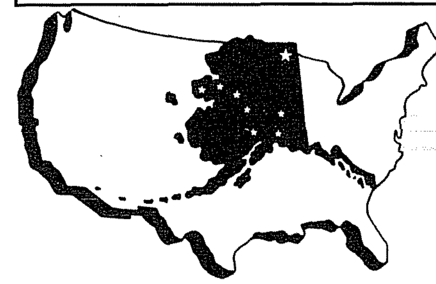
This edition sponsored by: **Security Pacific Bank**

Bulk Rate
U.S. Postage
PAID
Anchorage, AK
Permit No. 377



Resource Development Council
Box 100516, Anchorage, AK 99510

ADDRESS CORRECTION REQUESTED

Resource Review

July 1989

NEW OIL SPILL PROTECTION

Proposals for protecting the environment advance

Concrete proposals for protecting the environment from future spills are advancing within the oil industry and Congress as America seeks ways to minimize the risks of oil development in its top oil producing state.

The American Petroleum Institute recently announced a new nationwide program for prevention, containment and cleanup of major oil spills. Meanwhile, the industry in Alaska has implemented a number of additional safeguards aimed at preventing a repetition of the Good Friday spill in Prince William Sound.

While industry is taking constructive action to minimize the risks involved in transporting large amounts of oil to market, legislation is advancing in Congress to tighten federal requirements for tanker operations. The legislation, sponsored by Senator Ted Stevens, would also increase the liability fund, upgrade Coast Guard surveillance in Prince William Sound and create a Prince William Sound Oil Spill Recovery Institute. The legislation would also give the Coast Guard immediate control over large spills. The Stevens bill is expected to reach the Senate floor this month and be signed into law by the end of the year.

The nationwide industry program

The industry's nationwide program calls for the establishment of five regional spill response centers in areas with heavy tanker traffic. The Petroleum Industry Response Organization (PIRO) centers would be located in Seattle, Long Beach, New Orleans, New York and Norfolk, VA. The PIRO headquarters would be located in Washington, D.C.

Exxon's response to the Alaska oil spill has quickly grown and constitutes what is probably the largest buildup of equipment and personnel ever assembled to combat an oil spill.
(Frank Flavin photo)

In addition to organizing a cohesive and effective response to major oil spills, the three-point API plan also made recommendations on tanker operations and provides for extensive new research into developing new technologies in controlling and mitigating a spill.

The new regional response centers, the cornerstone of the industry's program, will cost oil companies more than a quarter billion dollars over the first five years. The initial outlay for PIRO is estimated as high as $100 million with annual maintenance and operating costs exceeding

(continued on page 4)

Killing the Golden Goose by 1,000 cuts

Message from the Executive Director

by
Becky L. Gay

The fallout from the latest legislative session is finally drifting our way in real terms. As the dust settles, Alaskans will once again see that although the interacting dynamics are somewhat changed, the outcomes are cumulatively regressive on resource industries.

The myriad of methods used to attack, maim, hinder, discourage and stop resource developers is remarkable. Much like the Chinese water torture, the single drops combine to produce a torrent in effectiveness. It is the macro side of economics which comes into play as we see the shift in Alaska's structural economy. As James Taylor, President of Nabors Alaska Drilling said in a recent letter to the editor, "...it appears we are rapidly approaching a situation...where there are only two choices. One is to work for the state of Alaska, the other is to leave the state of Alaska."

Although the blows will be felt by many sectors, nowhere is the action more obvious than in the energy sector which drives our economy. Noting that in Alaska the industry is composed of exploration, development, production and transportation, with some refining capability, here is a synopsis of the fallout on the oil industry.

At the state level, and at the behest of the Governor, the ELF tax was imposed. That immediately affected the two largest fields in **production**. **Development** of at least two projects within those fields is halted consequently. Simultaneously, the legislature cut the Department of Natural Resources Division of Oil and Gas, so the Commissioner rules that oil and gas leasing, the lifeblood of **exploration**, is suspended for at least one year. When you remember that the two largest fields in recent history have been found as a direct result of the state leasing program, you realize the implications of no leasing.

On the **transportation** side, the "spill bills" are aimed all over the place, full of punitive measures which are sure to drive up the cost of domestic transportation as much as the Jones Act did. This will ensure the American consumer pays more for domestic oil. It will also drive producers offshore and will shift demand increases to non-American produced oil shipped by non-American tankers. In the global sense, these actions could easily be considered "export jobs" policies.

