Alaskans to put up a **Dead End** sign to the heavy handed, selfishly motivated and non-involvement in the decision making process by our Federal government bureaucrats. I support the adoption of HJR 6 and commend the legislature for taking a strong stand opposing the Road less policy in Alaska.

However, please allow me to take another minute of your time because the Alaska timber industry desperately needs more legislative help than just the adoption of HJR 6. We are short on resources for fighting the legal battles that are associated with the environmental challenges brought by the well-healed environmental community. In addition, one of the biggest requirements we have is a current and objective report on the supply and demand for Alaska's wood fiber. To be really meaningful, this report must be expanded beyond the typical federal report of industry capacity and annual production. Other independent reports have stated that there is unlimited demand for Alaska type wood products. The constraint is the supply of timber from National Forest Land. For the past decade, these federal reports always conclude that production of manufactured wood products is declining and thus the federal supply of timber from the Tongass and Chugach should be further reduced. When USFS management sets annual harvest volumes using these incomplete reports, the outcome can best be described as sending the industry into a death spiral. We need a fresh in depth look from the state's perspective at the impacts of a shrinking forest products industry upon Alaska's citizens and communities. We must focus on the diminishing opportunity for jobs and the eroding ability for these communities to sustain their local economies. It is a very serious matter and time is of the essence to put forth the real facts about Alaska's remaining wood fiber industry. Thank you for the opportunity to testify this afternoon. I would be happy to answer any questions you may have.

And in the interest of time we will limit testimony on ~~HB48 to 30~~  
Minutes and cease testimony on HJR6 at 2:20pm for committee  
discussion.

• **Meeting:**

1. Rep. Coghill or Rynniva to elaborate on CS for HB48  
Someone move to adopt CS for HB48 as working document.  
Public Testimony HB48  
Discuss HB48  
~~Move~~ HB48 from committee to JUDICIARY
  
2. Rep. Wilson to elaborate on CS for HJR6.  
Move to adopt CS for HJR6 as working document.  
Public testimony HJR6  
Discuss HJR6  
~~Move~~ HJR6 from committee

• **Next Meeting:**

Will be Friday January 26<sup>th</sup> at 1:00pm

We will be having a joint meeting with the FISHERIES COMMITTEE

• **Adjourn Meeting: Note Time:**

Bewerly

## Agenda

- Call to order ~~Time~~ Date: January 24<sup>th</sup>, 2001

- Roll Call:

Representative Masek, Co-Chair  
Representative Scalzi, Co-Chair  
Representative Fate, Vice-Chair

Representative Green  
Representative Chenault  
Representative McGuire ~~(is detained with other commitments until 2PM)~~  
Representative Stevens  
Representative Kapsner  
Representative Kerttula

- Sites for Teleconference:

Anchorage, Keni, Petersburg, Faribanks, and Mat-Su ~~LIOS~~

Welcome to those of you that are here  
We may have a few additions if we receive a call, and we will note that for the record.

- Subject:

Today we will be holding hearings on:

**HB48** – Eliminating the requirement for Social Security Numbers in order to obtain a hunting and fishing license..... It is the intent of the chair to move this bill from the committee today in the form of the committee substitute we will be adopting as our working document.

Coghill

We will also be hearing **HJR6** – Opposing the Roadless Policy. It is also the intent of the chair to move this from the committee today in the form of it's committee substitute.

Wilson

We will be hearing ~~public testimony~~ on both of these items today. We will limit each person's testimony to 3 minutes. This will assure that as many people as possible are heard.

*up-date  
new version*

22-LS0316\C  
Luckhaupt  
1/24/01

**CS FOR HOUSE JOINT RESOLUTION NO. 6(RES)  
IN THE LEGISLATURE OF THE STATE OF ALASKA  
TWENTY-SECOND LEGISLATURE - FIRST SESSION**

**BY THE HOUSE RESOURCES COMMITTEE**

**Offered:  
Referred:**

**Sponsor(s): REPRESENTATIVES WILSON, Williams, Hudson, Scalzi, Dyson, James**

**A RESOLUTION**

1 **Relating to opposition to the inclusion of national forests in Alaska within President**  
2 **Clinton's Roadless Area Conservation rule and supporting the overturning of this**  
3 **inclusion by litigation, by congressional action, or by action of President Bush.**

4 **BE IT RESOLVED BY THE LEGISLATURE OF THE STATE OF ALASKA:**

5 **WHEREAS** the forest products industry has been and continues to be an important  
6 economic sector in Alaska that contributes significant employment income to the economy of  
7 the state, and, through purchases of timber from National Forest System lands, contributes  
8 significant revenue to local communities through the 25 percent revenue sharing provisions of  
9 federal law; and

10 **WHEREAS** President <sup>the</sup> Clinton's Roadless Area Conservation rule is contrary to the  
11 land management planning process for individual forests established by the National Forest  
12 Management Act of 1976 and its implementing regulations; and

13 **WHEREAS** application of President Clinton's Roadless Area Conservation rule to the  
14 Tongass and Chugach National Forests designates significant additional acreage as  
15 administrative, de facto wilderness areas within Alaska; and

1           **WHEREAS** application of President Clinton's Roadless Area Conservation rule in  
2 Alaska is contrary to sec. 708(b)(4), Alaska National Interest Lands Conservation Act  
3 (ANILCA), which specifically prohibits another roadless area review and evaluation (RARE)  
4 on national forest lands in Alaska for the purpose of setting aside commercial forest land as  
5 wilderness; and

6           **WHEREAS** application of President Clinton's Roadless Area Conservation rule in  
7 Alaska is contrary to sec. 1326(a) of ANILCA, which prohibits the withdrawal of more than  
8 5,000 acres, in the aggregate, of public lands within Alaska without the consent of the  
9 Congress; and

10           **WHEREAS** application of President Clinton's Roadless Area Conservation rule in  
11 Alaska is contrary to sec. 1326(b) of ANILCA, which expressly prohibits studies of public  
12 lands for the purpose of considering the establishment of new conservation system units,  
13 recreation areas, national conservation areas, or for related or similar purposes; and

14           **WHEREAS** the Tongass Timber Reform Act of 1990 and other Congressional and  
15 administrative actions have withdrawn more than 97 percent of the Tongass National Forest  
16 from availability for timber harvest and other resource development opportunities; and

17           **WHEREAS** the 1997 and 1999 revisions of the Tongass Land Management Plan  
18 (TLMP) further reduced the available commercial forest lands in the Tongass to 576,000  
19 acres out of nearly 6,000,000 suitable acres across the forest; and

20           **WHEREAS** the available commercial forest lands remaining after the 1999 TLMP  
21 amendments are insufficient to satisfy the raw material needs of Southeast Alaska's forest  
22 products manufacturing industry, given the plan's maximum annual economic offering level  
23 of 153,000,000 board feet; and

24           **WHEREAS**, by applying the roadless policy to the Tongass, the federal government  
25 has further reduced the available commercial forest lands in the Tongass to less than half the  
26 currently available acreage and will further reduce the maximum annual offering level to less  
27 than 50,000,000 board feet; and

28           **WHEREAS** application of President Clinton's Roadless Area Conservation rule to the  
29 Tongass, together with Under Secretary Lyons' 1999 unilateral TLMP amendment, nullifies  
30 the results of the United States Forest Service's 1986-1997 planning process in the Tongass,  
31 which cost the taxpayers more than \$13,000,000; and

1           **WHEREAS** application of President Clinton's Roadless Area Conservation rule to the  
2 Tongass, together with Under Secretary Lyons' 1999 unilateral TLMP amendment, will  
3 further destabilize the already unstable timber-based economy of Southeast Alaska by forcing  
4 the closure of most of the remaining forest products manufacturing facilities, resulting in loss  
5 of employment and associated negative socioeconomic impacts within timber-dependent  
6 communities and the Southeast Alaska region; and

7           **WHEREAS** the Chugach National Forest has spent three years and several million  
8 dollars conducting a revision to its land management plan and is within a few months of  
9 issuing the Final Environmental Impact Statement for that plan; and

10           **WHEREAS** a wide range of interests from the Alaska public has been involved in the  
11 Chugach land management planning process, working to develop a range of plan alternatives  
12 that respond to the public's interests, needs, and concerns, and President Clinton's Roadless  
13 Area Conservation rule will render that involvement and expense pointless and undermine  
14 public confidence in the planning process; and

15           **WHEREAS** the public, through the Chugach Land Management Plan revision  
16 scoping process, has expressed deep concern that the approximately 130,000 acres of the  
17 Chugach National Forest suffering from spruce bark beetle damage must be managed for the  
18 restoration of a green, healthy forest, and President Clinton's Roadless Area Conservation rule  
19 prevents access required by land managers to accomplish that restoration work; and

20           **WHEREAS** application of President Clinton's Roadless Area Conservation rule will  
21 render it virtually impossible for inholders and adjacent landowners, particularly families and  
22 small business owners, to obtain the access to their property that was promised them in  
23 ANILCA;

24           **BE IT RESOLVED** that the Alaska State Legislature strongly opposes the Roadless  
25 Area Conservation rule, and particularly opposes the illegal inclusion of the Tongass and  
26 Chugach National Forests in the Roadless Area Conservation rule; and be it

27           **FURTHER RESOLVED** that the Alaska State Legislature fully supports Governor  
28 Knowles' decision to litigate against the application of the Roadless Area Conservation rule to  
29 National Forest System lands in Alaska; and be it

30           **FURTHER RESOLVED** that the Alaska State Legislature urges members of the  
31 Alaska delegation in Congress to use all available means to set aside the Roadless Area

1 Conservation rule through Congressional action; and be it

2 **FURTHER RESOLVED** that the Alaska State Legislature urges President George  
3 W. Bush to overturn the classification and inclusion of the national forests located inside  
4 Alaska's boundaries.

