

1977-78

SENATE RESOURCES COMMITTEE

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HCR 130

1978

MINUTES

1/18/1978 - 5/26/1978



Alaska State Legislature

SENATE RESOURCES COMMITTEE

JUNEAU ALASKA

18 JANUARY 1978

MINUTES

The meeting was called to order at 1:30 p.m. in room 126 of the Capitol Building by Senator Kay Poland, Chairman.

Members Present

Poland, Chairman
Butrovich, V. Chairman
Meland
Huber
Croft

Absent

Tillion
Colletta

SB 399 - Supplemental appropriation to the Department of Fish and Game

Testimony

Jeff Morrison, Director Division of Administration testified. He said that the bill was broken down into two supplemental requests and that the sum of \$11,000 mentioned in Sec. 1 would be amended by the governor to read \$47,825. He gave a breakdown of the money expended:

\$ 11,000	-	exclusive to D-2 travel
17,000	-	pay to temporary employees to prepare maps and overlays
6,000	-	travel incurred to date
8,000	-	contractual services
4,000	-	commodities

36,500 TOTAL

MOTION

Senator Huber moved and asked unanimous consent that in Sec. 1 \$11,000 be amended to read \$47,800.

No objection, it was so ordered.

Mr. Morrison spoke about sec. 3 and 4 of the bill.

He said that had the fish not been lifted it would have caused an economic impact and would jeopardize the return of the fish in years to come. The total cost of the operation was in excess of \$65,000 or \$4.10 per fish.

Testimony

Carl Rosier, Dir. Division of Commercial Fisheries

Bob Roys, Dir. Division of Fisheries Rehabilitation Enhancement and Development

Mr. Rosier and Mr. Roys gave testimony regarding the "why and how" of transportation of the salmon (covered in attached copy of Rescue Operation).

MOTION

Senator Huber moved and asked unanimous consent that SB 399 pass out of the committee as amended.

No objection, it was so ordered.

SCR 68 - Alaskan participation in the Western States Legislative Forestry Task Force.

Testimony

Isabelle Duffy, with the U.S. Forest Service testified. She said that by Alaska joining the Western State Legislative Forestry Task Force that it would enable the state to have a better voice in forestry practices.

MOTION

Senator Meland moved and asked unanimous consent that SCR 68 be passed out of the committee.

No objection, it was so ordered.

The meeting was adjourned at 2:15 p.m.

RUSSIAN RIVER SOCKEYE SALMON RESCUE OPERATION

Russian River is a clear stream adjacent to the Sterling Highway at Mile 55, seven miles west of the Kenai Peninsula community of Cooper Landing and approximately 150 miles south of Alaska's largest city, Anchorage. At mile 55 the Russian River enters the larger glacial Kenai River.

The stream is unique in that it is one of the few places in North America where sockeye salmon will readily accept an artificial fly and as a result the system supports one of Alaska's largest and most popular sport fisheries. Additionally, Russian River is the primary sockeye salmon producer in the Kenai River drainage. The Kenai River drainage in turn is the primary contributor to the Cook Inlet commercial fishery.

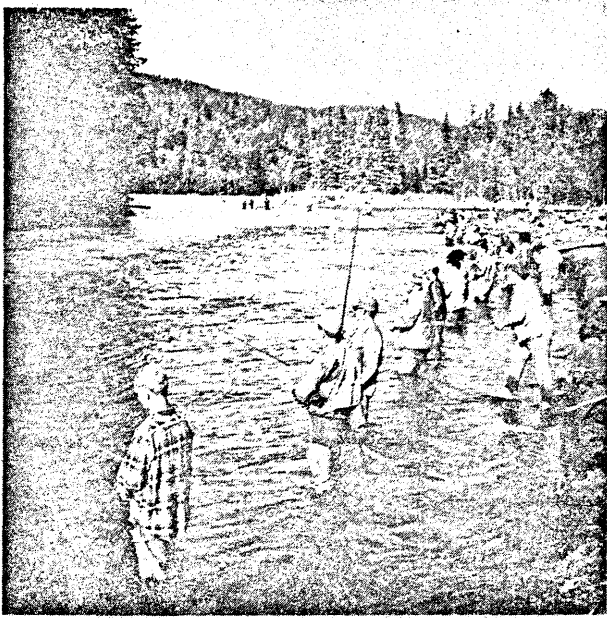
Lower Russian River from its confluence with the Kenai River to a point approximately two miles upstream is of moderate gradient. Upstream from this point the stream flows through a canyon of considerable gradient commonly called Russian River Falls. During the past 15 years salmon have been delayed in the canyon on several occasions due to abnormally high water. The last recorded delay occurred in 1971 when the Department manually packed in excess of 500 early run salmon around the barrier. The late run also encountered extreme difficulty negotiating the barrier but due to an exceptionally large return no "fish rescue" was attempted. It is estimated 10,000 to 12,000 late run sockeye salmon perished below the barrier. Following the 1971 season the Sport and Commercial Fishery Divisions proposed the construction of a fish ladder to preclude similar delays and mortalities.

In 1977 abnormally high water conditions resulting from an exceptionally heavy snow pack again caused delay of the early run. Due to the magnitude of the early run return, transportation via helicopter appeared the only feasible method to move the fish.