As if that was not enough, the state has gone out of its way to scuttle lease sales which have already been awarded on federal areas offshore. At least one company has shelved their exploration plans due to those efforts. Since the Division of Oil and Gas cited responding to lawsuits brought by environmental groups as one of the reasons leading to their no-leasing decision, maybe they should look closer to home for the problem. And since the Division of Oil and Gas is taking a break from leasing on state lands, will they have even more resources to aim at the federal managers who are trying to lease federal lands?

Meanwhile, Congress has its own ideas about oil and gas issues. After the spill, it wouldn't surprise me if Congress tried to tell us how much bigger the Department of Environmental Conservation's budget must be, coached by Commissioner Kelso himself. Advocating a budget is one thing, but using the national media and the Congressional forum to do so is apt to backfire in the long term.

Of course, Congress has its own mind and is simultaneously (although more slowly) advancing legislation to close off ANWR and offer redundant punitive measures regarding spills.

What has the state done to promote oil and gas production lately? Well, it managed to provide $170,000 for ANWR work in the closing minutes of the session. It is presumed the funds will go toward positive efforts to open the ANWR. The Governor also vetoed a proposal to levy a toll on the haul road users. Is that it?

It seems that in an effort to not harpoon the very industry which feeds it, the state has opted for making it slowly bleed to death. It is a real shame that resource policy has come to this. Death by a thousand cuts—it works, slowly, but surely, and it is reportedly a horrible way to die.

Duke is named Member Services Director

Kimberly R. Duke has been named Member Services Director and Administrative Assistant of the Resource Development Council, after serving as Staff Assistant for nearly one year. Duke, a life-long Alaskan born in Fairbanks, succeeds Anne Bradley who resigned in May to assume a legislative staff position.

Duke graduated in May 1987 from Scripps College in Claremont, California with a degree in Economics. In her new position at RDC, Duke will handle member services in addition to accounts payable and receivable, budgeting and financial record keeping and purchasing control.

The Resource Development Council (RDC) is Alaska's largest privately funded nonprofit economic development organization working to develop Alaska's natural resources in an orderly manner and to create a broad-based, diversified economy while protecting and enhancing the environment.

Executive Committee Officers

President .... Pete Nelson
Vice President .... Joe Usibelli, Jr.
Vice President .... John Forceskie
Secretary .... Easy Gilbreth
Treasurer .... Larry Laughman
Past President .... Shelby Stastny

Staff

Executive Director .... Becky L. Gay
Public Relations Director .... Carl Portman
Member Services/Admin Asst. Kimberly R. Duke
Project Coordinator .... Debbie Reinwand
Staff Assistant .... Heather Hall

Resource Review is the official monthly publication of the Resource Development Council, Box 100516, Anchorage, Alaska 99510 – (907) 276-0700. RDC is located at 807 G Street, Suite 200, Anchorage.

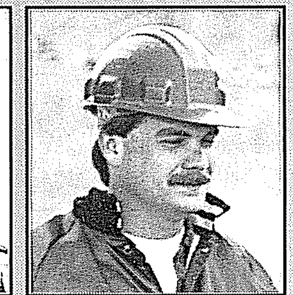
Material in the publication may be reprinted without permission provided appropriate credit is given.

Writer & Editor
Carl Portman

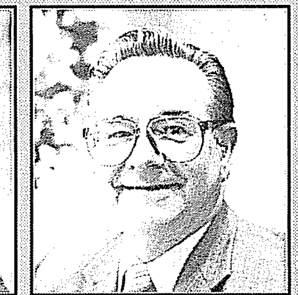
RDC elects new officers

Ethel H. "Pete" Nelson
President

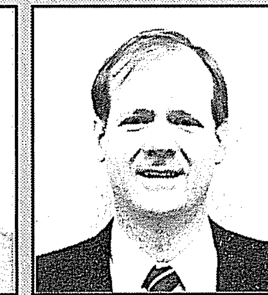
John Forceskie
Vice President



Joe Usibelli, Jr.
Vice President



Easy Gilbreth
Secretary



Larry Laughman
Treasurer

New Executive Committee and statewide board announced

Ethel H. "Pete" Nelson, Senior Land Representative for Texaco USA, has been elected President of the Resource Development Council. Nelson succeeds Anchorage Certified Public Accountant Shelby Stastny, who has served at the helm of the statewide economic development organization since May of last year.

Presently serving her eighth term on the 21-member RDC Executive Committee, Nelson has served as the organization's first vice president for the previous two years.