5 **COPIES** of this resolution shall be sent to the Honorable George W. Bush, President  
6 of the United States; the Honorable Ann Veneman, United States Secretary of Agriculture;  
7 Mike Dombeck, Chief of the United States Forest Service, United States Department of  
8 Agriculture; and to the Honorable Ted Stevens and the Honorable Frank Murkowski, U.S.  
9 Senators, and the Honorable Don Young, U.S. Representative, members of the Alaska  
10 delegation in Congress.

# Alaska State Legislature

House of Representatives

*update  
new version*

Official Business



State Capitol  
Juneau, AK. 99801-1182

## Representative Peggy Wilson

### SPONSOR STATEMENT – HJR 6.

**This resolution opposes the Clinton Administrations' decision on the Roadless Policy.**

On January 5, 2001 then President Clinton announced the final Record of Decision for the roadless policy including the Tongass and Chugach National Forests.

Alaskans from across this state must join forces to overturn the inclusion of Alaska forests within former President Clinton's Roadless Policy.

This presidential action is an affront to all Alaskans and continues their history of breaking promises to Alaskans regarding land management.

This Roadless Policy is in blatant disregard of the processes that have been agreed to. Countless hours, over eleven years and 13 million dollars were spent making revisions to the Tongass Land Management Plan. The Chugach Forest Plan revision process has been underway for over three years requiring considerable investment of time money and resources. Now these processes have been completely disregarded

This Roadless Policy violates the "no-more" clauses of ANILCA and creates approximately 15 million acres of new defacto wilderness within Alaska.

I, like many Alaskans, am vehemently opposed to the inclusion of the Tongass and Chugach National Forests in this Roadless Policy and ask that we work together and support the overturning of this inclusion by litigation, by congressional action or by action of President Bush.

50 Front Street, Suite 203  
Ketchikan, Alaska 99901  
Phone: 907-225-9675  
Fax: 907-225-8546

**STATE OF ALASKA**  
**Legislative Information Office**



**Fax**

*RSRCS. ATTN R25OURCES*

To: *Management Cmte* From: *KTN-LIO*  
Fax: *465-1822* Date: *01-25-01*  
Phone: \_\_\_\_\_ Pages: *(7)* INC. COVER

Re: *PLEASE ENTER THIS DOCUMENT INTO THE RECORD FOR YESTERDAYS MEETING ON HJR 6.*  
*Thanks!*

JAN 25 REC'D

*yesterday's testimony  
Faxed  
From  
Ketchikan*

12/10/00

To whom it may concern:

My name is Mike Sallee. I was born in Ketchikan and attended grades K-12 at Ketchikan schools. Except for close to ten years spent at Anchorage, Fairbanks, or points between those cities going to school or serving in the military, I've lived and worked out of Ketchikan most of my life.

As a deckhand I've worked since the early sixties in some form of commercial fishing between Monterey in California to Akutan and Bristol Bay in Southwest Alaska. In the mid to late sixties I saw much of Southeast Alaska from Lynn Canal in the north, to Prince of Wales Island in the west, to Dixon Entrance at the Alaska Panhandle's southern end, during numerous salmon packing trips from SE Alaska to Seattle. I've spent several weeks to months of each of the last two decades longline deckhanding for black cod, halibut, and rockfish along the coast from SE Alaska to SW Alaska.

I also currently harvest dive and sell lumber sawn on my own small sawmill.

Although my brother, a career logger, has done about every job in the woods from pulling whistle wire to yarder engineer to truck driver and loader operator, I've only spent parts of two seasons as a choker setter.

For the last several decades I've watched from the decks of boats, or while hiking or flying, as island after island, watershed after watershed, get stripped of their standing old-growth timber and become converted to road accessed, even-aged tree farms.

Even my brother, ever the logger, expressed dismay at the wholesale clearcutting and export practices of the industry that pushed his small gypo operation out of the picture. He was pushed off Kasaan Island by ANCSA timber interests whose enormous clearcuts totally eclipsed his small A-frame sales there. He mentioned other instances of his small A-frame patches in bays along eastern Prince of Wales being later dwarfed by adjacent grand scale clearcuts. The KP/LP/USFS cartel's strongly implied message was; "If you want to log you'll have to work for us or one of our subcontractors."

The words of a hook tender that I worked under at Neets Bay were among the first that I'd heard mentioning that the timber harvests as done in SE Alaska were not sustainable.

As for roads, there are people in the world who've lived very long and productive lives without benefit of automobiles or roads upon which autos travel. Indigenous people of Southeast Alaska thrived here for centuries without benefit of autos or roads. Furthermore, those Tlingits, Haidas, and Tsimpsians thrived while still leaving a legacy of intact old growth forests that we hack down and export with impunity today.

It's distressing that JOBS rather than long term health of that legacy is the battle cry of those who claim to support progress. Those advocates of progress have continually

USDA Forest Service-CAET  
Attention: Roadless Areas NOI  
PO Box 221090  
Salt Lake City, Utah 84122

12/18/99

Please include the Tongass National Forest in the consideration of a roadless policy for large blocks of unroaded areas in national forests.

- 1) The USFS is not adequately maintaining or otherwise dealing with the roads it has already built.
  - 2) The Tongass has already experienced major departures from its historical rural character over the last several decades due to road building. More than enough acreage of the Tongass has already been devoted to roaded, even-aged, grand scale tree farms.
  - 3) The TLMP will be due for revision in another decade. Yet again citizens will be required to respond to a huge federal bureaucracy's obsolete and over-optimistic timber harvest and development mandate.
  - 4) We will never develop small value-added timber operations that, for example, employ small portable mills and helicopter or trail accessed timber sales, as long as the remaining available wood is dedicated to roaded, even-aged, grand scale tree farms. Round log export of incidental species will continue to be the rule as long as we gear timber sales to large wood processing facilities.
  - 5) A development scenario precedent has been established on national forests that is unsustainable and reminiscent of the tobacco plantations of Jefferson's time. In Jefferson's time the landed gentry cleared land, grew tobacco until the soil was depleted, obtained more land, cleared it, planted, moved on, and because land was cheap, profited by perpetuating the cycle. In SE Alaska we see a similar scenario, a management policy that perpetually targets virgin stands of old growth, the difference being we must wait for trees to grow back rather than for soil to renew itself, and the boom/bust cycle hasn't matured to the extremes that it has in the lower 48. Excluding Alaska from a roadless policy will mean the national forests of Alaska will be pressured to provide jobs for people displaced from the lower 48 forests.
- SE Alaska's forests differ from those of the Pacific NW by being naturally more fragmented due to Southeast's island geography, and by having a harsher climate due to its higher latitude.

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R. David Sallee  
P.O. Box 9557  
Ketchikan, AK 99901

Oct. 20, 1993

U.S. Senator Ted Stevens

To whomever receives this letter: = **Warning** = This letter is specifically intended only for Senator Stevens' perusal and carries with it the explicit demand that I receive a **PERSONAL** reply from Senator Stevens and no other. If I don't receive a reply to this letter from Senator Stevens within a reasonable time frame this letter will go public to local and regional newspapers as well as other parties, whom I believe will be quite interested in the contents herein as well as my experience with the Senators' accessibility.....

Dear Senator Stevens:

I, as you can probably tell by the above, am NOT a Happy Camper! I'm in no mood to soft-talk about what I have to say because **I-HAVE HAD ENOUGH!!**

I have been seething ever since I read in the local paper the headline, "House-Senate committee gives broad range for Tongass Sale". After all the time, money, and effort that went into the Tongass Timber Reform Act, the purpose of which was to cut back on the runaway timber industry program here in the Tongass, the issue was decided in a **COMMITTEE** meeting! The article went on to say, "The Tongass timber cutting level has been a perennial battle between the House and Senate in recent years during deliberations on the Forest Service budget". What couldn't be decided by the full contingent of both houses of Congress gets blasted into being by you and a few others. A Great example of the democratic system at its best!!!

With a government like that who needs enemies?

The article also quoted you as saying: "I am still committed to the Tongass Timber Reform Act. If the demand is there it will be cut". In other words, as long as there is a demand for the timber we'll cut it right down to the last stick, won't we?

I sound just like a radical lock-it-up preservationist don't I? One of those *Field and Stream*-reading, bleeding-heart spotted owl reactionary, Teddy Bear-cuddling, TV watching potato-heads who are led by the nose, that sign their names and put their money behind any smooth talking reactionary that tells a good story. Well, surprise, Mr. Senator, I am none of the above.

I am a born and raised lifelong resident of Alaska, so lifelong that I have been out of the country less than ten times during my almost 52 years living here. And I love Alaska. Or I did. I loved Alaska the way it was when I was a kid growing up here; a land full of mystery, a land full of history. A land tailor-made to satisfy the soul of one such as I who am a confirmed individual dedicated to self-sufficiency, living life on his own terms. That was the allure of Alaska, in addition to its incredible beauty, its tremendous bounty, it was a land that challenged a man, requiring the best from him but rewarding him with the best if he made it. It was all here! A man

1 chain saw, and let me tell you, no kid was ever more thrilled with his first car than I was with that  
2 chain saw. I had ARRIVED! I was a LOGGER!