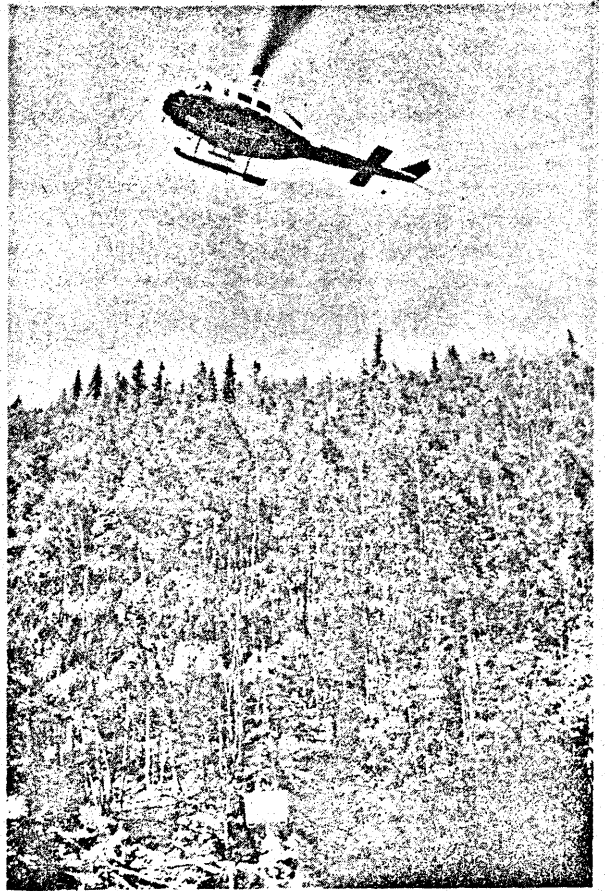
The first phase of the "fish rescue" commenced July 8. Fish were dipped from a pool below Russian River Falls and placed in a standard cannery tote. Fifty fish was the optimum number which could be transported and the water in the tote was aerated until just prior to pickup. The helicopter made the round trip from the falls to Lower Russian Lake in about six minutes. The first phase terminated on July 10 with 4,003 sockeye transported in a three day period.

The second phase of the lift began on July 15. As with the first, and all subsequent lifts, difficulty was encountered acquiring a suitable helicopter as many of these aircraft were engaged in fire suppression activities. The second lift terminated July 18 with the transport of an additional 4,474 early sockeye for a total of 8,477 early run fish.

Use of a helicopter to transport fish over a barrier is costly. Cost of leasing a helicopter during the early Russian River run was approximately \$23,000. Groceries, fuel and fixed wing aircraft charter added an



The Russian River Sockeye Salmon Fishery is One of Alaska's Largest Sport Fisheries with 69,000 Man-Days of Effort in 1977.



Lowering the Tote Below Russian River Falls.



Another Load Containing Fifty Sockeye leaves the Area Below Russian River Falls for the Three Minute Trip to Lower Russian Lake.

additional \$2,500. Total direct cost was therefore about \$25,500 or \$3.00 for each fish transported.

May and June are historically the months of greatest stream flow at Russian River with the water subsiding in July and August. In 1977 the water remained exceptionally high during these months and the Department again had no choice but to assist the second or late Russian River run over the barrier by use of a helicopter.

The second run lift began on August 13 and terminated six days later on August 18. One hundred forty-one lifts were made during this period for an average of 52.7 sockeye salmon per lift. Total sockeye transported was 7,436 or an average of 1,239.3 fish per day. The river began to subside on August 18 and the remainder of the run negotiated the Falls with little difficulty.

The helicopter lift during the second run was relatively more costly than during the first run. A suitable helicopter was not available in the Cook Inlet area which necessitated that one be ferried from Sitka at appreciable expense to the Department. Seasonal employees who would normally have been terminated in early August were retained for this special project. Total cost to include wages, helicopter lease, groceries, fuel, etc., for the second run therefore approximates \$39,750.00 or \$5.35 per fish. Total cost for both early and late run fish lifts was therefore about \$65,250.00 or \$4.10 per fish carried.

Although the cost per fish transported was high, the Department is pleased to report to the Board that the 1977 fish lift at Russian River is considered a definite success. Although mortalities attributable to the Falls are known to have occurred, mass mortality such as occurred during the late 1971 migration was prevented. Over 50% of the first run and 35% of the second run escapements were transported, thus insuring a return of the next cycle. Additionally, plans are being formulated for construction of the Russian River Fish Pass with a tentative completion date during the winter of 1977-78. Construction of the fish pass will preclude the necessity of future "fish rescues" and will aid in the management of Russian River sockeye salmon stocks.

*This condition occurs on average every 12 years -
but last time in 1972.*

Senator Meland:

January 19, 1978

It was a pleasure to meet you at the Senate Resources Committee meeting on Wednesday. I know I will enjoy working with you and others in the Senate in this great and growing State.

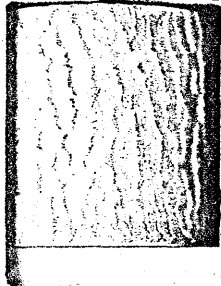
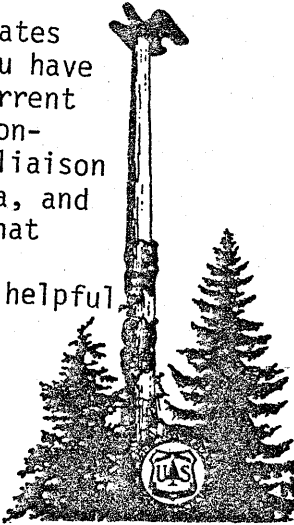
In answer to your question about how long the Western States Legislative Forestry Task Force has been in existence, I am told that it is between three and four years old.

Membership from other States seems similar to what you have proposed in Senate Concurrent Resolution No. 68. In contacting the legislative liaison person for Idaho, Montana, and the Dakotas, I am told that those states feel the experience has been most helpful.

OFFICE OF INFORMATION
ALASKA REGION
FOREST SERVICE
JUNEAU, ALASKA

U. S. DEPARTMENT OF AGRICULTURE

OSA-69-113



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The northern region spokesman told me that committee members contact industry representatives, conservation organizations and other user groups to become aware of their needs, concerns and problems and to help in developing resolutions of problems. They report regularly to the governors of their states and feel that they are in a good unofficial position of "watchdog", alert to special problems and opportunities early in their development.

I hope this information will be useful to you.