Nelson's election came before the Council's 15th Annual Meeting of its Board of Directors in Anchorage June 28. John Forceskie, President of Teamsters Local 959, was re-elected as one of the Council's two vice presidents. Joe Usibelli, Jr., President of Usibelli Coal Mine, was elected to the other vice president seat.

Easy Gilbreth, who recently retired from the Alaska Oil and Gas Association after ten years of service, was elected Secretary while Larry Laughman, Senior Manager with Peat, Marwick, Main, was re-elected as Treasurer.

The Council's new Executive Committee, which meets weekly in Anchorage to set policy and determine general direction and action, is comprised of Anchorage residents Rex Bishopp, John Forceskie, Curtis Foster, Mano Frey, Lin Garrison, Easy Gilbreth, Uwe Gross, Joe Henri, Larry Laughman, Pete Nelson, John Rense, Shelby Stastny, Dave Stock and Doug Webb. Out of Anchorage members include Sharon Anderson (Seward), Dan Keck (Sitka), Bob Loescher (Juneau), Steve Rehnberg (Cordova), Jerome Selby (Kodiak), Joe Usibelli, Jr., (Healy) and Lyle Von Bargen (Valdez).

New appointments to RDC's 75-member statewide board of directors include Anchorage residents Rich Baker, Jim Cloud, Dave Cuddy, Rob Dragnich, Paula Easley, Carl Marrs, John Miller, Rocky Miller, Brad Phillips and George Wuerch. Other new members include Lonnie O'Connor of Nome and Lindsay Patterson of Kenai.

Nelson has over 27 years of experience in the land management field in Alaska. Since 1962, she has specialized in oil, gas, coal, geothermal and locatable minerals. She worked approximately 19 years in the Alaska Department of Natural Resources where she served as Land Law Examiner, Land Management Officer, Leasing Manager and Acting Director of the Division of Minerals and Energy Management, known today as the Division of Oil and Gas.

At Texaco, where she has been employed for the past eight years, Nelson is responsible for all aspects of the company's exploration and development permitting and lease administration. She also oversees Texaco's local, state and federal regulatory affairs, as well as government and public affairs for the corporation's Alaska operations.

Nelson is active in the Alaska Association of Petroleum Landmen, Alaska Women in Mining, the Alaska World Affairs Council, the Arctic Research Foundation, Common Sense of Alaska and Commonwealth North among other organizations. She recently served as Vice President of the Alaska Miners Association.

Nelson has the added distinction of being the first woman president of the Resource Development Council and the Alaska Association of Petroleum Landmen, as well as the first woman vice president of the Alaska Miners Association.

Industry cuts back in response to ELF

(continued from page 3)

The shallow West Sak formation poses special development and production challenges since the oil's low temperature and higher viscosity makes it very difficult to produce. ARCO has yet to develop the new technology that is required to extract the oil profitably from the huge West Sak reserves, which may contain as much as 20 billion barrels of oil.

ARCO and other West Sak owners have invested more than $225 million in engineering and research to develop and test West Sak technology. Spending on engineering and research will be reduced as a result of the project reassessment.

ARCO already has drilled an initial $4.5 million well. Prior to the recent tax changes, plans called for drilling 12 additional wells and installing production facilities and flow lines in 1990, and for completing the project with a final 12 wells in 1991.

Meanwhile, BP Exploration expects to postpone the Hurl State project with its 100 new jobs. It will also defer plans to add another drilling rig to its Prudhoe Bay operation, cancelling an additional 100 jobs.

Hurl State was designed to extract an additional 37 million barrels of oil from the western fringe of Prudhoe Bay, but it is located within the Prudhoe Bay unit and is therefore subject to the higher tax rate. BP wanted to begin developing Hurl State this August.

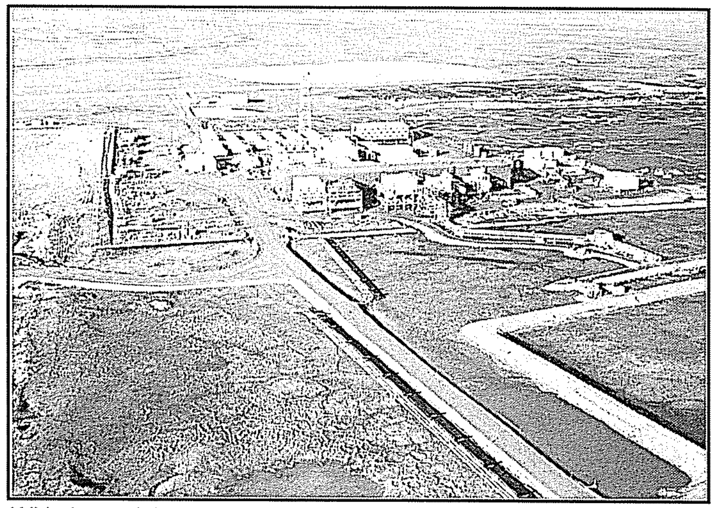
The $80 million Hurl State project included $6 million for mini-module construction work in Fairbanks.