3  
4 When I was sixteen and other kids were rodding around in their customized cars, chasing girls and  
5 generally getting into mischief, I was out in this old slab of a boat with a 4 hp Wisconsin engine  
6 with my chain saw, a peavey, a jack, and my little winch getting logs off the beach and taking  
7 them into Totem Lumber Co., a small, two-man sawmill who gave me thirty dollars per M for  
8 them. I bought a lot of hamburgers and ice cream as well as my "business" needs, but I also bought  
9 my school clothes and helped out with the family finances. M./ mom didn't make much money.  
10 During school season I cut firewood on evenings when the weather was good enough to do it, both  
11 for our own use as well as for sale. And I didn't need a permit to do it either. Most of the money I  
12 made went to help Mom make ends meet.

13  
14 And the story goes from there. I worked in the woods for over 26 years before I ever did anything  
15 else, and it was like a fish being out of water. For me, there IS no other thing to do.

16  
17 I'm not logging now. I've been trying to do other things like pile and dock work and I worked in  
18 the local rigging loft for a while where I got to work with brand new cable instead of the gnarly,  
19 jaggery, kinky stuff we work with in the woods. I've driven truck. They're just jobs. They're not  
20 fun. Logging used to be fun.

21  
22 My attitude when I was young, working in the woods, was just like every other loggers'. In 1959,  
23 when I got out of high school and into the woods the Ketchikan Pulp Co. had only been cutting  
24 timber in S.E. for about 6 years. It was pretty much wide open and what we now know about the  
25 forest and the environment we didn't know then. There seemed to be enough timber for everybody.  
26 Nobody bid on anybody else's show because there was lots to be found everywhere else.  
27 Everybody believed the renewable resource-sustained yield propaganda handed out by the Forest  
28 Service and the industry. There had been no Native land selections yet either, nor any rubber-  
29 stamped Wilderness Areas and National Monuments. Down below they had "tree farms". Already  
30 there were areas that were being logged for the third time. I didn't see the significance then.  
31 Because there was so much old-growth in the Northwest as well as this huge land of Alaska, the  
32 tree farms sounded like a good idea but they were private timber owners little game, and, of  
33 course, everybody knew that second growth timber was vastly inferior to old-growth.

34  
35 But on the whole it seemed that the timber really was a renewable resource; we could see the areas  
36 growing back from the previously logged land we believed would provide the next crop. But there  
37 are a lot of things we didn't take into account, and from what I've observed, we're still very  
38 reluctant to address these issues, or even admit they are issues.

39  
40 When I went to work at the K-P camp in 1960 at the age of eighteen, they had the finest of  
41 machinery then available. They were running 5 sides plus a cold deck side and they also picked the  
42 roadsides with the grapple shovels. In addition they had a couple tractor-mounted "triple-drum"  
43 units that were used as spare sides in case of breakdown or when another setting had been logged  
44 out and was in the process of moving and rigging up, a process that could take from one to three  
45 days. We worked eight-hour shifts then, not your nine- to ten-hour days commonplace today.

46

1 account for the year. Getting out the cut was paramount. Meeting legal requirements and Plan  
2 Standards and Guidelines was secondary."

3  
4 The bugs are starting to come out of the woodwork Senator Stevens. More and more people are  
5 coming with evidence of the duplicity of the various Government branches' wrong-doing. I think it  
6 is a good sign, because, I think, the Government has forgotten that it is not the ruler of the people,  
7 but rather, that the people are the rulers of the Government. It's about time we put the Government  
8 back into "lead".

9  
10 In 1992, the two long-term contractors enjoyed the use of 298.4 million board feet of old-growth  
11 high volume/high grade wood at a net loss to the taxpaying public of 64.1 million dollars!  
12 Essentially, every person who paid taxes that year paid the two companies to clear-cut hundreds of  
13 acres of trees with one for sure undeniable effect: those trees are gone and we will not see the likes  
14 of them again where they once stood. Another aspect is that virtually none of the product was used  
15 by the domestic populace; the average John Doe American citizen saw none of what those trees  
16 provided, a substantial portion of which was manufactured into high grade LUMBER PRODUCTS  
17 manufactured by Ketchikan Pulp Co at their Ward Cove plant, at Metlakatla's Annette Hemlock  
18 Mill, and at Alaska Pulp's subsidiary, Wrangell Forest Products' mill. With very little exception, all  
19 was exported to Pacific Rim markets. The two industrial giants took their profits and ran, leaving  
20 not only a wounded environment, but a 64.1 million dollar deficit in OUR wallets. We would have  
21 been better off to have distributed the cash around to all of the participants involved and **LET**  
22 **THE TREES STAND!**

23  
24 According to a very good book that I have depicting the development of the timber industry from  
25 its very inception; in this country, as well as Canada, commercial lumbering began up around the  
26 St. Lawrence River in the 1760's with the export of broad-axed square timbers to the West Indies.  
27 It didn't take long for large, powerful timber entities to evolve and those entities have jealously  
28 dominated timber and its use and have ruthlessly crashed and slashed their way through the  
29 American forests from coast to coast. The eventual demise of the old-growth ecology, or, I should  
30 say, the concept of such a thing has very apparently been given little credence, because the same  
31 old attitude prevails today. Dominate at any cost. Snow-job the masses into believing or at least  
32 accepting their story that old-growth is "over-ripe" and that second growth is healthier and more  
33 productive, and anyway we have TECHNOLOGY! To overcome the vast difference in quality  
34 between old-growth and second-growth. TECHNOLOGY!..... In the hands of man it is not so  
35 slowly destroying our planet.

36  
37 I get the message that [it] doesn't matter to some folks: That economy concerns, balance-of-trade  
38 deficits, (and of course, we mustn't forget that the United States MUST CONTINUE to aspire to be  
39 the No. 1 World Power), the jobless rate, to name but a very few, totally eclipse any concern for  
40 the necessity to retain a healthy, multiple use, sustained yield, old-growth forest ecology, an  
41 ecology that would support a host of small individual endeavors like the one I used to have,  
42 carefully husbanding the resource.

43  
44 My government hears but it doesn't listen. Tremendously valuable input is being handed to our  
45 leaders, such as yourself, but, in the end it just goes ahead and does what it damn well pleases  
46 anyway!

1 There was life before Ketchikan Pulp and Alaska Pulp and there'll be life after them. I don't believe  
2 they are some kind of gods we need to placate continuously with pounds of our flesh or that of  
3 future generations.

4  
5 They can learn how to tighten up their belts just like the rest of us. Or they can get to hell out.

6  
7 I am very much interested in your comments and explanations as to why you have acted in the  
8 fashion that you have.

9  
10  
11 Sincerely,  
12 David Sallee

13  
14 *[A sticky note attached to the foregoing reads:]*

15  
16 To Mr. Dave Katz - or whomever else that this concerns:

17 I would like to become more acquainted with your organization, its attitudes and goals. Therefore I  
18 am submitting this copy of a letter for your review. You, I am sure, are well versed in the topical  
19 content. But it will also serve as an introduction as to who I am, where I'm coming from, my  
20 attitude toward the issues, and the motives behind them, as well as my own motives for writing the  
21 letter. I'm interested in your comments.

22 Yours,  
23 Dave Sallee

24  
25 *Dave has done about every logging job in the woods. From whistle punk at Hollis during pre-*  
26 *"Talkie-Tooter" days he's set chokers, chased (unhooked the chokers at the landings), been riggin'*  
27 *slinger, hook tender, yarder engineer on the big log sled-mounted yarders as well as mobile steel*  
28 *towers, grapple yarders, and skyline carriage operations. He's been a loader operator and dump*  
29 *machine operator. He's built several log floats, A-frames, and yarder sleds, been a busheler, boom*  
30 *man, and high rigger during the wood spar tree days and later on the towers. He's gypped on his*  
31 *own and worked in several small mom and pop operations. He was a good mechanic and*  
32 *proficient enough welder to rebuild his own aluminum boat. He has collected quite a few hooks on*  
33 *logging and has been an accomplished artist and draftsman. I considered him a master at applied*  
34 *mechanics as it pertains to logging.*

35  
36 *Within the last year Dave has been diagnosed with dementia. I suppose those who disagree with*  
37 *his interpretation of things would accuse him of slipping when the above letter was written. I*  
38 *would disagree with that assessment. While Dave and I didn't always see eye to eye on some*  
39 *philosophies I think his understanding of the evolution of forest management was pretty accurate.*

40  
41 *Mike*  
42 *January 24, 2001*

43

6) Gravina Island, a place I've resided at for at least part of each year since 1956 when I was nine is now on the chopping block for the USFS's grand scale road and clearcut management prescription. Gravina's existing roads consist of those immediately tied in with its airport, the alder-overgrown logging roads extending a few miles from Vallenar Bay, and some short access roads to development near Lewis Reef and some old mining activities in Seal Cove.

My own use of Gravina has primarily been tied closely to the beaches. My numerous inland excursions on foot were primarily subsistence hunting for deer or grouse, or for recreational hiking. It would be difficult to condense forty plus years of activity into a few pages. I learned many skills: field dressing deer and grouse, marksmanship and handling firearms, becoming at ease while alone in the woods, moving quietly in the woods, brushing and blazing my own trails, learning how far I can hike in a day, bag a deer and pack it back to the beach before midnight, identifying waterfowl; scoters, teals, goldeneyes, buffleheads, mallards, sandpipers, snipes, herons, as well as hawks, geese, and swans. I learned balancing on floating logs, sawing and splitting firewood, climbing trees, pulling stumps, small boat handling, outboard motor operation and maintenance, how fuel hoses can become clogged with ice in freezing weather, how to navigate in fog, storm, and darkness, and what happens when you try to mount a 15 horsepower outboard motor on the unbraced transom of an eight foot homemade plank dinghy. Ad infinitum.