Sincerely,



Alaska State Legislature

POUCH Y, STATE CAPITOL
JUNEAU, ALASKA 99811
907 465-3800

SENATE RESOURCES COMMITTEE

23 January 1978

MINUTES

The meeting was called to order at 1:30 p.m. in room 126 of the Capitol Building by Senator Kay Poland, Chairman.

Members Present

Poland, Chairman
Meland
Sumner
Huber
Tillion

Absent

Butrovich, V. Chairman
Croft

SB 411 - An Act making a supplemental appropriation to the Department of Public Safety, Fish and Wildlife; and providing for an effective date.

Testimony

Trygve R. Hermann, Division of Administrative Services, Dept. of Public Safety testified. He said the Department needs \$14,000 for equipment items lost in late October of 1977, during a fire in a warehouse, in Cordova. The warehouse was rented by the State of Alaska, the equipment inside was owned by the State. The equipment was insured but to date proceedings have not been received. The money will go back into the general fund as soon as the insurance company pays.

MOTION

Senator Huber moved and asked unanimous consent that SB 411 be passed out of the Committee with a do pass recommendation.

No objection, it was so ordered.

SJR 36 - Relating to land allocation in the Tongass National Forest.

Testimony

Mr. Anderson, U.S. Forest Service testified. He pointed out the need for the federal government to hear all of the evidence relating to SJR 36, including testimony from their own expert witnesses before returning a verdict.

* The bill was not originally scheduled for today's hearing but was taken up at the request of Mr. Anderson. It was decided among the Committee members that other interested groups should have the opportunity to speak to SJR 36.

MOTION

Senator Meland moved and asked unanimous consent that SJR 36 be held in Committee until tomorrow, pending further notification of other interested groups.

No objection, it was so ordered.

The meeting was adjourned at approximately 2:30 p.m.



Alaska State Legislature

POUCH Y, STATE CAPITOL
JUNEAU, ALASKA 99811
907 465-3800

SENATE RESOURCES COMMITTEE

24 January 1978

MINUTES

The meeting was called to order at 1:30 p.m. in room 126 of the Capitol Building by Senator Kay Poland, Chairman.

Members Present

Poland, Chairman
Butrovich, V. Chairman
Sumner
Meland
Huber
Tillion

Absent

Croft

SJR 36 - Relating to land allocation in the Tongass National Forest.

Testimony

Virginia Dal Piaz, with the Alaska Conservation Society testified. Ms. Dal Piaz stated that she had no objections to the bill.

MOTION

Senator Huber moved to pass SJR 36 out of the Committee with individual recommendations.

Voting

DO PASS

Poland
Butrovich
Sumner
Meland
Huber

NO REC.

Tillion

The meeting was adjourned at 1:45 p.m.



JUNEAU ALASKA

Alaska State Legislature

SENATE RESOURCES COMMITTEE

30 January 1978

MINUTES

The meeting was called to order at 1:30 p.m. in room 126 of the Capitol Building by Senator Kay Poland, Chairman.

Members Present

Poland, Chairman
Butrovich, V. Chairman
Tillion
Huber
Meland
Sumner

Absent

Croft

CSSB 388 - An Act relating to membership of the Alaska Coastal Policy Council.

Testimony

Glenn Akins, Director of Coastal Management, Office of the Governor testified. He said that he has no objections to the bill although the council is more or less divided on the question.

Pat Conheady, Department of Natural Resources testified. He spoke to lines 18 through 20 of the bill which refer to the alternate for a designated member of the council. The Department of Natural Resources feels that it will unreasonably restrict the Department in that an alternate must be either a Deputy Commissioner or a Director of a Division.

Senator Orsini, the original sponsor of the bill said the basic concept of the bill is to assure that at any meeting where important decisions will be made, the people voting are responsible and are in a policy making position.

MOTION

Senator Huber moved and asked unanimous consent that CSSB 388 be passed out of the Committee with a do pass recommendation.

No objection, it was so ordered.

25

SB 428 - An Act relating to commercial fishing Interim-use permits, entry permits, and vessel licenses.

Testimony

John Garner, Commissioner on the Limited Entry Commission gave a section by section analysis of the bill (see attachment).

* There was much debate over the instances of usage of wilfully and knowingly in the bill. If a person was in violation of a statute or regulation that particular wording contained in the bill could make it impossible to prosecute.

Mr. Garner said that he would check with his attorney for a more detailed explanation of why that wording was used in SB 428.

It was requested by Senator Huber that Mr. Garner supply the Committee with a more indepth review of Commission Revocation of Entry Permits.

Russell Bartu a commercial fisherman testified that he basically favors the bill. However, he has some opposition to two areas. The first being in Sec. 1. Mr. Bartu feels that instead of issuing a temporary emergency transfer that it would be more feasible to buy another permit.

Mr. Garner explained that time constraints can be a problem in the issuance of Interim Use Permits and that valuable fishing time can be lost as a result. He feels that contained within the bill should be a provision for emergency transfer of permits.

In continuation of Mr. Bartu's testimony the second point of opposition to the bill was in Sec. 3. He feels that there should be a uniform alliance of penalties and that the penalty suffered by the fisherman is greater than for the non-fishermen.

The bill was held in Committee pending more detailed explanations of certain areas of the bill mentioned above.

The meeting was adjourned at aprox. 2:30 p.m.

SENATE BILL 428

Sec. 1

- 1) Makes entry permits and interim-use permits transferable (temp.)
if an "unavoidable hardship prevents permit holder from fishing"
-present too restrictive
-death of spouse, civil obligations imposed by law
-"judges not judging"
- 2) Makes IUPs transferable to alleviate hardship
-allows transfer of IUP to proposed transferee of permanent entry
permit if issued (where IUP issued pending final determination)
- 3) Does away requirement that transfer expires when illness, etc, over
-how is transferee to know that the illness is over to satisfaction
of the Commission?
-will now be to end of calendar year, or earlier if so specified

Sec. 2 : Provides a civil remedy for revocation of a permit obtained
fraudulently

- 1) Presently unclear that Commission has authority for administrative
revocation (cf. §§360)
- 2) Criminal process leading to revocation (sec. 360(b)) is possible
only if State can show fraud beyond a reasonable doubt.
-but permit issued based upon preponderance of the evidence

Sec. 3 : Provides greater flexibility in fashioning a penalty for violation
of the Limited Entry Law. Allows suspension of permit rather than
forfeiture, and possible in case of first or second conviction as
well as third.