James Taylor, President of Nabors Alaska Drilling in Anchorage, said his company is one of the first victims of the legislature's repeal of ELF.

"We were contracted to drill Hurl State for BP," Taylor said. "Because of their decision not to proceed with this project, we will not be employing some 60 Alaskans nor spending some $5 million in wages and purchases from local businesses annually. As we are only one of many companies involved in drilling a well, these numbers in no way represent the total damage done.

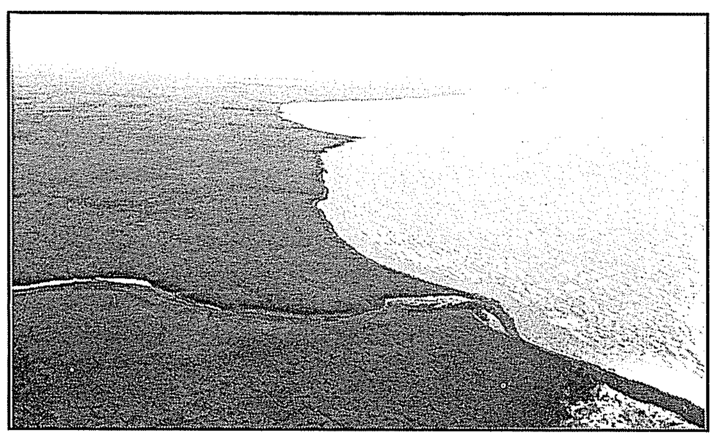
"In my opinion, the legislature using its power to tax purely to seek vengeance on any industry is a dangerous precedent," Taylor said. "Equally dangerous is the governor's shutdown of development activity," Taylor added in reference to the closing of the state's leasing office.

"No company in any industry will make bad investments simply to pay some punitive tax to the state of Alaska," Taylor said. "They will, quite properly, invest somewhere else in a less punitive area."



With the revisions to ELF, oil production at Kuparuk has never been taxed at such a high rate. As a result, ARCO has suspended plans for an additional drill rig at Kuparuk this summer, meaning that about 40 wells will not be drilled.

Oil spill fuels environmental war chests



Non-development groups plan to use some of their new funds, raised as a result of the oil spill, to lobby against oil and gas drilling in ANWR.

The Alaska oil spill has super-charged America's environmental movement, pumping hundreds of thousands of dollars into the war chests of the nation's leading non-development groups.

In the first month after the spill, the National Wildlife Federation received over $400,000 in contributions to its Alaska Fund. The group intends to use the money to pay for research into the effects of the spill and for lobbying against oil exploration and development in the Arctic National Wildlife Refuge.

The federation and a number of other groups, including the National Audubon Society and Defenders of Wildlife, took advantage of the spill to send out direct mailings appealing for contributions. A mail appeal by the Natural Resources Defense Council implies that all of Prince William Sound and its vast ecosystem have been devastated by the spill and that proposed oil drilling in ANWR would transform the refuge into an industrial wasteland and wipe out wildlife populations.

The letter, which RDC believes distorts and misrepresents the facts about oil development on the North Slope, ends with an emotional appeal for contributions to "save the arctic refuge, before it is too late."

Editor's Note: RDC strongly encourages its members, both individual and corporate, to stop funding such efforts, regardless of the PR value. As a famous association executive once said, "If you can't fund us, please don't fund them."

Tax hike causes suspension of industry projects

Modification to ELF claims first victims

Higher oil taxes through the modification of the Economic Limit Factor (ELF) has resulted in two major oil producers suspending major investments and development programs aimed at squeezing more oil out of North Slope oil fields.