Perhaps I need to realize I was blessed to have experienced the freedom of a time and place unencumbered by contentious ownership and activities. Much of the freedom is still there in the heart of Gravina's 63,000-acre wilderness in Ketchikan's front yard, but I'm seeing few restraints to privatization for profit being advocated by my local, state, and federal government.

I'm not averse to cutting timber on Gravina, I own a sawmill and recognize a future need for wood for myself and the community around me. But given the plethora of roads on POW, Annette, Rev. Agigedo, and all other major islands in SE Alaska I would advocate a much more conservative development scheme for Gravina. Keep the 40 million board feet available for harvest on the 1800 acres but parcel it out at the rate it grows, about 300bf/acre/year. If the wood is there people will figure out how to get it without roads. No more roads on Gravina. Limit that variety of access, development, and urbanization to the islands where it's already occurred. Thank you.

Sincerely,



Mike Sallee

PO Box 7603

Ketchikan, AK 99901

argued that the technology available to us does not allow us to enjoy healthy economies by keeping the old growth qualities of our surroundings intact.

Even more exasperating, we're relentlessly reminded that we cannot live healthy, productive lives in SE Alaska without being kept on a federal welfare umbilical, i.e., substantial infusions of federal dollars to keep our economy running. A vicious myth persists that large, road-accessed clearcuts must be perpetuated in order to afford education and maintain our ties to the land.

My mother homesteaded twenty six acres on Gravina Island in the late fifties. I was nine when we started our annual spring migrations by fourteen foot skiff to the remote site. As I grew older I learned to hunt and spent many hours hiking the hills, muskegs and beaches of Gravina. I've dive-harvested geoducks, sea urchins, and sea cucumbers from Gravina's subtidal shores.

Now that Prince of Wales, Revillagigedo, and other parts of Southeast Alaska have either been worked over by logging or placed off limits to logging, Gravina remains one of the last large unroaded landscapes on which to deploy the great roaded timber sale layout machine that brought loggers to Southeast by droves in the last forty-some years. Yes, Gravina is on the chopping block for not only the USFS but also state and private interests. While there's some effort by the different timber stakeholders to coordinate their efforts in timber extraction, I haven't seen much agency interest or initiative toward leaving the island in an unroaded condition.

With the foregoing comments I hope it's clear how profoundly the place in which I live has colored my thinking about that place. I am a part of that place and it is a part of me. I have an emotional stake in this place I've called home. That stake is apparently not shared by many others who have immigrated here. It's an emotional stake apparently unrecognized even by some who were born and/or grew up here.

Thank you.

*Michael Salleg*  
Sincerely,  
Mike Salleg

Subj: RE: No Exemption for Tongass in Roadless Rule  
Date: 1/5/01 11:17:44 AM Pacific Standard Time  
From: rachaelmoreland@att.net (Rachael Moreland)  
To: Thyges@aol.com

For Immediate Release  
January 5, 2001

Contact: Jack Phelps or Rachael Moreland  
907-225-6114

Roadless rule  
includes Tongass  
immediately.

NO EXEMPTION FOR TONGASS IN ROADLESS RULE

The Alaska Forest Association today voiced strong opposition to the pending announcement by President Clinton that he would prohibit road access to 58.5 million acres of National Forest System land in 39 states, including Alaska. "By law, these are multiple use lands that are supposed to be managed under locally developed plans, not turned into wilderness by Presidential fiat," said Executive Director, Jack Phelps. "In Alaska alone access to 87% of the Tongass and Chugach National Forests will be denied under the new rule. That is just not acceptable in a state that is already home to more Wilderness than exists in all the rest of the states put together."

~~Thyges~~ Shaub  
463-5118 ph  
463-5128 fax

The Clinton announcement will finalize the roadless Environmental Impact Statement which was released in November. Secretary of Agriculture Dan Glickman is expected to sign the Record of Decision (ROD) sometime after the President unveils the plan in the District of Columbia's National Arboretum. The decision comes a month after a coalition of Southeast Alaska's leaders met with Glickman and George Frampton, Chairman of the Council on Environmental Quality, urging that they exclude the Tongass from the road ban.

The ROD applies the road ban to both of Alaska's national forests immediately. "This will create approximately 15 million acres of new defacto wilderness in Alaska," Phelps said. "This is an illegal, draconian measure that unnecessarily hinders reconfiguration of the Southeast timber industry and prevents all Alaskans from enjoying new economic development and recreational opportunities in both the Chugach and the Tongass."

The road ban decision prohibits road construction, reconstruction, and timber harvest except for minimal stewardship purposes in all designated roadless areas of America's national forests. The same prohibitions will be fully enforced in the Tongass. In the Tongass, the ROD will allow timber sales already approved by the Forest Service to continue. The implementation of the roadless rule in the Tongass will reduce the allowable sale quantity (ASQ) to approximately 50 mmbf, severely curtailing industry's efforts to reconfigure its product line for modern markets and value added products.

"Without new roads it will be tough to get a stable, steady and plentiful supply of wood," Phelps asserted. "60 percent of the Tongass second-growth has already been withdrawn by the Forest Service, and what is available for cutting is years away from being large enough to harvest. This new rule will make it very difficult to create a viable value-added industry manufacturing products like veneer and kiln-dried lumber." Nationally, the demand for wood products continues to rise. Implementation of the roadless rule means the U.S. will continue to export environmental concerns to

countries who lack the will and technology to abide by sound forest management practices.

By implementing the Roadless policy, President Clinton has summarily denied, without redress, the rights of millions of Americans to enjoy their National Forests. The Chugach and Tongass contain 25% of all the roadless acres in the National Forest System. As usual, with this latest of Clinton's heavy-handed and illegal actions, Alaskans and Alaska's visitors are the biggest losers.

—End—

—Original Message—

From: Thyes@aol.com [mailto:Thyes@aol.com]  
Sent: Friday, January 05, 2001 10:13 AM  
To: rachaelmoreland@att.net  
Subject: Re: No Exemption for Tongass in Roadless Rule

For some reason your attachments come as zip documents. I can read Jack's attachments but not yours. Please send in body of the e-mail. Thanks.

Thyes

----- Headers -----

Return-Path: <rachaelmoreland@att.net>  
Received: from rly-ye03.mx.aol.com (rly-ye03.mail.aol.com [172.18.151.200]) by air-ye01.mail.aol.com (v77.14) with ESMTP; Fri, 05 Jan 2001 14:17:44 -0500  
Received: from mtiwmhc27.worldnet.att.net (mtiwmhc27.worldnet.att.net [204.127.131.52]) by rly-ye03.mx.aol.com (v77.27) with ESMTP; Fri, 05 Jan 2001 14:17:15 -0500  
Received: from rachael ([12.12.210.42]) by mtiwmhc27.worldnet.att.net (InterMail VM.4.01.03.10 201-229-121-110) with SMTP id <20010105191714.DPUS2234.mtiwmhc27.worldnet.att.net@rachael> for <Thyes@aol.com>; Fri, 5 Jan 2001 19:17:14 +0000  
From: "Rachael Moreland" <rachaelmoreland@att.net>  
To: <Thyes@aol.com>  
Subject: RE: No Exemption for Tongass in Roadless Rule  
Date: Fri, 5 Jan 2001 10:16:28 -0900  
Message-ID: <MABBLCBINBFKHAHJIFPEAEAPCAA.rachaelmoreland@att.net>  
MIME-Version: 1.0  
Content-Type: text/plain;  
 charset="iso-8859-1"  
Content-Transfer-Encoding: 8bit  
X-Priority: 3 (Normal)  
X-MSMail-Priority: Normal  
X-Mailer: Microsoft Outlook IMO, Build 9.0.2416 (9.0.2910.0)  
Importance: Normal  
X-MimeOLE: Produced By Microsoft MimeOLE V5.00.2314.1300  
In-Reply-To: <27.fabc0ba.278776d0@aol.com>



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## HJR 6 ~ A Resolution relating to the Inclusion of Alaska's National Forests in the Roadless Policy

TO: House Transportation Committee

DATE: January 16, 2001

Alaska Conservation Alliance and Alaska Conservation Voters are sister nonprofit organizations dedicated to protecting Alaska's environment through public education and advocacy. Our 44 member organizations and businesses represent over 21,000 registered Alaskan voters, most of whom are frequent users of the Tongass and Chugach National Forests for subsistence, recreational, and commercial activities. We support efforts by the U.S. Forest Service to protect roadless areas within our national forests. Discussions surrounding HJR 6 and last session's HJR 54 have included many misconceptions and much misinformation. We would like to address some of those issues here:

- The Roadless Policy does not violate open public process. During an 18-month long public process, over 600 hearings were held around the country. Over 1.6 million comments were received by the Forest Service. Here in Alaska, hearings were held in Anchorage, Girdwood, Seward, Cordova, Sitka, Ketchikan, Juneau, Yakutat, Kake, Tenakee, Hoonah, Petersburg, Thorne Bay, Craig, Angoon, Gustavus and Wrangell. Over 1,000 Alaskans attended these hearings; 62% of those testifying at the hearings supported the roadless proposal.
- The Roadless Policy does not violate the "No More" clause of ANILCA; it is not creating new parks, refuges or wilderness areas, de facto or otherwise. It is, rather, another tool in the Forest Service's tool box of management options for protecting currently roadless areas for multiple uses. For example, protection of roadless areas will help maintain water quality for community water supplies and a viable fishing industry and help preserve wildlife habitat for continued subsistence and sport hunting.
- The Roadless Policy does not affect existing roads. No roads currently in existence will be closed under this rule. In fact, money saved from building new roads into roadless areas will be available for use by the Forest Service to help maintain existing roads and keep them open and safe for use by Alaskans.
- The Roadless Policy will not mean the end of the timber industry in Alaska. In the Tongass, billions of board feet of timber outside of roadless areas would still be available for logging. This timber, that can be accessed by the 4,650 miles of existing road, is enough to support a moderately-sized timber industry. In the Chugach, the current small-scale operations for house logs, firewood, and safety reasons can continue in the existing roaded areas.