Sec. 4

- 1) Main change is that punishment under sec. 360(b) can now
be with forfeiture or fine
-latter needed because assistants are punished under this sec.
as well as the principal
-deletion of material allows focus on intent and fact of false
statement, not the gravity of the harm; punishment alternative
makes this more appropriate also

JOINT HOUSE/SENATE RESOURCES COMMITTEE MTG.

3 February 1978

MINUTES

The joint meeting was called to order at 1:30 p.m. in room 126 of the Capitol by Senator Kay Poland, Chairman.

Members Present

Poland, Chairman
Butrovich, V. Chairman
Croft
Huber
Meland
Sumner

Absent

Tillion

House Members Present

Osterback, Chairman
Snider, V. Chairman
Malone
Smith
Urion
Eliason
Miller
Bennet

Absent

SJR 37 - Relating to the conservation of bowhead whales.

SB 439 - An Act authorizing grants and assistance to private organizations engaged in efforts to ensure whale stock viability.

SB 440 - Approp. to Dept. of Fish and Game for disbursement to the Alaska Whaling Commission to assist voluntary efforts to ensure whale stock viability.

Testimony

Senator Ferguson testified. He said that in SB 440 that he would like to see the effective date in section 2 be changed from July 1, 1978 to March 1, 1978.

Senator Croft suggested that the effective date should be included in SB 439 as SB 440 appropriates money to what is authorized in SB 439.

Jake Adams, Chairman of the Alaska Eskimo Whaling Commission testified. He said that Barrow is the largest whaling community in Alaska. The organization was formed last August to ensure effective management of Alaska's resources. Last week Mr. Adams met with the International Whaling Commission. The Alaska Whaling Commission has decided to abide by the quota set by the International Whaling Commission for 1978 if the following

conditions are met;

- immediate research on weapon improvement
- commitment by the U.S. government to provide for alternate subsistence resources
- allow the AWC full participation in future IWC decisions
- commitment by the U.S. government to work toward full restoration of full scale hunting of the whale

Mr. Adams stated that the AEWC wishes were to become completely independent of the N. Slope Borough who have given them \$20,000.00. He feels the Commission can become independent if the legislature appropriates the monies mentioned in SB 440.

* A film was shown on the hunt of the bowhead whale (N. slope borough's film).

Rep. Bucholdt said that the issue of the bowhead whale is one that concerns all Alaskans, the federal government and the International Whaling Commission. She stated that she would like the HB's to show the same amendments regarding effective dates previously mentioned.

Arnold Bower Sr., President of the Barrow Whaling Assoc. said that the BWA endorses the management program the AEWA has adopted.

V. Dal Piaz with the Alaska Conservation Society supports the bill and urges passage.

Dale Stauts with the North Slope Borough said that the Borough's responsibility is to coordinate and protect the renewable resources.

Mr. Adams added to his testimony that there are not many whales struck and lost. The IWC came out with a quota of 12 whales allowed to be taken by the coastal villages. The AEWC feels that they are really in need of 24. In previous years the average whales taken has been 26 a year.

Senator Poland said that the Committee will continue with the bills on Monday. The Department of Fish and Game and the National Marine Fisheries were not represented at the meeting. She wants to give them both a full opportunity to speak to the bills.

The meeting was adjourned at approx. 3:00 p.m.



Official Business

Alaska State Legislature

Senate

Committee on Resources

MINUTES

Pouch V
State Capitol
Juneau, Alaska 99811

8 February 1978

The meeting was called to order at 1:30 p.m. in room 126 of the Capitol Building by Senator Kay Poland, Chairman.

MEMBERS PRESENT

ABSENT

Poland, Chairman
Butrovich, V. Chairman
Huber
Croft
Tillion
Meland
Sumner

SCS CS HB 322 - Oil and Gas Corporate Franchise Tax

Testimony

Donald Nielsen, Bristol Bay Native Corporation testified against the bill. (0061)

Bob Moore, Consultant Arthur Andersen went over the Arthur Andersen report with the Committee and answered questions. (0298)

The meeting was adjourned at approximately 3:30 p.m.



Alaska State Legislature

SENATE RESOURCES COMMITTEE

POUCH Y, STATE CAPITOL
JUNEAU, ALASKA 99811
907 465-3800

22 February 1978

AGENDA

The meeting was called to order at 1:30 p.m. in room 126 of the Capitol Building by Senator Kay Poland, Chairman.

Members Present

Poland, Chairman
Butrovich, V. Chmn.
Croft
Huber
Meland
Sumner

Absent

Tillion

SCS CS HB 322 - Oil and Gas Corporate Franchise Tax

Commissioner Gallagher, Department of Revenue (written testimony attached).

John Messenger, Deputy Commissioner of Taxation (testimony attached).

Lawrence Dineen, Artic Slope Regional Corporation (testimony attached).

Oliver Levitt, Artic Slope Regional Corporation (testimony attached).

Harold Polmeroy, former Mayor of Kenai urged the Committee to keep in it's scope, when considering passage of the bill, the need for future exploration and development of our resources.

The meeting was adjourned at aprox. 3:30 p.m.



Alaska State Legislature

SENATE RESOURCES COMMITTEE

POUCH Y, STATE CAPITOL
JUNEAU, ALASKA 99811
907 465-3800

28 February 1978

MINUTES

The meeting was called to order at 1:30 p.m. in room 126 of the Capitol Building by Senator Kay Poland, Chairman.