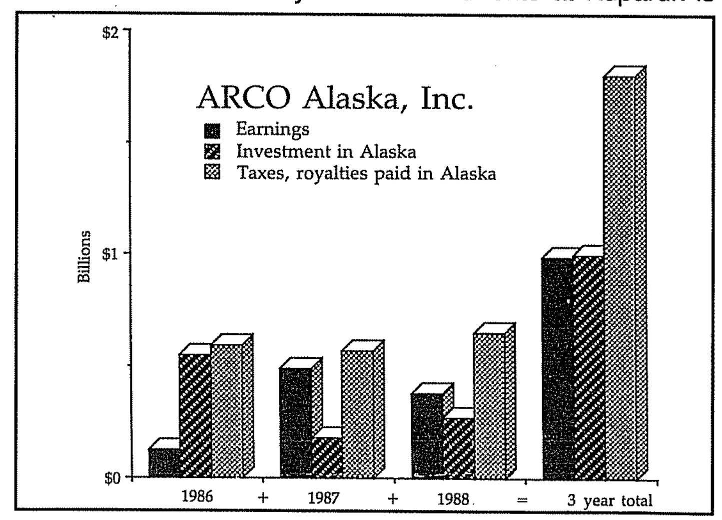
ARCO Alaska, Inc., announced last month that it will suspend its $58 million, 25-well drilling and production program aimed at bringing the giant West Sak oil field near Prudhoe Bay into full production. The ARCO announcement came one week after BP Exploration called off its $80 million Hurl State drilling project at Prudhoe Bay because of an additional $85 million tax bill stemming from modifications to ELF.

The repeal of ELF raised oil taxes at Prudhoe Bay and Kuparuk, creating a serious disincentive for new investments in the two fields. Oil taxes on North Slope production was already the highest in the nation before the repeal of ELF this spring.

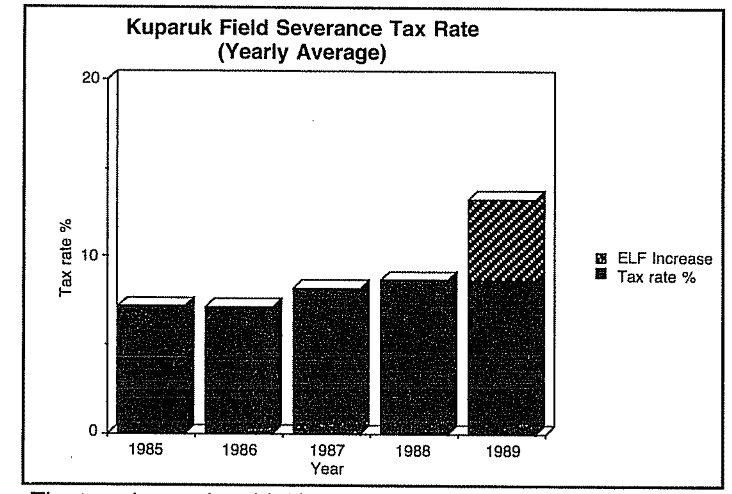
RDC and the industry had warned that changes in the ELF would force scale down of some marginal development and enhanced oil recovery projects at Prudhoe Bay and Kuparuk.

Besides suspending the West Sak development program, ARCO is also deferring some $35 million in development drilling at Kuparuk. ARCO had planned for an additional drill rig at Kurparuk late this year, but those plans have been cancelled along with an additional 100 jobs.

ARCO president Bill Wade emphasized that the recent tax hike on the industry's new investments at Kuparuk is staggering, up 90 cents a barrel. He said that isn't fair after the industry based billions of dollars of new investments on old tax laws which would have secured lower tax rates.



Since 1986, ARCO Alaska has earned $993 million in Alaska, while the state and local governments collected almost double that amount, $1.8 billion in taxes and other payments from the company. Over the same period, the company reinvested more than $1 billion in Alaska on exploration and to maximize oil recovery from existing fields.



The tax change has hit Kuparuk much harder than Prudhoe Bay, creating a serious disincentive for new investment.

At a recent news conference in Anchorage, Wade revealed that ARCO's biggest expense in Alaska is state taxes. In 1987, ARCO's taxes were higher than all of its other expenses combined. Overall, the oil industry accounts for 95% of all taxes paid to the state and 87% of the state's total income.

Wade said the recent ELF change was "bad law and bad public policy that will have bad consequences for the State." It will cost his company an additional $50 million this year.

"It has certainly been disappointing and discouraging to all of us who work in the oil industry in Alaska," Wade said. "It would seem to me that what we've done as a state is make a major public policy decision based on post-oil spill rhetoric on an emotion that's oriented toward punishing the oil industry rather than basing that decision on the long-term interest of Alaskans."

The changes to ELF will cost the oil industry about $2 billion in additional taxes over the next 10 years. The tax increase was very dramatic in the case of Kuparuk where new investments will suffer an 86% tax hike.