We only need to look south to the national forests in Washington state to see the "collateral damage" that comes with extensive road building, including landslides, damage to salmon streams, problems with game poaching and increased risk of human-caused fires. The Roadless Policy will give us the opportunity to do it differently here in Alaska. This policy will allow better management of the Tongass and the Chugach for the benefit of all users – subsistence, recreational and commercial. ACA/ACV urges you not to support HJR 6.

Susan Schrader, Conservation Advocate

Conserve Alaska. It's Only Natural.

Eddie:

Per your request I've taken a quick look at HJR 6 to see if the ANILCA cites are accurate reflections of law. The simple answer is yes, they are relatively accurate, at least in spirit. There is some wordsmithing and doublechecking that would improve its accuracy to ward off nitpickers, particularly regarding the so-called "no more clause" in Sections 1326(a) and (b).

I've broken my suggestions into two areas:

1. The "No More Clause"-there are actually multiple sections of ANILCA that say "enough is enough".

\* Consider adding before the 3rd Whereas:

"WHEREAS adoption of the roadless policy in Alaska defies Congress' findings and statements of intent in the passage of the Alaska National Interest Lands Conservation Act (ANILCA), wherein the "Purposes" of the Act Section 101(d) states:

This Act provides sufficient protection for the national interest in the scenic, natural, cultural and environmental values on the public lands in Alaska, and at the same time provides adequate opportunity for satisfaction of the economic and social needs of the State of Alaska and its people; accordingly, the designation and disposition of the public lands in Alaska pursuant to this Act are found to represent a proper balance between the reservation of national conservation system units and those public lands necessary and appropriate for more intensive use and disposition, and thus Congress believes that the need for future legislation designating new conservation system units, new national conservation areas, or new national recreation areas, has been obviated thereby."

(emphasis added)

[For brevity sake, I would only include the bolded section; and with ANILCA spelled out in the above Whereas, it won't need to be spelled out in the one discussing Title VII in the current 4th whereas.]

\* ANILCA Title VII has been amended, thus consider inserting another Whereas between the 3rd and 4th, or insert the following language in the beginning of the 4th, e.g.,:

"WHEREAS ANILCA 703(a) established 14 wilderness areas in the Tongass and the Tongass Timber Reform Act of 1990 amended ANILCA with an additional 5 wilderness areas in the Tongass."

(The 7th Whereas also refers to the Timber Reform Act, so these "whereas's" would be better in sequence, but also OK as written.)

\* The 5th Whereas could use some tweaking because in fact 1326(a) does allow withdrawals greater than 5,000 acres IF noticed in the Federal Register and to Congress (which the administration did), but then is only in effect for

one year unless approved by Congress. So basically the Policy is legal in that they did the notices but only for one year. HOWEVER, it's clearly contrary to the spirit and intent of Section 1326. The addition of the underlined phrase and changing the word "prohibits" to "limits to one year" would help. OR, try a rewrite such as

"WHEREAS adoption of the President's roadless policy is contrary to the spirit and intent of ANILCA Section 1326(a), which limits the effect of executive branch actions that lack approval of Congress to withdraw more than 5,000 acres, in the aggregate, of public lands within Alaska to only one year."

\* The 6th Whereas addressing 1326(b) needs the word "single" inserted before "purpose" and at the end, after "purposes" add ", unless authorized by Congress". Clearly the roadless policy was a single purpose study!

2. de facto wilderness by lower-48 standards. ANILCA both protected inholders rights and rights for future roads and utility corridors in conservation system units. The roadless policy prohibits those rights on regular forest lands as well as the monuments and wilderness areas.

\* Consider adding:

"Whereas Congress believed they had completed reviews of wilderness and other special designations in the Alaska national forest lands but recognized the need for a thorough review of the refuges and park lands, ANILCA Section 1317 specifically directed the Secretary of the Interior to review the suitability of all the park and refuges lands not designated wilderness under ANILCA but similar authorization was not granted to the Secretary of Agriculture."

\* The 16th Whereas referring to inholders could be beefed up in its reference to ANILCA, e.g.,:

"WHEREAS ANILCA Section 1110(b) specifically directs the Secretary shall authorize under reasonable regulations such rights as may be necessary to assure adequate and feasible access for economic and other purposes to State and private owners or occupiers of lands within or effectively surrounded by conservation system units, and ANILCA Section 1323(a) similarly provides for access across remaining forest lands for inholders, such rights will be virtually obviated under the President's policy thereby diminishing property and business opportunities Congress intended to protect;"

\* Consider adding something which addresses the transportation and utility needs such as:

"WHEREAS Congress recognized the poor infrastructure in Alaska, thus specifically provided a process in ANILCA Sections 1105 and 1106 for approving the construction of needed transportation and utility systems in conservation system units, including wilderness areas with congressional approval. Adoption of the President's roadless policy prevents Forest administrators to act on applications, thus summarily overturning the Congressional provisions of ANILCA to meet access needs between villages and for community utility developments.""

\* Also consider that Section ANILCA Section 1109 states "Nothing in this title shall be construed to adversely affect any valid existing right of access." The state has adopted legislation which accepts the grant of public rights of way under RS 2477. If the roadless policy does not recognize or include similar language as 1109, we likely will have difficulty with the Service over the use and improvements of these roads, trails, and section line easements. I have not had time to study the final to see if this also needs to be included in any congressional action or litigation.

Regardless of whether the policy includes exceptions for administrators to recognize some of these rights under ANILCA, the entire policy circumvents the planning processes directed by existing law.

People need to be aware that the Forest has policies in place now that require them to de-road existing roads under excuses such as no money for maintenance. Thus even where small trails/roads are used for public access, the service is tearing out bridges and trails so the area qualifies as "roadless". For example, many old forest roads in the Tongass have inadequate culverts for fish passage. These roads have been in place for decades and are used for recreation, hunting, trapping, general outdoor activities but will be declared roadless due to the need to tear out the culverts for fish passage.

The issue of whether adoption of the roadless policy violates public process is bereft with circular reasoning. Some argue that the majority of the public favors the roadless rule. The argument is moot. Laws currently on the books provide certain public processes for land management decisionmaking. Laws also provide Congressional protections for management of those lands including access, economic opportunities, etc. It doesn't matter what percentage of the nation supports administrative proposals that violate congressional direction-public process cannot turn congressional statutes on their head. It is incongruous that federal agencies put management options on the table for the public to consider that are not consistent with congressional direction or implementable without congressional action.

Hope this helps.

•FYI; From new Congressional House Resources Committee Chairman.  
Peggy still hasn't called me. I'll put together a quick e-mail of additional points if you want. There are no inaccuracies in the resolution but some tweaking on the ANILCA stuff might make it better soundbites. Please advise ASAP as I've other deadlines today.

> -----Original Message-----

> From: Silva, Arturo

> Sent: Friday, January 05, 2001 10:31 AM

> Subject: Chairman Hansen Condemns Clinton Administration's Road Ban

>

>

> NEWS Committee on Resources

> U.S. Rep. Jim Hansen (R-Utah), Chairman

> U.S. House of Representatives - Website address:

> <http://resourcescommittee.house.gov/>

> Contact: Marnie Funk (Communications Director)

> (202) 225-2761 or Arturo Silva (202) 225-4063

>

> To: National Desk/Environmental Reporter

> January 5, 2001

>

> Chairman Hansen Condemns Clinton Administration's Road Ban

> and Promises a Vigorous Congressional Challenge

>

> Washington, D.C. - The Clinton Administration's hasty move today to impose

> a road ban on 60 million acres of the public's land appears to be illegal

> and will be subject to vigorous congressional review over the next 60

> legislative days, said House Resource Committee Chairman James V. Hansen.

>

> "This Administration has imposed an arbitrary, illegal road ban over a

> third of this nation's national forests. He has shut the American people

> out of their own lands, endangered wildlife habitats and guaranteed a

> dramatic increase in devastating wildfires.

>

> "Congress has the authority to review this and 60 legislative days to do

> so. I can promise you a thorough a vigorous review. I am stunned to see

> the President of the United States show such reckless disregard for the

> well-being and enjoyment of the American people. This hasty rule in the

> last 15 days of his administration means the U.S. Forest Service can't

> even build temporary roads to pull out the dead wood that starts wild

> fires. The 2000 wildfire season was one of the most devastating in recent

> memory. The most devastating fires were in the roadless areas. President

> Clinton has just promised the American people more frequent and more

> devastating forest fires.

>

> "President Clinton wanted to strike at American logging and energy

> companies with this ban. But he's hit John Q. Public even harder. The

> majority of vehicles on forest roads aren't owned by loggers, miners or

> drillers. They are owned by people like you and me. The American people

> like to recreate on these lands. They enjoy driving into our forests to

> hike with their families, picnic, hunt, fish and smell the pines.