Members Present

Poland, Chairman
Butrovich, V. Chairman
Huber
Meland
Tillion
Sumner

Absent

Croft

HCS for SB 118 (2d Finance) - An Act making miscellaneous appropriations to the Municipality of Anchorage, Department of Revenue, the Legislative Affairs Agency, Steering Council for Alaska Lands, and the Department of Commerce and Economic Development.

Testimony

Jerry Hiatt, Department of Education (0085) spoke in regards to the YES program Sec. 1 of the bill.

John Messenger, Deputy Commissioner, Department of Revenue spoke to Sec. 2, 3, 4, 5, and 6 of the bill.

Steve Brown, University of Alaska (0759) spoke to sec. 7 of the bill.

Rep. Terry Gardiner (1017) spoke to sec. 8 of the bill.

John Messenger, Deputy Commissioner, Department of Revenue (1145) spoke to sec. 9 of the bill.

MOTION

Senator Sumner moved and asked unanimous consent that Senator Poland represent in terms of the Committee's opinion on the floor, except for the two items in general agreement, that we still vote to not concur with the House amendments on this bill. In essence of eliminating fruitless debate on the floor.

No objection, it was so ordered.

The meeting was adjourned at aprox. 4:00 p.m.



Alaska State Legislature

SENATE RESOURCES COMMITTEE

POUCH Y, STATE CAPITOL
JUNEAU, ALASKA 99811
907 465-3800

15 March 1978

MINUTES

The meeting was called to order at 1:30 p.m. in room 126 of the Capitol Building by Senator Kay Poland, Chairman.

Members Present

Poland, Chmn.
Tillion
Huber
Meland
Sumner

Absent

Butrovich, V. Chmn.
Croft

Milton Lipton addressed the Committee and answered various questions they had on oil and gas matters.

The meeting was adjourned at approximately 4:00 p.m.

* The meeting will be transcribed.



Alaska State Legislature

SENATE RESOURCES COMMITTEE

POUCH Y, STATE CAPITOL
JUNEAU, ALASKA 99811
907 465-3800

20 March 1978

MINUTES

The meeting was called to order at 1:30 p.m. in Room 126 of the Capitol Building by Senator Kay Poland, Chairman.

Members Present

Poland, Chmn.
Meland
Sumner
Huber

Absent

Butrovich, V. Chmn.
Croft
Tillion

CSHJR 60 - Requesting the federal government to remove solid waste on land in Alaska in accordance with the Resource Conservation and Recovery Act.

Testimony

Jerry Reinwand, Deputy Commissioner, Department of Environmental Conservation testified in favor of the resolution. He answered questions by the Committee members in relation to the Resource Conservation Recovery Act. The Department is going to write a Committee Substitute for CS HJR 60.

SCR 87 - Annuling a regulation of the Department of Environmental Conservation relating to drinking water.

Testimony

Ernst W. Mueller, Commissioner, Department of Environmental Conservation testified in opposition to the bill.

Senator Ziegler testified in favor of the resolution.

MOTION

Senator Huber moved and asked unanimous consent that SCR 87 be moved out of Committee with do pass recommendation.

No objection, it was so ordered.

SCS CS HB 322 - An Act relating to Alaska net income tax; and providing for an effective date.

Testimony

John Messenger, Deputy Commissioner, Department of Revenue was questioned by the Committee on previous statements made by himself and Commissioner Gallagher in relation to a study the Department said they wanted to conduct in relation to

SCS CS HB 322. It was brought to the Committee's attention that Senator Croft has new language for the bill. The language was not given to the Committee members.

The meeting was adjourned at 3:05 p.m.



Alaska State Legislature

SENATE RESOURCES COMMITTEE

POUCH Y, STATE CAPITOL
JUNEAU, ALASKA 99811
907 465-3800

22 March 1978

MINUTES

The meeting was called to order at 1:45 p.m. in room 126 of the Capitol Building by Senator Kay Poland, Chairman.

Members Present

Poland, Chmn.
Butrovich, V. Chmn.
Tillion
Croft
Huber
Meland
Sumner

Absent

SJR 47 - Relating to loans guaranteed by the federal government for the purchase of vessels capable of harvesting Alaskan bottomfish.

Testimony

Mrs. Gross, testified in favor of the resolution.

MOTION

Senator Croft moved and asked unanimous consent that SJR 47 pass out of committee with do pass recommendations.

No objection, it was so ordered.

HJR 66 - Requesting the administrator of the National Oceanic and Atmospheric Administration to assist in the development of bottomfish fisheries.

Testimony

Carl Rosier, Director Division of Commercial Fisheries testified in favor of the resolution.

Rep. Terry Gardiner testified in favor of the resolution.

MOTION

Senator Tillion moved and asked unanimous consent that HJR 66 pass out of committee with do pass recommendations.

No objection, it was so ordered.

SB 511 - An Act creating the division of energy and power development; and providing for an effective date.

Testimony

Eric Euell, Executive Director of the Alaska Power Authority testified in opposition of the bill. He feels that the new Division would not be able to get financing under 511.

Senator Croft asked him to submit a copy of the legal analysis that states the state could not get financing under 511.

Virginia Dal Piaz testified in opposition to the bill. She feels the bill is overwhelmingly development orientated and the Alaska Conservation Society cannot support it.

The meeting was adjourned at aprox. 2:30 p.m.

SENATE RESOURCES COMMITTEE

May 26, 1978
Juneau, Alaska

PARTIAL TRANSCRIPT OF PROCEEDINGS

COMMITTEE:

Chairman: Kay Poland

Members: John Butrovich
Chancy Croft
John Huber
H. D. "Pete" Meland
Bill Sumner
Clem V. Tillion

TAKU REPORTERS
DEPOSITIONS - HEARINGS - GENERAL REPORTING
P.O. BOX 2340
JUNEAU, ALASKA 99803
(907) 789-9319



P R O C E E D I N G S

(Beginning of requested
portion.)