In contrast, the Texas legislature has done the exact opposite of Alaska, passing a bill to reduce production taxes by 50% on new investments in existing fields to increase production through water flooding or through enhanced oil recovery techniques.

"These are projects that we would intend to expand in our North Slope fields," Wade said. "Water flooding is required to make West Sak economic. Texas has reduced the tax burden because they understand the tie between tax incentives and industry activity."

ARCO's decision to curtail West Sak development means a substantial delay of full-field production, which had been scheduled to begin in the mid-1990s. Full-scale development will require a multi-billion dollar investment by industry.

West Sak fell victim to the ELF because the field overlies Kuparuk and plans call for producing both fields through the same facilities. When oil prices were at all-time high levels several years ago, ARCO planned to develop West Sak as a separate field. That plan was changed after prices tumbled.

"West Sak really doesn't happen without Kuparuk," Wade said. "The West Sak project project cannot afford higher taxes, nor can it afford the cost of installing a duplicate set of facilities."

(continued, on page 6)

Spill response capabilities expand in Alaska

Prevention of spills is primary emphasis of plans

(continued from cover)

$30 million. Research programs will cost industry an additional $35 million for the five-year startup.

API has recommended that PIRO respond to spills under the leadership of the Secretary of Transportation through the Coast Guard, which has a presence around the nation's coasts and a military command structure.

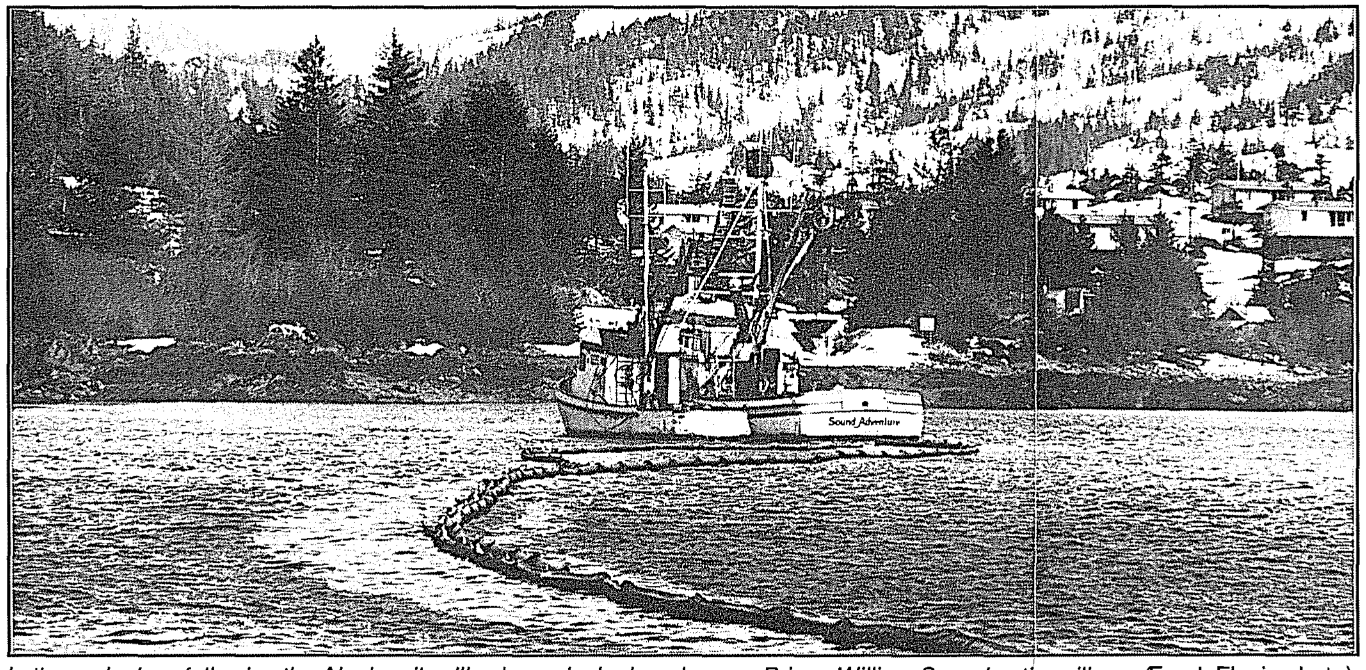
The new program will greatly expand nationwide spill response capabilities. The five regional centers will have more manpower and equipment than now exist. Each center will be manned around the clock with trained personnel and will be equipped to respond to a spill of 200,000 barrels, but each center will also stand ready to lend support elsewhere, greatly increasing the industry's ability to respond to the unlikely occurrence of an even larger spill.