> President Clinton has just shut the American public out of 60 million

> acres of their own land.

>

> "This is one of the most offensive examples I've seen of Washington, D.C.



**Subject:** FW: 1317

**Date:** Thu, 18 Jan 2001 15:30:56 -0900

**From:** "Tina Cuning" <tina\_cuning@fishgame.state.ak.us>

**To:** "Ron S" <somerville@gci.net>, "Grasser, Eddie-Jun" <Eddie\_Grasser@legis.state.ak.us>, <whorn@dc.bhb.com>

I was sent 3 questions, which you might be most interested in my response re ANILCA wilderness reviews. Let me know if I'm out to lunch.

-----Original Message-----

From: Tina Cuning [mailto:tina\_cuning@fishgame.state.ak.us]

Sent: Thursday, January 18, 2001 2:59 PM

Three subjects, comments Number 3 is most important to follow up on:

1. Title XI's TUS application process is in regulation but nearly impossible to use, at least for big projects. Organizations like Cominco and CIRI find it's easier just to go to Congress than to jump the hoops and go to Congress anyway.

2. ANILCA 1317 Wilderness review deadline-yessiree! Deadline was 1985. They didn't meet the deadline but did finally submit recommendations from regional directors to Secretary of Interior, who never forwarded them to the President-see the wording of the statute. With the new CC's, they are redoing the wilderness reviews. I'll cut and paste in our objection in our internal review of a new CCP last week so you get the gist. It would be great if the new Secretary forwarded on the old reviews along with recommendations to the President about which to accept and forward to Congress and which to reject! That way we'd be done with this once and for all. See the actual language below:

Sec. 1317.(a) "Within five years from the date of enactment of this Act, the Secretary shall, in accordance with the provisions of section 3(d) of the Wilderness Act relating to public notice, public hearings, and review by State and other agencies, review, as to their suitability or unsuitability for preservation as wilderness, all lands within units of the National Park System and units of the National Wildlife Refuge System in Alaska not designated as wilderness by this Act and report his findings to the President.

(b) The Secretary shall conduct his review, and the President shall advise the United States Senate and House of Representatives of his recommendations, in accordance with the provisions of section 3(c) and (d) of the Wilderness Act. The President shall advise the Congress of his recommendations with respect to such areas within seven years from the date of enactment of this Act.

(c) Nothing in this section shall be construed as affecting the administration of any unit of the National Park System or unit of National Wildlife Refuge System in accordance with this Act or other applicable provisions of law unless and until Congress provides otherwise by taking action on any Presidential recommendation made pursuant to subsection (b) of this section.

Here's the excerpt from our recent unofficial red flag internal draft ccp review in which we note the final 1317 review ROD adopted in 1988a recommending y acreage-what's changed-see the text in bold. We've been unofficially told that they do not intend to address our questions in the draft plan.

#### Wilderness Recommendations

On September 30, 1988, Regional Director Stieglitz distributed the Final Supplemental EISs for both Wilderness proposals of the Final Becharof and Final Alaska Peninsula CCP/EIS/Wilderness Reviews: "This Final Statement has been prepared pursuant to Section 3(d) of the Wilderness Act of 1964, Section 1317 of the Alaska National Interest Lands Conservation Act of 1980 (Alaska Lands Act), and Section 102(2)(C) of the National Environmental

Policy Act of 1969." After four wilderness proposals were evaluated for the Alaska Peninsula unit, the Service concluded: "The proposed alternative in the Final Statement recommends that 640,000 acres be proposed for designation as wilderness." [The November 2, 1988, Record of Decision clarified this 640,000 acres is 14,000 acres in the Ugashik unit, 460,000 acres in the Chignik unit, and 166,000 acres in the Pavlof unit.] Analysis of three alternative wilderness proposals for the Becharof unit concluded: "The proposed alternative in the Final Statement recommends that an additional 347,000 acres be proposed for designation of wilderness." Stieglitz explained the extensiveness of the review of the lands suitable for wilderness designation and the relationship to the proposed management alternative in the final Plans and their Record of Decisions. In both letters, he stated "To ensure full compliance with the Wilderness Act and the National Environmental Policy Act, the Fish and Wildlife Service has prepared this Final Statement, clearly discussing the proposal for wilderness designation of the refuge and the environmental impacts of the proposal." Thus, the 1988 completion of the required ANILCA 1317 review resulted in a total recommended 987,000 acres in the combined Alaska Peninsula and Becharof refuges.

On October 31, 1988, the State of Alaska responded to the Service's final wilderness proposals above: "the state does not object, from a substantive standpoint, to the Wilderness recommendations for these refuges. We do, however, have a couple of procedural concerns with the SEISSs, which are described below . . . . On three occasions (May 12, 1988, August 12, 1988, and August 29, 1988) the state provided the FWS with a list of potential refuge uses, activities, and structures that could be affected by Wilderness designation. The state asked the FWS to identify which, if any, of these uses occur in the areas proposed for Wilderness designation in the Alaska Peninsula and Becharof refuges. We further asked that where these uses do occur, that the FWS clearly describe the effect Wilderness will have on them. On each occasion, the FWS failed to provide the requested information. We regret that this is the case. We believe this information would have helped the public evaluate the costs and benefits of designating Wilderness."

For several reasons, the Service should not expand wilderness recommendations beyond those in the existing refuge Supplemental EISs and Records of Decision for the Final Plans/EISs/Wilderness Reviews already completed as required by ANILCA Section 1317. First, we are disturbed that the state's concerns raised above have still not been addressed and the requested related information not provided to the public. Second, nowhere in the draft Plan does the Service explain why refuge lands not recommended for designation over a decade ago are now being recommended for wilderness, totaling 2,775,700 instead of the original proposed additions of 987,000 acres. The new proposal would bring the total of existing and proposed Wilderness designation and interim management prescriptions to 84.5% of the combined refuge units. This is a significant change with no adequate explanation of why or upon what information the Plan proposes to ignore the original Final determinations.

3. I just looked at the January 12, 2001 rule and it seems to indicate that the prohibition on road construction under 294.12 does not apply if the "responsible official" determines: "(3) A road is needed pursuant to reserved or outstanding rights, or as provided for by statute or treat." Thus ANILCA title XI and our RS 2477s may in fact be OK . . . just more difficult.

Jan 2-18-01

Collects are in a mess because of  
the forest service not logging - SF.  
Div. of habitat prod

Ervin's are trying to use orchestrated  
public comments from an extremist special  
interest groups and misrepresentation of the legal

- ↳ Rule making process -
- ↳ - NAD's forest service planning law - look in
- ↳ Hansen's letter from Vince.
- ↳ executive policy-making

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Anchorage Daily News

## Road ban heavy on public process

**Compass***(Published January 18, 2001)*

It was not surprising that Gov. Tony Knowles and Sen. Frank Murkowski had strong responses to President Clinton's announcement that both the Tongass and Chugach national forests would immediately be included in the final national roadless policy. Both are long-time proponents of resource extraction and seem not to care that prevailing public attitude has shifted away from their point of view. What was surprising, however, were their gross errors and exaggerations following the announcement from the White House on Jan. 5.

Now, I am not so cynical as to believe that our elected representatives would actually tell big "whoppers" for political effect, so I can only guess that they both "misspoke" when Murkowski compared the president to Saddam Hussein and Knowles called the final Roadless Area Conservation rule a "double-cross." Their high-decibel complaints parrot the tired old rhetoric of the timber industry by claiming lack of "science" and "public process."

The roadless issue has been in both the Alaska and national media spotlight continuously for the last year. You would have had to have been in a coma to have not heard about it. Schoolchildren are heard mumbling about "roadless" while at play and parents are heard discussing "Final EIS's" over coffee.

Maybe that is an exaggeration, but certainly less so than claiming a "... a mockery of the public process."

Reams of government studies and independent reports support the preservation of Tongass roadless areas:

A letter to Clinton from more than 330 scientists (including 100 Alaska scientists) urging Tongass inclusion stated, "Unlike most national forests, the Tongass still encompasses many undisturbed watersheds with a full complement of all native species including productive populations of bald eagles, wolves, black-tailed deer, brown bears, and five species of anadromous salmon."

The Tongass Road Condition Survey Report, released by Alaska Department of Fish and Game in June 2000, indicated "... that 66 percent of the culverts across anadromous streams (FS Class I streams) are assumed not to be adequate for fish passage (a total of 179 culverts). Eighty-five percent of the culverts across resident fish streams (FS Class II streams that naturally do not support anadromous fish) are assumed not to be adequate for fish passage (a total of 531 culverts)."

The roadless policy is not a "fiat," as claimed by Knowles, but rather a thorough administrative rule-making process that afforded the maximum opportunity for public involvement:

The Forest Service held 617 public hearings (including 17 in Alaska) that were attended by more than 39,000 Americans. A total of more than 1.6 million comments were received, the vast majority of which

supported inclusion of the Tongass and the Chugach in the final rule. "In terms of volume, the roadless proposal is the largest public involvement project in the history of the Department of Agriculture or the Forest Service (FEIS)."

At the 17 hearings in Alaska, 62 percent of the people who spoke favored including the Tongass in the final rule.

In Southeast Alaska, 75 percent of the people who spoke in Juneau, Ketchikan, Sitka and Petersburg (Southeast's four largest cities), spoke in favor of including the Tongass.

Claims that this was not a legitimate public process insult the thousands of Alaskans and the 1.6 million Americans who participated.

Elected representatives in Alaska and nationwide should take note: An overwhelming majority of Americans support forest conservation. Attacks on this historic policy will be met with stiff resistance.