THE CHAIRMAN: We do have a quorum now, and we will bring the Senate Resources Committee Meeting to order, and the first item of business we have before us today is House Concurrent Resolution No. 130, approving the sale of royalty oil to Earth Resources Company of Alaska.

In your packets you will find a summary of the agreement, and also a letter from Mr. Boness and a letter from Mr. Silides, and Mr. Boness is out of town today. I don't know whether he sent someone else over to speak for the Administration or not. I don't see anybody raising their hand, so we will continue with people from Earth Resources. I don't know whether Mr. Silides or Mr. DeLong are going to speak.

UNIDENTIFIED SPEAKER: It's dangerous to raise one's hand this late in the Session.

(Laughter.)

MR. SILIDES: Thank you. Madam Chairman, members of the Committee, for the record, my name is George Silides.

1 I'm appearing on behalf of Earth Resources Company, and
2 specifically for the royalty oil supply contract, which
3 you have before you know.

4 As you indicated, all the members have been
5 given early on a summary of the salient points of the
6 contract, and so unless there are a lot of questions,
7 I'm going to be very, very brief, which I think will
8 probably -- which you will ultimately be thankful for.

9 I will state -- I might say first and most
10 importantly that the crude oil which is being purchased
11 is for an existing refinery; and secondly, all of the
12 oil being purchased must be processed through the
13 facility.

14 I'd like to correct an item which appeared in
15 the A.P. yesterday -- or I guess it's appearing today
16 -- on a comment which I was supposed to have made
17 yesterday, and also for the record, repeat the comment
18 in its proper context.

19 It was indicated in the A.P. report that I
20 made the comment that I would advise my client, the
21 Earth Resources Company and North Pole Refinery, to
22 take the -- to take the State to court if, at any time,
23 we were denied royalty oil because of the Alpetco
24 contract. That is not what I said.

25 What I did say, and for the record, Madam

1 Chairman -- and I will expand on it a little bit -- for
2 the record, what I did say was I would advise my client
3 to take the State to court if North Pole Refinery were
4 denied royalty oil if it were being exported by any
5 entity -- I did not pick on Alpetco -- but by anyone at
6 all.

7 It is our feeling that the statute as it is
8 written is specific in that royalty oil is for the
9 internal needs for both domestic and industrial needs
10 of the people of the State of Alaska, and so long as
11 any refiner or any processor, doing whatever they are
12 doing with the royalty oil, is providing product for
13 the Alaska market, that refiner, that processor has
14 first choice; and if any other purchaser is exporting
15 royalty oil and another refiner goes begging, then I
16 think that the refiner who is producing product for the
17 market should -- should have that oil.

18 This, again, as I indicated before the
19 Special Committee, I wanted to make that clear for the
20 record before this Committee, Madam Chairman. That's
21 all I have to say. Thank you.

22 THE CHAIRMAN: Are there any questions regarding the Earth
23 Resources resolution before us? Senator Butrovich?

24 SENATOR BUTROVICH: George, is there any difference in the
25 delivered price of State royalty oil at the refinery,

1 as compared to oil from other sources? Would there be
2 --

3 MR. SILIDES: Is there -- we -- I'll try and
4 (indiscernible), but, of course, I should indicate that
5 the President of the company is here, and perhaps I
6 should defer to him, if I may, Madam Chairman, because
7 he is the one who has signed the contracts.

8 MR. DeLONG: Madam Chairman, for the record, my name is L.
9 Frank DeLong. I'm President of North Pole Refining
10 Company. To answer your question, Senator Butrovich,
11 the price that we would pay for the royalty oil which
12 we would purchase from the State would be the average
13 of the price that the State is now receiving from its
14 sale of royalty oil.

15 The sale of royalty oil is being incurred in
16 increments of anywhere from Four and a Half Dollars to
17 as high, maybe, as Seven Dollars, and that the price
18 that we would pay would be the average of what those
19 composites of sales would be.

20 What that is, that changes on a
21 month-by-month basis, depending on where the royalty
22 sales are made. Today, most of the royalty sales are
23 being made -- or a significant portion -- are being
24 made on the Gulf Coast of the United States, so that
25 the number that we are talking about is about Five

1 Dollars and Ninety-Five Cents, Six Dollars a barrel on
2 the Slope, approximately, is the best that we can
3 determine from the historical data that we have
4 reviewed.

5 It would be that plus the applicable tariff
6 to North Pole, and that would be the price -- that
7 price, relative to other prices of oil that we are
8 buying from the majors, would be about the same.

9 MR. SILIDES: May I be a little more specific because I
10 think -- I think I have a different understanding of
11 Senator Butrovich's question, perhaps.

12 I think you asked me, Senator Butrovich,
13 whether or not the price that we are paying is
14 something different than what the State might be
15 getting from somebody else?

16 SENATOR BUTROVICH: No, sir. What I asked was whether or
17 not the delivered price of the oil under the contract
18 to buy royalty oil from the State would be the same as
19 the price that North Pole Refinery would pay to another
20 supplier (overriding cough) North Pole. I'm excluding
21 from (indiscernible).

22 MR. DeLONG: Did I answer your question?

23 SENATOR BUTROVICH: All right. Well, what you said --

24 MR. DeLONG: It would be approximately the same.

25 SENATOR BUTROVICH: Approximately the same?

1 MR. DeLONG: That's what I'm saying, by ten cents per
2 barrel. And the reason I can't give you a more
3 accurate number is the royalty oil sales lag by two
4 months, and each month, the sales change, whether it
5 goes to the West Coast, or whether it goes to the Gulf
6 Coast.