Each regional response center would maintain about $15 million in response equipment. The gear would include skimmers, helicopters, boom, dispersants and other initial response needs.

"The three-part program will provide improved environmental protection wherever tankers operate in U.S. waters," said Richard M. Morrow, Chairman of the Board of the American Petroleum Institute and Chairman of the Board and Chief Executive Officer of Amoco Corporation.

The major oil companies which receive most of the oil delivered to U.S. ports each day have approved the program and committed themselves to participate.

The nationwide oil spill prevention and response plan does not include a PIRO center for Alaska because the industry is already providing major



In the early days following the Alaska oil spill, a boom is deployed near a Prince William Sound native village. (Frank Flavin photo)

improvements to its emergency response capabilities at Valdez and throughout Prince William Sound. The PIRO center in Seattle, as well as any of the others, would provide additional support if needed.

Tom Brennan, a spokesman for Alyeska Pipeline Service Company, said the new and expanded emergency response program in Alaska is "at least equal to and probably superior to the programs" that are proposed by API." He noted that Alyeska's interim spill contingency plan calls for more equipment, tanker escorts and other measures designed to bolster the company's onsite response capabilities.

Alaska emergency response system

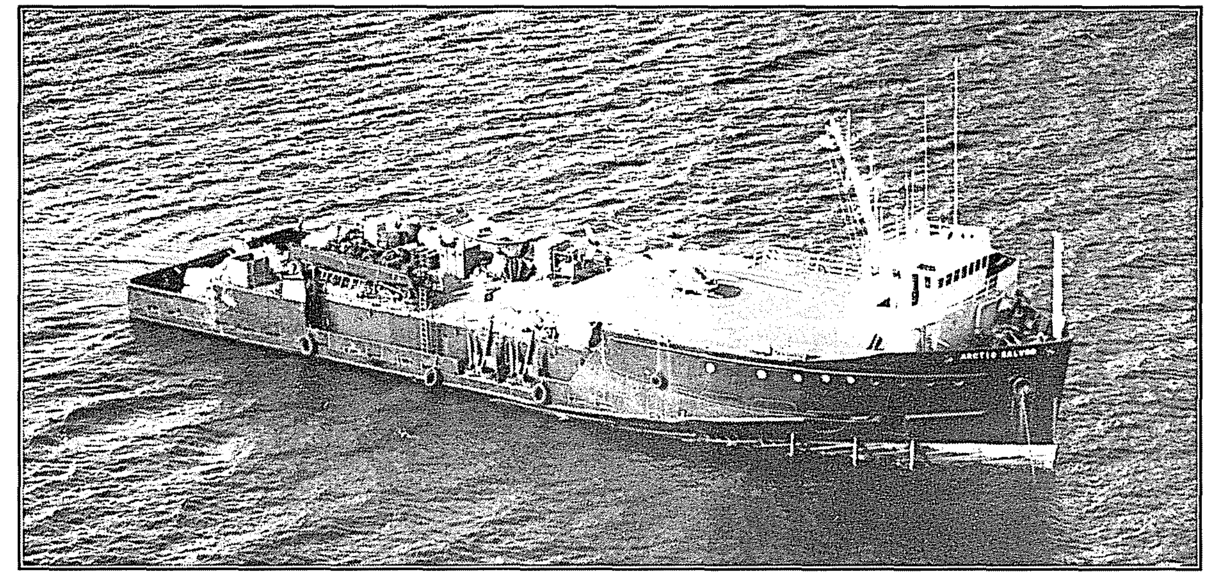
The oil industry has overhauled and expanded its spill prevention and response system in Alaska and has deployed new equipment which will greatly improve the capacity to recover oil in the event of a future spill. However, the primary focus continues to be based on the prevention of spills, which is the only way, according to industry officials and others, to ultimately protect the environment.

Prevention steps recently implemented by Alyeska include:

- Alcohol and drug testing programs of tanker crew members,
- Additional tug escorts of tankers out to Seal Rock, beyond Hinchinbrook Entrance,
- Placement of licensed pilots aboard all cargo laden tankers to a point beyond Bligh Reef, and
- Additional communication facilities to maintain contact with tankers until they sail out into the open sea.