Alaskans would be better served if Murkowski and Knowles teamed up to help Southeast Alaska shift from "cut and run" industrial logging to a sustainable local timber industry supplied from the existing road system.

I am grateful to Clinton, Forest Service Chief Mike Dombeck, and the 1.6 million Americans who cared enough to set aside a national living legacy for future generations. They will be celebrated long after today's timber rhetoric is forgotten.

Pat Veesart is executive director of the Sitka Conservation Society.

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## LOCKOUTGATE CLINTON/GORE'S PUBLIC-LANDS SCANDAL BY JAMES NORELL



### LockoutGate Clinton/Gore Public Lands Scandal



We are a nation on wheels, and for the vast majority of us who hunt, getting there involves vehicles, especially if we hunt public lands. And vehicles move on roads. No roads; no access; no hunting. Simple enough.

In the waning hours of the Clinton/Gore Administration up to 60 million acres of now accessible prime hunting lands across the nation will become a vast quasi-wilderness-

where ultimately the only way to get there will be on foot, and then under strict government control. This action is being decreed through a series of executive edicts that totally bypass the Congress and violate virtually all Federal "sunshine laws" that require openness in government.

This is what the media calls an "environmental legacy," and it will all happen, step by step, under the benign-sounding heading, "roadless area initiative."

Perhaps the greatest threat to American hunters is not just in the denial of access, it is in the arrogant, dictatorial process that would physically remove the peoples' ability to use the peoples' land. This is raw power seized sleight-of-hand by an insider group of government officials, special interests, and radical environmental lobbyists meeting in secret. It is the work of the friends of Al Gore. The vice president is calling the shots.

Looking at the experience with the National Wilderness System-where all vehicular access and even "temporary" roads are totally banned--U.S. Sen. Orrin Hatch (R-UT)--warned of what is coming in the so-called roadless initiative: "The Forest Service acknowledges that only two percent of recreationalists make use of the 35 million acres of existing wilderness. The other 98 percent of the public who use our forests will lose access to an additional 40 million acres, so that the elite two percent will have sole access ...."

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## LOCKOUTGATE CLINTON/GORE'S PUBLIC-LANDS SCANDAL BY JAMES NORELL

### Hunting Vehicles



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product reviews

Support for all this has come in a letter to President Clinton from U.S. Sen Barbara Boxer (D-CA) and others well known to anyone who fears losing their firearms rights--Charles Schumer, Frank Lautenburg, Teddy Kennedy, Robert Torricelli, and Joseph Lieberman--in which they call the roadless lockdown an "an excellent first step." Sound familiar?

Between the Clinton/Gore machine and the environmental lobby, this is orchestrated chaos where the creator of chaos is the only one who knows what's happening. Over just five months, the White House, through the Forest Service, proposed a blitz of regulatory actions that will alter access to what traditionally have been open, free public lands. Among them: President Clinton's 18-month moratorium on national forest road construction and "reconstruction." In areas where roads don't survive tough winters, that translates into no access. But this policy does more than close roads by neglect, it also plows under existing roads.

And it's been largely done by sleight of hand because many "roads" they are destroying at an alarming rate aren't roads at all; they are "unroads." In Clinton/Gore-speak an "unroaded area" is one that does not contain "classified roads," in turn, defined as roads "constructed or maintained for long-term highway vehicle use." For anyone who has traveled any backcountry Forest Service road, you can understand the coming loss. Certainly, it cuts out most of the tens of thousands of miles of former "timber access" roads used by hunters to get to favorite backcountry jumping-off points.

Under this policy, road maintenance/construction would be based only on "compelling need." Remember, those are the same words folks like Dianne Feinstein use for an individuals' show-cause for owning firearms. Compelling need. Don't even think for a second that hunter access would ever prove to be "compelling need" to the Al Gore crowd.

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Photo By Neal & M.J. Mishler



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## LOCKOUTGATE CLINTON/GORE'S PUBLIC-LANDS SCANDAL BY JAMES NORELL

### Hunting Vehicles



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product reviews

Look at it from a personal standpoint: If you use the National Forest System, do you know where your favorite spot will fall in the Clinton/Gore roadless equation? The truth is, there is no way any individual can view an overlay on their favorite forest and see how all these edicts will come into play. The roadless initiative comes under a single environmental impact statement for the entire 40 to 60 million acres. The fact that the Administration can't decide how big this lockout will finally be gives an indication of how precise of an accounting is being made. A 20-million-acre margin is more than careless.

Those who have come to object at public meetings--"listening sessions" in touchy-feely Clinton/Gore terms--quickly saw what they were up against. As one Montana rancher put it, "I'm here to spit in'to the wind."

Ordinary Americans might ask what's the difference between roadless areas established by Acts of Congress or by Executive Order. Our national legislature is made up of 535 elected individuals with disparate views crossing every spectrum of politics, most reflecting the views of a majority of folks back home. For the NRA, Congress is what makes the grassroots work.

U.S. Sen. Larry Craig (R-ID), the leading advocate for gun rights in the Senate, warned that no matter what the Al Gore/Bill Clinton political machine might say to the contrary, "NRA members and hunters should understand, with regard to natural-resources policy, they are dealing with people every bit as ruthless as those trying to crush our Second Amendment rights."

Craig's final word on the roadless initiative: "Only Congress can write the law. These proposals come from an inbreeding of bad ideas that cannot stand the sunshine of the American political process. This all has been conceived in darkness, proffered in secret, and shown to the American people only under the artificial light of slick, sound-bite media campaigns. It's another illusion by master tricksters Bill Clinton and Al Gore. It can be stopped and reversed by the people acting at the ballot box."

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## ALASKA NORTH SLOPE LNG PROJECT

740 G Street, P.O. Box 100360, Anchorage, AK 99510-0360, Phone: (907) 265-6857, Fax: (907) 265-6838

August 7, 2000

Representative Beverly Masek  
Co-Chairwoman, House Resources Committee  
600 E. Railroad Ave.  
Wasilla, Alaska 99654

Fax: (907) 373-4745

Dear Representative Masek:

We are pleased to provide you with advance notice of plans to continue the Alaska North Slope LNG Project into Stage 2. A copy of the press release announcing our plans is attached.

Results from the technically and commercially focused Stage 1 efforts encourage us to continue to try to make the project competitive. During Stage 1, we advanced engineering design work beyond original expectations and thus, will spend the majority of the next 12-15 months developing commercial strategies for improving the competitiveness of Alaska gas in comparison to other new LNG projects over a broad range of economic conditions.

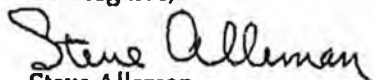
A major achievement of our Stage 1 work was development of a smaller, market entry, 7-million-ton per year LNG plant design that would allow us to defer capital cost and improve present value economics. This project concept also significantly reduces market volume entry exposure and, at a total estimated cost of less than \$7 billion, cuts by half the initial capital required. Our project design allows expansion of the Alaska North Slope LNG project—on an incremental basis as market conditions warrant—to 14+ million tons of LNG per year.

The Alaska North Slope LNG Project will continue to maintain options for both plant sites and pipeline routes to Nikiski and Anderson Bay. Keeping these options open will enhance our ability to respond without forfeiting the ability to be ready when the market for Alaskan LNG develops. We will further explore potential synergies with other gas projects including a gas pipeline to the Lower 48 and/or a tidewater Gas to Liquids (GTL) facility.

In Stage 2, the Sponsor Group will also look for ways to reduce the risk and cost of this project through modification of the state's fiscal regime, project structure alternatives, financing and/or potential public entity options. A better understanding of ever-evolving Asian market opportunities and potential alternatives in less traditional LNG markets will also be explored to ensure that we are ready to supply Alaska LNG to the market when the market is ready to receive it.

Please feel free to contact me if you have questions regarding the Alaska North Slope LNG Project.

Best regards,

  
Steve Alleman  
Commercial Manager

(907) 265-6853



## ALASKA NORTH SLOPE LNG PROJECT

700 G Street, PO Box 100360, Anchorage, AK 99510-0360, Phone: (907) 265-6857, Fax: (907) 265-6838

For Immediate Release

### Sponsor Group Announces Commitment To Stage 2 LNG Effort

ANCHORAGE, Alaska, Aug. 7, 2000 --- The Alaska North Slope LNG Project sponsors today announced agreement to continue efforts to develop an economically viable liquefied natural gas (LNG) export in Alaska. This announcement follows the successful completion of Stage 1 studies, which began in late 1998.

Stage 2 is expected to continue for 12-15 months and will have a commercial focus. Further options, including sharing costs with other gas projects, risk mitigation and finance, will be pursued.

Phillips Alaska, Inc, BP Exploration (Alaska) Inc., Foothills Pipe Line, Ltd, and Marubeni Corporation will continue as project sponsors. The sponsor group's primary focus will continue to be LNG with a gas pipeline route and LNG plant site configuration for either Anderson Bay or Nikiski. During Stage 1, project sponsors identified a 7 million-tons-per-year project as the most feasible option. The estimated capital cost of this project is about \$7 billion, including shipping.

"We feel good about the current technical design and cost estimate of our project," said John Ellwood, vice president of engineering and operations for Foothills. "By cutting the project size by about half and by designing in capital cost deferrals during the Stage 1 effort, we think we have a project that is small enough to gain a toehold in the East Asian market place and yet large enough to make economic sense. Such a project would also be expandable."