7 SENATOR BUTROVICH: And this is a constant process?

8 MR. DeLONG: That's right.

9 SENATOR BUTROVICH: And this is a contant process
10 presumably for the life of the contract, and really,
11 there is no advantage other than the sure source of oil
12 --

13 MR. DeLONG: That's right.

14 SENATOR BUTROVICH: -- right?

15 MR. DeLONG: That's right.

16 THE CHAIRMAN: Thank you. (Indiscernible)?

17 UNIDENTIFIED SPEAKER: Mr. DeLong, may I, in my own mind,
18 clarify this? Now, if you buy from a company, rather
19 than the State, is there a two-month lag there as to
20 your price?

21 MR. DeLONG: Oh, no. No. We agree to a price, but there
22 is clauses in there, in the contracts, that protect
23 ourselves that we will be buying at a competitive
24 price, and, therefore, if we feel that that price is
25 out of line with what we get quoted from the suppliers

1 for, then we would open up a price renegotiation, and
2 that's in all the commercial transactions.

3 Now, you know, you are always going to be a
4 few cents off when you have different suppliers, but we
5 have got price reopeners for both parties in the case
6 of (indiscernible). And that is what we say, is that
7 we now have four suppliers, and therefore, we are
8 saying, "Whatever that marketplace price is, that will
9 be the grounds for negotiating that price."

10 It's a very healthy and a very competitive
11 situation.

12 MR. SILIDES: We hope to have five suppliers, if you pass
13 this contract now.

14 THE CHAIRMAN: Are there any other questions for either Mr.
15 DeLong or Mr. Silides? Dr. Huber?

16 DR. HUBER: Just a little better understanding of this
17 phrase -- at the present moment, if you buy from one of
18 the private parties who is shipping his oil the
19 furthest distance at the greatest expense, it has --
20 his oil, going there, probably has -- he may negotiate
21 the lowest possible price with you, because his oil is
22 worth less to him than somebody else.

23 If you were negotiating with one of them who
24 ships it the shortest distance to the West Coast, and
25 he had plenty of outlet ports, he would charge you the

1 highest wellhead price.

2 Now, what you are actually paying the State
3 is the average of what the State is getting, and the
4 more of the State's oil that is sold on the East Coast,
5 with the longest shipping, the cheaper the price you
6 pay; and the more of the State's oil that is shipped to
7 and processed on the West Coast, the higher the price
8 you pay on the royalty oil, but it balances out because
9 that's always the average. You are paying the average,
10 which I think quite a few of us insisted that it be
11 instead of the highest price they receive for any of
12 the --

13 MR. DeLONG: Or the lowest price they are selling to
14 consumers in New Jersey. But -- are you asking a
15 question?

16 DR. HUBER: Yes, and --

17 MR. DeLONG: Well --

18 DR. HUBER: You know, we are with you. We want to see the
19 supply of oil be the cheapest to you to give us, the
20 customers, the lowest prices, consistent with the State
21 getting their average for their resource.

22 MR. DeLONG: And what we have done, in order to be fair --
23 in other words, when we sat down with the crude
24 suppliers, their negotiation posture was, "Okay, we
25 want the highest price." And we started with, "We want

1 the lowest price," and it is a very dynamic situation,
2 marked with change. We had started -- and our position
3 was that we always answered questions as if we were a
4 buyer and a seller to arrive at a point, and we adopted
5 the same philosophy that we use with the State, as with
6 these crude suppliers, the Exxons, and the Sohios are
7 selling crude on the West Coast, and therefore, our
8 price would be very high if they just used that.

9 And, conversely, as they moved to the Gulf
10 Coast and the East Coast, it gets lower. So, we deal
11 with an average price, and we've said in this price
12 reopener that if there is a significant difference
13 among the crude suppliers, then that would be the basis
14 under this price reopener to sit down with that crude
15 supplier and say, "Hey, market forces have dictated,
16 and those market forces are inputs to the royalty oil
17 contracts, which they supply to the State, to the
18 Department of Finance."

19 But we would be able to sit down, and we
20 realize that could work against us because the
21 situation may firm up, and we'd have to pay a higher --
22 a firmer price. But we felt that that was a fair basis.

23 DR. HUBER: It looks as complicated as union contract
24 negotiations, and I imagine it is with these many
25 suppliers, as there is --

1 MR. DeLONG: Well, what we have tried to do is we have not
2 tried to play games and say, "You know, this is to our
3 benefit this month, and they -- and then we will worry
4 about next month."

5 What we try to do is say, "We don't want to
6 be snake-bitten in six months' time," so what we have
7 taken is a very -- what we feel -- and we are
8 prejudiced by definition -- a very objective approach,
9 and say, "From a business standpoint, if we were
10 sitting on the other side of the fence, what would we
11 ask for?"

12 And we've come up with something which we
13 think makes a lot of sense among the four groups of
14 suppliers, of which the State is one.

15 UNIDENTIFIED SPEAKER: Madam Chairman --

16 MR. DeLONG: We would not be embarrassed by anything that
17 goes on, and any State official has asked for it, and
18 we have given, saying, "Here is our reasoning."

19 Now, you may not like our reasoning, but this
20 is what we've done, and we would stand behind it.

21 DR. HUBER: I -- Number one, I'm always happy with the
22 answers that I have been able to get forthwith direct
23 from you on any question I have ever asked you, so --

24 MR. DeLONG: Thank you. I appreciate that.

25 THE CHAIRMAN: Are there any more questions of either Mr.

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Silides or Mr. DeLong?

(No response.)

SENATOR SUMNER: Madam Chairman, if there is no further testimony or questions, I'd move and ask unanimous consent that we pass out of the Committee with individual recommendations House Concurrent Resolution No. 130.

THE CHAIRMAN: Senator Sumner has moved that we pass out of Committee HCR 130 --

UNIDENTIFIED SPEAKER: Can we find out how we are going to -- I'm willing to be a "do pass" on it, but I wonder if we --

THE CHAIRMAN: I'll come to that. -- with individual recommendations. How many do pass?