The first line of defense against a future spill will be the new escorts, according to George M. Nelson, President of Alyeska. Under a new plan, every tanker leaving Valdez will be escorted by a tug and a large 200-foot vessel loaded with oil containment and recovery equipment. The large vessel is known as an Escort Response Vessel (ERV).

Three ERVs will be assigned on a rotating basis to accompany loaded tankers out beyond Hinchinbrook Entrance, Nelson said. "While the primary purpose of these escort vessels is to prevent hazardous situations from developing, they will also have oil spill response capabilities," Nelson noted.



Exxon has contracted hundreds of vessels in mobilizing a small navy to support cleanup operations of the oil spill in Alaska.

Each vessel will carry two seaskimmers to recover oil from the water, 4,600 feet of containment boom, a workboat and storage for 4,000 barrels of recovered oil. In the event of an accident, all ERVs would be deployed to the scene. The ERVs are also equipped to tow tankers experiencing power or navigational problems in the Sound.

Nelson pointed out that a second line of defense will be waiting at Knowles Head, northeast of Hinchinbrook. "There we will park what we are calling our dynamic skimming vessel," Nelson said.

"This will be a combination tugboat and barge equipped with what are called marflex sweep arms.

"The system, which will be within several hours steaming time of any point of the tanker lanes, will be capable of moving through the water, skimming the spilled oil with its arms and pumping it into the barge The system will be backed up by a lightering vessel which would be used to offload remaining cargo from the striken tanker."

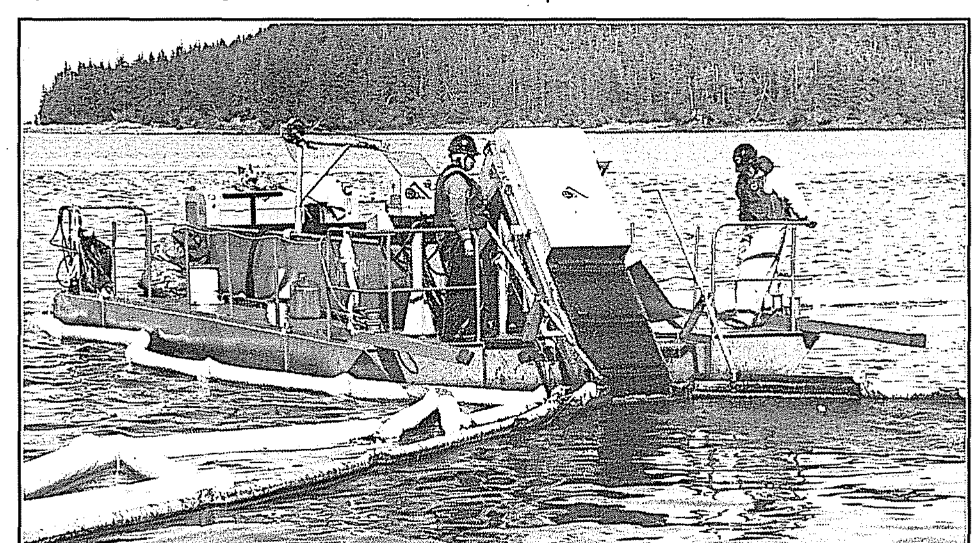
Stationed in Valdez, the third line of defense is a Weir response vessel. Like the ERVs, the Weir ship will be a 210-foot, high-horsepower workboat equipped with a special Weir boom to capture and lift oil from the water. The tug and Weir boom vessel will work in tandem to surround and remove floating oil.

"Altogether, this small navy will carry almost six miles of boom and more than 460,000 barrels storage capacity," Nelson said.

The new Alyeska plan also calls for a response team to be on duty 24-hours a day in order to provide the initial response.

Meanwhile, API, in putting forth its nationwide spill prevention and response plan, emphasized that it cannot guarantee the government or the public that all possibilities of a tanker accident resulting in a major spill can be eliminated. However, API said the industry "can provide more preventive measures, greater availability of equipment and trained manpower to deal with a potential spill and more research on how to contain and recover oil and how to clean up shorelines if a spill occurs."

A report submitted by an industry national response team to President Bush on May 18 said that overlapping and conflicting contingency plans of various government agencies and industry need to be coordinated and rationalized. The report said that modern methods of dealing with a massive spill, such as dispersants and burning, must be evaluated in advance, and clear lines of decisionmaking authority put in place with regard to authorization of their use.



A barge-mounted oil skimmer recovers oil from McPherson Bay in Prince William Sound. Skimmers recover the oil that cleanup crews are flushing from the Naked Island shoreline.