Stage 2 work will focus on improving LNG project competitiveness. "Further reductions in cost and risk, differential to our competitors, are still needed to make an Alaskan project economically viable," said Kevin Meyers, president of Phillips Alaska, Inc. "We believe the opportunities for those improvements lie in commercial areas, such as marketing, financing, government fiscal and regulatory policy, and possibly synergies with other gas commercialization options such as pipeline gas to the Lower 48 or gas-to-liquids."

"Stage 1 reinforced our belief that an LNG project serving East Asia will be market-driven. So, the objective of the sponsor group is to pace the project to be ready when the market is ready. With the pursuit of our re-designed, cost-deferred, 7 million-ton project we improve our potential competitive position in the LNG marketplace," said Hajime Kubo, senior officer, energy division, Marubeni.

The Stage 2 effort will continue to be lead by Phillips with work to be conducted by staff from sponsor companies and by contractors. The project will continue to be located at the Phillips office complex in Anchorage.

"We have a strong sponsor group that has the ability to develop a project of this magnitude when it becomes economically competitive," said Ken Konrad, business unit leader, Alaska gas, BP Exploration (Alaska) Inc.

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For further information contact: Dawn M. Patience, Phillips Alaska, Inc., 907-263-6134

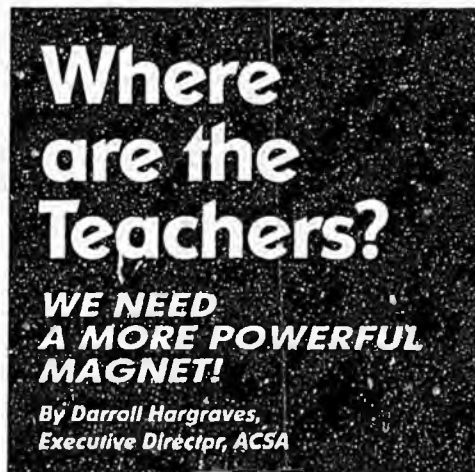


Alaska Association of Elementary Schools Principals  
Alaska Association of Secondary School Principals  
Alaska Association of School Administrators  
Sponsor of the Alaska Staff Development Network

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## Alaska Council of School Administrators

Excerpt from the *ACSA Education Bulletin* January 2000 Issue



### What's the problem?

### What's getting the attention?

Interesting isn't it? During the past few years, public attention has been focused on funding, construction, standards, and testing. Each of these issues is important. However, whenever superintendents get together to talk about immediate and future concerns, another issue tops the agenda—the need to recruit, hire, and keep certified and qualified teachers and administrators.

**The recent announcement by the University of Alaska that a five-year program will be required for certification will further reduce the number of Alaskans to fill positions in our schools.**

Alaska is not alone. In fact, teacher shortages are entering a critical stage across the nation. U.S. Secretary of Education Richard Riley consistently expresses a concern about the ability of our schools to attract the very brightest and best into education careers. As student enrollments continue to climb nationally, demand is outstripping supply at a time when the hurdles are being lifted even higher. For example, the shortage is becoming even more acute because many states are increasing their standards

for teachers and some are requiring them to have majors in the subjects they teach or to pass qualifying tests. The recent announcement by the University of Alaska that a five-year program will be required for certification will further reduce the number of Alaskans to fill positions in our schools.

Salaries have not kept pace with what talented people can make outside the classroom. A recent Quality Counts 2000, 50-state survey, conducted by *Education Week*, found that one in five college graduates who began teaching in 1993-94 left within three years. The brightest novice teachers, as measured by their college-entrance exams, were the most likely to leave, the study revealed.

**There was a time, not so long ago, when Alaska was a magnet for educators.**

What's at stake here? The immediate concern for many educators is having excellent teachers in the classroom—preparing students to pass exit exams that are looming in their future. Even more importantly, they are concerned about preparing students for life in the 21st century.

There was a time, not so long ago, when Alaska was a magnet for educators. Our salaries were the highest in the nation. Our recruiters could promise adventure, good hunting and fishing, and a lifestyle that attracted exceptional talent. Let's face it. What worked in the past is not getting us the number and level of certified, qualified educators we need today and will need in the future.

While average teacher salaries in Alaska are still above the national average, we are now caught in what the *New York Times* calls a bidding war. That war has spread from coast to coast, and we are not winning. In fact, we are being out-manuevered as never before. Take, for example, the incentives being offered in several states. California is offering \$10,000

interest-free loans for buying a home, \$30,000 bonuses for attaining advanced certification, and \$11,000 to repay college loans. In Texas, \$2,000 signing bonuses are becoming commonplace. Southern states such as Florida, Georgia and Mississippi have districts paying bonuses of up to \$6,000 to retain quality teachers.

As crises show signs of becoming catastrophes, some state legislatures and state departments of education have gotten the ball rolling on bringing retired teachers and administrators back into the system. Those early retirement incentives that were sold, in some case, as a way to remove the "dead wood" are now looking more like they've caused a "brain drain."

Salaries are a major problem, both for teachers and administrators. Alaska's largest districts provide an example of how noncompetitive our salaries are. These districts have budgets, enrollments, numbers of employees, physical plants, and demands comparable to large districts outside the state that are paying their superintendents nearly double. In fact, an Alaska board member recently admitted to the media that their superintendent is underpaid and speculated that if the present superintendent left and had to be replaced, it would require an additional \$50,000. Even that level of an increase would be low compared to salaries paid in comparable districts outside.

Granted, we need to pay attention to standards, facilities, and a number of other critical issues. At the same time, let's not forget that our ability to attract and keep outstanding teachers and administrators is basic to everything we hope to accomplish. Alaska needs a constant flow of quality, certifiable educators. While the problem may not be completely solved during this session of the Legislature, we simply must make sure that it receives the attention it deserves. The future of our kids depends on it.



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## **Alaska Council of School Administrators**

March 16, 2000

Mark Hamilton, President  
University of Alaska  
P.O. Box 755000  
Fairbanks, AK 99775-5000

Dear President Hamilton:

We have a problem and look forward to working with you to develop an appropriate solution. It is a problem that has profound implications for the University of Alaska and for public education in our state.

The challenge we face is the deepening shortage of teachers and educational leaders to serve in Alaska's schools. Recently, I addressed this concern in an editorial for the *Education Bulletin*. A copy is enclosed for your review. An additional concern is the quality of teacher preparation programs.

I've particularly appreciated your invigorating speeches during the past year that have focused on the need for the University of Alaska to assume the major role in teacher preparation. You've presented a case that the university would have a much better base of support if it had done a better job of preparing teachers to serve our schools. I am proud to have two graduate degrees from the University of Alaska and consider myself a strong supporter.

President Hamilton, your case is convincing. Alaska would be less the "colony" if our youth were getting their education at their university. You've made clear to me and a great many others that the university should be a major supplier of teachers for Alaska.

Since we have a mutual problem to solve, I've taken a look at the numbers. First, we've been having approximately 1,350 teaching vacancies in Alaska each year while the university system is annually graduating about 400 education majors. Of the 400, only about 270 are actually new teachers. The other 120 degrees are being awarded to graduates who are already employed as teachers or administrators. Would you agree that it would be great if the university could supply just 75 percent of the new teachers we need each year?

Our demand for new teachers is simply exceeding the supply. That is one of the reasons why we believe the addition of a fifth year requirement for teacher training will lead to a further deepening of what is becoming a crisis. Therefore, I'm sharing

the following information and thoughts with you as together we consider how we can make teacher education even more effective and meet the demand, while not further reducing the quality or the supply:

- First, it has been rumored that the National Council for the Accreditation of Teacher Education (NCATE) requires a year of graduate studies for teachers. It does not.
- Second, rather than add a fifth-year requirement at this time, we need to strengthen our four-year teacher preparation program. Teachers need to understand pedagogy, and they must be able to teach effectively in today's environment. As you know, it is not time spent that matters, it is what is learned and actually practiced in the classroom. I have reviewed degree offerings of several universities and am impressed by the adequacy of their NCATE-approved four-year teacher preparation programs. Isn't it likely that more Alaskan students who wish to go into teaching will gravitate to those Universities rather than enter a five-year program at the University of Alaska?
- Third, a serious downside of a fifth-year requirement is found in simple economics. Students faced with the cost of a five-year program will find even further reason to leave the state and earn their education degrees in four years. Prospective teachers would not only face the direct cost associated with that fifth year, but they would also face a lack of income. I'm concerned that pursuing the fifth-year proposal at this time could actually backfire on the university, which we would both regret.
- Fourth, our schools are finding it much more difficult to attract and keep excellent teachers because of competition from business and industry and other professions. Some people who aspire to a career in teaching are deeply concerned about being required to spend five years in a preparation program for a position that does not pay as well as it should. We have heard the stories about students with undergraduate degrees being paid high salaries right out of college, complete with substantial signing bonuses, to go to work in other fields.
- Fifth, among the greatest needs many of Alaska's school systems face are attracting elementary teachers and **multiple subject** teachers. Here is an area where the university could provide a great deal of help by applying appropriate funding and other resources. Is there a need more critical today than teacher training? Is there another profession where there is a greater demand for your product?
- Sixth, some members of the university staff, when asked have expressed serious reservations about adding a fifth year at this time. However, they believe that it is not politically correct to raise the issue. As an administrator, when I received feedback of that type, it was always a red flag for me that I should perhaps listen again to all my staff and those I was charged with serving.

President Hamilton, I do believe that our teachers and administrators should constantly renew and upgrade their knowledge and skills. All should meet the requirements of the state. I am an advocate for advanced degrees for professional educators. However, I am not aware of any contemporary research confirming that the