SENATOR SUMNER: I'll amend that to be unanimous do pass.

(End of requested portion.)

C E R T I F I C A T E

S T A T E O F A L A S K A)
) ss.
F I R S T J U D I C I A L D I S T R I C T)

I, LYNDA BATCHELOR, a Registered Professional Reporter and Notary Public duly commissioned and qualified in and for the State of Alaska, do hereby certify:

That the foregoing partial proceedings of the Senate Resources Committee of the Alaska State Legislature held on May 26, 1978, in Juneau, Alaska, were transcribed by me or under my direction to the best of my knowledge and ability from the Akai tape furnished to me of the proceeding, as referenced in the transcript.

That the Partial Transcript of Proceedings is a full, true and correct transcript of all portions audible to me, including all statements, motions and exceptions made and taken, as recorded on the Akai tape;

That I am not a relative or employee or attorney or counsel of any of the participants in said proceedings, nor a relative or employee of such attorney or counsel, and that I am not financially interested in said proceedings or the outcome thereof.

IN WITNESS WHEREOF, I have set my hand and affixed my Notarial Seal this 16th day of June, 1984.

Lynda Batchelor
LYNDA BATCHELOR, CP, CM, RPR
Notary Public for Alaska. My
Commission expires: 6/10/88.

**TRANSCRIPTS OF HOUSE, SENATE & JOINT RESOURCES COMMITTEE
MEETINGS CONTAINED IN THE DOCUMENT FILES OF THE LEGISLATIVE
HISTORY OF AS 43.21, OIL & GAS CORPORATE INCOME TAX, 1975-1978**

FILE NO. 18 - 1977 ZEIFMAN AND AINSWORTH REPORT

7-177: Joint House & Senate Resources Committee 3/21/77,
Testimony of Jerome Zeifman and Kenneth Ainsworth,
Consultants

FILE NO. 19 - 1977 ADMINISTRATION TESTIMONY

7-173: Joint House & Senate Resources Committee 3/24/77,
Testimony of Sterling Gallagher, Commissioner of
Department of Revenue and Thomas Williams, Director
Of Petroleum Revenue Division, DOR

FILE NO. 21 - 1977 TESTIMONY BY NATIVES

7-171: Senate Resources Committee 3/24-25/77, Testimony of
Oliver Leavitt & Larry Dinneen, Arctic Slope Regional
Corp. and Roger Lang & W.C. Bishop, Bristol Bay
Native Corp.

FILE NO. 25 - 1977 TESTIMONY OF UNION OIL COMPANY

7-174: Senate Resources Committee 3/24-25/77, Testimony of
Byron Wheeler, Union Oil Company

7-176: Senate Resources Committee 3/24-25/77, Testimony of
Larry Wilson, Union Oil Company

FILE NO. 26 - 1977 TESTIMONY OF EXXON

7-175: Senate Resources Committee 3/24-25/77, Testimony of
Monte Taylor and Roger Bonnie, Exxon Co.

FILE NO. 27 - 1977 TESTIMONY OF SOHIO

7-172: Joint House & Senate Resources Committee 3/24/77,
Testimony of Dick Donaldson, Standard Oil Co. of Ohio

**TRANSCRIPTS OF HOUSE, SENATE & JOINT RESOURCES COMMITTEE
MEETINGS CONTAINED IN THE DOCUMENT FILES OF THE LEGISLATIVE
HISTORY OF AS 43.21, OIL & GAS CORPORATE INCOME TAX, 1975-1978**

FILE NO. 2 - 1978 ADMINISTRATION TESTIMONY:

- 8-125: Senate Resources Committee 2/22/78, SCS CS HB 322,
Testimony of Sterling Gallagher, Commissioner of Revenue;
John Messenger, Deputy Revenue Commissioner; Oliver
Leavitt & Larry Dinneen, Arctic Slope Regional Corp.;
Harold Pomeroy, former mayor of Kenai Peninsula Borough
- 8-128: Senate Resources Committee 3/20/78, SCS CS HB 322,
Testimony of John Messenger
- 8-129: Senate Finance Committee 6/5/78, CS SB 105, Testimony of
John Messenger
- 8-131: Senate Resources Committee 4/28/78. SCS CS HB 322,
Testimony of Milton Lipton, duplicate in File No. 4
- 8-132: Senate Resources Committee 4/3/78, SCS CS HB 322,
Testimony of Gregg Erickson and John Messenger

FILE NO. 4 - 1978 MILTON LIPTON TESTIMONY

- 8-127: Senate Resources Committee 3/15/78, Testimony of
Milton Lipton of Walter Levy & Associates, the
Legislature's Oil and Gas Consultants
- 8-131: Senate Resources Committee 4/28/78, SCS CS HB 322,
Testimony of Milton Lipton

FILE NO. 5 - 1978 TESTIMONY OF INDUSTRY CONSULTANTS

- 8-126: Senate Resources Committee 2/24/78, SCS CS HB 322,
Testimony of Gary Boren, consultant; Mark Singletary,
Atlantic Richfield Co.; Crawford Thomas, tax consultant;
Robert L. Moore, Arthur Anderson Co.

FILE NO. 6 - 1978 INDUSTRY CONSULTANTS

- 8-133: Senate Resources Committee 2/10/78, Testimony of
Leonard Kust, consultant to Alaska Oil & Gas Association

TRANSCRIPTS OF HOUSE, SENATE & JOINT RESOURCES COMMITTEE
MEETINGS CONTAINED IN THE DOCUMENT FILES OF THE LEGISLATIVE
HISTORY OF AS 43.21, OIL & GAS CORPORATE INCOME TAX, 1975-1978

FILE NO. 14 - 1978 ARTHUR ANDERSON STUDY CONTINUED

8-130: Senate Resources Committee 2/8/78, SCS CS HB 322,
Testimony of Donald Nielson, Bristol Bay Native Corp. and
Robert Moore, Arthur Anderson Co.